



Aperture Investors SICAV - Discover Equity Fund

Q&A with Brad McGill,
portfolio manager

October, 2022

Brad McGill explains how he and his team discover what they consider the best of tomorrow's corporate leaders by identifying businesses going through transformational change.



aperture
investors

BRAD MCGILL, PORTFOLIO MANAGER

For the past 25 years, Brad has analysed and invested in public equities for institutional clients. At Aperture Investors he has been managing the US Small Cap strategy since its launch in December 2019. Before joining Aperture, he was the Portfolio Manager of the Wayfinder Small Cap Equity Fund, a concentrated Small Cap Focused Long/Short Equity Strategy at Diker Management. Previously, Brad was a Managing Member and Senior Research Analyst at Daruma Capital Management, a multi-billion dollar small-cap focused firm. Earlier, Brad held portfolio management and senior equity research analyst positions at firms including Lehman Brothers and Montgomery/Bank of America Securities. He began his career in equity research at Smith Barney.



Why should an investor consider Aperture Investors SICAV - Discover Equity Fund over a typical US small cap fund?

There are a few things that make us a bit different. I've spent over 15 years specialising in small cap stocks and have found that a very selective, concentrated strategy can be advantageous for investors. At Aperture, we limit our capacity to preserve the opportunity set for investors and prioritize alpha generation, as opposed to some competitors with many positions and several billion-dollar AUM small cap strategies. Secondly, we have a very clear set of time-tested investment criteria that we follow with a lot of discipline. Thirdly, we have a long-term time horizon and invest for 2-4 years on average. We don't run a coverage model and don't aim to have an opinion on every stock in the investable universe. Instead, we focus on a small, high conviction basket of ideas that we believe can appreciate over 50% or more over a two-year period. These features, in my view, create a differentiated portfolio compared to many of our peers.

The fund typically holds 20-30 stocks, and up to 15 short positions. How do you manage concentration risk?

We adhere to strict risk guidelines. For every position, we create upside targets and downside risk thresholds. We target a minimum of 50% upside and every stock has a 3-1 asymmetry in terms of upside relative to downside. We pair these guidelines with our very clear investment criteria set. We continually review the key drivers and milestones of companies to assess if our thesis tracks our expectations and criteria. Position sizing is determined by confidence levels and our expected range of outcomes. At the portfolio level, we consider beta-adjusted exposure by sector and position, volatility, and other risk factors.

Given the nature of small cap stocks being under-researched, how do you identify which companies are worth investing in and conversely, which ones to short?

We have a very clear sourcing process designed to consistently identify competitive companies that we believe are undergoing positive transformational change. As a small team, we turn the traditional sector coverage model on its head. We look for unique companies within sectors and indeed our portfolio does not mirror the benchmark.



Our investable universe includes over 2,000 US small caps, but we narrow this down and focus on about 300 a year to find the seven to ten ‘best ideas’ that we find compelling. In terms of shorting, we only short with an aim to generate a positive absolute return for our investors. These ideas typically arise naturally from our investment process, so it could be a company that we previously researched as a long candidate.

Could you illustrate a few of the themes you currently hold in the fund, both on the long and short side?

We typically gravitate towards companies within consumer discretionary, information technology, services, industrials, healthcare, and materials sectors. These opportunity sets tend to be more sensitive to positive change than, say, a utility or financial where the macro environment often dictates performance more than idiosyncratic company specifics. We look for companies in dynamic periods of their life cycles where their business models are becoming optimized and they're growing into the ‘leaders of tomorrow’, as we sometimes say. This could be a small cap that we discover early and grows into a successful large cap. It could also be a smaller business with a particular niche that hasn't been well managed historically, but a new CEO comes in and turns the business around.

Given gloomy global macro sentiment, rising recession risk and high volatility, why should investors consider this fund now?

I think it's actually a very interesting time to be considering allocating to the US small caps. Although it is certainly debatable if we have seen the lows of this market selloff, it is notable that after bear market bottoms historically, small caps have dramatically outperformed large cap equities and delivered strong absolute returns. In addition, small cap valuations in many cases have already reached recession levels. While clearly there may be some earnings risk ahead, small cap multiples have generally already discounted a lot of the potential deterioration in earnings, more so than in large caps. For long-term investors, these market dislocations have provided great opportunities to upgrade into compelling situations at attractive prices. So, the starting point here is quite attractive. We optimize the portfolio during market downturns, adding new positions and increasing existing ones, which is exactly what we're doing now.

Based in New York and London, Aperture offers actively managed investment strategies and a unique fee model that aligns fund manager incentives with client performance. The firm charges low, ETF-like fees when performance is at or below stated benchmark. A performance-linked fee is charged only when returns are generated in excess of a strategy's benchmark. Investment teams are therefore compensated primarily on outperformance.

Aperture Investors is part of the Generali Investments platform.

**APERTURE INVESTORS SICAV
DISCOVER EQUITY FUND**

Investment Objective	The objective of the Sub-fund is to generate returns in excess of the Russell 2000 Total Return Index. The Sub-fund aims to achieve its investment objective by investing in a portfolio consisting of long and synthetic short positions in liquid equity, equity-related instruments and bonds using an active extension approach to enhance potential returns without increasing the overall net exposure to the market.
ISIN	LU2475550567 (IX H EUR Acc.)
Inception date	13 July 2022
Benchmark	Russell 2000 Total Return Index
Funds Currency	USD
Domicile	Luxembourg
Management Company	Generali Investments Luxembourg S.A.
Investment Manager	Aperture Investors LLC
SFDR	Article 8

Costs - Class IX H EUR Accumulation (ISIN: LU2475550567): Entry Charge: 5%, Exit Charge: 1%, Ongoing charge: 0.44%, Positive or negative Performance Adjustment of the Variable Management Fee up to +/- 1.875% from the VMF Midpoint of 2.175% with a VMF Minimum 0.30% and VMF Maximum of 4.05. Risk Factors: This Fund is not a guaranteed product. Investments bear risks. You may not recover all of your initial investment. Investment may lead to a financial loss as no guarantee on the capital is in place. Investment involves risks. The risk and reward profile is category 6 (high volatility which may result in major latent short term losses). The main risks of the Fund are Market risk, Volatility risk, Equity, Investment in smaller companies, foreign exchange, short exposure risk, Directional, Derivatives, investments in smaller companies, investments in SPACs, OTC financial derivative instruments, Rule 144A and/or Regulation S securities. Significant risk(s) for the Fund not taken into account in this indicator include the following: Derivative risk, Currency risk, Counterparty risk, Credit risk, Liquidity risk, Operational risk and Depository risk, Sustainable Finance risk, Emerging Market risk. Past performance is not indicative of future performance. Future performance is subject to taxation depending on the personal circumstances of each investor and may change in the future. The reference currency of the Fund is: USD. Currency fluctuations may have a negative impact on the net asset value, performance and costs. Returns may increase or decrease due to currency fluctuations. Sources of the data (unless specified otherwise): Aperture.

This marketing communication refers to Aperture Investors SICAV (the "Fund"), a Luxembourg UCITS-SICAV and its Sub-fund Discover Equity Fund altogether referred to as the "Fund". This document is intended only for professional investors in France and Luxembourg, where the Fund is registered for distribution, within the meaning of the Markets in Financial Instruments Directive 2014/65/EU (MiFID) and it is not intended for retail investors, nor for U.S. Persons as defined under Regulation S of the United States Securities Act of 1933, as amended. This marketing communication is issued by Generali Investments Partners S.p.A. Società di gestione del risparmio, an Italian asset management company regulated by Bank of Italy and appointed to act as marketing promoter of the Fund in the EU/EEA countries where the Fund is registered for distribution (Via Niccolò Machiavelli 4, Trieste, 34132, Italia - C.M. n. 15376 - LEI: 549300DDG9IDT00X8E20). Investors must read the Prospectus (available in English) and KIIDs (available in the language of the country of residence of the investor) and particularly the risks, costs and conditions, before making any final investment decisions. The documents are accessible free of charge on www.generali-investments.com. The future performance is subject to taxation which depends on the personal situation of each investor, and which may change in the future. Access to a summary of your investor risks including common actions in case of litigation at EU and national level on this website as well (in English and in the language of residence of investors). The Management Company has the right to terminate the arrangements for distribution of any product at any time. All information and opinions contained in this document represent the judgment of the author at the time of publication and are subject to change without notice. The views expressed are those of the author but may not be the views of Aperture Investors UK, Ltd and its parent company Aperture Investors, LLC ("Aperture"). This marketing communication is for informational purpose only, and thus, may neither be considered as an offer to subscribe, nor as an investment advice. This document does not provide any professional investment, legal, accounting or tax advice.