



LORD ABBETT®

## INTERNATIONAL SMALL CAP STOCK INVESTING

JUNE 30, 2014

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## AT A GLANCE

### AS OF JUNE 30, 2014

- Independent, privately held firm
- 65 partners
- Assets under management: Approximately \$143 billion\*
  - \$47 billion in equity strategies and \$96 billion in fixed-income strategies
- 132 investment professionals with an average of 17 years of industry experience

\*Includes approximately \$1.5 billion for which Lord Abbett provides investment models to managed account sponsors.

## WHAT DRIVES US

### OUR FIRM

- A Singular Focus on the Management of Money Since 1929

### OUR MISSION

- Lord Abbett is dedicated to delivering superior, long-term investment performance and a client experience that exceeds expectations.

### OUR APPROACH

- Investment-Led. Investor-Focused.

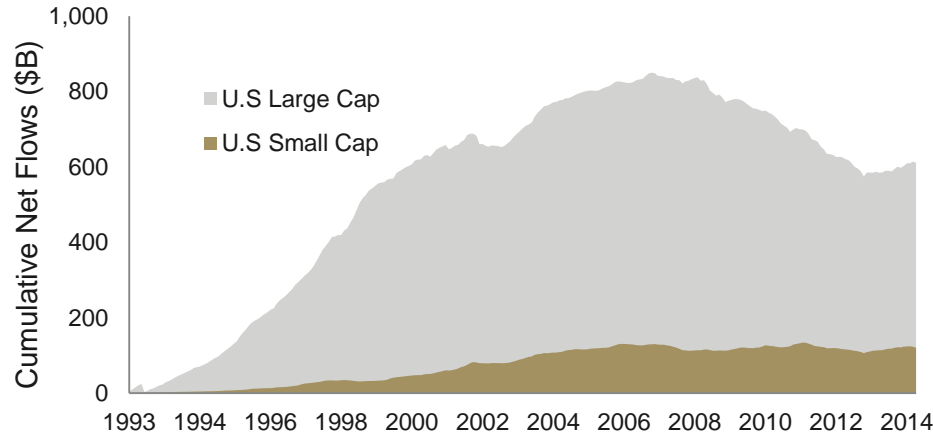
### OUR DIFFERENTIATORS

- Independent Perspective
- Commitment to Active Management
- Intelligent Product Design



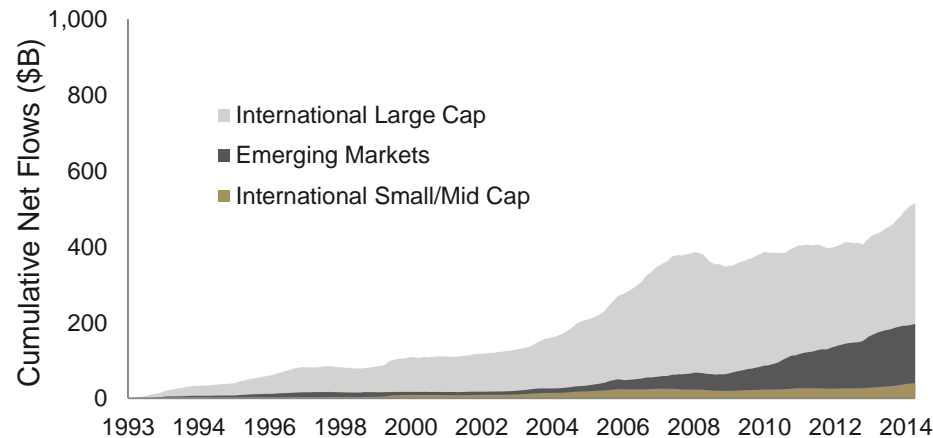
# INTERNATIONAL SMALL CAPS HAVE BEEN OVERLOOKED BY INVESTORS

## U.S. STOCKS CUMULATIVE NEW FLOWS



- In the U.S., small cap stocks are a significant portion of cumulative net flows

## INTERNATIONAL STOCKS CUMULATIVE NEW FLOWS

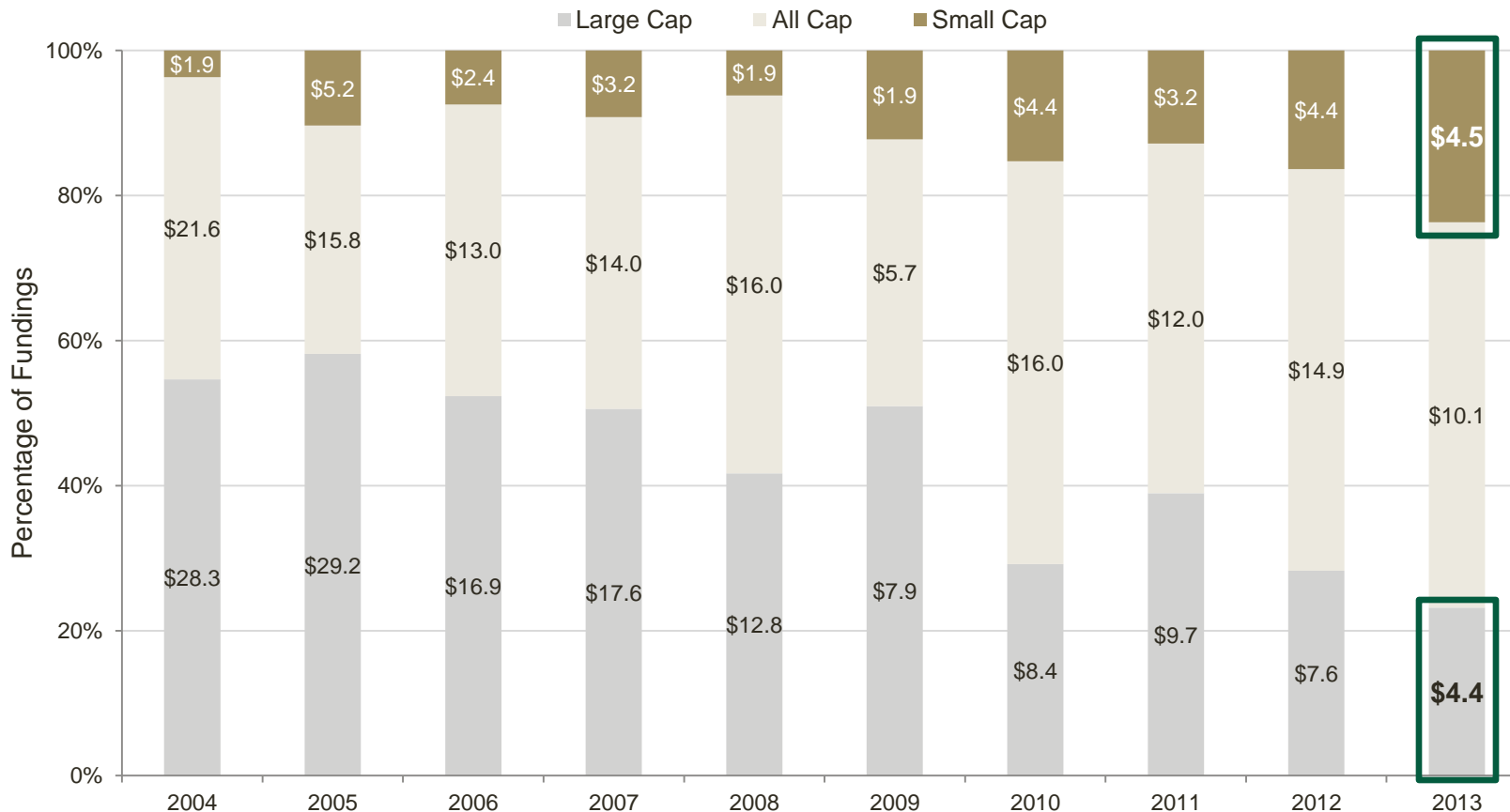


- Emerging market (EM) stocks attracted significant flows in recent years
- International small cap stocks have received relatively little investment



# AN INCREASING INTEREST FROM INSTITUTIONAL INVESTORS

## INTERNATIONAL SMALL CAP MANDATES HAVE EXCEEDED LARGE CAP (AS OF 12/31/2013)

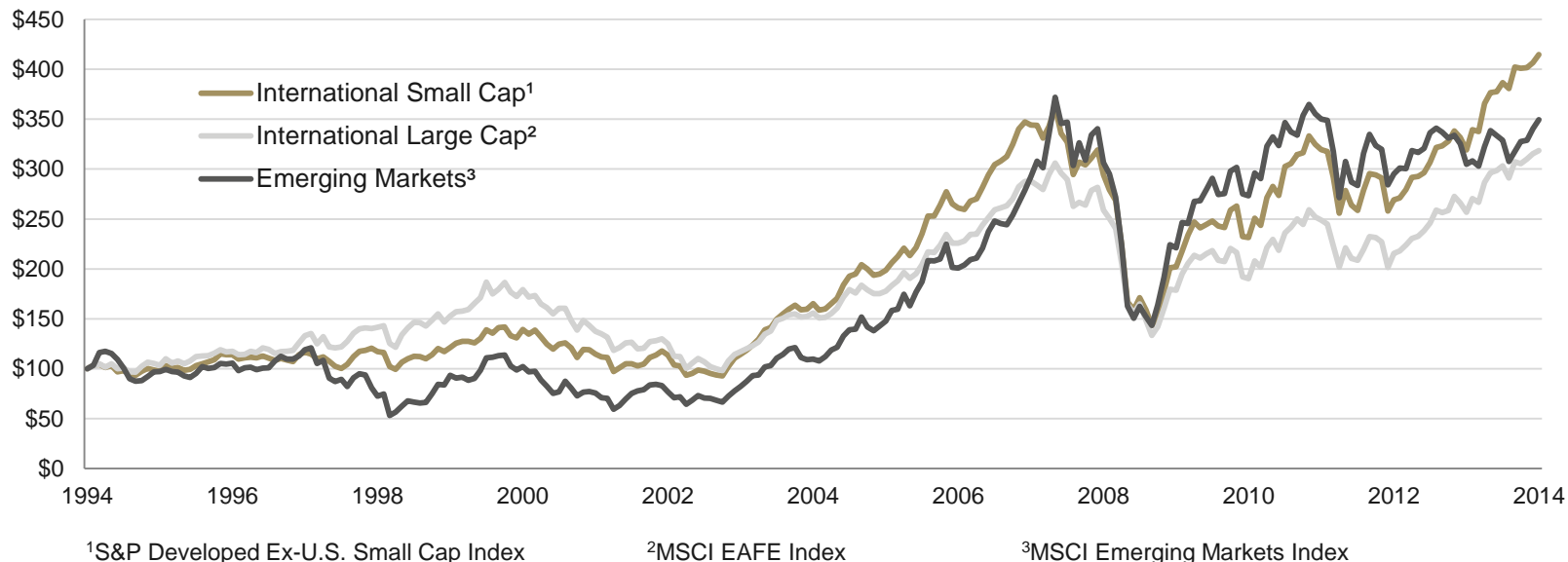


Source: InterSec. Data most recent available.



# ATTRACTIVE RISK-RETURN PROFILE OVER THE LAST 20 YEARS

## INTERNATIONAL SMALL CAPS HAVE HAD LONG-TERM OUTPERFORMANCE GROWTH OF \$100 (06/30/1994 – 06/30/2014)



## HISTORICALLY, HIGHER RETURN THAN LARGE CAPS & LOWER RISK THAN EM RISK/RETURN COMPARISON

Index	Risk-Return Stats (20-Year)*				Risk-Return Stats (01/01/2001 – 06/30/2014)		
	Return	Cumulative Return	Std. Dev.	Sharpe Ratio	Return	Std. Dev.	Sharpe Ratio
S&P Developed Ex-U.S. SmallCap	7.26%	306.20%	17.30	0.25	9.32%	18.95	0.40
MSCI EAFE Small Cap	-	-	-	-	9.89%	18.98	0.43
MSCI EAFE	5.89%	214.21%	16.67	0.18	5.21%	17.68	0.20
MSCI EM	6.61%	259.47%	23.75	0.16	11.86%	22.79	0.44

Source: Zephyr StyleADVISOR.

Past performance is not a reliable indicator or guarantee of future results. The information shown does not represent any Lord Abbett mutual fund or particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. \*Data range 06/30/1994 – 06/30/2014. MSCI EAFE Small Cap inception 01/01/2001.



# HISTORICAL ADVANTAGE OVER INTERNATIONAL LARGE CAP

## INT'L SMALL CAPS HAVE HAD CONSISTENTLY HIGHER RISK-ADJUSTED RETURNS SHARPE RATIOS OVER VARIOUS TIME PERIODS, (AS OF 06/30/2014)

- Across multiple time frames
- Across value, core, and growth

## INTERNATIONAL EQUITY RISK-ADJUSTED RETURNS

3 YEAR SHARPE RATIOS

	Value	Core	Growth
Large Cap	0.51	0.51	0.50
Small Cap	0.65	0.62	0.59

5 YEAR SHARPE RATIOS

	Value	Core	Growth
Large Cap	0.63	0.70	0.76
Small Cap	0.86	0.89	0.91

10 YEAR SHARPE RATIOS

	Value	Core	Growth
Large Cap	0.27	0.31	0.35
Small Cap	0.42	0.38	0.37



# HISTORICALLY NOTABLE DIVERSIFICATION BENEFITS

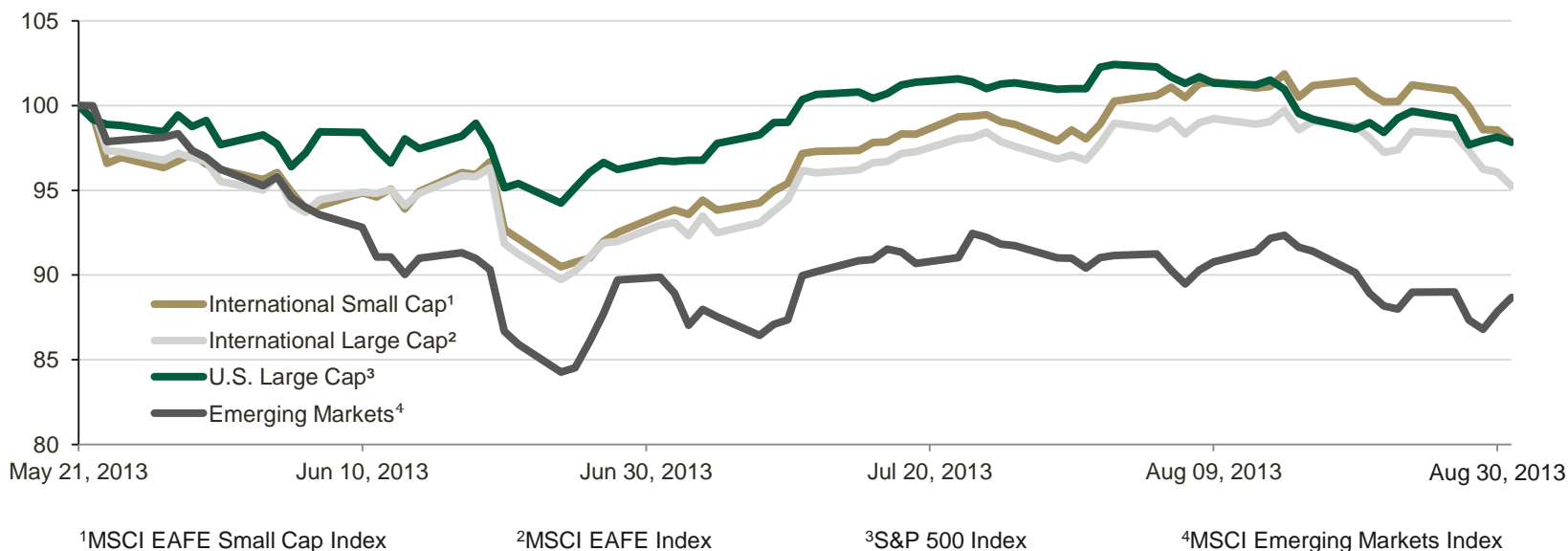
## INT'L SMALL CAPS: CORRELATION WITH OTHER ASSET CLASSES

CORRELATION (01/01/1995 – 06/30/2014)

	International Small Cap <sup>1</sup>
International Large Cap <sup>2</sup>	.90
U.S. Large Cap <sup>3</sup>	.70
Emerging Markets <sup>4</sup>	.80

## MOVEMENTS FROM MACRO INFLUENCES SIMILAR TO DEVELOPED MARKETS

PERFORMANCE THE FIRST 3 MONTHS AFTER U.S. FEDERAL RESERVE FIRST MENTIONED TAPER



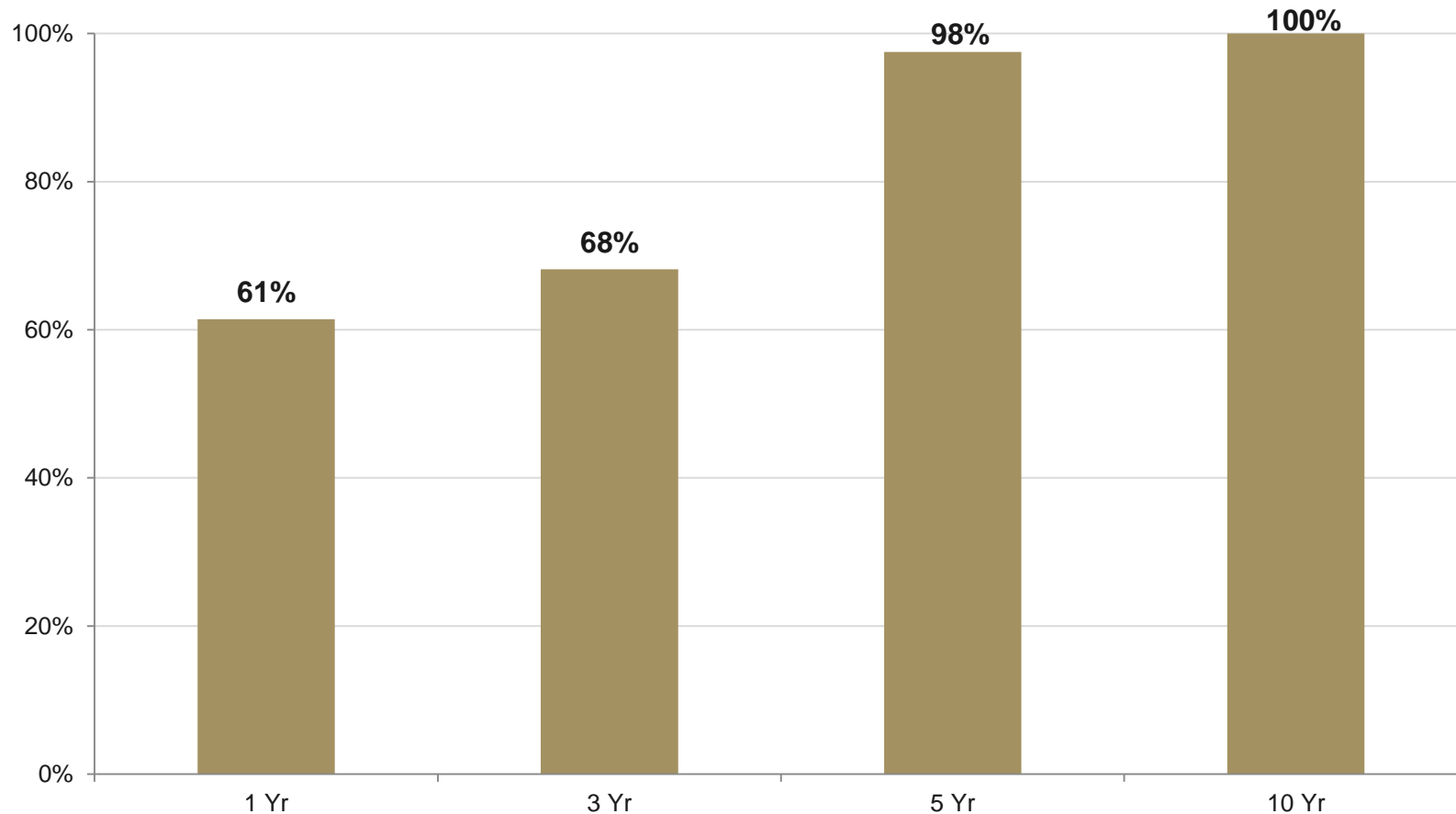
Source: Bloomberg. Past performance is not a reliable indicator or guarantee of future results. The information shown does not represent any Lord Abbett mutual fund or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.



# CONSISTENTLY OUTPERFORMED LARGE CAPS OVER TIME

## WORLD SMALL CAP OUTPERFORMANCE AS A PERCENTAGE OF TIME

(06/30/2004 – 06/30/2014)



- Over rolling one year periods, small caps have outperformed large caps over 60% of the time
- Over longer periods, they have outperformed by increasingly greater amounts
- Regardless of entry point, the longer the investment horizon, the higher the percentage of time international small caps have outperformed large caps

Source: FactSet. Large Cap represented by S&P Global LargeCap (SBLRGL) and World Small Cap represented by S&P Global SmallCap (SBERGL). Past performance is not a reliable indicator or guarantee of future results. The information shown does not represent any Lord Abbett mutual fund or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.



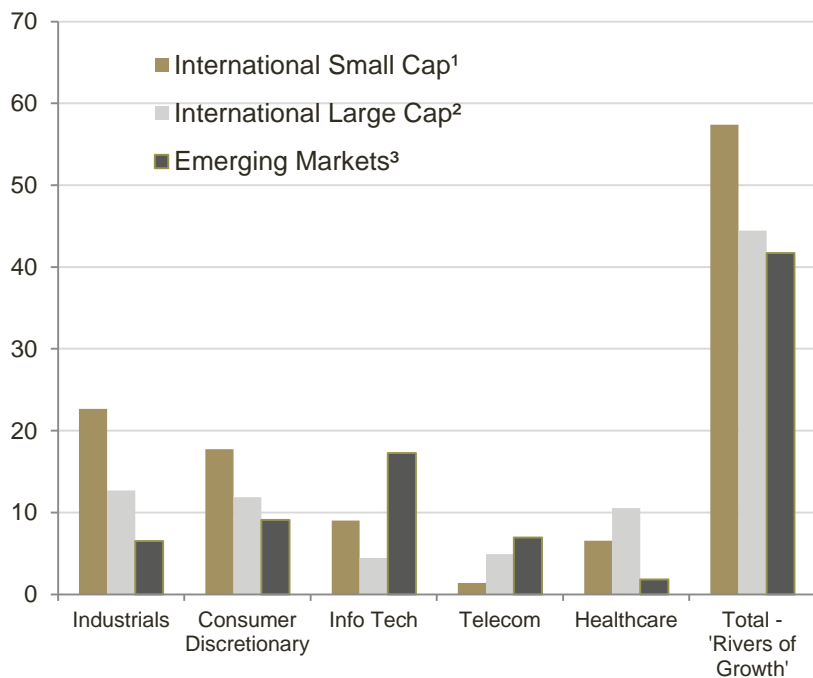


# POSITIONED IN OUR MOST FAVORED GROWTH INDUSTRIES

## INTERNATIONAL SMALL CAPS HAVE OFFERED STRATEGIC EXPOSURE

INTERNATIONAL STOCK INDEX BREAKDOWNS BY SECTOR (AS OF 06/30/2014)

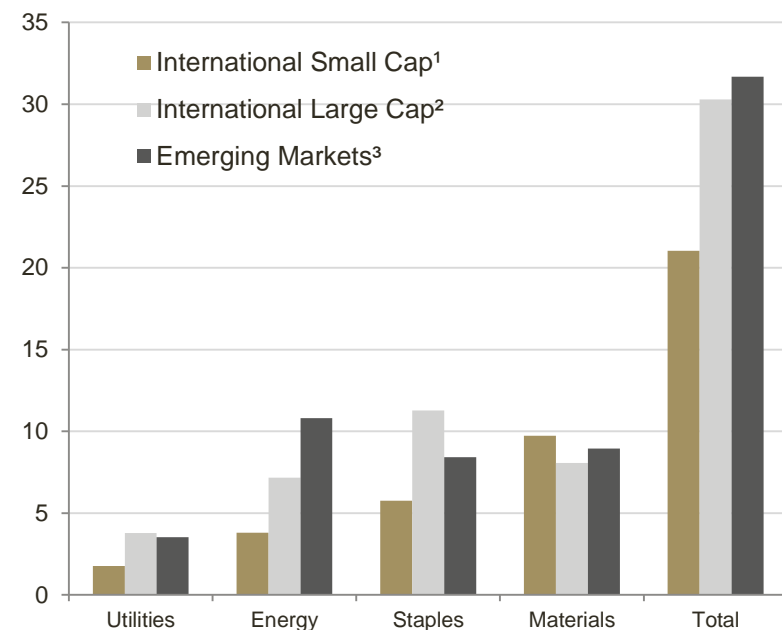
### MORE EXPOSED TO SECTORS THAT GENERATE GROWTH



<sup>1</sup>MSCI EAFE Small Cap Index

<sup>2</sup>MSCI EAFE Index

### LESS EXPOSURE TO LOW GROWTH / HIGH CAPEX, REGULATED SECTORS



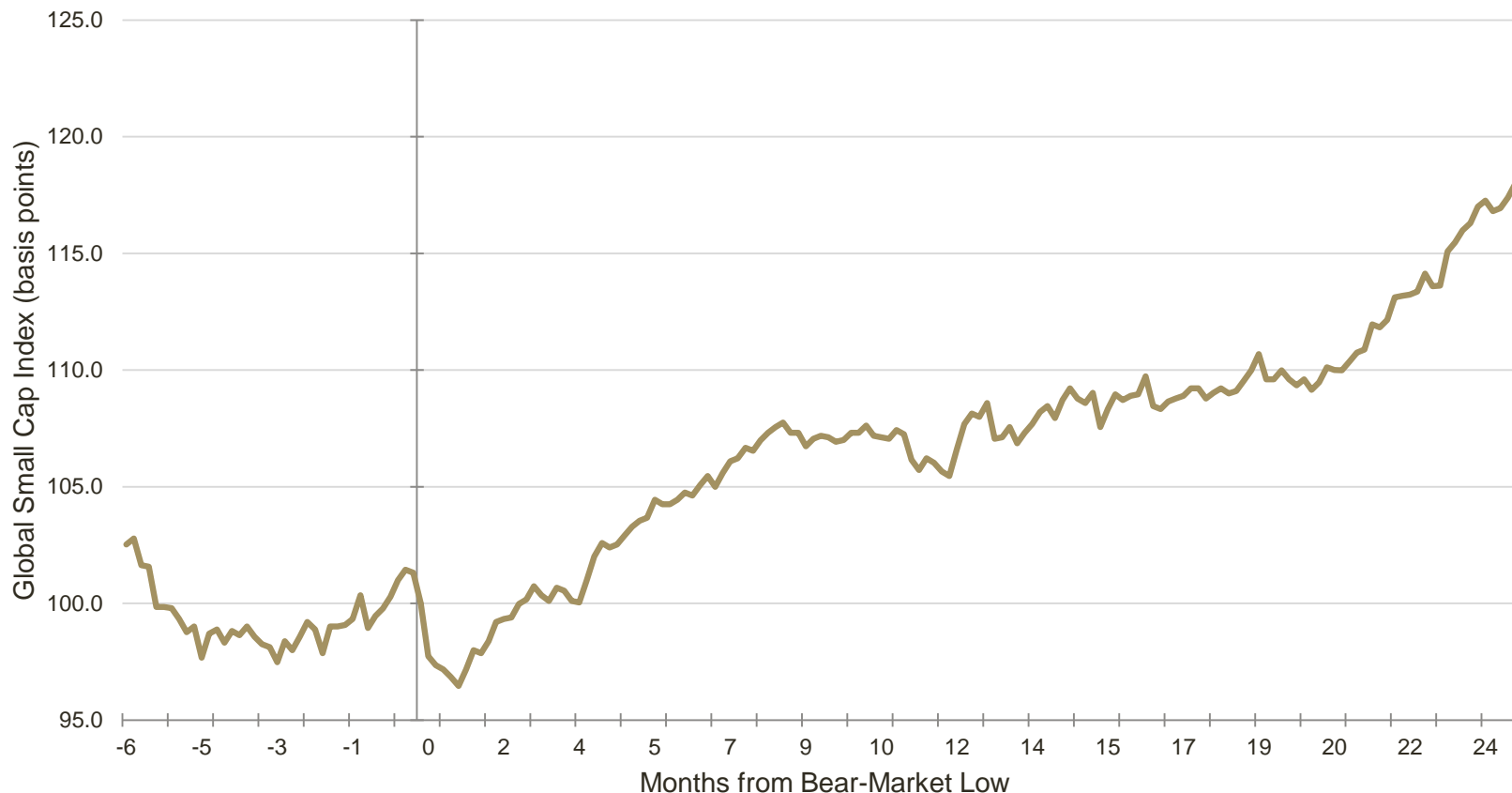
<sup>3</sup>MSCI Emerging Markets Index

- These three indexes have the following weightings in the Financials sector: MSCI EAFE Small Cap Index: 21.38%; MSCI EAFE Index: 25.29%; and MSCI Emerging Markets Index: 26.96%.

Source: MSCI and FactSet. The information shown does not represent any Lord Abbett mutual fund or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.



## INTERNATIONAL SMALL CAPS OUTPERFORMED OUT OF MARKET LOWS INTERNATIONAL SMALL CAP RELATIVE PERFORMANCE TO LARGE CAP AROUND BEAR MARKET LOWS\*



Looking at last four bear-market lows, international small cap stocks have progressively outperformed international large cap stocks during recovery periods.

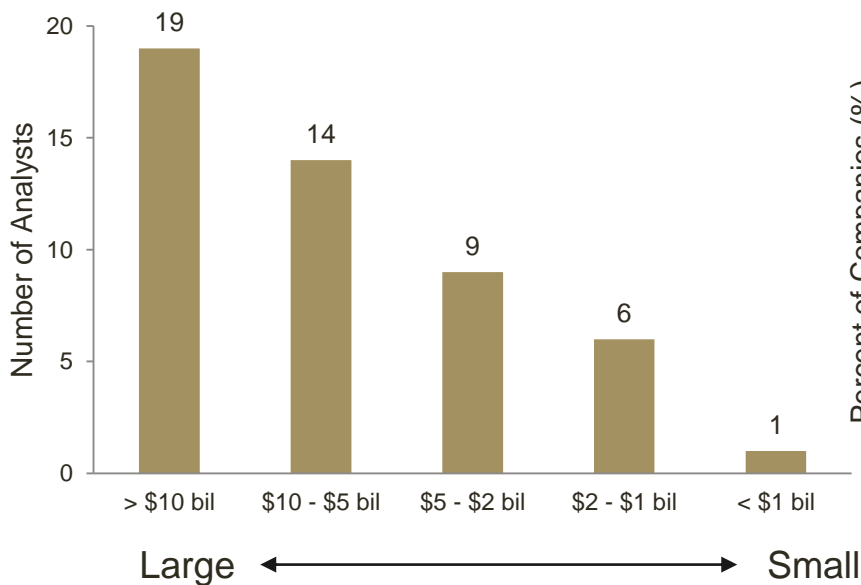
Source: UBS, Thomson Datastream. International Small Caps represented by MSCI Global Small Cap Index and Large Caps represented by MSCI Global Large Cap Index. \*Bear market lows of 09/2001, 03/2003, 03/2009, 09/2011. Past performance is not a reliable indicator or guarantee of future results. The information shown does not represent any Lord Abbett mutual fund or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.



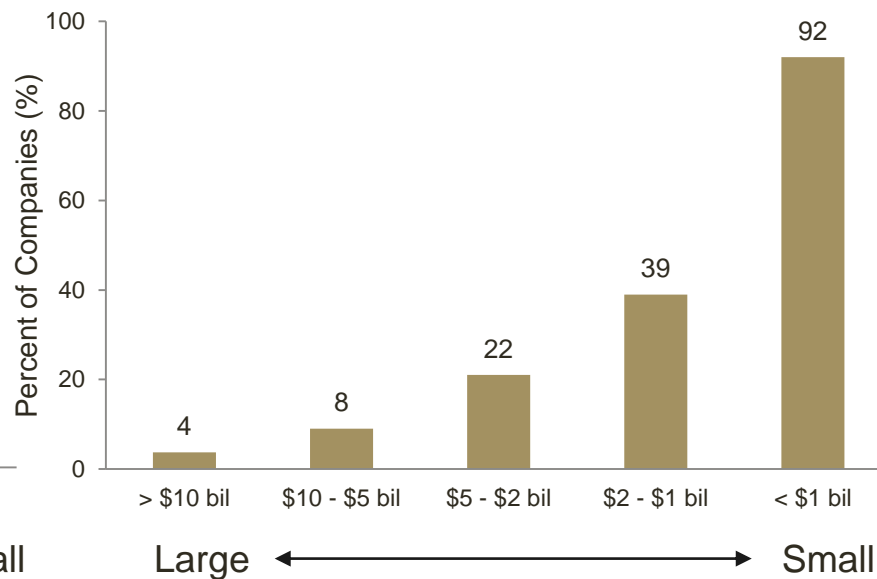
# AN INEFFICIENT MARKET RIPE FOR STOCK PICKING

## THE MAJORITY OF INT'L SMALL CAPS ARE NOT COVERED BY MULTIPLE ANALYSTS

AVERAGE NUMBER OF ANALYSTS COVERING STOCKS IN MARKET CAP RANGES



PERCENT OF COMPANIES WITH < 2 ANALYSTS



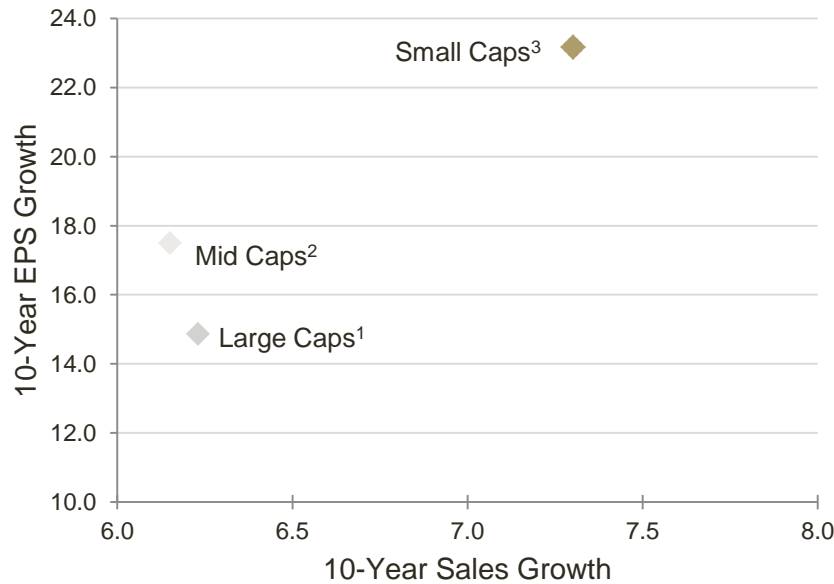
We believe overlooked and inefficient markets drive investment opportunity.



## INT'L SMALL CAPS OFFERED OPPORTUNITY WHEN GROWTH WAS SCARCE

(12/31/2003 – 12/31/2013)

### HIGHER LONG-TERM SALES AND EARNINGS GROWTH

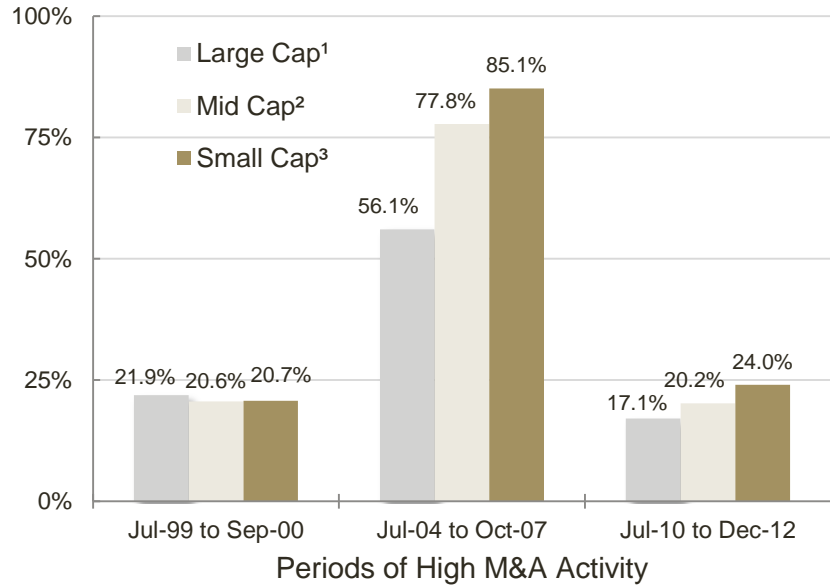


<sup>1</sup>Stoxx Large-cap Index

<sup>2</sup>Stoxx Mid-cap Index

<sup>3</sup>Stoxx Small-cap Index

### OUTPERFORMANCE DURING PERIODS OF INCREASING M&A ACTIVITY

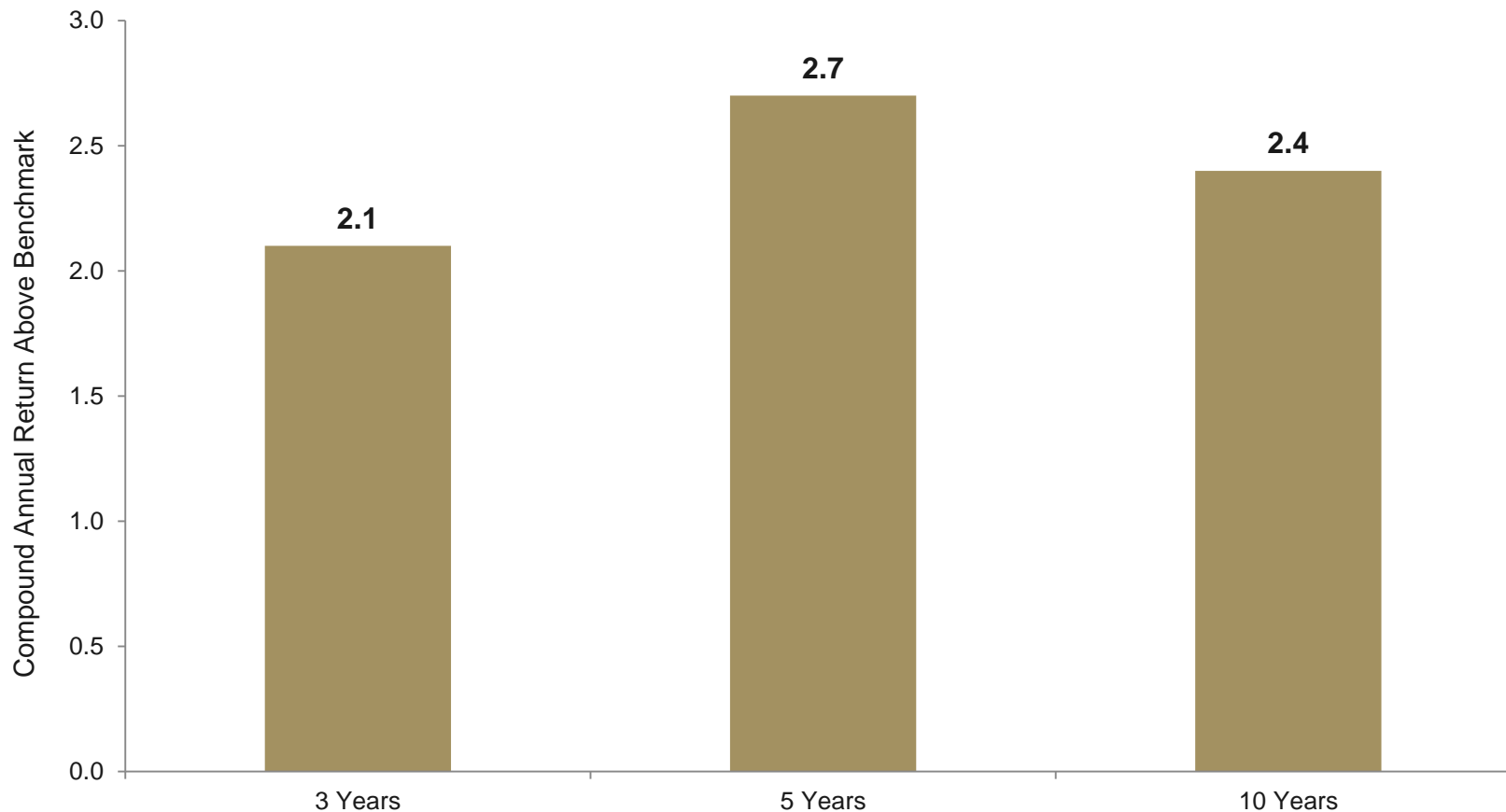


Source: UBS, Bloomberg.

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## LARGE INEFFICIENT OPPORTUNITY SET SUPPORTS AN ACTIVE APPROACH AVERAGE INTERNATIONAL SMALL CAP ACTIVE MANAGER EXCESS RETURN



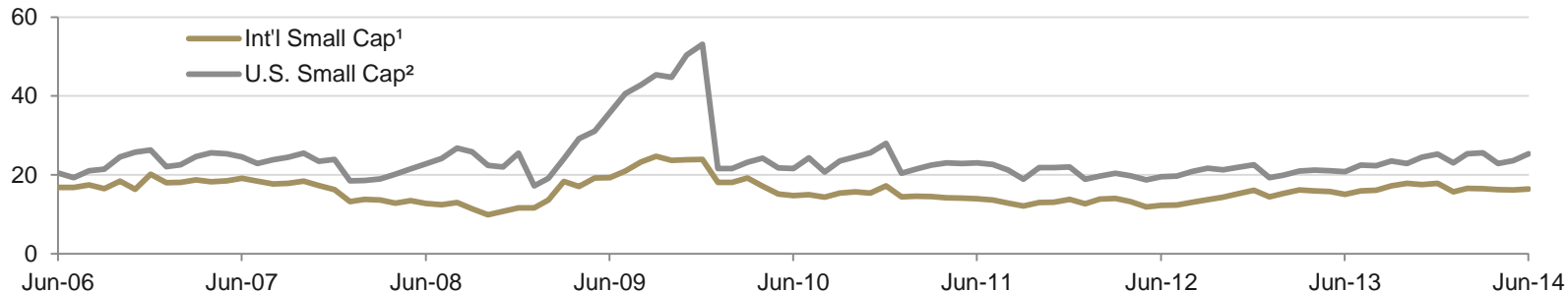
Low stock correlations and idiosyncratic business models have allowed managers to achieve high and consistent excess returns.

Source: eVestment and MSCI. As of 06/30/2014 . Past performance is not a reliable indicator or guarantee of future results. The information shown does not represent any Lord Abbett mutual fund or any particular investment.

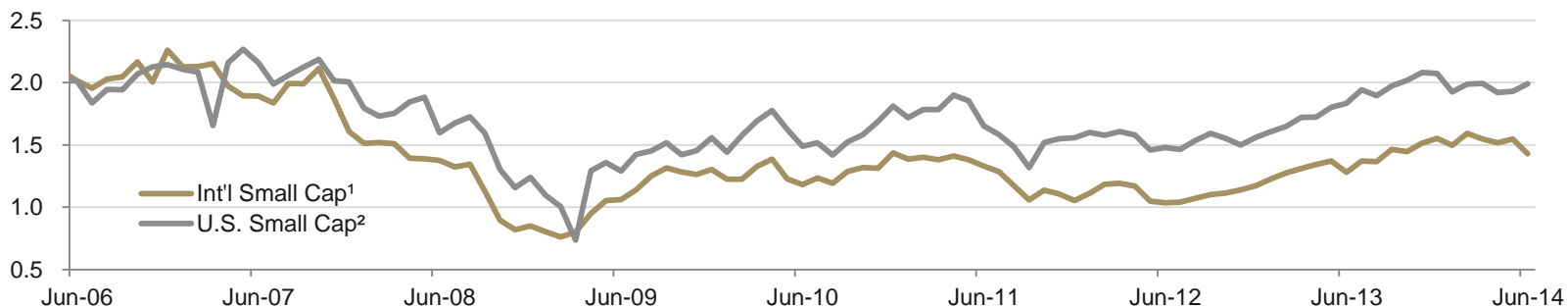


# VALUATIONS ATTRACTIVE VERSUS U.S. SMALL CAPS

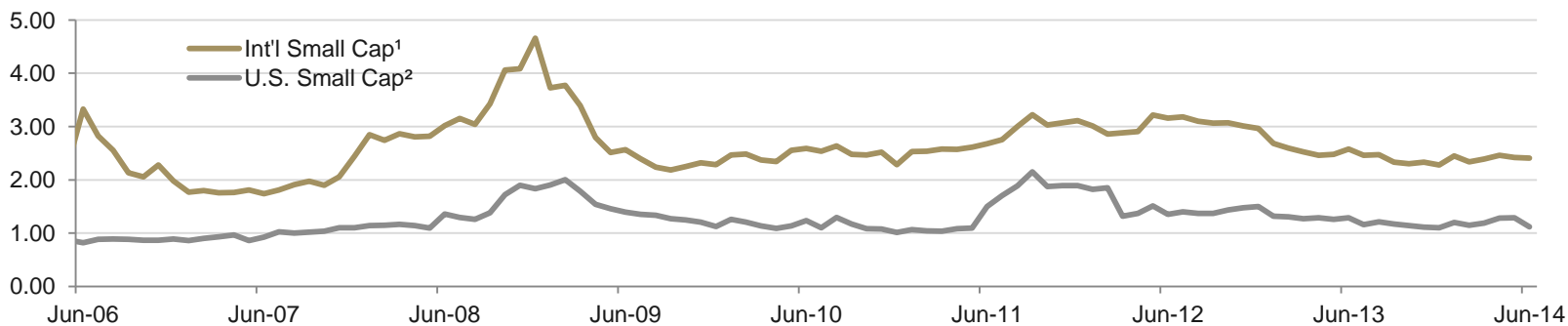
## LOWER PRICE/EARNINGS RATIO BEST ESTIMATE



## LOWER PRICE/BOOK VALUE RATIO BEST ESTIMATE



## HIGHER DIVIDEND YIELD BEST ESTIMATE



<sup>1</sup>MSCI EAFE Small Cap Index      <sup>2</sup>Russell 2000 Index

Source: MSCI, Russell, Bloomberg. Data as of 06/30/2014. Past performance is not a reliable indicator or guarantee of future results. The information shown does not represent any Lord Abbett mutual fund or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.



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**Risks to Consider:** The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. Investments in small-sized companies involve greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity. Investing in international securities generally poses greater risk than investing in domestic securities, including greater price fluctuations and higher transaction costs. Special risks are inherent to international investing, including those related to currency fluctuations and foreign, political, and economic events. The securities markets of emerging countries tend to be less liquid, especially subject to greater price volatility, have a smaller market capitalization, have less government regulation and may not be subject to as extensive and frequent accounting, financial and other reporting requirements as securities issued in more developed countries. Further, investing in the securities of issuers located in certain emerging countries may present a greater risk of loss resulting from problems in security registration and custody or substantial economic or political disruptions. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. No investing strategy can overcome all market volatility or guarantee future results.