

SPECIAL REPORT Top Performing Managers

Small-cap strategies still king of the quarter as 2017 shifts to growth

By Meaghan Kilroy

Small-cap equity strategies once again made up the bulk of Morningstar Inc.'s domestic equity separate account/collective investment trust database, claiming seven of the top 10 spots for the year ended June 30.

Of the seven, four were growth strategies. Also, of the seven, one was a financial strategy and one was a health strategy.

Last quarter, small-cap equity managers occupied six of the top 10 spots for the 12 months ended March 31, also with four growth managers.

The remaining strategies in the top 10 this time around were a midcap growth strategy, a midcap growth technology strategy and a large-cap growth financial strategy.

While 2016 was the year of value, the second quarter of 2017 was "the continued reversal of that," said Andrew Daniels, analyst for equity strategies at Morningstar in Chicago. "The late part of 2016 was very strong for value, and the first part of 2017 was very strong for growth, so you see both (value and growth) managers ending up in the trailing one year," Mr. Daniels said.

For the year ended June 30, the Russell 2000 Growth index returned 24.4%, edging out the Russell 2000 Value index, which returned 22.42%. The median Morningstar domestic growth and value equity strategies, meanwhile, returned 20.39% and 18.63%, respectively.

During the same period, the median return for

Overall U.S. equity

ONE-YEAR RETURN	Category	Gross return	Net return
Schneider Capital Mgmt. Small-Cap Value	U.S. SA small value	56.65%	54.92%
ZPR Volume Value	U.S. SA financial	55.79%	53.26%
Zevenbergen Z/Tech	U.S. SA technology	53.28%	51.96%
Bares Capital Mgmt. Small-Cap	U.S. SA small growth	50.99%	48.95%
Pacific Ridge Capital Partners Micro Cap Value	U.S. SA small value	47.10%	45.00%
Naylor & Co. Core Composite	U.S. SA midcap growth	46.27%	43.58%
RS Technology Composite	U.S. SA technology	45.54%	44.09%
Baron Discovery Strategy	U.S. SA small growth	45.44%	44.38%
Kopp AccruHealth	U.S. SA health	45.36%	43.57%
Weatherbie Capital - Spec. Growth Equity	U.S. SA small growth	44.37%	43.26%

FIVE-YEAR RETURN	Category	Gross return	Net return
Zevenbergen Z/Tech	U.S. SA technology	26.27%	25.12%
Naylor & Co. Core Composite	U.S. SA midcap growth	25.31%	22.71%
ZPR Volume Value	U.S. SA financial	25.09%	23.00%
Pacific Ridge Capital Partners Micro Cap Value	U.S. SA small value	21.90%	20.10%
Wellington Global Technology Opportunities	U.S. SA technology	21.62%	20.72%
BMO Microcap Equity - Institutional - SA	U.S. SA small growth	21.56%	20.34%
LEIA CBI	U.S. SA large growth	21.23%	21.23%
Financial Trust Health Value	U.S. SA health	20.73%	19.23%
Towle & Co. Deep Value	U.S. SA small value	20.71%	19.86%
O'Shaughnessy Micro Cap	U.S. SA small value	20.55%	19.26%

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the overall Morningstar domestic equity universe was 19.22%, while the Russell 3000 returned 18.51%, the Russell 2000, 24.6%; Russell 1000, 18.03%, and the Russell Midcap index, 16.48%.

Like Mr. Daniels, Mark Zavanelli, president and head portfolio manager at Orange City, Fla.-based ZPR Investment Management Inc., described the 12 months ended June 30 as a “tale of two periods.”

“What was doing well in the second half of 2016 (microcap stocks, value stocks, and small financials), was not doing as well in the first half of 2017,” Mr. Zavanelli said.

“In late 2016, expectations for U.S. growth and what the (Trump) administration was going to do really boosted interest rates strongly,” Mr. Zavanelli said. In the first half of 2017, however, interest rates have fallen as growth expectations for the U.S. have trailed off, and the Trump administration’s tax reform and infrastructure plans have not really materialized, he said.

ZPR’s volume value strategy ranked second in the year ended June 30 with a gross return of 55.79%, down one spot from last quarter. For the five years ended June 30, the strategy ranked third with an annualized gross return of 25.09%, down two spots from the previous quarter. All five-year returns are annualized.

Mr. Zavanelli said the portfolio team looks for microcap stocks with attractive valuations and low trading volume relative to their total shares outstanding.

The combination of those factors — microcap, value and low trading volume — worked well for the strategy over the last year, Mr. Zavanelli said.

The portfolio also continues to have a more than 60% weighting to small financials. Those stocks had a “terrific fourth quarter of 2016,” Mr. Zavanelli said.

Occupying the No. 1 spot for the 12 months ended June 30 was Schneider Capital Management Corp.’s small-cap value strategy with a gross return of 56.65%.

Arnold C. Schneider III, president and chief investment officer, said the Wayne, Pa.-based firm is a deep value manager that invests in cheap stocks where the firm sees a chance for improved fundamentals.

According to Mr. Schneider, four sectors — banks, materials, producers and cyclical technology — contributed to the strategy’s success over the year ended June 30.

Banks rebounded after Donald Trump’s election and KeyCorp. and Regions Financial Corp. stood out as winners, Mr. Schneider said.



Zevenbergen Capital Investments’ Brooke de Boutray

In materials, Chemours Co., a leading producer of titanium dioxide, was a top contributor, and in producers, so was industrial distributor DXP Enterprises Inc.

Occupying third place on the one-year list was Zevenbergen Capital Investments LLC’s Z/Tech strategy with a gross return of 53.28%. The strategy also ranked first on the five-year list with a gross return of 26.27%.

Z/Tech is a concentrated growth portfolio of about 25 companies, said Brooke de Boutray, portfolio manager and managing director at the Seattle-based firm. It is considered a large-cap strategy by Morningstar.

The portfolio team looks for companies with founder-led, visionary management that are often disrupting industries, Ms. de Boutray said.

There’s been “so much change and disruption” in the way people shop, consume entertainment, prepare meals or buy a home, Ms. de Boutray said.

Winners over the past year included Tesla Inc., Netflix Inc., Nvidia Corp., MercadoLibre Inc., and Wayfair Inc.

Behind Zevenbergen on the one-year list was Bares Capital Management Inc.’s small-cap strategy with a gross return of 50.99%, up one spot from last quarter.

Brian T. Bares, founder and research analyst at the Austin-based firm, said the portfolio team takes a qualitative approach to build a concentrated portfolio of eight to 12 stocks. Eleven research analysts meet with companies’ management teams, attend trade shows and walk factory floors, he said.

Standouts over the year included Interactive Intelligence Group Inc., which was acquired in 2016; Colefax Group PLC and Platform Specialty Products Corp., which benefited from a post-election rebound in industrials; and technology names Alarm.com and Box Inc.

Rounding out the top five on the one-year list was Pacific Ridge Capital Partners LLC’s microcap value strategy with a gross return of 47.1%. The strategy also ranked fourth on the

five-year list with a gross return of 21.9%.

Mark Cooper, president and co-senior portfolio manager, said that the Portland, Ore.-based firm is a fundamental, bottom-up stock picker that invests in out-of-favor companies.

Standouts over the last year included shipping container leasing company CAI International Inc., which benefited from rising steel prices and dissipating bankruptcy concerns for some shipping companies, Mr. Cooper said. Ultra Clean Technologies Corp., a semiconductor capital equipment company, was another standout over the one-year period.

The remaining strategies of the top five on the five-year list was Naylor & Co.’s core composite midcap growth strategy, in second place with a gross return of 25.31%, and Wellington Management Co. LLP’s Global Technology Opportunities with a gross return of 21.62%, ranking fifth. Both strategies were on last quarter’s five-year list.

The median return for the overall domestic equity universe for the five years ended June 30 was 14.32%.

Among domestic collective investment trusts, The Boston Co. Asset Management LLC’s small-cap opportunistic value equity strategy ranked first on the one-year list with a net return of 31.48%, followed by J.P. Morgan Asset Management (JPM)’s U.S. active value fund, 29.84%; State Street Global Advisors’ Nasdaq-100 index strategy, 29.35%; American Century Investments’ U.S. small-cap value equity trust, 28.85%; and Harris Associates LP’s Oakmark collective fund, 28.54%. The median return for domestic collective investment trusts for the year ended June 30 was 18.66%.

For the five years ended June 30, the highest-returning CIT was State Street Global Advisors’ Nasdaq-100 index strategy, with a net return of 18.15%, followed by J.P. Morgan’s growth advantage strategy, 18.01%; BNY Mellon Investment Management’s EB DV dynamic U.S. equity strategy, 17.93%; J.P. Morgan’s U.S. active value fund, 17.62%; and Amalgamated Bank’s Longview quantitative midcap fund, 17.23%.

The median return for domestic collective investment trusts over the five-year period was 14.57%.

All data for Pensions & Investments’ top-performing managers report are provided from Morningstar’s global separate account/collective investment trust database. The data for the rankings on which this story is based were pulled Aug. 3.

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Important Disclosures:

ZTech Growth Equity Composite			
Time Period	Total Account (gross-of-fees)	Total Account (net-of-fees)	Russell 3000® Growth Index
06/30/16 to 06/30/17	53.27%	51.94%	20.72%
06/30/12 to 06/30/17	26.28%	25.12%	15.20%

Returns for periods greater than one year are annualized. Full composite performance disclosure available herein. Past performance is not indicative of future results. The Russell Indices are trademarks of the London Stock Exchange Group. Source data provided by the London Stock Exchange Group. The securities identified and described do not represent all of the securities purchased, sold or recommended for Zevenbergen Capital client accounts. The reader should not assume that an investment in the securities reference was or will be profitable. A complete list of holdings over the preceding 12 months is available upon request. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities referenced.

ZEVENBERGEN CAPITAL INVESTMENTS LLC - ZTECH GROWTH EQUITY COMPOSITE DISCLOSURE STATEMENT

Zevenbergen Capital's (ZCI) ZTech Growth Equity Composite contains fully discretionary, fee-paying accounts managed in the ZTech Growth Equity investment style. The ZTech Growth Equity investment strategy is capital appreciation characterized by concentrated portfolios (generally 40-60 securities) and limited income generation and is generally fully-invested at all times. The ZTech Growth Equity strategy exhibits sector concentration, investing in growth companies with primary emphasis in the technology and telecommunications industries. This strategy contains high-growth companies which at times can exhibit substantially greater volatility than the stock market as a whole. The Russell 3000® Growth Index has been chosen as the performance benchmark based on its similarity to the universe from which ZCI's security selection process begins, as well as the Index's fundamental growth characteristics, capitalization ranges and growth industry exposures. Performance for the Index does not include investment management fees, brokerage commissions and other expenses associated with investing in equity securities. As of January 1, 2002, the Gabelli Global Growth Fund was eliminated as a performance benchmark. It was determined that this benchmark was no longer representative of the ZTech Growth Equity investment style. Additionally, on January 1, 2004, we replaced the use of the S&P 500 as a proxy of ZCI's prospective investment universe with the Russell 3000® Growth Index. While still not representative of ZTech's investment style, it was determined that the Russell 3000® Growth Index holdings are more representative of the securities that could be included in the ZTech Growth Equity Composite. The ZTech Growth Equity Composite is sector specific and could result in increased volatility compared to the Russell 3000® Growth Index, a broader market indicator. Prior to January 1, 2002, only accounts over \$5 million were included in this Composite.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this Composite. Effective in 2010, ZCI began disclosing the total number of advisory accounts, whereas the number of "relationships" was previously provided. This change does not affect the previous year-end account totals or the firm's assets under management calculations. Past performance is not indicative of future results.

The U.S. dollar is the currency used to express performance. Returns are presented on a trade-date basis, gross and net of management fees and include the reinvestment of any income. Net of fees performance is calculated using actual management fees. Other expenses that may be incurred in the management of the account, including foreign withholding taxes will reduce gross returns. ZCI's standard fee schedule for the ZTech Growth Equity product is as follows: 1.10% on the first \$40 Million of assets managed; 1.00% on the next \$40 Million of assets managed; and 0.90% on remaining assets managed above \$80 Million. Fees paid by accounts included in the Composite may differ from this schedule due to minimum fees, and actual investment advisory fees incurred by clients may vary. Advisory fees are accounted for on a cash basis, and therefore timing of client payments may affect net of fees performance for any given period. The annual composite dispersion presented is an asset-weighted standard deviation of performance calculated for accounts in the Composite the entire year.

Zevenbergen Capital Investments LLC is a registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request. Zevenbergen Capital Investments LLC claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Zevenbergen Capital Investments LLC has been independently verified for the periods July 1, 1990 through December 31, 2016 by Ashland Partners & Company, LLP.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The ZTech Growth Equity Composite has been examined for the periods February 28, 1994 through December 31, 2016. The verification and performance examination reports are available upon request. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The ZTech Growth Equity Composite was created February 28, 1994.

Year Ending	Composite Assets U.S. Dollars (millions) at Year-End	Composite Assets % of Firm Assets at Year-End	Composite Accounts at Year-End	Composite Asset-Weighted Annual Return Gross of Fees	Composite Asset-Weighted Annual Return Net of Fees	Russell 3000® Growth Index Annual Return	Composite Dispersion	Composite Gross of Fees 3-Year Annualized Standard Deviation	Russell 3000® Growth Index 3-Year Annualized Standard Deviation
2016	\$58	3%	Five or Fewer	1.47%	0.52%	7.39%	N.A.	0.21	0.11
2015	\$58	2%	Five or Fewer	10.06%	9.04%	5.09%	N.A.	0.21	0.11
2014	\$53	2%	Five or Fewer	2.51%	1.56%	12.44%	N.A.	0.24	0.10
2013	\$61	2%	Five or Fewer	101.17%	99.44%	34.23%	N.A.	0.24	0.12
2012	\$30	1%	Five or Fewer	7.11%	6.08%	15.21%	N.A.	0.24	0.16
2011	\$27	1%	Five or Fewer	-20.12%	-20.90%	2.18%	N.A.	0.25	0.18
2010	\$34	1%	Five or Fewer	37.11%	35.85%	17.64%	N.A.		
2009	\$25	1%	Five or Fewer	98.17%	96.31%	37.01%	N.A.		
2008	\$13	<1%	Five or Fewer	-54.87%	-55.39%	-38.44%	N.A.		
2007	\$38	2%	Five or Fewer	39.37%	38.12%	11.38%	N.A.		
2006	\$28	2%	Five or Fewer	8.08%	7.07%	9.46%	N.A.		
2005	\$21	2%	Five or Fewer	18.67%	17.58%	5.17%	N.A.		
2004	\$13	1%	Five or Fewer	9.87%	8.79%	6.92%	N.A.		
2003	\$43	4%	Five or Fewer	69.04%	67.59%	30.95%	N.A.		
2002	\$26	4%	Five or Fewer	-44.49%	-45.08%	-28.05%	N.A.		
2001	\$61	6%	7	-37.83%	-38.43%	-19.63%	N.A.		
2000	\$139	9%	13	-49.65%	-50.17%	-22.42%	0.96		
1999	\$373	15%	12	154.57%	152.85%	33.82%	N.A.		
1998	\$48	5%	Five or Fewer	83.55%	81.95%	35.02%	N.A.		
1997	\$11	2%	Five or Fewer	39.49%	37.89%	28.74%	N.A.		
1996	\$8	2%	Five or Fewer	25.19%	23.37%	21.88%	N.A.		
1995	\$7	2%	Five or Fewer	35.96%	33.95%	36.57%	N.A.		
1994	\$5	2%	Five or Fewer						

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the Composite for the entire year.

In 1994, the Composite did not contain members for the entire year.

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