



Investment Insight

Friday, 21 April 2017

Focused on small cap. *Small cap is an interesting segment of the market, and one that, despite recently reducing exposure to and taking some profits in, we have exploited profitably for many years. "Small" is a relative term, it can include companies with market capitalisation of up to \$1 billion, sometimes even higher. One thing that distinguishes small cap stocks is that they tend to be less widely researched by sell-side analysts, resulting in greater scope for diligent fund managers to identify good investment opportunities. However, small caps also come with some distinguishing risk characteristics including, relative to large caps, some illiquidity and greater volatility potential. Within the small cap space there are lots of different investment strategies that managers pursue, some with greater success than others. One of our favourites is Granahan's US Focused Growth fund, managed by Drew Beja. Drew's track record speaks for itself, so in this week's **Inside Track** we thought it might be instructive to outline his and Granahan's focused approach to managing a small cap portfolio.*

Snap-(un)happy. *IPOs aren't as plentiful as they once were. Partly for that reason and partly due to the phenomenon that is social media, some of the more recent ones grab major headlines. Snapchat is just a case in point, but it has been a sobering experience so far for the IPO investors who are down about 24% on their original investment. However, other headline grabbing IPOs have fared better. In this week's **Pic of the Week** we look at the contrasting fortunes of the IPOers.*

Quoted...

"The next time I cry about golf it will only be with joy. It's not worth crying over golf for any other reason. After all, it's only a game." – Rory McIlroy

The Inside Track

Drew Beja's Small Cap Focused Growth strategy has beaten its benchmark over just about whatever time horizon you care to mention. The following is a high level overview of the philosophy and approach that underpins this outperformance.

Granahan Investment Management believes that small dynamic companies provide excellent potential for superior long-term performance. For that reason, that's what they stick to. Their Focused Growth strategy is grounded in the belief that superior long term returns are best achieved through a select portfolio of smaller companies poised to grow at 15% or more.

Within this philosophy, they seek to own companies with:

- large open ended opportunities
- a favourable competitive landscape
- products or services providing a significant value proposition to the customer
- clean balance sheets.

Downside management is also key. By investing in businesses with sustainable growth, Granahan reduces the risk of significant capital loss. Drew invests in businesses with solid balance sheets, high incremental margins and strong customer value propositions.

Granahan uses an "expected return" methodology which is a mechanism for identifying mispricing of stocks and has proven successful over the course of several investment cycles and, finally, they also invest with conviction – up to 80% of the portfolio can be held in as few as 15 holdings.

Easy, eh!

Pic of the Week

Shapchat has disappointed investors since it IPO'd in March, as the company, like many others in the social media space, struggles to show (or at least convince investors) how it will actually make enough money, or any, to justify its lofty valuation. Telsa on the other hand is hitting new all-time highs, leaving century-old competitors trailing in its wake. The graphic from RCM shows some of the more notable IPO winners and losers over recent years, dominated of course by the outstanding performance of Amazon!

Market View

| | Last 7 days | Last 12 mths | YTD | 5Y Ann. |
|-------------------|-------------|--------------|--------|---------|
| Global equities | -0.2% | +10.6% | +3.9% | +8.7% |
| US equities | -0.7% | +11.2% | +5.2% | +11.3% |
| European equities | -1.0% | +7.6% | +4.0% | +7.4% |
| EM equities | -1.0% | +12.2% | +10.5% | -1.4% |
| Irish equities | -0.1% | +8.0% | +3.1% | +15.8% |
| Commodities | -1.0% | +2.8% | -3.4% | -9.4% |
| Hedge funds | +0.1% | +5.8% | +1.5% | +1.4% |

| Economic indicators | Bond yields | Inflation | GDP YoY |
|---------------------|-------------|-----------|---------|
| Ireland | +0.9% | +0.7% | +7.2% |
| Germany | +0.2% | +1.6% | +1.7% |
| USA | +2.2% | +2.4% | +2.0% |
| China | +3.4% | +0.9% | +6.9% |



Week ahead: Key events

- 24/04 UK House Prices & US Manufacturing Data
- 25/04 US House Prices & New Home Sales
- 26/04 Australia CPI & US Mortgage Applications
- 26/04 US Retail Sales
- 27/04 China Industrial Profits & Eurozone Confidence Data
- 27/04 US Durable Goods Orders & Initial Jobless Claims
- 28/04 UK Consumer Confidence & Japan CPI
- 28/04 UK GDP & Eurozone CPI
- 28/04 US GDP & inflation Data

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| Currencies | Current | YTD Δ |
|------------|----------|--------|
| EUR:USD | 1.08 | +2.2% |
| EUR:GBP | 0.84 | -1.8% |
| EUR:CNY | 7.41 | +1.0% |
| GBP:USD | 1.28 | +3.9% |
| Bitcoin | 1,235.94 | +29.8% |

| Commodities | Current | YTD Δ |
|-------------|----------|--------|
| Gold | 1,279.50 | +11.0% |
| Copper | 5,523.25 | +0.0% |
| Oil | 53.15 | -9.1% |
| Wheat | 426.75 | -1.7% |

| Central Bank rates | Current |
|--------------------|---------|
| Eurozone | 0.00% |
| USA | 1.00% |
| UK | 0.25% |

UNDIVIDED ATTENTION

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