

# LEADING EDGE INVESTMENT ADVISORS

"Performance Driven, Relationship Based"

Research Update 2006

## EXECUTIVE SUMMARY

### Performance Characteristics of Emerging Managers 2006

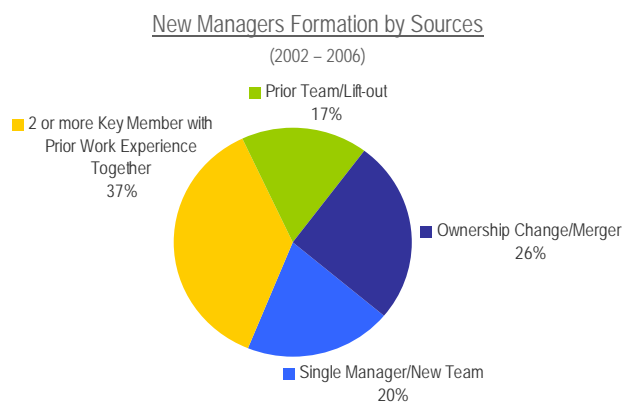
is the third update of a comprehensive study conducted by the research group at Leading Edge Investment Advisors on the performance results of emerging firms versus larger firms. The first study was conducted in 2002. To distinguish firms that grew from larger firms that lost assets, firms were compared based on beginning-of-period assets under management ("AUM"), product market caps, and investment styles. In addition, we examined product focus (number of products), employee ownership, portfolio sizes and portfolio team sizes to help explain any differences in performance between emerging and large firms.

### STUDY PARAMETERS

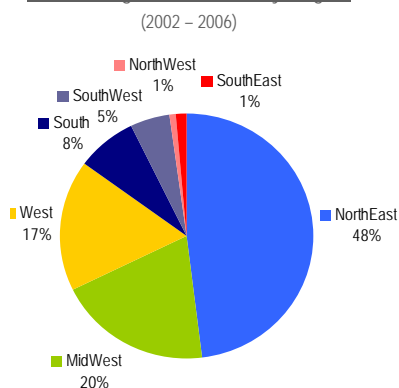
- Five-year period: 1/2002 – 12/2006
- Data sources: Leading Edge Investment Advisors proprietary database, Nelson's Marketplace, eVestment Alliance
- Identify firms that were truly "Emerging" by looking at beginning of period AUM
- Domestic equity sub-universe
- 1,309 firms; 3,100 products \*

### TODAY'S NEW MANAGER FORMATION Where Are They Coming From?

Five Year Period Ending 12/31/06



### New Managers Formation By Region

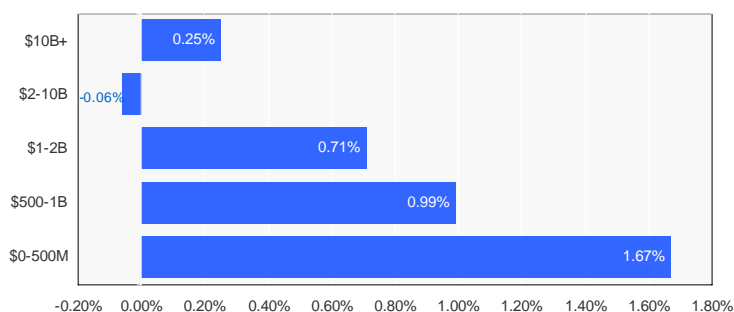


### PERFORMANCE BY TOTAL FIRM AUM Large Cap Manager Performance

Five Year Period Ending 12/31/06

12/01 Total Firm AUM Range	Median			
	Excess Return	Sharpe Ratio	Info. Ratio	Standard Deviation
Over \$10B	0.25%	0.35	0.09	13.44%
\$2 - 10B	-0.06%	0.36	-0.33	11.48%
\$1 - 2B	0.71%	0.41	0.20	12.04%
\$500M - \$1B	0.99%	0.42	0.24	12.36%
Under \$500M	1.67%	0.43	0.33	14.08%
				S&P 500: 12.40%

### Median Excess Return vs. S&P 500 Index



\* Products excluded from study universe include - Fixed Income Funds; International Equity Funds; International Fixed Income Funds; Hedge Funds; REIT Funds; Mutual Funds; Balanced Funds; Index Funds; Enhanced Index Funds; Cash Equivalent Funds; and Specialty Funds – e.g. Sector Funds, duplicate product offerings.

\*\*Based on firms with available historical team data.

## RISK COMPARISON vs. S&P 500 Index

Five Year Period Ending 12/31/06

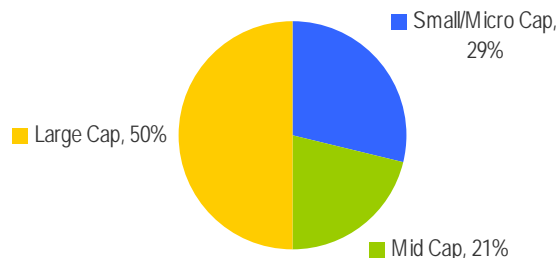
12/01 Total Firm AUM Range	Standard Deviation	Median		
		R <sup>2</sup> vs. Market BM	R <sup>2</sup> vs. Custom Style BM	T.E vs. Custom Style BM
Over \$10B	13.93%	78.14	92.29	6.70
\$2 - 10B	14.32%	71.28	91.64	7.98
\$1 - 2B	14.41%	69.93	91.71	8.61
\$500M - \$1B	14.03%	69.52	89.82	7.96
Under \$500M	13.23%	71.83	87.51	7.98

- Emerging Managers – lower downside participation for the smallest group comparable upside participation for the largest two groups.

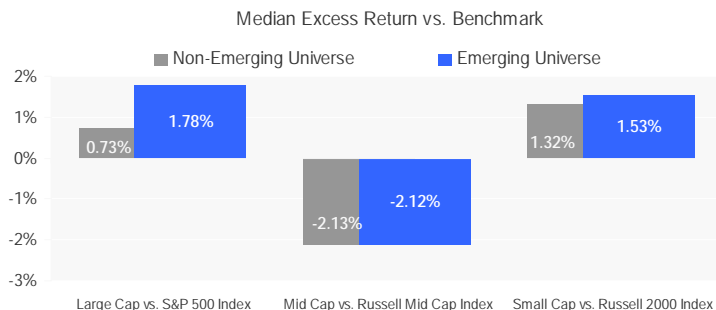
12/01 Total Firm AUM Range	Capture Ratios		
	Upside Capture	Downside Capture	Downside Std. Dev.
Over \$10B	119.68	98.47	8.90
\$2 - 10B	121.09	100.56	9.06
\$1 - 2B	125.40	98.73	8.89
\$500M - \$1B	117.28	98.97	8.70
Under \$500M	113.51	87.28	8.27

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## DOMESTIC EQUITY EMERGING UNIVERSE Breakdown By Strategy Focus



## EXCESS RETURN BY STYLE/STRATEGY FOCUS



- Excess Return versus S&P 500, Russell Mid Cap, Russell 2000 Indices.
- 2002-2006 was a period of mid/small capitalization bias; active strategies outperformed well relative to indices.
- The emerging manager advantages persist.

## KEY FINDINGS

- Overall, emerging managers continue to exhibit favorable performance versus larger firms.
- Emerging and larger managers appear to be taking similar portfolio risk.
- Emerging managers generally perform better than larger managers in down markets; however, during the recent up market period, emerging managers also outperformed their larger peers.
- Emerging Managers exhibit slightly higher tracking error to benchmarks.
- Emerging Managers have performed better when market volatility (dislocation) is high.
- The rate of new manager formation continues to be steady; the number of firms growing above \$2 billion AUM has accelerated over the past 3 years.

### FOR MORE INFORMATION:

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