

Small Cap Growth 35
Monthly Report

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Sector Strategy

Emphasis On Consumer Staples and Financials

Our “Small-Cap 35” (BRV-SCG35) strategy demonstrates consistent outperformance when compared with the Russell 2000G, producing an annualized return of 9.36% versus the benchmark at -1.54% during the January 2004—August 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:

- For the month of August, 2009 our small-cap growth portfolio outperformed the Russell 2000G with returns of 2.86% versus the benchmark at 0.93%. The largest contributions to total returns last month came from our Materials sector holdings. This month, we are most heavily concentrated in the Consumer Staples (12.9%) and Financials (15.1%) sectors relative to the Russell 2000G.
- Among small-cap Staples names, we like J&J Snack Foods Corp. (NASDAQ: JJSF, \$43.89) and American Dairy, Inc. (NYSE: ADY, \$29.33) which have positive near-term EPS momentum and relatively attractive cash-flow multiples.
- Despite the volatility in small-cap Financials names, prices continue to rise in the sector. We remain overweight in the sector at this point largely because we believe that positive near-term EPS momentum in the sector may outweigh technical risk. This month, our holdings include Equity Lifestyle Properties (NYSE: ELS, \$38.01), Mid-America Apartment Communities, Inc. (NYSE: MAA, \$41.94) and Cohen & Steers (NYSE: CNS, \$19.01).

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

