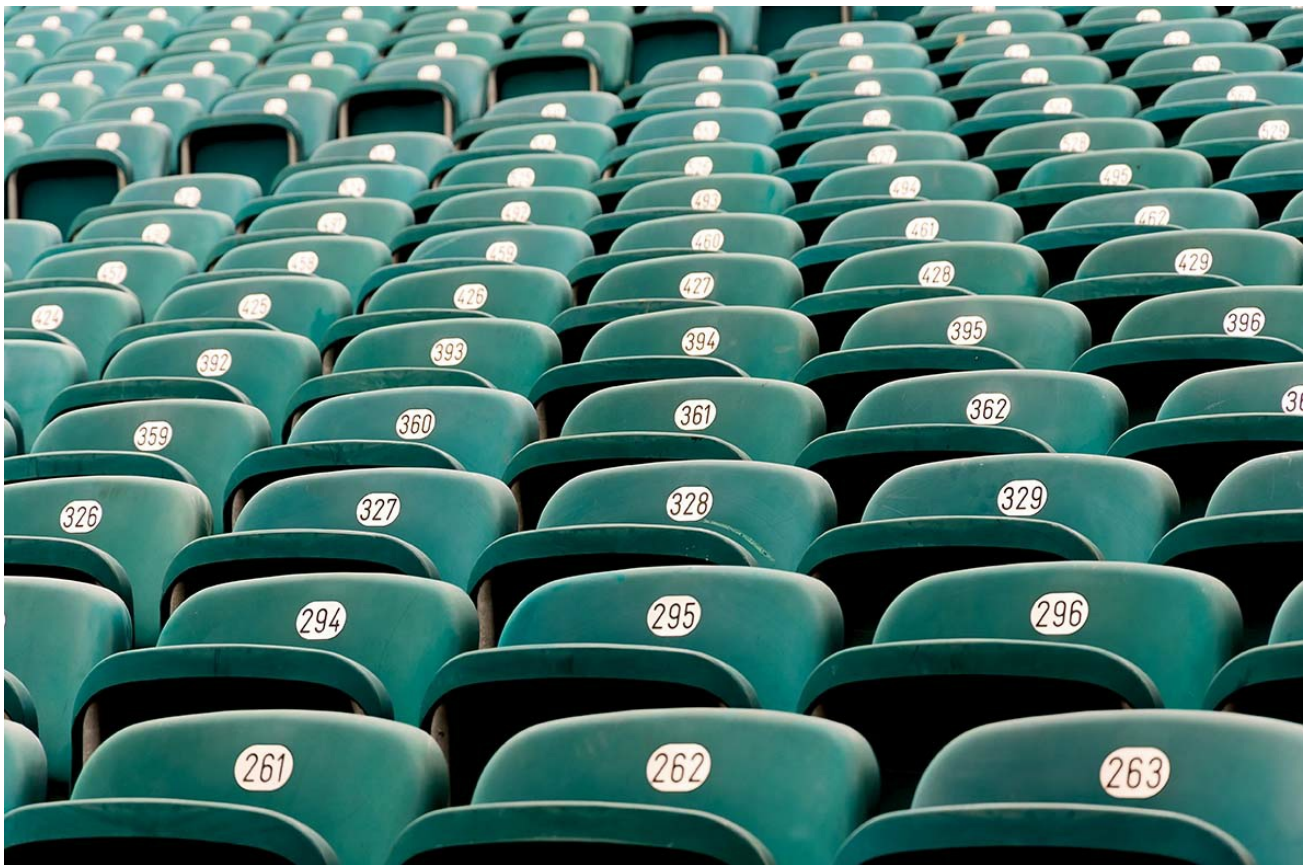


# Consistency Matters in Small Cap Investing

 [westwoodgroup.com/insight/consistency-matters-in-small-cap-investing/](https://westwoodgroup.com/insight/consistency-matters-in-small-cap-investing/)



Consistency of small cap returns across multiple market periods should be a strategic consideration for a long-term allocation to the asset class.

Outfielder Ty Cobb, whose career ended in 1928, had the highest batting average in Major League Baseball (MLB) history, batting .366 over 24 seasons.<sup>1</sup> His consistency not his power over the long-term defined his success and legacy as one of the best major league baseball players of all time.

Often in strong rising markets, investors become myopic chasing performance in the highest performing strategies believing recent events will persist long into the future. After a long-secular rise in small cap stocks, strategic investors need to consider the importance of both absolute performance, risk-adjusted returns, and consistency which tend to be underappreciated in the volatility prone small cap asset class.

If interest rates rise, resulting in price to earnings multiples and profit margins peak, avoiding marginal companies with a greater emphasis on high-quality companies trading at attractive prices will be increasingly important. We are already seeing this play out in the Russell 2000 Index where one-third of the stocks in the Russell 2000 have not been profitable in 12 months, a level normally only seen in recessions.<sup>2</sup> As we enter 2018, strategic long-term investors should emphasize consistency through

multiple market periods to complement unmanaged small cap beta or headline-grabbing high performers.

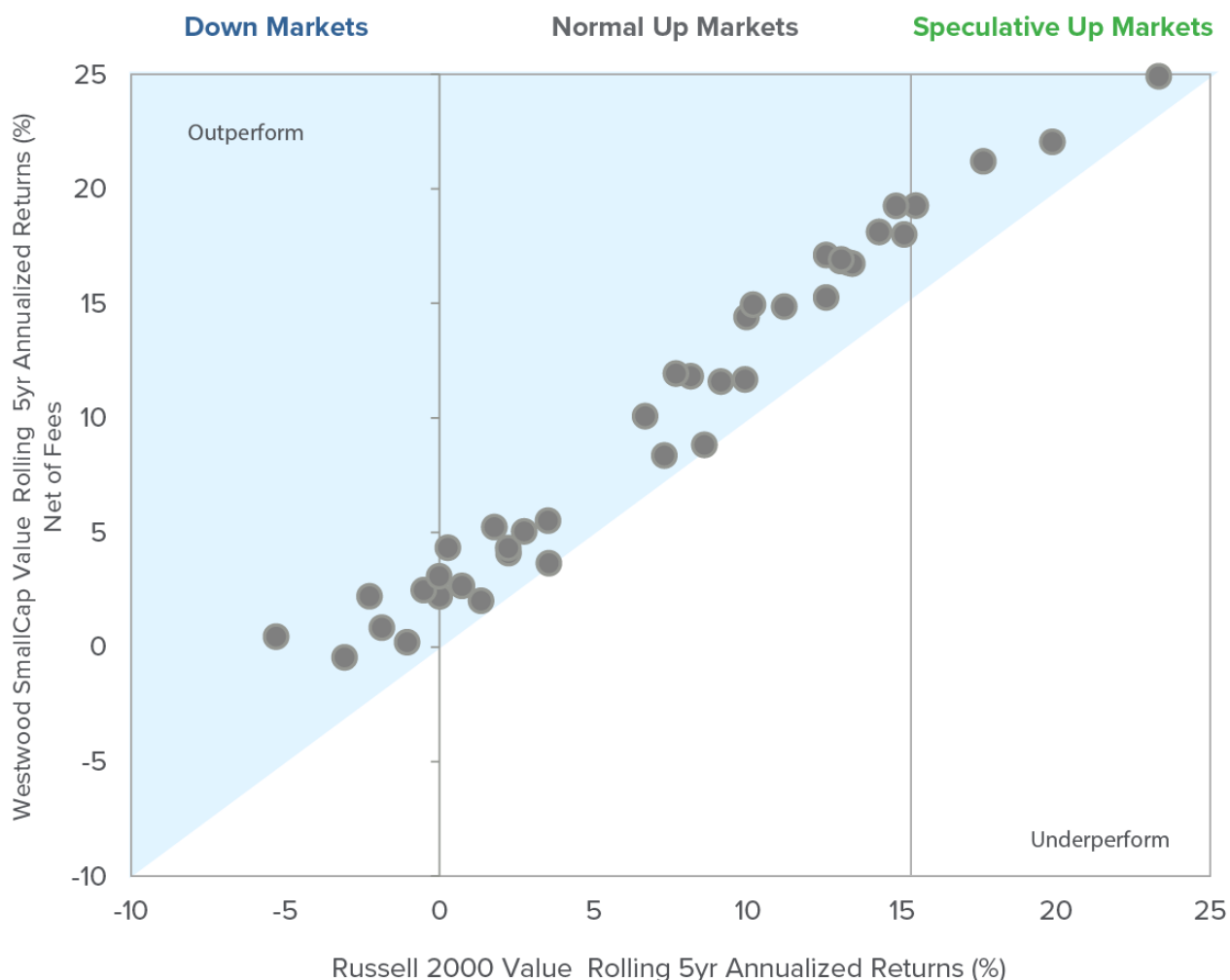
<sup>1</sup> Source: <https://www.baseball-reference.com/players/c/cobbty01.shtml>

<sup>2</sup> Source: Strategas Research Partners, 2017. *Past performance is not indicative of future results.*

## Take Action: Learn How Westwood’s Approach to SmallCap Investing Can Improve your risk-return profile across multiple market periods.

### Annualized Rolling 5-Year Returns Net of Fees Since Inception

Westwood SmallCap Value vs. Russell 2000 Value Index

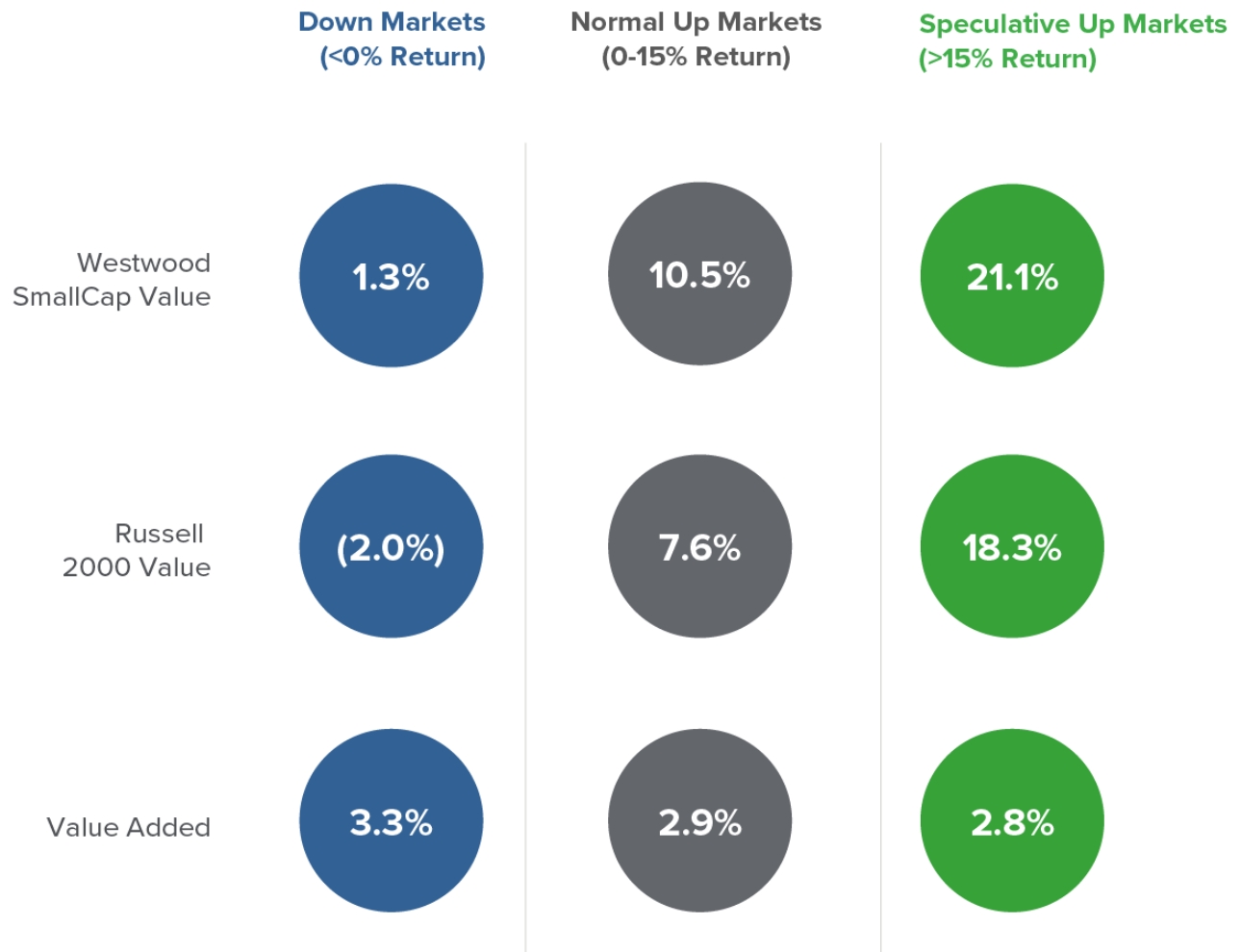


**\*Overall Batting Average: 100%**

Inception : January 1, 2004. Data Set: January 1, 2004 – September 30, 2018 (Quarterly). Past performance is not indicative of future results. Performance shown assumes reinvestment of dividends and capital gains and is net of investment management fees. Please see appendix for full performance disclosure for the SmallCap Value

strategy. Rolling 5-year returns graph calculated using quarterly data. The five year period was chosen as a proxy for a typical market cycle. Market environment returns reflect an average of the 5-year annualized returns within each market environment category. \*Overall batting average reflects the percentage of rolling 5-year periods in which Westwood SmallCap Value outperformed the Russell 2000 Value Index on a net of fees basis.

## Market Environment



Inception : January 1, 2004. Data Set: January 1, 2004 – September 30, 2018 (Quarterly). Past performance is not indicative of future results. Performance shown assumes reinvestment of dividends and capital gains and is net of investment management fees. Please see appendix for full performance disclosure for the SmallCap Value strategy. Rolling 5-year returns graph calculated using quarterly data. The five year period was chosen as a proxy for a typical market cycle. Market environment returns reflect an average of the 5-year annualized returns within each market environment category. \*Overall batting average reflects the percentage of rolling 5-year periods in which Westwood SmallCap Value outperformed the Russell 2000 Value Index on a net of fees basis.

## Westwood SmallCap Value: Key Takeaways

A high-quality approach to small cap investing could be a way for investors to strategically allocate to the asset class to improve consistency over the long term.



### **High-Quality Focus**

We believe high-quality businesses that are operating well with undervalued earnings potential offer competitive risk-adjusted returns.



### **High-Conviction Investing**

Focused best ideas portfolio with historically high active share. Number of securities typically ranges from 50 to 70.



### **Team-Based Approach**

Our strategy utilizes a team-based fundamental bottom-up approach to identify high-quality companies.

The Westwood Funds are distributed by SEI Investments Distribution Co. (SIDCO). SIDCO is not affiliated with Westwood Holdings Group, Inc. or any other affiliate. SIDCO is located at 1 Freedom Valley Drive, Oaks PA 19456.

**To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's prospectus which may be obtained by calling 1.877.FUND.WHG (1.877.386.3944). Please read the prospectus carefully before investing.**

Mutual fund investing involves risk, including the possible loss of principal.