

# THE OFTEN OVERLOOKED SMID ASSET CLASS



# BENEFITS OF INVESTING IN SMID

SMID (Small-Mid) cap, as defined by stocks that fall within the market cap range of \$2-\$20B, have historically been underrepresented in traditional asset allocation models. The common utilization of U.S. large-cap and U.S. small-cap mandates, which typically have market capitalization limits, we believe has led to a polarization of domestic allocation and a gap where there is inadequate representation of small-midcap stocks.

Cambiar Investors believes a more diversified domestic allocation must include an exposure to the SMID asset class. This area of the market can potentially provide:

## Higher Risk-Adjusted Returns

Similar to small-cap stocks, SMID stocks possess strong risk-reward characteristics.

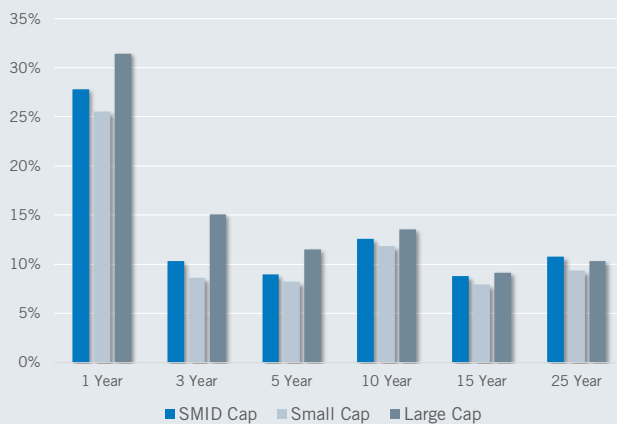
## Lower Volatility

Medium-sized businesses typically offer a greater degree of stability than small cap stocks.

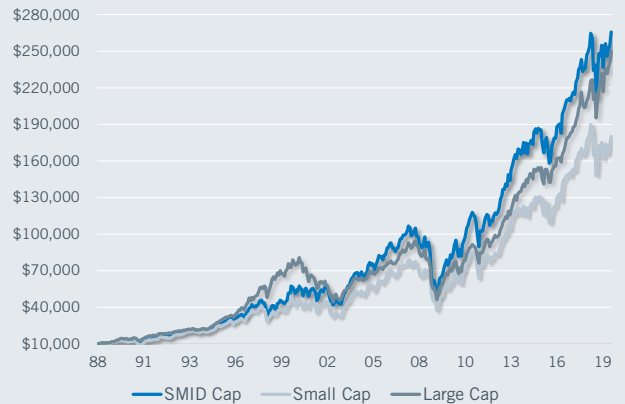
## Larger Opportunity Set

The overall number of companies that fall within the market cap range, coupled with sparse analyst coverage, is an ideal backdrop for active management to take advantage of inefficiencies.

Historical Returns



Growth of \$10,000



Increasing the small cap universe to include midcaps adds exposure to companies with more stable business structures, higher quality balance sheets and greater access to capital markets.

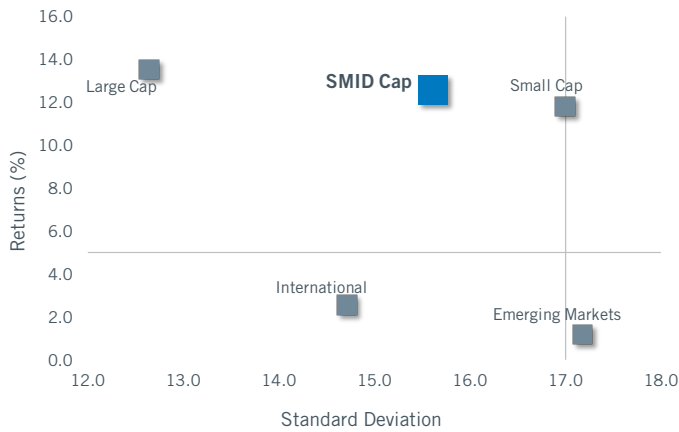
Historically, this has led to stronger performance and less vulnerability to market downturns relative to a pure small cap allocation.

Source: Morningstar. As of 12.31.2019

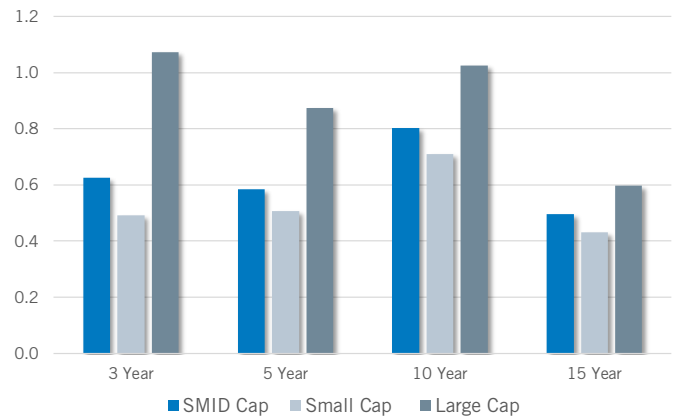


# LOWER VOLATILITY

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



Sharpe Ratio

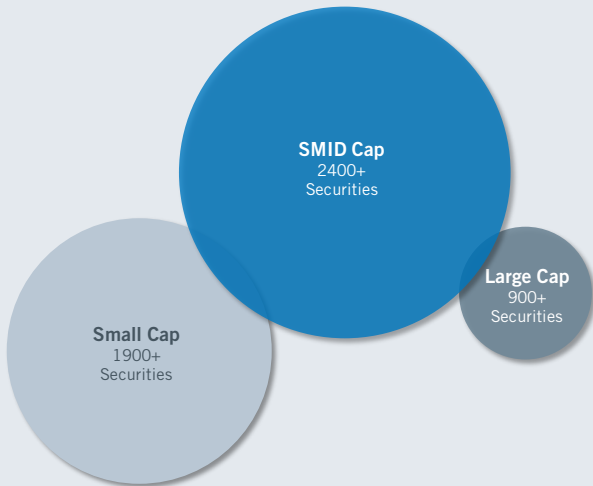


Implementation of a SMID mandate can potentially lower the risk of an overall asset allocation model. Historically, SMID stocks have shown less risk, as measured by standard deviation than small cap stocks, while not foregoing the upside potential.

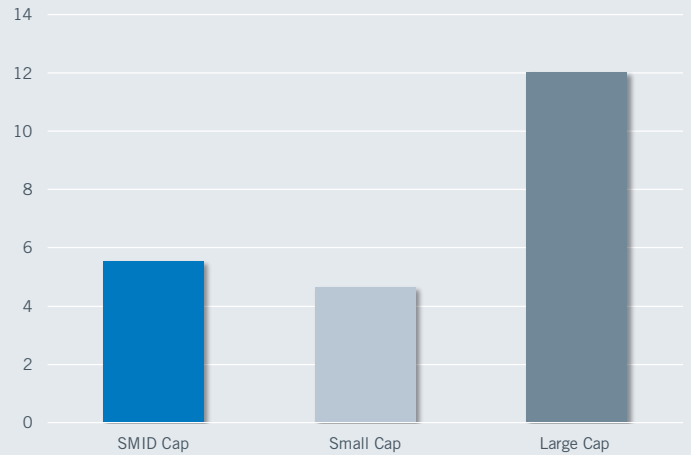
<sup>1</sup>Source: Morningstar. <sup>2</sup>Based on ten year data. As of 12.31.2019

# LARGER OPPORTUNITY SET

Investable Universe<sup>1</sup>



Average Analyst Coverage Per Security<sup>2</sup>



The flexibility of a SMID cap mandate allows for a portfolio to access stocks within both the large-cap and small-cap realms, vastly enhancing the number of unique investment possibilities.

Within this landscape, many SMID stocks have little to no analyst coverage, creating greater dispersion between stock prices and fair value.

**23%**  
SMID securities covered by fewer than three analysts

<sup>1</sup>Source: Morningstar. <sup>2</sup>Source: Factset. As of 12.31.2019

# IMPORTANCE OF ACTIVE MANAGEMENT IN SMID

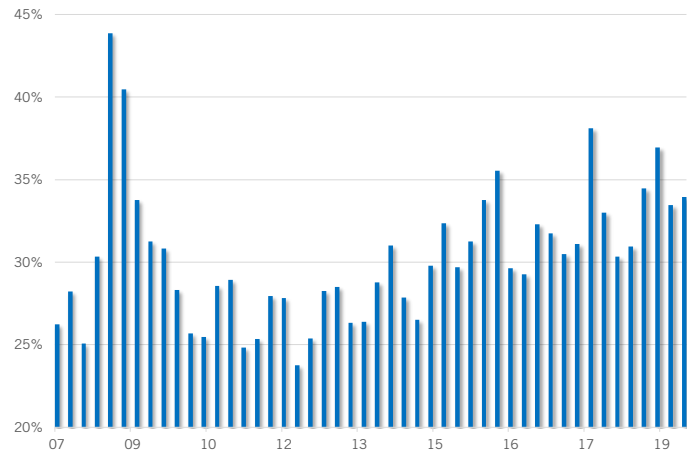
Merely incorporating SMID in an asset allocation model is not enough. Cambiar Investors believes that taking an active approach to this area of the investment universe is paramount.

The vast opportunity set and information inefficiencies in SMID can enable a seasoned active manager to pinpoint investable opportunities, avoid pitfalls and generate excess return versus a passive index through stock-by-stock research and fundamental insight.

When analyzing the makeup of the SMID benchmark, the percentage of companies that have no earnings has risen to the highest levels since the Great Financial crisis.

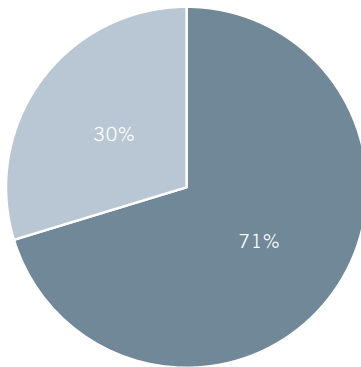
As interest rates in the U.S. begin to rise off historical lows, determining quality businesses will become more vital.

**% of Russell 2500 Constituents with Negative Diluted EPS**



Source: Factset. As of 12.31.2019

**Allocation Imbalance**



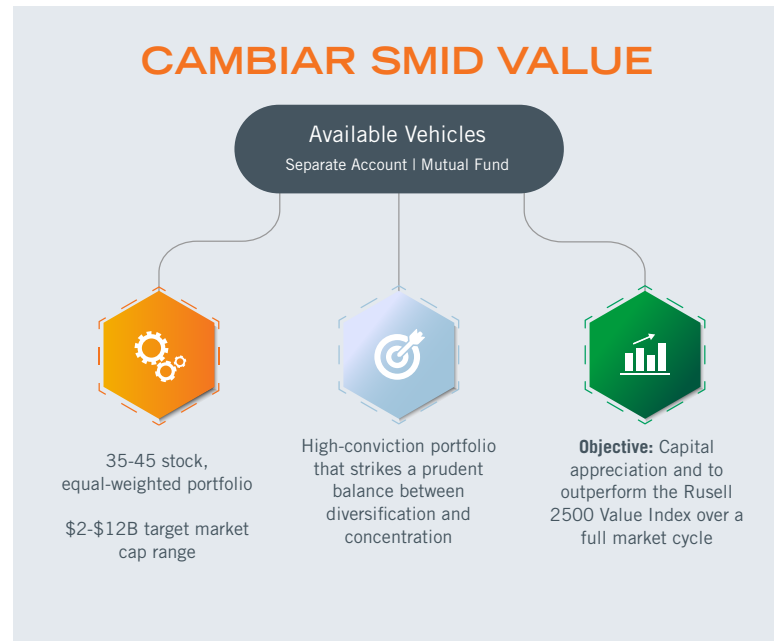
Source: Factset. As of 12.31.2019

Sector concentration within the Russell 2500 Index is important to consider. The top 5 sectors make up over 70% of overall index composition.

Cambiar Investors feels that an imbalanced exposure to these segments of the market without a rational understanding and reasoning of the underlying stocks is not a prudent approach.

Additionally, heavy concentration combined with unprecedented flows into passive instruments could lead to a crowded and potentially risky situation.

## CAMBIAR SMID VALUE



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The following indices were used to represent their respective asset class for all charts. U.S. Large-Cap – Russell 1000, U.S. SMID Cap – Russell 2500, U.S. Small-Cap - Russell 2000, International - MSCI EAFE, Emerging Markets - MSCI Emerging Markets.

**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.

