



Mid Cap Equity: A Strategy Designed for All Seasons

The U.S. equity market is a vast universe of investment potential, consisting of companies large and small, stable and fast-growing, mature and emerging, 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 of high-flying companies with a mesmerizing story. Others chase young and unproven companies for a chance at an exponential return. Often overlooked are the stocks in the middle. Mid caps, however, should not be ignored, as over the long term, they have delivered higher risk-adjusted returns than both small and large caps.

Why Mid Caps?

The Growth "Sweet Spot"

Mid cap companies tend to be more stable and established than small caps but grow faster than more mature large caps, occupying a sweet spot of the enterprise life cycle with the potential for substantial growth.

Overlooked & Undervalued

Relative to large caps, mid caps tend to be under-followed by Wall Street analysts, leaving greater variance in valuation measures and room for active managers to find strong businesses at attractive prices.¹

Agile & Resilient

Mid cap business models tend to be more diversified and profitable than smaller companies and less complex than large caps, giving them a greater ability to adapt to changing economic conditions.

Defining Mid Cap

Mid cap companies are defined by a market capitalization typically between \$1 billion and \$60 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 Russell Midcap Index only represents around 27% of the Russell 1000.

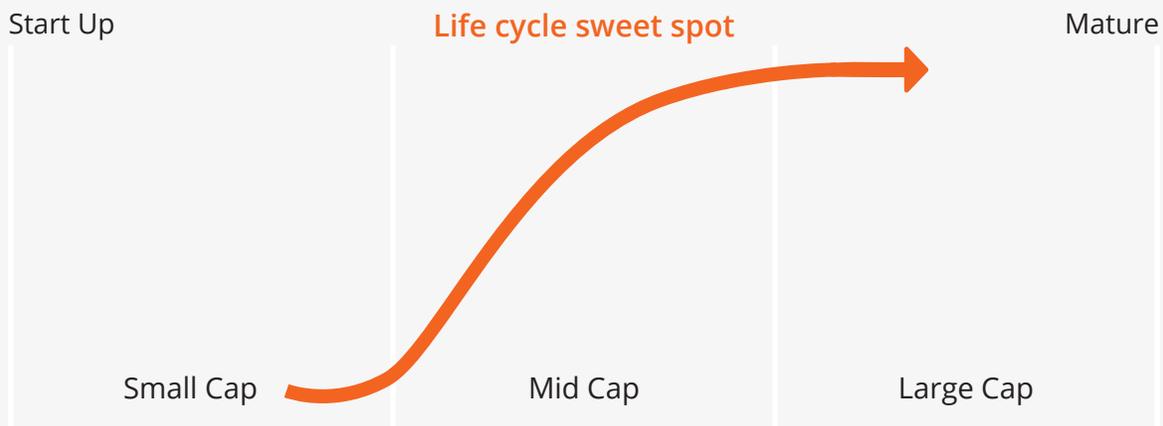


¹ Source: FactSet

The Growth “Sweet Spot”

Mid cap companies typically represent a stage in the enterprise life cycle where a business model is proven, yet significant growth potential remains. As they mature beyond the rapid growth phase of small caps, they become more stable and reliable while still offering greater growth prospects than large caps. This balance makes mid caps appealing for active managers, who can capitalize on market inefficiencies to identify promising companies positioned to become the next large cap success stories at attractive valuations.

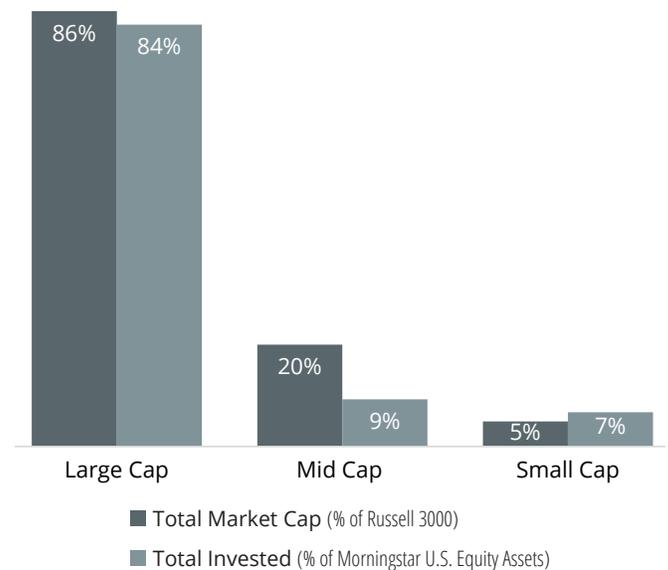
The chart below illustrates the enterprise lifecycle. Emerging small businesses face significant challenges, including limited scale and diversification, unproven business models, inexperienced leadership, and competition from well-established companies. After overcoming these initial hurdles, companies can transition into a phase of steady and sustainable growth.



Overlooked & Undervalued

Mid cap stocks are typically less researched by buy-side and sell-side analysts compared to large cap stocks, providing skilled stock pickers the chance to generate significant value.

Allocating to both large and small caps may result in some overlap with mid caps, but evidence shows that mid cap stocks continue to be under-allocated. As of 12/31/2024, mid cap stocks constitute approximately 20% of the total U.S. equity market capitalization, yet only 9% of investment exposure.



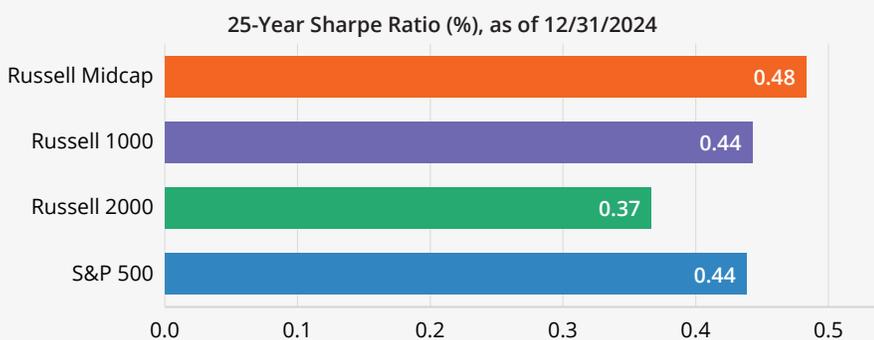
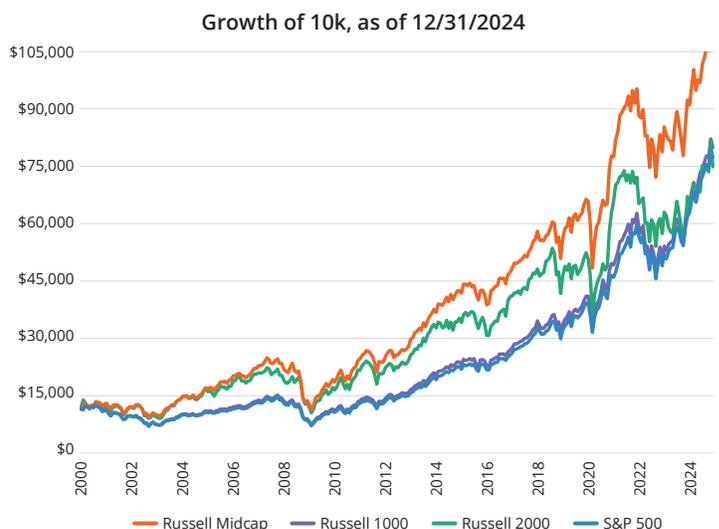
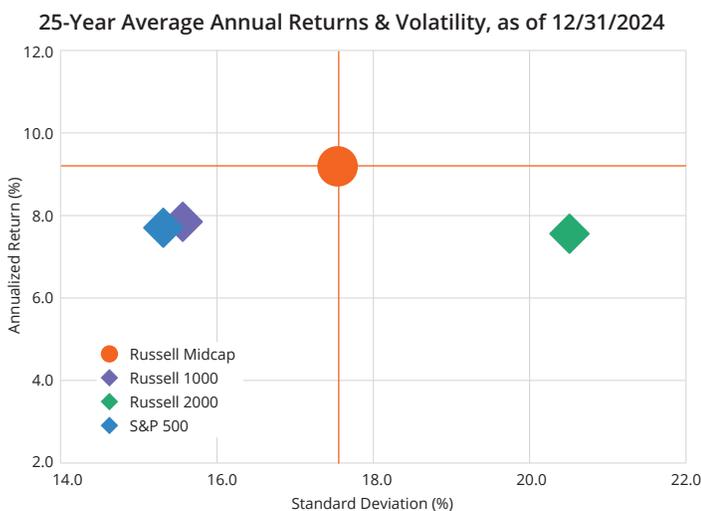
Agile & Resilient

A closer look at mid cap business models shows how they distinguish themselves against their smaller and larger counterparts. Their unique qualities can enhance portfolio diversification as a standalone allocation.

- Relative to small caps, mid caps tend to be more diversified businesses. Further, their larger scale results in better negotiating leverage over suppliers and pricing power with customers, leading to greater levels of profitability. These factors, along with generally lower levels of debt, allow mid caps to better weather the ups and downs of the economy and inflation.
- While large caps tend to have operations around the globe, mid caps typically generate most of their revenue from within the U.S. This helps to reduce the impact of international risk dynamics and currency fluctuations.

A Favorable Risk/Return Profile

The case for mid caps becomes even more compelling when examining historical performance. Over the past 25 years, mid caps have delivered a higher average annual return and Sharpe Ratio compared to other asset classes.²



Sharpe Ratio:

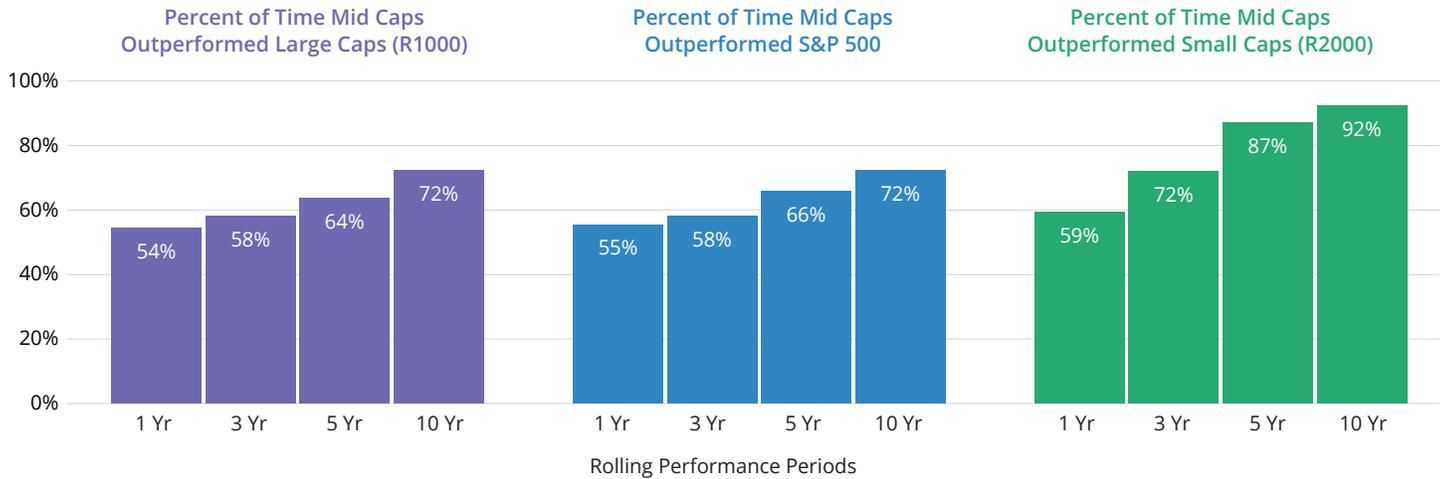
A measure of an investment's risk-adjusted performance, calculated by comparing its return to that of a risk-free asset, such as a treasury bill or bond.



² Past performance is not a guarantee of future results.

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.

Outperformance Over Rolling Periods 12/31/1999 - 12/31/2024



Why We Believe Active Management is Important

Unlike large cap stocks, which are heavily analyzed and widely owned, mid caps often fly under the radar, creating opportunities for active managers to identify mispricings and overlooked growth potential. Through in-depth research and fundamental analysis, active managers can identify high-quality companies and invest when the price is right.

Moreover, active management provides greater flexibility and risk control. Unlike passive funds, which are required to hold every stock in an index regardless of valuation or business fundamentals, active managers can focus their portfolios on only the stocks that meet their criteria. This selective approach, particularly in a less efficient part of the market, helps mitigate downside risk in volatile markets.

Madison Mid Cap

The Madison Mid Cap Strategy captures the unique market opportunity of mid cap stocks through an actively managed, high-conviction, and high-quality approach that focuses on long-term growth at a reasonable price. With over 20 years of proven investment process, each holding is viewed as a long-term investment in a durable business poised for long-term shareholder value. To learn more about Madison Mid Cap, visit madisoninvestments.com.



Disclosures

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Any performance data shown represents past performance. Past performance is no guarantee of future results.

It is Madison's opinion that inefficiencies exist in the mid cap market. There are no guarantees that Madison can capitalize on any such inefficiencies.

Equity risk is the risk that securities held by the fund will fluctuate in value due to general market or economic conditions, perceptions regarding the industries in which the issuers of securities held by the strategy participate, and the particular circumstances and performance of particular companies whose securities the fund holds. In addition, while broad market measures of common stocks have historically generated higher average returns than fixed income securities, common stocks have also experienced significantly more volatility in those returns.

Investments in midsize companies may entail greater risks than investments in larger, more established companies. Midsize companies tend to have narrower product lines, fewer financial resources, and a more limited trading market for their securities, as compared to larger companies. They may also experience greater price volatility than securities of larger capitalization companies because growth prospects for these companies may be less certain and the market for such securities may be smaller. Some midsize companies may not have established financial histories; may have limited product lines, markets, or financial resources; may depend on a few key personnel for management; and may be susceptible to losses and risks of bankruptcy.

Outperformance of the various indices will vary based on starting points and time periods. For example, the S&P 500 Index outperformed the Russell Midcap Index from 12/31/2016 to 12/31/2019.

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.

S&P 500 Index: large cap market index that measures the performance of a representative sample of 500 leading companies in leading industries in the U.S.

Russell 1000 Index: measures the performance of the 1,000 largest companies in the Russell 3000® Index.

Russell 2000 Index: measures the performance of the 2,000 smallest companies in the Russell 3000® Index.

Russell Midcap Index: mid cap market index which measures the performance of the mid cap segment of the U.S. equity universe.

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

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