

# Exchange Traded Funds

## Magnificent returns at meek valuations—initiating on international small cap funds

ETF Research

### The most unexpected returns

US large growth stocks returned 130% over the last five years. But so have their mirror opposites, developed ex-US small value stocks, and with less volatility (Exhibit 2). Plenty of people own the former, and hardly anyone the latter. Sometimes diversification is that simple.

### Eleven funds, with active at the top

We initiate coverage of eleven international small cap ETFs with a Favorable view on the category. Top rated funds are DISV, AVDV, ISVL, DFIS, & FNDC (Exhibit 4). Three of those top five funds are actively managed and are from newer entrants to the ETF industry.

### The differences that make a difference

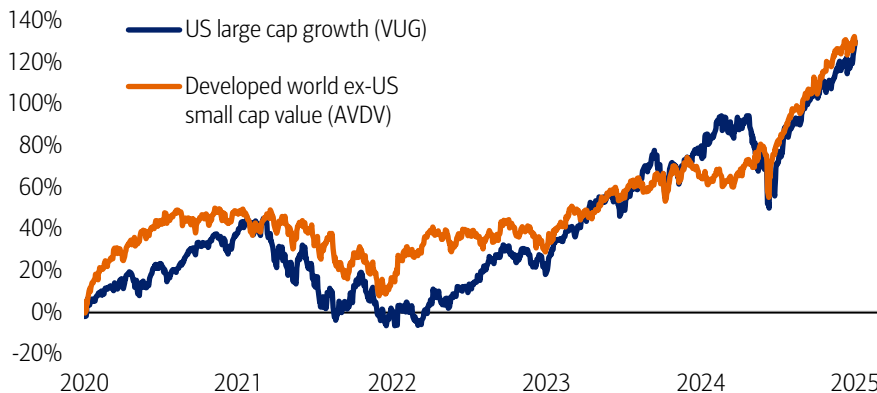
Why are international small caps, and small value in particular, performing so well? Sector and regional allocation differences explain some of the returns. Relative to large benchmarks, these funds are overweight real asset sectors (+15% industrials) vs. digital (-28% tech) (Exhibit 7), and long corporate reform (+8% Japan) vs. inertia (-12% Europe) (Exhibit 8).

### Undervalued, uncorrelated, and unloved

International small cap ETFs trade on average at 12x forward earnings vs. 15x their larger peers and 27x US large stocks (Exhibit 9); and are growing earnings at a faster pace. International small value stocks are a good diversifier to US large growth, with a correlation of only 0.4 (Exhibit 10). Despite all that, these stocks have only two thirds the analyst coverage of global large caps and have attracted fewer inflows (Exhibit 11).

#### Exhibit 2: World ex-US small value stocks matched the gains of US large growth, with less volatility

Total returns to US large cap growth and Developed world ex-US small cap value stocks, %



Source: BofA Global Research, Bloomberg

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04 November 2025

Exchange-Traded Funds  
United States  
Other Financials

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#### Exhibit 1: International small cap ETFs

Ticker, current rating, and change in coverage

Ticker	Current	Change
DISV	1-FV	Initiation
AVDV	1-FV	Initiation
ISVL	1-FV	Initiation
DFIS	1-FV	Initiation
FNDC	1-FV	Initiation
SCHC	2-FV	Initiation
ISCF	2-FV	Initiation
PDN	2-FV	Initiation
DLS	2-FV	Initiation
SCZ	3-FV	n/a
DDLS	3-FV	Initiation
GWX	3-FV	Initiation

Source: BofA Global Research

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Refer to important disclosures on page 10 to 12. Analyst Certification on page 9. 12897111

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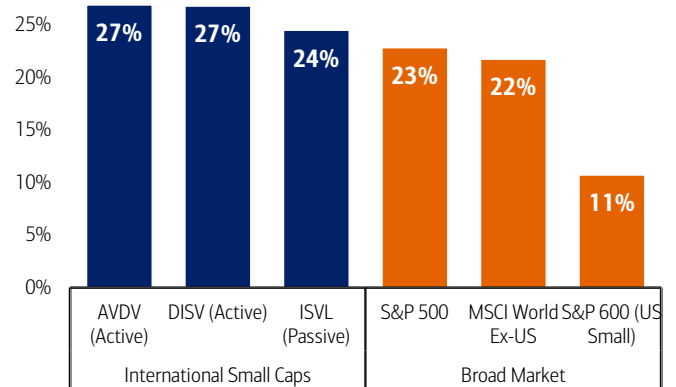
# International small cap ETF ratings

We initiate coverage of international small cap ETFs, and initiate ratings on 11 new funds, with \$44bn in assets under management.

Over the past three years, international small cap ETFs have matched and, in many cases, outperformed US large-, US small-, and global large-cap stocks. Top-rated funds include actively managed AVDV & DISV and benchmark-tracking ISVL (Exhibit 3).

Our ETF ratings model uses the efficiency criteria, risk-adjusted returns, and fundamental inputs used in our other equity ETF ratings models. In this case, we also rank funds based on the weighted average score of their constituents on both value (P/E, FCF/EV, EV/EBITDA, and Price/Sales) and growth metrics (revenue growth, free cash flow growth, earnings growth, and EBITDA growth).

**Exhibit 3: International small caps have quietly posted strong returns**  
3-year annualized returns of selected top-rated funds vs. broad market indices, %



Source: BofA Global Research, Bloomberg

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## Exhibit 4: International small cap ETF ratings and model criteria

Summary of covered ETF Efficiency, Technical and Fundamental characteristics

ETF ranking change	New?	Ticker	Name	Rating	Total score out of 100	Efficiency		Technical		Fundamental			
						Expense ratio	Constituent average daily value traded (\$mn)	Sortino Ratio (3Y)	Price Momentum	BofA Buy rated stock exposure		Value composite rank	Growth composite rank
										ratio	% positive		
Initiation	X	DISV	Dimensional International Small Cap Value	1-FV	88	0.42%	3.46	1.74	6.2%	11%	85%	2	2
Initiation	X	AVDV	Avantis International Small Cap Value	1-FV	84	0.36%	9.10	1.70	7.8%	12%	88%	1	9
Initiation	X	ISVL	iShares Int'l Developed Small Cap Value Factor	1-FV	75	0.31%	1.71	1.68	6.1%	20%	95%	5	6
Initiation	X	DFIS	Dimensional International Small Cap	1-FV	64	0.39%	4.95	1.48	5.3%	53%	88%	7	4
Initiation	X	FNDC	Schwab Fundamental International Small Equity	1-FV	54	0.39%	10.54	1.60	5.1%	21%	90%	8	10
Initiation	X	SCHC	Schwab International Small-Cap Equity	2-FV	52	0.08%	2.83	1.41	6.2%	16%	89%	12	1
Initiation	X	ISCF	iShares International Small-Cap Equity Factor	2-FV	48	0.23%	3.36	1.32	4.7%	24%	87%	6	5
Initiation	X	PDN	Invesco RAFI Developed Markets ex-US Small-Mid	2-FV	36	0.47%	9.77	1.46	5.3%	20%	88%	9	8
Initiation	X	DLS	WisdomTree International SmallCap Dividend	2-FV	30	0.58%	2.66	1.50	3.5%	-10%	95%	4	11
n/a		SCZ	iShares MSCI EAFE Small-Cap	3-FV	25	0.40%	13.01	1.26	4.7%	20%	92%	11	7
Initiation	X	DDLS	WisdomTree Dynamic International SmallCap	3-FV	22	0.48%	2.61	1.39	3.4%	-18%	95%	3	12
Initiation	X	GWX	SPDR S&P International Small Cap	3-FV	17	0.40%	3.81	1.23	6.1%	0%	78%	10	3
Average						0.38%	5.65	1.48	5.4%	14%	89%		

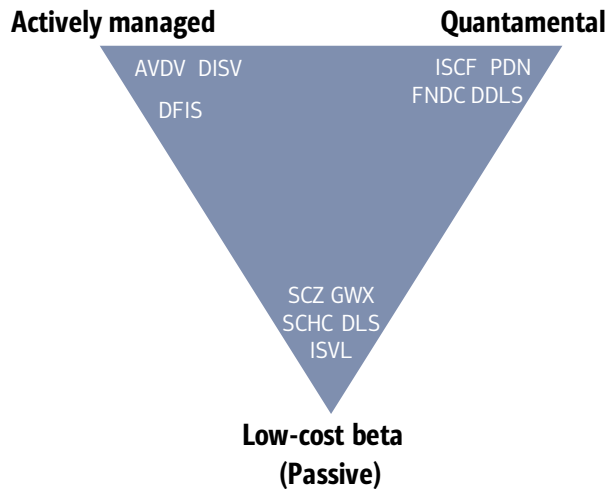
Source: BofA Global Research, Bloomberg, Total score out of 100 possible points. Note: Sortino Ratio start date begins in October 2022 to use longest history available.

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## What's in a name? Three kinds of ETFs

**Exhibit 5: Ways to gain exposure: active, index, and quantamental**  
Stylized categorization of different ETF methodologies



Source: BofA Global Research

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The proliferation of ETFs sometimes makes it challenging to distinguish among funds, even within a particular category. We find that most funds tend to take one of three general approaches to investing in a particular market or theme:

### 1. Low-cost beta

These are so-called “passive” funds that seek to track an index at minimal cost. Their purpose is to provide efficient access to a given market rather than to seek outperformance.

### 2. Actively Managed

These funds rely on experienced managers using fundamental analysis to capitalize on perceived opportunities and seek to provide excess return over benchmarks.

### 3. Quantamental

These funds employ strategies that may combine quantitative inputs to form portfolios such as fundamental valuation ratios, technical criteria, or alternative weighting methodologies.

We show international small cap ETFs of each kind in Exhibit 5.

## Our 1-rated funds:

- **DISV (Active, value focus)**, the Dimensional International Small Cap Value ETF invests in traditional value stocks and has outperformed its MSCI World Ex-US small cap value benchmark since its inception in 2022. DISV integrates active management to identify attractive companies with value characteristics, with a balanced risk managed approach of broad diversification across sectors, companies, and countries. DISV is up 36% YTD. We initiate at 1-FV.
- **AVDV (Active, value focus)**, the Avantis International Small Cap Value ETF uses active management to seek outperformance in non-US small cap value stocks. The fund identifies companies through high profitability and value traits such as book to price and cash flow from operations. The fund has seen over \$4 bn in net flows YTD. We initiate at 1-FV.
- **ISVL (Passive, value)**, the iShares International Developed Small Cap Value Factor ETF is an ETF that focuses on international small caps with value characteristics and uses the FTSE Developed Ex-US ex Korea small cap focused value index as a benchmark. ISVL is up 33% YTD. We initiate at 1-FV.
- **DFIS (Active)**, the Dimensional International Small Cap ETF uses active management to find attractive small-cap companies in non-US developed markets, while achieving high levels of diversification across its holdings. Over a 3-year period, it has outperformed the MSCI World Ex-US Small Cap Index by ~2.4ppt annualized. We initiate at 1-FV.
- **FNDC (Passive, fundamental screen)**, the Schwab Fundamental International Small Equity ETF seeks to track index returns of small countries in non-US developed markets, screened by measures of company size rather than market capitalization, and is up nearly 30% YTD. We initiate at 1-FV.

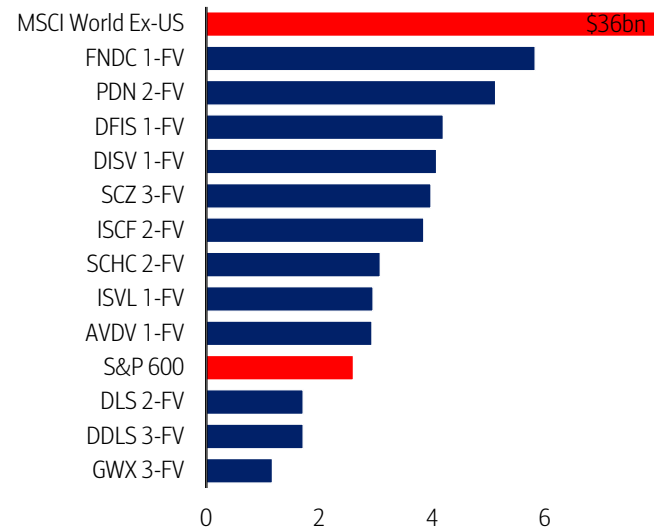


## Other initiations and updates:

- **SCHC (Passive, low cost)**, the Schwab International Small-Cap Equity ETF, tracks the FTSE Developed Small Cap Ex-US Liquid Index. The fund has returned 32% YTD. We initiate at 2-FV.
- **ISCF (Active, factor driven)**, the iShares International Small-Cap Equity Factor ETF, invests in international small cap stocks, with exposure tilts toward five fundamental factors: value, quality, momentum, low size, and low volatility. We initiate at 2-FV.
- **PDN (Passive, value screen)**, the Invesco RAFI Developed Markets ex-US Small-Mid ETF, identifies developed ex-US small- and mid-cap stocks based on fundamental measures including book value, cash flow, sales, and dividends. It has returned 29% over the past year. We initiate at 2-FV.
- **DLS (Passive, dividends)**, the WisdomTree International Small Cap dividend fund invests in EAFE stocks that regularly pay a dividend. The current dividend yield is 3.9%. We initiate at 2-FV.
- **SCZ (Passive, broad international)**, the iShares MSCI EAFE Small-Cap ETF, invests in small-cap equities in developed markets ex-US and Canada. Top subsector weights include REITs, retail, & banks. We reiterate at 3-FV.
- **DDLS (Passive, dynamic hedging)**, the WisdomTree International SmallCap Equity Fund seeks to track the performance of international small-sized firms. The fund uses a dynamic currency hedging approach to identify times to take on, or take away, FX risk. We initiate at 3-FV.
- **GWX (Passive, broad international)**, the SPDR S&P International Small Cap ETF seeks to replicate the S&P Developed Ex-US Under 2bn Index. We initiate at 3-FV.

### Exhibit 6: Small cap funds vary in size, even within category

Average market capitalization of fund holdings, \$bn



Source: BofA Global Research, Bloomberg

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## Category view: favorable

We initiate coverage of international small cap stock ETFs with a **favorable view** given strong returns, attractive industry and country tilts, discounted valuations, and diversification benefits vs. US equities.

International small cap stock breakpoints are different from US indexes. The average market capitalization of holdings in the funds in our coverage is \$3.4bn, which is larger than the \$2.6bn in the US equivalent S&P 600 (Exhibit 6). Despite this, international small caps have less analyst coverage and have attracted less inflows than international large caps.

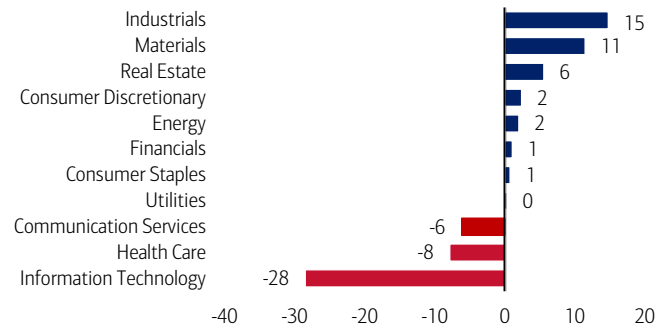


## Long real-asset sectors, short digital sectors

Compared to the S&P 500, international small cap funds have greater allocations to real asset-exposed sectors like industrials (15% overweight), materials (11%), and real estate (6%), with less invested in tech and communications (Exhibit 7).

### Exhibit 7: Sector makeup is far different versus US large cap

Average international small cap sector weights minus S&P 500 weights, %



Source: BofA Global Research, Bloomberg

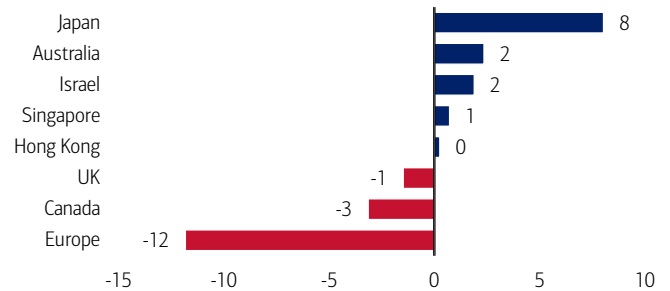
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## Long Asia, short Europe

International small caps have benefitted from differing country exposures as well. Notably, international small cap funds have greater exposure to Japan, a top performer in global equities due to corporate reform (8% overweight), and less exposure to Europe (12% underweight), where returns have lagged the rest of the world. (Exhibit 8), when compared to large cap developed international.

### Exhibit 8: International small caps have benefited from Japan overweight, UK/Europe underweight

Average international small cap country weights minus MSCI World Ex-US weights, %



Source: BofA Global Research, Bloomberg

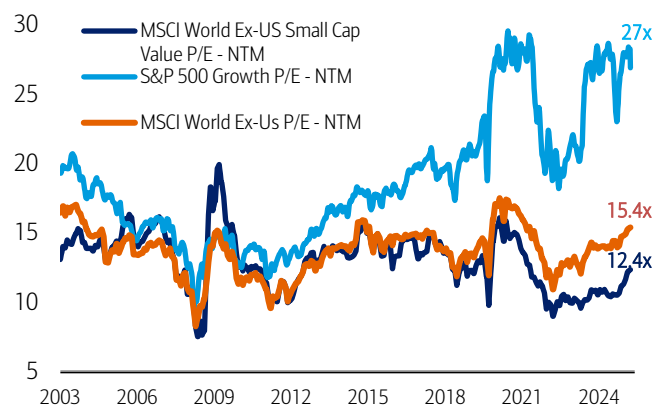
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## Cheap valuations on its own, and cheaper relative to large caps

International US small caps are cheap, with forward P/E for the MSCI World Ex-US Small Cap Value index at 12.4x, slightly below its historical average of 13. However, as US large cap growth valuations have remained elevated at a P/E of 27, international small caps present an even more attractive opportunity from a valuation perspective as multiples remain below even international large caps, sitting at ~15.5x (Exhibit 9).

### Exhibit 9: International small cap value remains cheap relative to historical averages

Monthly forward P/E valuations, since 2003



Source: BofA Global Research, FactSet

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## High diversification

The globalization of financial flows has meant that the stocks of many regions tend to trade more and more in sync.

However, international small caps are still good diversifiers. For example, they have a low 0.4 correlation to the S&P 500 Growth Index (Exhibit 10).

**Exhibit 10: Small value at lowest correlations to US large cap growth**  
Rolling 2-year weekly correlations between S&P 500 Growth and MSCI World Ex-US Small Value index



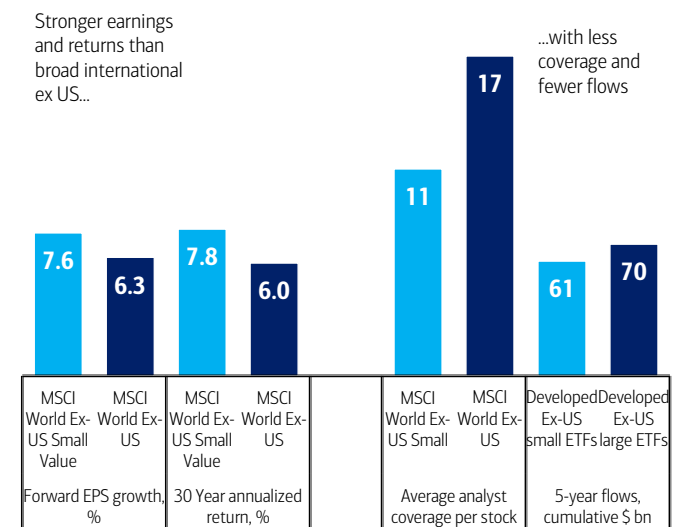
Source: BofA Global Research, Bloomberg

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## Positioning is light despite strong traits

Despite strong performance and valuations, international small caps are not a crowded trade. International small caps are growing earnings 20% more than international large caps. 30-year annualized returns for international small caps are 30% higher than international large caps. Yet coverage is still light, with an average of 35% fewer analysts covering small cap stocks versus international large caps, and 5-year flows lagging international large caps by \$9 bn. (Exhibit 11).

**Exhibit 11: Stronger earnings and returns, but light coverage and flows**  
Selected metrics for MSCI World Ex-US Small and Small Value versus MSCI World Ex-US indices, and 5-year cumulative flows, \$ bn



Source: BofA Global Research, Factset, Bloomberg. Earnings growth is 1-year forward

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## Appendix: ETF rating methodology

BofA Global Research applies ratings to ETFs based on both the overall outlook for an ETF category (Favorable, Neutral or Unfavorable) and the strength of individual funds (1 being the best and 3 being the worst). Assessment of individual funds are broken into three categories: Efficiency, Technicals and Fundamentals. These first two groups use similar criteria across ETF categories:

- **Fundamental:** Includes Buy-rated stock exposure and fundamental growth metric rankings
- **Technical:** focuses on risk-adjusted returns via the Sortino Ratio (returns vs downside volatility).
- **Efficiency:** includes expense ratio and liquidity

Our Fundamental ranking is typically determined by a combination of fund exposure to BofA equity analyst Underperform-rated names, together with category specific metrics. For example, credit-focused funds might examine a fund's exposure to debt of varying credit ratings while an equity style category might examine underlying price-to-earnings and price-to-book ratios.

### Understanding the International Small Cap Model:

ETF reports typically include a ratings table summarizing the key elements used to rate ETFs within a category. We attempt to capture funds over a full economic cycle and will rely on ETF underlying index data where live data is unavailable. ETF underlying index data uses the same methodology as the underlying product, and often has a near-perfect correlation to the ETF. ETF underlying index data is typically provided from the same provider as the ETF. We provide a description of each column below within the context of our value ETF model:

- **Rating:** The number represents the view on a specific fund (1=More Attractive, 2=Attractive; 3=Less Attractive). The letters represent the category outlook (FV=Favorable, NV=Neutral; UF=Unfavorable).
- **Total score:** Funds are rated on a 100-point scale. Each category (Efficiency, Technical and Fundamental) has points available equivalent to the category's weight in the ranking. For example, if Efficiency was 33% of the overall score, a fund could achieve a maximum of 33 points in the Efficiency category. Funds are ranked against each other to determine the number of points received per category. The scores for each category are then summed to arrive at the total score.
- **Fundamental rank:** Funds were ranked by:
  - 1.) BofA Analyst rating: Weight of buy rated constituents minus weight of underperform rated constituents, adjusted for the total weight of covered stocks.
  - 2.) Growth composite rank (lower = better): Ranking funds on monthly average Revenue Growth, FCF Growth, Earnings Growth, and EBITDA growth since October 2024. Taking an average of these four ranks, and reranking. 1 = best growth exposure.
  - 3.) Value composite rank (lower = better): Ranking funds on monthly average P/E, EV/FCF, EV/EBITDA, and P/S since October 2024. Taking an average of these four ranks, and reranking. 1 = best value exposure.
- **Sortino ratio:** Used to measure risk-adjusted returns by comparing average annualized returns to downside deviation over the same period. Funds that have shown the highest returns relative to average pullbacks receive a higher rank. Sortino ratio is as of September 2022, the start date for all active and passive ETFs



having price data available via live history, mutual fund conversion, or underlying passive index.

- **Expense ratio:** The “all-in” net-expenses of a fund including management, interest, listing fees etc. as a percent of net assets under management.
- **Average value traded:** The average number of shares traded daily multiplied by the price that they traded at over the past three months. A higher number indicates greater liquidity and better efficiency. Funds with an average value traded greater than the group’s median received a higher Efficiency score.

### Exhibit 12: ETFs Mentioned

Ticker, name, rating, price

Ticker Name		Rating	Price
AVDV	Avantis International Small Cap Value ETF	1-FV	89.89
DDLS	WisdomTree Dynamic International SmallCap Equity Fund	3-FV	41.69
DFIS	Dimensional International Small Cap ETF	1-FV	31.68
DISV	Dimensional International Small Cap Value ETF	1-FV	35.85
DLS	WisdomTree International SmallCap Dividend Fund	2-FV	78.60
FNDC	Schwab Fundamental International Small Equity ETF	1-FV	44.51
GWX	SPDR S&P International Small Cap ETF	3-FV	40.12
ISCF	iShares International Small-Cap Equity Factor ETF	2-FV	40.88
ISVL	iShares International Developed Small Cap Value Factor ETF	1-FV	45.39
PDN	Invesco RAFI Developed Markets ex-US Small-Mid ETF	2-FV	41.30
SCHC	Schwab International Small-Cap Equity ETF	2-FV	45.49
SCZ	iShares MSCI EAFE Small-Cap ETF	3-FV	76.72

Source: BofA Global Research, Bloomberg

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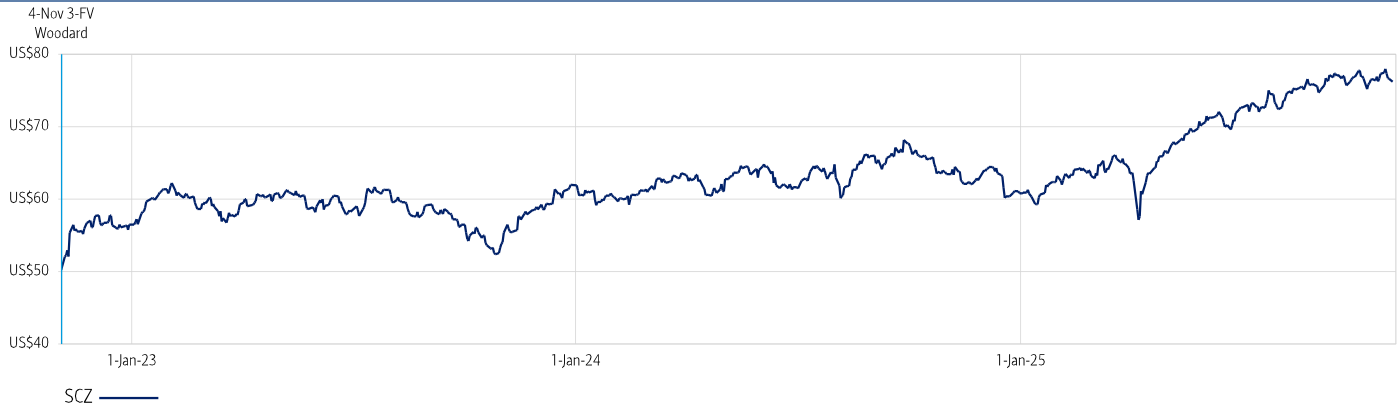
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### iShrs MSCI EAFE Sml (SCZ) Price Chart



1-FV, 2-FV, 3-FV, 1-NV, 2-NV, 3-NV, 1-UF, 2-UF, 3-UF – refer to Opinion Key below, NR: No Rating

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Buy	133	22.93%	Buy	89	66.92%
Hold	436	75.17%	Hold	322	73.85%
Sell	11	1.90%	Sell	7	63.64%

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