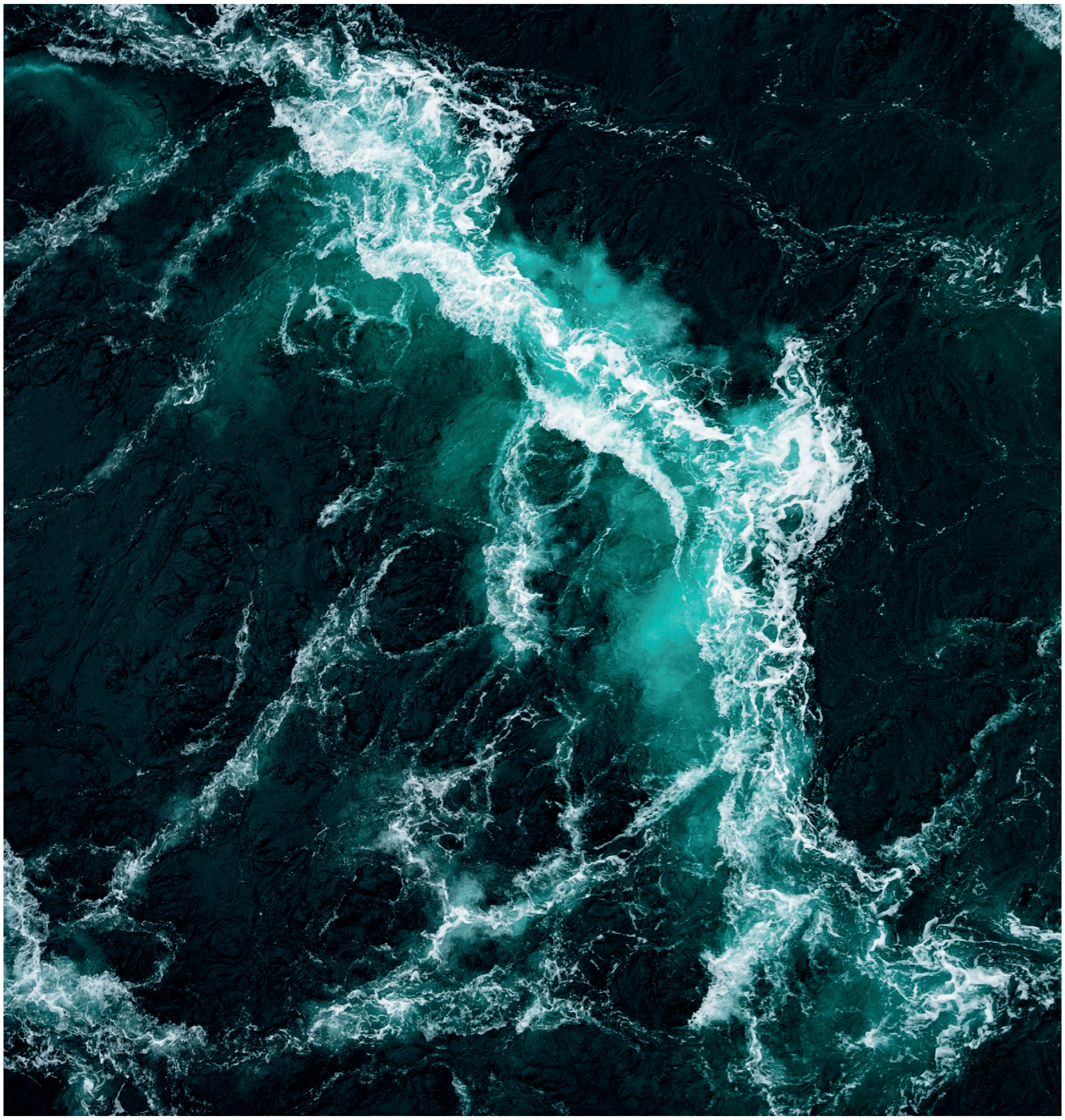


BEYOND THE BENCHMARK: WHERE GLOBAL VALUE MANAGERS ARE FINDING ALPHA OUTSIDE THE US

Concentration in US mega-cap tech has left large parts of the global market untouched by a decade of flows. Managers are now hunting the mispricing that concentration created, and finding it at the smaller end.

HEDGEWEEK®

KEY TAKEAWAYS

Small and micro caps are the main hunting ground for value

The higher-rate, high-inflation environment has increased dispersion

The opportunity requires deep, systematic stock-picking

THE CONCENTRATION PROBLEM

Tech stocks account for almost 40% of the S&P 500's total market capitalisation. That degree of concentration has pushed managers beyond their traditional investment universe and into parts of the market that a decade of US outperformance left behind.

The shift is not towards alternative staple sectors such as defence or pharmaceuticals. It is targeted at the smaller end of the market. Years of allocating to the US to capture the AI buildout have left opportunities in Asia and Europe overlooked.

Clément Leturgie, head of EMEA business development at Lombard Odier Asset Management, makes the case for UK small caps. "They are trading at a significant discount versus the rest of the world and versus large caps. Supported by buoyant M&A activity and record share buyback levels."

He is not alone. Some 34% of allocators plan to increase their exposure to Europe this year, according to a BNP Paribas Capital Introduction Group survey. And 70% of activist activity in 2025 targeted nano-cap, micro-cap and small-cap companies, according to the Diligent Market Intelligence corporate governance survey. Crowding at the top of the market is creating a pricing gap further down it.

A REGIME THAT CHANGED THE VALUE TRADE

The dislocation sits against a structurally different macro backdrop. The 2020s have been shaped by higher inflation and a higher-rate environment, a break from the 2010s status quo, and that has changed how the value factor behaves globally.

It has not, however, closed the gap in the US. "If you look at the US, value still massively underperformed growth over the last 3 years," says Leturgie, citing 26% annualised for S&P 500 Growth against 12.5% for S&P 500 Value.

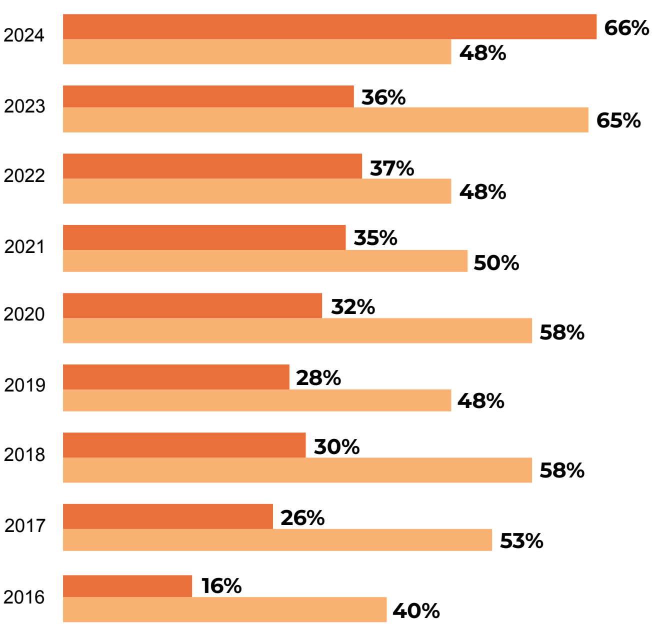
Inflation returning as a live variable repriced stocks rather than rerating them uniformly. The result is wider dispersion for managers willing to look for it.

TURNING DISLOCATION INTO PROCESS

For managers, capturing unrealised value is the core of the thesis. Gabriel Sammut, chief executive of Bilbel Capital, describes a repeatable framework. "We identify the business's main constraint and what is needed to fix it. We estimate how much value would be created if that bottleneck is fixed, then repeat the process for each constraint we identified."

Sammut sees the best opportunities in Asian small caps. As capital has concentrated in the US, valuations there

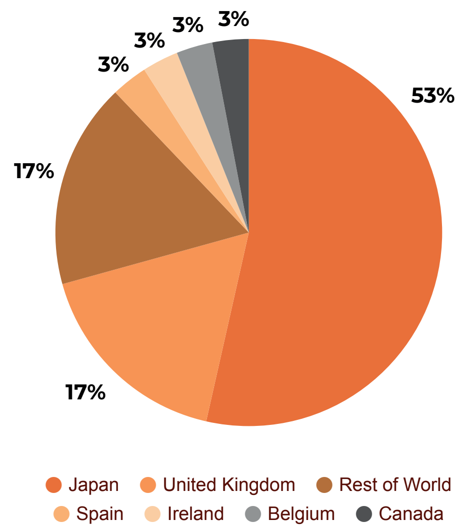
Figure 1.1 Annual shareholder activist campaigns by region (2016–2024)



Source - Barclays 2025 review of shareholder activism

Europe APAC

Figure 1.2 Q1 2025 non-US campaign distribution



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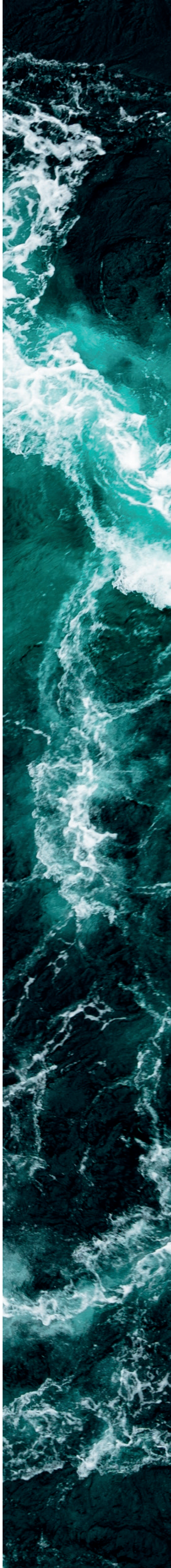


have inflated while demand elsewhere has fallen, widening price-to-value gaps. “This creates larger pricing errors. More capital moving into US tech and AI has created some of the largest price-value gaps.”

Maturing ecosystems have also fragmented liquidity, which cuts both ways. Investors avoid shares that are hard to sell, which means structurally sound companies can be overlooked on liquidity grounds alone.

Bilbel’s proprietary research system, Argus, screens close to 15,000 companies a month. Two factors do most of the work: debt-to-cash ratio and price premium relative to near-term cash flow.

THE ALLOCATOR CONSTRAINT

Illiquidity may be the source of the opportunity, but it is also the reason much of it goes unfunded. Allocators are wary of committing capital to long lock-ups however compelling the underlying case.

“We only focus on strategies with lock-ups of less than three months,” says Per Wimmer, chief executive of Wimmer Family Office.

That constraint shapes what gets bought. An investable opportunity has to complement a portfolio built to absorb cyclical resets, not drag on annualised returns through terms that trap capital. Doc Horn, head of total return equities at Pictet Asset Management, frames it as a portfolio construction question. “You need diversification across strategies that perform in different environments, from concentrated fundamental strategies to more tightly paired approaches.”

THE CASE AGAINST

Two risks sit beneath the thesis. The first is that the discount is deserved. Cheapness at the smaller end often reflects thinner analyst coverage, weaker governance and less resilient balance sheets, and a screen built on leverage and cash flow will surface businesses that are cheap for reasons that do not resolve.

The second is timing. The gap only closes if capital rotates, and the same concentration that created the mispricing is what holds it in place. A manager can be right on valuation and wrong for years, which is precisely the horizon problem a three-month lock-up cannot absorb.

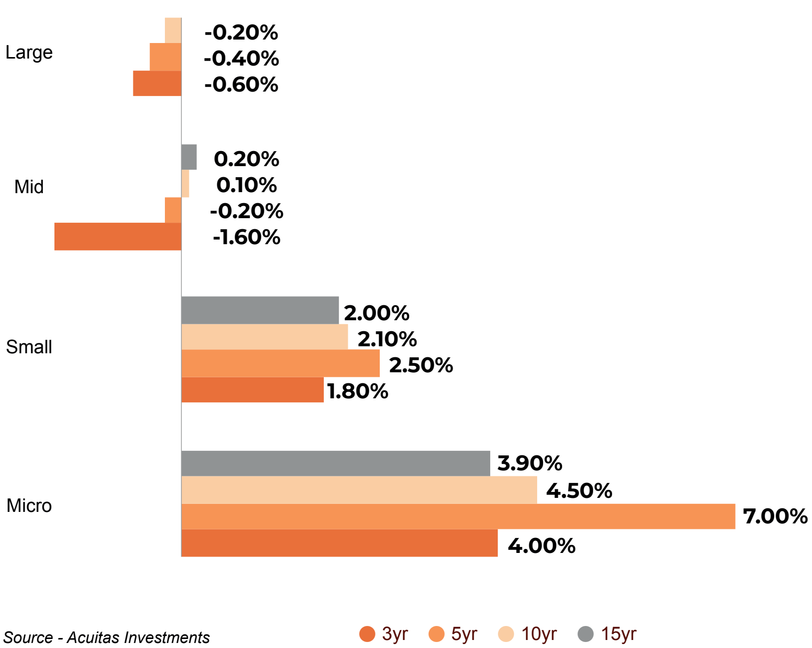
WHERE THE EDGE SITS

Small and micro caps still offer a differentiated return stream. “Few investors study small companies outside the U.S and even fewer understand them well. The difference between our knowledge and the market’s can be large.” concludes Sammut. Highly localised holdings track the economic thematics of their home market to a degree, but over time the value factor’s return depends on the specific business and its balance sheet rather than the index it sits in.

Most allocators get there in one of two ways: a handful of individual positions at the lower end of the market, or geographical exposure through ETFs, as Wimmer notes. Neither is a systematic search for mispricing.

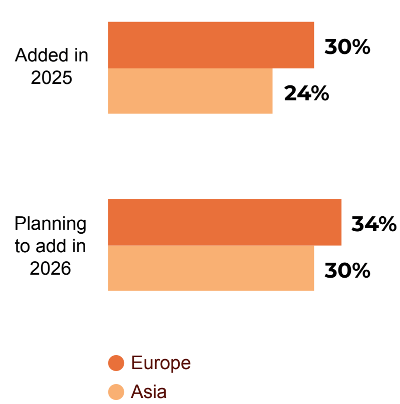
That is the gap. Systematic identification of mispriced value inside an investment process remains rare, and it is where funds targeting dislocation at the smaller end of the market are staking their edge.

Figure 1.3 Active Manager Excess Returns by Market Cap Segment



Source - Acuitas Investments

Figure 1.4 Where allocators are adding exposure



Source - BNP Paribas’ 2026 Hedge Fund Outlook