MAC Alpha Capital Management

THE CASE FOR GLOBAL SMALL CAPS

July 2025

CONFIDENTIAL PRESENTATION

INTERNATIONAL EQUITIES – CHEAPEST IN RECENT HISTORY

- **International will have to grow 27% per year more than the S&P 500 for 5 years just to get back to the 55-year average – that's 3.3x total return over just 5 years.**
- Historical mean reversions have typically been faster than 5 years and over-shot the mean
- It would take a 2.7x increase in International Equities vs S&P 500 to get back to the previous cyclical lows (~ 1.0) and it would still be over 25% below the long - term average
- This opportunity exists for international stocks despite the expectation that international economies grow faster than the USA
- If the USD weakens it will help the returns from owning international equities

INTERNATIONAL EQUITIES TO S&P 500

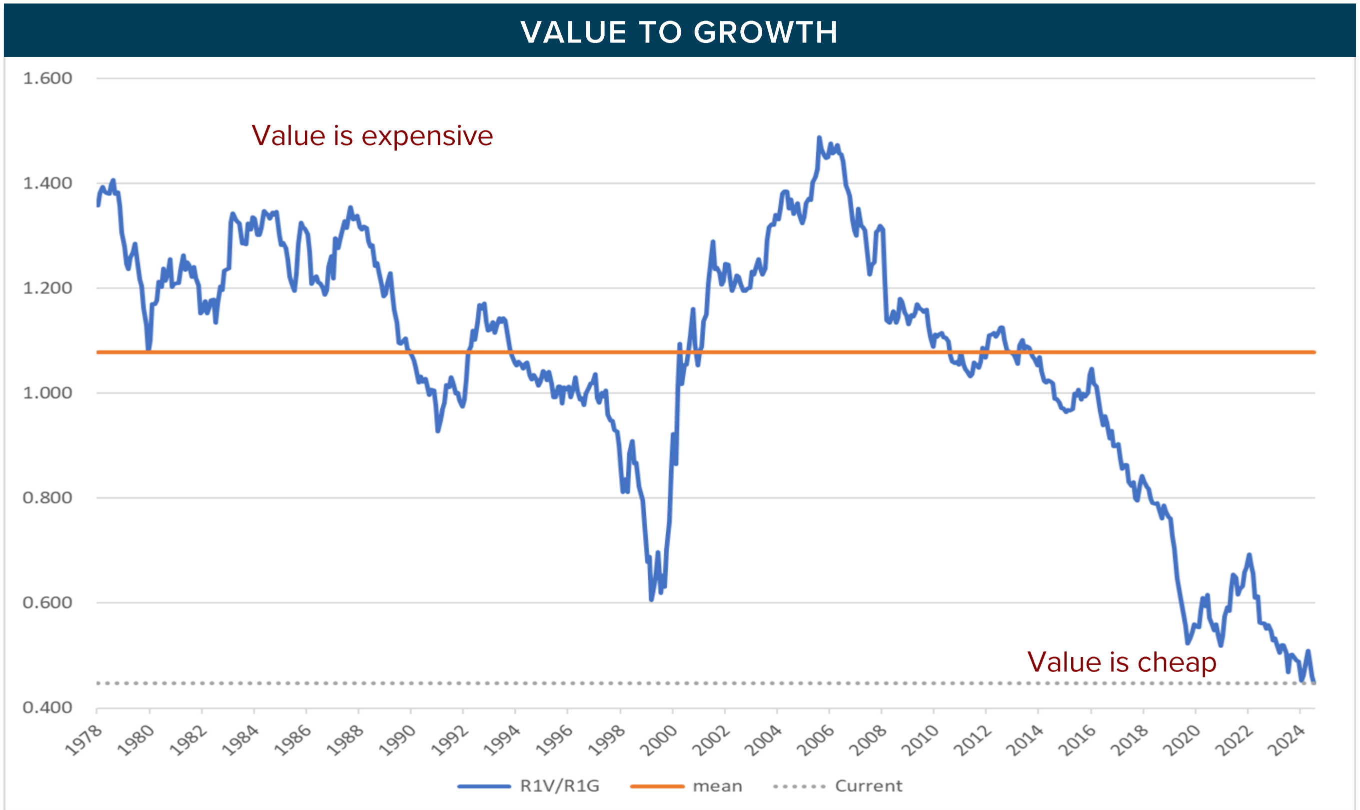
Data through 6/30/2025

It's very difficult for any particular segment of the stock market to sustain superior performance. The watch word for our financial markets is, "reversion to the mean," i.e., what goes up must come down, and it's true more often than you can imagine. Reversion to the mean – RTM, the pervasive law of gravity that prevails in the financial markets – never stops. While its drumbeat is hardly regular, it never fails.
– John Bogle, Vanguard

Source: Bloomberg data, MAC Alpha analysis

VALUE STOCKS CHEAPEST TO GROWTH IN DECADES

- **Value stocks need to compound at 19% more than growth stocks (per year) for 5 years to get back to the long-term averages – nearly 2.4x that of growth stocks**
- Want more growth stocks now? **We think not.** The risk is too great.
- The past fifteen years of phenomenal growth stock performance IS a dangerous barometer for the next ten years
- Extreme divergences between growth and value have historically reverted abruptly – in 2000, **value outperformed by over 100% in less than 3 years**



Data through 6/30/2025

History teaches that when valuations are extreme, "mean reversion," a move towards historical norms, is likely. Once value stocks turn, the recovery can be fast and intense.
– Robert D. Arnott

Source: Bloomberg data, MAC Alpha analysis

SMALL VS. LARGE CAPS ARE CLOSE TO 45 YEAR LOWS

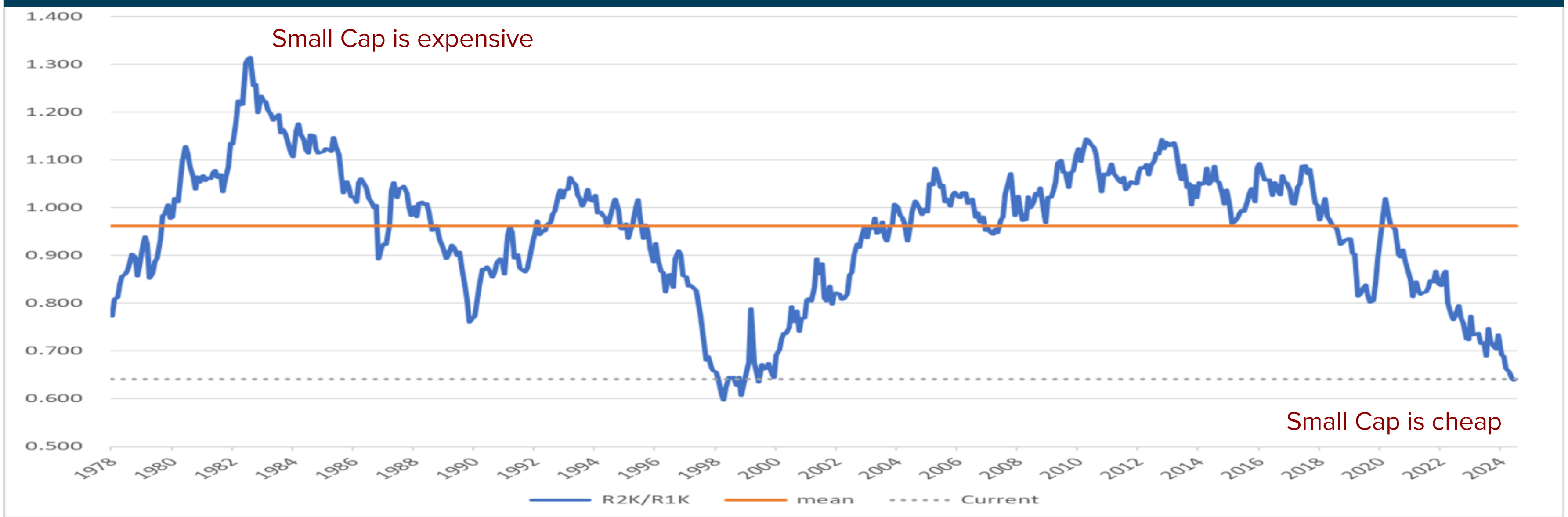
INVESTORS ARE UNDERWEIGHT SMALL CAPS

- Less than 4% of US market is Small Caps vs. 7.5% historically. Lowest level since 1930s.
- When the flows reverse Small Caps will benefit significantly. We are seeing tide turning.
- When market has been near these levels before, small caps have experienced substantial outperformance over next 5+ years.
- **Reversion to the mean would be 7% per year excess performance per year for 5 years**

M&A ACTIVITY IS ADVANTAGEOUS FOR SMALL CAPS AS WELL

- Strategic buyers* have $10 Trillion in cash are looking to buy growth. Half of M&A deals less than $1B.
  - 8x average of last 35 years. Highest of all time.
- Private Equity has ~$2.7 Trillion too. PE money, xUS, is up 16x from 2000 to $1.6 T today.
- MSCI EAFE Small Cap Index market cap is only $3.9 Trillion. Strategic and Financial buyers can make a significant impact.

SMALL CAP TO LARGE CAP



Data through 6/30/2025

Source: Bloomberg data, MAC Alpha analysis, Jefferies. We believe this chart above understates the attractiveness of many small caps, as there are more excesses today in certain parts of small cap space than at the 2000 DotCom peak. Cash is level for MSCI World x financials. This is US small vs. large. We believe the conclusion would be similar if we used xUS data.

INTERNATIONAL SMALL CAP VALUE MAY BE POISED FOR SUBSTANTIAL EXCESS RETURN

	Mean/Current*	3 Years	5 Years	10 Years
International	3.3	48%	27%	13%
Small	1.4	12%	7%	3%
Value	2.4	34%	19%	9%
Total Excess Return per Year*		**94%**	**53%**	**25%**

Data through 6/30/2025

Remember that history always repeats itself. Every great bubble in history has broken. There are no exceptions.
– Jeremey Grantham, Co-Founder, GMO

*Source: Bloomberg, S&P, MSCI and Russell data, MAC Alpha analysis. Above we have looked at the relationship between the MSCI EAFE and the S&P 500 indices, described as “International”, the Russell 2000 and the Russell 1000 indices, described as “Small” and the Russell 1000 Value and Russell Growth indices as “Value”. We took the historic mean ratio between each of the indices being compared and divided it by the current ratio. The numbers displayed are the difference in return, or “outperformance”, that would be necessary to have the MSCI EAFE, Russell 2000 and Russell 1000 Value, return to the long-term mean. The duration of the periods used to capture the mean can be seen on the prior pages and extend back as far as the shorter of each of the compared indices. This in no-way is intended to guarantee a future expected return. It is intended as an illustration to show the magnitude of relative outperformance of each factor that would be needed to revert the relationship to “normal”. History, shares the following context: When factor performance reverts, there is no set timing, it can occur slowly or quickly, which is why we highlighted multiple periods above. Reversion also often over-shoots, leading to a need to revert back in the other direction. A common analogy used to describe this phenomena is that market factors can “swing like a pendulum”. Additionally, the above color would imply the potential for relative performance. Relative performance occurs off a base rate. While future market returns are unknown, the longer the time horizon used, the more likely the base rate should be assumed to be positive. The Index with the longest track record discussed, the S&P500 has a 150-year average return of over 9%. Note that the “Total” line aggregates the reversion of each of the 3 factors under the assumption that the mean reversion periods all occurred over the listed reversion period.

WE BELIEVE THE SHORT SELLING OPPORTUNITY IS MORE ATTRACTIVE NOW THAN AT PEAK OF DOT COM BUBBLE

THEN (MARCH 2000)	NOW
• Leverage in R3K* was 4.1x (R2K* was 3.2x) – Large cap more levered than small caps	• Leverage in R3K is 1.8x (R2K is 4.6x) – Small caps more than twice as levered as large caps
• US market (R3K) – traded at 2.8x Sales	• US market (R3K) – trades at 3.2x sales
• ~400 stocks valued at more than 10x sales	• ~300 stocks trade at more than 10x sales, yet there only ½ as many companies today so the portion that are speculative is about 50% more now
	• **Average multiple of the >10x basket (highly speculative) is 3 times that of the 2000 level**

Small cap stocks trading >10x sales declined a median of 79% in the year following March 31, 2000.**

With small cap leverage more than 40% higher today than in 2000, we believe access to capital for small caps will be even more challenged in the next downturn.

Source: Bloomberg/Russell data, MAC Alpha analysis, Jefferies

*R3K (Russell 3000) and R2K (Russell 2000) are comprised of the largest 3000 public companies in the USA, and the R2K excludes the largest 1000 companies.

** All stocks >10x with Market Caps $500m or greater had a median return of -75%/-89% over the subsequent 1 and 3 yrs respectively. The median small caps declined 90% over 3 years. We believe reduced access to capital markets by small cap stocks played a factor in the underperformance despite less leverage. Note that we are use 10x Sales as a proxy for "very overvalued"; our short idea generation process does consider valuation as an important component, but it also considers other factors that historically have boosted the success rate ant expected return of the short portfolio constituents. The process has been back-tested back through the period referenced above. Then corresponds to 3/31/00 and now, 6/30/25.

MAC Alpha Capital Management

CONTACT INFORMATION

JEMA GONZALES COOPER – CEO
jgonzalescooper@MACalphacapital.com
917.563.0333

MAC ALPHA CAPITAL MANAGEMENT
4830 West Kennedy Blvd., Suite 600
Tampa, FL 33609

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