THE CASE FOR SMID-CAP EQUITIES:

WHY THE "SWEET SPOT" OF THE MARKET DESERVES ATTENTION

Introduction:

In today's dynamic market environment, investors continue to seek asset classes offering a compelling balance of growth potential, risk management, and diversification. Small-to-Mid Cap (SMID) equities—typically defined as companies with market capitalizations ranging from $3 billion to $15 billion—offer a compelling proposition that is often underutilized in institutional portfolios.

The SMID Advantage

Superior long-term performance

Historically, SMID-cap equities have delivered returns that outpace large caps while exhibiting lower volatility than traditional small-cap stocks. This performance reflects the unique positioning of SMID companies—past their most volatile early growth stages yet still nimble enough to capture outsized growth.

Diversification and market inefficiency

The SMID universe tends to be under-researched relative to large caps, creating persistent inefficiencies that skilled active managers can exploit to generate alpha through robust quantitative and fundamental processes.

Balanced risk profile

SMID-cap companies often have more established business models and better access to capital than smaller peers, contributing to lower volatility and drawdowns. Yet they retain the capacity for faster growth than their large-cap counterparts.

Secular tailwinds

Many SMID-cap companies are leaders in niche industries or disruptive sectors poised for secular growth—providing exposure to themes such as technology innovation, healthcare advancements, and the reshoring of supply chains.

Why Now?

Despite these advantages, SMID-cap valuations remain compelling relative to historical averages and large-cap peers, especially after periods of market dislocation when investor attention has concentrated heavily on mega-cap stocks. As risk appetite broadens, SMID equities are well-positioned for mean reversion and renewed growth-driven outperformance.

Ativo's SMID Strategy

Ativo Capital Management has leveraged the opportunities within the SMID space by constructing portfolios that blend the most attractive stocks from both Ativo's Small and Mid Cap strategies. Our approach integrates systematic factor models with a disciplined human overlay for portfolio construction and risk management. Our SMID strategy is benchmarked to the MSCI USA SMID Index, and has historically delivered competitive risk-adjusted returns* by:

- Identifying **high-conviction positions** across size segments.
- Capitalizing on **market inefficiencies** unique to under-followed SMID stocks.
- Managing risk with **rigorous quantitative frameworks** complemented by fundamental validation.

Conclusion

SMID-cap equities represent a strategic allocation opportunity for investors seeking to balance growth, diversification, and risk mitigation. With their attractive historical performance, structural inefficiencies, and potential catalysts for future growth, SMID stocks belong in the toolkit of forward-looking portfolio allocators.

Ativo Capital Management's proven SMID strategy offers an effective way to access this "sweet spot" of the equity market. Backed by years of experience in both small and mid-cap investing, Ativo's strategy delivers a disciplined and adaptive approach to SMID equity opportunities.

*Past performance is not indicative of future results.

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Investments in small and mid-capitalization (SMID) companies involve greater risk than investments in large-cap companies. SMID stocks may be more volatile, less liquid, and more sensitive to market or economic events.

This strategy relies on systematic factor models to identify and allocate investments. While these models are designed to capture certain risk premia or behavioral anomalies, they are based on historical data and assumptions that may not hold in future market conditions. Model-driven strategies can underperform due to model errors, changes in market dynamics, or data limitations. There is no guarantee that the factor exposures will deliver excess returns, and actual results may differ materially from expectations.