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# The Unique Positioning of Mid-Cap Investing

## Executive Summary

### Under-Owned Asset Class

Mid caps are often overlooked in many investors' portfolios.

Mid-cap stocks represent approximately **25%** of the market capitalization of the U.S. equity market.* However, investors are significantly underweight the group with only **12%** exposure.**

By not participating in the mid-cap arena, investors are potentially missing out on a major portion of the market. Just as it is important to diversify portfolios across various sectors of the market, it is also important to diversify across market capitalizations.

Mid-cap stocks tend to be under-researched by Wall Street analysts, which may lead to opportunities. The prices of stocks with less analyst coverage may not fully reflect all relevant company data and, therefore, may be mispriced. These gaps in sell-side research coverage create opportunities for portfolio managers and analysts to identify and exploit the information inefficiencies of promising companies that are experiencing significant growth.

**Source: The Frank Russell Company as of 12/31/2018*

***Source: Morningstar Direct as of 12/31/2018*

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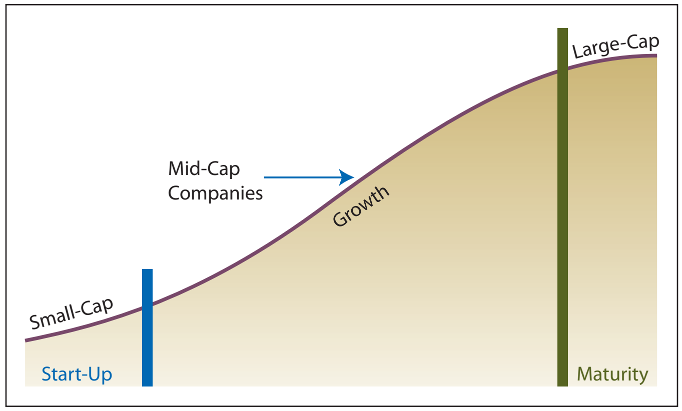
## Company Life Cycle

A great number of companies experience several stages throughout their "life cycle." The first stage begins when a new company is launched. "Start-Up" companies have the lowest market capitalizations as they have yet to generate significant earnings or expectations. Companies that survive the "Start-Up" phase evidence a compelling product or service and/or a level of earnings that justify a higher valuation and additional capital investment. At this point, companies are moving into the "Growth" phase of the life cycle. Companies in this stage tend to be less volatile than small caps, can more easily adapt to change and have higher return potential than large-cap companies. The large-cap stage signifies the "Maturity" stage of a company when growth rates and expectations of future growth slow.

**Company Life Cycle and Capitalization Ranges**



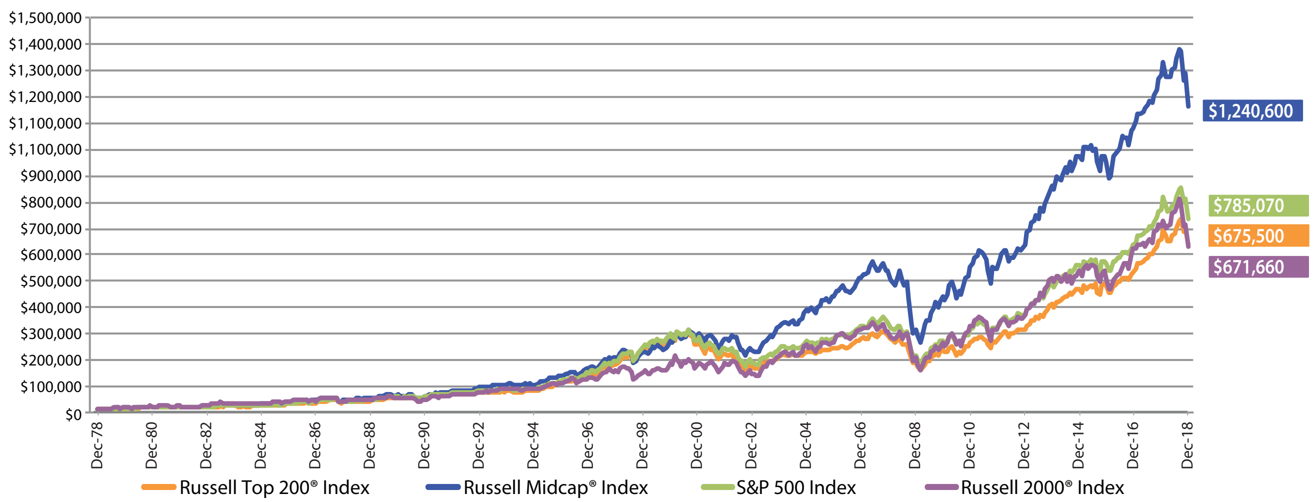

## Advantages of Mid Caps

Mid-cap stocks may be under-allocated in many portfolios, but the case for mid-cap investing is compelling. Mid-cap stocks are uniquely positioned between small, developing companies and large, mature companies. Mid-cap companies are typically small-cap companies that have succeeded. Because they have survived the small-cap phase, mid caps are in a position to benefit from enhanced access to the capital markets, potentially giving them a financial advantage over small caps. Compared to large-cap companies, mid caps are often in the growth phase of the business life cycle where they may be experiencing higher cash flows and earnings growth rates.

## Long Record of Outperformance

Mid-cap stocks, as measured by the Russell Midcap® Index, have outperformed both large-and small-caps over the past 40 years. Mid caps generally have outperformed because they have seen both cash flow and earnings per share accelerate, especially compared to large caps. Investing in stocks of mid-cap companies may be subject to more erratic market movements than stocks of larger, more established companies.

**Growth of a Hypothetical $10,000 Investment**
**Measured by Index Performance**
January 1, 1979 – December 31, 2018



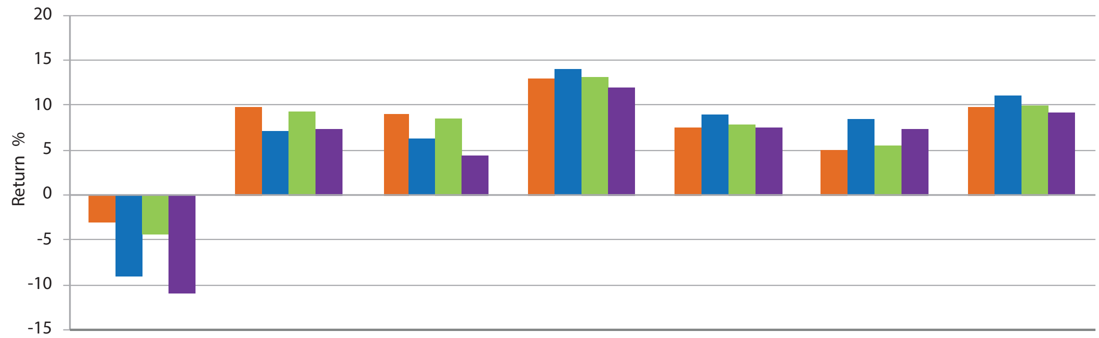

*Source: Zephyr StyleADVISOR®*

*Performance data quoted represents past performance, which is no guarantee of future results. Investing in an index is not possible.*

During periods shown of ten years and longer ending December 31, 2018, the annualized returns of the Russell Midcap® Index were typically higher than the Russell Top 200® Index (large caps), the Russell 2000® Index (small caps), and the S&P 500 Index (a leading indicator of the stock market).

**Annualized Return Comparison of Select Indices**

For Periods Ended December 31, 2018




| | 1 year | 3 years | 5 years | 10 years | 15 years | 20 years | 30 years |
|---|---|---|---|---|---|---|---|
| Russell Top 200® Index | -3.08 | 9.88 | 8.99 | 13.00 | 7.56 | 4.99 | 9.77 |
| Russell Midcap® Index | -9.06 | 7.04 | 6.26 | 14.03 | 8.89 | 8.47 | 11.14 |
| S&P 500 Index | -4.38 | 9.26 | 8.49 | 13.12 | 7.77 | 5.62 | 9.97 |
| Russell 2000® Index | -11.01 | 7.36 | 4.41 | 11.97 | 7.5 | 7.4 | 9.21 |

*Source: Zephyr StyleADVISOR®*

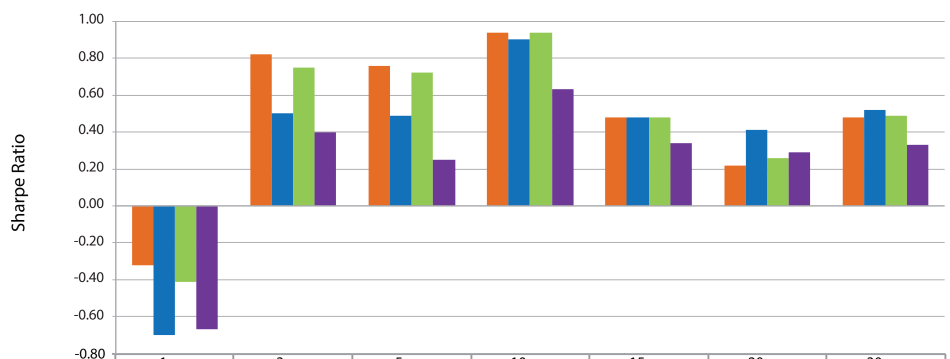
*Performance data quoted represents past performance, which is no guarantee of future results. Investing in an index is not possible.*

## Risk/Reward Relationship

As the chart below illustrates, the Russell Midcap® Index has typically exhibited a better Sharpe Ratio compared to other select indices for the longer time periods shown. Relative to small-cap companies, mid-cap companies generally have less risk as their businesses are more diversified and have better access to capital. Relative to large-cap companies, mid-cap companies have the potential to generate higher earnings growth and have less complex business models. This balance should provide consistent risk-adjusted performance.

**Annualized Risk-Adjusted Return Comparison of Select Indices**

For Periods Ended December 31, 2018




| | 1 year | 3 years | 5 years | 10 years | 15 years | 20 years | 30 years |
|---|---|---|---|---|---|---|---|
| Russell Top 200® Index | -0.32 | 0.82 | 0.76 | 0.94 | 0.48 | 0.22 | 0.48 |
| Russell Midcap® Index | -0.70 | 0.50 | 0.49 | 0.90 | 0.48 | 0.41 | 0.52 |
| S&P 500 Index | -0.41 | 0.75 | 0.72 | 0.94 | 0.48 | 0.26 | 0.49 |
| Russell 2000® Index | -0.67 | 0.40 | 0.25 | 0.63 | 0.34 | 0.29 | 0.33 |

*Source: Zephyr StyleADVISOR®*

*Performance data quoted represents past performance, which is no guarantee of future results. Investing in an index is not possible.*

*Sharpe Ratio is a measure used to determine a portfolio's reward per unit of risk. It is calculated by dividing annualized excess returns by annualized Standard Deviation.*

**Market Measures**

**Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

**Russell Top 200® Index** measures the performance of the largest cap segment of the U.S. equity universe. The Russell Top 200® Index is a subset of the Russell 3000® Index. It includes approximately 200 of the largest securities based on a combination of their market cap and current index membership.

**Russell Midcap® Index** measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

**Standard & Poor's 500 Index** consists of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The indexes mentioned are unmanaged statistical composites of stockmarket or bond market performance. Investing in an index is not possible. Unmanaged index returns do not reflect any fees, expenses or sales charges.

**Russell Indexes:**



## A Word About Risk

**The Funds invest in equities which are subject to market volatility and loss. The Funds invest in stocks of mid-cap companies which may be subject to more erratic market movements than stock of larger, more established companies.**

**Please consider the investment objectives, risks, charges and expenses of a fund carefully before investing. The prospectus and the summary prospectus contain this and other information about a fund. To obtain a prospectus or a summary prospectus, contact your financial advisor or download and/or request one at TouchstoneInvestments.com/resources or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.**

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