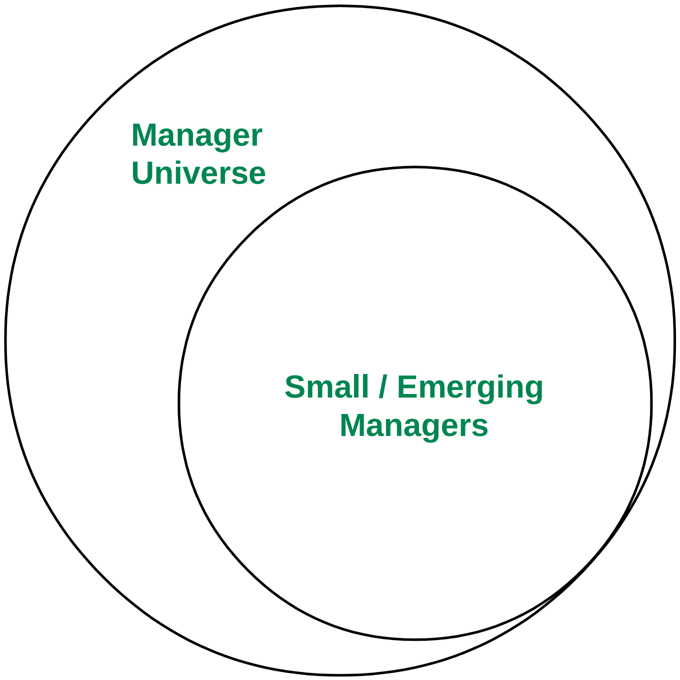
WHY CONSIDER SMALL / EMERGING MANAGERS IN PORTFOLIOS

There are many common sense and statistical reasons to include small / emerging managers in searches, but they are often excluded due to headline, ongoing business, and other real and perceived risks. However, the advantages meaningfully exceed those risks, and they can be controlled. Accordingly, **we believe all viable opportunities should be included, especially in this era of lower expected returns**.



- **Larger Manager Opportunity Set:** About half of RIAs have less than \$500 million in assets, and their exclusion eliminates some of the most experienced and innovative managers. Secondly, the larger the database the greater the probability of success.
- **Larger Investment Opportunity Set:** They can invest without creating liquidity, legal, and other issues.
- **Fewer Capacity Constraints:** Their strategies are not diluted by excessive assets under management, and can be implemented with minimal market impact costs.
- **Fewer Conflicts of Interest:** Portfolio management is generally their sole source of revenue vs. a turnkey approach (many large managers also act as the broker/dealer which creates a major conflict of interest). This improves client-manager goal congruence, transparency, monitoring, and compliance.
- **Livelihood Driven by Excess Returns:** Their future depends on your success as they are not another profit center of a large, often indifferent, institution. This also reduces the incentive to closet index.
- **Equal or Improved Performance:** Viable research indicates that emerging manager performance is the same or better than larger peers.
- **Lower Expenses Improve Performance.** Small / emerging managers should have lower fees. Over time, lower fees almost always generate better return / risk characteristics.

CONCLUSION: Including smaller / emerging managers in searches INCREASES YOUR PROBABILITY OF SUCCESS.