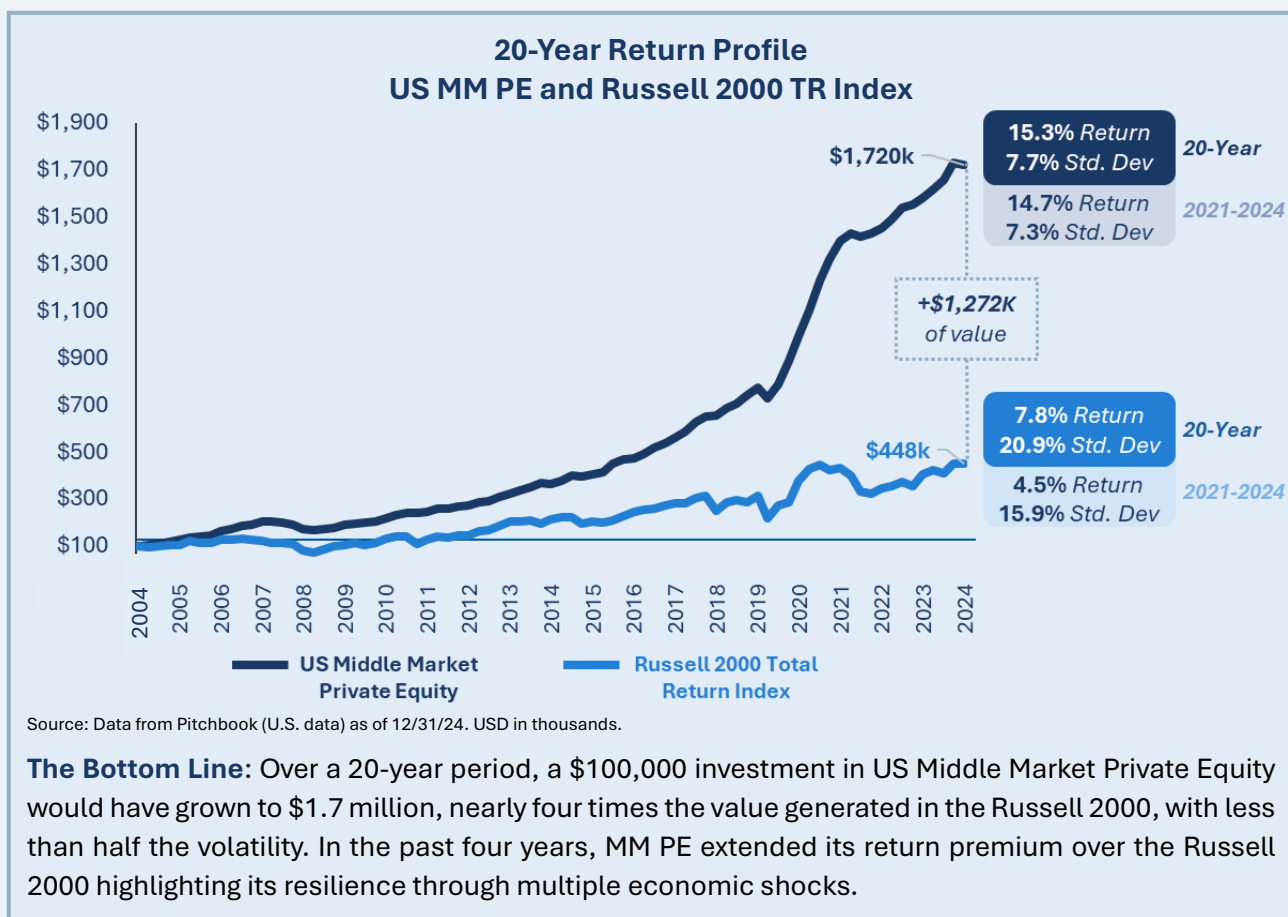


MARKET BRIEFING

October 13, 2025

Mind the Gap: Accessing an Attractive Segment No Longer Captured by Small Cap

Institutional investors have long turned to small-cap public equities, such as the Russell 2000, to capture the growth premium associated with smaller companies. In recent years, however, the Russell 2000 has struggled to deliver on this promise. Returns have been muted, volatility has remained elevated, and a growing share of the index constituents represent larger, often unprofitable businesses. At the same time, the growing middle market segment of U.S. private equity (“US MM PE”) has emerged as a consistent engine of value creation and small-company exposure.



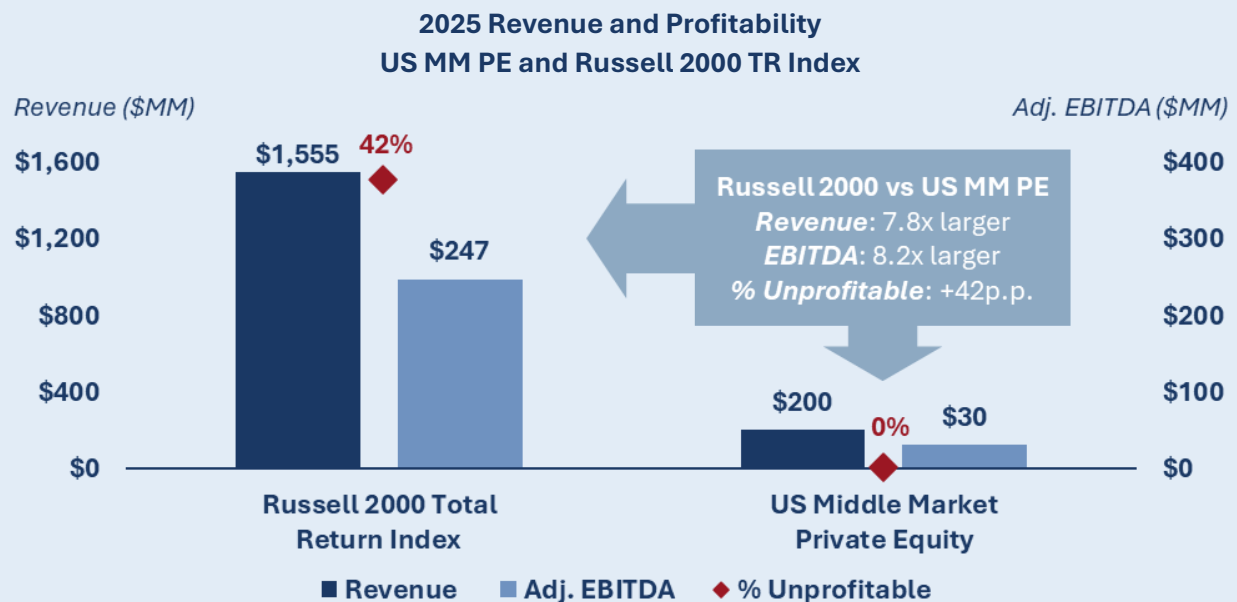
The Russell 2000: Weaknesses in Small-Cap Public Equity

- Volatility and Low Return Profile:** Between 2021 and 2024, the Russell 2000 returned a 4.5% annualized return with standard deviation of 15.9%. Over that same period, US MM PE delivered a 14.7% annualized return with a 7.3% standard deviation.

2. **High Share of Unprofitable Companies:** Approximately 42% of Russell 2000 constituents were unprofitable in 2025. In contrast, middle market private equity firms focus on businesses generating positive EBITDA and adequate free cash flow, which support a higher level of re-investment to create a stronger growth profile.
3. **Structural Index Issues:** The decline in U.S. public listings and the Russell's rigid stock-count methodology have introduced significant size drift. Annual reconstitution adds further volatility and noise, potentially leaving investors exposed to unintended risks.

Outgrowing the Small Company Premium

Despite its reputation as a “small-cap” benchmark, the Russell 2000 today is dominated by companies much larger than many investors expect: average revenue of \$1.6 billion and EBITDA of \$250 million. With 42% of these businesses unprofitable, investors have not seen that scale translate into strength. In the pursuit of the small-company growth premium, the US middle market offers a sweet spot with profitable and growing companies positioned for outsized expansion.

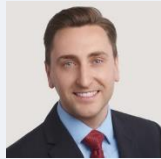


Source: Data from CapitalIQ as of September 2025 or the latest available date.

Conclusion

The Russell 2000 has become an increasingly inefficient tool for small-company exposure, marked by high volatility, low returns, and an outsized concentration of unprofitable firms. Middle-market private equity offers a superior alternative. By reallocating a portion of small-cap public equity exposure into middle-market buyouts, investors can capture the small-company premium in a higher-quality, higher-conviction format that enhances long-term portfolio resilience.

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Economic and market data is sourced from PitchBook unless stated otherwise.

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