



# A TURNING POINT FOR US SMALL CAPS IN 2024

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MARKETING COMMUNICATION FOR PROFESSIONAL INVESTORS IN IT, AU, DE, ES, LU  
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Brad McGill, Portfolio Manager for the Aperture Discover Equity strategy, explains why he believes that US small caps present a compelling opportunity in 2024 and how he and his team identify businesses poised for transformational change.

- Lack of investor participation in US small caps due to mega cap dominance creates a tremendous opportunity for patient investors
- The Aperture Discover Equity strategy manages a relatively limited number of positions to preserve the opportunity set for investors and prioritize alpha generation
- The investment strategy aims to prioritize companies benefiting from evolutionary change as well as emerging or long-lasting secular tailwinds

## Why do you expect US small caps to shine in 2024?

Over the past decade, small caps have meaningfully lagged large caps – largely due to the success of a handful of mega cap tech stocks. As most are aware, this dominance of a few mega cap names has led to a historically high level of market concentration not seen since the 1970s. As a result, investors have not needed to move down the market cap spectrum in search of returns like they have historically. This, in our view, has caused an overreliance on passive index mirroring strategies and as a result, participation in the asset class has declined. This has left a somewhat ignored market in our opinion, which we believe creates a tremendous opportunity for patient investors. As a starting point today, small cap valuations are around 20% less expensive on average for profitable companies compared to large caps, and they're also at historic lows, representing what we believe is a strong buying opportunity.

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The last couple of years has been especially challenging for small caps due to tightening monetary policies, as small cap indices tend to be more levered than large caps and are viewed as more economically sensitive. However, we're now seeing signs of a shift where small cap performance is improving. The US economy is still healthy by most measures – as is the labor market – and while there are signs of deceleration, the expectation for Fed rate cuts has typically supported small cap performance.

Looking beyond market dynamics, we see accelerating earnings drivers across many areas of the small cap market. While many are focused on the large cap beneficiaries of AI – technology is traditionally empowering for smaller companies as well – new sources of revenue and operational efficiency will be furthered by advancements in technology.

## What makes the Aperture Discover Equity strategy different to other US small cap strategies?

Firstly, we focus on managing a concentrated portfolio of long positions and opportunistic shorts where we're looking to identify a relatively limited number of compelling new ideas per year. We aim for a high-conviction basket of ideas that we believe can appreciate over two years.

A key differentiator at Aperture is that we limit our capacity to preserve the opportunity set for our investors and prioritize alpha generation, as opposed to some competitors with less concentrated, several-billion-dollar small-cap strategies.

Secondly, our team operates exclusively as generalists, focusing on finding the best possible ideas across various sectors rather than dividing our team according to sector specialties. We don't run a coverage model or aim to have an opinion on every stock in the investable universe. Instead, we have a strict set of time-tested investment criteria that we follow. I've spent over 25 years specialising in small cap stocks and have found that this selective-generalist model works and can lead to interesting finds, like discovering 100-year-old companies undergoing a turnaround or new innovators disrupting industries with a compelling new business idea. We can find commonalities within our investment criteria across industries that we feel result in a differentiated portfolio that can perform well over market cycles.

We have a long-term time horizon and aim to invest for 2-4 years on average and look for long-term significant value drivers that we think will power strong returns for our investors.

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## How do you manage volatility and concentration risk in the strategy?

Our goal is to distribute returns across various areas of the market while preventing any single stock from having an outsized impact on performance. With a concentrated strategy, we feel that it's crucial to manage risk on a single-security level so we adhere to strict guidelines on this. Each position we include has a set risk threshold, and we monitor these levels relative to our investment thesis. We target solid upsides, and we strive to select stocks with good prospects in terms of their upside/downside ratio. We pair these guidelines with our clear set of investment criteria. The key drivers and milestones companies set are constantly monitored to ensure our investments are meeting our thesis expectations. We consider beta-adjusted exposure by sector, position, volatility, and other risk factors.



By maintaining a disciplined approach and utilizing a single-stock risk framework, we aim to minimize drawdowns and negative attribution from underperforming positions.

## What are some of the sectors and themes that you are focused on for 2024?

Our strategy employs a consistent and disciplined set of investment criteria. We seek companies that are at dynamic stages of their evolution, where their business models are evolving towards their potential. We target opportunities that exhibit acceleration in revenue growth, improved profitability, and enhanced return structures. We find this dynamism most prevalent in technology, industrials, consumer discretionary businesses, as well as in parts of the healthcare and materials sectors. We avoid areas of the market where we think that performance is likely to be dominated by macroeconomic factors such as interest rates, energy prices, or commodity prices.

We recognize there are several new compelling demand-creating themes within the market landscape – for instance, cybersecurity, reshoring, and of course AI – and we prioritize companies that are improving meaningfully due to company-specific changes. So we aim to prioritize companies benefiting from evolutionary change as well as emerging or long-lasting secular tailwinds.

## FUND MANAGER



**Brad McGill**

Portfolio Manager

Aperture Investors, part of Generali Investments

## APERTURE INVESTORS SICAV DISCOVER EQUITY FUND

<b>Fund manager</b>	Brad McGill
<b>AUM</b>	155€ M (end of Mar '24)
<b>Inception date</b>	20 July 2022
<b>Benchmark</b>	Russell 2000 Total Return Index
<b>Currency</b>	USD
<b>Domicile</b>	Luxembourg
<b>Investment manager</b>	Aperture Investors, LLC
<b>Management company</b>	Generali Investments Luxembourg S.A.
<b>Risk level SSRI</b>	5/7
<b>SFDR</b>	Article 8

The objective of the Fund is to generate returns in excess of the Russell 2000 Total Return Index. The product is actively managed in reference to the Benchmark. The Investment Manager has full discretion over the composition of the portfolio and therefore its composition may deviate from the Benchmark. **Inherent risk of the Funds (non-exhaustive list):** Market risk, volatility risk, equity, interest rate risk, credit risk, emerging markets, foreign exchange, short exposure risk, directional risk, derivatives (the expected level of leverage may vary up to 160% and may increase the risk of loss, OTC financial derivative instruments, Rule 144A and/or Regulation S securities, investment in smaller companies, investment in SPACs. **Risk of capital loss:** this is not a guaranteed product. Investors may risk losing part or all of their initial investment. **Main costs (not an exhaustive list as per the KID dated 13 March 2024):** Illustrative institutional class: ISIN LU2475551292 – countries of registration AT, CH, DE, ES, FR, IT, LU. **Entry costs:** 3% max. of the amount you pay in when entering this investment. **Exit costs:** 0% of your investment before it is paid out to you. The percentage of entry and exit fees is based on the NAV. **Management fees and other administrative costs:** 0.77% per year of the value of your investment. This is an estimate based on actual costs over the last year. **Transaction costs:** 0.36% per year of the value of your investment. This is an estimate of the costs incurred when buying and selling the underlying investments for the product. **Performance fee:** 0.00% Positive or negative Performance Adjustment of the VMF up to +/-1.875% from the VMF Midpoint of 2.175% with VMF Min 0.30% and VMF Max of 4.05%. The Perf. adjust. depends on whether and to what extent the Fund's perf. exceeds/is exceeded by the VMF Midpoint. **Valuation of the Net Asset Value (NAV):** Daily. This is not an exhaustive list of the costs. **Other costs apply, differ per shareclass and are subject to changes.** All the costs are detailed in the Prospectus and Key Information Document (KID), that are available at: <https://www.generali-investments.lu/products/LU2475551292>. Holdings and Allocations are subject to change. Any potential returns mentioned are for illustrative purposes only, are not guaranteed and are not a promise of performance. For additional information on the assumptions, objective data and different scenarios taken, please refer to the Investment Manager. The future performance is subject to taxation, which depends on the personal situation of each investor and which may change in the future.

### IMPORTANT INFORMATION

Marketing communication related to Aperture Investors SICAV, a Luxembourg UCITS-SICAV, and its Sub-fund, Discover Equity Fund, ("the Fund") - Only intended for professional investors in Italy, Austria, Germany, Spain, and Luxembourg, where the Fund is registered for distribution - Not for U.S. Persons. Before making any investment decision, please consider all characteristics, objectives, risks and costs in the Key Information Document (KID) available in one of the official languages of your country and the Prospectus available in English upon request free of charge to the Management Company, Generali Investments Luxembourg S.A., 4 Rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg, e-mail address: [GILfundInfo@generali-invest.com](mailto:GILfundInfo@generali-invest.com) or at [www.generali-investments.lu](http://www.generali-investments.lu), where you can also find a summary of your investor rights (in English or an authorized language) in the section "About us/Generali Investments Luxembourg". The Management Company may decide to terminate the agreements made for the marketing of the Fund in your country. Issued/sourced by Generali Investments Luxembourg S.A., Luxembourg UCITS Management Company of the Fund and Generali Asset Management S.p.A. Società di gestione del risparmio, Italian asset management company, appointed as marketing promoter of the Fund in the EU/EEA countries (Via Niccolò Machiavelli 4, Trieste, 34132, Italia).