

SBH Small Cap Strategies: Downside Protection When It Matters

The markets have shifted dramatically as a result of the COVID-19 crisis, and recent volatility does not show signs of abating any time soon. In such an environment, investors need to be more thoughtful and risk aware in their allocations and work with managers who can not only capture return on the upside, but who are thoughtful stewards of capital when markets fall. Superior performance is not only the result of generating return when stocks are advancing but also in protecting those gains when markets, as they inevitably do, go through periods of decline.

During the recent market environment, small caps have fallen much harder than larger cap companies. Year-to-date through March 31, the Russell 1000[®] Index, a measure of large cap stocks, has fared better than smaller cap benchmarks:

Russell 1000 [®] Index	-20.22
Russell 2000 [®] Growth Index	-25.76
Russell 2000 [®] Index	-30.61
Russell 2000 [®] Value Index	-35.66

This has created market dislocations and investment opportunities that active managers have been preparing for during this long bull market. As a result, the next quarter may well bring large flows to U.S. small cap equities.

When selecting within small cap opportunities, consider an approach that is prepared for what may come in different market environments. Bolstered by our disciplined, proprietary small cap research, our investment teams have constructed portfolios of companies that have performed significantly better than the market in this severe downturn, a selection of which is shown below:

SBH Relative Outperformance Year to Date (through 3/31/2020)*

SBH Small Cap Growth vs. Russell 2000 Growth Index	+807 bps
SBH Small Cap Core vs. Russell 2000 Index	+703 bps
SBH SMID Cap vs. Russell 2500 [™] Index	+702 bps
SBH Small Cap Value vs. Russell 2000 Value Index	+502 bps

Another key aspect of our disciplined approach is how our strategies have performed in both up and down markets, over the short and long term. As the following chart shows, our small cap strategies provided attractive downside protection in the first quarter and have done so on a longer-term basis as well.

Portfolio	Downside Capture ¹ 1Q20	Upside/Downside Capture ² 1Q20	Downside Capture- 7 Year
Small Cap Growth	0.92	1.12	0.89
Small Cap Core	0.81	1.04	0.83
SMID Cap	0.86	1.08	0.85
Small Cap Value	0.86	1.01	0.83

Source: eVestment

However, as the upside/downside capture ratio indicates above, we have also had strong participation in up markets. It is in periods of extreme stress, such as the first quarter of 2020, that our unique time-tested investment approach and attention to protecting client capital stands out. We welcome the opportunity to discuss your goals and how our small cap strategies can help you achieve them.

Please reach out to your SBH contact with any questions or visit www.sbhc.com to learn more.

¹*Downside Capture measures the relationship of the results of the strategy to that of its benchmark on those days in which the benchmark depreciates. A ratio of less than 1.0 means the portfolio outperformed its benchmark on down days. For instance, 0.86 indicates the strategy was down only 86% as much as the index.*

²*Upside/Downside Capture ratio is the relationship of upside and downside capture. A ratio greater than 1.0 means the portfolio outperformed its benchmark during the entire period.*

**Preliminary gross returns for the composite account.*

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