



Beyond the meme mania

Why BASC is looking beyond the short-term hype to find the long-term winners.

Update
19 November 2025

Something strange is happening in equity markets. Since the Liberation Day sell-off in April, the small-cap Russell 2000 has surged over 35%, eclipsing even the record-setting S&P 500. But as ever with small-caps, the devil is in the detail.

Take Oklo Inc, a stand-out performer whose share price has skyrocketed by 350% in 2025. The company develops nuclear microreactors, a futuristic concept that's generated plenty of buzz (especially with OpenAI's Sam Altman as a former chair). There's just one catch: Oklo has never made a profit, generates no revenue and won't do until (or indeed, if) it receives regulatory approvals.

And Oklo isn't alone. According to Apollo's Torsten Slok, around 40% of Russell 2000 companies are unprofitable, yet these highly speculative businesses have led the charge, outperforming their profitable peers across the sectors. This pattern has appeared only twice in the past 20 years, during post-crisis rallies that buoyed the riskiest parts of the market.

Today, AI hype and a weaker dollar have created a similar risk-on environment, with highly-shorted, high-beta stocks posting outsized returns. As ever, flows chase performance but markets have a habit of correcting excess, and often abruptly.

As hedge fund veteran Whitney Tilson observes: "The best investments are often the ones no one's talking about." In a market seemingly captivated by meme-stock mania (once again), the quiet corners may hold the most promise for long-term investors and, when exuberance fades, quality tends to reassert itself.

Back to basics

Speculative momentum may have lifted the index but the investment case for US small-caps remains robust. It provides exposure to dynamic, fast-growing businesses still in the expansionary phase of their life cycles. With disciplined capital allocation and skilled management, this higher growth trajectory can provide the foundation for durable, long-term value creation.

Valuation remains one of the most compelling aspects of the small-cap opportunity. Despite delivering superior earnings growth and higher returns on equity than many large-cap peers, the Russell 2000 trades at a striking 20-30% discount on earnings and cashflow metrics (though these are skewed to the upside by loss-making companies). And on a price-to-book basis, small-

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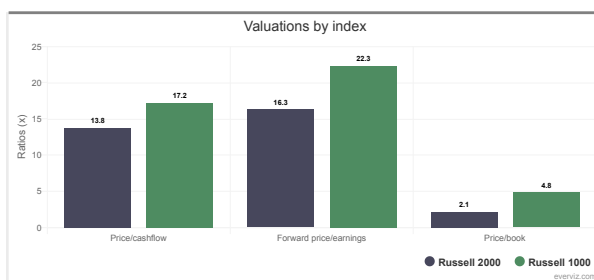


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caps sit around 2 versus 5 times for large-caps, underscoring the valuation gap.

Fig.1: The Russell 2000 Offers Attractive Valuations



Source: Russell 2000 Index quarterly chartbook (October 2025)

The macro backdrop is also looking more positive given moderating inflation and a shift toward easing interest rates. These conditions are typically supportive of small-cap stocks, which are more closely tied to the domestic economy and sensitive to financing costs.

Given its size and lack of analyst coverage, the US small-cap universe presents a fertile hunting ground for active managers to generate alpha.



Brown Advisory US Smaller Companies (BASC) seeks to capitalise on these inefficiencies, focusing on high-quality businesses with sustainable earnings, strong returns on equity and experienced management teams.

Under the stewardship of Christopher Berrier, BASC holds around 40 high-conviction names, supplemented by earlier-stage businesses where valuations look particularly attractive. While a softer US dollar can be a headwind for exporters, many of BASC's holdings are domestically-oriented, offering timely insulation from global tariff turbulence.

Valuation lies at the heart of BASC's approach, with Christopher targeting companies whose quality, resilience and cash generation remain under-appreciated by the market. This creates a margin of safety on the downside as well as upside potential when valuations realign with fundamentals. Recent volatility has also created opportunities to increase exposure to long-term holdings at appealing entry points.

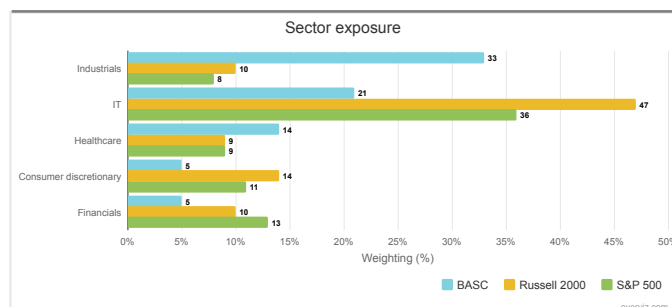
Beyond the index

In an era when the Magnificent Seven continue to dominate returns, small-caps offer a meaningful source of diversification. With lower correlation to large-cap indices and stronger alignment with domestic growth drivers, US small-caps provide a complementary source of returns to the globally-oriented technology mega-caps.

BASC's strategy builds on this diversification by focusing on company-specific drivers to generate idiosyncratic returns, which reduces reliance on broader macro or thematic trends. As a result, the trust's strategy offers differentiated exposure that passive approaches are simply unable to replicate.

As shown below, BASC's largest weighting is in industrials, accounting for a third of the portfolio, alongside a moderate exposure to IT (though still far below the tech-heavy concentration of the other indices). The trust also

Fig.2: BASC Provides Differentiated Sector Exposure



Source: Monthly factsheets (as at 31/10/2025)

holds a notable underweight to financials, reflecting the manager's preference for stable, sustainable earnings streams.

This discipline can lead to periods of underperformance when markets chase higher-risk names. However, the team believes that fundamentally driven selection, rather than chasing shorter-term market exuberance, will ultimately deliver long-term outperformance.

This philosophy is exemplified by Waste Connections, a long-term holding first acquired during the 2008 financial crisis. Operating in waste collection markets with high barriers to entry, the company has delivered consistent EBIT growth of 14% annually over the past decade. This has driven a meaningful compounding in share price over the last ten years, turning a \$1,000 investment into more than \$5,600 today.

Away from the bubble

The Russell 2000's recent surge may have captured the headlines but much of it rests on unprofitable, speculative names, while mega-cap stocks continue to trade at lofty valuations. Growing concerns that the AI bubble could burst has drawn comparisons with the dot.com era, when soaring expectations gave way to a sharp and prolonged correction.

BASC offers an alternative approach, focusing on high-quality US smaller companies where resilience and valuation discipline, rather than short-term trends, underpin long-term growth. It may not be riding the wave of meme-stock mania, but as the fable reminds us, it's often the tortoise, not the hare, that wins the race.

All numbers as at 17/11/2025 unless specified otherwise.

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