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ASSET MANAGEMENT

Why Quality Core

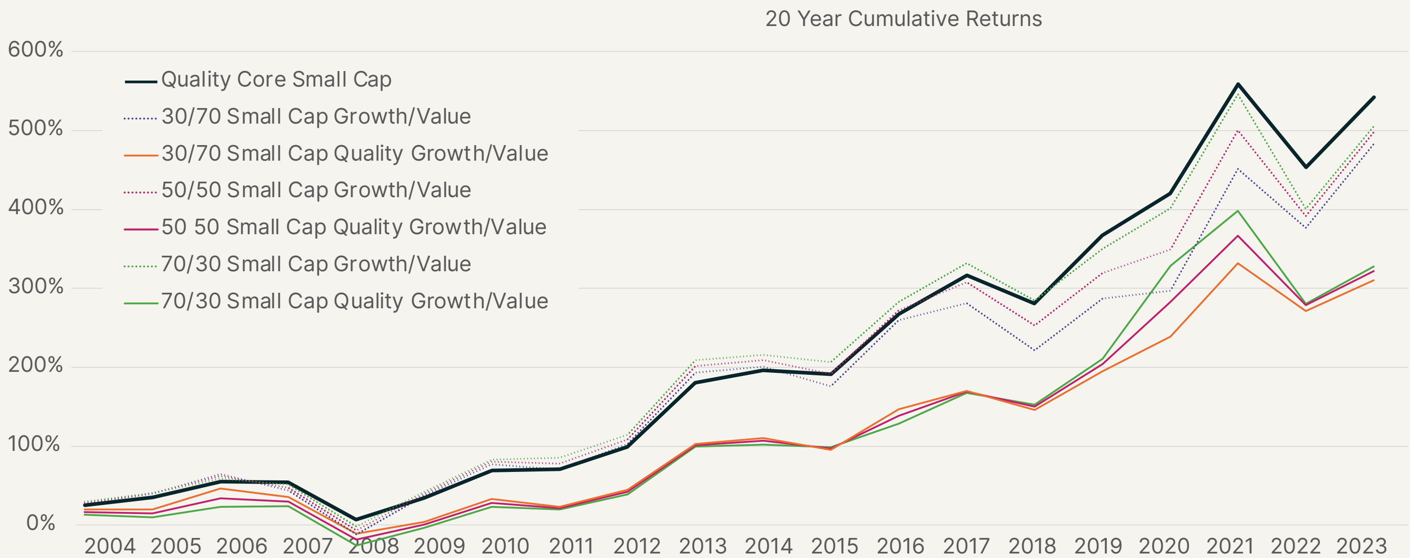
The Potential Benefits of a Quality Core Approach to US Small Cap Investing

When it comes to small caps, many investors opt for a barbell approach combining small cap value and small cap growth strategies. However, we believe that a core approach with a quality bias may offer a more profitable, dynamic, and holistic way to invest in this asset class. With the potential for better returns across market cycles, and the ability to avoid potential pitfalls of the traditional value and growth approach, we argue that a quality small cap core approach is the optimal way of accessing small cap equities.

QUALITY HAS HISTORICALLY OUTPERFORMED A BLEND OF GROWTH AND VALUE

Performance over the long term suggests that a "quality core" approach to small cap investing outperforms "barbelling" small cap growth and quality small cap value. Looking back over the past 20 years quality core small caps[1] have outperformed 70/30, 50/50, and 30/70 combinations of small cap value[2] and small cap growth[3] and have even outperformed 70/30, 50/50, and 30/70 combinations of quality small cap value[4] and quality small cap growth.[5]

Over the past 20 years, quality small cap core has outperformed



Sources: Rockefeller Asset Management, Bloomberg. Past performance is no guarantee of future results. Performance of the above indexes should not be viewed as a proxy for the Rockefeller US Small Cap Core Strategy. Performance of the Rockefeller US Small Cap Strategy may vary greatly from the above referenced indices.

THE ABILITY TO GO WHERE THE OPPORTUNITIES ARE

So why has core outperformed? In our view the advantage of a core approach is that it allows portfolio managers to seek out the best opportunities in the small cap universe regardless of style. We believe core managers can build an all-weather portfolio that can potentially avoid the pitfalls of investing in fads and short-term trends that rotate between growth and value. Studies suggest that investors often have little success trying to time markets, but that is essentially what allocators try to do when they re-weight to styles. Our Rockefeller US Small Cap Core Equity strategy tilts toward value or growth as a result of bottom-up stock selection, effectively re-weighting based on the opportunity set rather than trying to predict the direction of markets.

"Barbelling" has another potential drawback. Small cap growth strategies generally tilt toward sectors such as Health Care and Technology, while small cap value strategies typically lean toward sectors concentrated in Financials (specifically banking) and Materials. A core approach can avoid unintended sector tilts, potentially protecting investors from some sector specific risk.

THE BEST TIME TO BUY A GROWTH STOCK IS BEFORE IT BECOMES ONE

Perhaps the biggest potential drawback to style-constrained investing is that it prevents managers from holding a company through its evolution from value to growth. It makes intuitive sense that owning a company through its transitions from value to growth can provide investors with the greatest return potential.

In our view, the best way to capture this upside potential is by selecting companies with strong balance sheets and cash flows at a reasonable valuation. We look for companies that will use their resources to invest in growing their business through all points of the business cycle, which can provide them with a material competitive advantage. Importantly, we aim to buy these companies before higher multiples make them more attractive to growth investors when much of the upside may have already been realized.

QUALITY CORE AND ACTIVE MANAGEMENT

In our view, compelling long-term small cap equity investments are the product of discovering quality companies with durable business models and management teams that can execute on their strategy. We invest in differentiated business models in an effort to derisk our relatively concentrated portfolio and hold them over the long term to compound value, as the market often systematically underestimates the sustainability of returns from high-quality companies. The core approach gives portfolio managers the ability to benefit from holding companies as they transition from value to growth. Ultimately, we believe an actively managed quality core approach allows us to identify the best opportunities in this dynamic asset class.

1. Quality Core Small Caps represented by the S&P600
2. Small Cap Value represented by the Russell 2000 Pure Value Index
3. Small Cap Growth represented by the Russell 2000 Pure Growth Index
4. Quality Small Cap Value represented by the S&P600 Pure Value Index
5. Quality Small Cap Growth represented by the S&P600 Pure Growth Index

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Investing involves risk, including risk of loss. Past performance is no guarantee of future results. Some of the risks involved with equities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Small capitalization stocks generally involve higher risks in some respects than do investments in stocks of larger companies and may be more volatile. Investments that concentrate on a relatively narrow market sector face the risk of higher share-price volatility.

Indices are unmanaged, and one cannot invest directly in an index.

The S&P 600 is an index of small-cap stocks managed by Standard & Poor's. It tracks a broad range of small-sized companies that meet specific liquidity and stability requirements. This is determined by specific metrics such as public float, market capitalization, and financial viability, among other factors.

S&P Pure Value Indices include only those components of the parent index that exhibit strong value characteristics, and weights them by value score. Constituents are drawn from the S&P SmallCap 600®.

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S&P Pure Growth Indices include only those components of the parent index that exhibit strong growth characteristics, and weights them by growth score.

We measure value stocks using three factors: the ratios of book value, earnings, and sales to price.

The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 7% of the total market capitalization of that index, as of the most recent reconsitution. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Russell Pure Style (Pure Value and Pure Growth) Indexes provide concentrated exposure to stocks that exhibit strong growth or value signals. Building upon Russell's traditional, cap-weighted style methodology, the Pure Style methodology is style-weighted, and effectively narrows the universe delivering a more tailored, 'pure' exposure to only those stocks considered fully value or growth.

The Pure Style indexes were designed as additional tools for investors employing size and style investing strategies. Whether the desired outcomes are to strike a balance between growth and value segments with large-, mid- and small-cap exposures or to dynamically and tactically tilt, these indexes provide sharp, focused, non-overlapping exposures to growth and value.

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