

# Introduction to LMCG Growth Investing

## Jeff Davis, *Chief Investment Officer*

The greatest American companies have, at one time or another, been small “secular growth” stocks. Investing well in these types stocks has brought enormous rewards to investors for decades. But it isn’t easy.

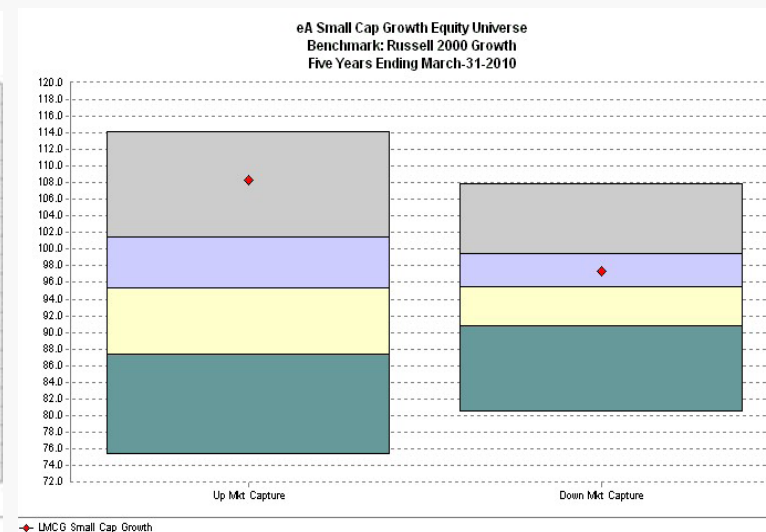
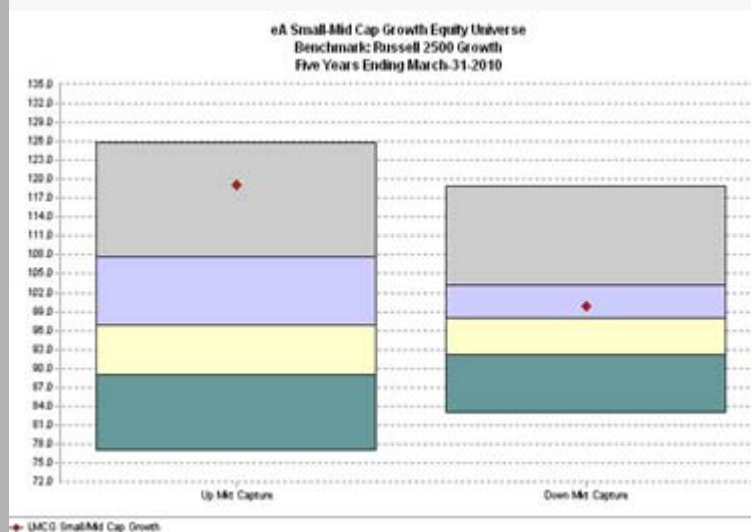
This presentation reviews the performance and philosophy of our Growth Team. More specifically, Tom Holman presents evidence that having the ability to anticipate change and manage risk among companies with greater than 20% sales growth has led to compelling performance in this decade where equity returns have been disappointing.

The results speak for themselves – growth investing is rarely smooth sailing, but combining sound stock picking with highly effective risk and probability management can make the ride to higher returns much better than the “loser’s game” of other approaches.

# Market Capture Analysis: 5 Years Ending 3/31/10

## Small/Mid Cap Growth

## Small Cap Growth



|         | <u>Up Market Capture*</u> | <u>Down Market Capture*</u> |
|---------|---------------------------|-----------------------------|
| Product | 119.11                    | 99.78                       |
| Median  | 96.87                     | 98.00                       |
| Rank    | (11)                      | (38)                        |

|         | <u>Up Market Capture*</u> | <u>Down Market Capture*</u> |
|---------|---------------------------|-----------------------------|
| Product | 108.32                    | 97.31                       |
| Median  | 95.32                     | 95.54                       |
| Rank    | (13)                      | (41)                        |

\*Source: eVestment Alliance

# Strong Risk-Adjusted Returns: 5 Years Ending 3/31/10

## Small/Mid Cap Growth

*Excess Returns\**: **9<sup>th</sup> percentile**  
4.77% versus -0.18%

*Sharpe Ratio\**: **13<sup>th</sup> percentile**  
0.29% versus 0.09%

*Annualized Alpha\**: **13<sup>th</sup> percentile**  
4.72% versus 0.24%

*Strong Upside/Downside Capture\**:  
**11<sup>th</sup> and 38<sup>th</sup> percentiles**  
Upside: 119% versus 97%  
Downside: 100% versus 98%

## Small Cap Growth

*Excess Returns\*\**: **20<sup>th</sup> percentile**  
3.23% versus 0.61%

*Sharpe Ratio\*\**: **21<sup>st</sup> percentile**  
0.19% versus 0.08%

*Annualized Alpha\*\**: **20<sup>th</sup> percentile**  
3.35% versus 0.92%

*Strong Upside/Downside Capture\*\**:  
**13<sup>th</sup> and 41<sup>st</sup> percentiles**  
Upside: 108% versus 95%  
Downside: 97% versus 96%

*\* Statistics calculated using monthly returns and against the Russell 2500™ Growth Index where applicable; rankings are for eVest Small/Mid Cap Growth universe. Source: eVestmentalliance, 3/31/10*

*\*\* Statistics calculated using monthly returns and against the Russell 2000® Growth Index where applicable; rankings are for eVest Small Cap Growth universe. Source: eVestmentalliance, 3/31/10*

*Past performance is not indicative of future results. Please see the Small & Small/Mid Cap Growth Composite presentation included at the end of this presentation.*

## Why LMCG Small Cap Growth?

### Offering Better Diversification

*3-year correlations as of 3/31/10*

|                           | LMCG Small Cap Growth | Small Cap Growth* Peers |
|---------------------------|-----------------------|-------------------------|
| Russell 2000® Value Index | 0.68                  | 0.86                    |
| Small Cap Value* Peers    | 0.72                  | 0.90                    |
| Small Cap Core* Peers     | 0.83                  | 0.97                    |
| Russell 2000® Index       | 0.83                  | 0.96                    |

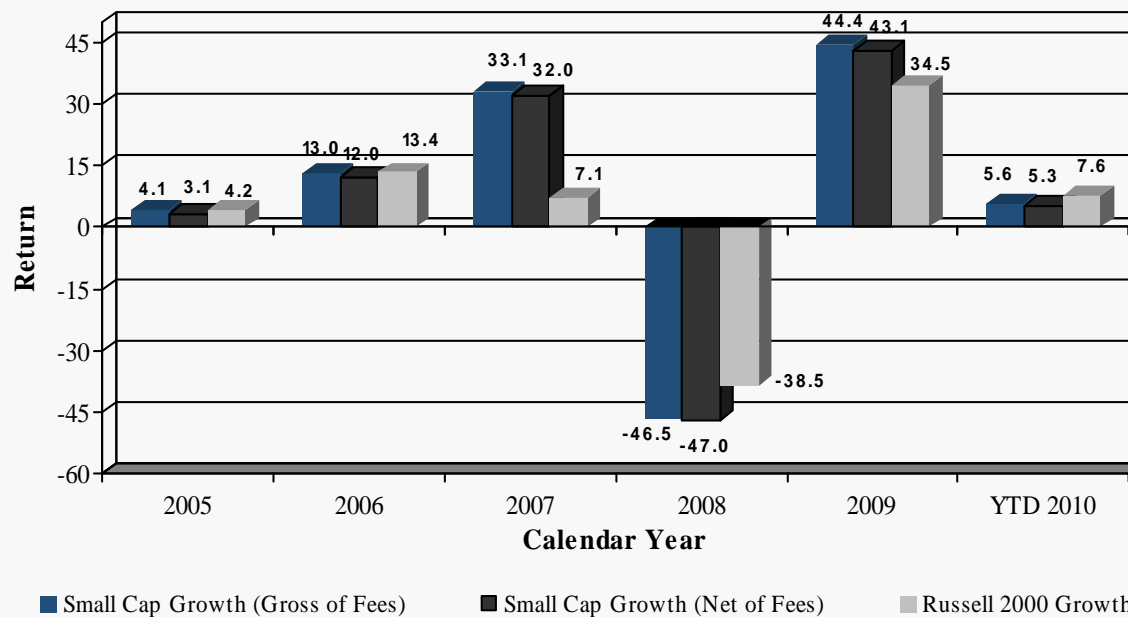
\* Source: Zephyr: Zephyr defined indices which include peers defined as small cap value or small cap growth by eVestment Alliance

# Composite Performance

As of March 31, 2010

|   | March 2010 | Q1 2010 | 1 yr. | 3 yr.* | 5 yr. * |
|---|------------|---------|-------|--------|---------|
| <b>Small Cap Growth (Gross of Fees)</b> | 8.5%       | 5.6%    | 53.1% | 1.0%   | 7.1%    |
| <b>Small Cap Growth (Net of Fees)</b>   | 8.4%       | 5.3%    | 51.8% | 0.1%   | 6.1%    |
| <b>Russell 2000® Growth</b>             | 7.9%       | 7.6%    | 60.3% | -2.4%  | 3.8%    |

\*Annualized. Inception date: 10/1/00.



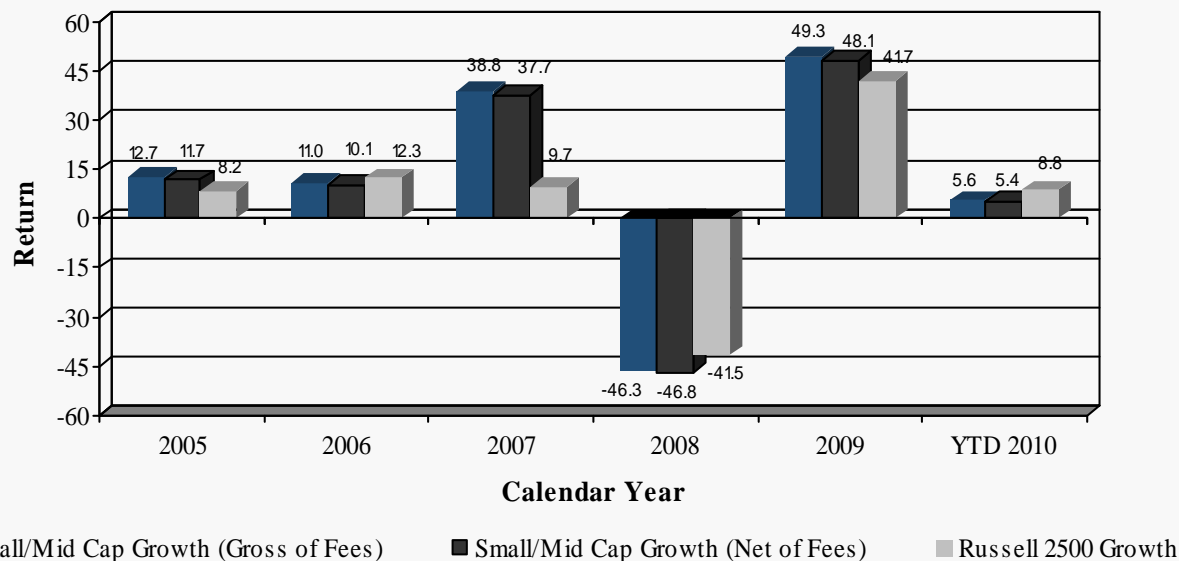
Past performance is not indicative of future results. Please see the Small Cap Growth Composite presentation included in the back of this presentation.

# Composite Performance

As of March 31, 2010

|   | March 2010 | Q1 2010 | 1 yr. | 3 yr.* | 5 yr.* |
|---|------------|---------|-------|--------|--------|
| <b>Small/Mid Cap Growth (Gross of Fees)</b> | 8.0%       | 5.6%    | 54.2% | 3.4%   | 9.4%   |
| <b>Small/Mid Cap Growth (Net of Fees)</b>   | 7.9%       | 5.4%    | 53.0% | 2.6%   | 8.5%   |
| <b>Russell 2500™ Growth</b>                 | 8.0%       | 8.8%    | 63.9% | -1.7%  | 4.7%   |

\*Annualized. Inception date: 1/1/04.



Past performance is not indicative of future results. Please see the Small/Mid Cap Growth Composite presentation included in the back of this presentation.

## Our Approach to Growth Investing?

### Proven *Secular Growth* Focus

- We define *Secular Growth* as companies capable of generating sustainable 20+% earnings growth over a 3 to 5 year time frame.
- Typically, these secular growth companies are driven by the adoption of new products or services.
- As they gain scale, secular growth companies exhibit positive operating leverage and increasing profitability.
- Secular Growth companies are rare, approximately 10-15% of the investable universe.

## Myth: High Growth Investing is a “Loser’s Game”

We gathered sales growth data for companies included within the Russell 2000® Growth Index going back 30 years (1979-2008).

We then divided this universe each month for companies which exhibited 20%, 15-20%, 10-15%, 5-10% or 5% and lower sales growth for **each subsequent year** over a 3-year rolling period.

Results show that companies with a 20% realized growth rate generate the strongest annualized excess returns over the 3-year period. In addition, these high “growers” also outperform coming out of defined market bottoms.

While the investment opportunities within the 20% growth segment are compelling, they are **rare** - representing 10% on average of the companies within the Russell 2000® Growth Index over 30 years.

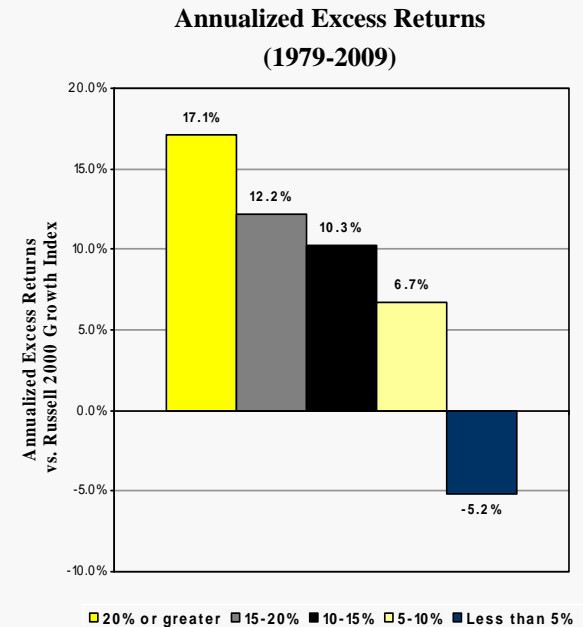
It’s important to note that the 20% growth segment of the broader sector is also less efficient and more volatile (as many companies miss growth expectations). As a result, skilled active managers are required to uncover those companies that will eventually beat expectations and provide strong returns.

*Source: Internally sourced at Lee Munder Capital Group*

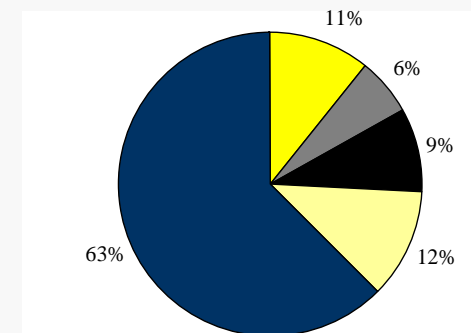
# Why Secular Growth?

## Rewarding Opportunities

- *Secular Growth* companies are:
  - Capable of delivering sustainable 20% sales growth over a 3 to 5 year time frame
  - Proven to generate the strongest excess returns over time
  - Comprise just over 10% of the companies in the Russell 2000 Growth



**% Opportunities within Growth Range**



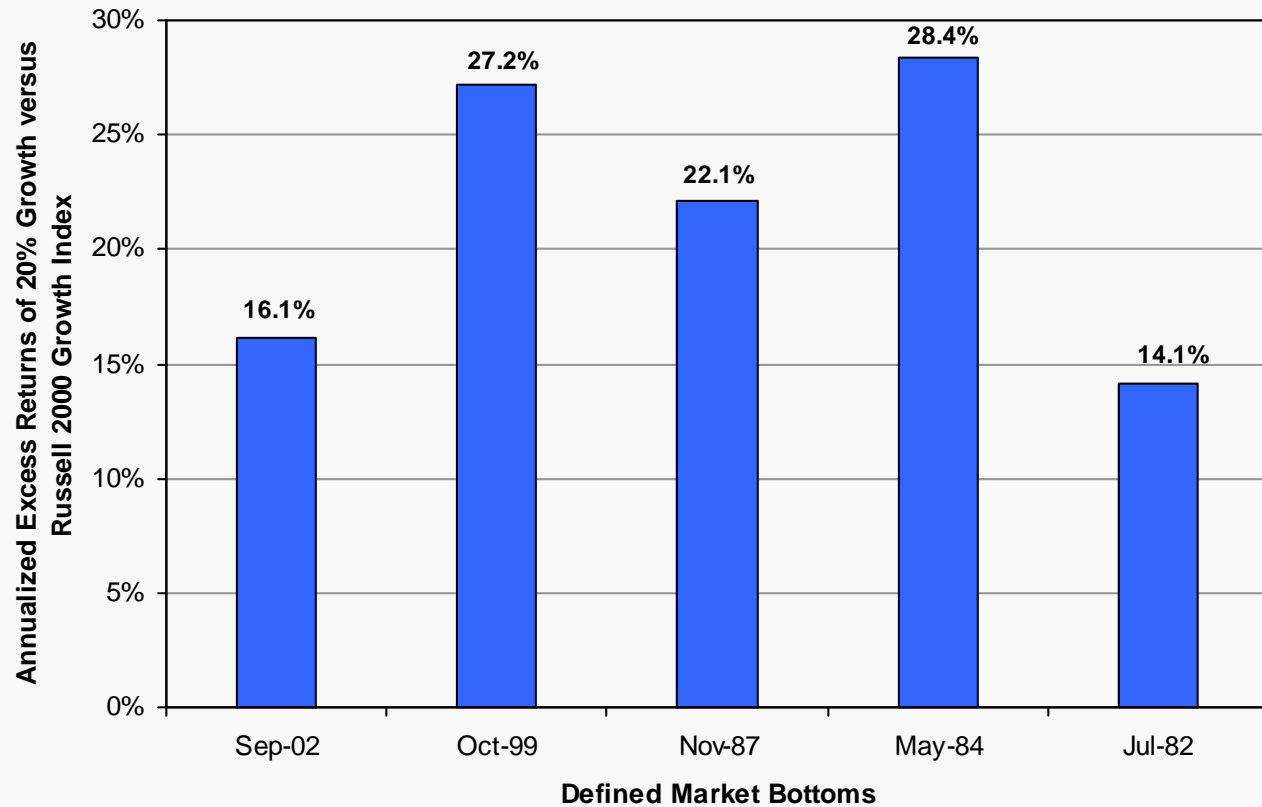
Source: Internally sourced at Lee Munder Capital Group, LLC

Past performance is not indicative of future results. Please see the Small & Small/Mid Cap Growth Composite presentation included in the back of this presentation.

# Why Secular Growth?

## Strong Excess Returns Out of Market Bottoms

- Companies that exhibit 20% growth on an annual basis over a 3-year period have outperformed the broader small-cap growth sector (proxy: Russell 2000® Growth Index) for the 3-year period following a market bottom.



Source: Internally sourced at Lee Munder Capital Group. Statistics calculated using the Russell 2000® Growth Index.  
Past performance is not indicative of future results.

# Perception: High Growth = High Risk

## A Tale of Two Cycles

### Virtuous Cycle:

High sales growth driven by market adoption  
Higher earnings growth driven by positive operating leverage  
Multiple expansion as market recognizes company's potential  
The compounding effect leads to strong share price appreciation

### Disappointment Cycle:

Company is forecast to deliver high sales growth and fails to meet expectations  
Lower earnings growth driven by negative operating leverage  
Multiple contraction as the market is disappointed by company's execution  
The compounding effect leads to sharp sell-off in share price

The key difference between the outcomes is *anticipating change* vs. *screening*

Through fundamental research, we focus on *anticipating change* by identifying companies that will achieve high growth going forward as opposed to *screening* for those companies that have posted high growth in the past or are forecast to deliver high growth in the future.

# Growth Strategies

## Skilled Management and Consistent Execution

The Growth team has identified companies exhibiting 20% realized growth at approximately 2x the rate of the Russell 2000® Growth Index

| <b>Exposure to Revenue Growth in Excess of 20%</b> |                       |                    |                                    |                                 |
|--|-----------------------|--------------------|------------------------------------|---------------------------------|
| <b>3 Year<br/>Timeframe</b>                        | <b>% in Portfolio</b> | <b>% in R2000G</b> | <b># of Names<br/>in Portfolio</b> | <b># of Names<br/>in R2000G</b> |
| <b>3/07 to 3/10</b>                                | 4.8                   | 4.7                | 7                                  | 37                              |
| <b>12/06 to 12/09</b>                              | 7.9                   | 5.1                | 8                                  | 51                              |
| <b>9/06 to 9/09</b>                                | 12.1                  | 5.8                | 15                                 | 58                              |
| <b>6/06 to 6/09</b>                                | 18.6                  | 7.7                | 21                                 | 84                              |
| <b>3/06 to 3/09</b>                                | 17.4                  | 9.1                | 21                                 | 102                             |

The segment of portfolio and benchmark exhibiting 20% realized growth significantly outpaces the returns of the Russell 2000® Growth Index

| <b>Cumulative Returns of Revenue Growth Segment in Excess of 20%</b> |                                     |                                  |                           |
|--|-------------------------------------|----------------------------------|---------------------------|
| <b>3 Year<br/>Timeframe</b>  | <b>Segment of<br/>Portfolio (%)</b> | <b>Segment of<br/>R2000G (%)</b> | <b>Overall<br/>R2000G</b> |
| <b>3/07 to 3/10</b>  | 36.9                                | 32.6                             | -7.2                      |
| <b>12/06 to 12/09</b>  | 27.4                                | 42.9                             | -11.6                     |
| <b>9/06 to 9/09</b>  | 63.8                                | 33.1                             | -7.7                      |
| <b>6/06 to 6/09</b>  | 16.2                                | 4.6                              | -21.8                     |
| <b>3/06 to 3/09</b>  | -5.7                                | -16.7                            | -41.1                     |

Source: Internally sourced at Lee Munder Capital Group, LLC

Past performance is not indicative of future results. Please see the Small & Small/Mid Cap Growth Composite presentations included in the back of this presentation.

## The Rest of the Story...

- Our Growth Team brings an average of over 17 years to their unique process with the majority of the time spent identifying attractive companies.
- Once a secular growth company has been found, the team assesses the stock's risk/reward profile through our proprietary valuation tool which applies probabilistic thinking to multiple scenario framework
- Lastly, the team assesses the near term dynamics of the company relative to expectations to reconcile our long term view vs. the myopic view of our peers
- The risk/reward profile and the near term dynamics are the critical elements in determining position size in portfolio construction

## LMCG Small Cap Growth Strategy

We employ a fundamental, bottom-up approach to build a portfolio of attractively priced secular growth stocks. The first part of our strategy is to identify companies capable of sustaining 20% earnings growth for a multi-year period. We term such firms secular growth companies because we believe them capable of generating sustained high growth throughout the general business cycle (in contrast to cyclical companies whose fortunes are closely tied to the economy). The characteristics we use to identify secular growth companies include: a business model based on sustainable competitive advantage, solid financials, and superior management. This all may sound like platitudes to the reader; however, the vast majority of companies do not possess these characteristics. Then, to distinguish good stocks from good companies, we employ a proprietary framework that incorporates both valuation analysis as well as near-term expectations. The portfolio is built and managed utilizing risk control measures to insure sufficient diversification. The result provides investors with a portfolio of attractive priced stocks in some of the most exciting and innovative companies in the economy.

**Small Cap Growth Composite**  
**Schedule of Annual Returns**  
**October 1, 2000 (date of inception) through December 31, 2009**

|                   | Gross Returns (%) | Net Returns (%) | Russell 2000® Growth Index <sup>1</sup> (%) | Standard Deviation <sup>3</sup> (bps) | Number of Accounts | Composite Assets at end of period (\$ millions) | Total Firm Assets (\$ millions) <sup>4</sup> | Non-fee Paying Assets (%) |
|-------------------|-------------------|-----------------|---|---------------------------------------|--------------------|---|--|---------------------------|
| 2000 <sup>2</sup> | -22.3             | -22.4           | -20.2                                       | NA                                    | 3                  | 52.6  | 677.9  | 0                         |
| 2001              | -5.0              | -5.9            | -9.2  | 73                                    | 10                 | 359.8   | 804.0  | 0                         |
| 2002              | -32.4             | -33.0           | -30.3                                       | 15                                    | 16                 | 625.2   | 1,122.4                                      | 0                         |
| 2003              | 46.1              | 44.9            | 48.6  | 48                                    | 21                 | 1,295.8   | 2,202.6                                      | 0                         |
| 2004              | 5.5               | 4.6             | 14.3  | 33                                    | 19                 | 1,263.3   | 2,739.6                                      | 0                         |
| 2005              | 4.1               | 3.06            | 4.2   | 16                                    | 7                  | 364.5   | 2,325.5                                      | 0                         |
| 2006              | 13.0              | 12.0            | 13.4  | 21                                    | 9                  | 315.8   | 4,027.2                                      | 0.1                       |
| 2007              | 33.1              | 32.0            | 7.1   | 5                                     | 7                  | 357.3   | 4,124.5                                      | 0.1                       |
| 2008              | -46.5             | -47.0           | -38.53                                      | 17                                    | 7                  | 192.0   | 2,527.4                                      | 0.1                       |
| 2009              | 44.4              | 43.1            | 34.5  | 1                                     | 4                  | 256.3   | 4,376.6                                      | 0.1                       |

1. Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.

2. Partial year performance for the period of October 1, 2000 through December 31, 2000.

3. NA – not calculated because the period is a partial year.

4. Total Firm Assets for 2009 is preliminary.

**Small Cap Growth Composite** consists of accounts managed in the Small Cap Growth (“SCG”) strategy. SCG seeks to achieve long term appreciation through investments in high quality, high growth US equities with market capitalizations that generally fall within the range of market capitalizations of the Russell 2000 Growth Index. For comparison purposes the composite is measured against Russell 2000 Growth Index. The composite was created in October 2000.

Effective July 2009, the firm is defined for GIPS purposes as Lee Munder Capital Group, LLC (“LMCG”) is an investment adviser registered with the Securities and Exchange Commission. In July 2009, LMCG became an affiliate of Convergent Capital, the Chicago-based diversified asset management holding company subsidiary of City National Corporation. Prior to July 2009, the firm was defined as Lee Munder Investments Ltd. (“LMIL”), a majority owned subsidiary of Lee Munder Capital Group and an investment adviser registered with the Securities and Exchange Commission.. The firm maintains a complete list and description of composites, which is available upon request.

LMCG has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance. Performance results are presented gross and net of management fees and include the reinvestment of income. Net returns are calculated by applying the investment management fee schedule noted below to the gross returns of the accounts included in the composite. The annual composite dispersion presented is an asset weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for calculating and reporting returns is available upon request

The investment management fee schedule is as follows: 1% on the first \$25 million, 0.90% on the next \$25 million, and 0.80% thereafter. Actual investment advisory fees incurred by clients may vary.

LMIL’s compliance with the GIPS standards has been verified for the period July 1, 2002 through June 30, 2008 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the Small Cap Growth Composite beginning July 1, 2002. The Small Cap Growth Composite was examined and verified for the period October 2000 (date of inception) through June 30, 2002 by another firm. A copy of the verification report is available upon request.

Past performance is not indicative of future results.

**Small/Mid Cap Growth Composite**  
**Schedule of Annual Returns**  
**January 1, 2004 (date of inception) through December 31, 2009**

|      | Gross Returns (%) | Net Returns (\$) | Benchmark <sup>1</sup> (%) | Standard Deviation <sup>2</sup> (bps) | Number of Accounts | Composite Assets at end of period (\$ millions) | Total Firm Assets (\$ millions) <sup>3</sup> |
|------|-------------------|------------------|----------------------------|---------------------------------------|--------------------|---|--|
| 2004 | 8.2               | 7.1              | 14.6                       | NA                                    | 1                  | 55.4  | 2,739.6                                      |
| 2005 | 12.7              | 11.8             | 8.2                        | NA                                    | 1                  | 107.5   | 2,325.5                                      |
| 2006 | 11.0              | 10.1             | 12.3                       | NA                                    | 2                  | 99.7  | 4,027.2                                      |
| 2007 | 38.8              | 37.7             | 9.7                        | NA                                    | 1                  | 179.0   | 4,124.5                                      |
| 2008 | -46.3             | -46.8            | -41.5                      | NA                                    | 2                  | 111.4   | 2,527.4                                      |
| 2009 | 49.3              | 48.1             | 41.6                       | 1                                     | 5                  | 191.8   | 4,376.6                                      |

1. Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.
2. Not statistically significant due to insufficient number of accounts in the composite for the entire year.
3. Total Firm Assets for 2009 is preliminary.

**Small/Mid Cap Growth Composite** consists of the accounts managed in the Small/Mid Cap Growth (“SMID”) strategy. SMID seeks to achieve long-term capital appreciation through investments in high quality, high growth publicly traded US equities with market capitalizations that generally fall within the range of the Russell 2500 Growth Index. For comparison purposes the composite is measured against Russell 2500 Growth Index. The composite was created in January 2004.

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