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# Altura Capital Group, LLC Asset Class Research Note

August 2011

## US Equity



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## Asset Class Report: US Equity

### Summary

Over the past few months, Altura has conducted an analysis of the managers in its Emerging and Diverse Manager Information Platform (Altura Information Platform). We have produced a series of reports, each focused on a particular size and style subset within the US Equity universe. This report summarizes the US Equity space as of March 31, 2011. Our research shows that strong alpha opportunities exist in this universe, with the following highlights:

- There is a large opportunity set with 350 products across all nine style and size subsets. The products are more focused on large cap and small cap, with a much narrower selection in the mid cap space. There is a good group of products in every style, with the broadest selection in core, followed by growth.
- 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. In particular, Large Cap Value and Small Cap Value managers did particularly well.
- The three year returns also show that the absolute level of returns, while positive for all segments, were helped by being smaller in cap size and more growth oriented in style.
- All three styles of managers have attractive asset sizes, at levels that allow for firm infrastructure and scale, and yet flexibility in trading.
- 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 US Equity products, we invite you to join our database at [www.alturacap.com](http://www.alturacap.com) or send an email to [qa@alturacap.com](mailto: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](http://www.alturacap.com), send an email to [sales@alturacap.com](mailto:sales@alturacap.com), or call us at (212) 378-7133.

## Manager Segmentation by Size and Style

This report is based on performance and AUM data ending March 31<sup>st</sup>, 2011. All data was extracted from the Altura Emerging and Diverse Manager Information Platform (Altura Information Platform) as of July 19<sup>th</sup>, 2011.

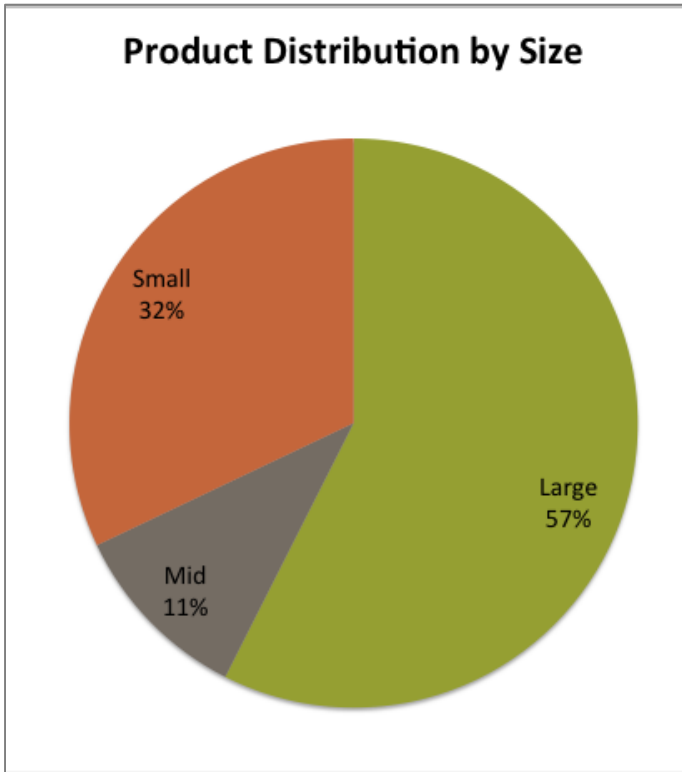
In previous research reports, we have looked at the various size and style segments of the emerging manager universe. In this report, we look at all the size<sup>1</sup> and style<sup>1</sup> segments together to see if there are any characteristics unique to a particular style.

Altura allows managers to select from multiple benchmarks. The benchmarks used to define the various size and style categories are shown in the table below.

<b>Benchmarks</b>			
<b>Size/Style</b>	<b>Value</b>	<b>Core</b>	<b>Growth</b>
<b>Large</b>	Russell 1000 Value S&P 500/CG Value	Russell 1000 S&P 500 Russell 200	Russell 1000 Growth S&P 500/CG Growth
<b>Mid</b>	Russell MidCap Value	Russell MidCap S&P 400	Russell MidCap Growth
<b>Small</b>	Russell 2000 Value Russell 2500 Value	Russell 2000 Russell 2500 S&P 600	Russell 2000 Growth Russell 2500 Growth

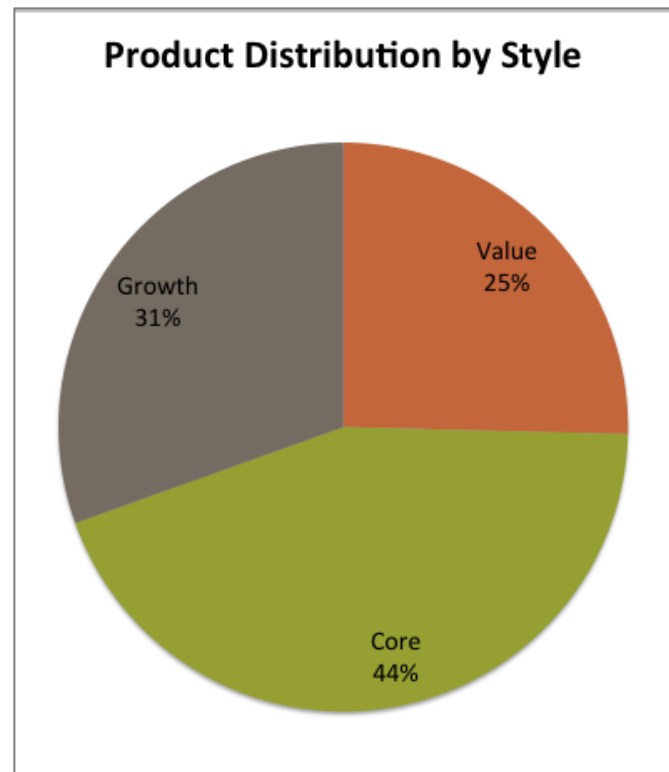
<b>Number of Products by Size and Style</b>				
<b>Size/Style</b>	<b>Value</b>	<b>Core</b>	<b>Growth</b>	<b>Total</b>
<b>Large</b>	40	109	49	<b>198</b>
<b>Mid</b>	9	14	12	<b>35</b>
<b>Small</b>	35	36	46	<b>117</b>
<b>Total</b>	<b>84</b>	<b>159</b>	<b>107</b>	<b>350</b>

<sup>1</sup> Altura defines a size/style segment by the index that the manager chooses for a particular product. For example, any product that has either the Russell MidCap index or the S&P 400 index selected as a benchmark would be defined as a Mid Cap Core product.



As can be seen from the table above, and the chart to the left, there is a meaningful set of large cap and small cap products. There is a very small set of mid cap products. We believe this is a function of demand, where institutions segment stocks into large cap and small cap, particularly since the Russell MidCap index is completely subsumed within the Russell 1000 index, a common large cap benchmark.

As can be seen from the table above, and the chart to the right, there is a large set of products in every style. There are more core products and fewer value products, but even in the value space there are enough products to conduct meaningful research into the managers and to be able to differentiate managers and products.



<b>MWBE Products by Size and Style</b>				
<b>Size/Style</b>	<b>Value</b>	<b>Core</b>	<b>Growth</b>	<b>Total</b>
<b>Large</b>	13	31	20	<b>64</b>
<b>Mid</b>	5	5	7	<b>17</b>
<b>Small</b>	5	12	10	<b>27</b>
<b>Total</b>	<b>23</b>	<b>48</b>	<b>37</b>	<b>108</b>

<b>MWBE Penetration by Size and Style</b>				
<b>Size/Style</b>	<b>Value</b>	<b>Core</b>	<b>Growth</b>	<b>Total</b>
<b>Large</b>	32.5%	28.4%	40.8%	<b>32.3%</b>
<b>Mid</b>	55.6%	35.7%	58.3%	<b>48.6%</b>
<b>Small</b>	14.3%	33.3%	21.7%	<b>23.1%</b>
<b>Total</b>	<b>27.4%</b>	<b>30.2%</b>	<b>34.6%</b>	<b>30.9%</b>

There are 350 US Equity products<sup>2</sup> in the Altura Information Platform. Of the 350 products, 108 (30.9%) are run by Women or Minority Business Enterprises (WMBEs).<sup>3</sup> There is less WMBE representation in the Small Cap space (23%) as compared to the Large Cap space (32%). There are also fewer WMBE managers in the Value space (27%) than the Growth space (35%). The Mid Cap space is very well represented by WMBE managers, but that result may be skewed by the small size of the Mid Cap space.

<sup>2</sup> A product is counted if it meets all of the following criteria:

- The firm has picked one of the benchmarks listed previously 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 March 31, 2011.
- The firm has provided at least 3 months (1 calendar quarter) of monthly performance data ending on the same "as of date" of March 31, 2011.

<sup>3</sup> 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.

<b>Average Firm Size by Size and Style</b>			
<b>Size/Style</b>	<b>Value</b>	<b>Core</b>	<b>Growth</b>
<b>Large</b>	\$1,880,488,828	\$1,059,440,099	\$1,390,322,937
<b>Mid</b>	\$1,507,671,898	\$2,009,741,758	\$1,728,354,377
<b>Small</b>	\$1,116,618,551	\$1,513,305,706	\$1,148,417,142

The firms are distributed fairly evenly by size. In all styles the average firm is large enough to have scale, but not too big for flexibility. This data is, of course, affected by the fact that the same firm may have products in multiple size segments or multiple style segments, and may therefore lead to more clustering of the average data points.

Over the next few pages, we analyze the returns<sup>4</sup> of various style and size segments of the US equity products to determine where returns have been earned over both the long and the short term, and where emerging managers have added value<sup>5</sup>.

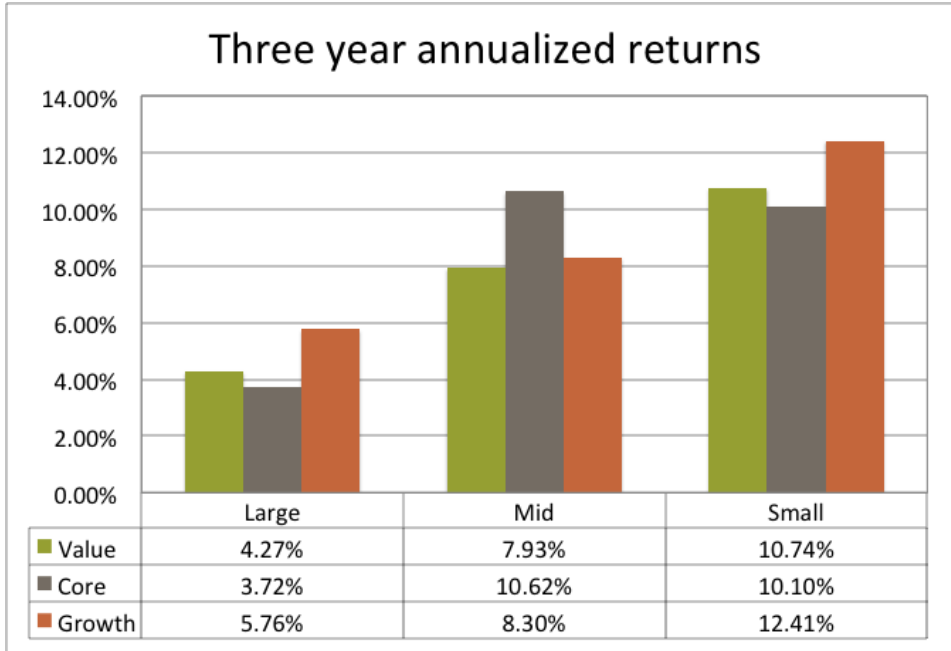
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<sup>4</sup> The returns are calculated for each product and averaged for all products to calculate the return of that size and style category. A product must have 3 months of return data to be included. The number of products included decreases over longer time periods. Returns for periods of one year or less are presented as is, while returns for periods of more than one year are annualized. All returns are gross of any fees or expenses.

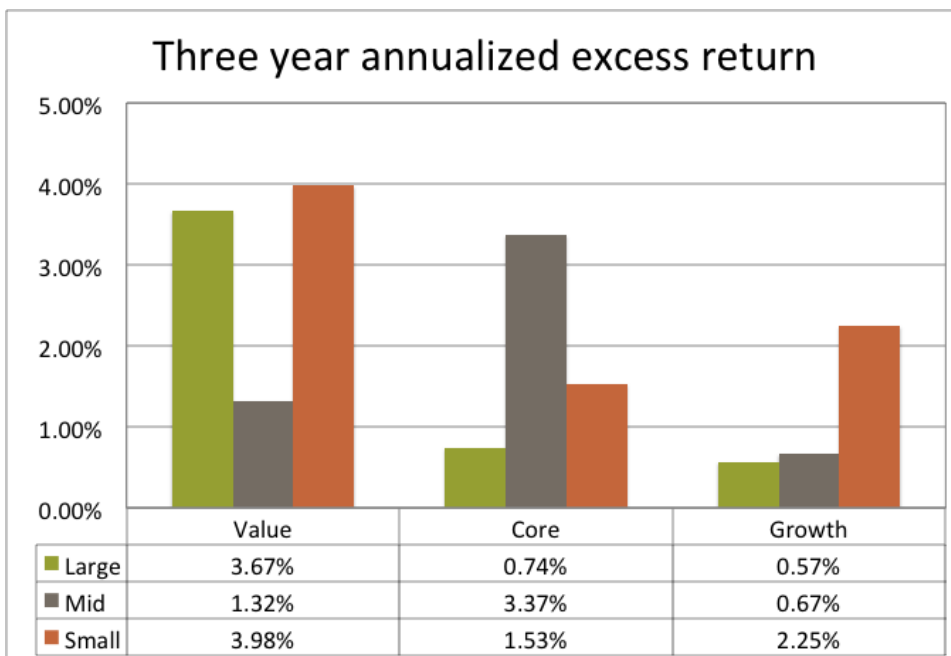
<sup>5</sup> The excess return for each style is the average performance of the products in each style minus the return for the benchmark.

### Analysis of Three Year Returns

When one looks at the charts below, one can see that returns have followed long term expected patterns, with large cap stocks producing the lowest returns, and small cap stocks producing the most returns. There also appears to be a small benefit from owning growth stocks rather than value stocks.

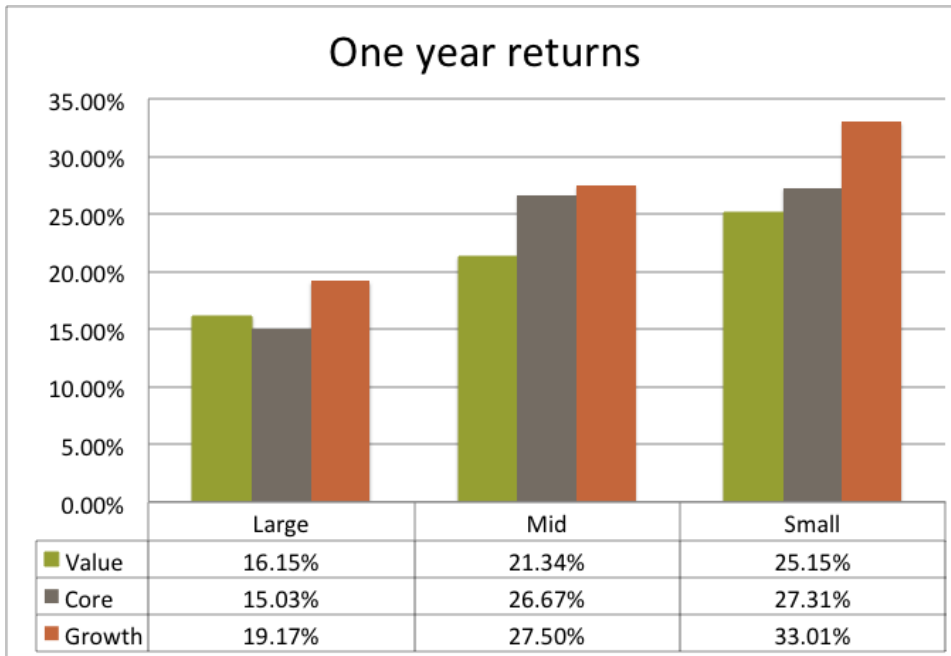


When one looks at where managers added excess returns, it appears that managers added the most value in both Large Cap Value and Small Cap Value segments. Managers were still adding return, but to a much smaller extent in Large Cap Core, Large Cap Growth and Mid Cap Growth.

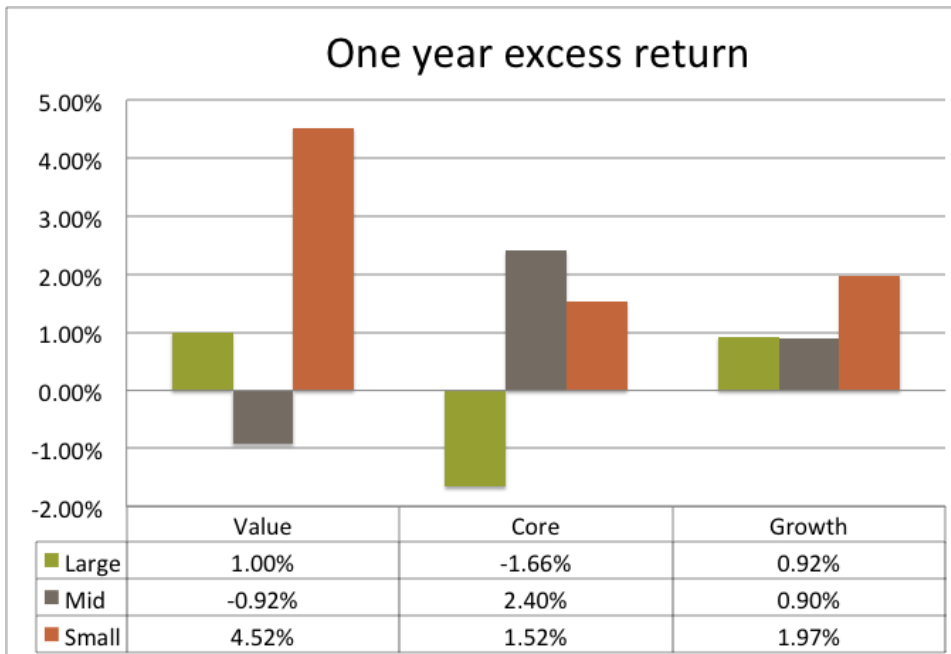


### Analysis of One Year Returns

Again, small cap outperformed mid cap, which outperformed large cap. Again, growth had an advantage over value.

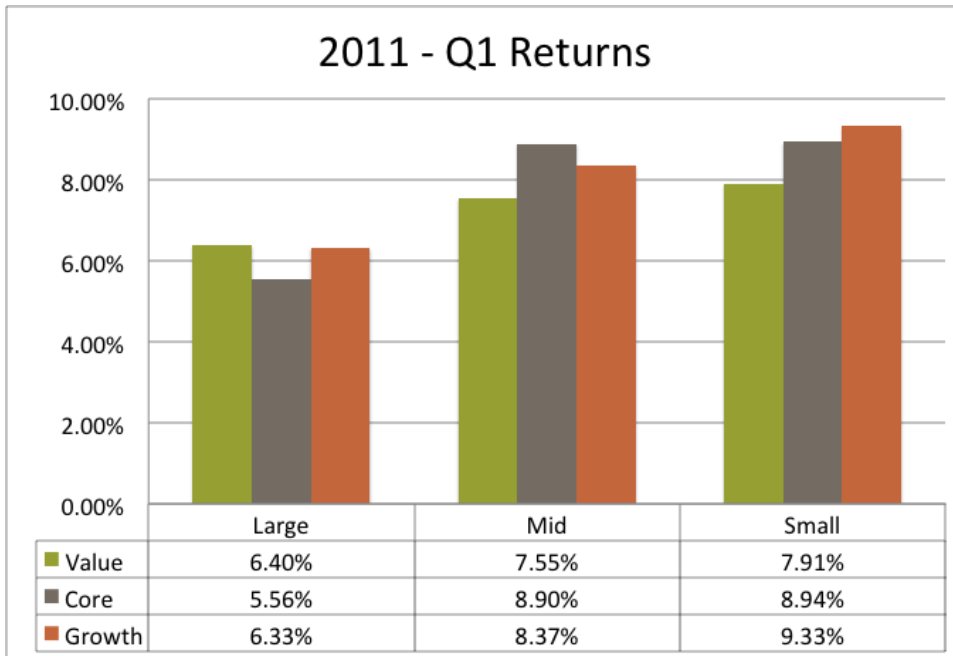


When it comes to adding value, small cap managers have had a clear advantage over the past year. In fact, Mid Cap Value and Large Cap Core managers have had a harder time adding value, although there are, of course, managers within those segments whose performance has been excellent.

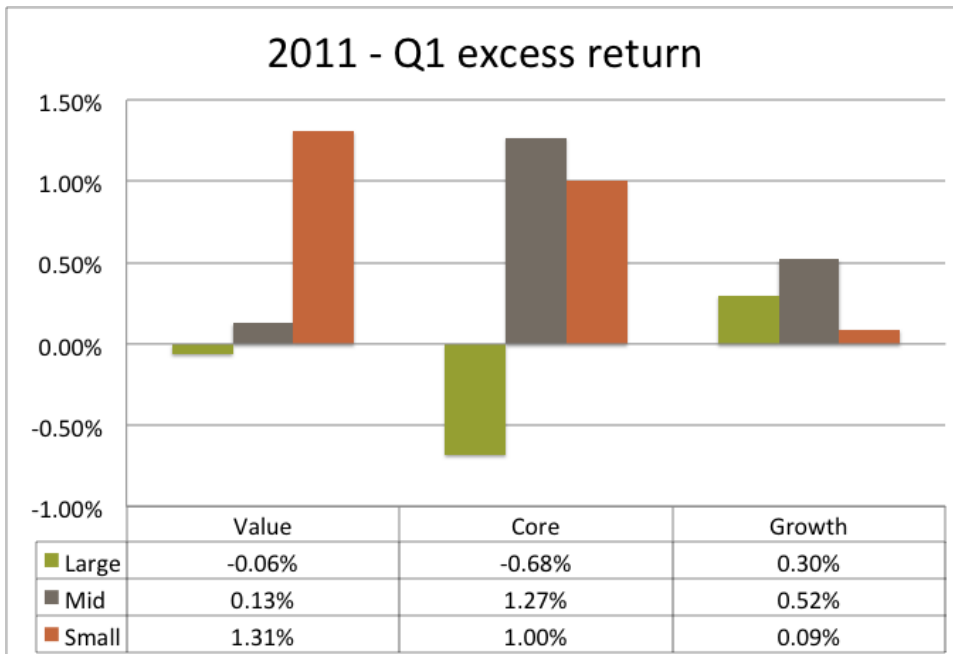


### Analysis of First Quarter 2011 Returns

Over this short time period, the smaller the size the higher the returns. There is also evidence that Growth as a style helped returns.

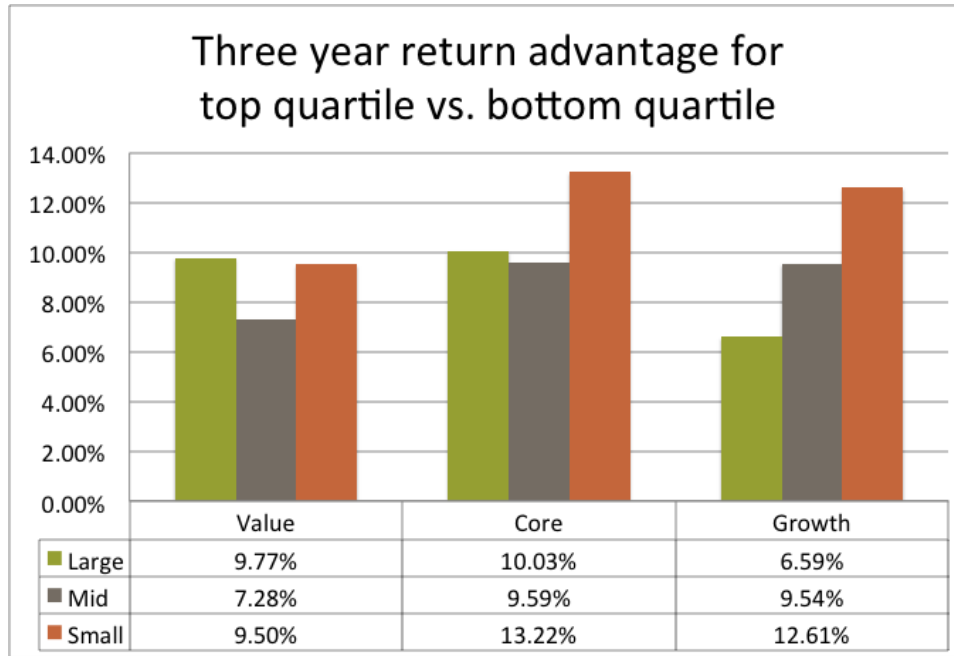


Finally, one can see that large cap managers have had a harder time adding value over the short-term, although there are exceptions among the universe. Small Cap managers have had an easier time adding value, particularly in the Core and Value styles.



## Manager Dispersion

In the chart below we can see that regardless of size or style, there is a large dispersion between the returns of top and bottom quartile managers. We believe that this difference in returns indicate the opportunity for manager selection through intensive research to add value to portfolios.



## Conclusion

A review of Altura’s US Equity universes across Growth, Core, and Value styles and across Large, Mid and Small cap sizes shows meaningful opportunities to add value. The data shows that over the long run, there appears to be data that validates the case that emerging managers have superior performance. Performance of these products is generally attractive, and asset sizes allow for investment maneuverability as well as resourcing for research and operations. 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](mailto: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 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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