



# Larger Allocations to Smaller International Stocks

## Benefits of Investing in International Small-Cap

Companies that reside in the lower end of the market cap spectrum are often more nimble, possess higher growth potential and have historically yielded strong returns. As such, small-caps in the U.S. have been a staple in a diversified asset allocation portfolio for some time. Yet international small-cap companies are often overlooked when building a client's international equity portfolio, despite an attractive return profile. Clients that exclude international small-cap equities may thus be missing out on potential benefits – on both a diversification and risk-adjusted return basis.

Cambiar Investors believes that the inclusion of an actively managed international small-cap equity strategy can provide three beneficial features to a client portfolio:

### Enhanced Opportunity Set

The breadth and size of the international small-cap landscape greatly expands the number of unique opportunities available in an asset allocation model.

### Improve Risk/Return Profile

A diversified portfolio of international small-cap stocks has historically shown to generate greater returns with similar volatility to international large-cap<sup>1</sup>.

### Greater Diversification

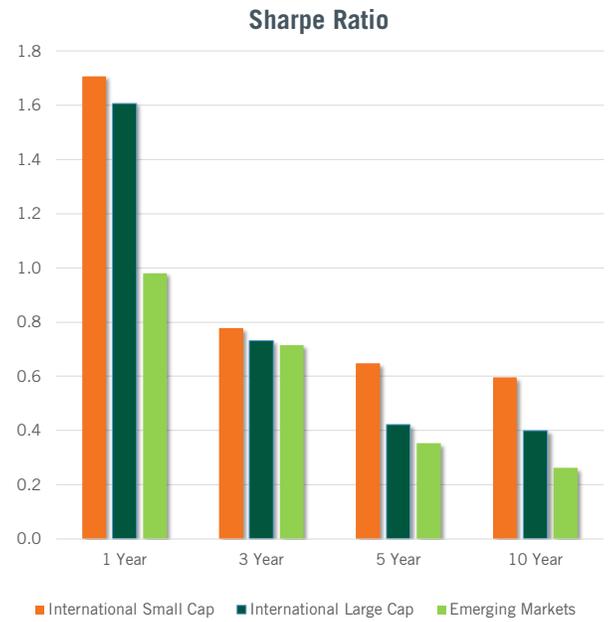
International small-caps provide more targeted exposure to local economies that may be difficult to access through their large-cap brethren.

<sup>1</sup>Based on three and five year performance versus standard deviation. As of 12.31.2019.



Source: MSCI

# Higher Return with Less Volatility



International small-caps have demonstrated the potential to provide compelling risk-adjusted returns compared to more prominent international equity asset classes.

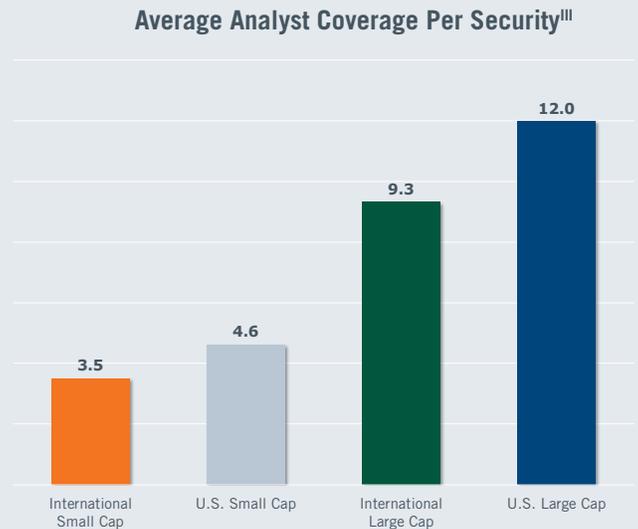
<sup>1</sup>Chart Source: Morningstar. Based on five year data. As of 12.31.2019

## Greater Diversification



The broad international small-cap pool, with local economic access, results in low correlation and stronger portfolio diversification.

## Overlooked Opportunities



Thin analyst coverage of international small-caps creates an environment in which stock prices can diverge from fair valuations. Active managers aim to capitalize upon these dislocations, which may be less pronounced in well-covered asset classes.

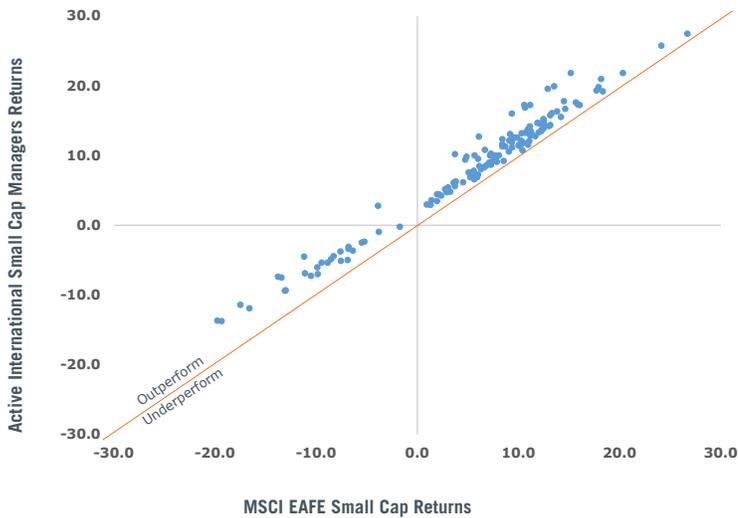
<sup>II</sup>Source: Morningstar. Data relative to S&P 500.

<sup>III</sup>Source: Factset

Disclosure: The following indices were used to represent their respective asset class for all charts. U.S. Large-Cap - Russell 1000, U.S. Small-Cap - Russell 2000, International Large-Cap - MSCI EAFE, International Small-Cap - MSCI EAFE Small Cap, Emerging Markets - MSCI Emerging Markets. All charts are as of 12.31.2019.



# Benefits of Active Management Within International Small-Cap



Over the last 15 years, actively managed, international small-cap portfolios have outperformed the MSCI EAFE Small Cap in 100% of rolling three-year periods. Lack of analyst coverage, leading to price and valuation dispersions, may allow active managers to pinpoint attractive investment cases more frequently.

Source: Morningstar. Foreign Small/Mid Blend group

## Cambiar International Small Cap Portfolio



### Returns vs. Standard Deviation<sup>1</sup>



<sup>1</sup>Source: Morningstar. Based on five year data. As of 12.31.2019. The Cambiar International Small Cap composite reflects net performance returns. Please see accompanying fact sheet for additional performance and disclosure.

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**Correlation** - Demonstrates the relatedness of return patterns among investments. It is based upon the correlation coefficient, a number between -1.0 and 1.0. A perfect positive linear relationship between two investments has a correlation of 1.0. A perfect negative linear relationship between two investments has a correlation of -1.0.

**Sharpe Ratio** - A measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

**Standard Deviation** - A measure of the dispersion of a set of data from its mean.

