

# Small Cap Growth Institutional Composite

## Month-End Performance Review



U.S. stock prices began the year on a positive note with the S&P 500 breaking above its range of the last few months, reaching index levels by month end that were last seen during the summer. Emerging-market equities experienced gains as well, even outpacing those of many developed-market stocks. The rise in many global equity-market indices

was brought on by increasing investor comfort that substantive steps have finally been taken by European Union (EU) officials to quell the European sovereign debt crisis. Investor optimism was stoked by the relaxation of bank collateral rules at the European Central Bank (ECB), coupled with the launch of a three-year lending program. This effectively serves as a backdoor way for the ECB to help lower sovereign-borrowing costs and, at the same time, recapitalize the European banking system, which had begun to be cut off from key market-funding sources. These actions should buy politicians and regulators time to focus on reform issues in peripheral countries in an effort to make them more competitive and to improve economic growth prospects for the continent as a whole. By reducing the risk of a systemic collapse of the banking system, the ECB's action has allowed the valuation discount placed on risk assets such as stocks to decline, allowing equity prices to rise.

Risk appetites renewed, the more economically sensitive sectors of the market tended to do well during the month with the Materials, Industrials and Information Technology sectors leading the way. With U.S. policymakers recently renewing their commitment to easy monetary conditions for the foreseeable future and with corporate profits remaining resilient, we believe that stock

### Performance

|                          | Month Ending<br>1/31/12 |
|--------------------------|-------------------------|
| Small Cap Growth (gross) | 8.30%                   |
| (net)                    | 8.23%                   |
| Russell 2000 Growth      | 7.48%                   |

Source: Renaissance Research, Vestek

### SECTOR WEIGHTS & PORTFOLIO CHANGES <sup>(1)</sup>

| Sector                     | Ending Weight <sup>(2)</sup> | Change from 12/31/11 | Additions (Deletions) <sup>(3)</sup> |
|----------------------------|------------------------------|----------------------|--------------------------------------|
| Consumer Discretionary     | 29.6%                        | +2.6%                | Shuffle Master                       |
| Information Technology     | 26.7%                        | +0.3%                |                                      |
| Industrials                | 15.6%                        | -1.5%                | (TAL International)                  |
| Financials                 | 11.4%                        | +0.3%                |                                      |
| Health Care                | 8.9%                         | -1.0%                |                                      |
| Energy                     | 5.7%                         | -0.6%                |                                      |
| Consumer Staples           | 2.1%                         | -0.1%                |                                      |
| Materials                  | 0.0%                         | 0.0%                 |                                      |
| Telecommunication Services | 0.0%                         | 0.0%                 |                                      |
| Utilities                  | 0.0%                         | 0.0%                 |                                      |

<sup>(1)</sup>Based on a representative account of the strategy discussed.

<sup>(2)</sup>Weights as of the end of the presentation period excluding cash.

<sup>(3)</sup>Any stocks referenced represent a portion or all of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. Non-performance based criteria have been used to select the securities listed. The past performance of these stocks is no guarantee of future results. The specific securities identified and described do not represent all of the securities purchased, sold or recommended for this strategy, and the reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. Portfolio holdings are not recommendations to buy or sell any security, and may no longer be held in the representative account. To request a complete list of portfolio holdings for the past year, please contact Renaissance.

Source: Renaissance Research, FactSet

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### CONTRIBUTORS TO RETURN <sup>(1)(3)</sup>

| Company Name                  | Average Weight <sup>(2)</sup> | Contribution to Return | Comments  |
|-------------------------------|-------------------------------|------------------------|---|
| <b>TOP FIVE CONTRIBUTORS:</b> |                               |                        |   |
| HFF Inc.                      | 2.05%                         | 0.65%                  | HFF Inc. (HF) was our best performing stock in January, providing a delayed response to its excellent earnings report for the third quarter of 2011, when it beat expectations by 35%.  |
| CVR Energy                    | 2.19%                         | 0.64%                  | CVR Energy (CVI) stock went on a tear in January following disclosure on January 3rd that Carl Icahn has accumulated a 14.5% stake in the company, making him the largest shareholder in the company. Appaloosa Capital and Blackrock are second and third, with 7.4% and 6.3% stakes, respectively, making CVR one of the more interesting companies from a shareholder ownership perspective. |
| Newport                       | 1.90%                         | 0.59%                  | Newport Corp (NEWP) sold off sharply during the bear market of late Summer / early Fall and has now recovered completely. We will likely take some profits here.  |
| Ancestry.com                  | 1.99%                         | 0.51%                  | Ancestry.com (ACOM) sold off sharply in the Fall over concerns of a slight shift in pricing strategy by management. It proved to be an opportune time to add to positions.  |
| Sturm Ruger                   | 2.53%                         | 0.45%                  | Sturm Ruger (RGR) has been shooting straight of late, with sales up 38% last quarter and earning per share up 80%.  |

### BOTTOM FIVE CONTRIBUTORS:

|                            |       |        |   |
|----------------------------|-------|--------|---|
| World Acceptance Corp.     | 1.97% | -0.29% | World Acceptance Corp. (WRLD) came up two cents short at \$1.30 in its latest earnings report. Its stock was our worst performer as a result. It looks like an overreaction to us.  |
| Questcor Pharmaceuticals   | 1.53% | -0.26% | Questcor Pharmaceuticals' (QCOR) stock has been drifting downward since reporting a 41% earnings surprise for the third quarter. Another strong earnings surprise will cause an equally strong reversal in the stock price. |
| Cardtronics                | 2.02% | -0.12% | Cardtronics (CATM) reported fourth quarter earnings in line with expectations. The Street expects earnings growth of 16% in the next two years.   |
| Cash America International | 1.66% | -0.11% | Cash America's (CSH) stock has drifted downward during the last four months. We think we'll see renewed strength on the back of gold prices and its pawn shop division.   |
| j2 Global                  | 1.64% | -0.07% | J2 Global's (JCOM) stock was down about a buck in January and up about \$2 so far in February. Not a lot to report for this consistent tech company.  |

<sup>(1)</sup>Based on a representative account of the strategy discussed.

<sup>(2)</sup>Average weights over the presentation period excluding cash.

<sup>(3)</sup>The stocks listed represent the top five and bottom five contributors by weight to the performance of a representative account in this strategy as of the date stated and is intended for informational purposes only. The past performance of these stocks is no guarantee of future results. The specific securities identified and described do not represent all of the securities purchased, sold or recommended for this strategy, and the reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. Portfolio holdings are not recommendations to buy or sell a security and may no longer be held in the representative account. To request a complete list of portfolio holdings for the past year, the calculation methodology, or a list showing the contribution of every holding to the representative account's performance for the time period stated, please contact Renaissance.

Source: Renaissance Research, FactSet

prices generally appear attractive at current levels, which should allow for decent returns to patient investors over the next 12-18 months.

For the month of January, our portfolio performance comfortably outpaced benchmark returns. Better relative returns were derived from good stock selection, particularly from our Consumer Discretionary, Information Technology and Energy stocks. During the month, investors tended to reward stocks with lower valuations and better earnings revision trends, which provided modest tailwinds to our results, an effect we would expect to be sustainable once fundamentals again trump macro-oriented headline events as the primary driver of stock returns.

We were less active in our Small Cap Growth portfolios in January as we await earnings season for the small cap market. Nonetheless, we did sell our position in **TAL International** in favor

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of **Shuffle Master**. Shuffle Master is a manufacturer of casino games, including automatic card shufflers and slot machines. Shuffle Master has a dominant share and defendable position in their automatic card shuffler division. Many of these shufflers are offered to casino operators on a lease basis only, providing greater consistency and visibility of revenues. While casino operators in the U.S. have faced challenges during the past four years, Shuffle Master is finding plenty of growth opportunities overseas, particularly in Asia. The company generates consistent free cash flow, totaling \$37 million in the last 12 months or roughly a 5% yield relative to its current market value. With only \$17 million in net debt on their balance sheet, the company is now wrestling with how best to deploy its strong free cash flow.

During the month, we also rebalanced several existing positions in the portfolio, including taking profits in **Mitcham Industries** and **HealthStream**. Both appear a little richly valued after good runs. We added to positions in a pair of Financials – **EZ Corp** and **Cash America**. Both are operators of pawn shops and payday lending stores. The stores have performed extremely well since the beginning of the recession, owing partly to the financing needs of the “un-banked.” Strength has also come from the pawn shops, particularly due to appreciation in gold prices. We are of the opinion that gold prices will continue to go higher after a breather in the fourth quarter of 2011.

If stocks are referenced, they represent a portion or all of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. Non-performance based criteria have been used to select the securities listed. The past performance of these stocks is no guarantee of future results. The specific securities identified and described do not represent all of the securities purchased, sold or recommended for this strategy, and the reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. Portfolio holdings are not recommendations to buy or sell any security, and may no longer be held in the representative account. To request a complete list of portfolio holdings for the past year, please contact Renaissance.

# GIPS Compliant Presentation Small Cap Growth Institutional Composite

| Year                    | Supplemental Information       |                                |           | Composite<br>3 Year<br>Standard<br>Deviation | Benchmark<br>3 Year<br>Standard<br>Deviation | As of Year End or Current Quarter                   |   |   |   |  |
|-------------------------|--------------------------------|--------------------------------|-----------|--|--|---|---|---|---|--|
|                         | Small Cap Growth Institutional | Small Cap Growth Institutional | Benchmark |  |  | Annual<br>Asset Weighted<br>Composite<br>Dispersion | Number of<br>Portfolios<br>in Composite | Market<br>Value of<br>Composite<br>(Millions) | Market<br>Value of<br>Firm's Assets<br>(Millions) |  |
|                         | Gross-of-Fee Return            | Net-of-Fee Return              | Return    |  |  | Composite<br>Dispersion                             | Portfolios<br>in Composite              | Value of<br>Composite<br>(Millions)           | Value of<br>Firm's Assets<br>(Millions)           |  |
| 1996                    | 27.01%                         | 26.26%                         | 11.26%    |  |  | NMF*  | 2                                       | \$1.2   | \$1,525.4   |  |
| 1997                    | 27.68%                         | 26.88%                         | 12.95%    |  |  | 2.13  | 7                                       | \$3.6   | \$1,373.3   |  |
| 1998                    | -12.41%                        | -13.02%                        | 1.24%     |  |  | 3.37  | 8                                       | \$5.2   | \$1,390.0   |  |
| 1999                    | 2.49%                          | 1.85%                          | 43.17%    |  |  | 1.67  | 6                                       | \$4.7   | \$1,211.9   |  |
| 2000                    | 9.81%                          | 9.19%                          | -22.36%   |  |  | NMF*  | 5                                       | \$4.3   | \$736.7   |  |
| 2001                    | 15.86%                         | 15.26%                         | -9.22%    |  |  | NMF*  | 4                                       | \$6.6   | \$526.7   |  |
| 2002                    | -12.74%                        | -13.24%                        | -30.21%   |  |  | 1.21  | 16                                      | \$8.7   | \$415.7   |  |
| 2003                    | 56.16%                         | 55.36%                         | 48.56%    |  |  | 2.04  | 13                                      | \$53.7  | \$575.2   |  |
| 2004                    | 17.29%                         | 16.36%                         | 14.30%    |  |  | 1.03  | 24                                      | \$77.1  | \$908.2   |  |
| 2005                    | 6.32%                          | 5.47%                          | 4.13%     |  |  | 0.74  | 28                                      | \$215.9                                       | \$2,796.6   |  |
| 2006                    | 7.96%                          | 7.16%                          | 13.34%    |  |  | 0.50  | 28                                      | \$318.6                                       | \$5,450.2   |  |
| 2007                    | -1.12%                         | -1.89%                         | 7.01%     |  |  | 1.13  | 19                                      | \$275.2                                       | \$7,661.8   |  |
| 2008                    | -42.53%                        | -43.05%                        | -38.56%   |  |  | 0.08  | 8                                       | \$39.9  | \$4,358.6   |  |
| 2009                    | 19.76%                         | 18.72%                         | 34.45%    |  |  | NMF*  | 2                                       | \$1.1   | \$4,403.0   |  |
| 2010                    | 30.13%                         | 29.19%                         | 29.06%    |  |  | NMF*  | 2                                       | \$1.2   | \$3,800.2   |  |
| 2011                    | 0.07%                          | -0.70%                         | -2.91%    | 22.78%                                       | 24.31%                                       | NMF*  | 2                                       | \$1.0   | \$2,862.3   |  |
| <b>FINAL 12/31/2011</b> |                                |                                |           |  |  |   |   |   |   |  |

\* Not Meaningful Figure - due to five or fewer accounts invested for the entire year

Renaissance Investment Management (RIM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Renaissance has been independently verified for the periods January 1, 2006 through December 31, 2010. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

**Firm Definition:** The Renaissance Group LLC, which does business as Renaissance Investment Management (RIM), is a registered investment advisor established in 1978, with an office in Covington, KY. RIM is an affiliate of Affiliated Managers Group based in Prides Crossing, MA. RIM manages equity, tactical, balanced and fixed income assets for a variety of clients including high net worth, institutional and sub-advisory relationships. A complete list and description of the Firm's composites is available upon request.

**Composite Composition:** The Small Cap Growth Strategy invests in smaller-sized companies exhibiting a combination of strong prospective earnings growth, reasonable valuation and good corporate fundamentals. The Small Cap Growth composite was created on January 31, 2001 and includes all fee paying, fully discretionary, non-tax managed, non-wrap Small Cap Growth accounts. RIM does not have non-fee paying portfolios. RIM will add new fully discretionary portfolios to the composite at the first full month under management. RIM will exclude terminated portfolios from the composite after the last full month they were under management. Composite dispersion is measured using an asset-weighted standard deviation of returns of the portfolios. In October 2011, we discovered a material error in the 2006 dispersion. This error has been corrected and this presentation has been updated accordingly.

**Calculation of Performance Returns:** Performance is calculated using total returns. Monthly composite performance is asset-weighted using beginning-of-period values. Rates of return are time-weighted with geometric linking of monthly returns. Valuations and returns are computed and stated in U.S. dollars. Account performance is based on total assets in the account, including cash and cash equivalents. Performance is actual performance. Performance is not portable.

RIM has chosen to present performance for gross- and net-of-fees. The gross-of-fees performance returns are presented before deductions of management and custodial fees but after the deduction of all trading expenses. Net performance is reported after the deduction of all trading costs and actual RIM management fees. These gross- and net-of-fee investment results for the Renaissance Small Cap Growth composite include reinvestment of dividends and other earnings. Clients' returns will be reduced by the advisory fee and any other expenses that may be incurred in the management of the client's investment advisory account. For example, if the gross annualized return of an account over a five-year period were 5.0%, deducting one twelfth of an annual advisory fee of 90 basis points each month on the ending monthly account balance would produce a cumulative net return of 22.7%. The cumulative gross return at 5.0% per annum over a five-year period would be 28.3%. A \$1 million starting portfolio would thus have an ending net market value of \$1,227,096, \$56,262 less than the gross return ending value of \$1,283,359. There is no minimum asset size for inclusion in the composite. RIM uses trade date accounting and all income is accrued. Performance results are pre-tax. Actual performance may differ from composite returns, depending on the size of the account, brokerage commissions, investment guidelines and/or restrictions, inception date and other factors. After-tax results will vary from the returns presented herein for those accounts that are subject to taxation. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

**Standard Deviation:** The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. According to the GIPS Standards, this is not required for periods prior to 2011.

**Investment Management Fees:** RIM's fees are based on account size. The standard RIM fee schedule for the Small Cap Growth Strategy for direct-managed accounts is as follows: All amounts - 1.00%. Investment advisory fees are described in Part 2A of RIM's Form ADV.

**Benchmark:** The Russell 2000 Growth Index is composed of the smallest 2,000 of the 3,000 largest U.S. companies based on total market capitalization with higher price-to-book ratios and higher forecast growth values. The Russell index names are registered trademarks of The Frank Russell Company. RIM compares its composite returns to a variety of market indices such as the Russell 2000 Growth. This index is shown for comparison purposes only. We are not trying to explicitly manage to this benchmark. This index represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The index cannot be invested in directly. The returns of the index do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the index shown. The index has been selected to represent what RIM believes is an appropriate benchmark with which to compare the composite performance.

**Other:** Performance data quoted represents historically achieved results, and is no guarantee of future performance. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the performance shown and the actual performance results achieved by any particular client. The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, duration and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon.

**Risks of Small Cap Growth Strategy:** Small Cap Growth Strategy returns may show a high level of variability. In addition to market risk, the majority of any additional risk in these portfolios is related to specific stock selection, and RIM will have significant exposure to individual securities.

**Sources:** Portfolio characteristics, representative holdings and sector weights (to the extent included in this presentation) for a typical Small Cap Growth portfolio are calculated by Renaissance Research using FirstCall, Compustat and Frank Russell data. Russell Investment Group is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Renaissance Investment Management. Russell Investment Group is not responsible for the formatting or configuration of this material or for any inaccuracy in Renaissance's presentation thereof.