

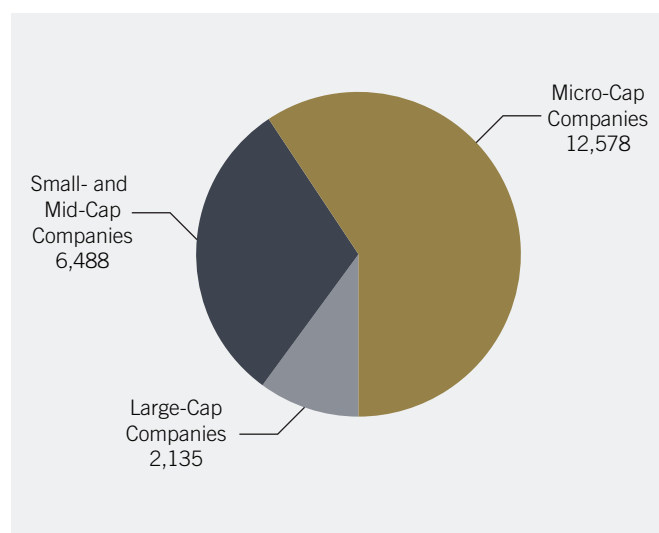
The Next Big Thing Could Be Really Small: An Introduction to Global Micro-Cap Stocks

Global micro-cap stocks have provided greater diversification benefits and a greater long-term value premium than small- and mid- to large-cap stocks. Among the features contributing to these benefits for micro caps worldwide:

- a large, diverse universe with little sell-side research coverage¹
- lower correlations between individual micro-cap stocks as well as other asset classes²
- a larger empirical value premium than other equity universes

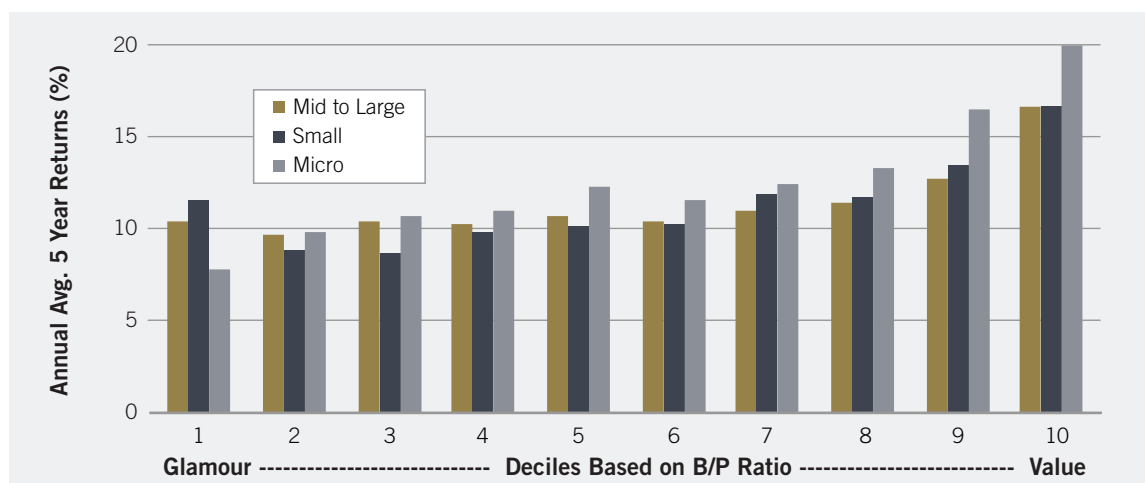
Together, these attributes have created attractive opportunities for active managers. While some institutional investors have made moderate commitments to micro-cap stocks, the allocations have tended to be country or regionally focused. The opportunity set globally is vast and compelling – and a value-investing approach has worked well among micro caps.

Exhibit 1: Number of Companies Worldwide by Market Capitalization



Source: Worldscope, CapitalIQ via Clarifi as of 4/30/2014

Exhibit 2: Value vs. Glamour: Annualized Average 5-Year Returns by Market Cap Segment
(1990 to 2014)



Source: Worldscope via Clarifi as of 5/31/2014. **Past performance is not a guarantee of future results.** See Value vs. Glamour Stock Analysis: Methodology for more details. See Page 3 for performance detail.

¹ Based on data from Worldscope, CapitalIQ via Clarifi as of 4/30/2014.

² Based on comparisons of correlations of rolling 5-year returns for various asset classes calculated via FactSet, as of 12/31/2013.

Global micro caps also have shown additional, exploitable inefficiencies that can be beneficial to active management including; a large and persistent dispersion in valuations, strong return asymmetry³ and less short-selling inventory relative to small and mid to large caps.⁴ Collectively, these traits have created solid opportunities for fundamental, active managers.

To learn more about global micro-cap stocks, read the Brandes Institute's complete report, "The Next Big Thing Could Be Really Small: An Introduction to Global Micro-Cap Stocks."

LSV's Value and Glamour Stock Analysis: Methodology

1) On a specific day each year (April 30), a sample of companies was divided into deciles based on a valuation measure, such as book to price ratio (B/P). The 10% of stocks with the highest B/P ratio were placed in decile 1. For each consecutive decile, B/P ratios decreased; this culminated in stocks with the lowest B/P values forming decile 10. The lower deciles, which consisted of higher-B/P stocks, represented value portfolios. In contrast, the higher deciles—those filled with lower-B/P stocks—represented glamour portfolios.

2) From there, annualized performance for deciles 1 through 10 was calculated over the subsequent five years.⁵

3) The first and second steps were repeated each April 30 creating new 10-decile sets. The annualized returns for each decile set were averaged over all the years of the study creating an annualized average 5-year return for each decile.

We applied LSV's methodology (with a few modifications) to analyze traits and returns among global micro caps between 1990 and 2014. (1990 was the earliest date for which we could get solid, stock-specific fundamental data.) We also introduced the following modifications to LSV's approach:

a) We broadened the universe of study outside the United States. (LSV studied only U.S. stocks traded on the New York and American Stock Exchanges.)

b) Instead of April 30, we reconstituted our universe each June 30.

c) We eliminated the smallest 50% of companies in our global sample to more accurately represent an "investable" universe, in our opinion. Prior to this cut, the smallest company in the universe was <\$1 million in market cap; afterward, the smallest company was \$45 million, as of 6/30/2013.

d) The remaining 50% of our global sample was divided into the following market-cap segments:

- i) Mid to Large Caps: the top 10% (the largest companies) of the sample
- ii) Small Caps: the 11th through the 25th percentile of companies
- iii) Micro Caps: the 26th through the 50th percentile of companies

³Based on analysis by the Brandes Institute using data from Worldscope via Clarifi as of 5/31/2014.

⁴Based on data from Markit, as of 5/31/2014.

⁵For performance measurement, decile weights were rebalanced annually. As a result, deciles began each year with equal weights for all stocks.

Annualized Average 5-Year Returns by Market Cap Segment (5/31/1990 to 5/31/2014)

	Glamour -----Deciles Based on B/P Ratio-----Value									
	1	2	3	4	5	6	7	8	9	10
Micro	7.9%	9.9%	10.9%	11.1%	12.4%	11.6%	12.5%	13.4%	16.7%	20.1%
Small	11.6%	8.9%	8.7%	9.9%	10.3%	10.4%	12.0%	11.8%	13.6%	16.8%
Mid/Lg	10.6%	9.8%	10.4%	10.4%	10.8%	10.5%	11.0%	11.6%	12.8%	16.8%

Source: Worldscope via Clarifi as of 5/31/2014. **Past performance is not a guarantee of future results.**

Diversification does not assure a profit or protect against loss in a declining market.

Past performance is not a guarantee of future results.

No investment strategy can assure a profit or protect against loss.

Book to Price Ratio: Book value divided by price per share.

The information provided in this material should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. Market conditions may impact performance. The performance results presented were achieved in particular market conditions which may not be repeated. Moreover, the current market volatility and uncertain regulatory environment may have a negative impact on future performance. International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility.

Micro caps usually experience more volatility than small-, mid- and large-sized companies. There is often less information available about such companies, and they may operate in countries with greater economic and political risks. Companies deemed to be micro cap generally are viewed as having the liquidity risks of small market capitalization to a greater degree than other smaller capitalization companies.

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