Should U.S. Small-cap Companies Target the European Investor? Yes!

EU Investors Focusing on U.S. Issuers in the $1-to-$5 Billion Market Cap Range

BY GILL NEWTON

European-based U.S. equity investors *do* invest in U.S. smaller caps, but it is important to target the right institutions to maximize the success of a European outreach program. For U.S. smaller caps wanting to broaden their European shareholder base, London should be the first port of call since it is by far the most important U.S. equity investment center in Europe. Consider: *One in four of* ***all*** *global equities are now held by a foreign investor, triple the level of 1990. Europeans dominate foreign trading in U.S. equities with an 89 percent market share.*

The misperception is that large European investment institutions *do not* invest in U.S. small-cap stocks. This is not necessarily the case. For example, Marathon Asset Management, with $42 billion in equity assets and $6 billion in U.S. equity assets, actively invests across the whole market cap spectrum including U.S. companies with a market cap of less than $1 billion. And Marathon often takes large positions (in the 'teens percentage-wise). It is a very long-term holder, and so exactly the sort of institution U.S. corporations should want on their share registers.

Many other large institutions — such as F&C and Hermes — run dedicated smaller-cap U.S. funds and so are important targets for U.S. issuers, too. There are also a number of dedicated technology and healthcare funds based in London that invest in small-cap technology and healthcare names.

Zurich can be an important destination for smaller cap life science companies, since this is an area of Swiss expertise.

Whom Not to Target

As well as knowing whom *to* target, it is equally important to know whom *not* to target. One large U.K.-based institution that often appears on public filing data — Legal & General — only has $1 billion in active U.S. equity assets. The rest of its U.S. equity assets are indexed. Legal & General doesn't look at U.S. companies with a market cap of less than $4 billion and really prefers those with a market cap of over $10 billion, according to one of its U.S. fund managers, so smaller caps would be wasting management time soliciting such institutions.

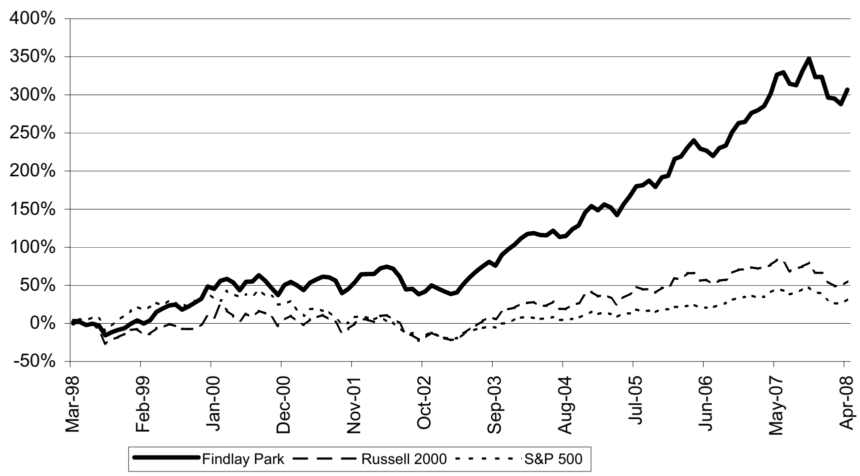
Findlay Park — Small-Cap Investors

London-based Findlay Park is not exactly a household name but it is a very legitimate target for smaller cap U.S. names. The firm has $4 billion under management and $3 billion in the "American Smaller Companies Fund" (15 percent is invested in Canada, 10 percent in Latin America and the remainder in U.S. equities). The Russell 2000 is the benchmark and Findlay Park has consistently outperformed this benchmark most years *(see Findlay performance data, p. 19)*.

James Findlay and Charles Park founded Findlay Park in 1998. Findlay was formerly with F&C, and Park was ex-Hill Samuel (now part of Scottish Widows). Both had strong track records in small-cap U.S. equity investment. Anthony Kingsley joined the firm in 2002 and works with Findlay and Park, managing U.S. equity investments. He's ex-F&C and ex-MFS (Boston). Kingsley explains the firm's investment style: "Turnover is 30 percent or maybe slightly higher. The fund holds approximately 150 stocks. The biggest holding is 2.5 percent of the fund. Market cap range is $1 billion to $15 billion. The average market cap would be $3 - $4 billion; $75 - $80 million would be the largest position in portfolio. We attribute our success to picking good stocks. The volatility of the fund is low."

Asked whether he gets sufficient access to smaller cap names, Kingsley replies, "At least a third of the companies in the portfolio come through London. Also, each of the three U.S. fund managers visits the U.S. six times a year. We will see five companies a day for one or two weeks so we see hundreds of companies a year. We also keep in regular contact

Performance (USD Class) since inception



via conference calls and conferences but we would like to see more companies come through London."

Kingsley disagrees with the idea that it would be better to run a smaller cap U.S. fund from the U.S., pointing out, "We wouldn't get the one-on-ones if we were based in New York. Also, being based in New York means you are too close to the Street. Being in London suits our investment style. We can focus on our clients and making money. Our aim is to make as much money as possible with as little risk as possible. Our beta is less than one. We ask ourselves 'If we are wrong, how much will we lose rather than how much will we make?' Avoid losses is our mantra."

NASDAQ — Championing U.S. Small-Caps in the EU

Bruce Aust

NASDAQ has been a champion of U.S. small-caps broadening their European shareholder bases. It has done this by organizing international investor conferences in Europe since 1995. NASDAQ has organized approximately 70 conferences, with over 1,300 NASDAQ-listed companies participating. Market caps of presenting companies range from $500 million upwards, although a lower limit of $1 billion is encouraged. Up to 400 investors attend each conference. Delegates attend not only from the U.K. and Ireland but also travel from Belgium, Denmark, France, Holland, Italy, Japan, Norway, Spain, Sweden, and Switzerland.

Asked why they like to support smaller cap names, NASDAQ's executive vice president, corporate client group, Bruce Aust explains: "NASDAQ believes in supporting all its listed companies to broaden their shareholder base, domestically and internationally. Smaller cap companies need particular assistance in attracting international investors, which is where the NASDAQ International Investor Program really adds value. Many smaller cap names come back every year and are delighted to see interest from the international investors building over time."

U.S. Company Participation

Unlike Findlay Park, Garmin is a household name (we know its technology) but it wasn't when the company participated in its first NASDAQ conference in 2002. The company IPOed in December 2000 with a market cap of $1.6 billion. While its market cap has been as high as almost $25 billion, today it is around $11 billion. Since attending their first NASDAQ conference in 2002, the company has attended faithfully every other year — 2004, 2006 and 2008.

Garmin is a good example of a U.S. small-cap that started on the program early and developed its European shareholder base as it grew into a leading player in its space. Kevin Rauckman, CFO and treasurer of Garmin, explains why he's such a fan of NASDAQ's program. "We do quite a few conferences in U.S. and see some European investors, but not many. The NASDAQ conference is a good opportunity to get in front of European money managers and see current and potential holders. European investors are longer term and savvy about the sector as there is a high level of knowledge about TomTom (a European competitor). Good knowledge of the sector is therefore a good starting point. It is important for us to attend the conference at least every other year and gain exposure to critical accounts. NASDAQ has always taken very good care of us. Coming to the conference achieves two things. One, it builds our European shareholder base, and two, it builds brand awareness."

The verdict? It's worth visiting Europe as a U.S. small-cap, particularly London — but careful targeting is key. IRU

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