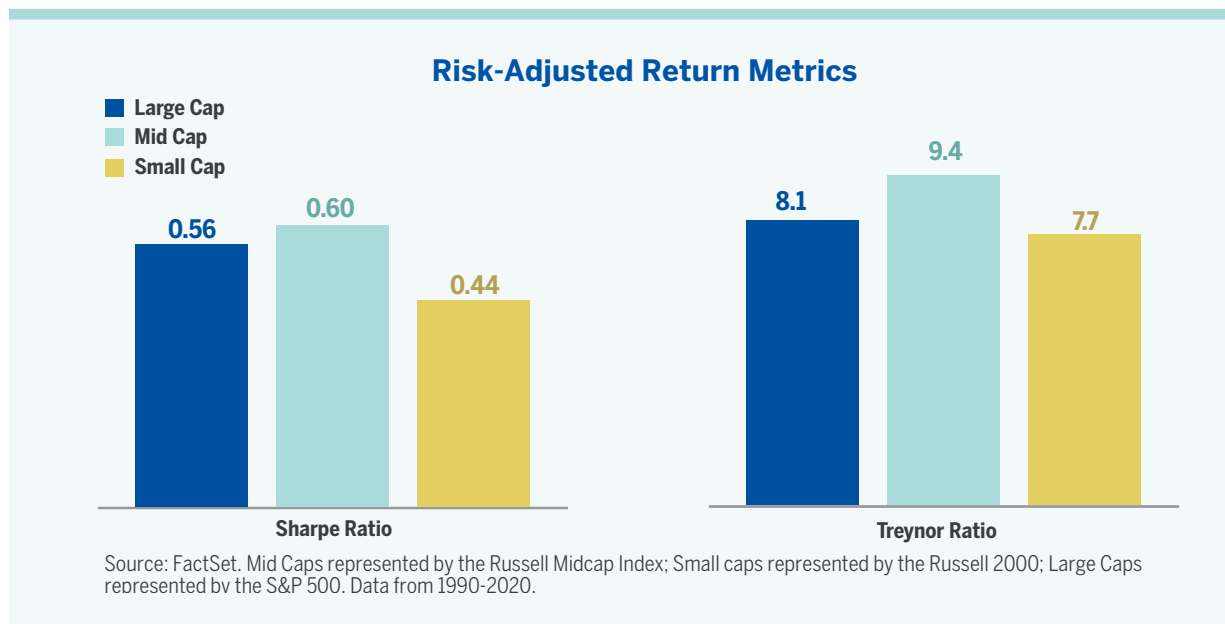




The Mid Cap Message

We believe mid cap stocks fly below many investors' radar. They can potentially enhance returns and increase diversification. In fact, we think they offer much more than that. What are some investors missing when it comes to mid caps?



- Historically, mid caps have provided superior risk-adjusted returns. The Sharpe Ratio, which is the average return earned in excess of the risk-free rate per unit of total risk, can potentially help investors understand the return of an investment compared to its risk. Generally, the higher the ratio, the better. The Treynor Ratio is a performance metric that determines how much excess return was generated for each unit of systematic risk undertaken by a portfolio. Again, generally, the higher the ratio, the better.
- The mid cap space may also be conducive to finding alpha given that mid cap managers had an active share of 87% as compared to large cap managers' 73% as of yearend 2020, according to eVestment data.¹ Additionally, mid cap stocks have less sell-side research coverage than large cap stocks (nearly half the average number of analysts), potentially making it easier to have differentiated views on sales, earnings and cash flows among mid caps.²
- Surprisingly, with all of these potential benefits, investors seem to be underweight mid cap stocks. According to data from Morningstar, mid caps make up 20% of total market capitalization but only 11% of U.S. equity mutual funds and ETFs. We believe this gap may represent a significant opportunity for investors to re-allocate to a promising equity category.

¹The mid cap universe is defined as U.S. equity products that primarily invest in mid capitalization stocks regardless of the style (growth, value, or core) focus. The large cap universe is defined as U.S. equity products that primarily invest in large capitalization stocks regardless of the style (growth, value, or core) focus.

²FactSet and Alger.



Alpha is a measure of performance; it is the excess return of an investment relative to the return of a benchmark index.

Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index.

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