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MEDIA RELEASE

Global small caps poised for strong returns in the wake of COVID-19

Investors who eschew small caps are missing out on valuable opportunities – particularly in the current environment, says Damien McIntyre, CEO, GSFM.

“Periods of underperformance for global small caps do coincide with recessionary environments, but small caps historically go on to experience meaningful outperformance in economic recoveries,” Mr McIntyre says.

“For instance, between 2000 and 2006 small caps outperformed large caps by 200 per cent. And between 2009 and 2014 they outperformed large caps by 35 per cent.

“In fact, the MSCI World Small Cap index has outperformed the MSCI World index over the long term, with global small caps returning two times that of large caps over the past 20 years.

“This is a significant outperformance and is an attractive option for long term investors.”

In this environment, there has been strong adviser interest in the global small caps sector, and the Cambridge Global Smaller Companies Fund, which is distributed in Australia and New Zealand by GSFM, has experienced a surge in interest from the market. Mr McIntyre says this is not surprising.

“Small caps are a larger, less well researched, universe and overall small caps trade at a wide discount that that of large caps on a PE basis. Historically, MSCI World Small Caps trades at a significant discount to MSCI World Large – that premium is between 1.0 - 1.2 times – it is currently trading at 0.8 times.”

While small cap investing is traditionally linked to increased volatility, Mr McIntyre says this does not have to be the case.

“By focusing on a concentrated portfolio of high quality companies there is the opportunity to insulate investors from the unnecessary volatility seen with many small to mid-cap growth funds.

“The key is to look for exposure to high-quality businesses with high rates of return on invested capital that also exhibit considerable secular growth.

“Importantly, investors need the flexibility to invest anywhere in the world – the small cap opportunities in Australian alone are just too limited.

“Stock markets are inefficient and this creates opportunities for patient, well-informed investors to buy an ownership stake in a company below intrinsic value. This is particularly evident in smaller companies that tend to be under researched by the investment community.

“Investors can take advantage of these inefficiencies through time horizon arbitrage, identifying strong capital allocators and recognising businesses at inflexion points.

"Investing in profitable companies, with strong underlying cash flow, a conservative balance sheet and a demonstrated ability to allocate capital, helps protect investors on the downside.

"The Cambridge Global Smaller Companies Fund adopts this philosophy. It is a concentrated strategy, which aims to achieve its objective by gaining exposure to a diversified portfolio of companies, located anywhere in the world except Australia, with a market cap of US\$250 million to US\$10 billion at the time of purchase.

"The investment strategy of the Fund is to focus on finding companies with a high return on invested capital and operating margins, low balance sheet leverage, a sustainable competitive advantage; strong capital allocation and a management team closely aligned with shareholders. Cambridge examines each company's potential for success in light of its current financial condition, its industry position and market conditions."

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GSFM was established in July 2007 as a subsidiary of the Grant Samuel Group. In November 2016 CI Financial Corp (CI) purchased an 80 per cent stake in the business. CI is a diversified wealth management firm with fee-earning assets of CAD\$176.7 billion (as of 30 June 2019). GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.

Since 2007, GSFM has formed alliances with following investment managers to distribute investment products to Australian and New Zealand clients:

- *New York based Epoch Investment Partners, Inc.*
- *Tribeca Investment Partners, a successful Australian boutique manager*
- *Payden & Rygel, a Los Angeles based independent investment management firm*
- *Munro Partners, an independent global equity manager*
- *London-based Man Group plc*
- *Toronto and Boston based Cambridge Global Asset Management*
- *Redpoint Investment Management is a boutique equities manager based in Sydney.*

GSFM represents approximately \$16.7 billion funds under management (as at 30 June 2020). For more information about GSFM please visit the website: www.gsfm.com.au