
Altura Capital Group, LLC
Asset Class Research Note

March 2011

US Large Cap



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Asset Class Report: Large Cap

Summary

Large Cap managers are of particular interest in the emerging universe. It is believed that active management has a harder time adding value in the Large Cap area due to the efficiency of the market. In this report, we see evidence that emerging managers are able to add value through their asset flexibility and entrepreneurial nature.

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

- There is a large opportunity set with 214 products across all three styles. Most of the managers are core in style, with good representation also among Value and Growth styles.
- Diversity of talent is prevalent, with a high level of Women and Minority Business Enterprise (WMBE) representation among the firms offering these products.
- Over longer periods the managers have generally added value, as represented by the average performance in each group compared to the appropriate index. Large Cap Growth managers have had more difficulty generating excess return, as represented by the average; nonetheless, previous analysis by Altura shows that there are still a good group of firms with outperformance, as shown by the returns of top and second quartile (by performance) of Large Cap Growth firms.
- All three styles of managers have attractive asset sizes, at levels that allow for firm infrastructure and scale, and yet flexibility in trading. Interestingly, the biggest Large Cap Value managers are significantly larger than their Core and Growth counterparts, even though this style has been out of favor over the past three years.
- 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).

If you are a manager who offers large cap products, we invite you to join our database at www.alturacap.com or send an email 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, send an email 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 September 30th, 2010. The Large Cap Value data was extracted from the Altura Emerging and Diverse Manager Information Platform (Altura Information Platform) as of February 22nd, 2011.

In previous research reports, we have looked at the Large Cap Core and the Large Cap Growth segments of the emerging manager universe. In this report, we look at Large Cap Value managers, and the characteristics of the large cap space in general. 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>Large Cap Value</i>	<i>Large Cap Core</i>	<i>Large Cap Growth</i>
Russell 1000 Value	Russell 1000	Russell 1000 Growth
S&P 500/CG Value	S&P 500	S&P 500/CG Growth
	Russell 200	

Number of Products by Style				
	<i>Large Cap Value</i>	<i>Large Cap Core</i>	<i>Large Cap Growth</i>	<i>Large Cap Total</i>
Number of Products	41	118	55	214
Number of WMBE Products	16 (39.0%)	39 (33.1%)	26 (47.3%)	81 (37.9%)
Style As Percent of Total Large Cap Set	19.2%	55.1%	25.7%	100%

¹ Each style is defined by the benchmarks listed in the table titled "Benchmarks." For instance, any product benchmarked to either the Russell 1000 index, the Russell 200 index or the S&P 500 index is considered to be a Large Cap Core product. Managers in the Altura Information Platform have a limited set of benchmarks from which they can select.

There are 214 large cap products² in the Altura Information Platform. Of the 214 products, 81 (37.9%) are run by Women or Minority Business Enterprises (WMBEs).³ It is also worth noting that there are more large cap products than there are small cap products. In a previous research note, we had found 127 small cap products, with small cap core comprising 30% of the products, and WMBE firms running about 28% of the products. Despite large cap being thought of as a harder asset class in which to add value, there are almost 70% more large cap products than small cap products, and a larger percentage run by WMBE firms. It also is worth noting that there is more concentration in core products in the large cap space, with less in the value and growth segments, whereas all styles were more evenly represented in the small cap space.

Average Firm Size by Quartile⁴			
	<i>Large Cap Value</i>	<i>Large Cap Core</i>	<i>Large Cap Growth</i>
Largest Quartile	\$4,845,527,019	\$2,505,303,037	\$2,862,875,329
2 nd Quartile	\$1,332,240,178	\$543,231,692	\$859,857,053
3 rd Quartile	\$259,141,630	\$148,734,231	\$368,738,565
4 th Quartile	\$43,720,873	\$32,772,754	\$114,821,321
Entire Large Cap Set	\$1,586,961,918	\$816,315,652	\$1,068,604,917

The firms are distributed widely by size. It is worth noting that the largest firms that offer Large Cap Value products are significantly bigger than firms that offer Growth or Core products. In all styles 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 September 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 September 30, 2010.

³ A product is considered run by a WMBE if more than 50% of the firm 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.

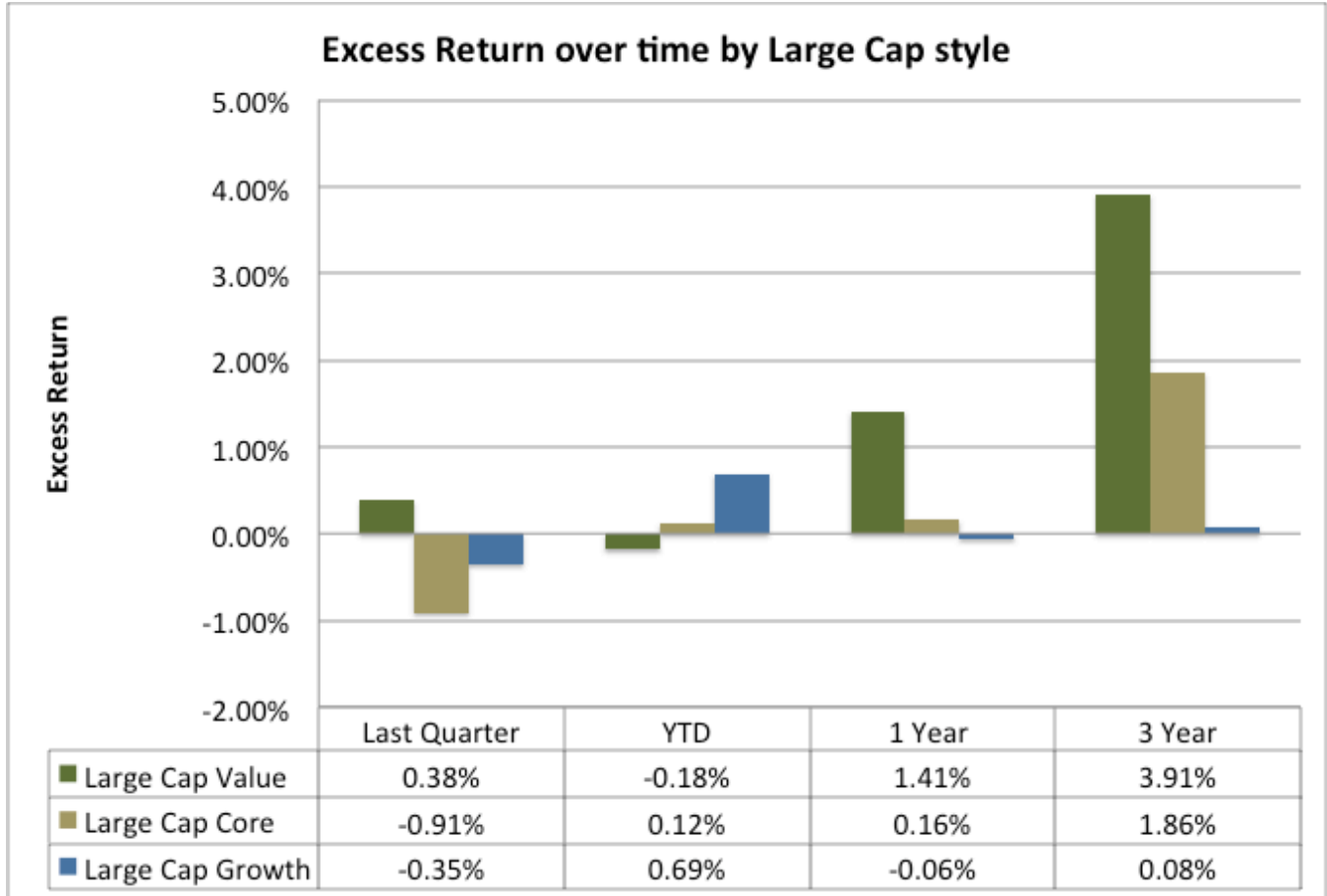
Large Cap Value Performance by Size				
	Last Quarter	Year to Date	Last year ⁵	Last 3 years ⁶
Largest Quartile	10.75%	2.13%	7.94%	-6.22%
2 nd Quartile	10.10%	3.30%	8.13%	-7.88%
3 rd Quartile	9.96%	4.75%	9.97%	-4.03%
4 th Quartile	11.31%	7.03%	15.23%	-3.28%
All Large Cap Value	10.52%	4.31%	10.31%	-5.48%
Russell 1000 Value	10.13%	4.49%	8.90%	-9.39%
Universe Size	41	41	41	37

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

- The average of the universe outperforms the benchmark slightly in more recent periods, but outperforms significantly over the past 1 and 3 years.
- Over the longer term, smaller managers appear to have an advantage over their larger peers in the large cap value space. It will be interesting to see whether the significant difference in asset sizes among large cap value managers narrows over time because of this trend.

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

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



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 no style appears to have a clear advantage.
- Growth managers have had the hardest time adding value over the long run.
- Value managers have added the most value, with core managers having a harder time adding value recently, but a respectable record of excess return over the past 3 years.

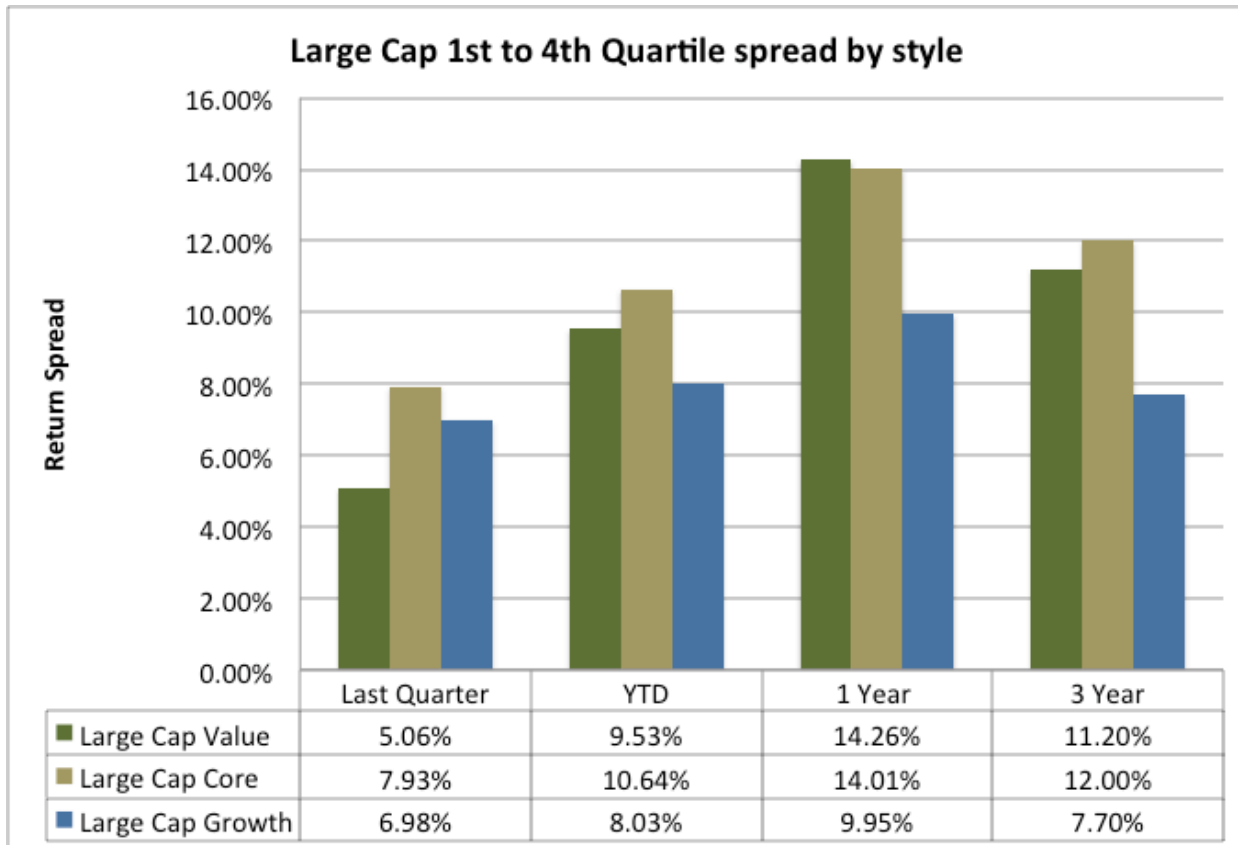
⁷ The excess return for each style is the average performance of the products in each style minus the return for the benchmark. The benchmark for the Large Cap Value is the Russell 1000 Value index. The benchmark for the Large Cap Core is the Russell 1000 Index, and the benchmark for the Large Cap Growth is the Russell 1000 Growth Index. The data for the Large Cap Value Average Performance and the Russell 1000 Value Index are provided in this research report in the table titled "Large Cap Value Performance by Size". The data for the Large Cap Core and Small Cap Growth average and benchmarks are provided in previously published papers.

Large Cap Value Performance by Return Quartile ⁸				
	Last Quarter	Year to Date	Last Year	Last 3 Years ⁶
Top Quartile	13.25%	9.98%	18.58%	1.06%
2nd Quartile	10.83%	4.46%	10.27%	-5.28%
3rd Quartile	9.85%	2.53%	8.28%	-7.35%
4th Quartile	8.19%	0.45%	4.32%	-10.14%
All Large Cap Value	10.51%	4.31%	10.31%	-5.48%
Russell 1000 Value	10.13%	4.49%	8.90%	-9.39%
Universe Size	41	41	41	37

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.

⁸ 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 spread⁹ between top quartile and bottom quartile managers in every style, during all measured time periods.

Conclusion

A review of Altura’s large cap universes across growth, core, and value styles shows meaningful opportunities to add value and generally validates the case that emerging managers have superior performance, even though the large cap space is believed to be highly efficient. Performance of these products is generally attractive, and asset sizes allow for investment maneuverability as well as resourcing for research and operations. Large cap growth products have had more difficulty than their peers, such that extra research must be applied to assess effectiveness. Nonetheless, previous Altura research reports show strong performers exist in the large cap growth space as well. 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.

⁹ 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 Large Cap Value products are shown in the table titled “Large Cap Value Performance by Return Quartile”. Data for Large Cap Core and Large 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 other offices in Seattle, Washington and Chicago, IL. 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.

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