

Altura Capital Group, LLC Asset Class Research Note

December 2010

US Small Cap



DISCLAIMER & COPYRIGHT INFORMATION

Disclaimer

All information set forth herein has been voluntarily provided by the participating firms and compiled both electronically and manually by Altura Capital Group (Altura). Because of the possibility of technical and human error as well as other factors, such information is provided “as is,” and Altura makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness or reliability of the data, as it has not been verified by Altura.

This report is not intended to be an offer, solicitation, encouragement or recommendation to engage any emerging manager or an endorsement of the investment strategies pursued by such emerging managers. Accordingly, any institutional investor interested in any of the emerging managers assessed herein should deem this assessment as only one of many possible factors to be weighed in the investment decision process and is encouraged to conduct its own study and evaluation of the data and other factors relevant to its investment decision. Reference to any emerging manager in this assessment does not constitute a preference, an appraisal, audit or endorsement as to the operating or financial condition of the emerging manager. Neither Altura nor any affiliate thereof shall be liable, in whole or in part, to any person or entity for any claim, loss, demand, suit, action, judgment, cost, charge or expense, including court costs or attorneys’ fees, or damages of any nature whatsoever, resulting from, or relating to, any error (negligent or otherwise), or other circumstance or contingency within or outside of Altura’s or any of its affiliates’ or employees’ control in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of such data, incurred by the user arising out of the use of (or the inability to use) this assessment, even if advised of the possibility of such.

For further information, please refer to the disclaimer at the back of this assessment or visit us at www.alturacap.com.

Copyright

Copyright © Altura Capital Group, LLC 2010. All rights reserved. The material is proprietary and may not be reproduced, transferred or distributed in any form without the prior written consent of Altura. Altura is not in the business of providing legal or tax advice.

Table of Contents

DISCLAIMER & COPYRIGHT INFORMATION.....	1
DISCLAIMER.....	1
COPYRIGHT	1
ASSET CLASS REPORT: SMALL CAP.....	3
SUMMARY	3
MANAGER SEGMENTATION BY STYLE.....	4
BENCHMARKS.....	4
NUMBER OF PRODUCTS BY STYLE.....	4
AVERAGE FIRM SIZE BY QUARTILE	5
SMALL CAP CORE PERFORMANCE BY SIZE.....	6
SMALL CAP CORE PERFORMANCE BY RETURN QUARTILE.....	9
CONCLUSION	10
ABOUT ALTURA CAPITAL.....	11
OUR RESEARCH TEAM	11
DISCLAIMER	12

Asset Class Report: Small Cap

Summary

Small Cap 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, and where thorough understanding is needed of the challenges facing small company management, smaller, emerging asset managers should theoretically have an advantage.

Altura has conducted an analysis of the Small Cap managers in its Emerging and Diverse Manager Information Platform (Altura 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 opportunity set with 127 products across all three styles. Growth is a large percentage of the universe at almost 40%. Value and Core styles have smaller shares at about 30%, but are still large enough to be of interest.
- Diversity of talent also is prevalent, with a high level of Women and Minority Business Enterprise (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. Interestingly, managers that offer the Growth style are significantly smaller than the Value and Core style managers, both in the largest quartile of AUM size and across the style.
- Finally, we note that there is large dispersion of returns between the performance quartiles, which might provide 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 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.

Manager Segmentation by Style

This report is based on performance and AUM data ending June 30th, 2010. The data was extracted from the Altura Emerging and Diverse Manager Information Platform (Altura Information Platform) as of November 22nd, 2010.

In previous research reports, we have looked at the Small Cap Value and the Small Cap Growth segments of the emerging manager universe. In this report, we look at Small Cap Core managers, and the characteristics of the small cap space. We also compare the three styles¹: core, value and growth, to see if there are any characteristics unique to a particular style.

Altura allows managers to select from multiple benchmarks. The benchmarks used to define the various small cap styles are shown in the table below.

Benchmarks		
<i>Small Cap Value</i>	<i>Small Cap Core</i>	<i>Small Cap Growth</i>
Russell 2000 Value	Russell 2000	Russell 2000 Growth
Russell 2500 Value	Russell 2500	Russell 2500 Growth
	S&P600	

Number of Products by Style				
	<i>Small Cap Value</i>	<i>Small Cap Core</i>	<i>Small Cap Growth</i>	<i>Small Cap Total</i>
Number of Products	40	38	49	127
Number of WMBE Products	13 (32.5%)	11 (28.9%)	12 (24.5%)	36 (28.3%)
Style As Percent of Total Small Cap Set	31.5%	29.9%	38.6%	100%

¹ Each style is defined by the benchmarks listed in the table titled "Benchmarks." For instance, any product benchmarked to either the Russell 2000 index, the Russell 2500 index or the S&P600 index is considered to be a Small Cap Core product. Managers in the Altura Information Platform have a limited set of benchmarks that they can select from.

There are 127 small cap products² in the Altura Information Platform. Of the 127 products, 36 (28.3%) are run by Women or Minority Business Enterprises (WMBEs).³ One can see from the table above, that WMBE firms run about the same number of products regardless of style in the small cap space. It is notable that with a 39% share of the total products, there is an overrepresentation of the small cap growth style, with the value and core styles each representing at about 30% of the total universe.

Average Firm Size by Quartile⁴			
	<i>Small Cap Value</i>	<i>Small Cap Core</i>	<i>Small Cap Growth</i>
Largest Quartile	\$2,665,085,319	\$2,565,915,166	\$1,552,896,779
2 nd Quartile	\$813,036,671	\$968,753,197	\$429,126,860
3 rd Quartile	\$250,764,357	\$280,291,869	\$147,816,039
4 th Quartile	\$33,922,735	\$74,746,330	\$41,421,442
Entire Small Cap Value	\$940,702,270	\$996,146,476	\$534,754,066

The firms are distributed widely by size. It is worth noting that firms that offer Small Cap Growth products are significantly smaller than firms that offer Small Cap Value or Core products. In all instances the average firm is large enough to have scale, but not too big for flexibility.

² 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.

³ 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.

⁴ 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.

Small Cap Core Performance by Size				
	Last Quarter	Year to Date	Last year ⁵	Last 3 years ⁶
Largest Quartile	-9.20%	-1.82%	21.34%	-7.88%
2 nd Quartile	-7.45%	0.15%	23.67%	-9.81%
3 rd Quartile	-8.75%	-1.84%	21.12%	-7.65%
4 th Quartile	-8.94%	-2.01%	19.99%	-9.69%
All Small Cap Core	-8.61%	-1.40%	21.52%	-8.71%
Russell 2000	-9.92%	-1.95%	21.48%	-8.60%
Universe Size	38	38	37	34

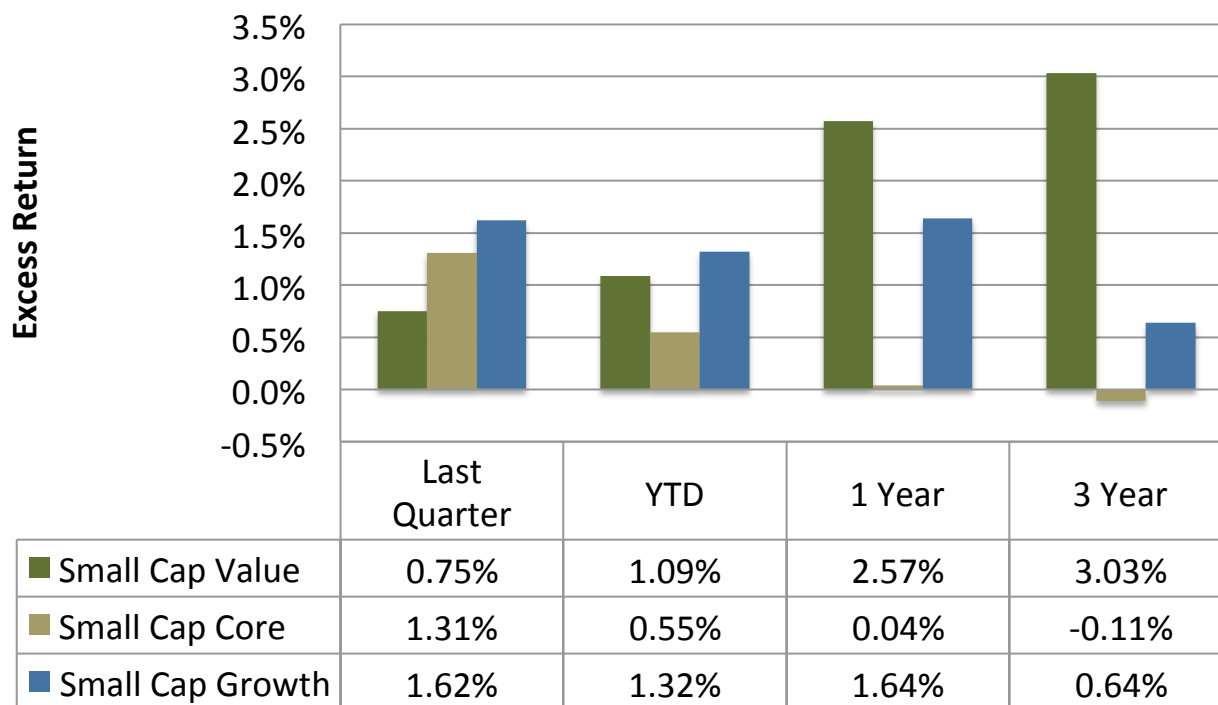
If one breaks down the performance by the size quartiles one can see that:

- The average of the universe outperforms the benchmark recently, but slightly underperforms over the past 3 years.
- There does not appear to be a strong link between size and performance in the Small Cap Core space.

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.

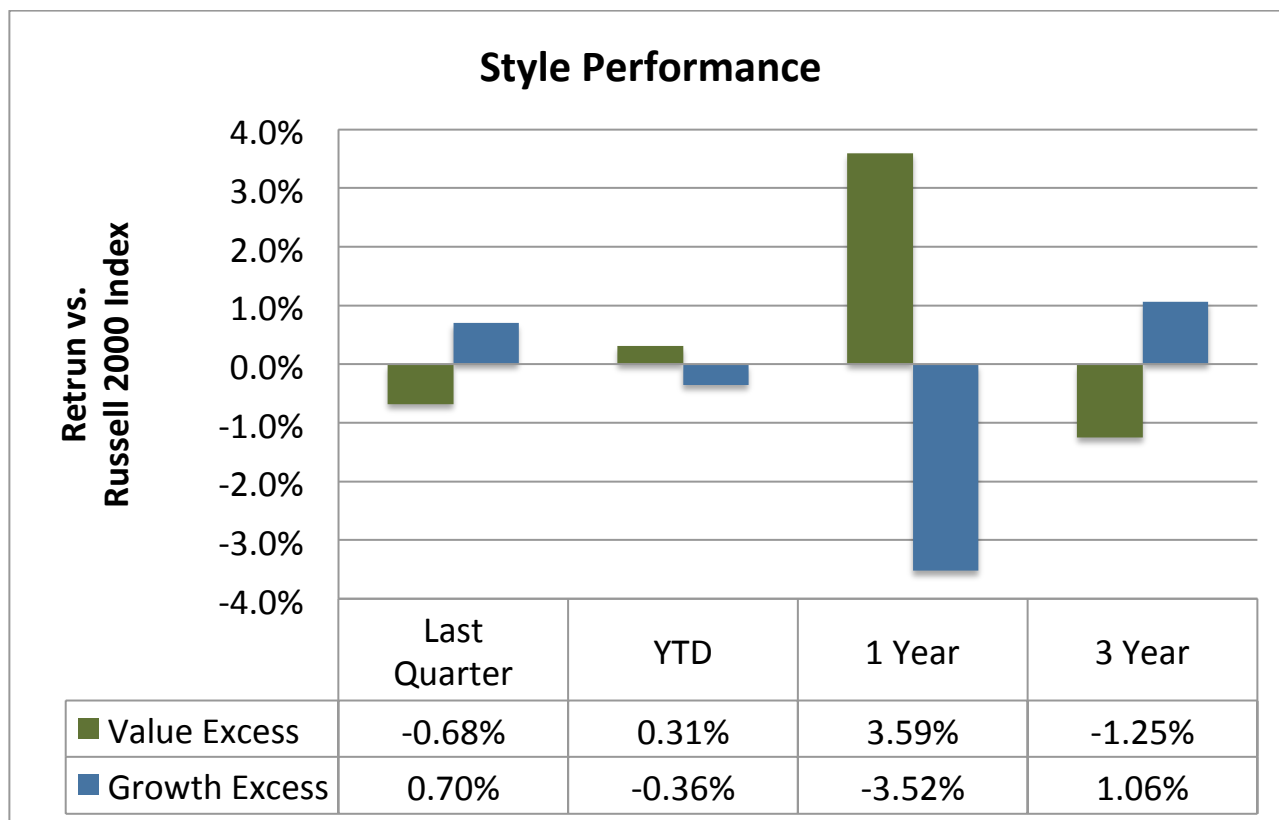
Excess Return over time by Small Cap style



If one compares the excess returns⁷ of the three styles over both short and long time frames one can see that:

- Over shorter time frames Growth managers have done well, although the size of their advantage is smaller over a longer time frame.
- Core managers have added value during the second quarter of 2010 (the last quarter analyzed), but have failed to add value in aggregate over 1 and 3 year time frames.
- Value managers have added value this year, although at a more measured pace, and have added consistent value over the past 1 and 3 years in aggregate.

⁷ The excess return for each style is the average performance of the products in each style minus the return for the benchmark. The benchmark for the Small Cap Value is the Russell 2000 Value index. The benchmark for the Small Cap Core is the Russell 2000 Index, and the benchmark for the Small Cap Growth is the Russell 2000 Growth Index. The data for the Small Cap Core Average Performance and the Russell 2000 Index are provided in this research report in the table titled “Small Cap Core Performance by Size”. The data for the Small Cap Value and Small Cap Growth average and benchmarks are provided in previously published papers.



One can also see in the chart above that value and growth styles, as represented solely by the underlying indexes, have not diverged by a large amount over the past three years⁸. The strongest divergence is a gap of about 7%, where the Russell 2000 Value outperforms the Russell 2000 Growth over the past year. Over the past 3 years, the Russell 2000 Growth has outperformed the Russell 2000 Value by 2.31%. Even though the value style has had a more difficult period, value managers have generated 2.39% more excess return than the growth managers (please refer to Excess Return over time by Small Cap Style table). It will be interesting to explore the reasons why.

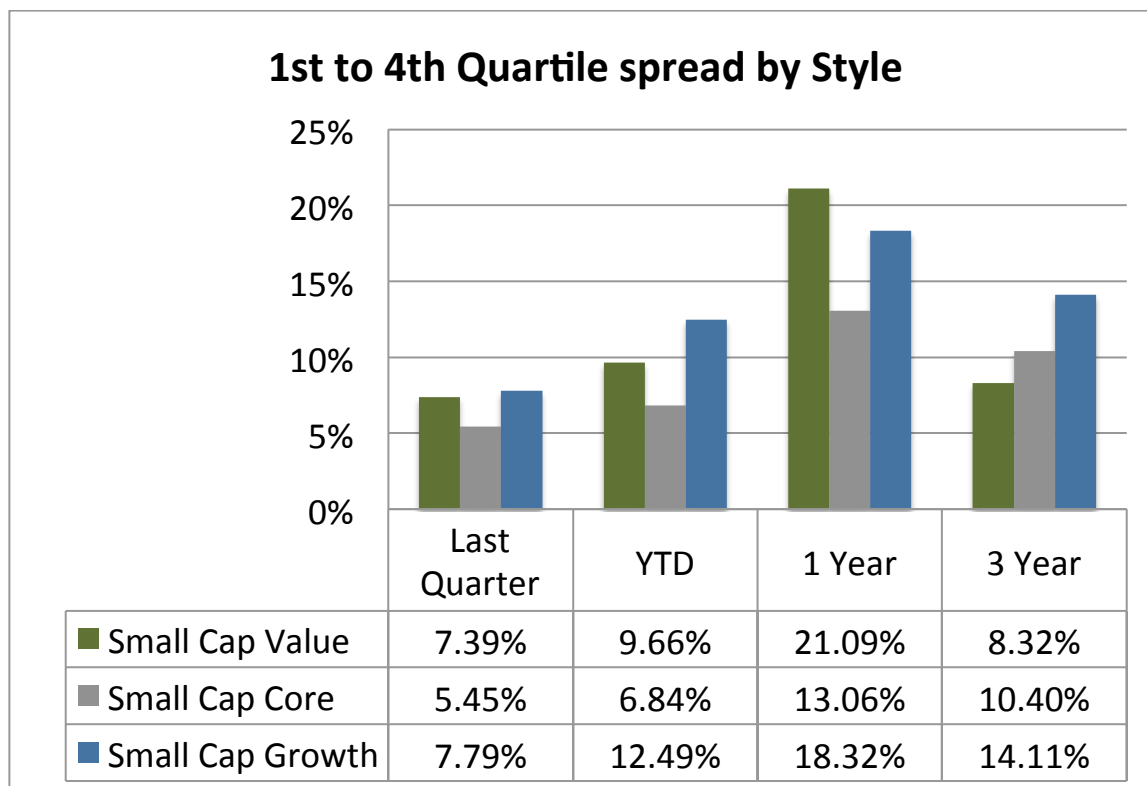
⁸ The Value Excess is the difference between the return of the Russell 2000 Value Index and the Russell 2000 Index. The Growth Excess is the difference between the Russell 2000 Growth Index and the Russell 2000 Index. For example, the Value Excess of 3.59% over the past year indicates that the Russell 2000 Value Index beat the Russell 2000 by 3.59%, while the Russell Growth Index underperformed the Russell 2000 by 3.52%. One could also compute that the Russell 2000 Value Index outperformed the Russell 2000 Growth Index by 7.11% (3.59% - (-3.52%)).

Small Cap Core Performance by Return Quartile⁹				
	Last Quarter	Year to Date	Last Year	Last 3 Years ⁶
Top Quartile	-6.09%	2.44%	28.52%	-3.74%
2nd Quartile	-8.02%	-1.27%	22.78%	-7.38%
3rd Quartile	-9.01%	-2.67%	19.56%	-10.04%
4th Quartile	-11.54%	-4.40%	15.46%	-14.14%
All Small Cap	-8.61%	-1.40%	21.53%	-8.71%
Russell 2000	-9.92%	-1.95%	21.48%	-8.60%
Universe Size	38	38	37	34

If one breaks down performance by return quartiles (please see table above), one sees that:

- There is a large dispersion between the 1st and 4th quartile performers, indicating the potential for manager research to add significant value.
- The average top quartile product outperforms the index and the universe by a large amount.

⁹ 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.



As can be seen from the chart above, there is a significant spread¹⁰ between top quartile and bottom quartile managers in every style, during all measured time periods. In particular, the past one year period has seen a big spread among top and bottom quartile small cap value managers, although the long term spread is the smallest in that style. Small Cap Growth managers have the largest spread on a more consistent basis, as might be expected with the extra volatility present in that style.

Conclusion

A review of Altura’s small cap universe shows compelling opportunities to add value and generally 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 investment maneuverability as well as resourcing for research and operations. Small Cap Core products, however, have had more difficulty, such that extra research must be applied to assess effectiveness. Differences in returns among managers over time also indicate 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.

¹⁰ The spread is calculated by subtracting the average performance of a 4th quartile product from the average performance of a 1st quartile product. The quartiles are defined as described earlier. Data for the quartiles for small cap core products are shown in the table titled “Small Cap Core Performance by Return Quartile”. Data for Small Cap Value and Small Cap Growth were shown in previously published research reports.

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.



Jay Garcia *Chief Financial Officer & Chief Operating Officer*

Mr. Garcia is responsible for oversight and management of Altura’s financials, operations, and infrastructure. He also provides research insight and strategic guidance based on his experience as a director of securities analysis and partner/portfolio manager.

DISCLAIMER

All information set forth herein has been voluntarily provided by the participating firm and compiled both electronically and manually by Altura Capital Group (Altura). Because of the possibility of technical and human error as well as other factors, such information is provided “as is,” and Altura makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness or reliability of the data, as it has not been verified by Altura.

Altura’s ratings and assessment as set forth herein must be construed as statements of opinion and not statements of fact. This report is not intended to be an offer, solicitation, encouragement or recommendation to engage any emerging manager or an endorsement of the investment strategies pursued by any such emerging manager. Accordingly, any institutional investor interested in any emerging manager assessed herein should deem this assessment as only one of many possible factors to be weighed in the investment decision process and is encouraged to conduct its own study and evaluation of the data and other factors relevant to its investment decision. Reference to any emerging manager in this report does not constitute a preference, an appraisal, audit or endorsement as to the operating or financial condition of the emerging manager. Neither Altura nor any affiliate thereof shall be liable, in whole or in part, to any person or entity for any claim, loss, demand, suit, action, judgment, cost, charge or expense, including court costs or attorneys’ fees, or damages of any nature whatsoever, resulting from, or relating to, any error (negligent or otherwise), or other circumstance or contingency within or outside of Altura’s or any of its affiliates’ or employees’ control in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of such data, incurred by the user arising out of the use of (or the inability to use) this assessment, even if advised of the possibility of such.

Altura prohibits its analysts and investment personnel from investing personal assets with any emerging manager covered by Altura's research department. However, such analysts and investment personnel will be permitted to participate in any manager of managers fund structure to which Altura allocates client assets and that is advised by a covered emerging manager, provided that Altura does not then currently have a negative opinion regarding such emerging manager.

Analyst compensation is not linked to (i) any transaction into which Altura may enter into on behalf of its clients, or (ii) any allocation of assets to any emerging manager covered by its research department.

The material set forth in this assessment has not been prepared nor tailored for the benefit of any particular investor and the appropriateness of an emerging manager or the investment strategies engaged in by such emerging managers will depend on each investor’s individual circumstances and investment objectives. Each institutional investor should consider this assessment as one of many possible factors in making an investment decision.

Altura has no obligation to inform an investor who receives this assessment when information contained herein becomes stale or changes. Altura makes no representation or warranty with respect to the accuracy or completeness of this material nor is it obligated to provide updated information on the emerging manager assessed herein.

The benchmark information has been generated by information compiled by Zephyr Associates Inc. Technical or human error is possible by Zephyr or Altura. Altura makes no representation or warranty as to the accuracy and reliability of the data, as such has not been verified by Altura. All benchmarks are the property of their owners, and no rights of distribution are assumed or implied.

Copyright © Altura Capital Group, LLC 2010. All rights reserved. The material is proprietary and may not be reproduced, transferred or distributed in any form without prior written permission from Altura Capital. Altura Capital is not in the business of providing legal or tax advice.