

**Small-Cap Growth 35**

Monthly Report

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Sector Strategy

**Overweight Materials, Staples, Select Financials**

Our “Small-Cap 35” (BRV-SCG35) strategy demonstrates consistent outperformance when compared with the Russell 2000G, producing an annualized return of 5.69% versus the benchmark at -6.99% during the January 2004—March 31, 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 four groups of fundamental factors that we believe are critical 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 points below highlight our current positions:

- This month in the small-cap space, we are most heavily concentrated in Consumer Staples (18.2%), Financials (8.47%) and Materials relative to the benchmark. In our view, more of the Staples and Materials names have become attractive based on earnings and cash-flow multiples with respect to price volatility.
- Within the Consumer Staples sector, we like packaged foods companies. Among the Financials, we like select REITs. With respect to Materials, our diversified holdings include specialty chemicals, paper packaging and metals and mining names.
- Relative to the benchmark, we are heavily underweight the Healthcare (10.82%) and Information Technology (13.29%) sectors in the small-cap space. We are seeing unfavorable earnings momentum characteristics in both of these sectors that outweigh favorable valuation characteristics.

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

