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The Australian mid-cap segment has a more diverse sector representation than both large-cap and broad-market Australian benchmarks, which are dominated by banks.

Mid-Cap Indexing in Australia

The mid-cap space has often been described as the “sweet spot” of equity investing—and with good reason. Mid caps tend to offer a balance between the high growth (and high risk) offered by small caps and the stability (but slower growth) of large caps. In addition, the Australian mid-cap segment has a more diverse sector representation than both large-cap and broad-market Australian benchmarks, which are dominated by banks. Over the long term, these unique characteristics have helped the Australian mid-cap segment outperform all other size categories on both an absolute and risk-adjusted basis.

Despite these characteristics, the mid-cap segment of the Australian stock market is often overlooked and underappreciated. Pure mid-cap investing is not common, and often, mid- and small-cap companies are lumped together for investment purposes, diluting the unique characteristics of mid-sized companies.

“SIZING UP” THE AUSTRALIAN MARKET

Encompassing approximately AUD 266 billion in market capitalization, as measured by the [S&P/ASX MidCap 50](#), mid-cap companies represent about 14% of the broad-market [S&P/ASX 300](#). Small-cap companies, as measured by the [S&P/ASX Small Ordinaries](#), represent nearly 13%. Exhibit 1 illustrates the index characteristics of the different size indices that combine to form the S&P/ASX 300.

CHARACTERISTIC	S&P/ASX 50	S&P/ASX MIDCAP 50	S&P/ASX SMALL ORDINARIES	S&P/ASX 300
% of S&P/ASX 300	72.9	14.4	12.6	100
Market Cap (AUD Billions)	1,345.38	265.91	233.31	1,844.61
Weighted Average Market Cap (AUD Billions)	59.13	5.98	1.85	46.30
Average Company Size (AUD Billions)	26.91	5.32	1.18	6.21
Median Company Size (AUD Billions)	14.13	4.40	0.87	1.56

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. Table is provided for illustrative purposes.

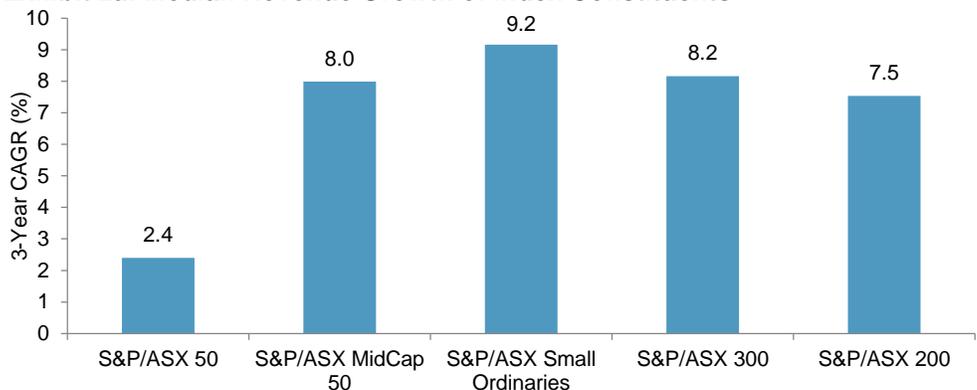
MID-CAP FUNDAMENTALS DRIVE UNIQUE PERFORMANCE

Many mid-cap companies are still in the growth phase, but they typically possess greater maturity than their small-cap counterparts. These companies may offer market participants the best of the large- and small-cap worlds before potentially reaching large-cap status. Mid-cap stocks present an opportunity for distinct fundamental exposure, given the unique life cycle characteristics of mid caps.

Mid-cap stocks are distinct, with their fundamentals demonstrating a unique stage of development that typically allows for higher growth rates than large-cap companies and greater access to capital than small-cap companies (see Exhibits 2a to 2c). Exhibits 2a and 2b demonstrate that mid-cap companies, as represented by the [S&P/ASX MidCap 50](#), have experienced meaningfully higher median revenue and normalized net income growth than large-cap companies, while also comparing favorably to the broad-market [S&P/ASX 200](#) and [S&P/ASX 300](#).

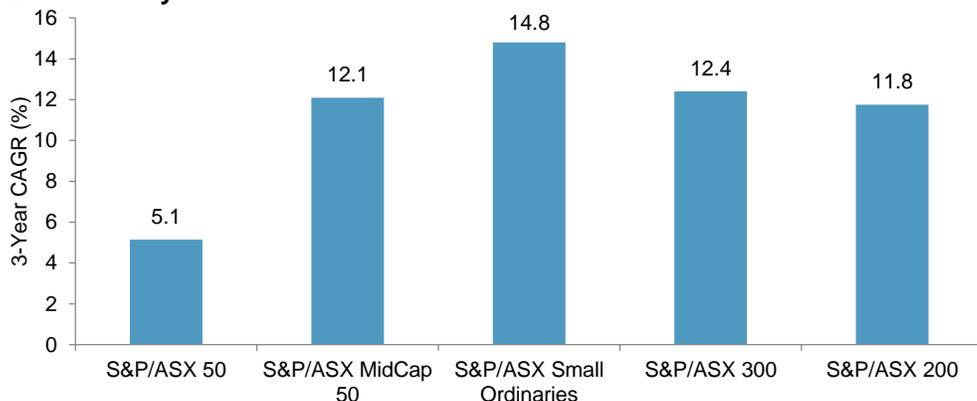
Mid-cap stocks are distinct, with their fundamentals demonstrating a unique stage of development that typically allows for higher growth rates than large-cap companies and greater access to capital than small-cap companies.

Exhibit 2a: Median Revenue Growth of Index Constituents



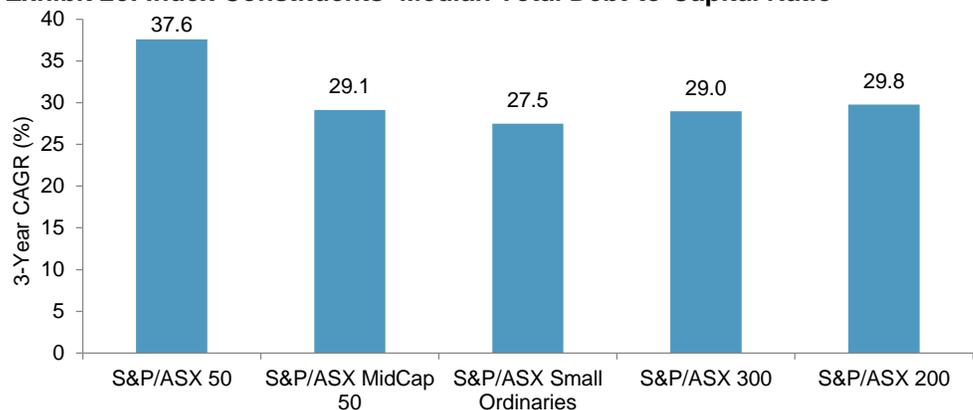
Source: S&P Dow Jones Indices LLC calculations using S&P Capital IQ data. Data as of July 31, 2018. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Exhibit 2b: Median Growth of Index Constituent’s Net Income Before Extraordinary Items



Source: S&P Dow Jones Indices LLC calculations using S&P Capital IQ data. Data as of July 31, 2018. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Exhibit 2c: Index Constituents' Median Total Debt-to-Capital Ratio



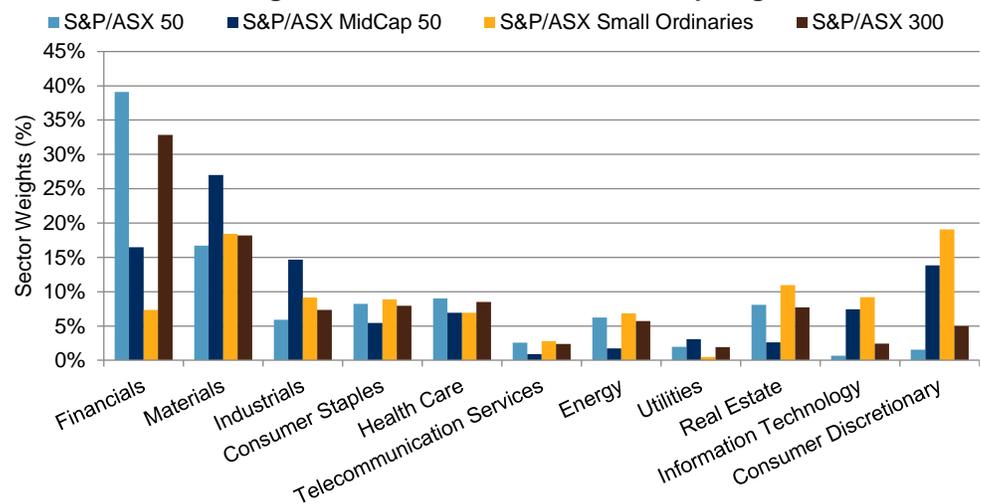
Source: S&P Dow Jones Indices LLC calculations using S&P Capital IQ data. Data as of July 31, 2018. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

About 40% of the S&P/ASX 50 is allocated to financials—a full 23% higher than its weight in the S&P/ASX MidCap 50.

MID-CAP COMPANIES HAVE MORE DIVERSIFIED SECTOR WEIGHTS

While large-cap and broad-based Australian indices are highly concentrated in top companies in banking, the overall market looks different if we exclude these large-cap companies. The performance of the [S&P/ASX 200](#) and [S&P/ASX 300](#) is so heavily driven by large-cap stocks that market participants receive little exposure to mid-cap performance. To illustrate this point further, Exhibit 3 shows the sector weights across Australian market-cap segments. About 40% of the [S&P/ASX 50](#), which represents the large-cap market, is allocated to financials—a full 23% higher than its weight in the [S&P/ASX MidCap 50](#). Consumer discretionary makes up less than 2% of the large-cap segment, but it makes up nearly 14% of the mid-cap index. For those seeking to track companies across a wide range of industries, the S&P/ASX MidCap 50 provides this opportunity.

Exhibit 3: Sector Weights Across Australian Market-Cap Segments

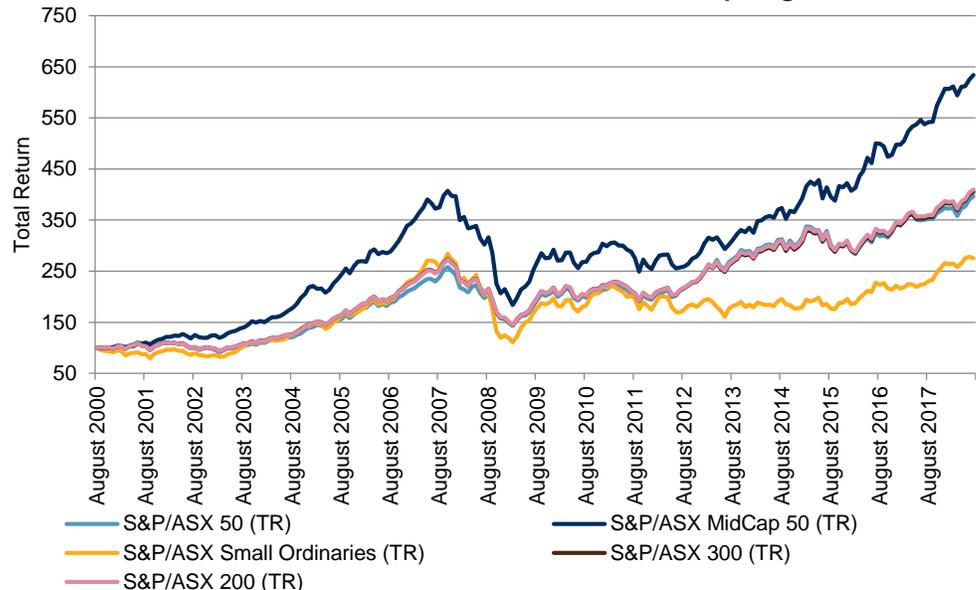


Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. Chart is provided for illustrative purposes.

MID-CAP INDEXING STATISTICS SAY IT WORKS

Since the inception of the [S&P/ASX MidCap 50](#) through the period ending July 31, 2018, unique mid-cap fundamentals and diversified sector weights led the mid-cap segment to outperform both Australian large- and small-cap segments, as well as other broad-market benchmarks (see Exhibit 4).

Exhibit 4: Historical Performance of Australian Market-Cap Segments



Australian mid-cap companies have historically experienced higher volatility than large-cap companies but lower volatility than small-cap companies.

Source: S&P Dow Jones Indices LLC. Monthly total return index performance from Aug. 31, 2000, to July 31, 2018. Indices rebased to 100 as of Aug. 31, 2000. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Not surprisingly, Australian mid-cap companies have historically experienced higher volatility than large-cap companies but lower volatility than small-cap companies (see Exhibit 5). However, market participants have generally been compensated for this higher risk, as the [S&P/ASX MidCap 50](#) has recorded higher risk-adjusted returns since its inception when compared with all other market segments. This signifies the consistent growth mid-cap companies have experienced over time, all while maintaining relatively low volatility.

Exhibit 5: Total Returns and Volatility Over Varying Time Horizons					
PERIOD	S&P/ASX 50	S&P/ASX MIDCAP 50	S&P/ASX SMALL ORDINARIES	S&P/ASX 300	S&P/ASX 200
ANNUALIZED TOTAL RETURN (%)					
3-Year	6.49	15.21	14.03	8.09	7.98
5-Year	8.21	15.96	9.27	9.15	9.17
10-Year	7.24	7.69	3.07	6.93	7.05
15-Year	9.41	10.7	7.08	9.36	9.46
Since Aug. 31, 2000	8.00	10.85	5.82	8.12	8.19
ANNUALIZED STANDARD DEVIATION (%)					
3-Year	10.88	10.48	11.18	10.54	10.61
5-Year	10.9	11.34	11.8	10.69	10.76
10-Year	13.05	15.94	18.38	13.42	13.39
15-Year	12.48	14.89	17.17	12.76	12.71
Since Aug. 31, 2000	12.42	14.15	16.74	12.56	12.51
RISK-ADJUSTED RETURN					
3-Year	0.60	1.45	1.25	0.77	0.75
5-Year	0.75	1.41	0.79	0.86	0.85
10-Year	0.55	0.48	0.17	0.52	0.53
15-Year	0.75	0.72	0.41	0.73	0.74
Since Aug. 31, 2000	0.64	0.77	0.35	0.65	0.65

Source: S&P Dow Jones Indices LLC. Based on cumulative monthly total return index performance through July 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

CONCLUSION

Mid-cap companies combine the attractive qualities of both large and small caps. Typically, mid-cap companies have more room to grow than large-cap companies, which often already dominate their respective industries. However, because mid caps are more established than small-cap companies, which are often not yet generating positive earnings, there is significantly lower risk of company failure. Coupling their unique fundamentals with their more domestically representative sector weights, exposure to mid-cap companies can serve as an effective complement to conventional Australian equity portfolios. These attributes have led mid-cap stocks to outperform both large- and small-cap equities over the long term, while maintaining lower volatility than small caps.

Exhibit 6: ETFs Tracking the S&P/ASX MidCap 50		
ETF NAME	EXCHANGE	TICKER
VanEck Vectors S&P/ASX MidCap ETF	ASX	MVE
Smartshares Australian MidCap Fund	NZX	MZY

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes.

Exposure to mid-cap companies can serve as an effective complement to conventional Australian equity portfolios.

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