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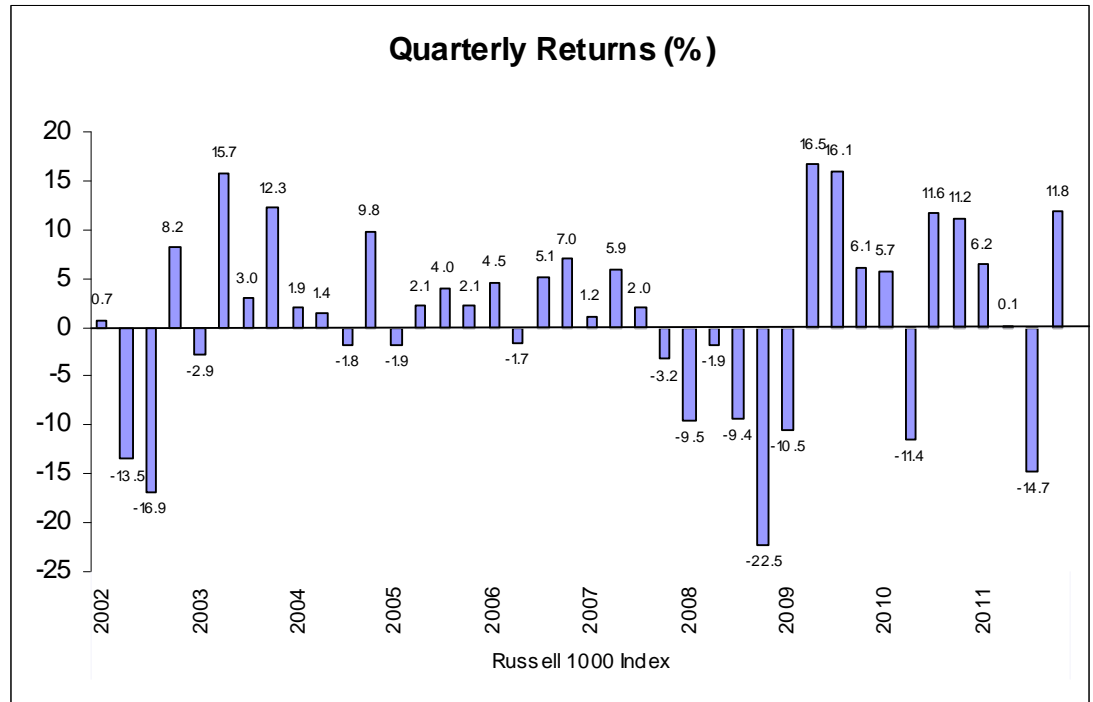
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**By Robert (Buck) C. Klintworth, CMT  
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Chase Mid-Cap Growth Fund (CHAMX and CHIMX)**

In our last white paper<sup>1</sup>, we examined the attractiveness of mid-caps as an asset class. That paper showed that mid-caps as an asset class outperformed both large-caps and small-caps, with less risk than small-caps, during the period studied. We were curious to see if the sectors in the large-cap and the mid-cap indexes performed differently than the entire asset class depending upon the direction of the market.

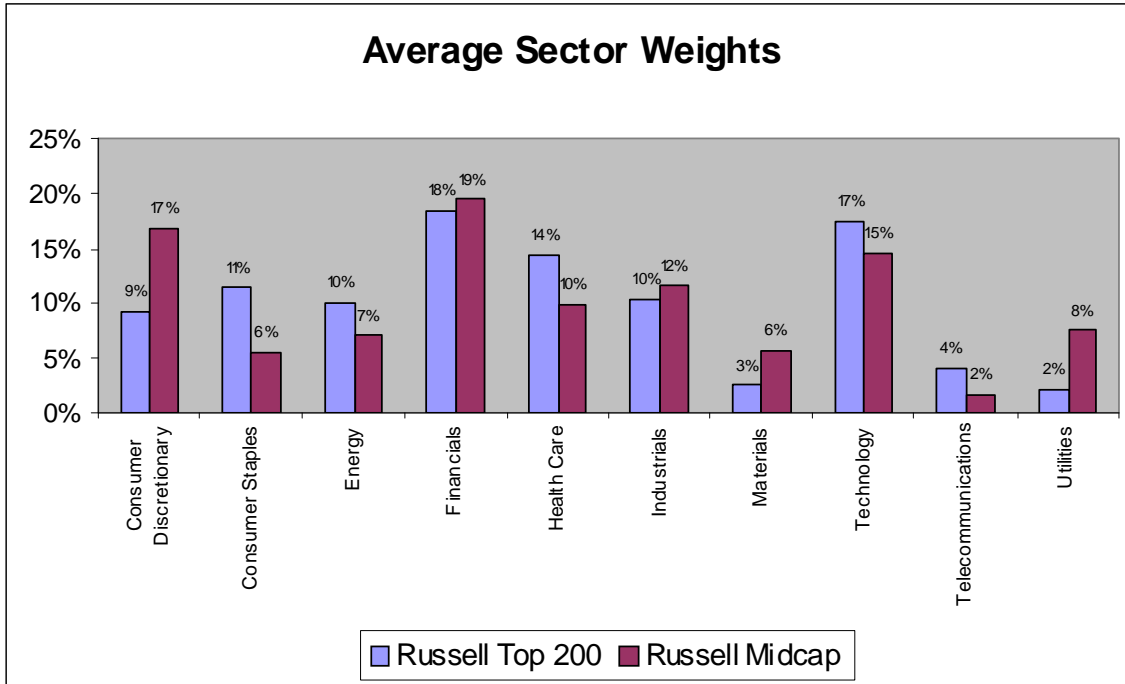
We examined the quarterly returns over a 10-year period (2002-2011) of the Russell 1000<sup>®</sup> Index. We chose the last 10 years because of the limited availability of historic quarterly sector returns. We defined a quarter where the return in the Russell 1000 Index was positive as an “up quarter”, regardless of the performance of any one sector. Conversely, when the return of the Russell 1000 Index was negative, we called it a “down quarter”. There were a total of 26 up quarters and 14 down quarters.



Data source: Thomson Reuters

Although the Russell 1000 Index is a standard large-cap index, it can be divided up into two distinct subsets—the Russell Top 200<sup>®</sup> Index and the Russell Midcap<sup>®</sup> Index. As of the last index rebalance on 5/31/11, the Russell Top 200 Index’s market capitalization range was \$14.8-\$411.2 billion, and the Russell Midcap Index’s market capitalization range was \$1.6-\$18.3 billion (see the definitions at the end of the paper for a complete description of the indexes).

The Russell 1000 stocks are allocated to one of 10 economic sectors. We only considered those sectors where the average weighting in both indexes, over the 10-year period studied, was at least 5%. This ruled out the materials, telecommunications, and utilities sectors (see the following chart).

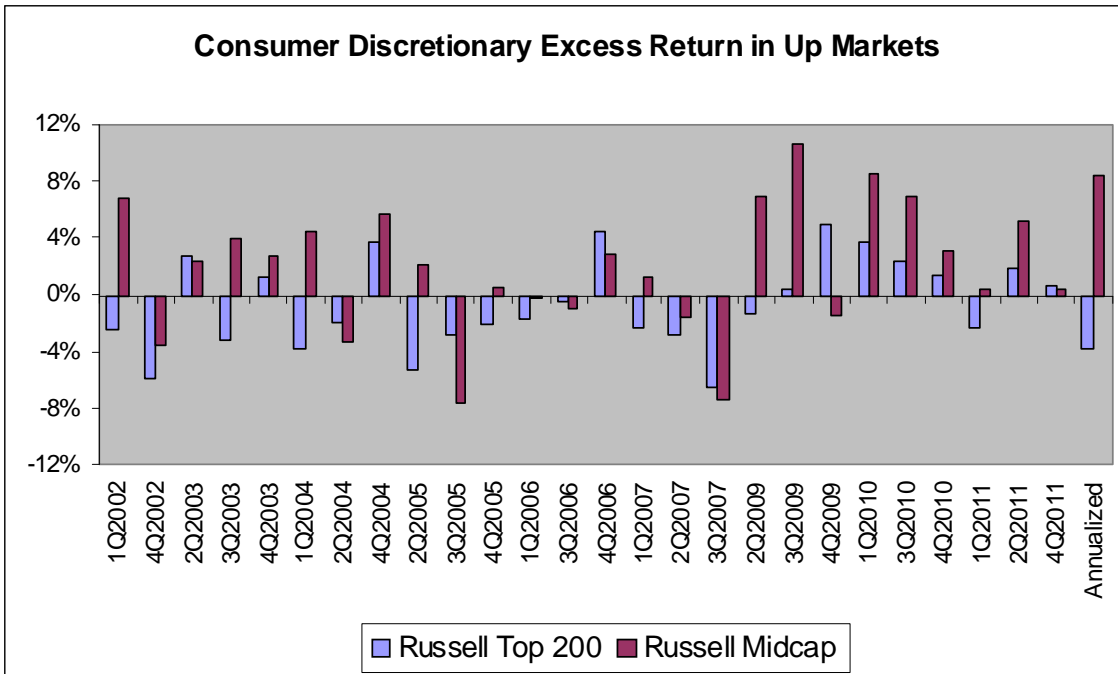


Data source: Thomson Reuters

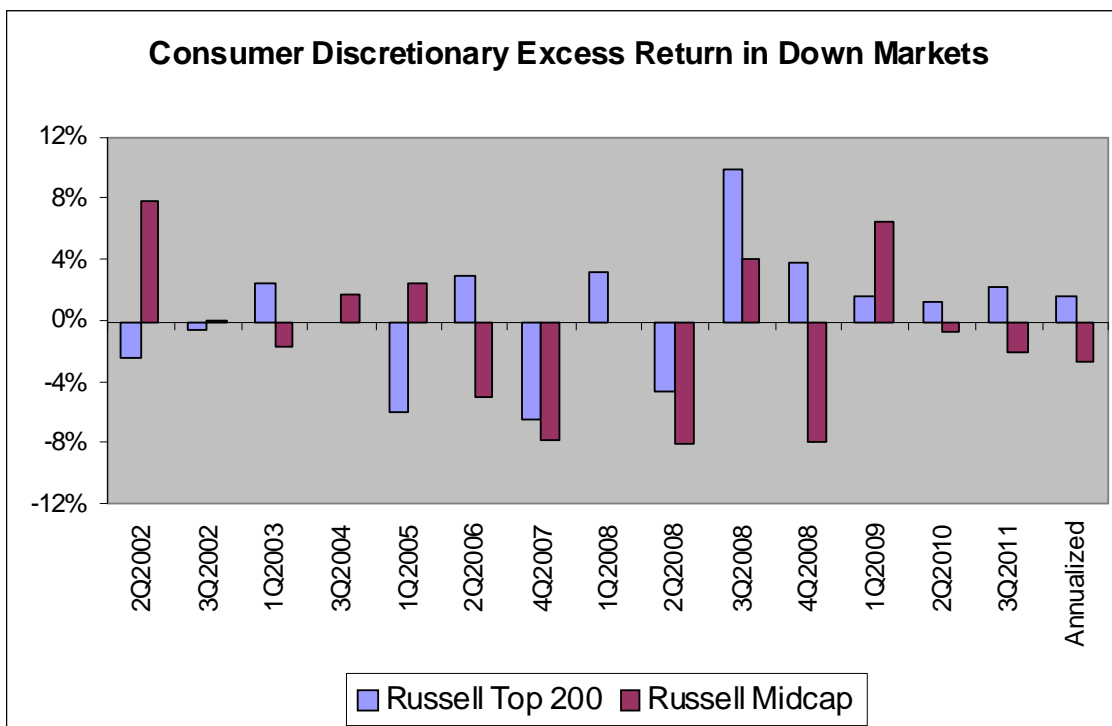
We then looked at the returns in the 7 sectors during each quarter for the Russell Top 200 Index (used as the proxy for large-cap stocks) and the Russell Midcap Index (the proxy for mid-cap stocks). The following charts show the excess return for each sector vs. the overall Russell 1000 return during that quarter. In addition, at the end of each chart is the annualized excess return for those quarters (whether up or down).



## Consumer Discretionary



Data source: Thomson Reuters

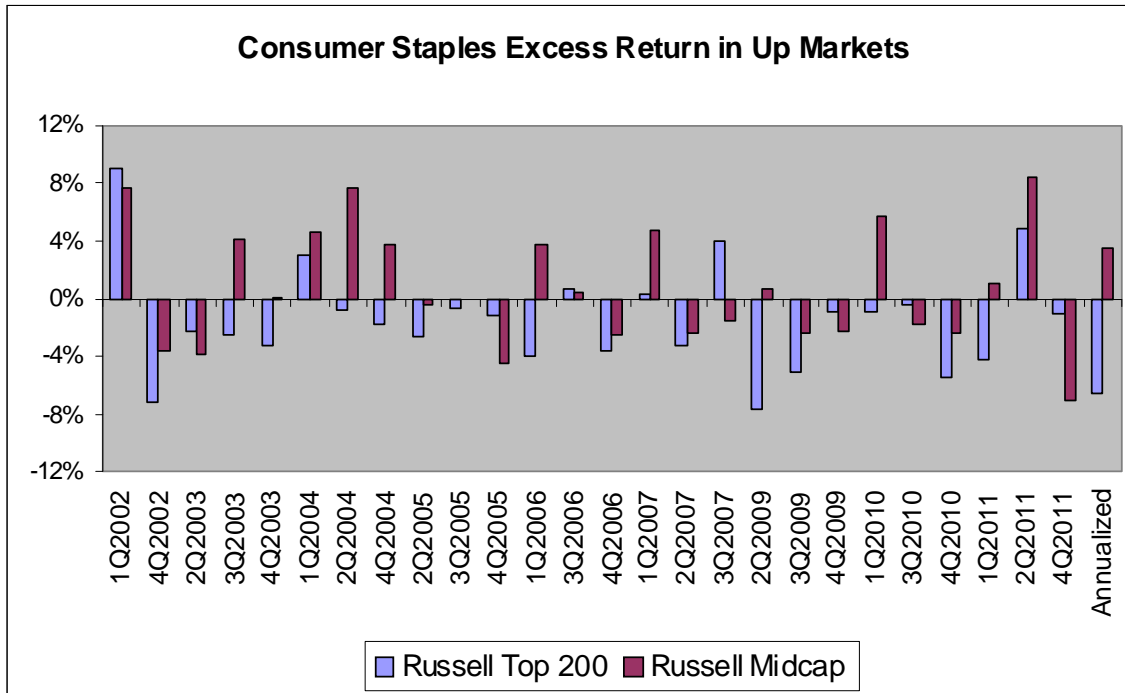


Data source: Thomson Reuters

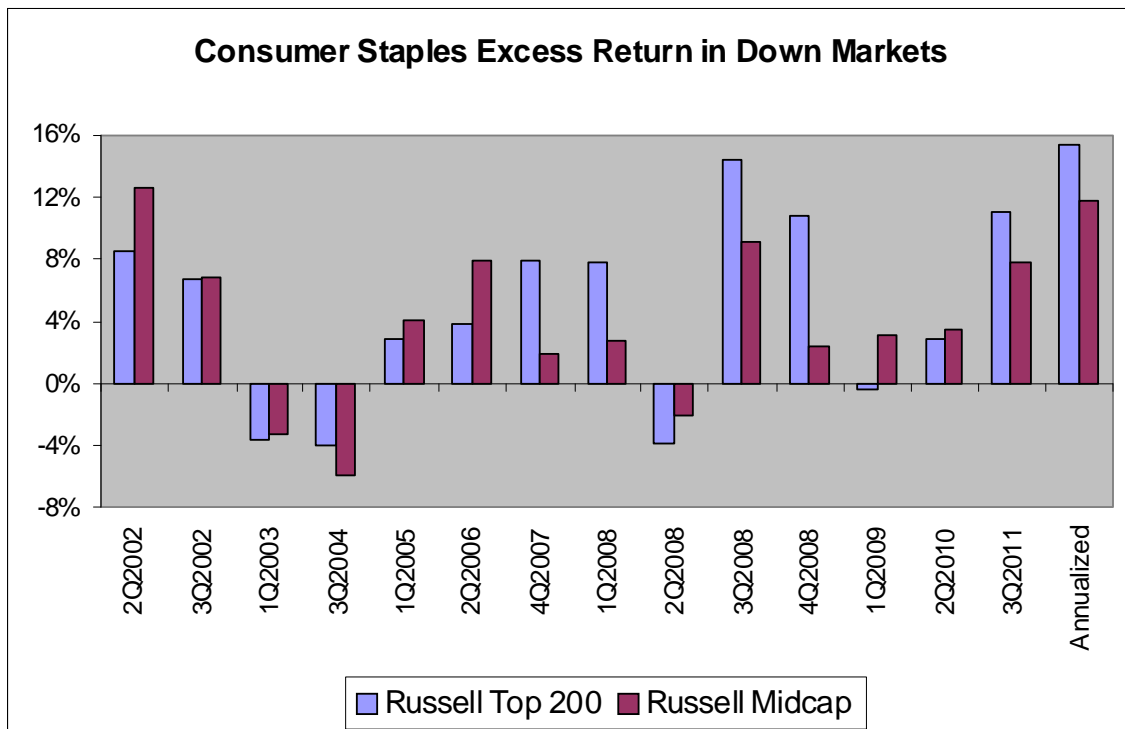
Mid-cap consumer discretionary stocks easily outperformed the market during the up quarters (by 8.4%), while large-caps trailed by 3.8%. During the down markets, mid-caps slightly underperformed (trailing by 2.7%) while large-caps slightly outperformed (by 1.6%).



## Consumer Staples



Data source: Thomson Reuters

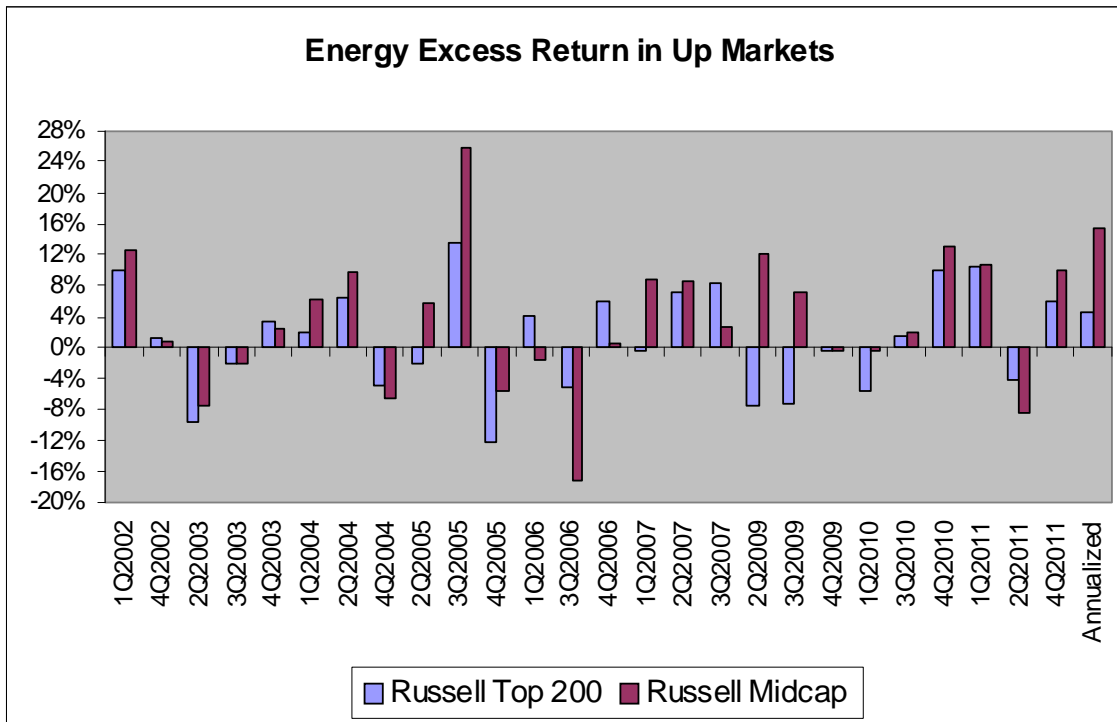


Data source: Thomson Reuters

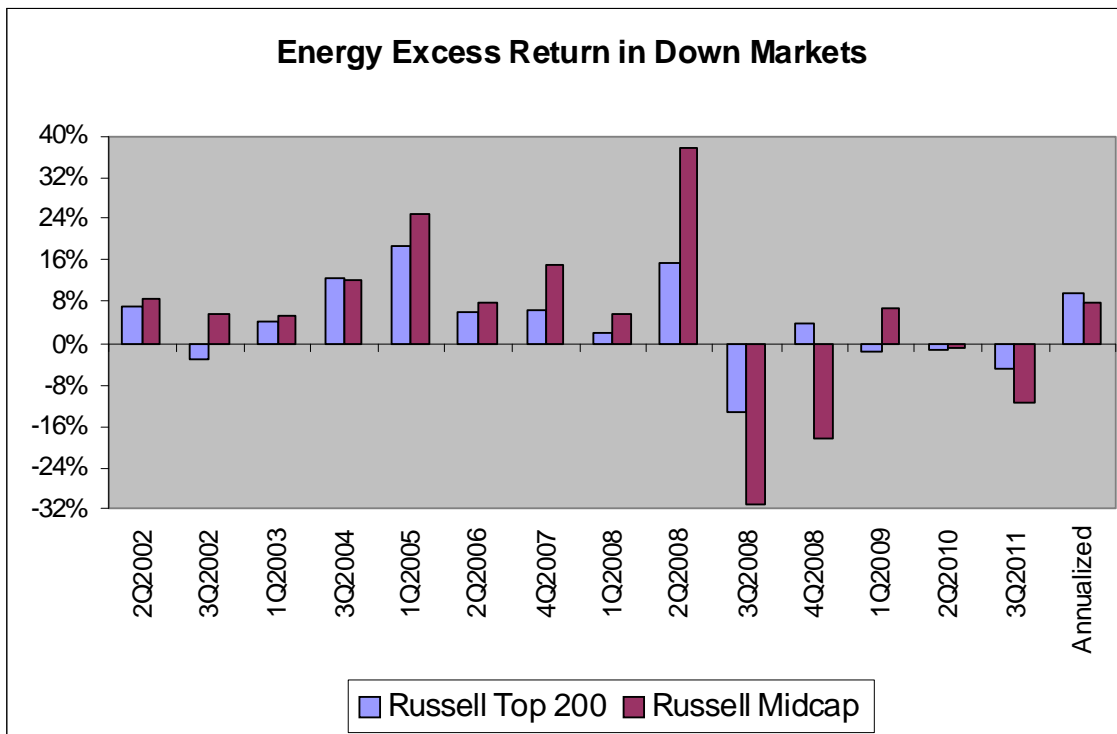
Traditionally considered the most defensive of the 7 sectors analyzed, mid-cap consumer staples stocks still outperformed by 3.4% during the up quarters, while large-caps lagged the market by 5.5%. During the down quarters, both mid-cap and large-cap stocks greatly outperformed the market, the mid-caps by 11.8% and the large-caps by 15.4%.



**Energy**



Data source: Thomson Reuters

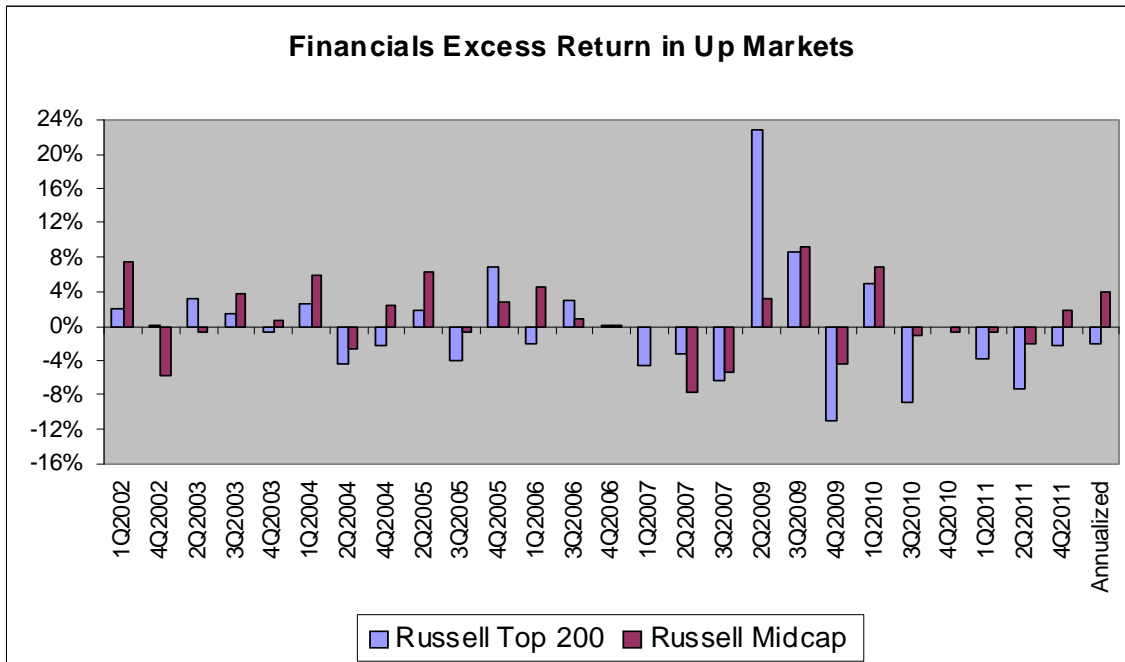


Data source: Thomson Reuters

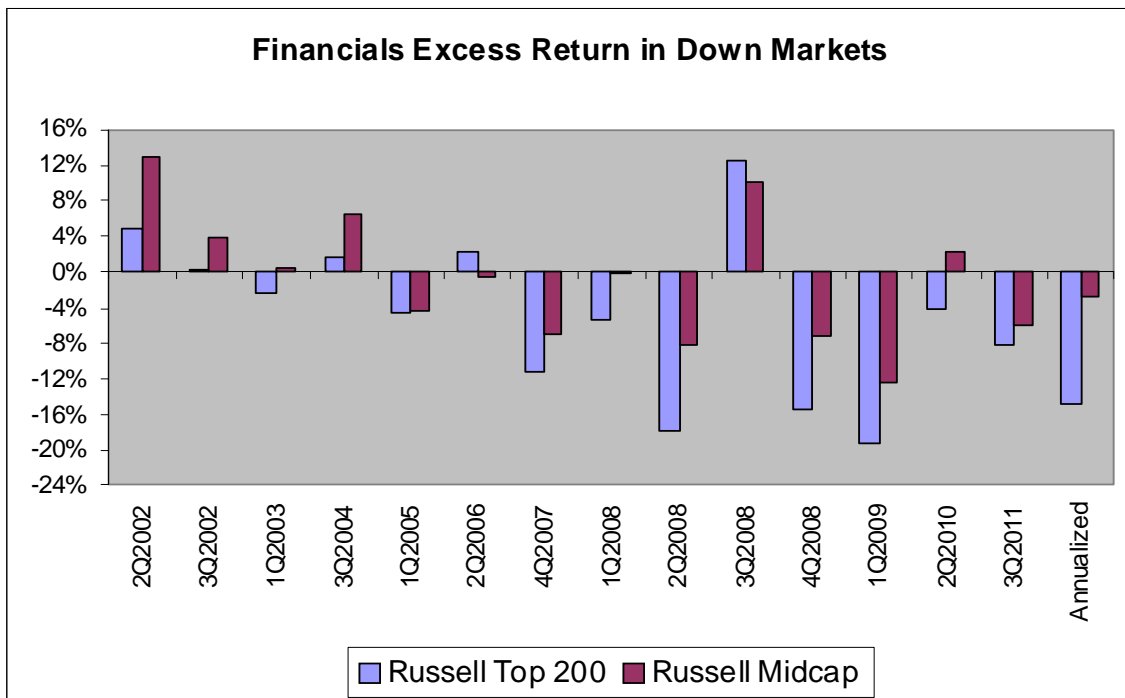
In the energy sector, mid-cap stocks strongly outperformed the market (by 15.3%) when it was moving higher, while large-cap stocks outperformed by 4.6%. When the market sold off, both outperformed the market, mid-caps by 8.0% and large-caps by 9.8%.



## Financials



Data source: Thomson Reuters

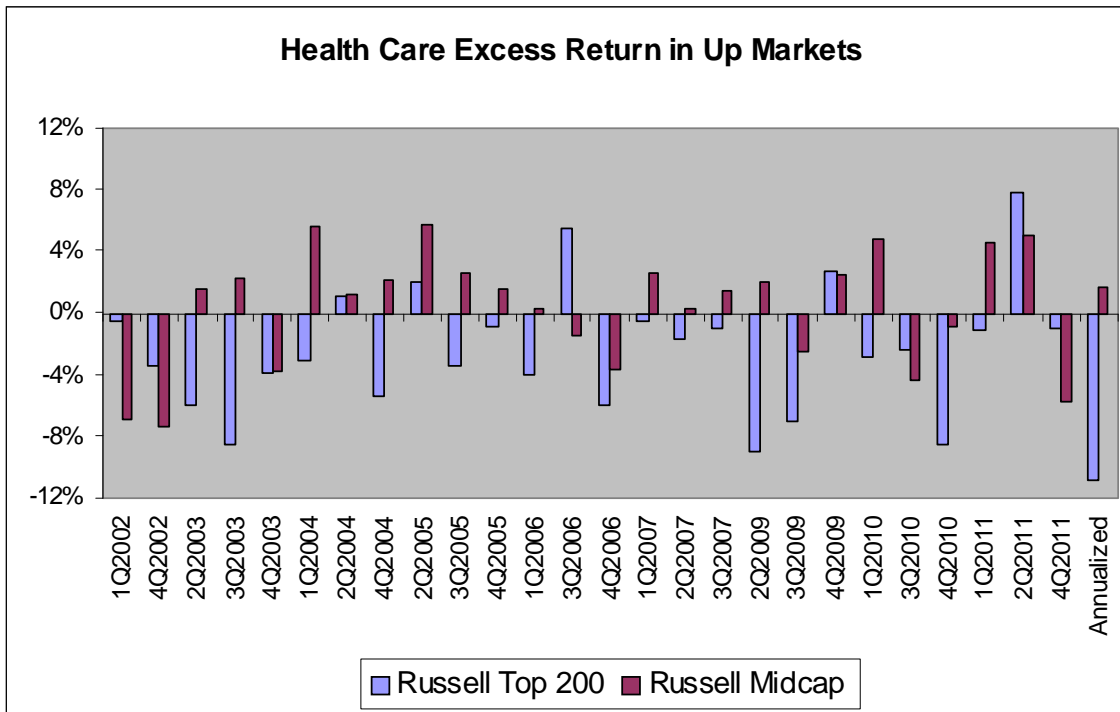


Data source: Thomson Reuters

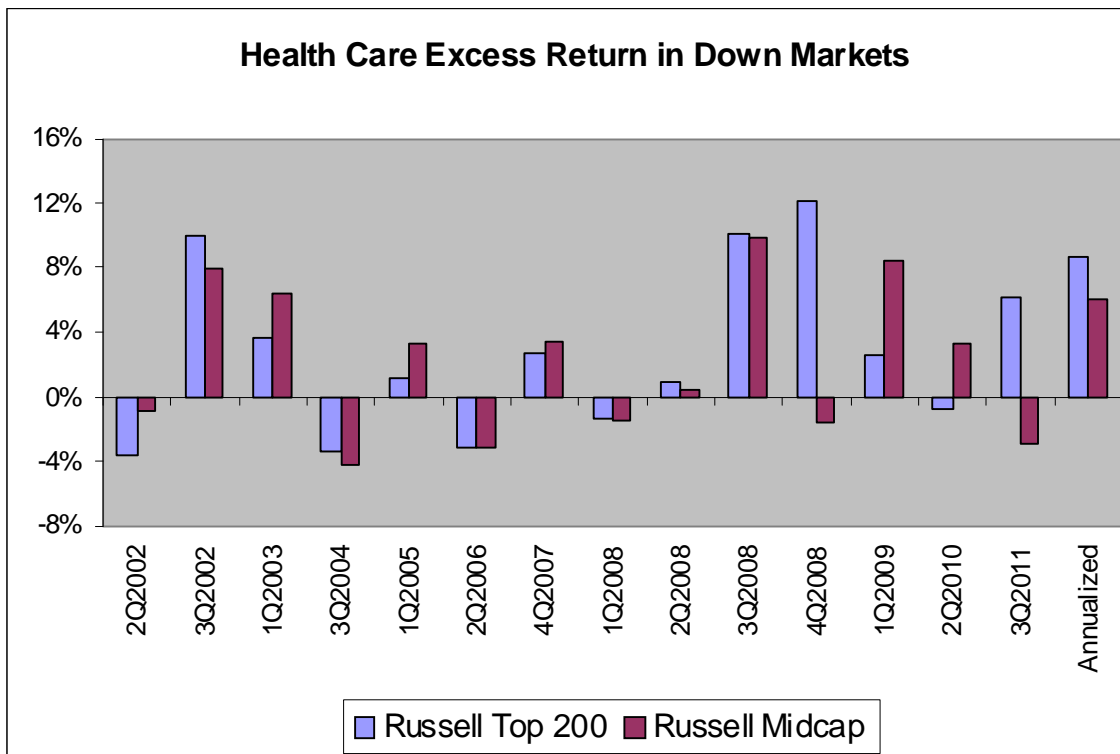
Financial mid-cap stocks outperformed the market during up quarters by 4.0% while the large-cap sector trailed by 2.0%. The conventional wisdom that large-cap financials would be safer when the market sold off was far from the truth. While mid-cap financials slightly underperformed (by 2.9%) when the market was down, large-cap ones trailed by 14.7%.



## Health Care



Data source: Thomson Reuters

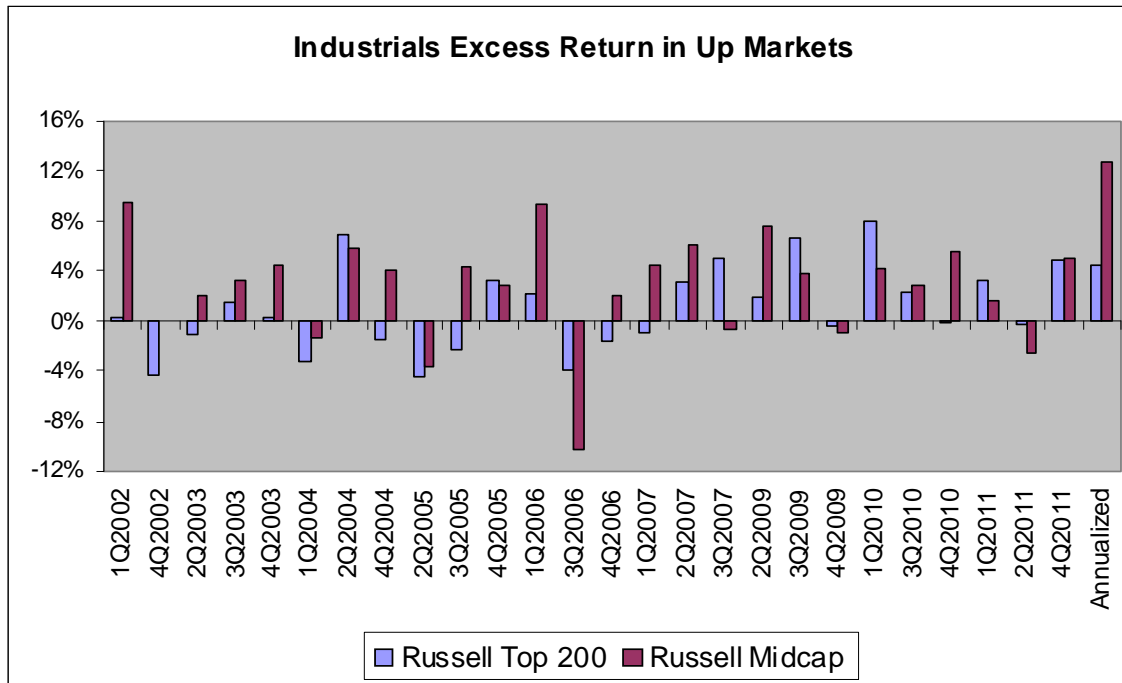


Data source: Thomson Reuters

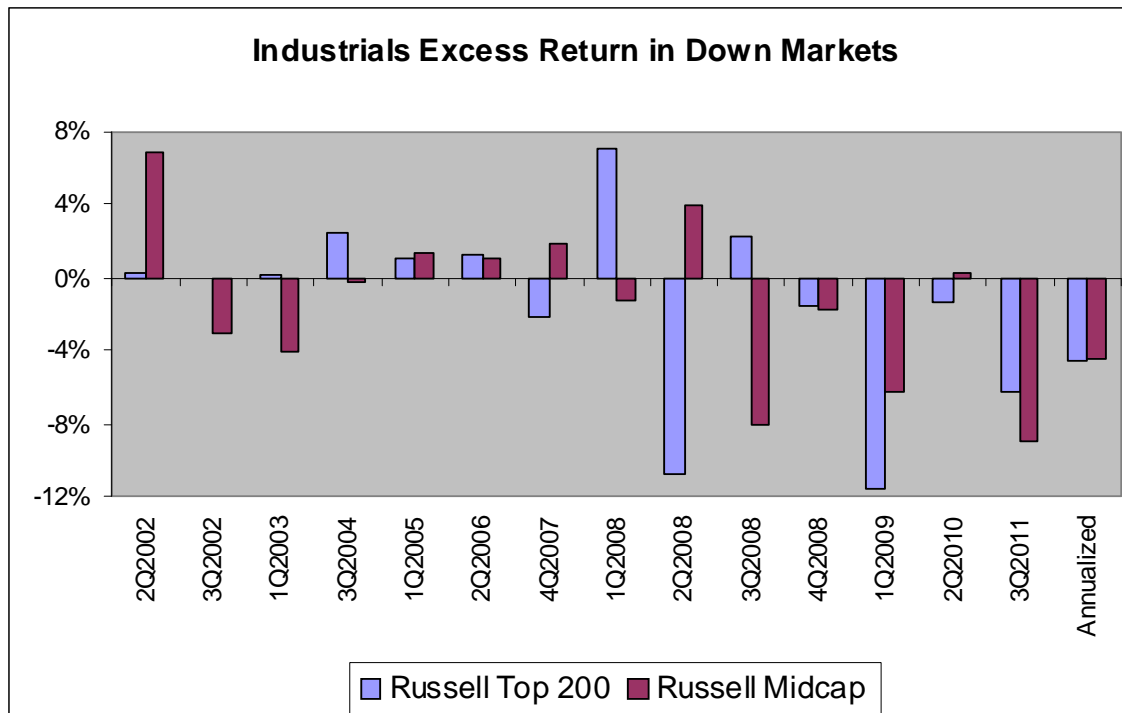
Another traditionally defensive sector, health care mid-caps still outperformed the market by 1.6% during up quarters, while large-cap stocks lagged by 10.9%. During the down quarters, mid-caps outperformed by 6.1% while large-cap health care stocks outperformed by 8.7%.



## Industrials



Data source: Thomson Reuters



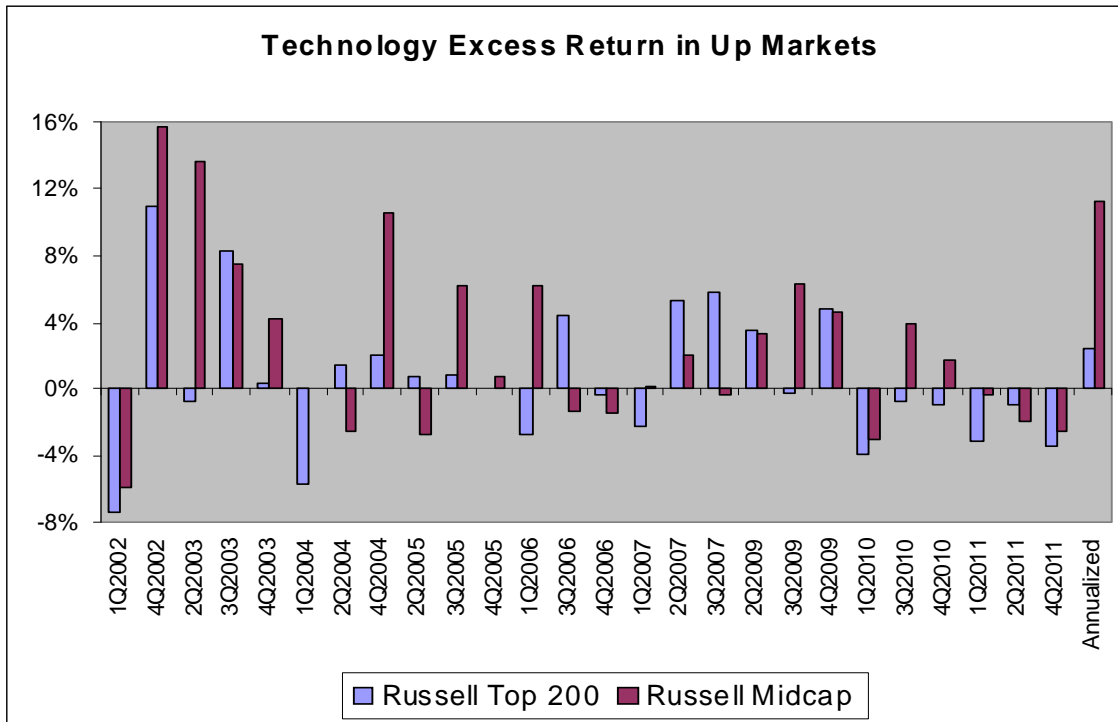
Data source: Thomson Reuters

Mid-cap industrial stocks were strong outperformers during up quarters, beating the market by 12.8%. Large-caps also outperformed, although by a much smaller margin (4.4%). Both mid-cap and large-cap stocks performed about the same during the down quarters (down 4.4% and 4.5%, respectively), underperforming the overall market.

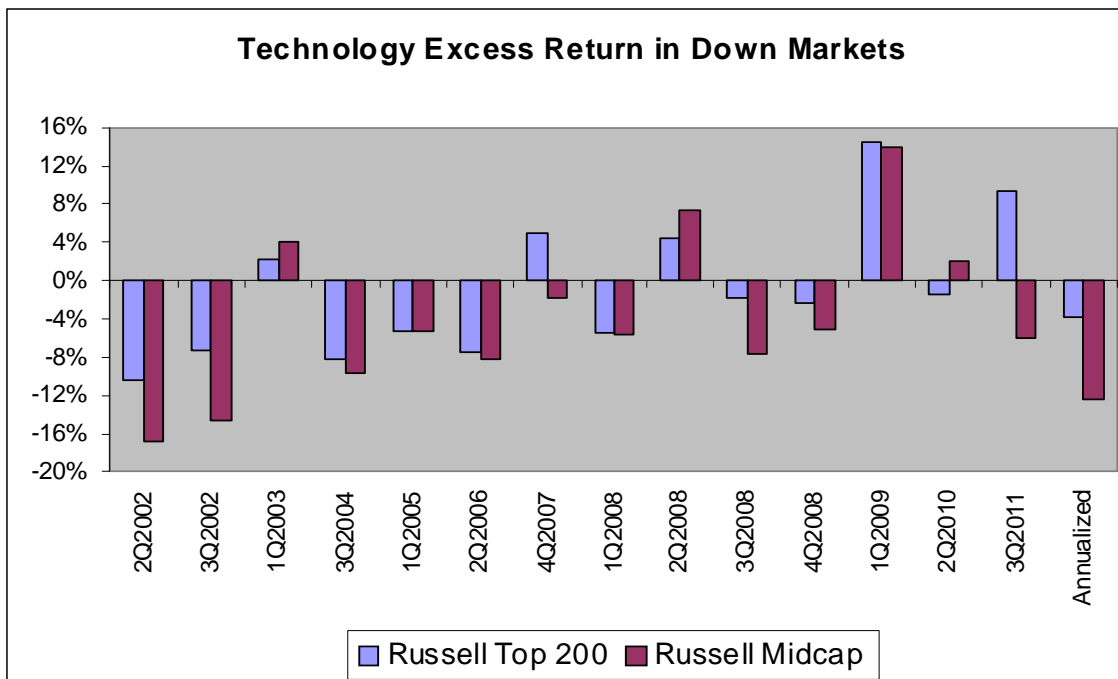




## Technology



Data source: Thomson Reuters



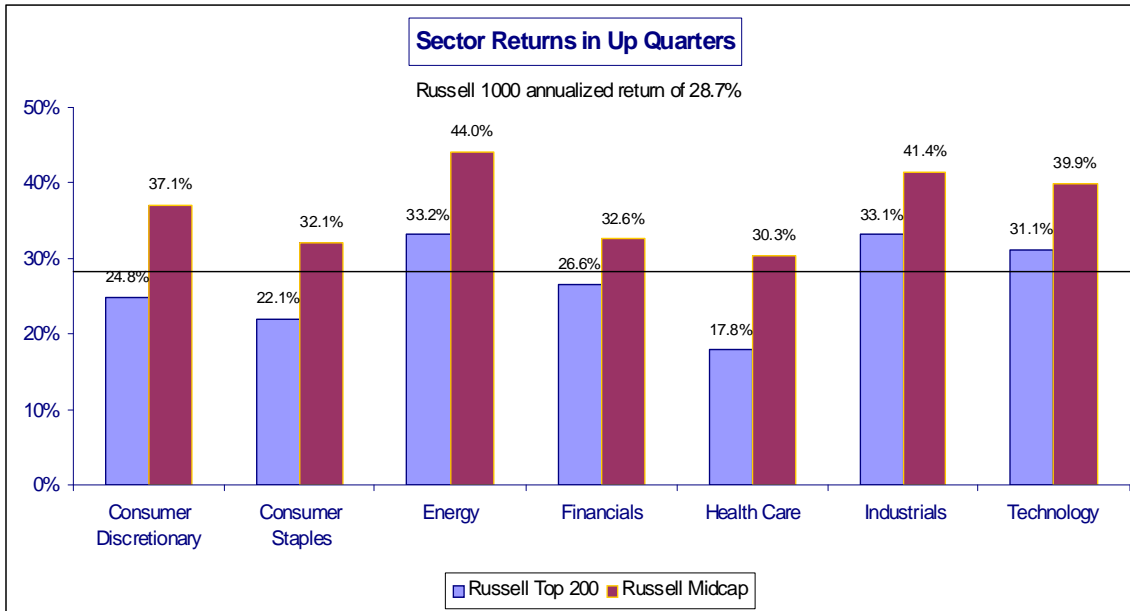
Data source: Thomson Reuters

The mid-cap technology sector outperformed the overall market during the up quarters by 11.3%, while large-caps outperformed by just 2.5%. During the down quarters, mid-cap technology stocks lagged by quite a bit (trailing by 12.3%), while large-cap stocks underperformed the market by 3.8%.



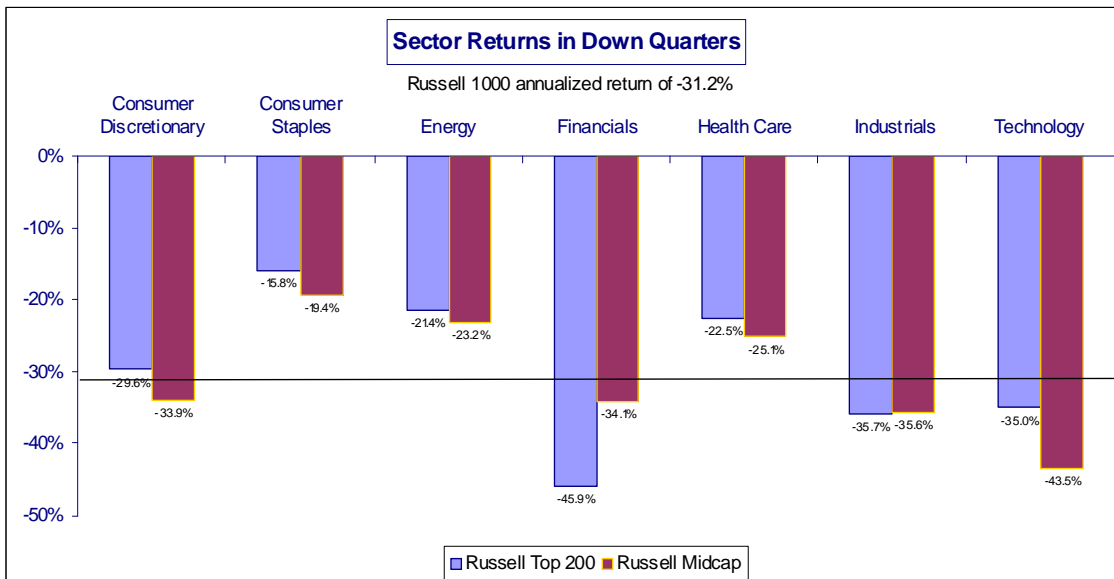
## Conclusion

Over the last 10 years, when the market has moved up, each mid-cap sector studied not only outperformed the market as a whole, but also the corresponding large-cap sector, as summarized in the chart below (all returns are annualized).



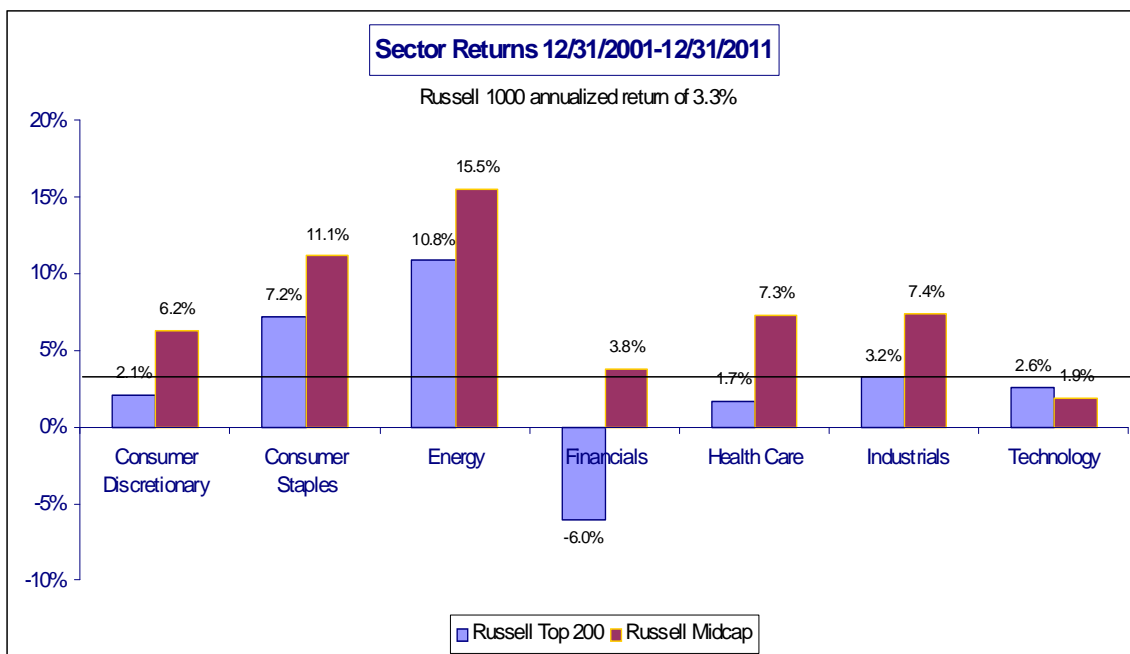
Data source: Thomson Reuters

There were more mixed results when the market sold off. Three mid-cap sectors outperformed the market, while four large-cap sectors did so. Mid-cap financials significantly outperformed their large-cap counterparts, while the mid-cap technology sector underperformed, and industrials were a match.



Data source: Thomson Reuters

There were three mid-cap sectors (consumer staples, energy, and health care) that outperformed the market regardless of direction, while only one large-cap sector (energy) did so. Looking at the total sector returns for all quarters over the last 10 years, mid-cap stocks outperformed their large-cap counterparts on an annualized basis in each of the sectors studied, except in the technology sector where performance was essentially the same.



Data source: Thomson Reuters

Although caution should be taken in drawing too many conclusions due to the limited time period examined, 6 of the 7 mid-cap sectors studied outperformed the market as a whole, while only 2 large-cap sectors did so. Even in those two sectors, mid-caps outperformed the large-caps. Mid-caps showed their attractiveness not just as a total asset class, but on a sector-by-sector basis, during both up and down markets.

<sup>1</sup> “Mid-Caps – An Overlooked Asset Class” can be found at <http://www.chasegrowthfunds.com/Mid-Caps%20-%20An%20Overlooked%20Asset%20Class.pdf>

## Definitions

### Russell 1000 Index

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

### Russell Top 200 Index

The Russell Top 200 Index measures the performance of the largest cap segment of the U.S. equity universe. The Russell Top 200 is a subset of the Russell 1000® Index. It includes approximately 200 of the largest securities based on a combination of their market cap and current index membership and represents approximately 68% of the U.S. market. As of its last reconstitution on 5/31/11, the market capitalization range was \$14.8-\$411.2 billion.

### Russell Midcap Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies. As of its last reconstitution on 5/31/11, the market capitalization range was \$1.6-\$18.3 billion.



**Mutual fund investing involves risk. Principal loss is possible. The Mid-Cap Growth Fund invests in mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund may invest in foreign securities traded on U.S. exchanges, which involve greater volatility and political, economic and currency risks and differences in accounting methods. Growth stocks are typically more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.**

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*The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The Statutory or Summary prospectuses contain this and other important information about the investment company, and it may be obtained by calling (888) 861-7556 or visiting [www.chasegrowthfunds.com](http://www.chasegrowthfunds.com). Read it carefully before investing.*

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