CHANGES TO MID CAP ALLOCATIONS

Investing in Mid Cap stocks can offer the stability of Large Cap stocks with the growth component of Small Cap stocks.

Can small changes to Mid Cap allocations have positive long-term outcomes for an overall portfolio?

In this scenario, we take a look at a client allocation covering a 25-year period for an investor with the following asset allocation: 80% Domestic US Equities (55% Large Cap, 15% Mid Cap, 10% Small Cap), 5% International Equities, and 15% Fixed Income.

20%

We overweight Mid Cap by 20% and underweight Large Cap by 20%

40%

We overweight Mid Cap by 40% and underweight Large Cap by 40%

When overweighting the Mid Cap allocation, what happens to the risk/return?

OVER A 25-YEAR PERIOD: 1996-2020	CLIENT ALLOCATION	HYPOTHETICAL #1	HYPOTHETICAL #2
Domestic US Equity	80%	80%	80%
Large Cap Core	*55%*	*35%*	*15%*
Mid Cap Core	*15%*	*35%*	*55%*
Small Cap Core	*10%*	*10%*	*10%*
International	5%	5%	5%
Bonds	15%	15%	15%
Total	100%	100%	100%
25-Year Annualized Performance (Gross)	9.1%	9.4%	9.6%
25-Year Sharpe Ratio	0.51	0.52	0.52
Value on 1/01/1996	$100,000	$100,000	$100,000
Value on 12/31/2020	$887,395	$934,898	$982,035
Net Difference	-	$47,502	$94,640

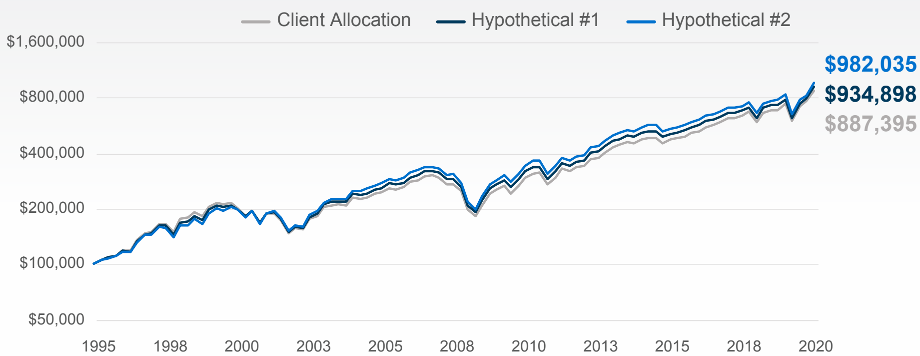
Representation for the following breakout: Equity 80% (broken out to Russell 2000/Russell Mid Cap/Russell 1000), International 5% (MSCI EAFE), Bonds 15% (Barclays Capital Intermediate Government Credit Corp.). Please see disclosures for further information. The data shown above is based on a portfolio rebalanced annually.

Without assuming additional risk, as measured by Sharpe ratio:

A modest overweight to Mid Cap (20%) would have earned an additional $48,000.

An aggressive overweight to Mid Cap (40%) would have earned an additional $95,000, without assuming additional risk.

Changing the allocation to Mid Cap stocks can have an increase in return without eroding the risk/return relationship (seeking a higher return usually assumes a higher risk). Sharpe ratio remained constant with overweighting allocations, meaning as the return increased, the risk actually remained the same compared to the standard 80/5/15 allocation.



Source: eVestments Analytics

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Source: Data provided by eVestment Analytics. Russell index data. Russell 2000, Russell Mid Cap, Russell 1000.

The information used in this presentation is based on hypothetical account allocations created by Anchor Capital Advisors LLC. The returns presented are exclusive of fees and are gross returns. Data represents hypothetical accounts with a generic 25 year time horizon where the portfolio is rebalanced annually. Representation for the following breakout: Equity 80% (broken out to Russell 2000/Russell Mid Cap/Russell 1000), International 5% (MSCI EAFE), Bonds 15% (Barclays Capital Intermediate Government Credit Corp.).

The performance results are based upon a hypothetical model and may have inherent limitations. Hypothetical performance does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risks associated with actual market conditions. There are numerous other factors related to the markets in general, or to the implementation of any specific trading strategy, which cannot be fully accounted for, and all of which can adversely affect actual trading results.

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Sharpe Ratio: Sharpe Ratio is used to help investors understand the return of an investment compared to its risk. The ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Subtracting the risk-free rate from the mean return allows an investor to better isolate the profits associated with risk-taking activities.

Russell 1000 Index (R1000): offers investors access to the extensive large-cap segment of the U.S. equity universe representing approximately 92% of the U.S. market. The Russell 1000 is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are reflected. The Russell 1000 includes the largest 1000 securities in the Russell 3000.

Russell Mid Cap Index (RMC): offers investors access to the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000.

Russell 2000 Index (R2000): offers investors access to the small-cap segment of the U.S. equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

MSCI EAFE Index: The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries. The Index is widely used as a benchmark and as the basis for index-linked financial products. Multiple exchange traded funds are based on the MSCI EAFE Index and the ICE Futures Europe, ICE Futures US and Chicago Board Options Exchange (CBOE) are licensed to list futures contracts on this Index.

Barclays Capital U.S. Intermediate Government/Credit Bond Index (BCIGC): The Barclays Capital U.S. Intermediate Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years. Securities have $250 million or more of outstanding face value and must be fixed rate and non-convertible.