

MID CAPS ARE THE NEW SMALL CAPS

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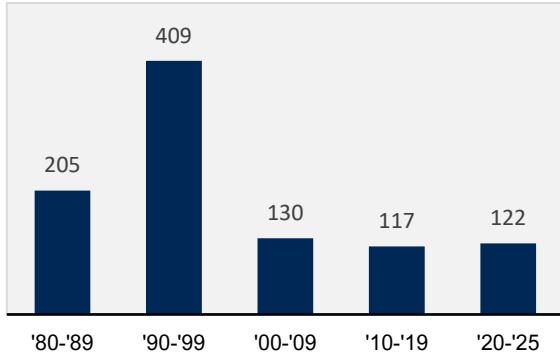
Conventional wisdom has long held that investing in small capitalization stocks typically rewards investors with excess returns. Generally speaking, the historical record supports this principle as small caps have outperformed large caps over most extended market periods. However, structural changes have emerged in the small cap universe that imply that the returns of the past may not extend to the future.

The small cap universe has traditionally been fertile ground from which relatively young, promising companies can raise capital. The public markets have typically offered depth, liquidity and valuations at a considerable premium not easily found in the private market. These benefits have outweighed the demands placed on public companies; reporting requirements, quarterly scrutiny, and often steady pressure from investors to meet growth and profitability targets.

Over the past two decades, regulatory changes and a significant expansion of private equity funding have altered the cost/benefit profile of public equity. As companies remain private longer the small cap universe suffers a decline in the replenishment cycle. Historically, a steady influx of new companies was instrumental in maintaining the small cap universe invigorated with opportunities. However, the supply of new public companies has slowed markedly.

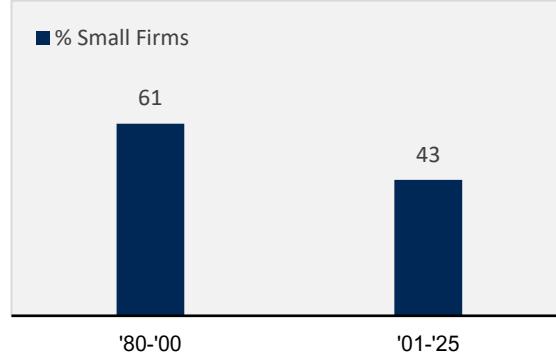
Furthermore, the composition of the IPO market changed. From 1980 to 2000, small firms represented 61% of all IPOs. Between 2001 through 2025, only 43% of IPOs comprised of small companies.

Number of IPOs - 1980 to 2025



Source: Initial Public Offerings: Updated Statistics, Jay R. Ritter, Cordell Professor of Finance, University of Florida, 1/1/26

Composition of IPOs



Source: The number of IPOs by year, 1980-2023, with pre-IPO last 12 months' sales less than (small firms) or greater than \$100 MM.

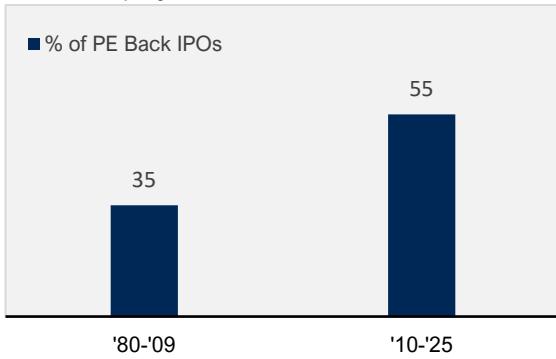
Source: Initial Public Offerings: Updated Statistics, Jay R. Ritter, Cordell Professor of Finance, University of Florida, 1/1/26.

The private market has stepped in to fill the funding requirements of small companies. The mechanism by which a growing number of small companies are funded shifted from the public market to Late-Stage Private Equity.

Moreover, companies are now staying private longer. In 2025, the median age of a venture backed company going public is 12 years, twice as long as in 2000 (six years).

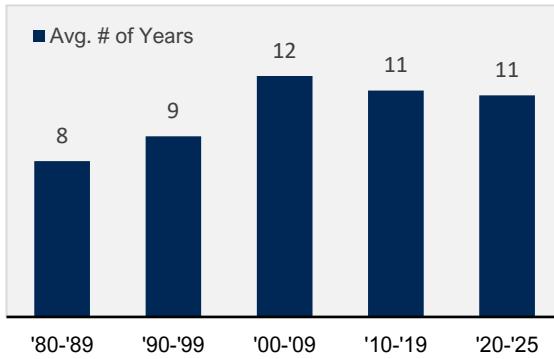
PRIVATE MARKETS ARE SUPPORTING LATE-STAGE GROWTH

Private Equity Backed IPOs - 1980 to 2025



Source: Initial Public Offerings: Updated Statistics, Jay R. Ritter, Cordell Professor of Finance, University of Florida, 1/1/26

Time to IPO - 1980 to 2025



Source: Initial Public Offerings: Updated Statistics, Jay R. Ritter, Cordell Professor of Financial, University of Florida, 1/1/26

IMPLICATIONS

Investors seeking the absolute returns generated historically by the small cap universe may be well served to pursue a barbell approach: allocate to late-stage private equity and to mid-cap public equity in lieu of small cap public equity. Dedicating capital to late-stage private equity allows investors to gain access to those growing, valuable small companies now delaying their access to the public markets. Allocating to mid-cap public equity provides the investor access to growing companies when they enter the public market as mid cap companies after bypassing the small cap public company stage altogether.

The mid cap space has traditionally offered a more attractive risk/return profile than the small cap universe due to superior quality companies (e.g., higher ROAs, better earnings growth). As the more alluring companies enter the public markets as mid-caps, the mid cap space will likely increase in quality relative to small caps, and the return differential may widen further. Due to these dynamics, public market investors should expect mid-caps to outperform small caps in the current environment. Because of this we categorize the present phenomenon as “mid-caps are the new small caps.”

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