

# Ironwood Small Cap Core Strategy: A Time-Tested Approach to Fundamental Small Cap Investing

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Donald Collins, CFA is an Executive Managing Partner and Portfolio Manager at Ironwood Investment Management, LLC® and is a member of the management committee. Prior to joining Ironwood in 1998, Don was a portfolio manager with Boston Advisors where he managed portfolios for institutions and high net worth clients. During his tenure at Boston Advisors, Don participated in the management of the Advest Advantage family of mutual funds and managed the Advantage Special Fund. Don began his career as a Manager for Burgess & Leith. He earned his BA in Geology from Boston University and studied at the Boston University School of Business. In addition, Don serves as a Director and Investment Committee Chairman for the Abelard Foundation, Chairman and Commissioner of Trust Funds for the Town of Lincoln, MA and Director and Chief Financial Officer at Igan Biosciences.

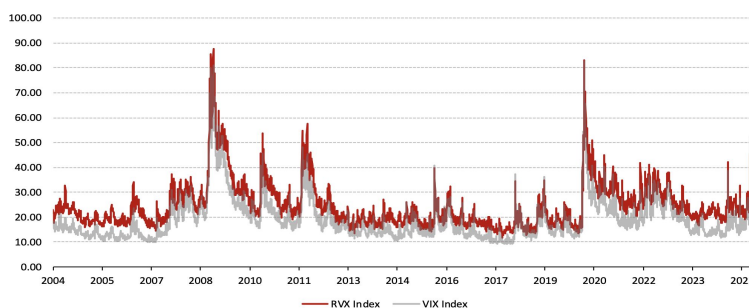
## Investment Philosophy Rooted in Quality

The Ironwood Small Cap Core (SCC) investment philosophy is rooted in the belief that markets often overreact to short-term events and conditions, and unlocking long-term value requires patience and prudence. Behavioral biases and emotions of market participants play a significant role in short-term price movements around more stable enterprise values of publicly traded companies. Small cap stocks, in particular, experience amplified volatility due to lower liquidity levels, often resulting in extreme fluctuations. Ironwood embraces this volatility as an opportunity rather than a risk, using it as a tool to enhance long-term returns through patience and disciplined decision-making.

The chart below illustrates the historical relationship between the VIX, a measure of volatility for the S&P 500 (a leading index of large cap stocks), and the RVX, a similar measure of volatility for the Russell 2000 (a leading index of small cap stocks). It shows that the Russell 2000, has consistently been more volatile than the S&P 500, especially during periods of market stress.

**Figure 1. The Amplified Volatility**

### CBOE Expected 30-Day Volatility of Russell 2000 and S&P 500



Sources: FRED St. Louis, CBOE Global Markets, Chart Data: January 1999 - April 2025

In addition to market dynamics, Ironwood SCC recognizes that equity investments in high-quality companies are a powerful means to create wealth over time. The Strategy's investment approach centers on identifying companies that exhibit strong financial foundations, sustainable competitive advantages, and management teams with a vision for long-term success; we define this as High Ironwood-Quality ("High IQ") companies.

Furthermore, Ironwood SCC believes in the importance of Environmental, Social, and Governance (ESG) factors in corporate performance, integrating these considerations into its investment analysis to ensure a holistic, long-term approach to value creation.

Since our founding in 1997, Ironwood Investment Management, LLC has built a small-cap core strategy focused on these core principles. The U.S. Small Cap Core Strategy (SCC Strategy) was deliberately constructed in 1999 with a disciplined approach designed to capitalize on market inefficiencies. Over time, the Strategy has demonstrated resilience, capitalizing on volatility while identifying small-cap companies poised for long-term growth.

## **Strategy Rooted in Disciplined Decisions**

The primary objective of the Ironwood SCC strategy is to deliver strong absolute returns by investing in a diversified portfolio of high-quality small cap US equities and to outperform passively managed indices. Since its inception, the Ironwood SCC Strategy has historically generated alpha, outperforming the Russell 2000 by over 350 bps annually (gross of fees) and over 240 bps annually (net of fees) since inception as of 6/30/2025. It has grown investor capital by 17.3 times, more than doubling the 7.4-fold growth of its benchmark the Russell 2000, using the Cumulative TWR gross of fees as of 6/30/2025. This performance is a testament to the thoughtful decisions made at the Strategy's outset and the disciplined approach maintained over time.

## **Keep It Simple**

We believe in the axiom that everything should be made as simple as possible, but no simpler. We extend this to include the ongoing decisions made in the management of the strategy: as few decisions as possible, but no fewer. This policy is incorporated in our approach to portfolio management characterized by a long-term investment horizon with low turnover.

## **Fewer Decisions, Greater Impact**

Ironwood SCC believes in making fewer decisions, but ones that have a greater overall impact. Psychological pitfalls like hindsight bias, loss aversion and overconfidence often undermine investment strategies. A disciplined decision-making framework allows Ironwood SCC to avoid these traps. Our long-term investment horizon affords our successful investments time to grow and become significant contributors to portfolio returns.

## **Small Cap Focus: A World of Opportunity**

In the late 1990s, when the Ironwood Small Cap Core Strategy was conceived, the prevailing investment paradigm was the Efficient Market Hypothesis. This theory, which evolved from the research of Eugene Farma, states that market prices reflect all available information and are therefore fairly priced. The practical implication of this theory is that it is impossible to outperform the market by applying specialized knowledge or timely trading. The general acceptance of this theory has led to the massive adoption of low-cost passive investment strategies, whose goal is to accurately track the performance of an index. This theory was not consistent with our observation of stock market behavior. We saw many instances where stock prices did not appear to reflect a rational analysis of fair value. Small Cap stocks were particularly vulnerable to these extreme fluctuations in value. Armed with this information, we set out to devise an investment strategy that could exploit these valuation anomalies.

## **High Ironwood-Quality Companies: The “High I-Q” Standard**

The key to building a successful opportunistic Small Cap Core strategy was to focus on high quality companies. Companies that have the wherewithal to overcome the short-term challenges that are depressing the current valuation. We refer to these companies as “High Ironwood-Quality” companies (High I-Q). These are companies characterized by successful business operations, strong balance sheets, good management teams that are both smart and passionate, and the potential to grow revenues and profits.

Unlike large-cap companies, where high quality is often easier to quantify through profitability and earnings metrics, small caps require a more nuanced approach. Ironwood SCC looks beyond simple valuation metrics to assess management’s ability to create real options for success and adapt to changing market conditions.

## Portfolio Construction: Diversification with Purpose

The SCC portfolio typically holds between 60 and 80 stocks—a function of Ironwood’s SCC commitment to managing risk while maintaining the flexibility to capitalize on asymmetric stock returns. Initial positions are sized between 1.25% to 2% of the portfolios’ market value at cost, firmly establishing a limited risk budget. The Strategy does not actively trade positions and does not rebalance to static position targets. Rather, we use a dynamic portfolio management approach that lets the market determine the weight of each position. This Darwinian approach to position sizing ensures that successful stocks have room to grow and become big contributors to portfolio returns while limiting the downside of weaker performers.

Importantly, this structure allows for the Strategy’s big winners—stocks that appreciate 10 to 20 times their original value—to drive portfolio performance. In addition, this low turnover approach ensures tax efficiency, and most capital gains are long term.

## Conclusion: The Ironwood Difference

Ironwood’s U.S. Small Cap Core Strategy is a testament to the firm’s disciplined approach and long-term perspective. Our ability to exploit market volatility, identify High I-Q companies, and construct a resilient portfolio ensures our Strategy remains relevant in evolving market conditions.

As markets shift, Ironwood’s SCC approach to managing uncertainty, embracing real options, and identifying high-quality companies ensures that the Strategy will remain effective for years to come. With a historical track record of success, Ironwood SCC continues to provide its clients with the opportunity to generate significant returns while navigating the complexities of the investment landscape.

Through our disciplined investment philosophy, the Strategy remains committed to:

- Capitalizing on volatility to unlock value
- Investing in high-quality small-cap companies
- Assessing ESG factors as part of long-term corporate performance

Our Strategy is built to endure market fluctuations, ensuring that Ironwood Investment Management, LLC remains a trusted partner for investors focused on long-term wealth creation.



# Strengthen your Portfolio with Ironwood

While our 25+ year history is a blip compared to the 1,000 years an Ironwood tree may live, we are proud of our history thus far creating value for our clients and we are every bit as passionate in our pursuit of enduring growth as we were in 1997.

Contact us to learn more about our unique approach and exemplary track record.



## IRONWOOD

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## Important Disclosures & Disclaimers

### Performance Statistics - as of Q2 2025

IIM SCC Composite	Q2 25	YTD	1 Year	3 Years	5 Years	10 Years	Inception (1/1/1999)
Gross of Fees:	17.10%	1.57%	5.23%	17.57%	12.02%	10.46%	11.36%
Net of Fees:	16.81%	1.07%	4.19%	16.41%	10.90%	9.36%	10.25%
Russell 2000	8.50%	-1.79%	7.68%	10.00%	10.04%	7.12%	7.82%
+/- bps Index (Gross)	+860	+336	(245)	+757	+198	+334	+354
+/- bps Index (Net)	+831	+286	(349)	+641	+86	+224	+243

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The firm is a registered investment adviser with the Securities and Exchange Commission. SEC Registration does not imply a certain level of skill or training.

Accounts in the Small Cap Core composite include separately managed, fully discretionary, fee-paying portfolios. Portfolios are invested in undervalued securities, the majority of which will have market capitalizations under \$2.5 billion at cost, including securities with growth and/or value characteristics. Securities are considered undervalued when management believes the current share price does not accurately reflect the long-term economic value of the underlying company.

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The creation date of the composite: July 2002. Performance inception date of the composite: January 1, 1999. Prior to July 2002, portfolios were included in the composite when at least 75% of the portfolio was invested in equity securities and when at least 75% of the portfolio was invested according to the investment style of the composite. Subsequent to July 2002, portfolios are included in the composite after the first full month of being fully invested.

Returns are presented gross and net of management fees and include the reinvestment of all income. Net returns are calculated based on the highest fee of 1.00%. Investment management fees are 1.00% on the first \$25 million, 0.90% on the next \$25 million, 0.80% on the next \$50 million, and 0.75% over \$100 million on an annual basis, and a client's return will be reduced by these and other related expenses. The actual fee charged to an individual portfolio may vary by size and type of portfolio and may be negotiated. Actual investment advisory fees incurred by clients may vary.

The Russell 2000 Index consists of the 2000 smallest stocks in the Russell 3000 Index, representing approximately 8% of the U.S. equity market capitalization. The indices have been reconstituted annually since 1989. Ironwood returns and Index performance reflect reinvested interest income and dividends in U.S. dollars.

A list of composite descriptions and a list of limited distribution pooled fund descriptions are available upon request. Past performance is not indicative of future results. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Prior to May 2006, the Firm was known as Ironwood Capital Management, LLC.

### Past Performance is Not Indicative of Future Results

The performance data provided in this blog reflects past performance, which may not be representative of future results. Investing in small cap stocks and other securities involves substantial risk, including the potential loss of principal. There is no guarantee that any investment strategy will be successful.

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