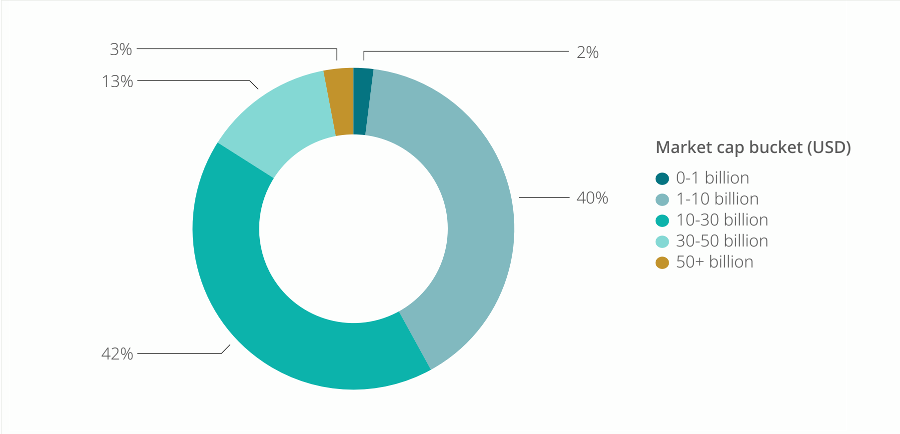
Positioning for growth – the case for global SMID caps

Investors look to global small and mid cap companies (global SMID caps) for their distinct advantages, particularly their growth potential, diversification benefits, and ability to counter the concentration risks associated with large-cap exposures. SMID caps provide exposure to under-the-radar companies – often niche leaders that combine the innovation and agility of smaller companies with the discipline and track record of more established businesses.

What are global SMID caps?

Global SMID caps are stocks of small to mid-sized companies from around the world. The MSCI World SMID Cap Index captures 4,616 companies representing around 28% of the lowest market capitalisation across developed market countries. Interestingly, despite their name, global SMID caps are not really small at all. In today's market, the majority of global SMID caps fall within US$1 billion to US$50 billion[1]; 10 years ago, the majority were US$0.25 billion to US $10 billion[2]. This segment has become a significant part of the market, with the value of the MSCI World SMID Cap Index more than quadrupling since 2004, driven by economic growth, inflation, and broad-based equity market appreciation.

Graph 1: Composition of the Global SMID Caps Index



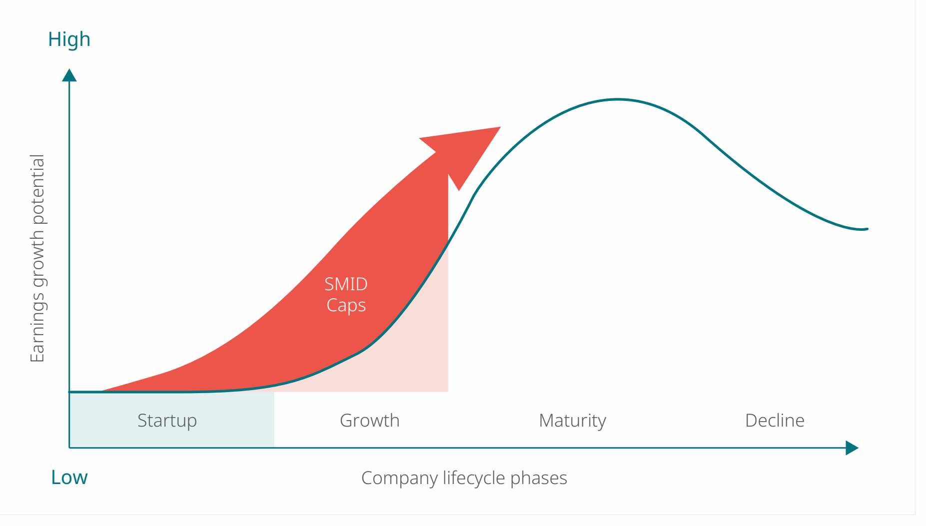
Source(s): Bell Asset Management, MSCI, Bloomberg Finance L.P. Data in USD as at 30 June 2025. The market cap bucket data is based on the market capitalisation of each stock in the MSCI World SMID Cap Index, calculated on a float unadjusted basis.

Benefit 1: higher growth potential

We believe one of the most compelling reasons to invest in global SMID caps is the potential to catch companies at their inflection point – right as they hit their stride in the growth journey. Being earlier in a company's lifecycle, global SMID caps often have a longer runway ahead with more room for meaningful revenue and earnings expansion than large, more established companies. Global SMID caps are often nimble and lead the charge on innovation and disruption.

Big enough to no longer be start-ups, many companies still have an entrepreneurial spirit, driving a culture of creativity, problem-solving, and lean efficiency. And because they're growing from a smaller base, even modest progress may compound into serious long-term value.

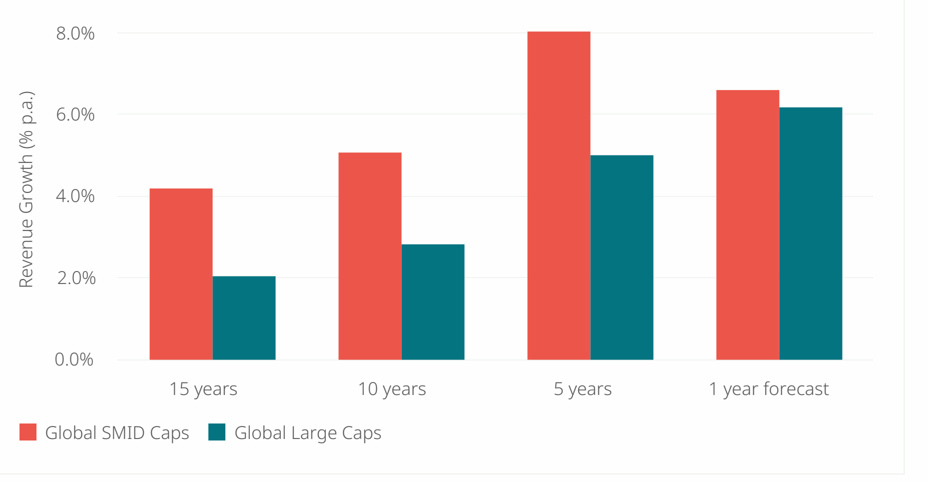
Graph 2: SMID cap companies' potential growth



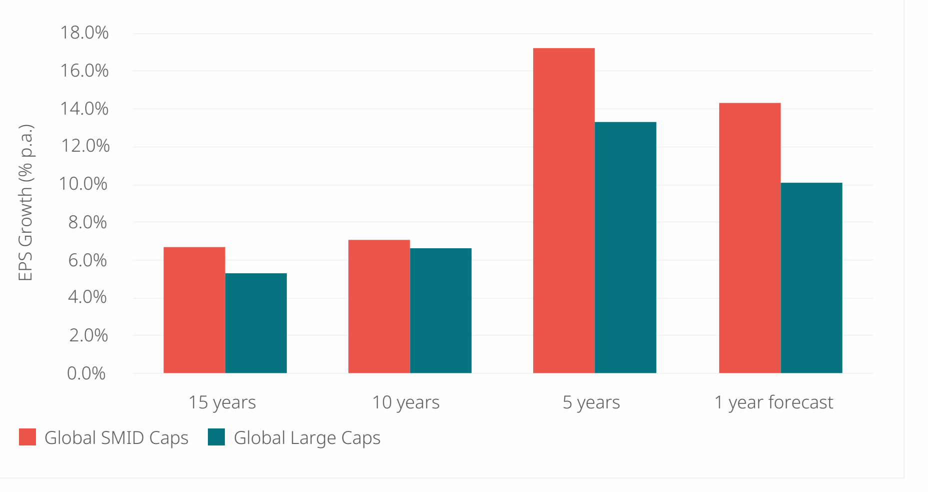
Source: Bell Asset Management; indicative representation of potential growth aligned with company life cycle dynamics.

The following charts provide a comparative view of Earnings Per Share (EPS) growth and revenue growth. As of 30 June 2025, consensus estimates place the two-year EPS growth for the MSCI World SMID Cap Index at 30% (~14% CAGR), significantly outpacing the 21% expected growth (~10% CAGR) for the MSCI World Large Cap Index over the same period[3].

Graphs 3: Revenue growth comparison



Graph 4: EPS growth comparison



Source(s): Bell Asset Management, MSCI, Bloomberg Finance L.P. Data in USD as at 30 June 2025. The data for Global SMID Caps refers to data from the MSCI World SMID Cap Index. The data for Global Large Caps refers to data from the MSCI World Large Cap Index.

Attractive acquisition opportunities

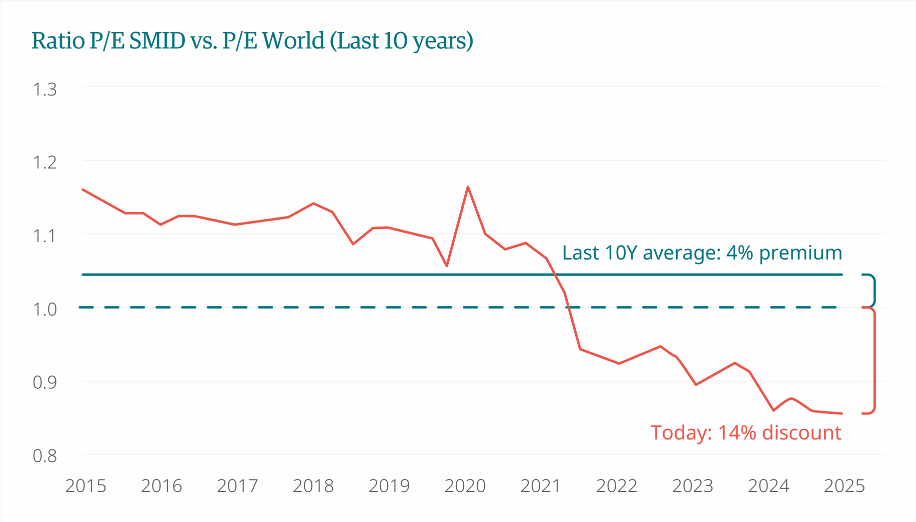
Global SMID caps often operate in niche, high-growth markets and are prime acquisition targets for larger companies looking to expand into new markets, accelerate growth or for strategic expansion. Many also trade at discounts to historical valuations, increasing the appeal for strategic and private equity buyers. These provide an additional layer of potential return – the 'takeover premium' – as global SMID caps are absorbed at attractive multiples.

Likewise, global SMID caps can play the role of acquirers. Given their size, even modest deals can meaningfully shift their earnings or strategic value – so called 'needle-moving' acquisitions.

Benefit 2: discount price

Despite this strong growth potential, global SMID caps are currently trading at a 14% discount relative to the broader market, compared to the 4% premium that has been observed over the past 10 years. We believe this divergence presents an attractive opportunity for investors, as the sector's strong growth potential is being offered at a relative discount[3].

Chart 5. Trading at a discount
Ratio P/E MSCI World SMID Cap Index vs MSCI World Index

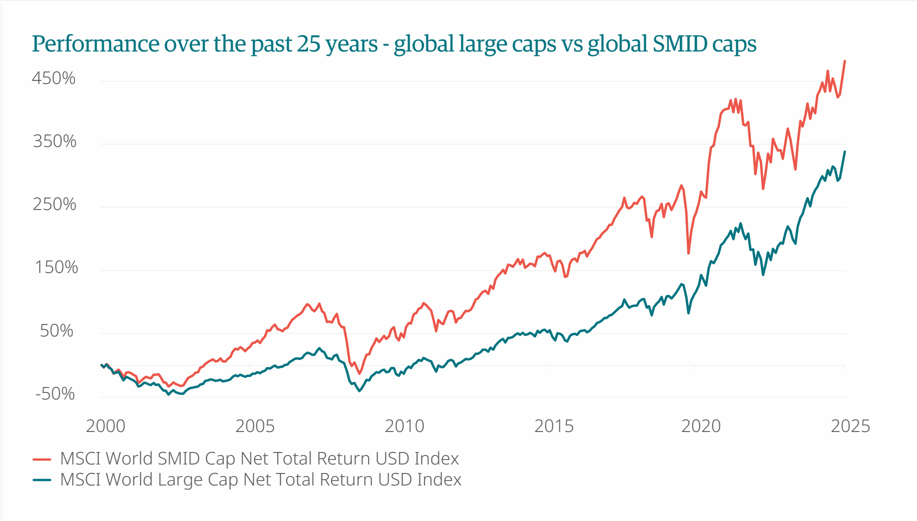


Source(s): Bell Asset Management, MSCI. "SMID" represents the MSCI World SMID Cap Index. "World" represents the MSCI World Index. Data is denominated in USD as at 31 May 2025.

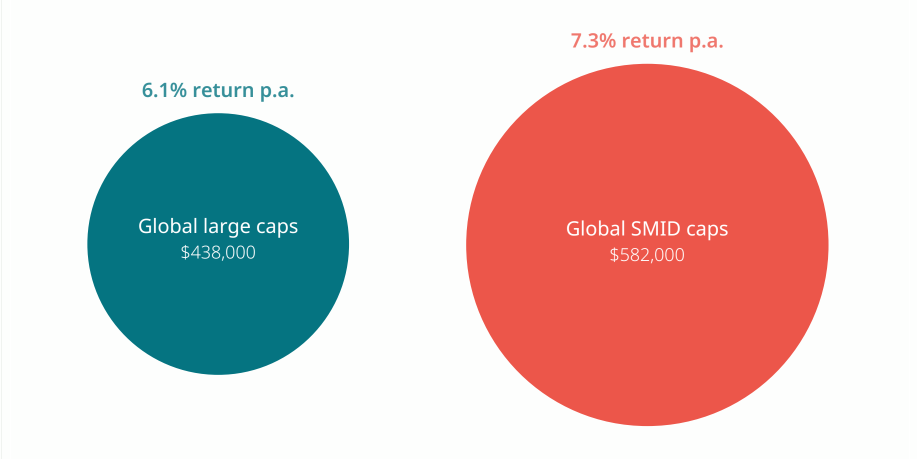
Benefit 3: Long-term outperformance

We believe global SMID caps can play an important growth role in portfolios, as evidenced in chart 6 which shows they have historically outperformed large cap. This can have a positive impact on even a modest allocation.

Chart 6: Long-term outperformance (over 25 years)
6a. Performance comparison – global large caps vs global SMID caps



6b. Trajectory of a $100,000 investment – global large caps vs global SMID caps



Source(s): Bell Asset Management, MSCI, Bloomberg Finance L.P. Data in USD as at 30 June 2025. The dollar figures provided represent indicative value at the end of the 25-year period, assuming $100,000 invested at the start of the period and dividends are reinvested and with no applicable fees. The MSCI World SMID and Large Cap indices are used for illustrative purposes and are not directly investable.

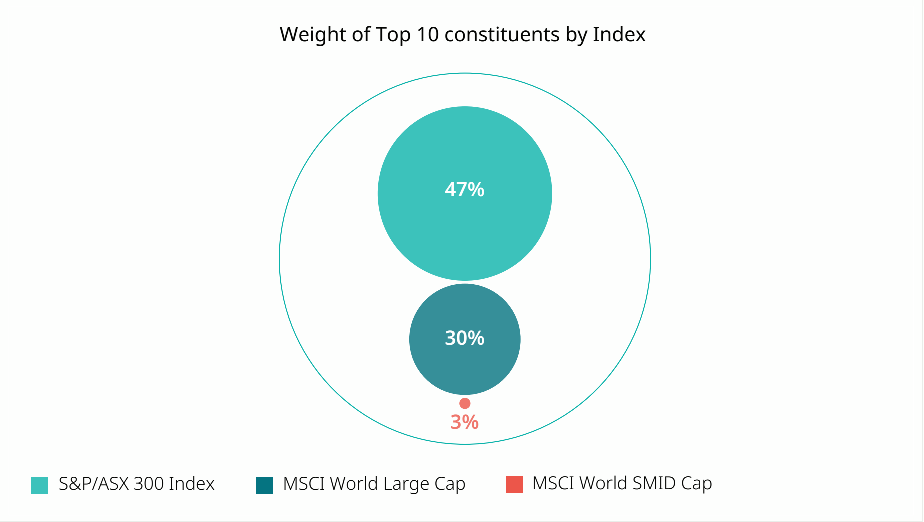
Benefit 4: true diversification

Many of today's major indices are more top-heavy than ever, with a handful of large stocks driving most of the returns. Performance is increasingly reliant on just a few companies, which introduces greater single-stock and single-sector risk. If one or more of these dominant companies stumble, the entire index can suffer, regardless of how the rest of the market performs. Investors might think their large caps investment is diversified, but in reality, they're heavily exposed to a narrow slice of the market.

For example, Financials and Materials make up 52% of the ASX200, with two stocks alone accounting for nearly 20%, and CBA representing 12%[4]. In global large caps, the IT and Financials sectors dominate 46% of the index, with the Magnificent 7 accounting for 20%[5].

We believe that global SMID caps, however, can provide genuine diversification across both stocks and sectors, helping reduce concentration risk.

Graph 8: Diversification – ASX300 & global large caps vs global SMID caps



Source(s): Bell Asset Management, MSCI, Bloomberg Finance L.P. Data as at 30 June 2025.

Benefit 5: ability to exploit market inefficiencies

Lack of analyst coverage; lower institutional ownership

Despite their growth potential, global SMID caps often fly under the radar, receiving far less research analyst coverage than their large-cap peers.

Consequently, global SMID caps are often under-owned by large institutional investors. This creates early-stage opportunities for active managers, as growing interest from pension and superannuation funds can drive substantial re-ratings as these companies scale.

The hidden gems advantage

Markets are less efficient in this segment. The lack of broad market research often leads to information asymmetry and allows for mispricings. With fewer eyes scrutinising global SMID caps, valuation inefficiencies arise, creating fertile ground for active managers to uncover opportunities trading below intrinsic value. Skilled active managers exploit these inefficiencies via proprietary, in-depth research to uncover high-quality, undervalued businesses well before they reach mainstream awareness.

Chart 9: Limited sell-side analysts

Source(s): Bell Asset Management, Bloomberg Finance L.P. Data as at 30 June 2025. The data for Global SMID Caps refers to data from the MSCI World SMID Cap Index. The data for Global Large Caps refers to data from the MSCI World Large Cap Index. Top 50 and Top 20 are the largest companies globally by market cap drawn from the MSCI World Large Cap Index.

Potential catalysts for global SMID cap outperformance

There are several potential catalysts that could favour global SMID caps and drive future outperformance:

Valuation re-rating opportunity
With global SMID caps currently trading at a significant discount relative to large caps, there is scope for a meaningful valuation uplift

Declining interest rates
Easing monetary policy supports equity valuations and growth-oriented companies, while lowering borrowing costs for expansion.

Emerging tariff clarity
Improved visibility on tariffs and global trade relationships could lift corporate confidence, spurring investment that often benefits global SMID caps.

Rebound in M&A activity
A recovery in dealmaking from currently subdued levels could provide a tailwind, particularly given the segment's attractive valuations.

Superior earnings growth
Global SMID caps are expected to continue delivering stronger earnings growth than large caps, with an acceleration projected into 2026.

Rotation from crowded mega-caps
Diversification needs and elevated valuations in mega caps could prompt capital rotation toward under-owned global SMID cap opportunities.

Rising institutional interest
Growing recognition of the segment's merits may drive increased institutional allocations, creating a virtuous cycle of inflows and performance support.

Final thought

We believe allocating to global SMID caps can unlock superior growth, diversification, and value opportunities that are often missed in large cap heavy portfolios. In this space, active management is essential to navigate the broad investment universe, identify mispricings, and capture emerging winners.

Today's environment presents a compelling case: global SMID caps are trading at a meaningful discount to large caps while offering the potential for faster earnings growth – a rare combination that supports the case for future outperformance.

Within a portfolio, global SMID caps can be the missing growth engine – complementing large caps while delivering significant diversification benefits. These include lower single-stock concentration risk and greater sector breadth, spanning industrials, healthcare, consumer, technology and more.

Taken together, we see strong risk-adjusted return potential in this segment and believe now is an opportune time to consider an allocation to global SMID caps.

Summary: why allocate to global SMID Caps now

- **Attractive valuation**: near-decade low relative P/E ratio vs large caps
- **Superior growth**: continued prospects for superior revenue & EPS growth vs large caps
- **Diversification**: stock, sector and regional diversification benefits
- **Alpha from inefficiencies**: less analyst coverage & institutional ownership = alpha opportunity
- **Multiple tailwinds ahead**: various positive catalysts could drive outperformance in coming years
- **Potential for superior returns**: combining above mentioned factors offers potential for strong investor returns

We believe large caps have already had their run, and valuations are looking stretched. Global SMID caps still offer the kind of growth potential that can drive portfolios forward.

The real money is made when companies hit their growth and scale inflection. And Quality global SMID caps can deliver both earnings growth and multiple expansion as they scale from small to mid to large cap.

Why Bell for global SMID caps?

Experience that compounds

For over 20 years, uncovering hidden global SMID cap gems has been central to what we do – not a side strategy, but a core capability. We were early to recognise the value of global SMID caps, integrating them into our approach well before it became mainstream.

Disciplined Quality – defined broadly, applied precisely

We don't follow narrow 'growth' or 'value' labels. Instead, we focus on identifying high-quality businesses with strong long-term prospects and attractive valuations. While many competitors define quality narrowly — often just by a high ROE — we take a broader, more holistic view, applying a disciplined and repeatable process.

Strong risk-adjusted returns

We've managed global equity portfolios since 2003 — through a variety of market cycles — with the clear goal of delivering strong, risk-adjusted returns with lower volatility. Since its inception in July 2016, the Bell Global SMID strategy has consistently delivered top quartile performance metrics relative to peer strategies (eVestment, as at 30 June 2025).

About us

Bell Asset Management is an active global equity specialist with deep expertise in global SMID caps. Since 2003, our investment team has managed global equity portfolios across all market cycles.

We target high-quality companies with strong growth potential – resulting in a very high-quality portfolio without paying a premium. This approach is particularly compelling amongst global SMID caps. Often overlooked, under-researched, or mispriced, quality global SMID caps offer compelling value and growth opportunities. Our global SMID strategy was launched in July 2016, positioning us as leaders in this sector.

Further information

Further information can be found on our website or by contacting us directly.

Xanthe Virtue, Head of Wholesale and Platforms
Call: 0413 450 163
Email: xvirtue@bellasset.com.au

Andrew Stewart, Head of Retail Sales
Call: 0419 224 732
Email: astewart@bellasset.com.au

Level 30, 101 Collins Street, Melbourne VIC
Level 30, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000

bellasset.com.au

Sources:
1: MSCI, Bloomberg Finance L.P. Data in USD as at 30 June 2025
2: FINRA (cited via Wikipedia – Market capitalization)
3: Bell Asset Management, MSCI. Data is denominated in USD as at 31 May 2025.
4: Investment Markets, 12 Jul 2024
5: Bloomberg, March 2025

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