

Friess Small Cap Growth Fund

3Q20 Commentary

Tickers

Institutional Investor
SCGFX **SCGNX**

Fund Facts

of Holdings **45**
Benchmark **Russell 2000 Growth**
Active Share **96.94%**
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 earnings growth of the Fund's holdings, current investment opportunities and our "all cap" approach to sourcing small company ideas.

Q1. Would you please discuss the portfolio companies' earnings? What percentage of the Fund's holdings beat expectations in the third quarter of 2020?

Over the quarter, approximately two-thirds of the companies in the Friess Small Cap Growth Fund exceeded earnings expectations. Between July and September, earnings estimates for the Fund's holdings increased about 6% on average. Analysts have generally become more optimistic toward our holdings, shifting their attention to individual corporate drivers and away from macroeconomic headwinds.

With the resetting of earnings expectations, our companies are in a good position to beat estimates and raise forward guidance. We believe robust earnings growth is key to outperforming our peer group over time, so we focus our efforts on isolating rapidly growing companies that appear poised to exceed Wall Street's earnings expectations based on our research.

In today's pandemic environment, growth is scarce, which likely explains the significant rally in a relatively small group of mega-cap growth stocks. Although stock price appreciation has been realized by a small subset of growth companies in 2020, we believe the portfolio is well positioned to capitalize on future opportunity. We continue to uncover high-quality, small-cap companies with strong earnings growth potential, attractive valuations, solid balance sheets and upcoming earnings catalysts. Right now, we're identifying the most potential in the technology, consumer discretionary and health care sectors.

Q2. What are the current earnings growth rates and valuations of the Fund compared to the Russell 2000® Growth Index?

As of September 30, 2020, the portfolio offered about 50% more earnings growth potential compared to the Russell 2000® Growth. Under normal economic conditions, we typically look for companies that can generate at least 20% earnings growth over the next year. In addition, we strive to purchase these faster growing companies at a reasonable price, typically less than 30x forward earnings estimates.

Importantly, we seek companies generating growth that's not dependent on macro factors, such as GDP growth, crude oil prices, interest rates or presidential election results. We focus on companies that possess secular stories to be resilient in the face of economic headwinds. In addition, we prefer companies that can fund their growth through internally generated cash flows, rather than distressed companies that need to access the public markets to fund growth.

Faster Growth Rate Than Index

**2021 vs. 2020
EPS Growth Estimate**

Fund	35.8%
Index	22.6%

Source: FactSet Research Systems Inc.

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Q3. What investment opportunities have you uncovered with recent consumer behavior changes due to the coronavirus pandemic?

With the growing trend of people spending more time at home and working from home, we have seen many companies becoming resourceful and developing solutions to grow their businesses. In the consumer discretionary sector, many traditional brick-and-mortar stores have significantly increased their online presence, which has helped expand their brands during the pandemic.

In health care, telemedicine is on the rise. With patients avoiding hospital visits and surgical procedures, companies that provide at-home health care solutions are thriving. For example, **DermTech (DMTK)** has developed a process to test for skin cancer by non-invasively collecting skin tissue samples using an adhesive patch. This company has seen an increase in adoption as patients avoid biopsies that traditionally would be performed in a health care facility.

Current opportunities in the technology sector include companies that provide streaming and broadband services as more people upgrade their at-home technology for business and entertainment.

Q4. Please elaborate on ways your research team analyzes the broader universe for potential Fund investments?

About 90% of our small-cap holdings can be sourced from our “all-cap” research approach. When a promising trend arises, we conduct research to evaluate the overall supply chain of the major companies operating within that market. Large- and mid-cap companies typically utilize several small-cap businesses within their supply chain, which help us identify companies that have potential to benefit from this emerging trend for the Fund. We conduct bottom-up fundamental research to identify the companies we believe are best positioned for growth.

For example, **Calix (CALX)** is one company that we uncovered by evaluating the supply chain of a larger-cap stock in the broadband communications business. The company, which has been migrating to more software solutions, has significant upside earnings potential that we believe makes it an attractive long-term holding for the Fund.

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.

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.

Active Share is the percentage of stock holdings in a manager's portfolio that differs from the benchmark index.

As of 9/30/20, the Fund held 1.9% and 1.8% in net assets of DermTech and Calix, respectively. 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.

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.

Fund is distributed by Foreside Fund Services, LLC.