# NICHOLAS INVESTMENT PARTNERS

## QUARTERLY UPDATE 4Q:2019

**MARKETS: Major Pivots at Year-end Improve Outlook**

**Stocks end 2019 on a high note, posting their best returns since 2013.** Investor optimism regarding progress on US-related trade deals, green shoots in global growth as monetary easing kicks in and reassurance that central bank (US Fed and ECB) policies will remain accommodative for an extended period helped spur the rally. Consumer confidence also remained elevated, backed by strong employment levels in the US.

**Large caps over small in 2019, but small caps make a move in Q4.** Investors favored large caps for much of 2019 amid economic and geopolitical uncertainty, driving them to outperform mid and small-caps. However, since September 3rd, small-cap stocks have outperformed and we believe this will continue into 2020.

| Return (%) | 4Q19 | 2019 |
|---|---|---|
| S&P 500 | 9.07 | 31.49 |
| RMC Mid Cap | 7.06 | 30.54 |
| Russel 2000 | 9.94 | 25.53 |

**Growth dominates in Q4 and 2019.** Growth beat value again across small- and mid-cap ranges in Q4—largely due to strong performance in healthcare (biotech) in the small-cap growth segment and technology (software and semi's) in the mid-cap segment, according to Russell style indices.

| Return (%) | 1Q | 2Q | 3Q | 4Q | 2019 |
|---|---|---|---|---|---|
| R2G | 17.14 | 2.75 | -4.17 | 11.39 | 28.48 |
| R2V | 11.93 | 1.38 | -0.57 | 8.49 | 23.39 |
| RMCG | 19.62 | 5.40 | -0.67 | 8.17 | 35.47 |
| RMCV | 14.37 | 3.19 | 1.22 | 6.36 | 27.06 |

## Join us in celebrating a few key milestones

**– 3-Year Anniversary –**

**NicHealth**

- *Ranked top decile in 2019 (vs. healthcare BarclayHedge peer group)*
- *$100 M product AUM as of 1/2/2020*

**US SMID Cap Growth**

- *Ranked top quartile in 2019 (vs. eVestment US Small-Mid Cap Growth Equity universe)*

**– 1-Year Anniversary –**

**Nicholas Partners Small Cap Growth Fund (NPSGX)**

- *Over $57 M in Fund AUM*
- *Ranked top quartile in Morningstar SCG category for 1-year period ending January 16, 2020*
- *See www.nicfunds.com for more information*

**– Newest CAIA Charter Member –**

*Congratulations to our investment Research Analyst, Anthony Pata, CFA, for earning the designation of Chartered Alternative Investment Analyst (CAIA)*

*Congratulations Tony!*

**Bonds eked out a small gain in Q4.** Bond prices rose slightly as yield curves un-inverted with investor fears subdued due to signs of global economic deceleration bottoming and major central banks taking an accommodative monetary policy approach.

- The 10-year Treasury Yield closed at 1.92%, up +24 basis points during the quarter.
- The high-quality Bloomberg Barclays US Aggregate Bond Index gained 0.18% and underperformed the Bloomberg Barclays US Corporate High-Yield Bond Index, which rose 2.61% in Q4.

**Convertibles deliver strong results, driven by underlying equities.** Since convertibles are predominantly issued by small- and mid-cap companies in growthier sectors, their strong performance gave rise to the asset class in Q4. The Thomson Reuters All Cap Focus Convertible Index gained +6.74% while the cap-weighted BofA/Merrill AQ Convertible Index, which tilts toward large-cap issues, picked up +7.38. Convertibles finished the year at post financial crisis highs, +19.3% and 23.2% respectively. New issuance moderated in Q4, but has been robust for the year overall with 118 new US convertible issues totaling ~$53.0 bn. Technology and healthcare accounted for 57% of issuance in 2019, according to ICE/BofA Global Research.

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## PERFORMANCE

**Active management and security selection drove performance in Q4 and 2019.** Staying true to our investment discipline and conviction in the strength of our holdings paid off with a sharp rebound in fourth quarter performance after a challenging Q3. Most of our strategies outpaced their benchmarks by a solid margin for the quarter and year. Positions in inefficient, niche segments of the market, such as smaller-cap healthcare and technology companies, were key drivers of absolute returns across all portfolios. **(See page 4 for performance results.)**

## Giving Back

www.nicpartners.com/giving-back/

### December 2019

NicPartners' Holiday Elves Spring Into Action

*With cheerful and generous hearts, NicPartners' Holiday Elves rally around the Boys and Girls Club Adopt-A-Family program to provide gifts and grocery gift cards for several families in need.*

## LOOKING AHEAD

**Major pivot since year-end 2019. Outlook improves.** As key headwinds abate–recession fears and escalation of trade war–we believe this creates room for a slow grind higher in the business cycle and equity markets, smaller caps in particular. Thus, our outlook has appropriately improved. However, we are monitoring risks to GDP due to global spread of the Coronavirus outbreak in China.

**Key economic and market indicators have brightened, some less skewed to the downside:**

- Green shoots in global growth outlook sprout, as PMIs (purchasing manager indices) for some large economies experienced an uptick. The global PMI reading in December was 50.1 vs. the 49.7 print in September, according to FactSet and Markit PMI data. (A reading below 50 indicates economic contraction) Leading global economic indicators also saw small improvements, according to the OECD (Organization for Economic Cooperation and Development). In combination, this suggests a bottoming of a third-mini recession in this post-financial crisis expansion.
- US-China trade tensions de-escalated after confirmation of a "phase one" trade deal with China, averting a series of additional tariffs and rolling back some tariffs introduced earlier. US Congress and President Trump also agreed to the terms of USMCA, which will likely improve US-Mexico-Canada trade.
- Disorderly threat of Brexit diminished with UK and EU compromise on a new Withdrawal Agreement.
- Resilience in consumer confidence shines bright. Decent holiday sales trends, solid Consumer Confidence Index data and strong US employment supportive of continued strength in consumer spending, should continue to drive economic growth.
- The Federal Reserve signaled downside risk had "eased in recent months," but signaled the need for an accommodative policy stance to circumvent continued weakness in business investment.
- US GDP incrementally ticked higher in Q3 with CY'19 consensus estimates for real US GDP firmly at 2.1%. 2020 estimates remain positive, but with slower real US GPD growth of 1.8% due to waning tax-cut effects and the drag from previously strained US-China trade relations in 2019. Lower downside risks leave room for upside improvements.

**Credit cycle should remain calm in 2020.** Credit spreads are generally below historical averages…but with an elongated business cycle, credit should be supported by corporate cash flows. Smaller-cap stocks likely to get a boost if high yield spreads stay below average.

**Faster earnings growth in 2020 than 2019.** The knock-on effect of prior trade-related risks is expected to dampen Q4 earnings results. However, earnings and revenue growth recovery in 2020 is likely scenario on easier comps and improvements in the economic outlook. Coupled with lower interest rates for longer, multiple expansion is conceivable. Consensus forecasts set S&P 500 CY'20 EPS growth at 9.6% and 5.2% for revenue growth, according to FactSet.

**Better outlook balanced with pragmatic view.** With a clearer view of resolutions to prior economic and market risks of 2019, the worst may be behind us. However, we remain mindful of potential risks that could derail progress, including:

- GDP risk due to spread of the Coronavirus outbreak in China
- Rising US/Iran tensions
- Inflation
- Strain on corporate margins due to wage pressures
- Burgeoning government deficits
- US election cycle
- Valuations

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## WHERE WE STAND NOW

**Outlook for active management remains positive.** Declining stock correlations and greater dispersion in stock returns provide a positive set up for active management. As such, we believe company fundamentals will have a greater impact on returns. With this firmly in mind, we are focused on companies in inefficient and niche market segments that we believe can drive differentiated organic growth that is above and beyond the end markets that they serve, leading to an acceleration in their revenue and/or earnings growth.

We are also in the camp that growth and cyclicals with idiosyncratic catalysts are poised to do well in 2020. Factors supporting our view include:

- Consumer strength holds steady with lower unemployment and rising wage growth
- Improving economic backdrop and extension of business growth cycle
- Trade deal boost
- An accommodative Fed

**Valuations are important.** As multiples expand, we recognize that absolute valuations are not cheap at this stage in the cycle with the S&P 500 trading at 18.2x NTM P/E and the Russell 2000 Index at 23.4x NTM P/E according to FactSet. As a result, we continue to closely monitor portfolio holdings against various valuation metrics as part of our disciplined risk-monitoring process, which results in trimming or selling those that exceed their historical and industry averages.

If you are interested in scheduling a conference call to discuss our market insights, please let us know.

*Wishing you a prosperous 2020!*

## TRADITIONAL STRATEGIES

| Strategy | | QTR | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception |
|---|---|---|---|---|---|---|---|---|
| | | | | Annualized Returns | | | | |
| **US SMALL CAP** *Inception Date: 7/1/2007* | **Gross Return** | **13.3** | **38.1** | **38.1** | **16.7** | **10.1** | **14.5** | **9.2** |
| | **Net Return** | **13.0** | **36.7** | **36.7** | **15.5** | **9.0** | **13.4** | **8.1** |
| | Russell 2000 Growth | 11.4 | 28.5 | 28.5 | 12.5 | 9.3 | 13.0 | 8.4 |
| **US SMID CAP GROWTH** *Inception Date: 1/1/2017* | **Gross Return** | **11.4** | **35.9** | **35.9** | **15.8** ★anniversary | | -- | **15.8** |
| | **Net Return** | **11.2** | **34.6** | **34.6** | **14.7** | -- | -- | **14.7** |
| | Russell 2500 Growth | 10.6 | 32.7 | 32.7 | 15.2 | -- | -- | 15.2 |
| **US GROWTH EQUITY** *Inception Date: 7/1/2007* | **Gross Return** | **5.9** | **26.7** | **26.7** | **14.7** | **8.7** | **12.7** | **9.7** |
| | **Net Return** | **5.7** | **25.7** | **25.7** | **13.8** | **7.9** | **11.7** | **8.7** |
| | Russell Midcap Growth | 8.2 | 35.5 | 35.5 | 17.4 | 11.6 | 14.2 | 9.5 |
| **CONVERTIBLES** *Inception Date: 1/1/2009* | **Gross Return** | **8.1** | **23.8** | **23.8** | **10.3** | **6.1** | **8.6** | **12.0** |
| | **Net Return** | **7.9** | **22.8** | **22.8** | **9.5** | **5.3** | **7.7** | **11.1** |
| | TR US All Cap Focus (Cvts) | 6.7 | 19.3 | 19.3 | 9.5 | 6.1 | 7.8 | 9.3 |
| | BofA ML All US Convertible | 7.4 | 23.2 | 23.2 | 11.9 | 8.5 | 10.1 | 13.2 |

## ALTERNATIVE STRATEGIES

| Strategy | | QTR | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception |
|---|---|---|---|---|---|---|---|---|
| | | | | Annualized Returns | | | | |
| **NICHEALTH** *Inception Date: 1/1/2017* | **Gross Return** | **26.8** | **54.5** | **54.5** | **29.5** ★anniversary | | -- | **29.5** |
| | **Net Return** | **23.7** | **48.0** | **48.0** | **25.4** | -- | -- | **25.4** |
| | S&P 500 | 9.1 | 31.5 | 31.5 | 15.3 | -- | -- | 15.3 |
| **US EQUITY OPPORTUNITIES** *Inception Date: 7/1/2014* | **Gross Return** | **14.0** | **35.3** | **35.3** | **17.8** | **11.7** | -- | **11.3** |
| | **Net Return** | **13.7** | **34.2** | **34.2** | **16.8** | **10.8** | -- | **10.3** |
| | S&P 500 | 9.1 | 31.5 | 31.5 | 15.3 | 11.7 | -- | 11.8 |
| **CONVERTIBLES PLUS** ***(LEVERED)*** *Inception Date: 1/1/2009* | **Gross Return** | **15.9** | **49.3** | **49.3** | **18.7** | **8.6** | **15.5** | **23.6** |
| | **Net Return** | **15.5** | **47.4** | **47.4** | **17.2** | **7.2** | **14.1** | **22.0** |
| | TR US All Cap Focus (Cvts) | 6.7 | 19.3 | 19.3 | 9.5 | 6.1 | 7.8 | 9.3 |
| | BofA ML All US Convertible | 7.4 | 23.2 | 23.2 | 11.9 | 8.5 | 10.1 | 13.2 |
| **CONVERTIBLE ARBITRAGE** ***(HEDGED, UNLEVERED)*** *Inception Date: 11/1/2002* | **Gross Return** | **3.0** | **10.8** | **10.8** | **6.1** | **4.2** | **4.7** | **5.3** |
| | **Net Return** | **2.7** | **9.7** | **9.7** | **5.0** | **3.2** | **3.6** | **4.3** |
| | BofA/ML 3-Month T-Bill | 0.5 | 2.3 | 2.3 | 1.7 | 1.1 | 0.6 | 1.4 |

*As of December 31, 2019. Source: Nicholas Investment Partners. The indices shown above are for illustrative purposes only and not to be considered as representative benchmarks. Performance results are based on total returns, including the reinvestment of dividends, income and realized gains. Information is reported in US dollars. Nicholas Investment Partners does not guarantee the success of any investment product. There are risks associated with all investments and returns will vary over time due to many factors such as changing market conditions, liquidity, economic and other factors. Investing in any strategy involves the risk of loss. Please see the additional disclosures including the GIPS performance presentation at www.nicpartners.com. Past performance is no guarantee of future results.*

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# Disclosures

Nicholas Investment Partners, L.P. ("Nicholas") is an independent investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training. The firm maintains a complete list and description of performance composites, which is available upon request. Policies for valuing portfolios, calculating performance, and preparing presentations are available upon request. **Past performance is no guarantee of future results. Current performance may be lower or higher than the performance presented. This information is intended for institutions, consultants and qualified investors only.** No part of this material may be copied or duplicated, or distributed to any third party without written consent.

Nicholas does not guarantee the success of any investment product. There are risks associated with all investments and returns will vary over time due to many factors such as changing market conditions, liquidity, economic and other factors. The value of investments can go down as well as up, and a loss of principal may occur. Although Nicholas attempts to limit various risks, risk management does not imply low risk. All risk models are inherently limited and subject to changes in economic, political and market conditions, as well as changes in the strategies' holdings, among other things, which could affect the risk profile of any portfolio managed by Nicholas. Small- and mid-cap companies may be subject to a higher-degree of risk than larger more established companies' securities. The liquidity of the markets for these small and mid-cap companies may adversely affect the value of these investments. Concentrated or sector strategies are expected to maintain higher exposures to a limited number of securities or sectors which could increase the volatility, market, liquidity and other risks of the strategy. The use of leverage in any investment strategy may significantly increase these risks.

Some information herein reflects general market commentary and the current opinions of the author which are subject to change without notice. It is provided for general informational purposes only and does not represent investment, legal, regulatory or tax advice and should not be construed as a recommendation of any security, strategy or investment product. There is no guarantee any opinion, forecast, or objective will be achieved in the future. The information, charts and reports contained herein are unaudited. Although some information contained herein was obtained from recognized and trusted sources believed to be reliable, its accuracy and completeness cannot be guaranteed. Unless otherwise noted, Nicholas is the source of illustrations. References to specific securities, issuers and market sectors are for illustrative purposes only. Nicholas does not undertake to keep the recipients of this report advised of future developments or of changes in any of the matters discussed in this report.

Market Capitalization information is from a representative account for the strategy composite. The representative account was chosen based on non-performance criteria such as account size, cash flows and the level of account restrictions. While Nicholas believes the information is representative of other accounts in the strategy, specific information for other accounts may differ from the representative account. Nicholas used third-party information in the preparation of the characteristics and/or market environment charts. While Nicholas believes the third-party information was obtained from reliable sources, we cannot guarantee the accuracy, adequacy or completeness of the information obtained from these sources.

Investors should consider comparing the performance of any potential investment to various benchmarks that are representative of their particular investment objectives, horizons and risk tolerances.

Gross and net returns, presented within were calculated in U.S. dollars on a time-weighted, total return basis, including reinvestment of all dividends, interest and income, realized and unrealized gains or losses and are net of brokerage commissions, execution costs, and any applicable foreign taxes. Accrual accounting was used for dividend income recognition. Securities transactions are accounted for on trade date. Cash and cash equivalents are included in the performance returns. The gross returns do not give effect to investment advisory fees which would reduce gross returns. The deduction of investment advisory fees will reduce gross returns and are subject to compounding. The composite results include all actual, fee paying fully discretionary accounts under management by Nicholas after one full calendar month that have substantially the same investment objectives, policies and restrictions. Unless otherwise noted the returns reflect the performance of the product composite. Performance and incentive based fees will have similar, yet often larger, impacts to performance and account values than standard management fees. Please see Nicholas' ADV Part 2A for a complete description of investment advisory fees.

**Net returns reflect the deduction of the highest investment management fee for the product.** Standard fees at the highest tier breakpoint are as follows: US Small Cap 1.00%, US SMID Growth 0.95%, US Growth Equity 0.85% inception through 2016 and 0.80% thereafter, US Equity Opportunities 0.85%, NicHealth 1.00% with a 10% performance fee, Convertibles 0.75%, Convertible Plus 1.25% and Convertible Arbitrage 1.00%. Actual fees charged may vary by portfolio due to various conditions such as account size, client relationship, complexity, etc. Client's accounts may also be subject to additional fees unrelated to Nicholas such as custodial and administration fees, among others.

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# Disclosures *(continued)*

Index returns are provided as a general indicator of the investment environment existing during the time periods shown and are provided for comparison purposes only. The returns for the index do not include any transaction costs, management fees or other costs. Investors may not make direct investments into any index. Investors should consider comparing the performance of any potential investment to other benchmarks and indices that are representative of their particular investment objectives, horizons and risk tolerances.

Prior to June 30, 2019, NicHealth was named Nicholas Healthcare Opportunities The investment strategy has remained consistent since the inception of January 1, 2017.

The Convertible Arbitrage strategy objective is to achieve a positive rate of return. The performance of the Convertible Arbitrage Composite noted above includes an account managed by the portfolio manager while employed at his previous firm, CapitalWorks Investment Partners, LLC which became a client of Nicholas Investment Partners on December 1, 2007. The portfolio manager was the primary portfolio manager responsible for the trading activity of this strategy. Performance data from November 1, 2002 (inception) through November 30, 2007 reflects performance at the previous investment adviser. Performance data from December 1, 2007 forward is reflective of performance of the strategy managed by the portfolio manager as an employee of Nicholas Investment Partners.

The Convertible Arbitrage strategy objective is to achieve a positive rate of return. Due to the lack of a specific market index that is directly comparable to the Convertible Arbitrage strategy based on asset class, risk profile and the absolute return objective of the strategy, we include the return and risk information for the Bank of America/Merrill Lynch US 3 Month T-Bill Index (“3 Month T-Bill Index”) as the primary index comparison for informational purposes. The risk profile and return pattern of the Convertible Arbitrage strategy is significantly different from the risk profile and return pattern of the 3 Month T-Bill Index, which is generally considered a low risk investment represented by short-term government securities. The Convertible Arbitrage strategy invests in convertible bonds, convertible stock and common stock which are subject to various risks such as market, liquidity, credit, interest rate and conversion risk, among others. All investments are subject to some degree of market and investment specific risk, among others, and may limit the level of downside protection realized by the strategy.

Convertible Arbitrage strategies generally involve long convertible bond positions with the short sale of the underlying (or similar) equities as a hedge. A short sale is a transaction in which an account sells a security it does not own in anticipation that the market price of that security may decline. Selling securities short involves unlimited risk as the security’s price can theoretically continue to appreciate indefinitely which may result in unlimited losses. In addition, short positions typically involve increased liquidity risk, transaction costs, and the risk that the third party to the short sale may fail to honor its contract terms. The account may have to pay a fee to borrow securities and is often obligated to pay over any accrued interest and dividends on such borrowed securities to the buyer. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and the securities being hedged.

Please see additional information regarding product returns at www.nicpartners.com

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth characteristics. Index returns include the effect of dividends and income which are reinvested daily.

The Russell 2500 Growth Index measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher growth earning potential as defined by Russell's leading style methodology. The Russell 2500 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect growth characteristics.

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## Disclosures *(continued)*

The Russell Midcap Growth Index measures the performance of the mid-cap growth segment of the US equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap Growth Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap growth market. Index returns include the effect of dividends and income which are reinvested daily.

The S&P 500 Index is a widely regarded gauge of the US equities market, that includes 500 leading large cap companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with approximately 80% coverage of available market capitalization, it is also typically used as a proxy for the total market. Index returns include the effect of dividends and income which are reinvested daily.

The Thomson Reuters US All Cap Focus Index is a market capitalization weighted, total return index designed to provide a broad measure of the performance of the active, balanced US convertible bond market. Qualifying fixed income securities may be rated investment grade or non-investment grade or unrated, may be issued with fixed or floating rates and must meet minimum size and liquidity requirements. Mandatory and perpetual issues are excluded. Balanced issues are selected using price and premium thresholds. The index is reviewed monthly to ensure the constituents' continued compliance with the Index rules, issues may be added only at the monthly review though bonds may be removed from the Index at any time as a result of corporate or market events. Individual issuers are capped at 3% of the Index at each monthly review.

The Bank of America/Merrill Lynch All Quality Convertibles Index (VXA0) is comprised of US denominated convertible securities of all qualities not currently in bankruptcy spanning all corporate sectors and having a par amount outstanding of $50 million. Maturities must be at least one year.

The Bank of America/Merrill Lynch US 3 Month T-Bill Index ("3 Month T-Bill Index") is an unmanaged index of short-term U.S. Government securities with a remaining term to final maturity of three months or less.

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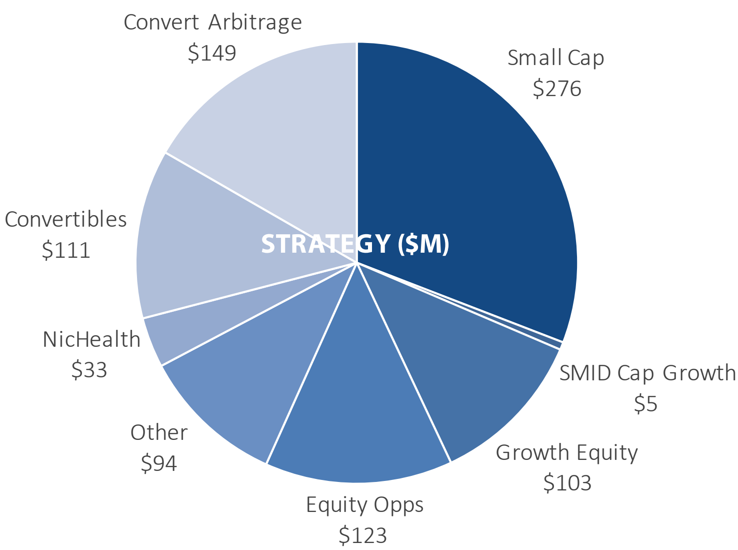
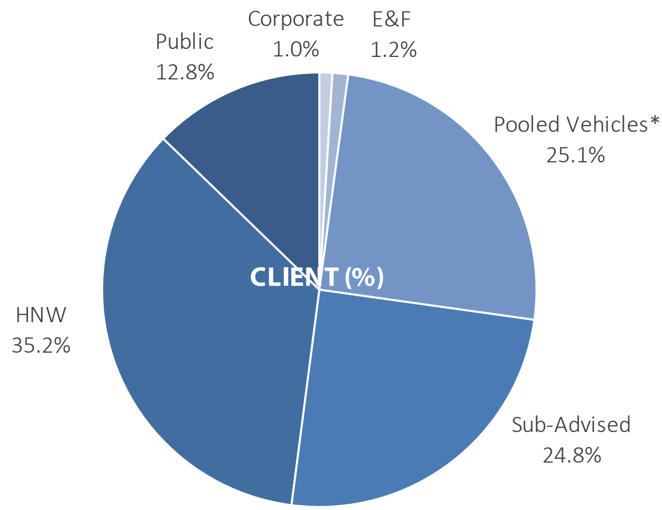
## About Us

Nicholas Investment Partners, L.P. is an independent, employee-owned and majority women-owned investment boutique focused on investing in dynamically growing small- and mid-cap companies, both their equities and convertible bonds. We believe that change creates opportunity. We invest in companies with accelerating revenue and/or earnings growth in which our research confirms the company's growth is sustainable and the company's stock is a timely investment. Our edge comes from combining fundamental equity and credit research with the objectivity and efficiency of quantitative analytics. We have a results-driven and client-centric culture centered on building lasting and value-added relationships with a select group of institutional and private wealth clients and consultants.

## Assets Under Management

$894 Million




*As of December 31, 2019. *Commingled pooled vehicles.*

## A Dedicated, Experienced Client Service Team

**Brian Pringle, CAIA**
Director of Business Development
*16 Years Experience*

**Laura DeMarco**
Partner/Director of Client Service
*35 Years Experience*

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