

Mid-cap equities: Understanding the Australian mid-cap opportunity set

Research & Insights

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Mid-cap equities offer an alpha-rich world of opportunity that is often misunderstood and overlooked by investors. The mid-cap sector offers significant alpha potential and less exposure concentration than larger cap equities, says David Lloyd, Co-Head of Emerging Companies, Portfolio Manager.

10 minute read

Key points

- Mid-cap equities can offer an 'alpha-rich' sweet spot of opportunity as companies emerge as leaders in their sectors.
- Valuations relative to history and to the broad market are near historic lows, making mid-cap equities a compelling proposition for asset allocation.
- Mid-cap equities offer the potential to capture the performance of successful small and micro-cap equities in their trajectory to becoming large caps.
- The mid-cap market offers a larger opportunity set in names, and significant alpha potential unhindered by the significant concentration in the largest names for the broader market.
- Capturing some of the smaller company risk premium in the mid-cap sector can drive significant compound returns for patient investors.

We believe that mid-cap equities occupy the 'sweet spot' between the high-growth potential of small caps and the balance sheet strength of large caps. Companies that enter the mid-cap sector are usually at a stage where growth is being supported by factors such as product innovation, market share gains or geographic expansion.

Our investment process focuses on companies accelerating out of the small-cap space, that exhibit attributes such as consistent earnings growth, business resilience, quality management and execution, rising free cash flow and pricing power that supports valuations. The beauty of mid-cap investing is that much of the future growth path remains, while we also have the advantage of knowing how these companies performed during their small and micro-cap stages. By investing across the S&P Small Ordinaries index, we aim to capture the growth potential for companies as their operating momentum drives them into the mid-cap universe (Figure 1).



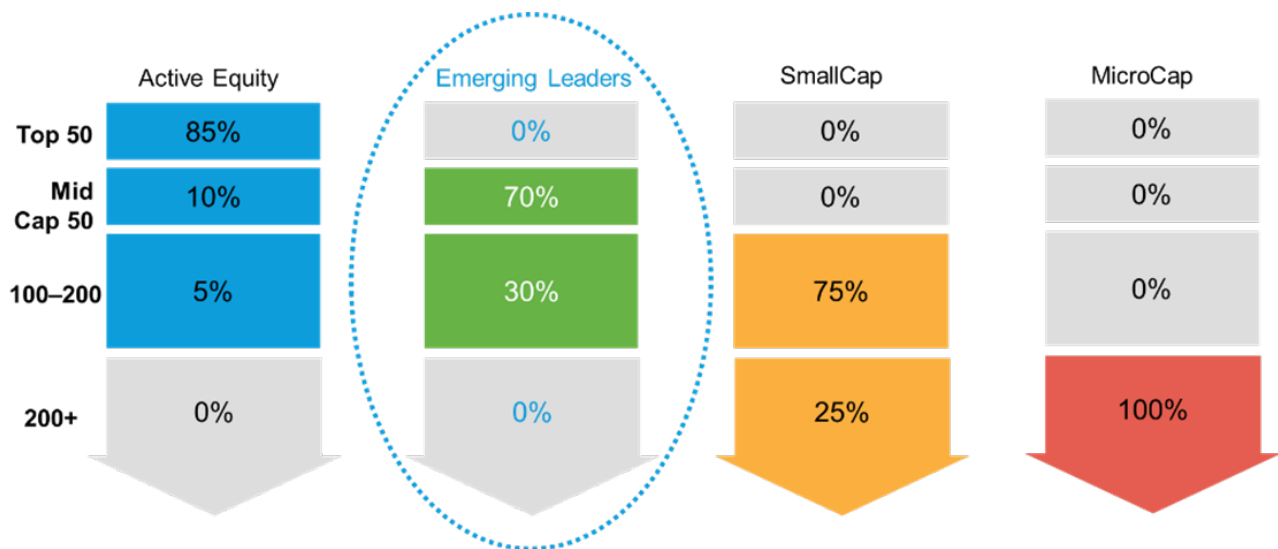
David Lloyd

Co-Head of Emerging Companies
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About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly-owned subsidiary of New York Life Insurance Company. As at 31 May 2026, Ausbil manage over \$21.8 billion in funds under management.

Figure 1: Mid-caps occupy a sweet spot in a company's growth path

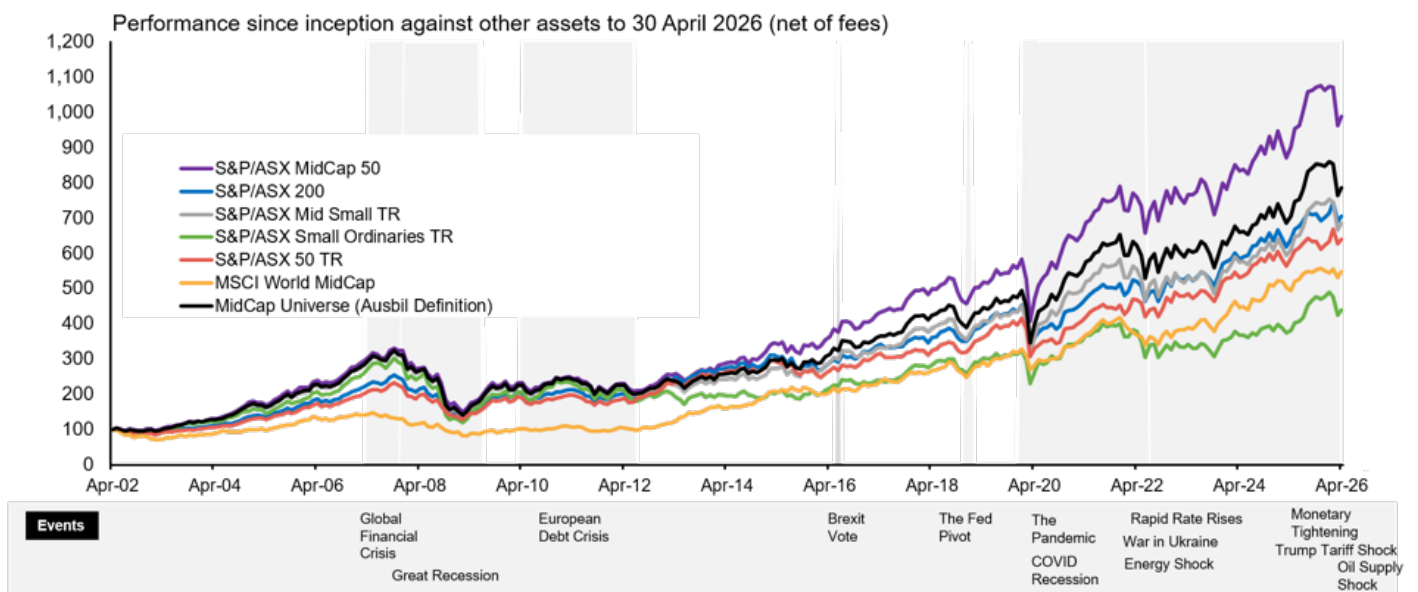


Source: Ausbil, 12 May 2026. The percentage allocations referenced are indicative only and are provided for illustrative purposes. Actual portfolio holdings may vary from these indicative ranges due to market movements, investment decisions, liquidity considerations, or other portfolio management factors. The portfolio may include securities that fall outside of the stated ranges at any time.

Where we see opportunity and limits in the mid-cap space

Market participants in mid-cap equities in Australia define the investable universe in a variety of ways. While each approach has its merits, these differing definitions can create distinct risks and opportunity sets. Figure 2 illustrates the long-term return profile of various mid-cap indices relative to the large-cap index (S&P/ASX 50) and the broad market (S&P/ASX 200).

Figure 2: Smaller companies demonstrate the value of their risk premium over the long term



Source: Bloomberg, Ausbil, from 1 May 2002 to 30 April 2026. *Important note, these returns are net of fees simply to help illustrate how the universe has negotiated various market crises. All returns are total returns. MidCap Universe (Ausbil Definition) is the Composite Benchmark comprising 70% in the S&P/ASX MidCap 50 and 30% in the S&P/ASX Small Ordinaries accumulation indices.

Across the 20+ year period shown, Australian mid-caps (S&P/ASX MidCap 50) have outperformed Australian large caps (S&P/ASX 50), the broader Australian market (S&P/ASX 200), Australian small caps (S&P/ASX Small Ordinaries), and global mid-caps (MSCI World Mid Cap). Like the MidCap 50, Ausbil's mid-cap universe, represented by a composite benchmark of 70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries, has outperformed Australian large and the alternative mid-cap indices shown in Figure 2. While the composite benchmark has underperformed the pure MidCap 50 over the period, this reflects the deliberate inclusion of the Small Ordinaries index to broaden the opportunity set for active management.

The Small Ordinaries index contains a diverse mix of companies, including many unprofitable businesses, but also a deep pool of emerging growth companies that are rapidly evolving into future mid-caps. This creates a broad universe that skilled active managers can selectively exploit.

Several important observations can be made about defining the mid-cap market

First, while the MidCap 50 has clearly outperformed the other indices shown in Figure 2, in our view limiting the investable universe to just 50 companies materially constrains the opportunity set for active managers. This is especially important when constructing a diversified active portfolio of at least 20 names with minimised correlation.

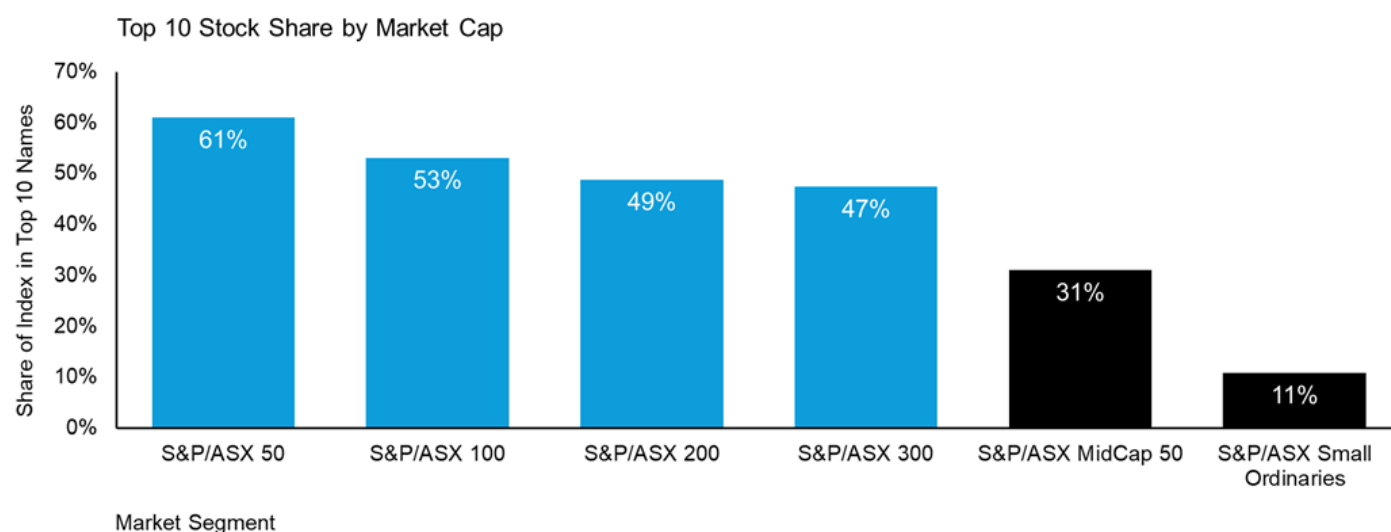
Second, most active mid-cap approaches extend below the MidCap 50 into broader universes such as the ex-50, ex-100, S&P/ASX Small Ordinaries, or composite benchmarks such as Ausbil's. This is intended to capture compelling companies that exhibit momentum towards graduating into the mid-cap 50. While there is broad agreement that mid-caps extend beyond the strictly defined MidCap 50 itself, our view is that any broader definition of the mid-cap opportunity set is more appropriately extended down the capitalisation spectrum, rather than up.

Third, some approaches include the ex-20 as a source of mid-cap opportunities. While Ausbil's mid-cap strategy can continue to hold successful companies that grow beyond the mid-cap 50 universe and let profits run, we do not initiate positions in companies unless they fit our mid-cap definition. The market cap of companies that are ranked between the top 20 and the MidCap 50 is approximately \$587bn, a multiple of 1.3x of the size of the entire S&P/ASX MidCap 50 index at around \$452bn (as at May 2026). In our view, including these larger companies in a mid-cap strategy takes it too closely to one more reflective of large cap risk exposure rather than mid cap risk.

Finally, Ausbil's mid-cap universe allows investment across both the S&P/ASX MidCap 50 and the S&P/ASX Small Ordinaries indices while maintaining a 70% performance weighting to the MidCap 50 in the benchmark. This reflects an explicit asset allocation decision designed to preserve mid-cap risk and return exposure, while still allowing the portfolio to source emerging opportunities from the Small Ordinaries universe. In contrast, broader benchmark constructions without this weighting discipline can dilute mid-cap exposure and change its investment characteristics.

It is important to note that successful large caps in most markets tend to dominate in their respective indices. Figure 3 highlights this concentration by comparing the share of the top 10 companies in each index based on market capitalisation, with concentration declining further down the market cap spectrum.

Figure 3: Mid-cap equities are less dominated by large names



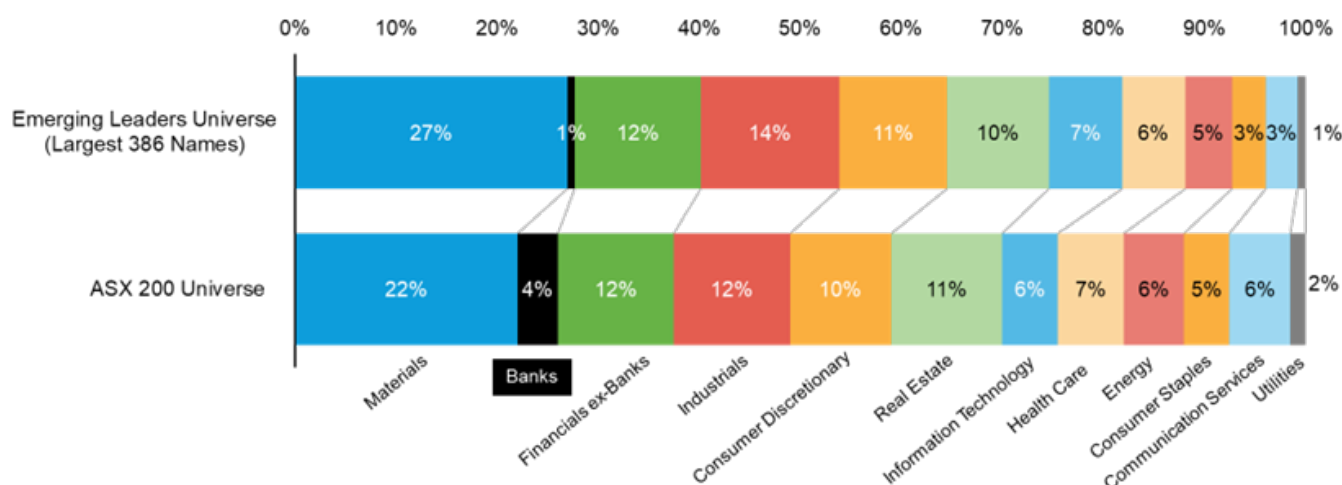
Source: Ausbil, Bloomberg as at 20 May 2026. Adjusted for availability of free float.

Looking beyond size at the spread of sector opportunity in mid-caps

One of the areas where we see key differences in mid-cap versus broad market exposure is in sector exposures. Inclusion of large companies in the broad market index adds significant concentration in banks and mining companies, which together dominate almost half of the ASX 200 (Figures 4 & 5).

Figure 4: A diverse universe with twice the opportunity of the ASX 200 by number of companies

Emerging Leaders Universe v ASX 200: Number of Companies



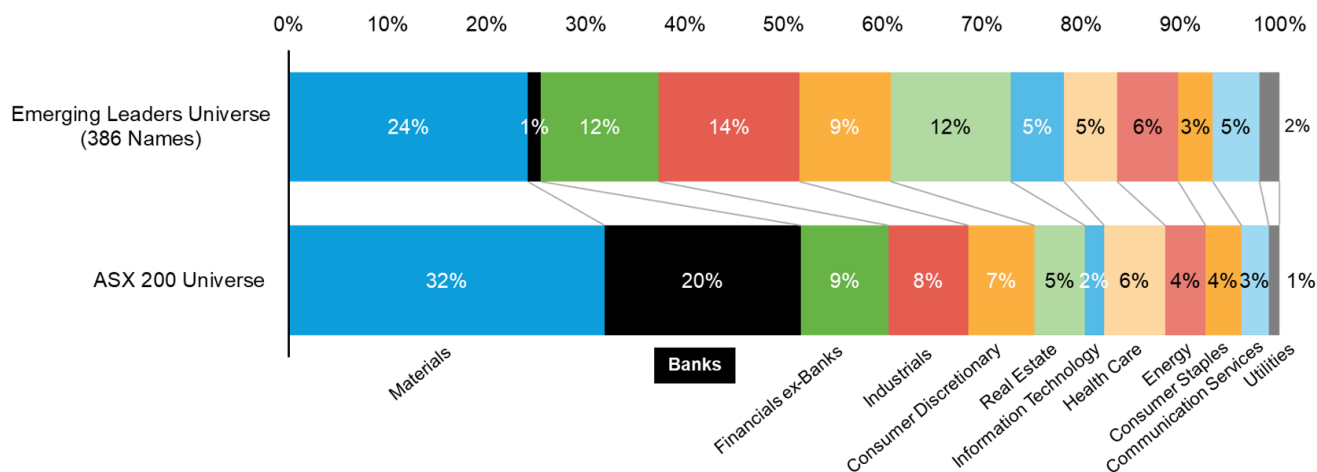
Source: Ausbil, Bloomberg as at 9 February 2026.

While mid-caps (as proxied by Ausbil's Emerging Leaders universe comprising a mid-cap benchmark composite index of 70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries) offer bank exposure, five banks do not dominate 20% of its market as they do for the S&P/ASX 200 (Figure 5).

By contrast, smaller materials, banks and financials make way for a diversity of other sector opportunities in mid-caps that can offer greater allocation flexibility across changing macro-economic environments.

Figure 5: Mid-caps offer significantly less concentration to banks by value of companies

Emerging Leaders Universe v ASX 200: By Market Cap

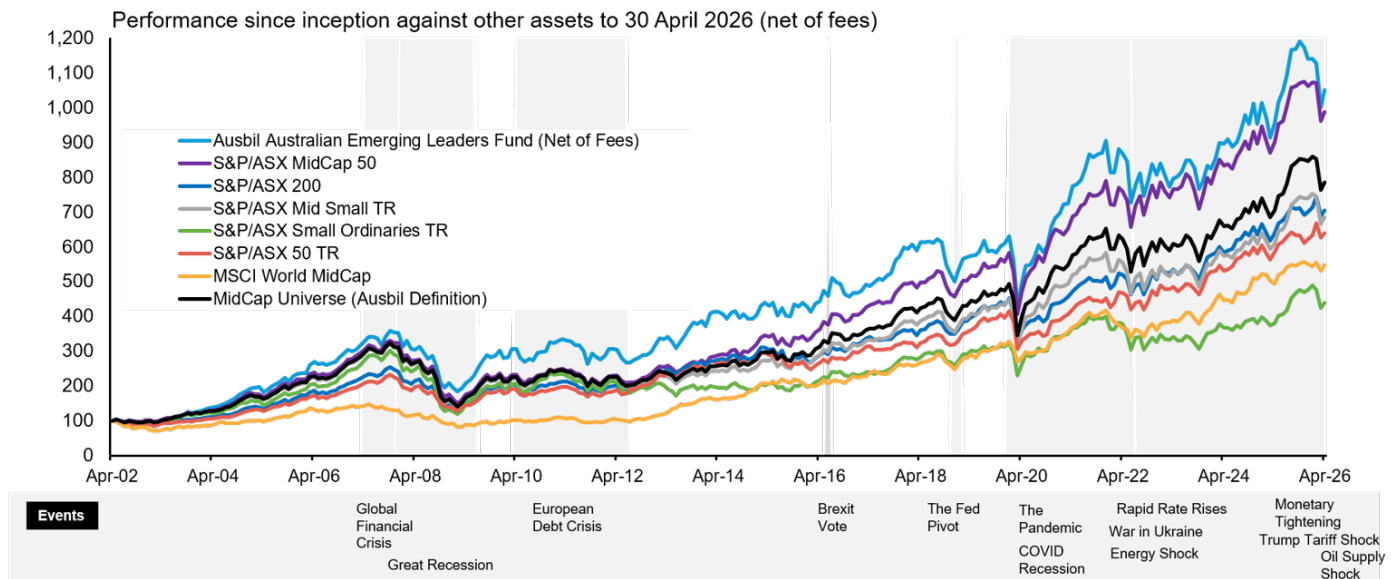


Source: Ausbil, Bloomberg as at 9 February 2026.

Bringing it all together: Mid-cap equities and the performance of active management

It has been shown, based on long time periods of multiple decades, that smaller companies outperform larger companies consistently, an assertion supported by the empirical evidence from researchers such as Siegel (2015), Banz (1981) and Fama and French (1992), and in the basic comparison of market data.

Figure 6 compares Ausbil's long active mid-cap strategy against relevant market measures to illustrate how an active approach has performed over the period shown (the example shows the Ausbil Australian Emerging Leaders Fund – gross of fees – since its inception date on 1 May 2002 for the purpose of pure comparison).

Figure 6: Active mid-cap strategies: historical performance over the long run

Source: Bloomberg, Ausbil, from 1 May 2002 to 30 April 2026. *Important note, these returns are net of fees simply to help illustrate how the universe has negotiated various market crises. All returns are total returns. MidCap Universe (Ausbil Definition) is the Composite Benchmark comprising 70% in the S&P/ASX MidCap 50 and 30% in the S&P/ASX Small Ordinaries accumulation indices.

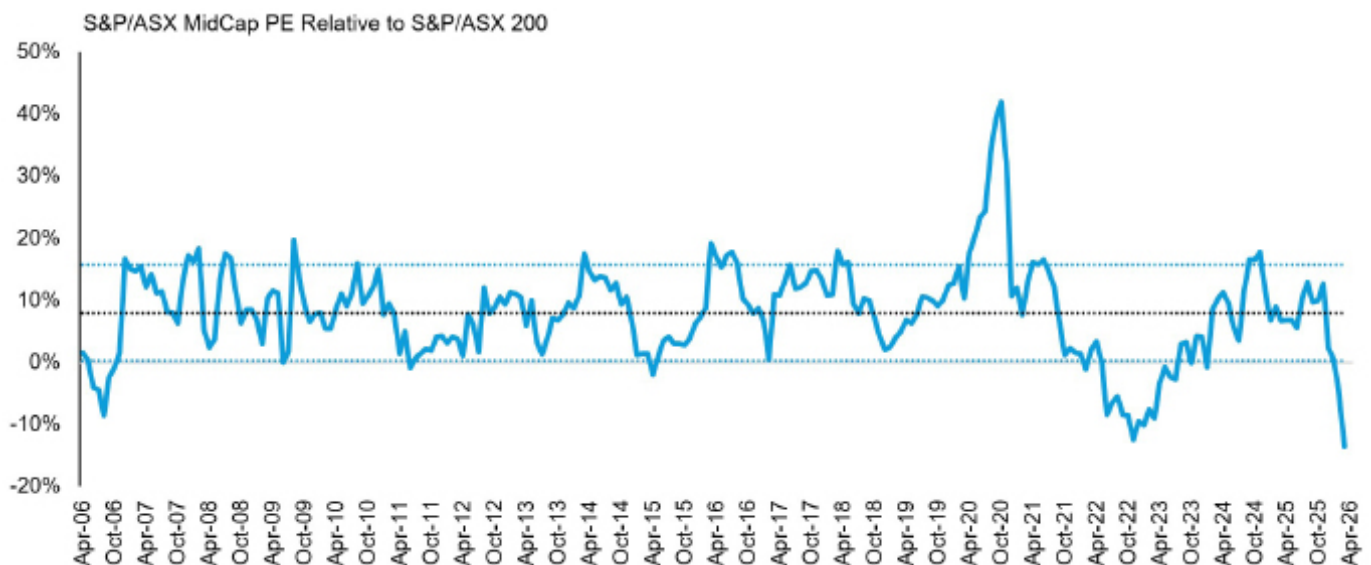
Figure 6 illustrates how the inclusion of companies from below the mid-cap index can add in the performance of an active mid-cap strategy. In this case, while the S&P/ASX Small Ordinaries index has underperformed the S&P/ASX MidCap 50 index on average over the period, the ability to selectively invest in the most attractive companies within the Small Ordinaries universe can provide investors a source of alpha for active strategies in addition to opportunities in the MidCap 50.

Relative value is compelling

At the moment, mid-cap valuations relative to their historical range are depressed, trading around one standard deviation below their long-term average (Figure 7). This provides investors with an opportunity to allocate to mid-caps at valuations below their typical historical levels.

Figure 7: Mid-caps are at 20-year valuation lows relative to history

The opportunity to benefit from the relative valuation of mid-caps is further underscored by their values relative to the broad market S&P/ASX 200 index (Figure 8), which is dominated by large cap equities, with the 10 largest stocks accounting for almost half of the market cap of the index.

Figure 8: Mid-caps are at 20-year valuation lows relative to the ASX 200

Source: Bloomberg, as at 31 March 2026.

The value of mid-cap equities on the Australian market has been around two standard deviations from their average relative to the broad market ASX 200. Given the typically stronger earnings growth profile of mid-cap equities relative to large-caps, periods in which mid-caps trade at a relatively cheaper basis offer windows for allocators to further diversify and augment potential sources of alpha.

Conclusion

Overall, a long-term optimistic view on economic growth, despite periodic recessions and market drawdowns, tends to favour the growth potential of mid-cap and smaller companies relative to larger peers. While investors may experience higher volatility during periods of market stress, over the long-term, the higher relative risk premium tends to translate into steady compound returns for those with a steady hand.

Over the long term, mid-cap equities have delivered higher returns than their large-cap peers, albeit with greater volatility during periods of market stress. In our view, the mid-cap opportunity set extends beyond the MidCap 50 itself and should include a broader universe of companies progressing toward mid-cap status, as well as selected companies whose prospects may be improving following prior underperformance. This is why Ausbil adopts a wider investable universe extending down the market-cap spectrum, while maintaining a disciplined 70% weighting to the performance of the MidCap 50 as an explicit asset allocation decision to preserve true mid-cap risk exposure. We believe this combination of breadth, selectivity and a disciplined investment framework provides for an effective way to actively invest in the Australian mid-cap market.

Fund performance and more information

For more information on the Ausbil Australian Emerging Leaders Fund, and for the latest performance, please visit <https://www.ausbil.com.au/our-products/australian-equities/ausbil-australian-emerging-leaders-fund>

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