

## International Small-Cap Equities

### Bringing the Benefits of an Underutilized Asset Class to Catholic Fiduciaries



*International small-cap stocks offer compelling return and diversification benefits but are notably absent from most strategic asset allocations. In this paper, we highlight the advantages of incorporating non-US small-cap exposure into an investment program. We also demonstrate how CBIS's CUIT International Small Cap Equity Fund provides Catholic institutions with an attractive option for accessing this underutilized asset class.*

#### KEY TAKEAWAYS

- International small-cap stocks represent a significant portion of the global equity market and can increase risk-adjusted returns and diversification.
- Despite these benefits, few investors have a dedicated allocation to non-US small caps, in part due to the high account minimums and high fees of many strategies.
- The CUIT International Small Cap Equity Fund removes these barriers to entry by providing cost-effective access to non-US small-cap stocks at a low minimum investment.
- The Fund delivers additional benefits beyond those inherent to the asset class, including the potential for excess returns, manager diversification, and Catholic investment screens.

## SIZING UP THE OPPORTUNITY

### International Small Caps Are a Substantial Asset Class

International small-cap stocks are an important segment of the global equity market. The non-US small-cap universe includes over 4,000 securities representing nearly 50 countries and all major economic sectors. In aggregate, their market capitalization is comparable to that of US small-cap equities.

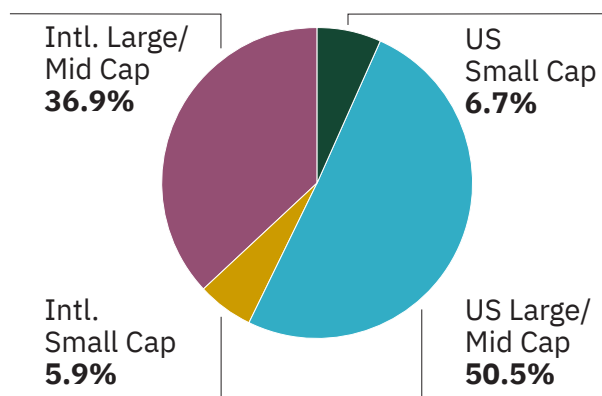
#### A Material Piece of the Global Pie

The international small-cap market has close to the same capitalization as the US small-cap market and eclipses other equity asset classes in terms of number of securities.

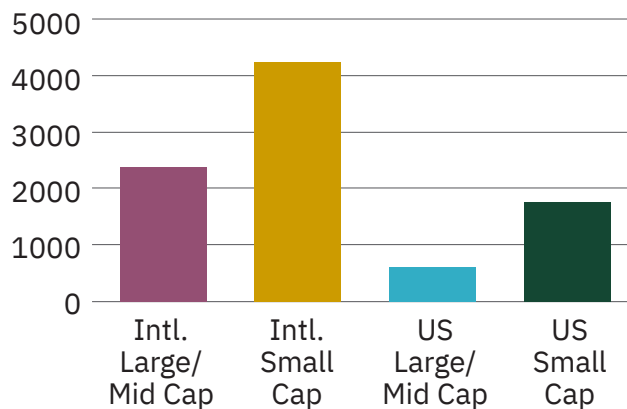
#### Global Equity Market

March 31, 2021

**By Percentage of Total Market Capitalization**



**By Number of Securities**



Source: MSCI; Benchmarks - International Large/Mid Cap: MSCI ACWI ex USA Index; International Small Cap: MSCI ACWI ex USA Small Cap Index; US Large/Mid Cap: MSCI USA Index; US Small Cap: MSCI USA Small Cap Index

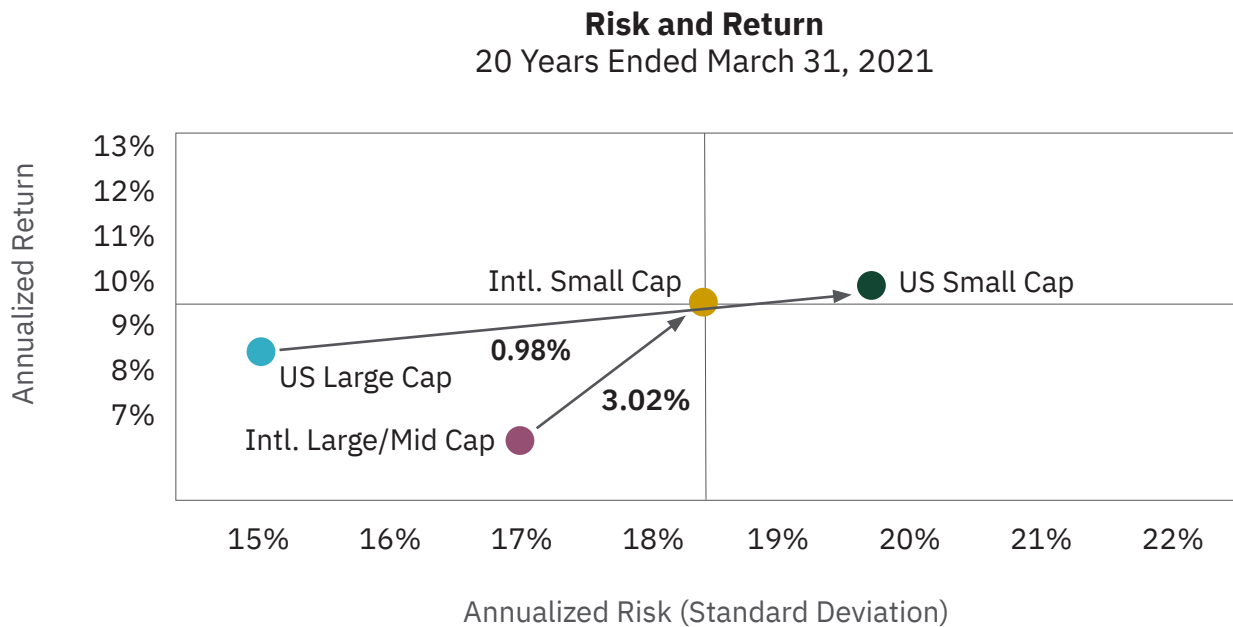
## OFFERING MEANINGFUL BENEFITS

### International Small-Cap Equities Can Enhance Risk-Adjusted Returns and Diversification

The long-term outperformance of small-cap versus large-cap stocks is a well-documented effect in the US and a strong rationale for allocating to US small caps. The small-cap premium also exists outside the US – and, we believe, is more significant. Over the past 20 years, non-US small-cap equities have outperformed their large-cap counterparts by approximately 3% annually, compared to only about 1% of annual outperformance for US small caps versus US large caps. And because small-cap returns have been less volatile overseas, investors have been able to capture the higher premium with less additional risk.

#### A Bigger, Less Volatile Small-Cap Premium

The incremental return generated by moving from large-cap stocks to small-cap stocks has been much higher outside the US, while the associated increase in risk has been much lower.

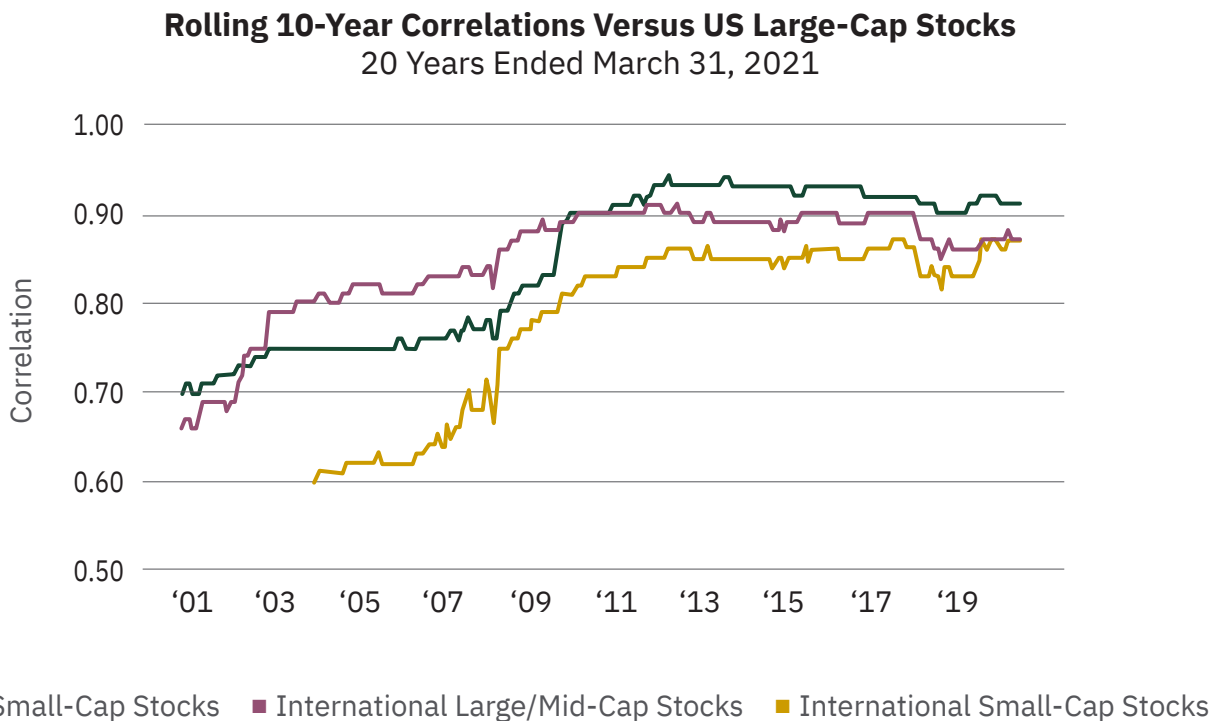


Source: eVestment; Benchmarks - International Large/Mid Cap: MSCI ACWI ex USA Index; International Small Cap: MSCI ACWI ex USA Small Cap Index; US Large Cap: Russell 1000 Index; US Small Cap: Russell 2000 Index

An allocation to international small-cap equities can also increase portfolio diversification. Compared to US small-cap stocks and non-US large-cap stocks, international small caps have exhibited lower correlation with US large caps. Plus, their favorable correlation characteristics have been more stable during periods of market stress when correlations of other asset classes were converging.

### Lower, More Stable Correlations

International small caps have shown relatively low correlation with US large-cap equities, especially compared to US small caps, whose correlations have remained high since the global financial crisis.

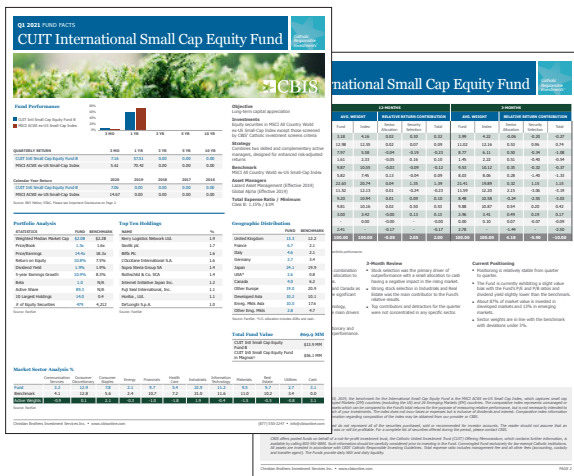


Source: eVestment; Benchmarks - International Large/Mid Cap: MSCI ACWI ex USA Index; International Small Cap: MSCI ACWI ex USA Small Cap Index; US Large Cap: Russell 1000 Index; US SmallCap: Russell 2000 Index

## BREAKING DOWN BARRIERS TO ENTRY The CUIT International Small Cap Equity Fund Makes an Often Hard-to-Access Opportunity More Accessible

While the benefits are clear, gaining exposure to international small-cap stocks can be challenging. Account minimums and fees tend to be higher than for other types of strategies, reflecting the higher costs that managers pay for research, trading, and custody of non-US small caps. At the same time, allocations to the asset class tend to be relatively modest in size.

CBIS developed the CUIT International Small Cap Equity Fund specifically to help Catholic institutions overcome these challenges. The Fund's asset base creates efficiencies that allow us to offer the Fund at attractive terms, both with respect to investment minimums and fees.



## CUIT International Small Cap Equity Fund

### Objective

Long-term capital appreciation; outperformance of the benchmark over a complete market cycle

### Benchmark

MSCI ACWI ex USA Small Cap Index, which captures small-cap representation across international developed and emerging markets

### Investments

Equity securities in the MSCI ACWI ex USA Small Cap Index except for those excluded by CBIS's Catholic investment screens

### Asset Managers

Global Alpha; Lazard Asset Management

### Total Expense Ratio / Minimum

Class B: 1.15% / \$1 Million

## GOING ABOVE AND BEYOND

### The Fund Builds on the Broad Benefits of International Small-Cap Investing

The CUIT International Small Cap Equity Fund provides investors with much more than the inherent return and diversification benefits of non-US small caps. The Fund is actively managed, creating the potential for excess returns in an asset class that, in our opinion, is very inefficient. Peer rankings support our view, as even those strategies that have ranked near the bottom of the non-US small-cap equity universe have outperformed the MSCI ACWI ex USA Small Cap Index over time.

#### A High Success Rate for Active Management

The majority of active international small-cap strategies have been able to generate long-term alpha.

#### 10-Year Rolling Excess Returns Versus Market Benchmarks (%) 20 Years Ended March 31, 2021

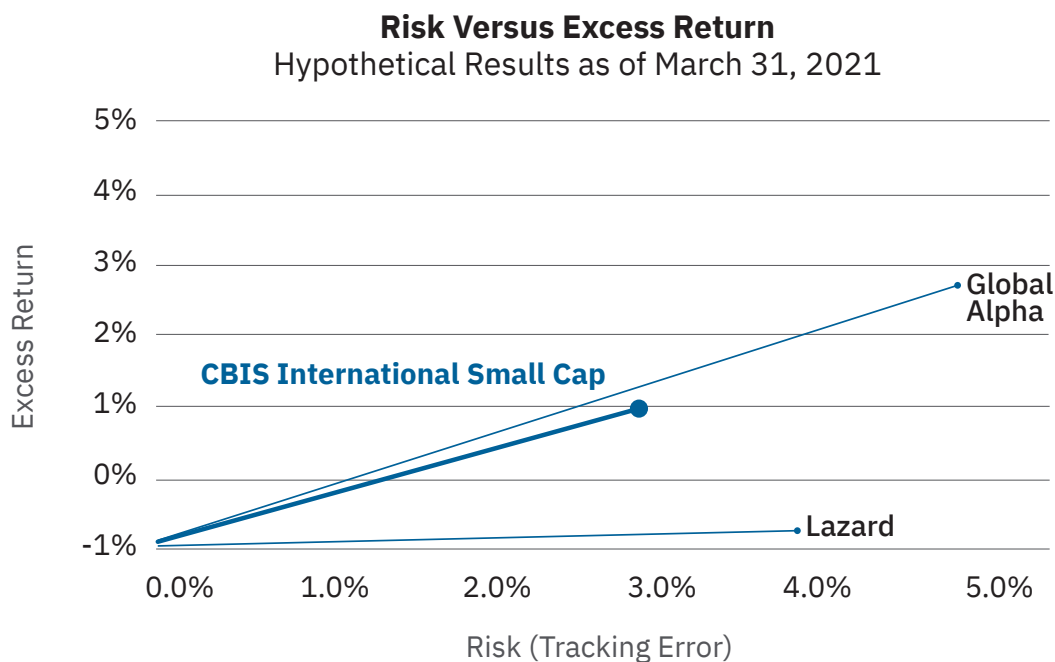
Ranking	Intl. Small Cap	Intl. Large/Mid Cap	US Small Cap	US Large Cap
5th Percentile	7.38	4.62	6.00	3.64
25th Percentile	4.31	3.05	2.79	1.05
Median	3.06	2.14	0.80	-0.58
75th Percentile	1.29	0.68	-0.67	-2.14
95th Percentile	0.36	-0.01	-2.74	-4.12

Source: eVestment; Benchmarks - International Large/Mid Cap: MSCI ACWI ex USA Index; International Small Cap: MSCI ACWI ex USA Small Cap Index; US Large Cap: Russell 1000 Index; US Small Cap: Russell 2000 Index

The Fund’s multi-manager structure is another advantage. By combining managers with complementary investment styles — Global Alpha and Lazard — the Fund seeks to capture the average excess returns of the managers but with less volatility than a single-manager fund. Global Alpha is a fundamental research-driven manager that runs a concentrated portfolio focused on quality growth. Lazard is a quantitative manager that builds a more diversified portfolio with exposure to value, growth, sentiment, and quality, among other characteristics. Together, Global Alpha and Lazard create a compelling multi-manager fund with diverse drivers of return.

### The Power of a Multi-Manager Structure

The Fund combines two complementary managers to achieve a better risk-return profile.



Source: eVestment Alliance. Returns are presented gross of management fees and include the reinvestment of all income. Based on five-year results. Hypothetical outcomes for the International Small Cap Equity Strategy shown reflect hypothetical returns over the time period indicated. Please see full disclosure for hypothetical analysis below.

## STARTING A CONVERSATION

### Let's Explore the Possibilities Together

CBIS believes that a dedicated allocation to international small-cap stocks can further the financial success of many Catholic organizations. We welcome the opportunity to delve deeper into this underutilized asset class with you and discuss how it might fit within your investment program.

**Contact Us for More Information**  
(877) 550-2247 • [info@cbisonline.com](mailto:info@cbisonline.com)

Information provided is the opinion of CBIS and is subject to change without notice.

*The simulated results of the International Small Cap Equity Strategy shown are intended only to illustrate the analysis performed by CBIS of the actual results from Lazard and Global Alpha combined and unscreened. The five-year period blend of 50% Lazard and 50% Global Alpha presented is prior to the inception date of the actual International Small Cap Equity Strategy at CBIS. These hypothetical outcomes shown reflect hypothetical returns over the time period indicated and are based on the retroactive application of the assumptions identified in this document. There are inherent limitations in the presentation of hypothetical information. These hypothetical returns represent actual management of Lazard and Global Alpha strategies but are a hypothetical blend of the two strategies and, therefore, were developed with the benefit of hindsight. Further, the hypothetical results may not reflect the impact that material economic and market factors may have on investment management decision-making.*

*Hypothetical performance is not an indication of actual future results. Actual results may significantly differ from the hypothetical returns being presented. Accounts may lose value. You should not rely on this document as a projection of future performance of CBIS-managed funds or portfolios.*

*Returns are presented gross of management fees and include the reinvestment of all income. Actual returns will be reduced by investment management fees and other expenses that may be incurred. The collection of fees produces a compounding effect on the total rate of return net of management fees. For example, if an annual management fee of .60% were deducted quarterly from your account, a ten-year annualized cumulative composite return of 10.00% would be reduced by .64% to 9.36%. Fees for all CUIT Funds may be found in the CUIT Offering Memorandum.*

*Investments in programs offered by the Catholic United Investment Trust (CUIT) are offered exclusively to institutions that are part of the Roman Catholic Church in the United States and its territories and dependencies. The CUIT Funds are exempt from registration with the Securities and Exchange Commission and, therefore, are exempt from certain regulatory requirements applicable to registered mutual funds. The return and principal value of the Funds will fluctuate and, upon redemption, shares in the Funds may be worth less than their original cost. Shares in the CUIT Funds are offered exclusively through CBIS Financial Services, Inc., a broker-dealer subsidiary of CBIS. Complete information regarding each of the CUIT Funds, including certain restrictions regarding redemptions, is contained in the disclosure documents which can be obtained by calling 800-592-8890. Such information should be carefully reviewed prior to investing in the Funds.*

*The benchmark index for the International Small Cap Equity Strategy is the MSCI ACWI ex USA Small Cap Index. The comparative index represents unmanaged or average returns on various financial assets which can be compared to the Fund's total returns for the purpose of measuring relative performance, but is not necessarily intended to parallel the risk or investment approach of your investments. The index does not incur taxes or expenses but is inclusive of dividends and interest.*