

Friess Small Cap Growth Fund

2Q20 Commentary

Tickers

Institutional	Investor
SCGFX	SCGNX

Fund Facts

# of Holdings	46
Benchmark	Russell 2000 Growth
Active Share	97.09%
Inception Date	5/31/2017

Portfolio Management



Scott Gates
*Portfolio Manager
and CIO*

Scott Gates is the lead portfolio manager. The investment team includes Scott Gates and six research analysts who have average tenure of 17 years at Friess and average investment industry experience of 22 years.

About Friess Associates

Friess Associates is a boutique, institutionally oriented investment manager founded by Foster Friess more than 46 years ago. Friess' sole focus is growth equity investing with a research-driven investment approach. Previously an affiliate of Affiliated Managers Group, the firm became independent once again in 2013.

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Portfolio Manager Scott Gates discusses the Fund, portfolio positioning, and our “all cap” approach to sourcing small company ideas.

Q1. Would you please describe how the government-mandated economic shutdown has shaped how your team evaluates small-cap companies?

During the first half of 2020, the shutdown due to COVID-19 negatively impacted many companies' ability to forecast earnings. Since then, there has been some willingness to release 2020 estimates and provide some level of guidance. However, we believe the continuing uncertainty with regards to virus containment efforts will make it difficult for many companies to accurately estimate their earnings. Instead, we continue to rely on our intensive research process to source new ideas and monitor our holdings just as we did prior to the pandemic.

Importantly, we do not let price dictate our research process. Despite the short-term upward moves in certain stocks, we continue to avoid those companies that lack earnings or revenue growth. Independent of Wall Street estimates or company earnings reports, our team performs intensive, bottom-up research on each holding and closely analyzes balance sheets, future capital needs and cash flows to determine if a business can experience accelerating earnings growth going forward. We believe earnings growth is a key gauge of potential outperformance over time relative to the peer group.

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Q2. How is the portfolio currently positioned?

Under normal market conditions, we look to own stocks that have the potential to generate earnings growth of at least 20% over the next year. While the most recent quarter was not conducive to meeting that requirement, we continue to find several companies whose business models were resilient under a difficult operating environment and experienced revenue acceleration.

As an example, a holding we believe is poised to benefit from the current “stay at home” environment is **Limelight Networks (LLNW)**, which provides network services that enable its customers to optimize critical aspects of content delivery such as video quality, website speed and download consistency. With so many people spending more time at home, demand for streaming services is surging.

Q3. How are potential small cap candidates identified for inclusion in the portfolio?

A primary source of ideas results from the “all-cap” approach employed by our investment team. In conducting research for our various market-cap strategies, our team evaluates the overall supply chain, including customers, competitors and numerous vendors across the market-cap spectrum. This process naturally uncovers growth opportunities in the small-cap area of the market. We believe taking a holistic view of the supply chain allows us to find these opportunities more quickly than other managers whose focus is only small-cap stocks. Notably, more than 90% of our opportunities for the Friess Small Cap Growth Fund are sourced from our broader all-cap approach.

In addition, small-cap companies receive less coverage by Wall Street analysts compared with mid- and large-cap companies. Therefore, this “all-cap” research team helps uncover high-quality small-cap companies with strong earnings growth potential as well as attractive valuation metrics, balance sheet strength and earnings catalysts.

Q4. Given the economic shutdown, many companies in Q2 2020 sought to build cash balances to weather the uncertain operating conditions. In the first half of 2020, did the Fund’s holdings access the credit markets?

We identified early on that positive cash flow profiles would be an important factor in this environment and subsequently placed an emphasis on thoroughly understanding our holdings’ balance sheets to make sure there was not a need to undertake new equity or debt issuance to maintain their business. We are pleased to report that none of the companies in the Fund had significant capital impairments nor do we expect many of our holdings to undertake new equity or debt issuance in the near future.

Importantly, issuing new debt or equity is not inherently negative; we believe a more important factor is the conditions under which they issue. Successful small-cap companies raise capital for strategic reasons, such as spending on capital expenditures, expanding existing business operations or acquiring a company that could generate significant synergies to core operations.

Investors should carefully consider the Fund’s investment objectives, risks, charges and expenses before investing. For this and other information, please call (855) 656-3017 or visit friessfunds.com. Read the prospectus carefully before investing.

As of 6/30/20, the Fund held 5.4% in net assets of Limelight Networks. Fund holdings are subject to change. Mention of a specific security should not be considered a recommendation to buy or solicitation to sell that security.

Mutual fund investing involves risk. Friess Small Cap Growth Fund invests in small-cap companies, which involve additional risks such as limited liquidity and greater volatility. The Fund may also invest in depositary receipts, which are generally subject to the same risks as the foreign securities because their values depend on the performance of the underlying foreign securities.

Earnings growth is not a forecast of the Fund’s future performance. Earnings growth for a Fund holding does not guarantee a corresponding increase in the market value of the holding or the Fund.

The Russell 2000® Growth Index is a market-cap-weighted index that measures the performance of Russell 2000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000® Index measures the performance of approximately 2,000 of the smallest securities based on a combination of market cap and current index membership. One cannot invest in an index. Active Share is the percentage of stock holdings in a manager’s portfolio that differs from the benchmark index.

Fund is distributed by Foreside Fund Services, LLC.