

Investment Perspectives

June 2026

The Case for Mid Caps

An Overlooked Opportunity Set

Large-cap stocks are the perennial attention-getters in equity markets, and small-cap stocks frequently grab some of the spotlight as a counterweight to what is, for most investors, a permanent large-cap exposure. Analysts and investors debate the relative merits of both ends of this size spectrum with the dedication of loyal fans of rival sports teams. While such discussions are (usually) worthwhile, the debate ignores the fact that a good portion of the total stock market does not fall into either camp.

We are referring here to mid-cap stocks, an important area of the market that receives less attention than we think it deserves. We believe overlooking mid caps neglects a big slice of the market, one that can offer some of the advantages of both large and small-cap stocks while presenting its own unique set of opportunities.

In this paper, we describe what we believe are some of the advantages of investing in mid-cap stocks, and why we believe this is an area where active management can be particularly beneficial. Our goal is not to argue against holding large and small caps; rather, we aim to shed light on the mid-cap universe as a frequently overlooked segment of the market, and how it can play an important role in an investor's portfolio, as mid-caps have characteristics that can, in our view, complement both small and large-cap exposures.

Defining “Mid Cap”

What, specifically, qualifies as “mid cap”? Mid-cap stocks are typically defined as having market capitalizations between \$2 billion and \$10 billion. To adhere strictly to this definition, a mid-cap portfolio would be forced to sell its holdings in a stock whose market cap rose above or fell below those cut-off points on any given day. That could generate excessive turnover with potentially negative tax implications for portfolios that hold stocks at either end of this range—a portfolio tethered to that definition might therefore avoid holding stocks with a market cap below, say \$2.5 billion or above \$9 billion, narrowing its investable universe.

In our view, an alternative is to define the mid-cap universe as the stocks in the Russell Midcap Index, which consists of approximately 800 of the smallest securities in the Russell 1000 Index, based on a combination of market cap and current index membership. As of June 30, 2026, these securities represent 19% of the total market capitalization of the Russell 1000 Index (which means, of course, that the 200 largest companies in the Russell 1000, just one-fifth of its total positions, represent approximately 81% of the combined large-cap and mid-cap universe's total market value). Since the Russell 1000 rebalances annually, we believe this definition provides ample opportunity to anticipate when a stock is likely to fall out of the mid-cap universe as the rebalancing date approaches.

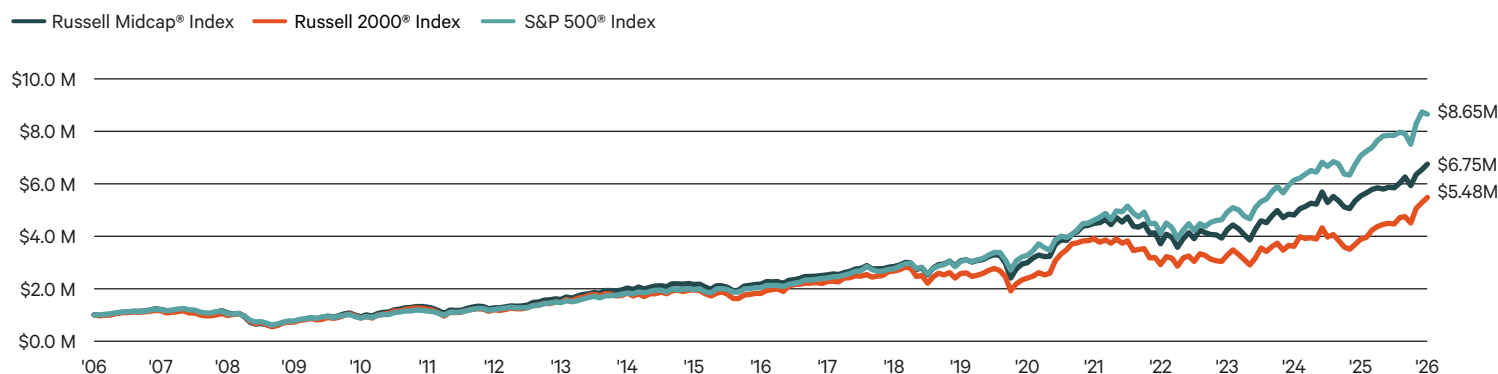
Using the Russell Index-based definition gives mid-cap investors approximately 800 securities from which to choose. The range of companies in the mid-cap space thus represents a large opportunity set (60% greater than the S&P 500).

Same Extended Family, Different DNA

However we choose to define the mid-cap universe, it will be similar in some respects to a large-cap universe, and in other respects to a small-cap universe—after all, it sits between the two. It is the differences that make mid caps intriguing. If asked which size category—large-, small- or mid-cap stocks—had delivered the highest annualized return over the past 20 years, most investors would likely assert that large caps, represented by the S&P 500, had easily captured that trophy. They would be wrong.

FIGURE 1: GROWTH OF \$1 MILLION

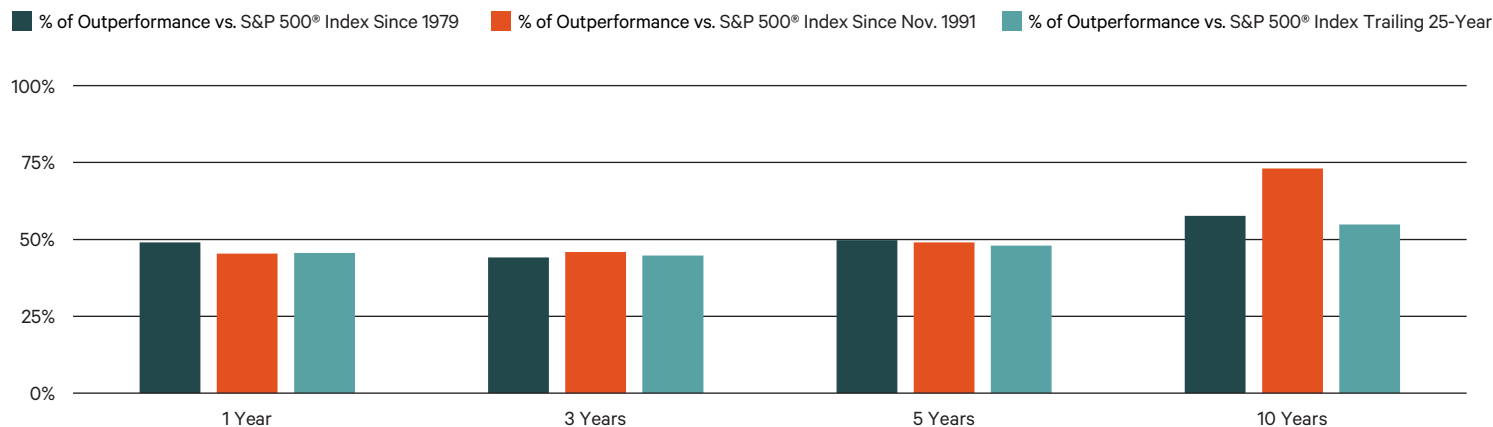
20 Years Ending June 30, 2026



Source: FactSet Research Systems. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

Since its inception in 1979, the Russell Midcap Index has delivered an annualized return of 13.00%, outperforming large (12.46%) and small caps (11.37%) over the long-term. On a rolling 10-year basis, mid caps have outpaced large caps (defined by the S&P 500 Index) in 55% of periods (trailing 25-year), underscoring their consistency across market cycles (Figure 2).

FIGURE 2: % OF TIME MID CAPS OUTPERFORMED THE S&P 500® INDEX (ROLLING 10-YEAR)



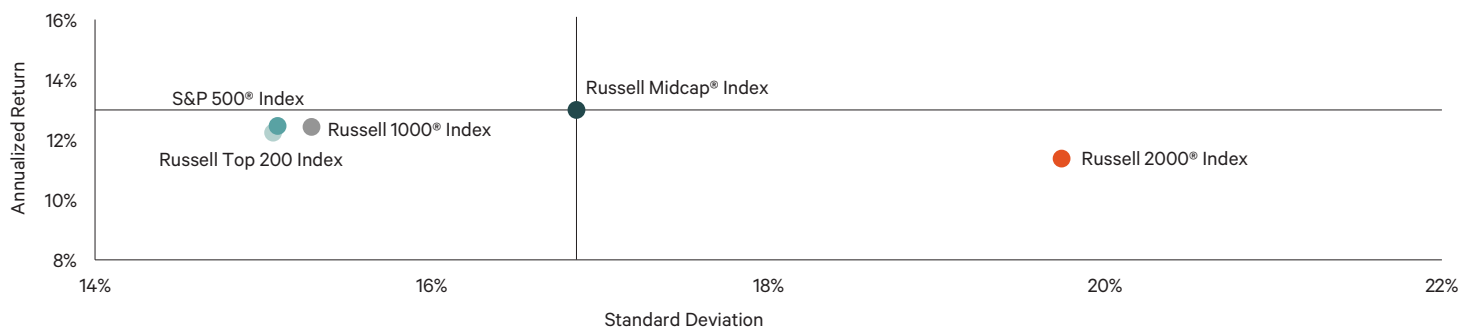
Data is as of June 30, 2026. Source: FactSet Research Systems. Although the Russell Midcap Index was officially launched in 1991, Russell Investments has back-tested the index to 1979 to provide a longer historical return stream and capture an additional market cycle. The back-tested performance is based on a hypothetical annual reconstitution using the same methodology that was in effect at the time of the index's official launch. Back-tested data is not actual performance and should be considered illustrative. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index.

Past performance is no guarantee of future results.

Importantly, mid caps have achieved this with volatility levels as defined by standard deviation (16.86%) falling between large and small caps—higher than large caps (15.08%), but lower than small caps (19.74%) (Figure 3). This balance of return and risk makes mid caps a compelling opportunity between growth potential and stability.

FIGURE 3: AVERAGE ANNUAL RETURNS AND VOLATILITY

January 1979 – June 30, 2026



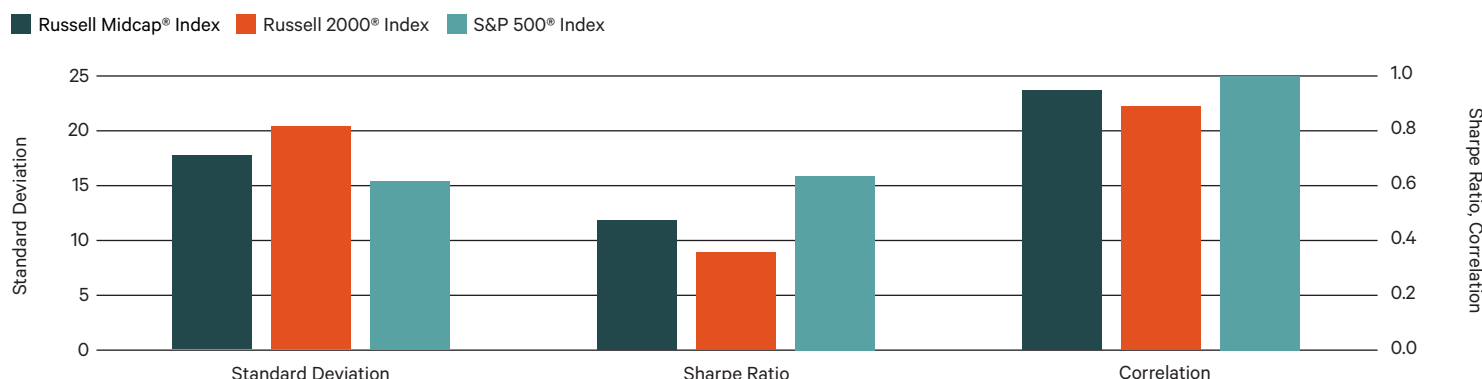
Data is as of June 30, 2026. Source: FactSet Research Systems. Although the Russell Midcap Index was officially launched in 1991, Russell Investments has back-tested the index to 1979 to provide a longer historical return stream and capture an additional market cycle. The back-tested performance is based on a hypothetical annual reconstitution using the same methodology that was in effect at the time of the index's official launch. Back-tested data is not actual performance and should be considered illustrative. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

Highly Correlated, but Not the Same

Over the last 20 years ending June 30, 2026, the Russell Midcap Index has exhibited a 0.95 correlation with the S&P 500. At first glance, this high correlation might suggest little distinction between the two indices. However, we believe passive strategies do not exploit important differences that exist among these indices, differences that can be seen when we look beyond statistics. We believe the most compelling reason to take a closer look at the mid-cap space is because of the opportunities it offers for active management that we think are greater than what exists in the large-cap arena. We believe this can be demonstrated based on various characteristics of these indices.

FIGURE 4: RISK STATISTICS

20 Years Ending June 30, 2026



Source: FactSet Research Systems. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

As seen in Figure 4, the Russell Midcap Index shows a wider dispersion of stock returns than the S&P 500 (as measured by standard deviation), though less than the Russell 2000. We believe that this provides an opportunity set for active investors to identify companies with the potential to outperform. For active managers, this translates into what we believe are more opportunities to add value through stock selection. Compared to the large-cap index where performance is more tightly clustered and fewer companies meaningfully outperform the average, the mid-cap index offers greater variation in outcomes. In addition, mid-cap companies tend to receive less coverage from Wall Street analysts than their large-cap peers, leaving greater differences in valuations and more room for active managers to uncover strong businesses at attractive prices.

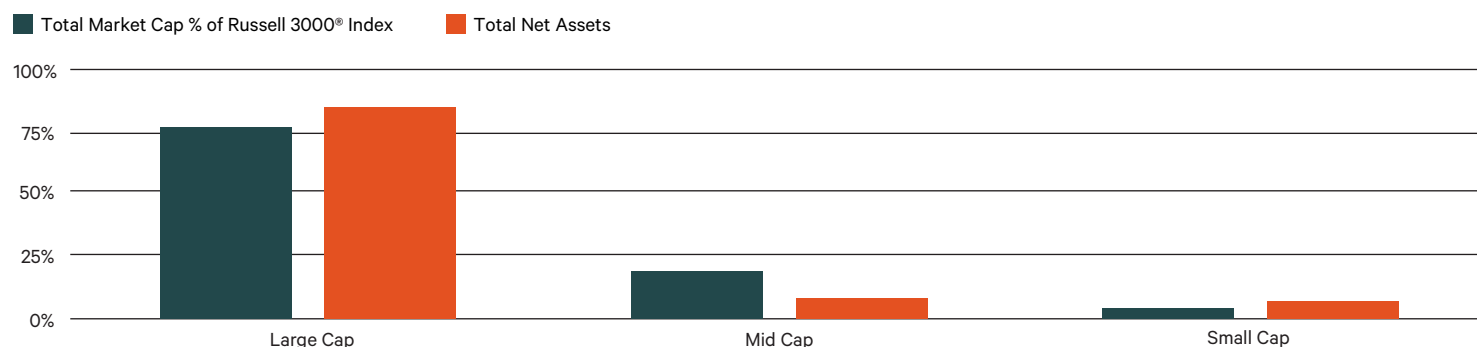
FIGURE 5: AVERAGE NUMBER OF ANALYSTS COVERING INDIVIDUAL COMPANIES BY INDEX



Data is as of June 30, 2026. Source: FactSet Research Systems. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

Yet despite this, mid caps remain systematically underallocated in investor portfolios. Figure 6 highlights this persistent underweighting.

FIGURE 6: SUMMARY MARKET CAP AND ASSETS



Data is as of June 30, 2026. Source: FactSet Research Systems. Large Cap is represented by the Russell Top 200® Index, Mid Cap is represented by the Russell Midcap® Index, and Small Cap is represented by the Russell 2000® Index. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

While mid caps have historically outperformed with what we believe is a favorable balance of risk and reward, recent underperformance relative to large caps reflects a market environment dominated by a narrow set of mega-cap leaders. As of June 30, 2026, the 10 largest names in the S&P 500—roughly ~2% of the index—accounted for 38% of its market value, with the Magnificent 7 alone capturing 32%. These companies have benefited from expanding return on equity (ROE), fueled by AI-driven productivity gains and investor enthusiasm around scalable platforms. This concentration has made it increasingly difficult for active managers to outperform in the large-cap space without perfect positioning. In contrast, the Russell Midcap Index presents a more balanced opportunity: the top 2% of stocks represent just 8% of the index’s value and span a broader set of sectors, including financials, industrials, and energy. This dispersion reduces the risk of active missteps and enhances the potential for alpha generation. As leadership broadens and ROE expansion in mega-caps normalizes, mid caps—with their diversified exposure, operational agility, and attractive valuations—are well-positioned to reassert their historical advantage.

Speaking of sectors, the sector weightings for the S&P 500 have become more concentrated over time—approximately 38% of the index is now in the Information Technology sector. The mid-cap universe offers active investors a greater opportunity to diversify across sectors while seeking to outperform the index.

FIGURE 7: SECTOR WEIGHTINGS

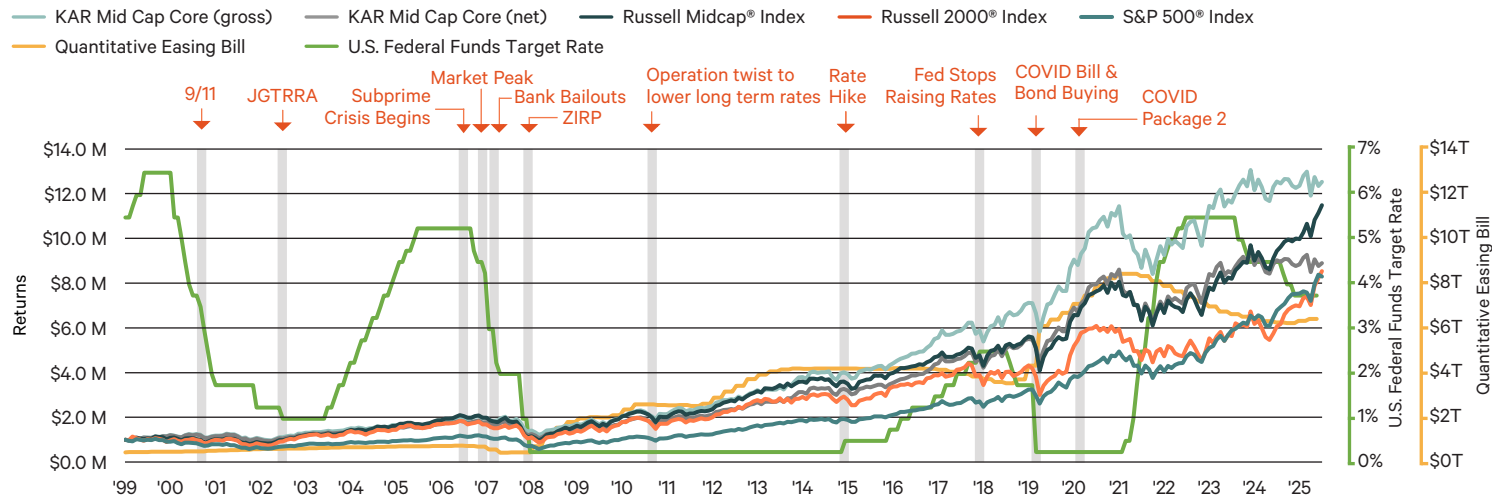
	December 31, 2011			June 30, 2026		
	Russell Midcap® Index	Russell 2000® Index	S&P 500® Index	Russell Midcap® Index	Russell 2000® Index	S&P 500® Index
Communication Services	3.40%	3.26%	7.45%	3.52%	2.42%	9.68%
Consumer Discretionary	12.13%	10.64%	7.19%	9.32%	9.41%	9.33%
Consumer Staples	7.04%	3.99%	11.46%	4.71%	1.96%	4.57%
Energy	7.58%	6.46%	12.10%	5.76%	5.74%	2.98%
Financials	13.91%	16.42%	13.28%	13.73%	18.56%	11.78%
Health Care	9.00%	11.72%	12.09%	10.76%	20.00%	8.89%
Industrials	12.87%	17.17%	10.92%	18.56%	14.74%	8.93%
Information Technology	11.86%	14.52%	16.07%	15.75%	14.31%	37.98%
Materials	6.47%	4.48%	3.35%	5.16%	4.41%	1.83%
Real Estate	7.73%	7.74%	2.13%	6.67%	5.78%	1.83%
Utilities	8.00%	3.61%	3.97%	6.04%	2.68%	2.20%

Source: FactSet Research Systems. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

The distribution across sectors in the mid-cap space is less “lumpy” than in the S&P 500 (the three largest sectors represent ~59% of the S&P 500, compared to ~48% for the Russell Midcap). Again, this shows more diversity in the mid-cap opportunity set.

Finally, it is worth examining how the Federal Reserve’s interest rate policies may affect these different segments of the market.

FIGURE 8: IMPACT OF FED POLICIES ON DIFFERENT SEGMENTS OF THE EQUITY MARKETS



ANNUALIZED RETURNS – As of June 30, 2026

	1 Year	5 Years	10 Years
KAR Mid Cap Core (gross)	(0.07%)	3.61%	11.74%
KAR Mid Cap Core (net)	(1.36%)	2.27%	10.30%
Russell Midcap® Index	21.63%	8.50%	12.00%

Figure 8 includes cumulative returns for KAR Mid Cap Core since inception of December 31, 1999 through June 30, 2026. Source: FactSet Research Systems. This information is being provided by Kayne Anderson Rudnick Investment Management, LLC (“KAR”) for illustrative purposes only. This material is deemed supplemental and complements the performance and disclosure presented on the last page. Returns for the Kayne Anderson Rudnick composite are final. All periods less than one year are total returns and are not annualized. Fees presented on the Disclosure page could vary from the assumed fee in the net-of-fee calculation, as actual fees paid by a particular client account differ depending on a variety of factors including, but not limited to, business unit and size of mandate. The fee used on the Disclosure page utilizes an assumed maximum fee across the firm’s business units, which is further detailed on that page. For further details on the composite, please see the disclosure statement in this presentation. The Russell Midcap®, Russell 2000®, and S&P 500® Indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Returns may be affected by currency fluctuations. **Past performance is no guarantee of future results.**

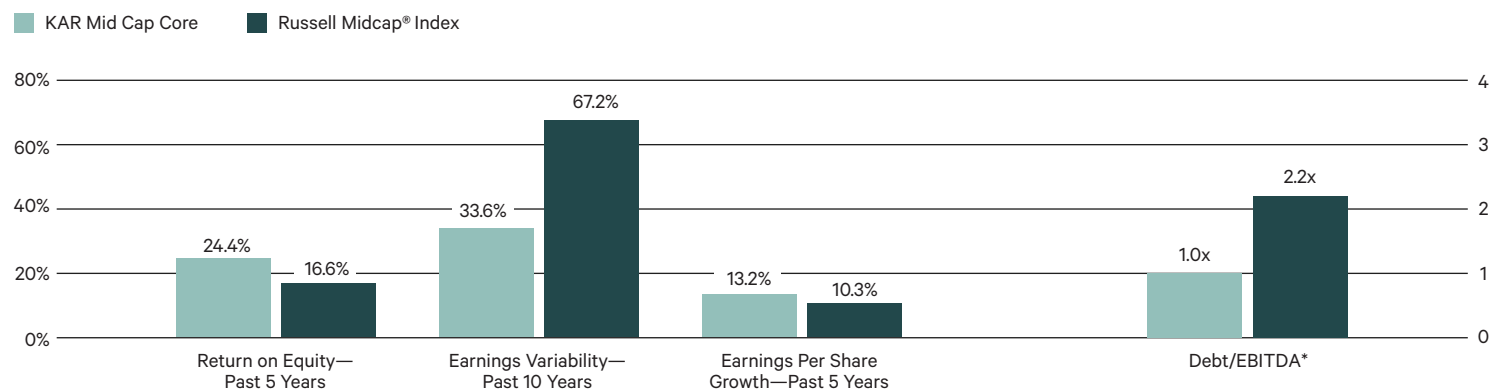
Recall that it was only in 2015 that the returns of the S&P 500 began to pull ahead of the mid-cap index. As Figure 8 shows, the S&P 500 started to benefit from the Fed’s Quantitative Easing some years after the Financial Crisis and was boosted by the zero interest rate policy put in place at the start of the COVID-19 pandemic. As the Fed has removed the support that put downward pressure on long-term interest rates, looking back at a time when rates were more “normal” is instructive.

History shows that mid caps and small caps outperformed the S&P 500 under those conditions. That raises the question: do investors believe the next 5-to-10 years will look more like the past 5-to-10 years, when extraordinary Fed policies were in place, or will the markets be less Fed-dependent in the coming years? Looking back at the early days of the pandemic, we believe that companies with durable balance sheets, higher variable costs than fixed costs, and a “moat” or competitive advantage, were able to respond to changing conditions and did well. From our perspective, this favors the broader, more diversified mid-cap universe.

Why Kayne Anderson Rudnick?

Since its inception in January 2000, the KAR Mid Cap Core strategy has been capturing greater risk-adjusted returns than the asset class by utilizing an actively managed strategy that sticks to a disciplined research process and strict guidelines for quality investments. We believe that the quality of the underlying businesses owned creates a portfolio with solid fundamental characteristics that can lead to strong relative performance in both good and bad markets.

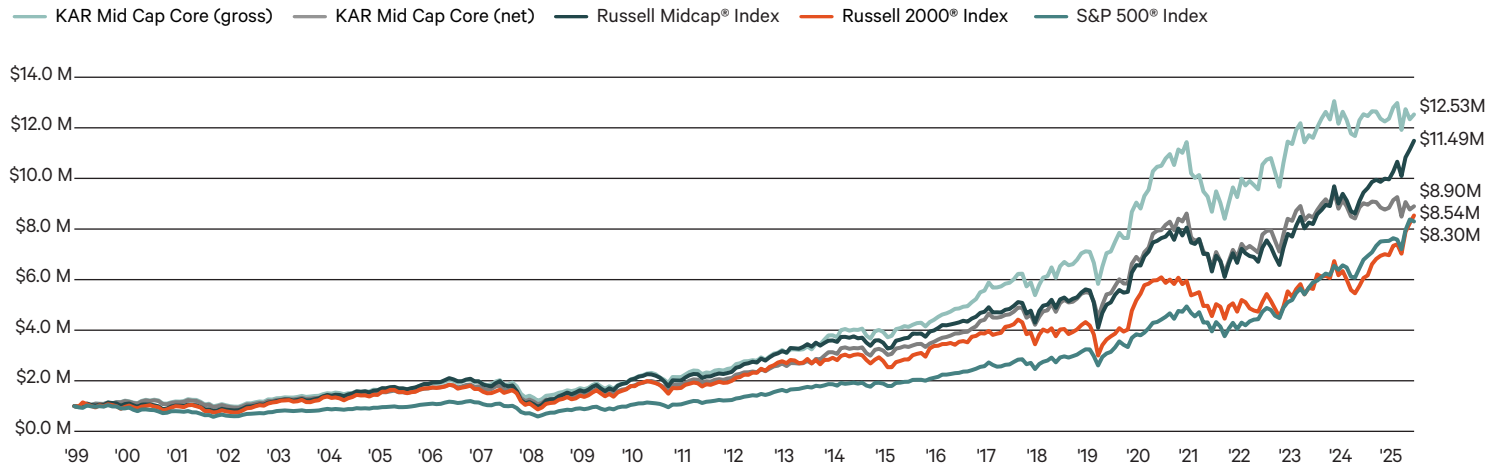
FIGURE 9: FUNDAMENTAL CHARACTERISTICS AND DEBT/EBITDA*



*KAR utilizes the interquartile method when calculating Debt/EBITDA. The interquartile method excludes outliers from an aggregate statistic such as weighted average. The interquartile method does not assume that data from the top or bottom of the distribution are outliers—only the extreme ends are excluded—and that it can be applied consistently as a quantitative method for most fundamental characteristics. Debt/EBITDA utilizes net debt for the calculation. Data is as of June 30, 2026. Source: FactSet Research Systems and BNY Mellon. The statistics presented above are based on a representative portfolio. Actual results may vary. Other principal consultant firms may use different algorithms to calculate selected statistics. Estimates are based on certain assumptions and historical information. Returns may be affected by currency fluctuations. **Past performance is no guarantee of future results.**

In our view, we are laying the groundwork for stronger returns for our investors when we concentrate on finding quality businesses and constructing a strong portfolio. We believe such commitment has allowed the KAR Mid Cap Core portfolio to exhibit meaningful outperformance with less risk since inception relative to its benchmark and the large- and small-cap indices.

FIGURE 10: GROWTH OF \$1 MILLION



The chart reflects cumulative returns for KAR Mid Cap Core since inception of December 31, 1999 through June 30, 2026. Source: FactSet Research Systems. This information is being provided by Kayne Anderson Rudnick Investment Management, LLC ("KAR") for illustrative purposes only. This material is deemed supplemental and complements the performance and disclosure presented on the next page. Fees presented on the Disclosure page could vary from the assumed fee in the net-of-fee calculation, as actual fees paid by a particular client account differ depending on a variety of factors including, but not limited to, business unit and size of mandate. The fee used on the Disclosure page utilizes an assumed maximum fee across the firm's business units, which is further detailed on that page. Returns may be affected by currency fluctuations. **Past performance is no guarantee of future results.**

In summary, **we think the mid-cap space offers a large opportunity set for active managers.** The range of companies in the mid-cap space in terms of size is enormous, which in our view provides an attractive hunting ground to finding opportunities. The mid-cap universe includes fairly small companies that are at the beginning of a big growth trajectory (it is easier for smaller companies to double their sales or market share than it is for large companies), and also larger companies that would be too small to have an impact on the S&P 500, but in our opinion are worthy of investors' attention. We believe the mid-cap universe offers many opportunities to participate in the upside of the broad market and the S&P 500 without being forced to invest heavily in mega-cap names that are highly correlated and dominate that index.

Disclosure

Year	Composite Gross Return (%)	Composite Net Return (%)	Russell Midcap [®] Index Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Accounts	Internal Dispersion (%)	Composite Assets (\$ Millions)	Firm Assets (\$ Millions)
2015	3.37	2.03	(2.44)	11.96	11.00	15	0.44	40	8,095
2016	12.32	10.88	13.80	12.31	11.72	22	0.36	79	9,989
2017	26.13	24.53	18.52	10.76	10.51	72	0.23	170	14,609
2018	(3.21)	(4.46)	(9.06)	11.33	12.15	181	0.30	352	17,840
2019	32.17	30.50	30.54	12.49	13.08	323	0.39	700	25,685
2020	27.08	25.47	17.10	18.88	22.13	362	1.03	1,214	39,582
2021	26.42	24.82	22.58	17.65	20.84	467	0.27	1,946	47,269
2022	(19.04)	(20.11)	(17.32)	21.10	23.95	584	0.30	1,738	33,531
2023	23.75	22.17	17.23	18.95	19.38	692	0.54	2,799	41,186
2024	6.13	4.77	15.34	19.17	20.25	891	0.20	4,336	45,494

The Russell Midcap[®] Index and Russell 1000[®] Index are trademarks/service marks of Frank Russell Company. Russell[®] is a trademark of Frank Russell Company.

KAR (as defined below) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS[®] standards. KAR has been independently verified for the period from January 1, 1999 through December 31, 2024.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis.

The Mid Cap Core Composite has had a performance examination for the period from January 1, 2000 through December 31, 2024. The verification and performance examination reports are available upon request.

GIPS[®] is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Kayne Anderson Rudnick Investment Management, LLC ("KAR"), a wholly owned subsidiary of Virtus Investment Partners, Inc., is a registered investment advisor under the Investment Advisers Act of 1940. Registration of an Investment Advisor does not imply any level of skill or training. KAR manages a variety of equity and fixed-income strategies focusing exclusively on securities the firm defines as high quality.

The composite includes all fully discretionary institutional and pooled Mid Cap Core Portfolios. Mid Cap Core Portfolios are invested in equity securities with market capitalizations consistent with the Russell Midcap[®] Index, that have market control, rising free cash flow, shareholder-oriented management, strong consistent profit growth and low-debt balance sheets. For comparison purposes, the composite is measured against the Russell Midcap[®] Index. The Russell Midcap[®] Index is a market capitalization-weighted index of the 800 smallest companies in the Russell 1000[®] Index, which comprises the 1,000 largest U.S. companies. The index is calculated on

a total-return basis with dividends reinvested. Benchmark returns are not covered by the report of the independent verifiers. The inception date of the composite is January 2000. The composite was created in January 2000. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The firm's list of composite descriptions, list of broad distribution pooled fund and the list of limited distribution pooled funds descriptions are available upon request.

The model management fee used for the net returns in this table is 1.30% for all periods presented. The standard Institutional management fee schedule currently in effect is as follows: 0.75% for the first \$25 million; 0.65% on the next \$25 million; 0.55% on the next \$50 million; 0.50% on the balance. The maximum Wealth Advisory Services Fee in effect is 1.30% for all assets, which breaks out as follows: 1.00% for the first \$3 million; 0.80% on the next \$2 million; 0.70% on the next \$5 million; 0.60% on the balance; with an additional 0.30% for any assets invested in separately managed accounts strategies. The standard investment advisory fee schedule currently in effect for clients not engaging in Wealth Advisory Services is 1.00%. Actual management fees charged may vary depending on applicable fee schedules and portfolio size, among other things. Additional information may be found in Part 2A of Form ADV, which is available on request. The performance information is supplied for reference. Past performance is no guarantee of future results. Results will vary among accounts. The U.S. dollar is the currency used to express performance. Returns are presented net of transaction fees and include the reinvestment of all income. Gross returns will be reduced by investment management fees and other expenses that may be incurred in the management of the account. Model net returns have been calculated by deducting 1/12th of the highest tier of the standard management fee schedule in effect for the respective period from the gross composite returns on a monthly basis.

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns for accounts in the composite for the entire year. For those years when less than five accounts were included for the full year, no dispersion measure is presented. The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period.

GLOSSARY

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Earnings Variability (Past 10 Years): Measures the variability of annual earnings per share over the last 10 years. Earnings per share (EPS) is a company's net profit divided by the number of common shares it has outstanding. Debt/EBITDA: Debt/EBITDA leverages a top-down approach and is calculated based on operating income – cost of sales – SGA (selling, general and administrative expenses) – other operating expenses + depreciation & amortization.

INDEX DEFINITIONS

The Russell Midcap[®] Index is a market capitalization-weighted index of medium-capitalization stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. The Russell 2000[®] Index is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with

dividends reinvested. The S&P 500[®] Index is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The Russell Top 200[®] Index measures the performance of the largest cap segment of the US equity universe. The Russell Top 200 Index is a subset of the Russell 3000[®] Index. The Russell 1000[®] Index is a free float-adjusted market capitalization-weighted index of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The S&P 400[®] provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500[®], is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The S&P 600[®] seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index.