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Q&A with Fiera Capital:

Unveiling the European Launch of US SMID Cap Growth Strategy

Why did you launch the Strategy in Europe?

The decision to debut Fiera Capital's all-seasons US SMID-Cap Growth Strategy (c. USD$6.1bn AUM, as at 31 March 2024) in Europe was taken in the context of three mutually reinforcing considerations.

First, in bringing the Strategy to European investors, we're seeking to fulfil latent demand for exposure to US small-to-mid-caps either purely for alpha or as part of broader portfolio diversification where US SMID can complement large-cap equities allocations as well as other small- and mid-cap investment styles. We've achieved consistent outperformance on both an absolute and risk-adjusted basis against the Russell 2500 Growth Index over a 5- to 10-year time horizon, while providing a measure of resiliency during market downturns that is inherently attractive to European investors with a long-term outlook.

Second to that is the active management premium in what is a relatively misunderstood asset class. While investing in more well-known securities means active managers must be contrarian to outperform ETFs, the idiosyncratic nature of US small-to-mid-cap companies, how they are traded, and the presence of unprofitable companies, means indexes tend to capture a lot of challenged companies.

And third, from a macroeconomic perspective, the eye off of US small/mid-caps in favour of the S&P500's mega-cap stocks presents an opportunity to capture overlooked value add. By virtue of being under-owned and under-researched, we think investors exploring small-to-mid-cap stocks will benefit from the general principle that these companies tend to deliver outsized returns over a longer holding period.

What is the investment strategy?

Fiera's US SMID investment strategy combines bottom-up fundamental stock selection with a top-down assessment of global secular trends. Phrased another way, we look to identify companies with strong earnings growth or potential that provide innovative solutions to major technological, economic, demographic, regulatory and societal challenges, and prioritise targets that capitalise on and derive a competitive advantage from long-term secular tailwinds.

This approach looks to generate capital appreciation over time, while also providing a measure of insulation to market downturns. It is an "all-seasons growth" investment methodology which incorporates a mix of 60-90 stable growth and emerging growth companies to mitigate the cyclicality of risk-adjusted returns, emphasising quality and growth.

Approximately 85% of our alpha comes from the team's approach to stockpicking and as active managers we are not afraid to look different than our benchmark. We screen for high-performing outliers that have investible indicators that we believe have been mispriced. And on identifying a target, we will take an appropriate position based on the risk/reward and our conviction level.

What added value does the Strategy offer compared to similar products from the competition?

Fiera's US SMID has achieved consistent outperformance on both an absolute and risk-adjusted basis while delivering significant added value ranking in the top quartile in excess returns over the Russell 2500 Growth Index over a 5 to 10-year horizon – but our success is attributable to the strength and repeatability of our investment process combined with the experience of our portfolio managers.

Especially in a US small-to-mid-cap equities universe comprising more than 2,500 companies, where there is a greater frequency of market inefficiencies due to lower institutional ownership, lower information quality and less analyst coverage, the skill to discern what makes a quality stock-pick in what can be considered a disparate universe of companies is essential. We'd like to think we've been compensated with competitive returns through the careful selection of a diversified and complementary mix of emerging, rapidly growing securities, in combination with more stable, mature and durable businesses.

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