



Kayne Anderson Rudnick
Investment Management

The Case for International Small Cap

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UNTAPPED OPPORTUNITY

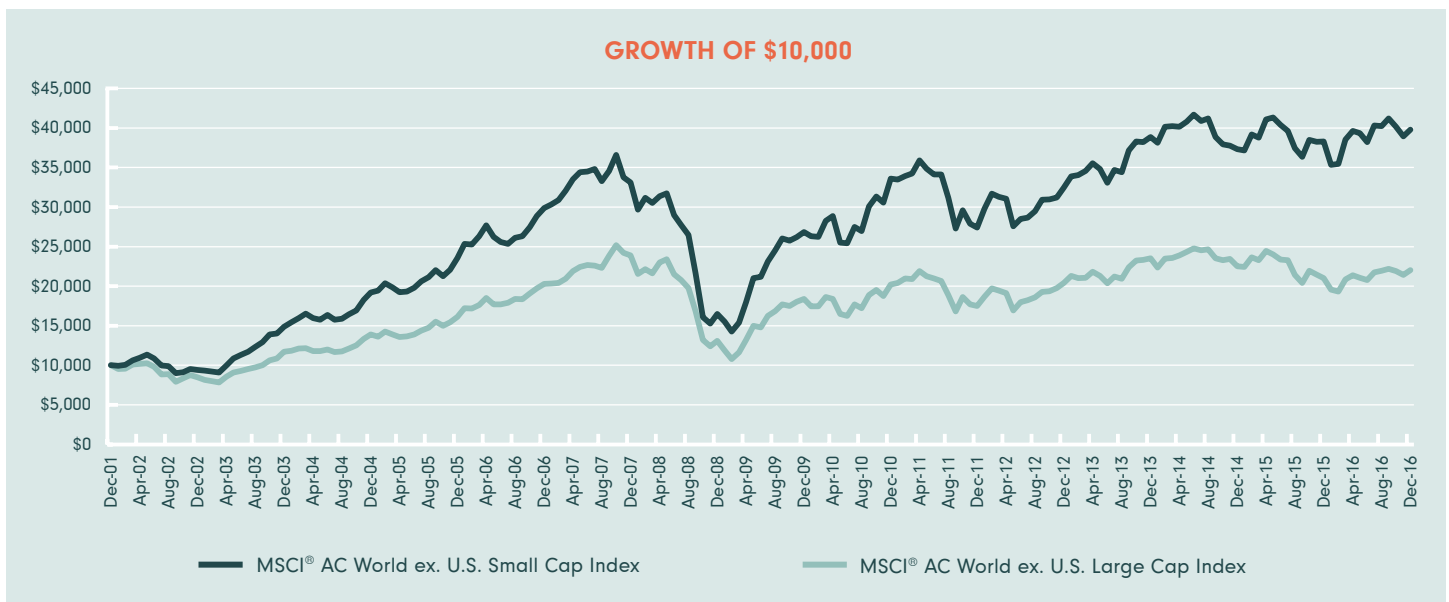
THE POTENTIAL BENEFITS OF INTERNATIONAL INVESTING are well known. However, investors have tended to gravitate toward large, well-known companies to achieve their international exposure. This large-cap bias has meant that investors have largely ignored a substantial segment of the global investment opportunity set—international small cap. While international small cap has been garnering increased attention recently, investors are still dramatically underinvested in this attractive asset class.

The Benefits of International Small Cap

1. Strong Returns

The benefits of investing in international stocks have been well documented—international stocks provide a portfolio diversification benefits as they offer exposure to the global economy and potentially higher rates of growth outside of the U.S. However, most investors seek to achieve their international exposure through large, well-known companies rather than small-cap companies. Given the markets in which they operate, international small-cap stocks may offer greater opportunities for growth and pricing inefficiencies than international large-cap

stocks (similar to the benefits that domestic small-cap stocks offer relative to their large-cap counterparts). As illustrated by the chart below, these growth prospects and pricing inefficiencies have translated into strong performance relative to large-cap international stocks over the last 15 years.



Data is obtained from FactSet Research Systems and is assumed to be reliable. Past performance is no guarantee of future results.

2. Large and Less Efficient Opportunity Set

For investors looking to add value through bottom-up fundamental analysis, the international small-cap asset class is fertile territory. The international small-cap asset class comprises an enormous investable universe of almost 20,000 companies (the domestic small-cap universe is approximately 3,000 companies). At the same time, this large universe receives much less attention in terms of analyst coverage.

For skilled investment managers, this is the ideal setting for adding value. In fact, research by S&P Dow Jones indicates that approximately 45% of active international small-cap managers have beaten their benchmark over the last five years ending June 30, 2016. This is compared to only 40% of active international large-cap managers and 2% of domestic small-cap core managers over the same time period.

3. Increased Diversification

As suggested by modern portfolio theory, the addition of various asset classes that exhibit low correlation to one another is important to maximizing risk-adjusted returns. As illustrated in the Correlation Matrix, international small-cap stocks exhibit relatively low correlation to domestic large-cap and small-cap stocks, further demonstrating the benefit of adding the asset class to a diversified portfolio.

CORRELATION MATRIX

	MSCI® AC World ex. U.S. Small Cap Index	MSCI® AC World ex. U.S. Large Cap Index	S&P 500® Index	Russell 2000® Index
MSCI® AC World ex. U.S. Small Cap Index	1.00	0.97	0.84	0.77
MSCI® AC World ex. U.S. Large Cap Index	0.97	1.00	0.89	0.79
S&P 500® Index	0.84	0.89	1.00	0.92
Russell 2000® Index	0.77	0.79	0.92	1.00

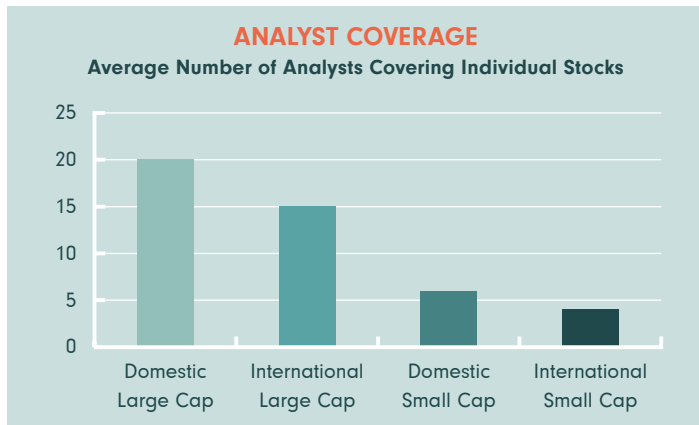
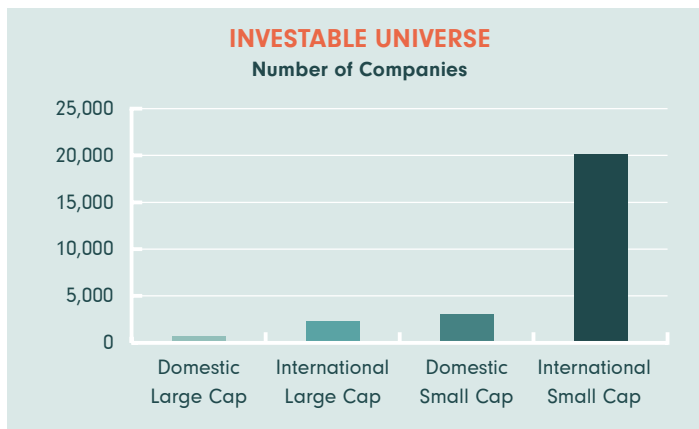
Data presented is for the ten years ending December 31, 2016.

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Building upon our success in the domestic small-cap markets, Kayne Anderson Rudnick is now applying the same rigorous bottom-up fundamental research to identify the highest quality small-cap companies around the globe. We continue to identify companies with durable competitive advantages and strong and consistent growth, and we purchase these companies at attractive valuations. We believe that our 30 years of experience in the domestic small-cap markets will serve us well as we apply this time-tested process to the international markets.

This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. Past performance is no guarantee of future results.



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	KAR International Small Cap	MSCI® AC World ex. U.S. Small Cap Index	Russell 2000® Index
Earnings Per Share Growth - Past 10 Years	14.4%	7.0%	6.4%
Return on Equity - Past 5 Years	26.7%	10.6%	10.3%
Dividend Per Share Growth - Past 10 Years	12.8%	5.9%	3.7%
Debt/Capital	18.3%	31.7%	44.1%
P/E Ratio - Trailing 12 Months	16.9 x	21.1 x	36.1 x
Dividend Yield	3.0%	2.3%	1.4%

Data as of December 31, 2016. Data is obtained from BNY Mellon and is assumed to be reliable. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Past performance is no guarantee of future results.

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