

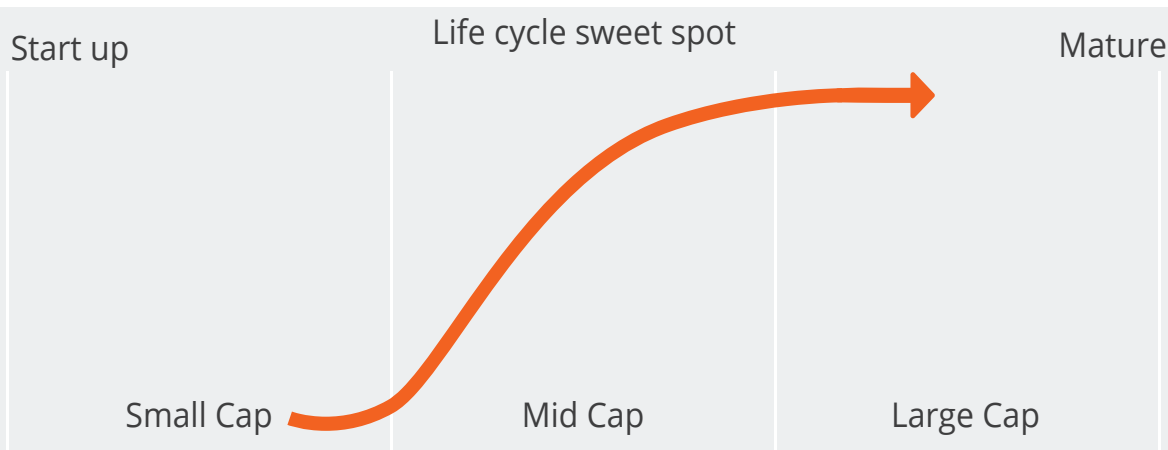


Mid Caps: An Opportune Time to Allocate to this Overlooked Asset Class?

The U.S. equity market is a vast universe of investment potential, consisting of companies large and small, stable and mature businesses, some young and fast-growing, and everything in between. Many investors are drawn to the largest and most well-known companies. Some may be taken in by the glamour effect, high-flying companies with a story that mesmerizes. Others chase young and unproven companies for a chance at an exponential return.

Often overlooked, mid cap companies tend to be more stable and established than small caps but are also growing faster than large, more mature companies. Mid caps typically capture the stage in an enterprise life cycle characterized by both a proven business model and a significant runway for potential growth. These companies are defined by a market capitalization between \$1 billion and \$50 billion.

Relative to large caps, mid caps tend to be under-followed by Wall Street analysts, leaving greater variance in valuation estimates and room for active investment managers to find strong businesses at attractive prices.¹ Relative to small caps, mid caps tend to be more diversified businesses, with pricing power at both the input (raw materials, labor, etc) and product output levels, greater access to capital markets, and an ability to adapt to changing environments.



Becoming more reliable and stable as they grow out of the young and rapid-growth small cap stage, mid caps are not as limited in their future growth prospects as large caps. Active managers can exploit market inefficiencies (price variations) in the fertile mid cap space to find the next large cap company at an attractive price.

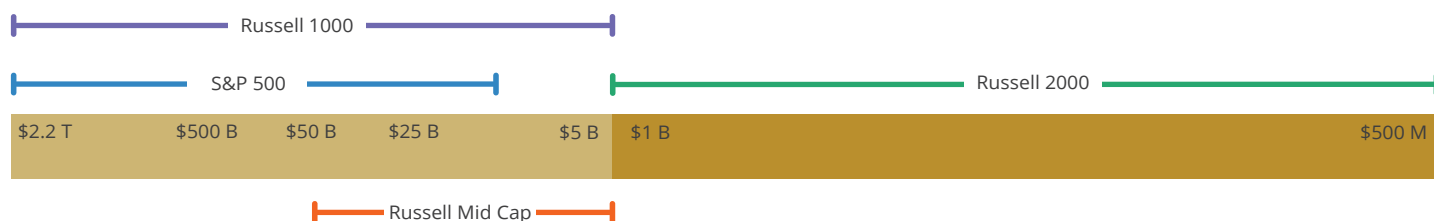


¹ Source: FactSet.

“Mid caps are often overlooked. These businesses tend to be more established and stable than small caps while growing more quickly than large, mature companies.”

Defining Mid Cap

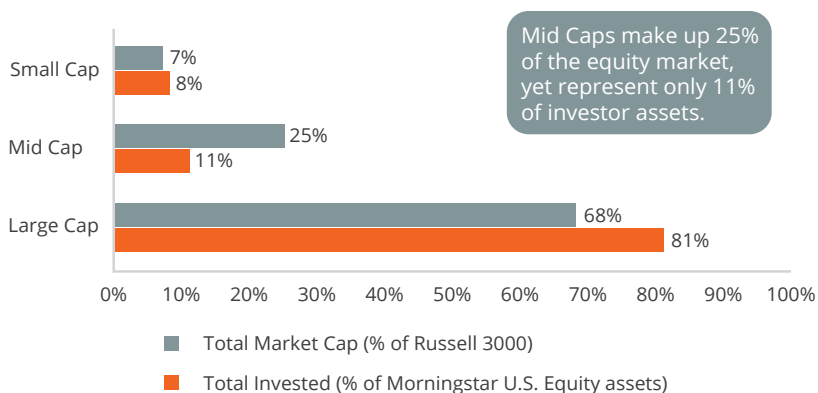
Within the equity market universe, mid caps typically reside between the largest 200 companies and those with market caps below \$1 billion. Because of the makeup of broad market, cap-weighted indices, there tends to be some overlap between large and mid, and mid and small. For instance, the Russell 1000® Index is designed to measure the top 1000 U.S. stocks; the bottom 800 stocks within this index make up the Russell Midcap Index. This does not mean the Russell Midcap Index has an 80% overlap with the Russell 1000®. Due to weighting by market capitalization, the largest 20% of stocks make up about 73% of the Russell 1000® Index.



Investing in Mid Caps

An allocation to both large caps and small caps may produce some overlap in mid caps, but the evidence shows that mid caps continue to be underallocated to. As of 9/30/2022, mid cap stocks represent about 25% of all U.S. equity market capitalization, yet only 11% of investment exposure.²

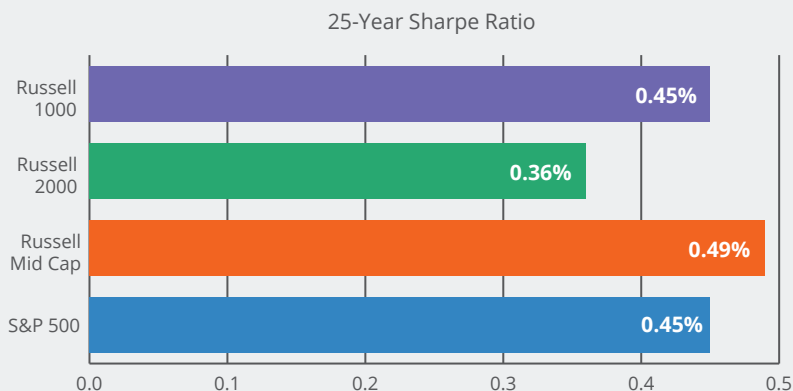
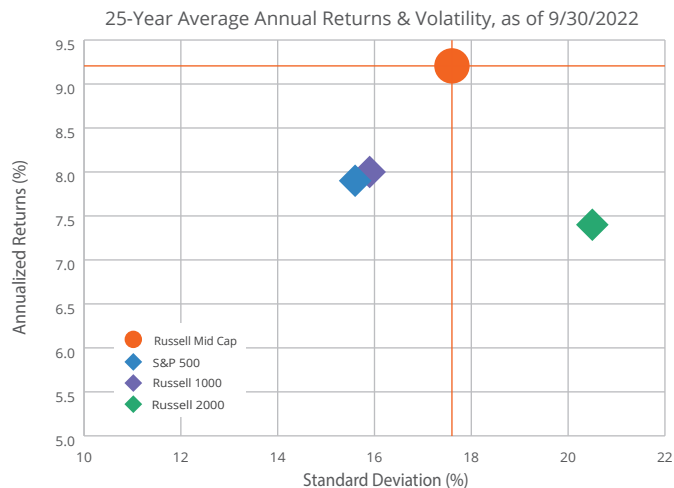
A dedicated mid cap allocation will deliver the true investment characteristics of companies in this size and life cycle stage.



² Source: Morningstar

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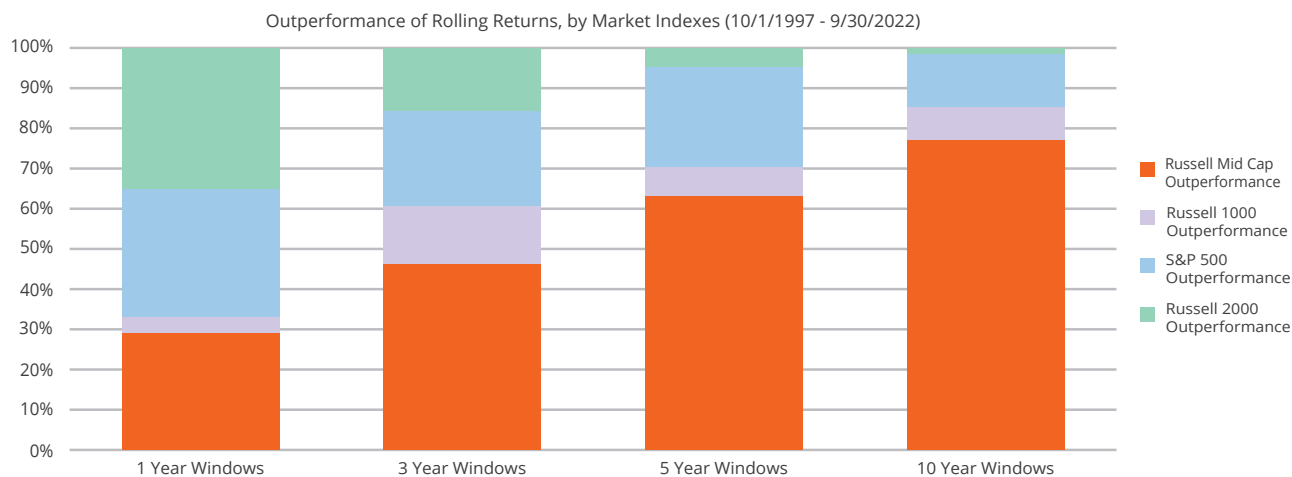
When examining historical performance, the case for mid caps becomes even more compelling. Relative to other asset classes, mid caps have produced a higher average annual return and lower volatility. Sharpe ratio, which measures the return of an investment with its risk, favors mid caps as well.³



Sharpe Ratio:

A measure of an investment's risk-adjusted performance, calculated by comparing its return to that of a risk-free asset, such as a treasury bill or bond.

This trend is not just true for a point in time. Over multiple long-term rolling periods, mid caps have outperformed their large and small cap counterparts a majority of the time.



³ Past performance is not a guarantee of future results.

What Makes Mid Caps Attractive Now?

Investors have experienced elevated volatility in 2022 and are bracing for a possible recession in 2023. Whether we have seen the bottom of this current market cycle or are headed to a market bottom, investors would be wise to analyze the performance of market segments through recoveries. Mid caps have shown an ability to emerge from significant downturns stronger than their large and small cap counterparts. Looking at the three years following the most recent market drawdowns⁴, mid caps have outperformed large caps in each instance by an average of 3,285 basis points (bps) and small caps in two of the past three periods by an average of 1,322 bps.

	1990	Largest Intra-Year Drawdown (1990)	1991	1992	1993	1991 - 1993 (Cumulative)
Russell Mid Cap	-11.50	-22.86	41.51	16.34	14.30	88.18
S&P 500	-3.10	-14.69	30.47	7.62	10.08	54.56
Russell 2000	-19.48	-29.08	46.04	18.41	18.88	105.58
	2002	Largest Intra-Year Drawdown (2002)	2003	2004	2005	2003 - 2005 (Cumulative)
Russell Mid Cap	-16.19	-25.50	40.06	20.22	12.65	89.68
S&P 500	-22.10	-28.36	28.68	10.88	4.91	49.70
Russell 2000	-20.48	-28.62	47.25	18.33	4.55	82.18
	2008	Largest Intra-Year Drawdown (2008)	2009	2010	2011	2009 - 2011 (Cumulative)
Russell Mid Cap	-41.46	-44.12	40.48	25.48	-1.55	73.54
S&P 500	-37.00	-37.66	26.46	15.06	2.11	48.59
Russell 2000	-33.79	-37.42	27.17	26.86	-4.18	54.59

This performance does not happen by chance. As demonstrated by the long-term risk-adjusted returns in relation to both large caps and small caps, as well as how mid caps have historically fared following significant market downturns, we believe mid caps have earned the right to be viewed as a stand-alone component in an investment portfolio. While every market cycle presents new and unique risks, investors should consider how mid caps fit into the economy, markets, and investment portfolios.

- **Nimbleness:** While their business model tends to be more established and mature than smaller companies, it is less complex than large caps, giving them a greater ability to adapt to changing economic conditions.
- **Valuation:** Relative to large-caps, mid caps tend to be under-followed by Wall Street analysts, leaving greater variance in valuation estimates and room for active investment managers to find strong businesses at attractive prices.
- **Revenue:** While large caps tend to have operations around the globe, mid caps typically derive most of their revenue from within the U.S. This helps these companies reduce the impact of international risk dynamics and currency fluctuations.
- **Flexibility:** The breadth of the mid cap universe provides opportunities for managers to reach into the large or small cap space without compromising the portfolio's mid cap character.



⁴ Drawdowns defined as a >19% decline in a calendar year for one or more major equity market index.

Disclosures

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only, and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

Market Capitalization: the total dollar market value of a company's outstanding shares of stock.

S&P 500® is an unmanaged index of large companies and is widely regarded as a standard for measuring large-cap and mid-cap U.S. stock-market performance. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

RUSSELL 1000®: Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index.

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RUSSELL MIDCAP®: Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 35% of the total market capitalization of the Russell 1000® Index. As of the latest reconstitution, the average market capitalization was approximately \$3.7 billion; the median market capitalization was approximately \$2.9 billion. The largest company in the index had an approximate market capitalization of \$10.3 billion.

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Investing in small, mid-size or emerging growth companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Basis points are a measurement of percentage points. One hundred basis points equals one percent.

