

Altura Capital Group, LLC
Asset Class Research Note

September 2010

US Small Cap Growth



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Asset Class Report: Small Cap Growth

Summary

Small Cap Growth managers are of particular interest in the emerging universe, due to the special opportunity to add value through their asset flexibility and entrepreneurial nature. In this universe where liquidity is at a premium due to the small capitalization of the stocks involved, as well as the compelling growth nature of the stories, smaller, emerging asset managers should theoretically have an advantage.

Altura has conducted an analysis of the Small Cap Growth managers in its Emerging and Diverse Manager Information Platform as of June 30, 2010. Our research shows that strong alpha opportunities exist in this universe, with the following highlights:

- There is a good sized opportunity set of firms, with 49 products that qualify.
- Diversity of talent also is prevalent, with a high level of WMBE representation among the firms offering these products.
- These firms have attractive asset sizes, at levels that allow for firm infrastructure and scale, and yet flexibility in trading. As a result, all size quartiles of emerging small cap products outperform, with some evidence that the very smallest firms perform a little better.
- Finally, we note that there is large dispersion of returns between the performance quartiles, which provides opportunities for manager selection and diversification (depending on client mandate). Additionally, there are firms that have outperformed by a large margin over each measured time period.

If you are a manager who offers small cap growth products, we invite you to join our database at www.alturacap.com or send an e-mail to qa@alturacap.com.

If you are interested in more information about any of the managers in the Altura Emerging and Diverse Manager Platform please visit us at www.alturacap.com, or send an e-mail to sales@alturacap.com, or call us at (212) 378-7133.

Number of Products

This report is based on performance and AUM data ending June 30th, 2010. The data was extracted from the Altura Diverse and Emerging Manager Information Platform (Altura Platform) as of September 29th, 2010.

Benchmarks
Russell 2000
Russell 2500

Altura allows managers to select from multiple benchmarks. The Russell 2000 Growth and the Russell 2500 Growth are the benchmarks that we use to search for small cap growth products.

There are 49 small cap growth products¹ in the Altura Platform. Of the 49 products 12 (24.5%) are run by Women or Minority Business Enterprises (WMBE).²

Average Firm Size by Quartile³	
Largest Quartile	1,552,896,779
2 nd Quartile	429,126,860
3 rd Quartile	147,816,039
4 th Quartile	41,421,422
Entire Small Cap Growth	534,754,066

The firms are distributed widely by size, with the average firm in each quartile being about 3 times as big as the average firm in the next quartile. The average firm in the entire set has a respectable size of just over \$500 million, big enough to have scale, but not too big for flexibility in this asset class.

¹ A product is counted if it meets all of the following criteria:

- The firm has picked one of the benchmarks listed above as the appropriate benchmark for the product.
- The firm has provided assets under management data (AUM) for the “as of date” of this analysis. In this case, the AUM is of June 30, 2010.
- The firm has provided at least 3 months (1 calendar quarter) of monthly performance data ending on the same “as of date” of June 30, 2010.

² A product is considered run by a WMBE if more than 50% of the firm running the product is owned by women, or minorities or some combination thereof.

³ The quartiles are calculated by taking the number of qualifying products, dividing by 4 and rounding. For example, with 49 products, the first quartile would have 49/4 or 12.25 products, which would round to 12 products. The second quartile would then take the number of products that are left (49-12 or 37) and divide that number by 3 and round, which would be 37/3 or 12.33, which would round to 12. The third quartile would then have 37-12 or 25, which would be divided by 2, giving us 12.5, which would round to 13. The remainder would be in the fourth quartile.

Performance by Size ⁴				
	Last Quarter	Year to Date	Last year ⁵	Last 3 years ⁶
Largest Quartile	-8.47%	-1.73%	19.17%	-7.43%
2 nd Quartile	-6.68%	-0.63%	18.27%	-9.89%
3 rd Quartile	-8.66%	-1.90%	19.97%	-6.30%
4 th Quartile	-6.51%	0.36%	20.97%	-2.25%
All Small Cap Growth	-7.60%	-0.99%	19.60%	-6.90%
Russell 2000 Growth	-9.22%	-2.31%	17.96%	-7.54%
Universe Size	49	49	49	34

If one breaks down the performance by the size quartiles one can see that:

- The average of the universe outperforms the benchmark over all measured time periods.
- There does not appear to be a strong link between size and performance, particularly between the first 3 quartiles.
- The smallest managers, on average, seem to perform a little bit better than their larger peers, particularly when measured over longer time frames.

⁴ The size quartiles are created as described earlier. Since AUM is based on firm-wide assets, and since a firm can have multiple products, the sort here is descending by assets and then descending by the Altura internal product number so that if the quartile breaks within one firm, but across its products, the sort is unbiased and consistent. Also note that:

- The product is ranked by size quartile based on the AUM as of the “as of date”. The product is NOT re-ranked for each time period, and therefore is always based on the most recent AUM.
- Since a product within a particular quartile may not have data past the most recent quarter, and since quartiles are not re-ranked, only the most recent quarter data may have equal distribution (within numerical limits as described earlier) of products. For example, all the products in the 1st quartile (the largest) may have 3 years of performance, and the other quartiles may have shrunk significantly.

⁵ The Last year is the past four calendar quarters of performance.

⁶ Annualized: The three year return number is annualized performance. Performance numbers for periods of 1 year or less are not annualized.

Performance by Return Quartile ⁷				
	Last Quarter	Year to Date	Last year	Last 3 years ⁶
Top Quartile	-3.05%	6.49%	29.88%	0.89%
2nd Quartile	-7.48%	-1.27%	20.69%	-6.38%
3rd Quartile	-8.93%	-3.03%	16.54%	-9.55%
4th Quartile	-10.84%	-6.00%	11.56%	-13.22%
All Small Cap Growth	-7.60%	-0.99%	19.60%	-6.90%
Russell 2000 Growth	-9.22%	-2.31%	17.96%	-7.54%
Universe Size	49	49	49	34

If one breaks down performance by return quartiles, one sees that:



- There is a large dispersion between the 1st and 4th quartile performers. This dispersion normally reduces over time, but in this case remains high at the three year mark.
- The average top quartile product outperforms the index, and the universe, by a large amount.
- The emerging small cap growth universe outperforms the benchmark over every measured time period.

⁷ Performance is calculated for each product for each period. The performance is then sorted from highest to lowest for each period. Quartiles are then calculated as described earlier, and the average performance for each quartile is shown. Note that a product can be in one quartile for one period and a different quartile for a different period. Also note that all quartiles within one period will have an equal number of products subject to numerical limits described earlier.

Conclusion

A review of Altura's small cap growth universe shows compelling opportunities to add value and validates expectations that emerging managers should perform well in this universe due to their asset flexibility and entrepreneurial nature. Performance of these products is generally attractive, and asset sizes allow for flexibility and resourcing for research and operations. Differences in returns among managers over time also indicates opportunities for manager selection and diversification to meet specific client mandates. Please contact Altura at sales@alturacap.com, or (212) 378-7133 for more information.

About Altura Capital

Altura Capital was established in March 2005 with the mission of creating new alpha generating opportunities for institutional investors by unleashing the economic potential of undiscovered, under-utilized or undercapitalized investment talent and markets, frequently described as “Emerging Managers.”

Our groundbreaking and comprehensive database, coupled with the investment expertise of our team and our commitment to research and innovation in the emerging manager space, has positioned the firm as a new and compelling emerging manager-of-manager service provider. Our innovative value proposition allows investors to tap into Altura’s unique manager sourcing and investment expertise, from manager due diligence to portfolio construction and monitoring.

A flagship product of Altura is the Altura Emerging Managers Information Platform, a groundbreaking, web-based, annual subscription application. The Platform provides institutional investors with daily updated research, data, analytics, due diligence, market intelligence, and collaborative tools.

Altura Capital is headquartered in New York City and has a West Coast Office in Seattle, Washington. Altura is a Women-owned and Hispanic-owned Company.

Our Research Team



Monika Mantilla
President and CEO

Ms. Mantilla is responsible for the overall strategic direction and leadership of the firm, including client relationship, marketing, product development, human capital development and financial management.



Ravindra Deo
Chief Investment Officer
Chief Technology Officer

Mr. Deo is responsible for the philosophy, process, and operation of the investment department, and for the technology infrastructure of the firm, including the management of the Emerging Manager Information Platform.



Lisa Kopp
Director of Research

Ms. Kopp is responsible for emerging manager selection and due diligence, manager of manager portfolio construction analysis, and assessment of broader manager and universe trends.



Rev. Jeffrey Van Orden
Chair, Investment Committee

Mr. Van Orden is responsible for leading Altura’s investment committee, to provide oversight and insight to manager selection, fund construction, and investment department operation.

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