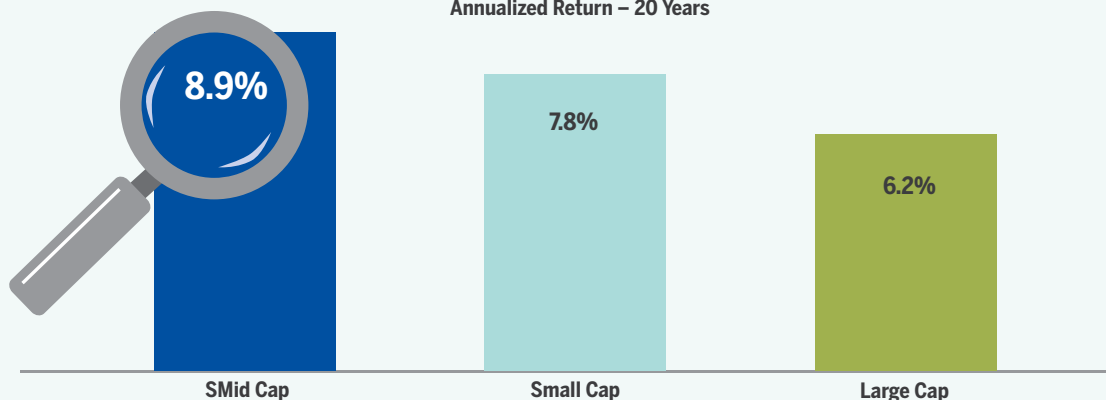


An Overlooked Asset Class?

Over three quarters of all U.S. equity fund assets are in large capitalization stocks with the next largest allocation being small cap stocks. With those two categories making up more than 90% of fund assets, are investors missing an opportunity? SMid cap stocks, a hybrid of small and mid cap equities, may be an overlooked part of the market capitalization spectrum, given they have historically offered what some believe to be the best of both the small and large cap worlds.

SMid Capitalization Stocks Have Outperformed

Annualized Return – 20 Years



Source: FactSet covering 6/30/99-6/30/2019. SMid cap stocks are represented by the Russell 2500 Index, large cap stocks by the Russell 1000 Index and small cap stocks by the Russell 2000 Index.

- Over the past 20 years, U.S. SMid cap stocks have outperformed both their large and small cap counterparts. Given their smaller size (the weighted average market capitalization of the Russell 2500 is about \$6 billion), some believe it is no wonder that they have been able to produce higher returns than large caps. But how have SMid caps beaten small caps?
- One reason why SMid caps have outperformed small caps may be their capacity for further growth after surviving the perils of infancy, which may ensnare smaller companies. Additionally, SMid cap companies may be mature enough to enjoy better access to capital and often may have more seasoned management teams than small caps. At the same time, SMid caps may possess upside potential through M&A or other growth initiatives that can move the needle more easily than for large caps.
- Another potential benefit of U.S. SMid caps has been their ability to post strong performance without undue volatility. The standard deviation of SMid caps over the past 20 years has fallen between those of small caps and large caps, allowing SMid caps to drive a better Sharpe ratio than both large and small caps.
- As investors strive for higher returns in a low-return world, they may want to allocate more capital to SMid caps, a potential sweet spot on the market capitalization spectrum.

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Past performance is no guarantee of future results.

The Russell 2500 Index measure the performance of the 2,500 smallest companies in the Russell 3000 Index. The Russell 1000 Index measures the performance of the highest ranking 1,000 stocks in the Russell 3000 Index; they represent about 90% of the total market capitalization of the index. The Russell 2000 Index is a small cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market.

Standard deviation is a quantity calculated to indicate the extent of deviation for a group as a whole.

The Sharpe ratio is an investment's average return earned in excess of the risk-free rate per unit of volatility or total risk. Generally, the greater the Sharpe ratio, the more attractive the investment's risk-adjusted return.

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