

# Friess Small Cap Growth Fund

4Q19 Commentary

## Tickers

Institutional	Investor
<b>SCGFX</b>	<b>SCGNX</b>

## Fund Facts

AUM	<b>\$161M</b>
# of Holdings	<b>51</b>
Benchmark	<b>Russell 2000 Growth</b>
Active Share	<b>95.6%</b>
Inception Date	<b>5/31/2017</b>

## Portfolio Management



**Scott Gates**  
*Portfolio Manager  
and CIO*

Scott Gates is the lead portfolio manager. The investment team includes Scott Gates and seven research analysts who have average tenure of 19 years at Friess and average investment industry experience of 25 years.

## About Friess Associates

Friess Associates is a boutique, institutionally oriented investment manager founded by Foster Friess more than 45 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 provides insight into Friess' approach to growth investing, how the team uncovers small-cap companies, and describes current opportunities.**

### Q1. Would you please describe Friess' approach to growth investing?

Friess Associates is an independently owned firm with a sole focus on growth equity investment offerings. Our firm was founded by Foster Friess in 1974 and partnered with Affiliated Managers Group (AMG) in 2001. In 2013, the current management team repurchased the firm from AMG. We are most known for our institutional client base.

Our growth-oriented strategies span the market capitalization spectrum, and we use an intensive, bottom-up research process to identify companies experiencing accelerating earnings growth and trading at reasonable valuations. We aim to invest in growth companies with catalysts that Wall Street has yet to fully recognize and look to sell when price targets are realized.

### Q2. How do you define growth investing?

Simply put, we invest in change. We look for innovative businesses investing in their futures through various means, such as spending money on research and development, investing in new equipment, introducing new products or venturing into new markets. We focus on companies with experienced management teams and strong balance sheets. We want companies that are poised to undergo changes in their operations that translate into a positive impact to earnings. In addition, we purchase these companies, in our view, at a reasonable price-to-earnings (P/E) ratio.

**The Fund offers nearly two times the earnings growth rate of our benchmark, the Russell 2000® Growth Index.**

Earnings growth potential is of utmost importance to our investment process. We believe earnings performance is the most important fundamental factor in determining a company's share price. In normal economic conditions, we look for companies positioned to deliver at least 20% earnings growth over the next year. In addition, we are looking to purchase these faster growing companies at a reasonable price, typically less than a 30x forward earnings estimates.

As a result of this process, the Fund currently offers a comparable valuation to our benchmark, the Russell 2000® Growth Index, with nearly two times the earnings growth rate. The holdings of the Friess Small Cap Growth Fund are expected to grow earnings at an average of 23% this year compared to the Index's 13%, based on consensus estimates at the end of 2020. The Fund's P/E was 16.8x compared to the Russell 2000® Growth's P/E of 16.2x as of December 31, 2019.

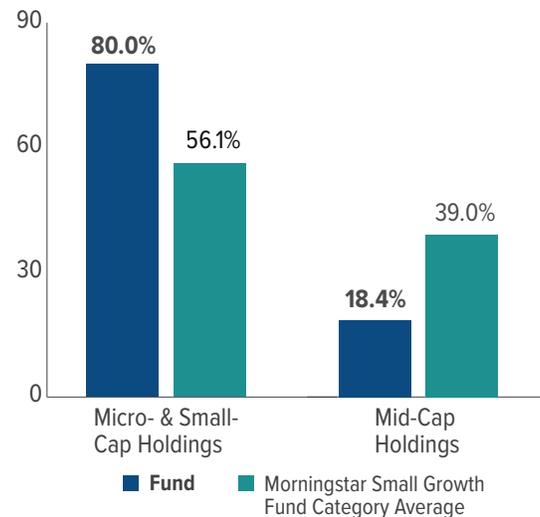
### Q3. How do you uncover smaller growth companies for the Fund?

We believe our all-cap team approach is a differentiating factor for the Friess Small Cap Growth Fund. Our investment management team of 10 research analysts and traders covers the broad universe of stocks that meet our earnings and valuation criteria to organically generate ideas and implement investment decisions across all of our strategies. We can often source approximately 90% of our small-cap candidates from this approach. As an example, in the process of researching a large-cap company in a certain industry, we often uncover smaller companies that are their customers, competitors and suppliers and exhibit similar attractive growth characteristics.

This all-cap approach helps us find under-covered or lightly covered companies that may not have been discovered by Wall Street. Particularly in the small-cap universe, many companies on our watchlist are thinly covered or, with respect to many of the micro-cap companies that we own, not covered at all. As a result, many of the smaller companies we own are generally not widely held by the broader investment community. That's why identifying a catalyst—such as an earnings report, a new product introduction, a change in the competitive landscape—that will attract the attention of the broader market and unlock a company's intrinsic value is such an important factor in our investment process.

We manage the Friess Small Cap Growth Fund as a “best ideas” small-cap portfolio where holdings compete for their position by demonstrating solid fundamentals and growth targets. Importantly, the Fund stays true to its small growth mission, as 80% of its equity holdings were in micro- and small-cap companies as of 12/31/19 according to Morningstar. For its Morningstar Small Growth fund peers, micro- and small-cap holdings averaged only approximately 50% of the portfolio with mid-cap stocks representing a meaningful relative weighting difference.

### More Small-Cap Holdings Than Its Peers



Source: Morningstar

### Q4. Would you please provide an example of where you are finding opportunity in small-cap securities?

With our bottom-up approach, we focus on companies with promising earnings growth potential of more than 20% regardless of sector or industry. Our 20% earnings growth threshold leads us to many faster growing sectors, including health care, consumer discretionary, industrials, and technology.

Recently, as part of our all-cap team approach, we have been uncovering small-cap companies that we believe are poised to benefit from their investment in 5G wireless technology. For example, **MasTec, Inc. (MTZ)** builds power lines and towers and partners with larger tech companies to build out 5G network infrastructure.

*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](http://friessfunds.com). Read the prospectus carefully before investing.*

As of 12/31/19, the Fund held 2.0% in net assets of MasTec, Inc. Fund holdings are subject to change. Sectors listed are Global Industries Classifications Standard (GICS® industries, provided by FactSet). 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 determination of “best ideas” is solely the opinion of the Fund's portfolio management team, and such opinion is subject to change. Small-cap companies that are fundamentally sound, experiencing positive change, such as new products, new management teams or members, acquisitions or divestitures, or legislative changes, and have accelerating earnings growth and reasonable valuations are generally considered “best ideas.”

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.