

## Small Caps: The Big Picture, Part 2

There are several differences between the approach taken by U.S. small cap and International small cap managers. Here is a look at three of those differences from a review of the eVestment Alliance database as of 6-30-11.

### Weighted Average Market Cap

U.S. managers tend to have a lower weighted average market cap than their international peers. 74% of the U.S. managers had a weighted average market cap of less than \$2B as of 6-30-11, while 60% of international managers had a weighted average market cap of more than \$3B. This may be explained by more liquidity in US markets allowing US managers to hold larger positions in smaller stocks. Since there are relatively fewer managers in the international space, the increasing interest in this space may be putting greater pressure on small cap international managers to enhance capacity capability by tilting to larger names (and more names, see section on “Number of Holdings” below). Table 1 presents a summary of the 513 of the 596 U.S. managers and 64 of the 73 International managers who report to eVestment a weighted average market cap as of 6-30-11.

Table 1

Market Cap	U.S.	International
<1B	5%	5%
1B-2B	69%	36%
2B>3B	22%	47%
>3B	4%	13%

Source: eVestment Alliance, 6-30-11 data

### Number of Holdings

International managers had more holdings than their U.S. counterparts. 64% of International managers had at least 100 holdings as of 6-30-11 while U.S. managers were more likely to have less than 100 and 20% had less than 50. This makes sense given that a simple screen in FactSet of global companies for market cap of less than \$2B yields 8,126 companies in the U.S. and 29,770 outside the U.S. as of 9/30/11. With more than 30 countries that make up the developed and emerging markets, a concentrated manager with one company per country is already ahead by 30 stocks. Two stocks per country, arguably still concentrated, is well above the average for US managers. Table 2 summarizes the results for 517 of the 596 U.S. managers and 66 of the 73 International managers who report to eVestment reported a number of holdings as of 6-30-11.

Table 2

<b>Holdings</b>	U.S	International
<50	20%	8%
50-100	42%	29%
100-200	27%	32%
>200	11%	32%

Source: eVestment Alliance, 6-30-11 data

### **Investment Style**

U.S. managers are more likely to be style specific. While nearly half of International managers call themselves “core”, 74% of U.S. managers are categorized as either “value” or “growth”. This focus on core strategies goes hand in hand with the fact that the 74 international small cap managers represent investors’ early entry into the small cap international space. As investors put core positions firmly in place, the demand for style specific managers may attract more specialist managers. Table 3 highlights the data for 517 of the 592 U.S. managers and 72 of the 73 International managers who report to eVestment reported management style as of 6-30-11.

Table 3

<b>Style</b>	U.S.	International
Value	38%	17%
Growth	36%	35%
Core	27%	49%

Source: eVestment Alliance, 6-30-11 data