



THE MISSING PIECE | Mid Caps

What's Hiding in the Cap Gap?

The competitive risk-return characteristics of mid-cap stocks may appeal to some investors. But one key advantage of mid-cap investing often goes undiscussed: the “cap gap”. The cap gap represents the area between the small, SMID and large-cap Russell indices that contains the largest mid-cap companies valued between \$12B to \$34.7B.

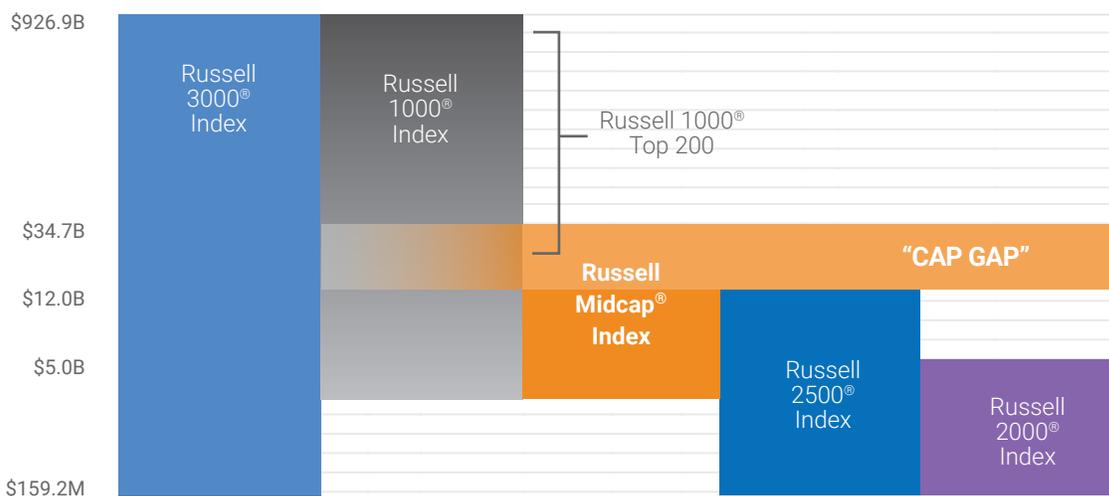
Many investors believe they have adequate exposure to the mid-cap space by owning some combination of large- and small-cap stocks, or by having a SMID-cap allocation. However, this is not necessarily the case. The reality is that 40 percent of the Russell Midcap® Index falls into this cap gap and can typically only be reached by having a specific mid-cap allocation. Index weighting methodologies are the big culprit here, with most of your index exposure coming from the biggest companies. Thus, an allocation to large-caps and small-caps is mostly composed of the Russell Top 200® and larger names within the Russell 2000® Index, under-allocating to many mid-cap companies.

What are a few of the companies in the cap gap?

- The parent company of Olive Garden and Red Lobster, with a market cap of \$14.2B
- A well-known maker of medical implant devices worth \$17.10B
- A top credit reporting agency with a market cap of \$13.7B
- Approximately 300 other mid-sized companies

Consider the chart below. The cap gap is the horizontal orange band that lies above the Russell 2500® Index (the benchmark for SMID-cap stocks), runs through the Russell Midcap® Index and underneath the Russell Top 200® (the benchmark for large cap stocks). The Russell Midcap® Index is actually a subset of the Russell 1000® Index. Investors with allocations to large, SMID or small-cap stocks may have parts of the midcap index covered, but they could still be missing out on the full potential of mid-cap stocks.

THE “CAP GAP”*



*As of 5/11/18; latest available data

It might not seem like much, but the cap gap contains approximately two-thirds of the market capitalization of the Russell Midcap Index. This is the exact market cap that can offer compelling investment opportunities over time.

Not FDIC Insured

May Lose Value

No Bank Guarantee

¹As represented by the Russell 2500[®] Index, the Russell 2000[®] Index and the Russell 1000[®] Index.

Risk Considerations: Investing in mid-sized companies is based on the premise that relatively smaller companies will increase their earnings and grow into larger, more valuable companies. Historically, mid-cap stocks have experienced greater volatility than other equity asset classes, and they may be less liquid than larger cap stocks. Thus, relative to larger, more liquid stocks, investing in mid-cap stocks involves potentially greater volatility and risk. In addition, mid-cap stocks have experienced greater volatility than other classes of securities. Mid-cap stocks can also be less liquid than those of large companies, and illiquidity increases the potential for volatility. As with all equity investing, there is the risk that a company will not achieve its expected earnings results, or that an unexpected change in the market or within the company will occur, both of which may adversely affect investment results. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Past performance does not guarantee or indicate future results. The information presented is for illustrative purposes only and should not be used as the sole basis for an investment decision. This information should not be construed as a recommendation to buy, sell or hold any particular security.

It is not possible to invest in an index.

The Russell 3000[®] Index measures the performance of the 3,000 largest U.S.-traded stocks, which represent about 98 percent of the total market capitalization of all U.S. incorporated equity securities.

The Russell 2500[®] Index measures the performance of the smallest 2,500 companies covered in the Russell 3000[®] index, which represents approximately 19 percent of the total market capitalization of the Russell 3000[®] Index.

The Russell 2000[®] Index measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index, which represents approximately 8 percent of the total market capitalization of the Russell 3000[®] Index.

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap 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. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The Russell 1000[®] Index measures the performance of the 1,000 largest companies in the Russell 3000[®] Index, which represents approximately 92 percent of the total market capitalization of the Russell 3000[®] Index.

The Russell Top 200[®] Index measures the performance of the 200[®] largest companies in the Russell 3000[®] Index, which represents approximately 63% of the total market capitalization of the Russell 3000[®] Index.

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Contact us for more information on our active mid-cap solutions.

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