

Small Cap Growth 35

Monthly Report

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Sector Strategy

Focus On Quality Staples and Utilities Names

Our “Small-Cap 35” (BRV-SCG35) strategy demonstrates consistent outperformance when compared with the Russell 2000G, producing an annualized return of 8.35% versus the benchmark at –3.08% during the January 2004—June 30, 2009 period*. In addition, the BRV-SCG35 strategy outperformed the benchmark in FY08 with returns of –32.48% versus the benchmark at –46.40%. At the beginning of each month, we select the top 35 names as ranked by our model from the Russell 2000G and construct an optimally weighted portfolio. We restrict our selections to names that have a minimum market capitalization of \$500 million and a maximum market capitalization of \$3.0 billion. In addition, we limit each position to between 0.5% and 5% of the total portfolio and we limit the names selected from any one GIC sector to a maximum of four names as a measure of risk control. With respect to stock selection, we are focused on fundamental factors that we believe are key to identifying outperformers. The fundamental themes encompassed by the “Small-Cap 35” strategy include five key elements: positive EPS momentum, turnaround opportunities, technical risk, profitability history and cash-flow and price-book multiples. The key points below highlight our current positions:

- This month in the small-cap space, we are most heavily concentrated in Consumer Staples (18.2%), and Utilities (10.0%) relative to the Russell 2000G. We expect select names in these sectors to move up this month as dividend yields have now increased to levels observed at the beginning of Q2-09.
- Within the staples sector, we like Chatterm, Inc. (NASDAQ: CHTT, \$65.90) and Sanderson Farms, Inc. (NASDAQ: SAFM, \$46.95). These names are relatively attractive on a forward P/E basis and have favorable profitability characteristics.
- While utilities have outperformed the benchmark in recent months, yields remain attractive and we continue to be positive on this sector. This month we like New Jersey Resources (NYSE: NJR, \$36.54) and South Jersey Industries (NYSE: SJI, \$34.96). Each of these names is currently paying a dividend of 3.4% and is modestly valued on a P/E basis.

* See Appendix for a detailed explanation of the BRV-SCG35 strategy performance.

