



1492 Vantage Point – Mid-Quarter Update

Strong Earnings Growth Awaits

To start, we are again fortunate to announce that 1492 Capital Management has been awarded a Top Guns⁽¹⁾ designation by Informa Investment Solutions' PSN manager database, North America's longest running database of investment managers. The 1492 Small Cap Core Alpha strategy achieved a 2 Star rating as the ninth best performing strategy in their Small-Mid Core Universe for the one year period ended December 31, 2017. The 1492 Small Cap Growth strategy achieved a 1 Star rating and ranked second, fifth and ninth for the three month period ended December 31, 2017 in the Small Cap Growth Universe, Small Cap Universe, and US Growth Universe, respectively. Additionally, the 1492 Small Cap Growth strategy ranked 17th out of 467 in Broadridge MarketPlace's Best Money Managers⁽²⁾ U.S. Small-cap Equity asset class for the four quarters ended December 31, 2017, and ranked fourth out of 140 in their U.S. Small-cap Growth Equity asset class for the quarter ended December 31, 2017.

Referencing our previous mid-quarter update entitled "Once More into the Risk-on Trade," we find ourselves in similar waters at this mid-quarter update with the Russell 2000 Index posting a 5.33% return for the three months ended February 15, 2018. It is interesting to note that during this three month period, the Russell 2000 Index accelerated to a roughly 10% gain from November 15th to late January only to return very quickly back to November 15th levels in early February and then rally from that point. Despite the volatility related selloff earlier this month, the tax reform package has finally passed and investors, while slightly bruised recently, appear enthused with the multiple positive factors that this reform can add to economic growth. The following discussion includes returns through the three months ended February 15th unless otherwise noted. Aided by the biotech stocks, Healthcare continued its strong gains and finished as the top sector performer again for this three month period with a 13.05% advance. In the silver medal position, Consumer Discretionary posted a 10.19% increase as fears over poor sales during the holiday season proved incorrect. In fact, all sectors except Utilities posted positive returns with Utilities and Financials at the bottom with -8.74% and 0.24% returns, respectively, for the three months, respectively. However, on a year-to-date basis, only Healthcare, Technology and Consumer Discretionary have positive returns of 5.71%, 3.45% and 0.88%, respectively, due largely to the market's quick retreat in late January through early February.

With fourth quarter results reported for over 40% of our strategies' holdings thus far, 73%, 76%, 71% of the companies in the 1492 Small Cap Value, 1492 Small Cap Growth and 1492 Small Cap Core Alpha strategies, respectively, have met or exceeded consensus fourth quarter earnings expectations as provided by FactSet Analytics. Compared to third quarter levels, the 1492 Small Cap Value and Small Cap Core Alpha strategies increased five points and one point, respectively with the 1492 Small Cap Growth strategy declining six points. The 1492 Small Cap Growth strategy's decline can be attributed to fewer beats in the Technology sector while the 1492 Small Cap Value strategy's improvement stemmed from strong Transports and Technology earnings beats.

While we have commented in the past that consensus estimates for small cap earnings growth always seem to start the year at a peak and are revised lower during the year, the impact of tax reform, higher oil prices, synchronized global growth and less regulation are setting 2018 up for exciting earnings growth for the Russell 2000 Index, in our opinion. Please see our fourth quarter 2017 newsletter for more analysis of these key positives. Based on FactSet Analytics and small cap research firm Furey Research Partners' analysis, the Russell 2000 Index's median earnings growth in 2018 is poised to accelerate to roughly 24%, which is up from roughly 7% in 2017. As seen in the table below, leading the earnings acceleration is Energy as higher oil prices and capital spending levels are forecasted to drive a roughly 90% increase in profits after leading 2017 with a 34% estimated advance. Across our strategies, we are overweight Energy with our domestic shale oil theme. The second highest sector for earnings growth in 2018 is Materials with 41% growth versus roughly 8% growth in 2017. While we are currently overweight this sector in the 1492 Small Cap Value strategy, we are underweight in both the 1492 Small Cap Core Alpha and 1492 Small Cap Growth strategies and are evaluating new themes and non-theme specific stocks for these strategies. We believe that healthy profit growth from Energy and Materials is a key driver for the risk-on trade in 2018.

Fig 3. **R2000 Sector & Index Reported & Expected Earnings Growth** (all companies)

EPS YoY Growth	Actual				Estimates							
	4Q16	1Q17	2Q17	3Q17	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2017E	2018E	
Cons Discr	10.3%	-0.3%	3.3%	0.0%	6.7%	15.8%	20.0%	25.1%	22.8%	4.2%	22.5%	
Staples	2.0%	-7.4%	-8.7%	-3.3%	1.8%	14.2%	20.0%	22.5%	27.2%	-0.5%	16.7%	
Energy	-30.0%	33.3%	-3.7%	26.9%	45.2%	53.5%	91.2%	74.4%	81.3%	34.2%	89.5%	
Financials	10.3%	9.8%	11.4%	6.9%	11.9%	24.8%	25.3%	26.6%	29.3%	9.0%	29.2%	
Health Care	-3.1%	0.0%	2.6%	2.7%	6.8%	13.5%	11.9%	13.5%	16.2%	3.5%	16.2%	
Industrials	0.0%	5.2%	6.9%	9.1%	16.7%	24.0%	27.1%	29.9%	31.5%	9.1%	26.2%	
Info Tech	23.7%	20.0%	13.7%	11.6%	10.4%	19.0%	18.4%	22.0%	30.4%	13.6%	21.9%	
Materials	7.2%	20.0%	0.4%	17.9%	25.6%	29.0%	32.3%	47.4%	28.8%	7.5%	40.5%	
Real Estate	0.0%	1.2%	-15.2%	-8.1%	-10.8%	5.1%	5.1%	12.2%	11.5%	-2.3%	-1.2%	
Telecom	-43.9%	-54.4%	-9.1%	-12.5%	-60.7%	11.6%	14.9%	58.6%	77.7%	-6.0%	32.4%	
Utilities	5.1%	13.6%	4.8%	3.2%	8.5%	8.3%	2.7%	6.5%	14.2%	5.6%	6.4%	
R2000	5.5%	7.6%	6.3%	6.0%	10.7%	19.9%	22.1%	24.0%	27.0%	6.9%	24.1%	

Source: Furey Research Partners and FactSet. Based upon current R2000 constituents. Represents median YoY growth figures including loss-making companies. '18E growth only includes companies with estimates.

Thank you, as always, for your time and interest, and we hope that you enjoyed our discussion of our strategies and the market in this mid-quarter update. Call Tim Stracka at 414-238-3398 with questions or to discuss any of our strategies and please visit us at www.1492capitalmanagement.com

Important Disclosures:

(1) Utilizing a proprietary blend of Informa Investment Solutions' top priority performance screens, PSN Top Guns ranks products in six proprietary star categories in over 50 universes. This is a highly anticipated quarterly ranking and is widely used by institutional asset managers and investors. Top Guns receive a star rating in the range from one to six. The stars indicate the continued performance over a length of time. 1492 Capital Management was named a Top Gun with a rating of 2-Stars in the Small-Mid Core Universe based on the Small Cap Core Alpha strategy's return for the year ended December 31, 2017. It also received 1-Star ratings for the 1492 Small Cap Growth strategy's return which ranked second, fifth and ninth for the three month period ended December 31, 2017 in the Small Cap Growth Universe, Small Cap Universe, and US Growth Universe, respectively.

The complete list of PSN Top Guns and an overview of the methodology can be located on <http://www.informais.com/resources/psn-top-guns>. For more details on the methodology behind the PSN Top Guns Rankings or to purchase PSN Top Guns Reports, contact Ruth Calderon at ruth.calderon@informais.com. **About Informa Investment Solutions:** A market leader in intelligence and software solutions for investment professionals and financial institutions of all sizes, Informa Investment Solutions offers a robust set of analytics and tools to help you grow and retain your business. With a nearly 40-year history, Informa Investment Solutions is part of Informa PLC, a leading business-to-business knowledge provider serving International markets. Informa Investment Solutions has set the standard for providing turnkey and customizable applications for performing manager searches, building wealth plans, and producing client reports and investment marketing materials for companies worldwide. For more information, please visit <http://www.informais.com/> and follow <https://twitter.com/InformaInvest>

(2) The minimum criteria for inclusion in **Best Money Managers**: Performance must be calculated "net" of all fees and brokerage commissions. This means after all fees have been deducted. This standard is somewhat controversial, as the SEC requires that only "net" of fees numbers be presented publicly, while GIPS (Global Investment Performance Standards) prefers that "gross" numbers be presented along with a fee schedule. Since the SEC is a regulatory authority, and since complete fee schedule presentation would be impractical in this "ranking" format, we require "net" numbers. Performance must be calculated inclusive of all cash reserves. To explain, any given investment portfolio will hold some level of cash over a particular reporting period. Even equity portfolios which specifically seek to be fully invested in the market at all times will temporarily have dividend payments and other ordinary cash flows which cannot instantaneously be invested in the market. These cash holdings obviously will have an effect on the performance of the overall portfolio – negative when cash returns are low relative to returns of the asset class, and positive if the opposite is true. While presentation of "equity-only" (for example) returns may provide a valuable insight into the

security selection skills of the manager, we require for comparability's sake that performance results be inclusive of cash reserves for consideration in the rankings. Performance results must be calculated in U.S. dollars, that is, from the perspective of a U.S.-based investor. Currency holdings can have a very significant impact on the performance of a portfolio with international holdings. While this will always be the case (as we do not make distinctions between hedged and unhedged portfolios), we require that performance must be translated into U.S. dollars to ensure comparability to the point where these are all returns that would be seen by a U.S.-based investor. Performance results must be calculated on an asset base which is at least \$10 million in size for "traditional" U.S. asset classes (equity, fixed income, and balanced accounts) or at least \$1 million in the case of international and "alternative" U.S. asset classes. This minimum ensures that the firm and product are somewhat established. The goal is to not taint the rankings with "flashes in the pan" while also not excluding promising emerging managers. The minimum asset base requirement, therefore, is set at a level which balances these objectives. The classification of the product must fall into one of the categories which we rank. We only publish rankings for categories/time period combinations for which we have at least 20 contenders.

Past performance does not guarantee future results. No investment firm, including 1492 Capital Management, guarantees gains or that losses will not occur from the strategies applied to managed portfolios.

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