S&P Dow Jones Indices

A Division of S&P Global

Hidden in Plain Sight:
U.S. Equities beyond the S&P 500®

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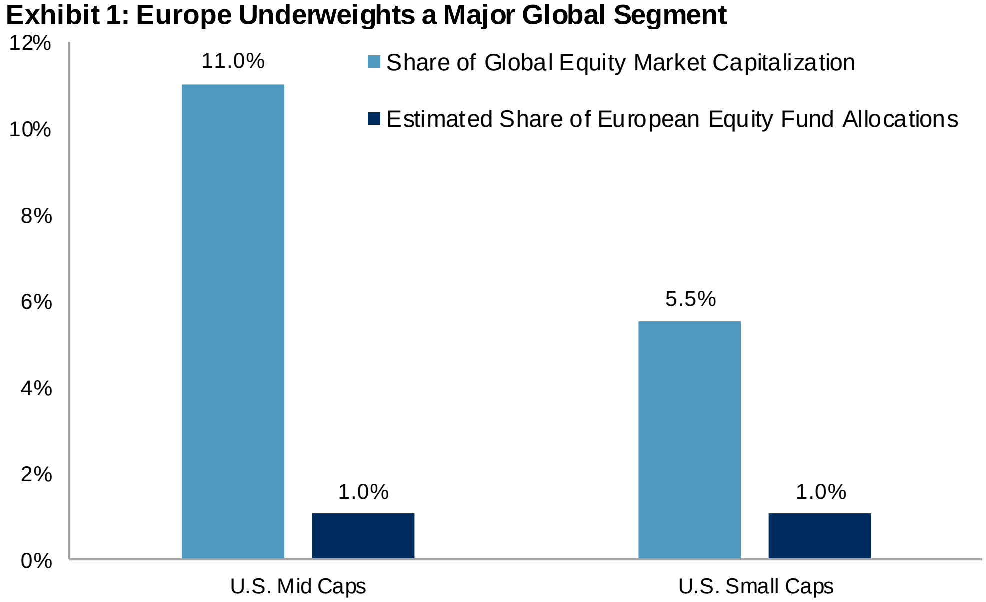
"The obscure we see eventually. The completely obvious, it seems, takes longer."

Edward R. Murrow

EXECUTIVE SUMMARY

- Mid- and small-cap U.S. equities represent a significant piece of the global market, but they are overlooked by many international investors, particularly those in Europe.
- The S&P MidCap 400® and S&P SmallCap 600® are simple, transparent benchmarks for U.S. mid and small caps. Over the past 20 years, they have outperformed the S&P 500, as well as a majority of actively managed U.S. equity funds in their respective size segment.
- Exhibit 1 summarizes the potential opportunity set for diversification by European fund investors, comparing the global equity market weight of U.S. small and mid caps to their estimated aggregate allocations within European-based equity funds.

Exhibit 1: Europe Underweights a Major Global Segment



Sources: S&P Dow Jones Indices LLC, Morningstar. Data as of December 2020. Chart is provided for illustrative purposes. See Exhibit 6 and Appendix B for further details.

INTRODUCTION

Many investors in U.S. equities only consider the so-called "blue chips."

The U.S. stock market includes many of the world's largest and best-known companies, and investors the world over have allocated capital to U.S. equities. However, many investors appear to have explored little beyond the so-called "blue chips." As shown in Exhibit 1, European fund investors, in particular, have relatively minimal exposure to small- or mid-sized U.S. equities.

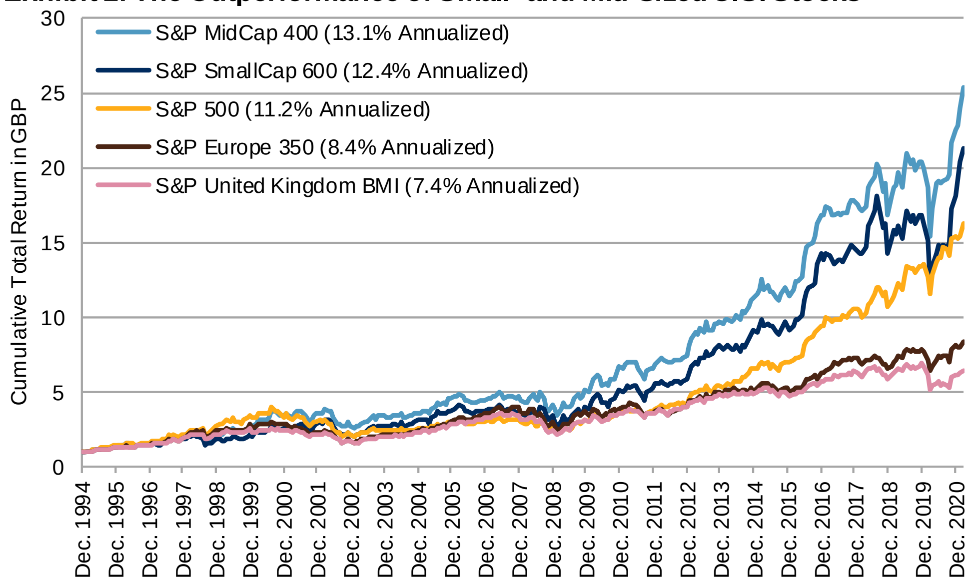
The S&P MidCap 400 has a market capitalization similar to the size of the entire French stock market.

This lack of interest is puzzling, not least because U.S. mid and small caps represent significant market segments in absolute terms. At the end of 2020, **the S&P MidCap 400 *alone* had a market capitalization similar to the entire French stock market**, while the U.K.'s stock market, the largest in Europe, was roughly the same size as the mid- and small-cap indices combined.

Historically, the S&P MidCap 400 and S&P SmallCap 600 have significantly outperformed large caps in the U.S., U.K., and across Europe.

Adding to the puzzle, historical performance is unlikely to have been a deterrent to European investors; the S&P MidCap 400 and S&P SmallCap 600 significantly outperformed the S&P 500, S&P United Kingdom BMI, and S&P Europe 350® over the past 26 years. Exhibit 2 illustrates their performance graphically (British pound, euro, and U.S. dollar performances are reported in Exhibit 10).

Exhibit 2: The Outperformance of Small- and Mid-Sized U.S. Stocks



Source: S&P Dow Jones Indices LLC. Data from December 1994 to March 2021. Index performance based on total return in GBP. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

U.S. CONCENTRATION AND RECENT PERFORMANCE

Mega-cap equities have had a remarkable run in recent years.

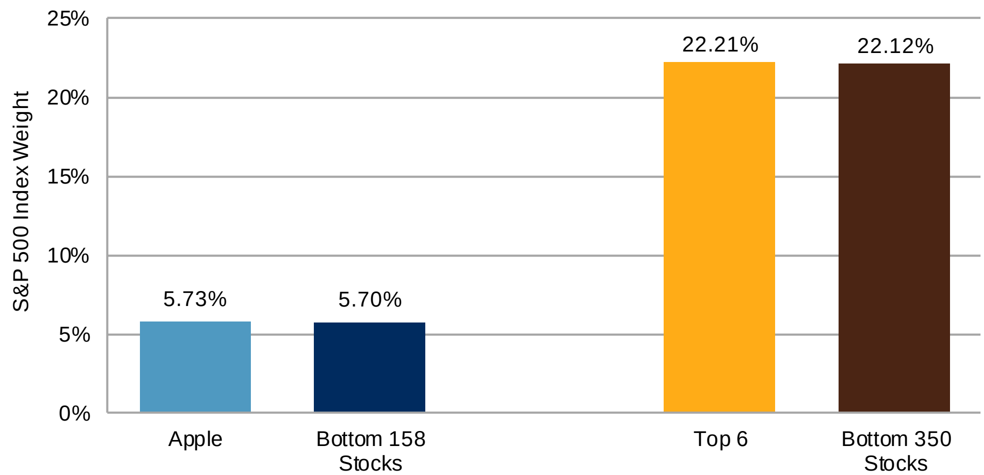
Mega-cap equities, the bluest of blue-chip U.S. equities, have had a remarkable run in recent years. Driven by the performance of its largest constituents, the S&P 500 outperformed the S&P SmallCap 600 and S&P MidCap 400 in five out of the six calendar years ending in 2020, with an annualized total return of 19% for the large-cap index, versus 15% for both mid- and small-cap indices.

Smaller companies now have the potential to act as important diversifiers.

However, the prior outperformance of mega caps means that, now, **smaller companies have the potential to act as important diversifiers, should the largest begin to stumble**. The largest U.S. company by market capitalization, Apple, has risen from a 3% weight in the S&P 500 (as of December 2015) to a 6% weight at the end of Q1 2021, larger than the combined weight of 158 smaller constituents. Added to other "Big Tech" titans of Microsoft, Amazon, Alphabet, Facebook and Tesla, just six companies compose 22.2% of the index, outweighing the 350 smallest names in aggregate.

Apple made up 6% of the S&P 500 at the end of Q1 2021, larger than the bottom 158 stocks; the top 6 stocks outweighed the bottom 350 stocks in the S&P 500.

Exhibit 3: Weights of the Largest Names in the S&P 500



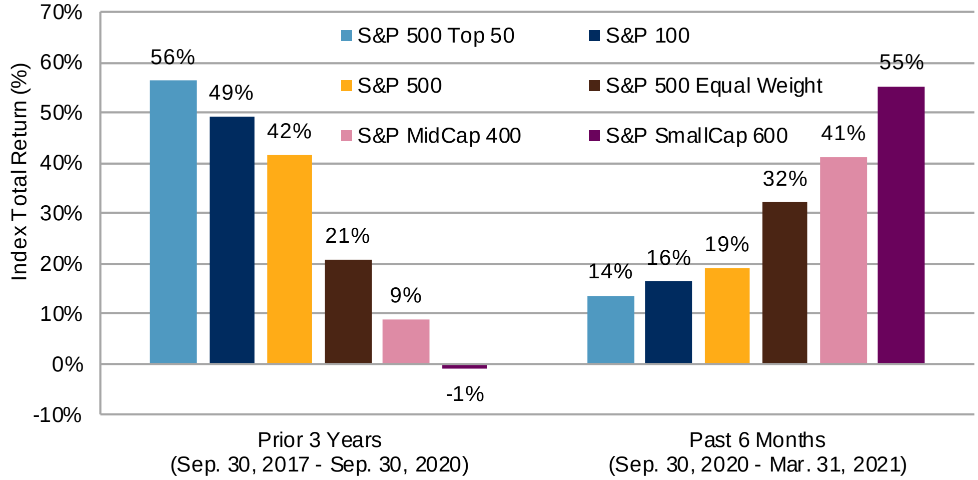
Source: S&P Dow Jones Indices LLC. Data as of March 31, 2021. Chart is provided for illustrative purposes. Alphabet's share classes combined for purposes of analysis.

Since the announcement of an effective vaccine for COVID-19 and the implementation of a series of fiscal and monetary stimulus plans to support a recovery in the U.S. economy, the more domestically focused[1] small- and mid-cap segments of the U.S. equity market have outperformed. Meanwhile, the largest U.S. stocks have lagged. Exhibit 4 shows the extent to which the "winds have changed" in U.S. equity leadership, as illustrated by the total returns of S&P Dow Jones Indices' benchmarks for U.S. mega, large, mid, and small caps in the three years leading up to September 2020 and the six months subsequent.

[1] See Exhibit 9 and surrounding text for more on the sensitivity of smaller and larger U.S. companies to domestic growth trends.

After news of COVID-19 vaccines, the "winds changed" for U.S. equity market caps, as small caps outperformed.

Exhibit 4: Changing Winds in U.S. Equity Benchmarks



Source: S&P Dow Jones Indices LLC. Data as of March 31, 2021. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

If U.S. small and mid caps continued to outperform large caps in the future, a reduction in other U.S. equity market concentrations could be one consequence.

If small- and mid-sized U.S. equities were to continue to outperform their larger peers in the future, a corresponding reduction in overall U.S. equity market concentrations would be one (potentially welcome) consequence. However, **it seems unlikely that international investors would be positioned to benefit**, as the next section examines in more detail.

UNDERREPRESENTATION OF U.S. EQUITIES IN INTERNATIONAL PORTFOLIOS

Many investors across the world have a so-called "home bias," meaning that they invest a higher proportion of their portfolio in domestic assets than might be expected given the relative size of the international opportunity set.[2]

However, it seems unlikely that international investors would be positioned to benefit.

Based on the capitalizations of the various single-country equity markets included in the S&P Global BMI,[3] U.S. equities currently account for slightly more than half of the global stock market. Thus, if international market participants invested in proportion to capitalizations, they would allocate over half of their portfolio to U.S. stocks. In practice, most allocate less than that.

[2] Coeurdacier, Nicolas; Rey, Hélène. "Home Bias in Open Economy Financial Macroeconomics." *Journal of Economic Literature (2013).*

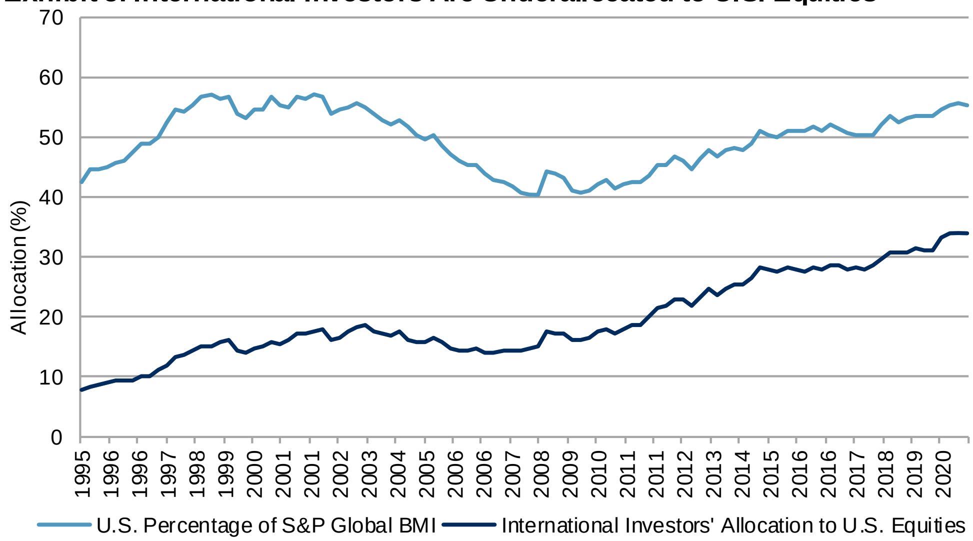
[3] The S&P Global BMI is a broad-based index representing the global equities market, including over 11,000 stocks from 25 developed markets and 25 emerging markets around the world.

U.S. stocks currently account for slightly more than half of the global equity market.

Exhibit 5 provides an estimate of the aggregate percentage of their overall equity allocations made by international investors into U.S. equities, compared with the U.S. percentage of the S&P Global BMI's total capitalization as calculated on a quarterly basis since 1995.[4] Although international investors have increasingly participated in U.S. equities, in aggregate, they remain about 20% underweight relative to the U.S. share of global equity capitalization.

However, most international investors are underweight.

Exhibit 5: International Investors Are Underallocated to U.S. Equities



Source: S&P Dow Jones Indices LLC, U.S. Federal Reserve. Data from March 1995 to December 2020. Chart is provided for illustrative purposes.

Aggregate international statistics based on national account figures offer a broad perspective. Allocations to large, small, and mid-sized equities require a more narrow perspective, which may be proxied for European investors via the assets under management—and classifications—of European-domiciled funds.

European funds offer a more granular perspective on ownership.

Using the Morningstar Europe fund database, Exhibit 6 illustrates the allocations of assets in European-domiciled equity funds (managed actively or passively), along with their allocation to various geographic and size segments as derived from their Morningstar classification.[5]

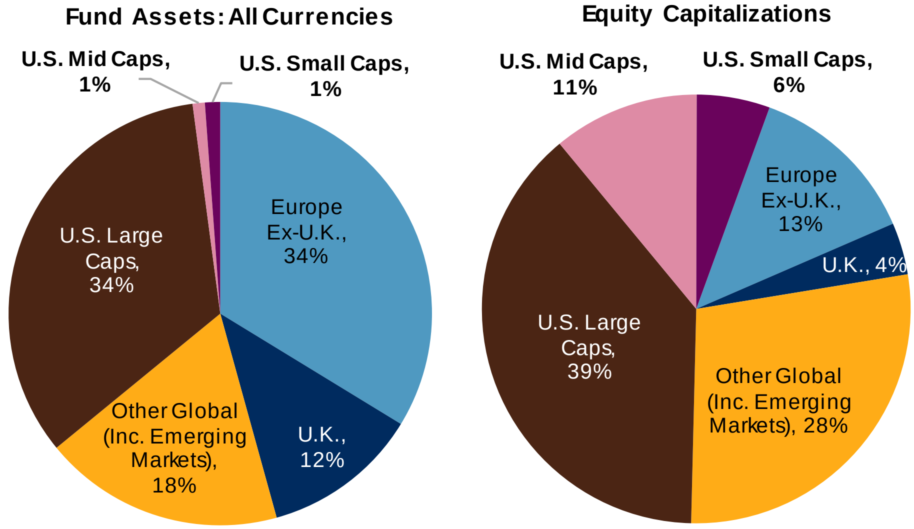
For comparison, the right-hand chart of Exhibit 6 illustrates the capitalizations of each market segment within the S&P Global BMI, using Morningstar's definition of large, mid, and small caps as representing the largest 70%, the next 20%, and the smallest 10% of stocks by total segment capitalization, respectively.

[4] The estimate of international equity allocations is made by comparing data on foreign ownership reported in U.S. national accounts compared with the capitalizations of S&P DJI's ex-U.S. global indices. See Appendix B for details.

[5] See Appendix B for more details on the allocation of fund assets to size and geographic categories.

U.S. equities appear to be underweighted in aggregate by European fund investors.

Exhibit 6: European Fund Investors Overlook Smaller U.S. Equities



Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2020. Charts are provided for illustrative purposes. See Appendix B for details on how fund assets were assigned to the respective categories. Equity capitalizations based on Morningstar's definition of large, mid, and small caps as representing the largest 70%, the next 20%, and the smallest 10% of stocks by total segment capitalization, respectively.

Of what little allocations have been made to U.S. equities, a disproportionate majority has been made to large-cap funds.

Exhibit 6 shows that European funds have allocated about 36% in aggregate to all U.S. equities, a similar figure to that of all international investors displayed in Exhibit 5 and still roughly 20% below their global weight. Furthermore, **within U.S. equities, a disproportionate share has been allocated to large-cap funds. Mid-cap and small-cap equities appear to be overlooked in comparison**, with their combined allocations amounting to about 2%, compared with a 17% aggregate weight of U.S. small and mid caps in the global stock market.

Small- and mid-cap U.S. equities are particularly underrepresented in the assets of European funds, relative to their native market size.

In summary, U.S. equities appear to be underweighted in aggregate by international investors, and small- and mid-cap U.S. equities are particularly underrepresented in the assets of European funds relative to their native market size. **This presents a potential opportunity for international investors to gain access to an otherwise significant market that has been relatively overlooked by their peers**.

THE LARGE-, MID-, AND SMALL-CAP SEGMENTS OF THE S&P COMPOSITE 1500®

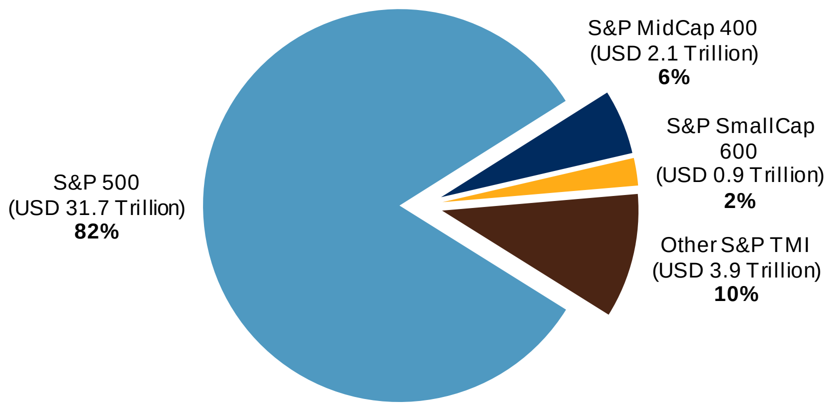
The S&P Composite 1500 combines the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600.

Providing an underlying universe for a range of benchmark indices representing the U.S. equities market, the S&P Composite 1500 combines the S&P 500, S&P MidCap 400, and S&P SmallCap 600. Together, the S&P Composite 1500 covers approximately 90% of the current total U.S. equity market capitalization of USD 35 trillion.[6]

Exhibit 7 illustrates the capitalization of each index in the context of the total universe of float-weighted U.S. equities (as represented by the S&P Total Market Index), along with the capitalizations of those stocks included in each index, and those excluded from the S&P Composite 1500.

The S&P Composite 1500's methodology requires a company to be profitable at the point of inclusion.

Exhibit 7: S&P Composite 1500 Coverage of the Total U.S. Equities Market



Source: S&P Dow Jones Indices LLC. Data as of December 2020. Chart is provided for illustrative purposes.

The profitability criterion has historically proved beneficial to performance.

Every index is not created equal. The "other" 10% in Exhibit 7 does not just include stocks that are too small to join the S&P Composite 1500; in fact, those companies only aggregate to 1% of the total capitalization excluded. In order to be included in the S&P Composite 1500, companies must meet the criteria described in the published methodology.[7] Among other requirements, **the methodology requires a company to be profitable at the point of inclusion**, a condition that has historically proved particularly important to the performance of the mid- and small-cap indices.[8] The S&P 500, S&P MidCap 400, and S&P SmallCap 600 are also limited to a fixed

[6] Data as of Dec. 31, 2020.

[7] S&P DJI's U.S. Equity Index Methodology is available at https://spdji.com/documents/methodologies/methodology-sp-us-indices.pdf; a summary of the key requirements is provided in Appendix C.

[8] Comparisons of S&P DJI's small- and mid-cap indices to other benchmarks and the importance of earnings criteria to their historical outperformance are considered in "A Tale of Two Small-Cap Benchmarks: 10 Years Later" and "The S&P MidCap 400: Outperformance and Potential Applications."

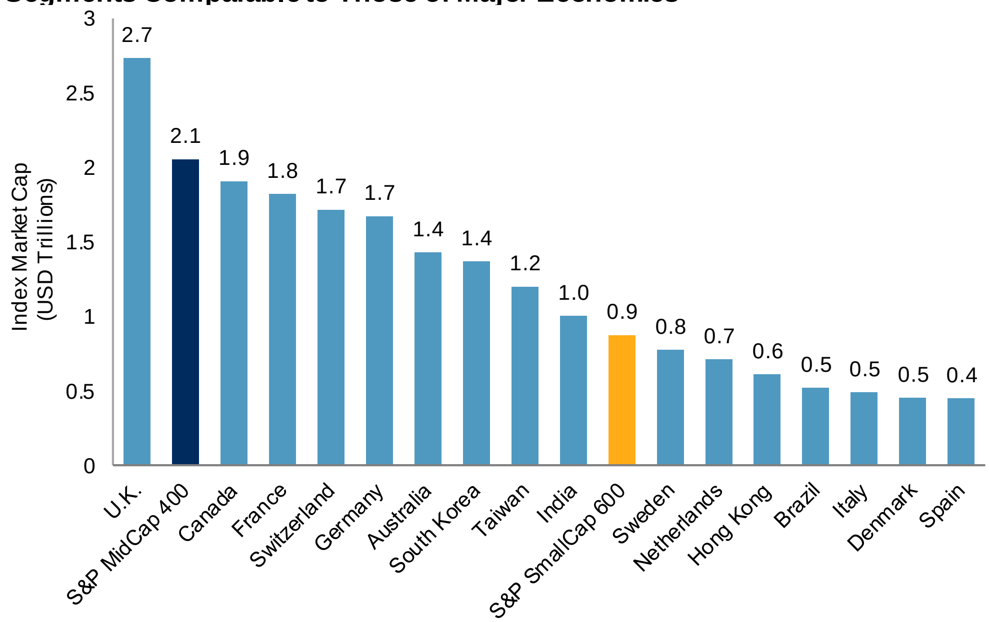
number of companies, as their names suggest, so even if its stock meets all the requirements, it may not be included.

The S&P MidCap 400 and S&P SmallCap 600 represent a significant piece of the global equity markets…

Even though they exclude some stocks that might otherwise be eligible, **the S&P MidCap 400 and S&P SmallCap 600 still represent a significant piece of the global equity markets**. Their combination is comparable in size to that of the S&P United Kingdom BMI—S&P DJI's broad-based index for the world's fourth-largest equity market—while the total capitalization of the S&P MidCap 400 and S&P SmallCap 600 is comparable to that of several other major economies, as illustrated in Exhibit 8.

…with their combination being comparable in size to that of the S&P United Kingdom BMI.

Exhibit 8: The S&P SmallCap 600 and S&P MidCap 400 Represent Equity Segments Comparable to Those of Major Economies



Source: S&P Dow Jones Indices LLC. Data as of December 2020. Chart is provided for illustrative purposes.

Smaller companies have traditionally been supposed to offer fertile grounds for stock pickers.

INDEXING WORKS BEYOND LARGE CAPS

When considering an allocation to any market segment, a choice must be made between actively engaging in security selection (targeting the best prospects) and selecting a broad exposure—such as might be delivered by an index-tracking portfolio.

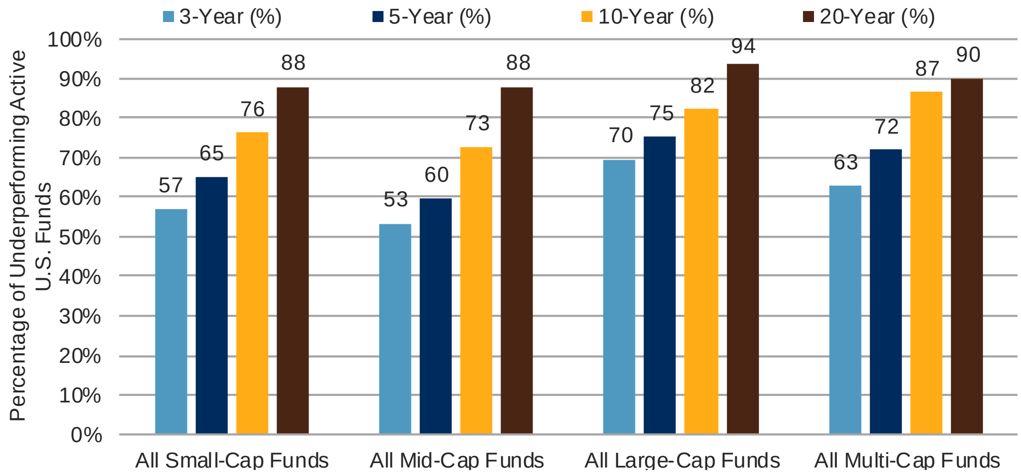
However, the historical record of actively managed funds tracking mid- and small-sized U.S. companies does not suggest that outperformance is easy.

Smaller companies have traditionally been supposed to offer fertile grounds for stock pickers. One argument made in support of this is that a relative lack of analyst coverage provides managers with potential informational advantages, provided they are willing to conduct their own research. However, the costs of researching and trading individual small stocks can be high, and the historical record of actively managed portfolios and funds tracking mid-sized and smaller U.S. companies does not suggest that outperformance is easy.

Exhibit 9 illustrates some summary figures taken from the most recent SPIVA® (S&P Index Versus Active) U.S. Scorecard, which tracks the performance of actively managed mutual funds in the U.S. compared with a relevant benchmark.[9] Over the 3-, 5-, 10-, and 20-year periods ending in December 2020, whether focused on large-, small-, or mid-cap stocks, underperformance was more likely than outperformance.

A passive investment linked to S&P DJI's U.S. equity benchmarks for small- and mid-cap equities would have historically delivered better-than-average performance.

Exhibit 9: A Majority of Actively Managed Funds Underperformed S&P DJI's U.S. Equity Benchmarks



Source: S&P Dow Jones Indices LLC. Data as of December 2020. Past performance is no guarantee of future results. Charts are provided for illustrative purposes.

Of course, *some* active funds outperformed. However, finding the potentially few active managers who will do so in the future can be a challenging task.[10] Provided that the indices could be tracked at a relatively low cost, **a passive investment linked to S&P DJI's U.S. equity benchmarks for small- and mid-cap equities would have historically delivered better-than-average performance**, likely to qualify among the top quartile of active funds over the 10- or 20-year time horizon.

These results are not statistical oddities. They occur for good reasons, which are likely to persist.

The relatively high long-term underperformance rate of actively managed U.S. small- and mid-cap funds is not unusual, or even unexpected. Similar reports produced by S&P DJI for other periods and geographies have offered similar results.[11] **These results are not statistical oddities. They occur for good reasons, which are likely to persist.**[12]

[9] We use the SPIVA U.S. Scorecard instead of the SPIVA Europe Scorecard because there are remarkably few European-domiciled actively managed funds focused on small- and mid-sized U.S. equities (cf. Exhibit 3). Where there is sufficient data—in particular for pan-U.S. equity funds domiciled in Europe—the record of active management is similar. See the latest SPIVA U.S. Scorecard, SPIVA Institutional Scorecard, and SPIVA Europe Scorecard for more details, and learn more about SPIVA at: https://www.spglobal.com/spdji/en/spiva/#/.

[10] S&P DJI's Persistence Scorecards show that past outperformance appears to be a particularly unreliable guide to picking funds that will outperform in the future. The latest scorecard is available at https://www.spglobal.com/spdji/en/spiva/article/us-persistence-scorecard/.

[11] Similar reports produced by S&P DJI for the U.S., Canada, India, Asia, Australia, Japan, South Africa, and Latin America fund markets have offered similar results. The reports may be found at https://www.spglobal.com/spdji/en/spiva/#/.

[12] Anu Ganti and Craig J. Lazzara, "Shooting the Messenger," S&P DJI, December 2017.

The costs of trading small stocks are typically higher than the cost of trading large stocks…

ACCESSING AND TRADING PRODUCTS LINKED TO THE S&P MIDCAP 400 AND S&P SMALLCAP 600

One cannot invest in an index, but the cost of replicating indices has fallen along with increasing competition from asset managers to offer passive exposures. An increasing range of index funds, futures, and ETFs continue to bring the notion of an investable index closer to a practical reality, and they typically carry lower costs than actively managed funds.

…but the costs of trading products tracking the S&P MidCap 400 and S&P SmallCap 600 can be less than would be supposed from their less-liquid constituents.

The costs of trading small stocks are typically higher than the costs of trading large stocks, but **the costs of trading products tracking the S&P MidCap 400 and S&P SmallCap 600 can be less than would be supposed from their less-liquid constituents**. For example, an S&P DJI research report estimated that over USD 1 trillion in economic exposure was traded in products linked to the S&P MidCap 400 in the 12 months ending June 2019.[13] This corresponds to about USD 4 billion in average daily trading volume in products tracking the mid-cap index; by comparison, the average S&P MidCap 400 *constituent* had a daily traded value of USD 125 million over the same period.

A broad ecosystem of investors tracking the same index can help reduce costs of establishing passive exposure in the mid- and small-sized segments.

A broad ecosystem of market participants tracking the same index can help reduce the costs of establishing passive exposure in the mid- and small-sized segments. European investors can choose to invest in locally domiciled ETFs tracking the S&P SmallCap 600 or S&P MidCap 400 and compare their performance to the underlying index, as well as to futures, options, and ETFs listed and traded globally.

[13] The values traded in products linked to various indices, and a discussion of the ecosystem that connects trading in products tracking the same indices, may be found in "A Window on Index Liquidity" (S&P DJI, 2019). Trading volumes in the average S&P MidCap 400 constituent sourced from Bloomberg LLC for the period June 2018-June 2019.

DIFFERENTIAL RETURNS FROM SMALL AND MID CAPS

S&P DJI's U.S. large-, mid-, and small-cap indices often display correlated performances, but their returns are far from identical.

Since they represent baskets of stocks from the same country, S&P DJI's U.S. large-, mid-, and small-cap indices often display correlated performances. However, their returns are far from identical; for example, in 6 of the past 26 years, at least one of the three indices gained while another declined.[14] **Over the long term, the S&P MidCap 400 and S&P SmallCap 600 outperformed the S&P 500, but the smaller-cap indices displayed higher volatility.**

Over the long term, the S&P MidCap 400 and the S&P SmallCap 600 outperformed the S&P 500, but the smaller-cap indices displayed higher volatility.

Exhibit 10 offers summary performance statistics for the three indices—with figures reported for price and total return indices (including reinvested dividends) in British pounds, euros, and U.S. dollars. Corresponding statistics for the S&P United Kingdom BMI and S&P Europe 350® are included for purposes of comparison.

Exhibit 10: U.S. Small- and Mid-Cap Indices 26-Year Outperformance

BRITISH POUND	S&P 500	S&P MIDCAP 400	S&P SMALLCAP 600	S&P EUROPE 350	S&P U.K. BMI
Price Return (Annualized, %)	9.09	11.52	11.12	5.10	3.53
Total Return (Annualized, %)	11.20	13.10	12.35	8.42	7.37
Volatility (Annualized, %)	15.23	17.68	18.95	15.69	13.56
Total Return/Volatility (Annualized)	0.74	0.74	0.65	0.54	0.54
EURO					
Price Return (%)	8.82	11.23	10.83	4.84	3.27
Total Return (%)	10.92	12.82	12.07	8.15	7.10
Volatility (%)	16.08	18.24	19.61	15.58	14.88
Return/Volatility	0.68	0.70	0.62	0.52	0.48
U.S. DOLLAR					
Price Return (%)	8.57	10.98	10.58	4.60	3.03
Total Return (%)	10.67	12.56	11.81	7.90	6.85
Volatility (%)	15.02	17.65	19.18	17.50	16.12
Return/Volatility	0.71	0.71	0.62	0.45	0.43

Source: S&P Dow Jones Indices LLC. Data from December 1994 to March 2021. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

[14] Source: S&P Dow Jones Indices LLC. Data from 1994 to 2020. Index performance based on annual total return in USD. The corresponding statistics are 7 and 6 of the past 26 years for British pounds and euros, respectively.

Traditionally, smaller companies have attracted investors seeking the potential for higher growth, albeit potentially at a higher risk of failure.

Smaller companies face different challenges and opportunities to large companies. Traditionally, smaller companies have attracted investors seeking the potential for higher growth, albeit potentially at a higher risk of failure. The largest companies are less at risk of disappearing overnight, but they may have more limited growth prospects. The “small size effect,” or “size factor,” has long been of interest to academics and is now a common variable in equity risk models.[15] However, **the performance of S&P DJI’s indices rely on more than just their size**.

Over their history, the performances of the S&P MidCap 400 and S&P SmallCap 600 have been distinguished from those of large-cap indices and other mid- or small-cap indices by several key return drivers, including the following.

The S&P SmallCap 600 and S&P MidCap 400 have higher weights in Industrials, Financials, and Real Estate and are underweight Info Tech relative to the S&P 500.

- The requirement to be profitable gives S&P DJI’s U.S. index constituents **a persistent tilt toward most definitions of a “quality” factor**.[16]
- The S&P SmallCap 600 and S&P MidCap 400 have **different sector allocations** than the S&P 500. Currently, the large-cap index has had a higher weight in Information Technology, while the small- and mid-cap indices have higher weights in the Industrials, Financials, and Real Estate sectors.[17]
- **Companies in the S&P 500 are more international** and usually generate a higher proportion of revenues from international sales compared with mid and small caps.[18]
- Because it is capitalization weighted and because company sizes tend to have an uneven distribution, large-cap indices such as the S&P 500 can become relatively concentrated. In comparison, **the mid- and small-cap indices are more diversified**.[19]

Mid- and small-cap indices are more diversified than the S&P 500.

Of course, while diversification may sometimes be called “the only free lunch” in investing, concentration is not *always* a bad thing. Of all major benchmarks, the S&P 500 was one of the best performing in 2019 and

[15] The so-called “size effect” was first identified in Banz, Rolf W. "The Relationship between Return and Market Value of Common Stocks," *Journal of Financial Economics* (1981). More famously, Eugene Fama and Kenneth French used company size along with two other variables (value and market exposure) to begin a long debate on rewarded factors in equities. Among more recent examples of papers on the size effect, Asness, Clifford, et al. “Size Matters, if You Control Your Junk,” *Journal of Financial Economics* (2018), is pertinent, given the inclusion of profitability criteria in S&P DJI’s U.S. indices.

[16] Factor and sector exposures in the S&P MidCap 400 and S&P SmallCap 600 are examined in Bellucci, Preston, and Soe (The S&P MidCap 400: Outperformance and Potential Applications) and Brzenk, Hao, and Soe (A Tale of Two Small-Cap Benchmarks: 10 Years Later), op cit.

[17] S&P DJI’s monthly U.S. Sector Dashboard provides a summary of the latest sector weights in each index.

[18] Brzenk, Phillip. “How Global Are the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 Style Indices.” Indexology® Blog (2018).

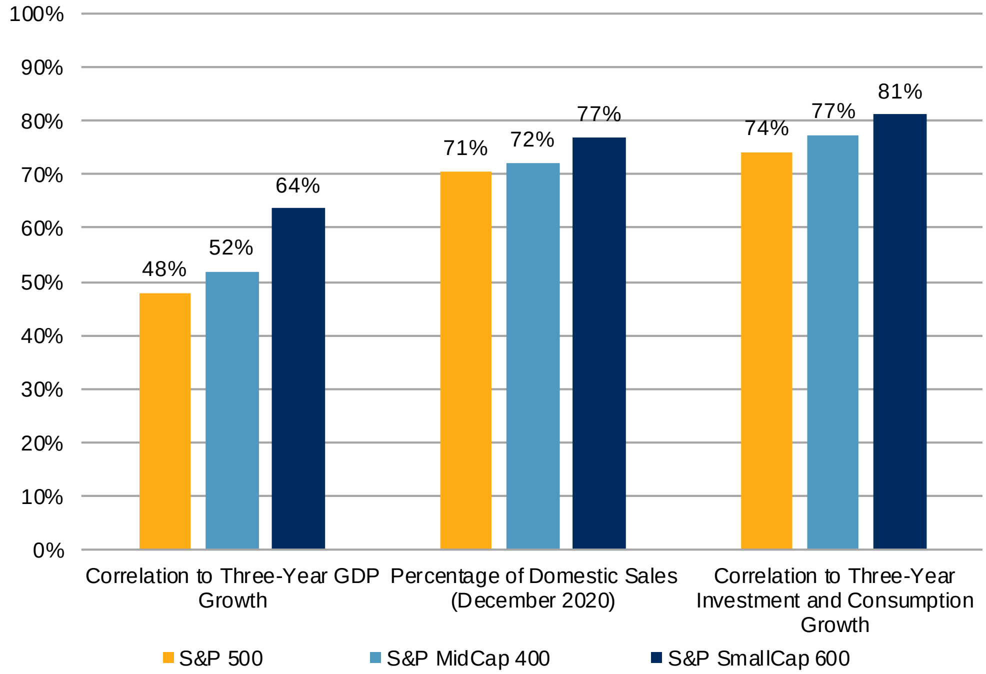
[19] Cf. Edwards, T., Lazzara, C., Preston, H., and Pestalozzi, O. “Outperformance in Equal Weight Indices.” S&P Dow Jones Indices (2018).

early 2020 in part because of its relatively large weights in a few names.[20] On the other hand, an averaging out of single-company risk may be another reason why the smaller-cap indices can show higher correlations to broader economic data, which might be preferred by investors taking a “macro” perspective.

Smaller-cap indices can show higher correlations to broader economic data, which might be preferred by investors taking a “macro” perspective.

Exhibit 11 shows the historical correlations between three-year quarterly U.S. GDP growth and the total returns of the S&P 500, S&P SmallCap 600, and S&P MidCap 400. It also shows the correlation to the components of domestic product contributed by private investment and consumption and—for reference—the aggregate percentage of index constituent sales made domestically.

Exhibit 11: Small Caps and Mid Caps Were More Highly Correlated to Domestic GDP Growth



Source: S&P Dow Jones Indices LLC, U.S. Bureau of Economic Analysis, FactSet GeoRev database. Data from December 1994 to December 2020. Past performance is no guarantee of future results. Percentage of domestic sales calculated via index-weighted average among constituents. Chart is provided for illustrative purposes.

The mid- and small-cap sections may offer a more direct exposure to domestic growth than the larger stocks.

One reason why international investors maintain investments in U.S. equities is to benefit from U.S. economic growth, which has remained firmer in comparison with other developed and emerging markets in recent years, and may outpace peers again as the unique conditions of the pandemic recede into history. **The mid- and small-cap sections may offer more direct exposure to domestic growth than the larger stocks**.

[20] The importance of large-cap outperformance in 2019 is examined in Bennet, Chris. “From ‘Hard to Beat’ to Nigh-On Impossible.” Indexology Blog (2020). Edwards, T. and Lazzara, C. “Fooled by Conviction.” S&P Dow Jones Indices (2016) offers cautions regarding the potential risks from concentration.

CONCLUSIONS

Smaller U.S. companies may add diversification to a portfolio and may have higher growth potential.

International investors have long participated in the U.S. stock market, and it is natural that their attention might be biased toward larger, more famous companies and benchmarks. Companies without the blue-chip classification generally have higher risks, but may have a higher potential for growth, and a more domestic focus. For an investor already owning a portfolio of larger U.S. companies, **investing further down the size scale may offer a way to participate in growth and to improve diversification**.

Higher costs may have prevented international investors from exploring this option.

Historically, the higher costs of investing in smaller companies may have prevented international investors from exploring further. Another reason may have been the disappointing performance of actively managed funds in the small- and mid-cap categories. These issues may be addressed with an index-based approach; **as low-cost, passive solutions become available, high-cost active management becomes an option, instead of a necessity**.

S&P DJI's indices provide the basis for a range of investment products, including ETFs, futures, and index funds.

Small- and mid-sized companies have distinct characteristics, as do their benchmarks. The S&P MidCap 400 and S&P SmallCap 600 offer the basis for a range of investment products, including ETFs, futures, and index funds. The wide range of market participants using these products brings scrutiny to the underlying index and allows investors to benchmark their experience against an array of alternatives. **Ultimately, these indices may help international investors to explore more of the U.S. stock market**.

APPENDIX A: NOTES FOR EXHIBIT 5

U.S. government data on international capital flows may be combined with S&P DJI's index capitalizations to make an estimate of the average non-U.S. investor's percentage allocation to U.S. equities.

The value of total, direct ownership of U.S. stocks by the rest of the world was reported by the U.S. government in its national accounts at USD 10.6 trillion as of Q4 2020.[21] The value of foreign equity holdings by U.S. investors, also reported in the national accounts, was USD 10.5 trillion.

Calculating the "average" international investor's percentage allocation to U.S. stocks requires us to compare these figures with the total capitalization of global equities in and outside the U.S.

The total capitalization of all non-U.S. stocks in the S&P Global BMI was USD 31.2 trillion at the end of Q4 2020, of which we may estimate that U.S. investors owned a total of USD 10.5 trillion, using the national account figure.[22]

Subtracting U.S. ownership leaves a total of USD 20.7 trillion in equities held by non-U.S. investors in non-U.S. equities, from which we may deduce an estimate for the average U.S. equity allocation held by international investors of 34%. Extending the calculation back quarterly provides the series in Exhibit 5.

[21] Source: "Financial Accounts of the United States", U.S. Federal Reserve.

[22] The USD 10.5 trillion includes direct ownership of international shares and shares in international investment funds.

APPENDIX B: NOTES FOR EXHIBIT 6

In order to construct Exhibit 6 (and Exhibit 1, which highlights selected statistics from Exhibit 6), we first obtained assets under management and fund categorizations for all equity funds available in Europe from Morningstar, LLC as of Dec. 31, 2020. Each fund's assets were converted into a common currency, and the assets of each fund were allocated to or distributed proportionally as appropriate across the categories of the exhibit according to the fund classification. For example, a fund classified as a Denmark Equity fund would have its assets entirely assigned to the "Europe Ex-U.K." category. In cases where the fund classification covered multiple geographies and size classifications (e.g., broad-based Global Equity funds), the assets were distributed into geographies according to the weight of each region in the S&P Global BMI and into sizes according to the Morningstar size bands, which dictate that 70%, 20%, and 10% of each equity market's capitalization is defined as large, mid, and small, respectively.

APPENDIX C: NOTES FOR EXHIBIT 7

Exhibit C1: Criteria to Be Considered for Initial Inclusion in the S&P Composite 1500

CRITERIA	DETAIL
Security Type	Common stock in a U.S.-domiciled and listed corporation
Market Capitalization[1]	Unadjusted company market capitalizations of at least: • USD 11.8 billion or more for the S&P 500, • USD 3.3-11.8 billion for the S&P MidCap 400, and • USD 750 million-3.3 billion for the S&P SmallCap 600.
Freely Tradable Shares	Float-adjusted market capitalization at least 10% of the company's total and at least 50% of the minimum market capitalization threshold
Liquidity	Annual U.S. dollar trading volume at least equal to the float-adjusted market capitalization and more than 250,000 shares traded in the previous six months
Financial Viability	The sum of the earnings in the most recent four quarters must be positive, as should the most recent quarter
Governance	Stocks and companies with multiple share class structures are not eligible to join the index[23]
Seasoning	IPOs must wait at least 12 months before index inclusion

Source: S&P Dow Jones Indices LLC. Data as of March 17, 2021. Table is provided for illustrative purposes.

[23] When this rule was introduced in 2017, existing index constituents were allowed to remain. For further details, see the full index methodology, available at https://www.spglobal.com/spdji/en/documents/methodologies/methodology-sp-us-indices.pdf.

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PERFORMANCE DISCLOSURE/BACK-TESTED DATA

The S&P Europe 350 was launched October 7, 1998. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spglobal.com/spdji. Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

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