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Mid-Caps Rule US Equity Space in Last Decade

by Taylor Riggs

Among domestic equity strategies, mid-cap products beat out all other types of strategies in terms of performance over the past decade, a new analysis shows. According to Informa Investment Solutions' PSN Top Guns report, six out of the top 10 best performers in the equity universe were either mid-cap strategies or smid-cap strategies, which incorporate small-cap along with mid-cap equities.

The fact that mid-caps are some of the best performers should not come as too much of a surprise, as mid-cap products suffered much less in outflows than small- or large-cap products in recent years, indicating general institutional satisfaction with the space. Actively managed domestic mid-cap strategies saw over \$43 billion in institutional outflows over the five-year period ending Dec. 31, according to the eVestment Alliance database. Actively managed domestic large- and small-caps saw almost \$380 billion and almost \$90 billion, respectively, in institutional outflows over that same five-year period.

The top performer in all U.S. equities in the PSN database was Westwood Management's smid-cap equity strategy, which has \$3.2 billion in assets. Westwood, with roughly \$12.5 billion under management overall, beat out larger competitors like JPMorgan Asset Management, Goldman Sachs Asset Management and Rothschild Asset Management, which all placed mid- or smid-cap products in the top 10 for equity products over the past decade.

And institutional investors took notice of Westwood strategy's performance. In January, the firm announced it was closing the smid-cap fund to new investors due to capacity constraints. But, it also said, due to institutional demand, Westwood is also launching a smid-cap plus fund, which is managed by the same investment team.

According to PSN, Westwood's smid-cap strategy returned 12.6% for the 10 years ending Dec. 31, followed closely by RBC Global Asset Management's mid-cap value strategy, which returned 12.4%. Systematic Financial Management returned 12.2% with its mid-cap value product. (A chart listing the entire top 10 is at the end of this article.) The S&P 500 returned just 1.4% over that same time period.

Elizabeth Wetherbee, senior v.p. of PSN Communications, notes that while Westwood beat out much larger competitors for the top spot of U.S. Equity Top Guns manager of the decade, "Rothschild is the only manager in that category to secure two spots, with both their small-cap and smid-cap products making the short list."

The global investment committee of Morgan Stanley Smith Barney agrees that sticking with stocks in general is a good idea right now. Although the S&P 500 was slightly above water for the 10 years ending Dec. 31, the committee, in a new report, notes that the S&P 500 did post a negative return for the 10-year period ending Sept. 30, when it was down 43 basis points. The firm goes on to point out that "10-year periods of negative returns on the S&P 500 have never been followed by subsequent five- or 10-year periods of negative performance."

So far this year, at least one institutional investor launched a substantial domestic mid-cap equity search to

seek higher returns with active managers. The \$73 billion Ohio Public Employees Retirement System put out a search for up to eight managers, each receiving mandates ranging from \$350 to \$700 million, as reported.

PSN Top Guns			
Top US equity managers for the decade ending Dec. 31 2010			
	Firm	Strategy	10-year returns
1	Westwood Management	smid-cap	12.60%
2	RBC Global Asset Management	mid-cap value	12.40%
3	Systematic Financial Management	mid-cap value	12.20%
4	CHOICE Asset Management	CHOICE special opportunities	10.90%
5	JPMorgan Asset Management	mid-cap value	10.50%
6	Atlanta Capital Investment Managers	high-quality small-cap	10.40%
7	Goldman Sachs Asset Management	mid-cap value	10.30%
8	Robeco Investment Management	premium equity	9.80%
9	Rothschild Asset Management	small-cap	9.80%
10	Rothschild Asset Management	smid-cap	9.50%

Source: PSN Database

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