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# *Investing in Small Cap Equities*

Great  
Lakes  
Advisors



Information as of June 30, 2012

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# What is a Small Cap Stock?



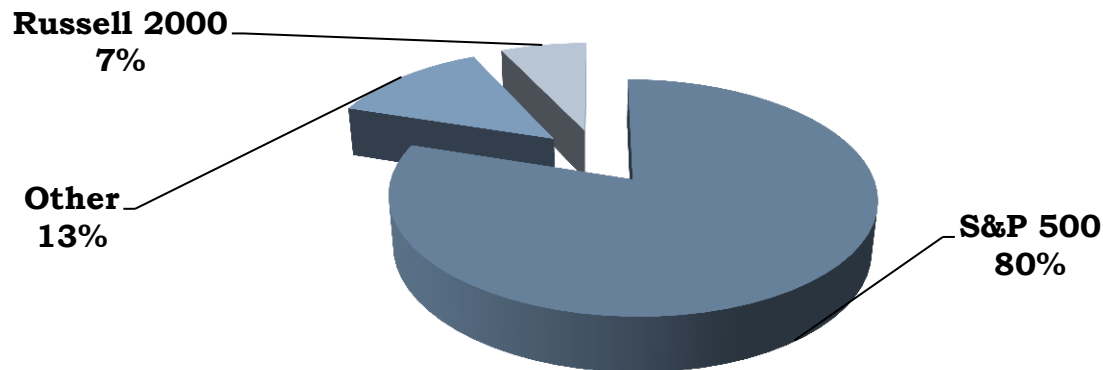
Flagship Product	Big Mac 	<i>SuperSONIC</i> Cheeseburger 
# Locations	31,000	3,561
# of employees	1.5 million	12,116
2011 Sales	\$27 billion	\$546 million
Earnings	\$5.5 billion	\$19.2 million
Market Value	\$93 billion	\$576 million
2011 CEO Comp.	\$8.8 million	\$1.9 million
CEO Ownership	0.2%	3.0%
CEO Stock Value	\$184 million	\$18 million



# Market Capitalization

- There currently exist over 11,000 publicly-traded companies in the US with a total market value exceeding \$15.5 trillion.
- The 500 “top” US companies (according to Standard & Poor’s) comprise the S&P 500 Index, which is valued in aggregate at over \$12.3 trillion.
- The largest company in the S&P 500, Apple, has a market capitalization of \$550 billion. The smallest company in the index has a market cap of \$890 million, which is 55% larger than Sonic.

## Total Market Capitalization





# Small Cap Stocks

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- The Russell 2000 Small Cap index has an aggregate market value of \$925 billion, and is comprised of 2000 companies having market values in the range of \$101 million to \$3.7 billion (Pharmaceuticals)
- Investors have traditionally segmented companies by size into “Large Cap”, “Mid Cap” and “Small Cap”. You may also sometimes here terms such as “Mega Cap” (ultra large) and “Micro Cap” (very small.)
- There are no bright lines drawn where one category begins and another ends.



# GLA Market Cap Guidelines

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Micro Cap: <\$100 million

Small Cap: \$100 million to \$3 billion

Mid Cap: \$3 billion to \$10 billion

Large Cap: \$10 billion to \$100 billion

Mega Cap: \$100 billion +



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## ***Why Invest in Small Cap Stocks?***



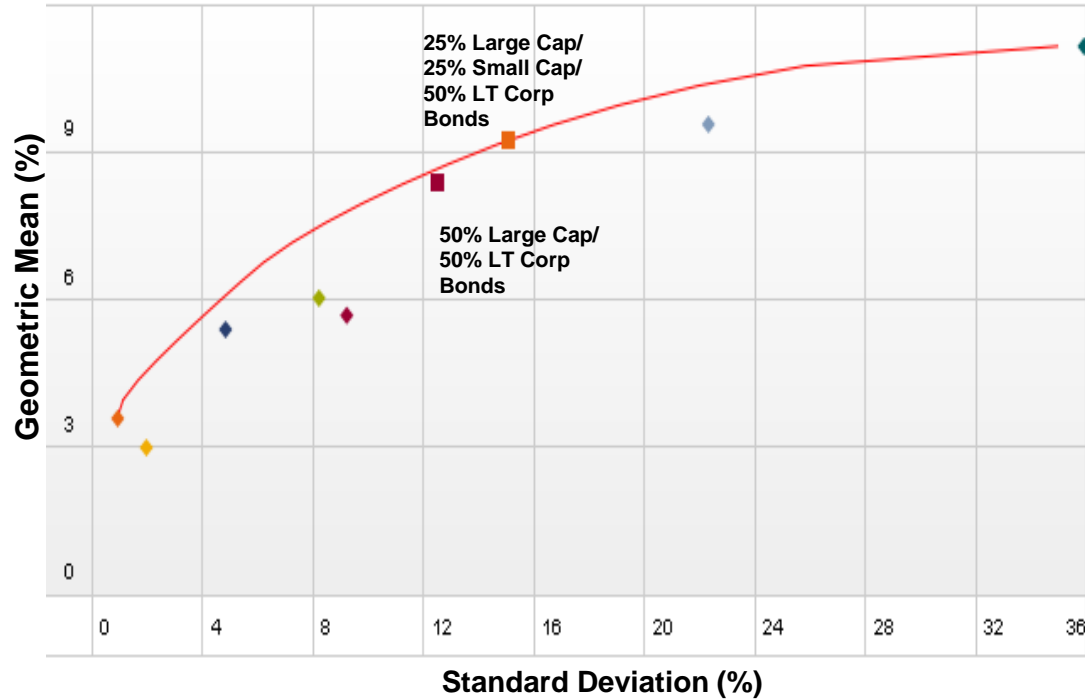
# Summary of Annual Total Returns 1926-2011

Asset Class	Geometric Mean (%)	Standard Deviation (%)
Large Company Stocks	9.8	19.2
<b><i>Small Company Stocks</i></b>	<b>11.9</b>	<b>29.0</b>
Long Term Corporate Bonds	6.1	7.5
Long Term Government Bonds	5.7	8.3
Intermediate Term Govt Bonds	5.4	4.4
US Treasury Bills	3.6	0.9
Inflation	3.0	1.9

Source: Morningstar, [Ibbotson SBBI Classic Yearbook](#)



# Small Cap Exposure Enhances Risk-Adjusted Expected Returns



## Asset Classes

◆ US LT Govt Bonds ◆ US T-Bills ◆ US Inflation ◆ US LT Corporate Bonds ◆ US Small Cap Equity ◆ US Large Cap Equity ◆ US Govt Intermediate Bonds

## Asset Mixes

■ 50% Large Cap/50% LT Corp Bonds ■ 25% Large Cap / 25% Small Cap / 50% LT Corp Bonds

Source: Morningstar





## Our Small Cap Philosophy

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We believe that an actively-managed, concentrated portfolio built through a consistent bottom-up stock selection process driven by fundamental analysis is the optimal approach to delivering long-term superior investment results.



# Our Small Cap Philosophy

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## ACTIVELY MANAGED

- Buy/Sell based on analytically-derived price targets; fair value vs. passive indexing

## CONCENTRATED PORTFOLIO

- Don't over diversify

## FUNDAMENTAL ANALYSIS

- Intensively research businesses
- Engage company in dialogue



# Investment Process

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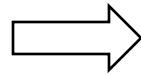
The primary objective of our Investment Process is to identify a portfolio of stocks with market capitalizations between \$50 million and \$3 billion, that potentially will return a 30%+ annual rate of return over a three-year period of time.



## Small Cap Investment Process

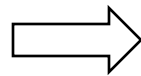
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### **Rigorous Fundamental Analysis**



- *Structured screening: return on invested capital, balance sheet strength, other financial metrics*
- *Review of SEC filings*
- *Discussions with management, employees*
- *Build earnings, cash flow models*
- *Field research, channel checks*

### **Disciplined Valuation Approach**



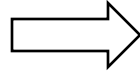
- *Discounted free cash flow analysis*
- *Relative multiple analysis*
- *30%+ expected annual rate of return for individual stocks*
- *“Good asymmetry” of expected upside return versus downside risk*



## Small Cap Investment Process

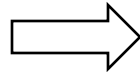
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**We consider a series of variables when determining position size**



- *Expected rate of return*
- *Symmetry of returns*
- *Seasoning (how long/well we know the company)*
- *Quality of management*
- *Quality of balance sheet*
- *Liquidity*

**Sell Discipline**



- *A security's price target is achieved*
- *More attractive, higher expected return ideas are available*
- *Portfolio limitations are such that a sale is warranted*
- *New information comes to light that causes us to reconsider our underlying investment thesis*



# Investment Process







# Portfolio Sector Weightings

Sector	Portfolio Weight	Benchmark Weight	Difference
Financials	23.2%	23.3%	-0.1%
Technology	22.5%	15.8%	6.7%
Industrials	23.1%	15.2%	7.9%
Consumer Disc.	13.8%	14.4%	-0.6%
Health Care	4.2%	12.8%	-8.6%
Energy	6.3%	5.8%	0.5%
Materials	6.2%	4.9%	1.2%
Consumer Staples	--	3.5%	-3.5%
Utilities	--	3.4%	-3.4%
Cash	3.1%	--	3.1%



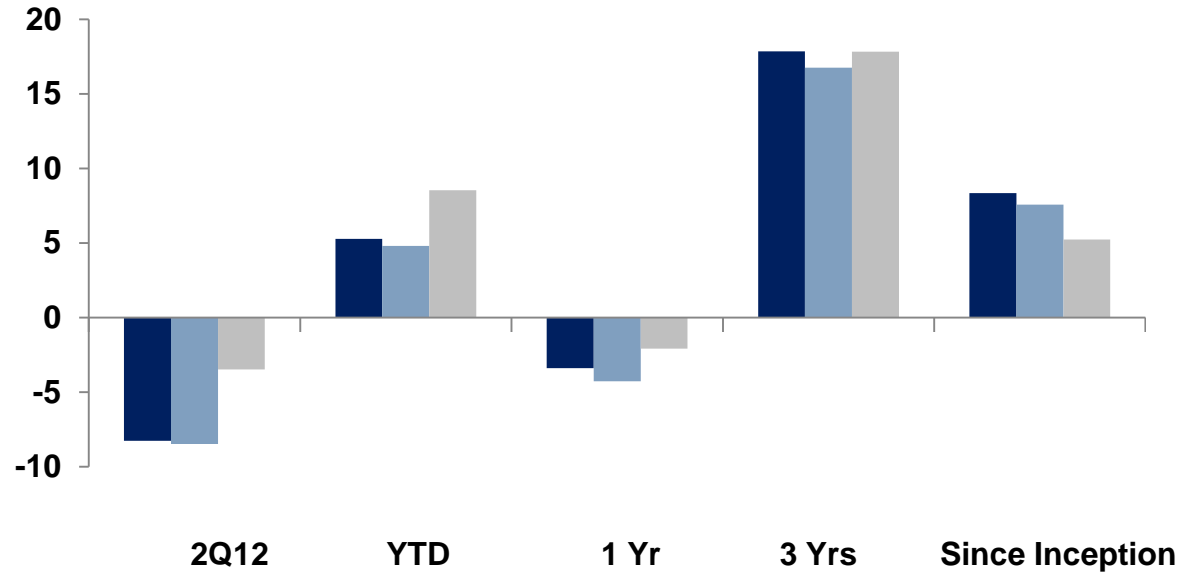


# Portfolio Characteristics as of June 30, 2012

Portfolio Characteristic	GLA Small Cap	Small Cap Index
\$ Weighted Market Capitalization	\$1,125.8M	\$1,273.2M
# of Securities	49	1,985
Portfolio Beta	0.82	1.00
P/E Ratio	15.2X	17.1X
EV/EBITDA	6.6X	9.5X
Current Return on Inv. Capital (ROIC)	10.0%	9.5%
10 Yr. Median ROIC	10.3%	9.0%
Market Implied ROIC	6.6%	9.5%
Debt/Total Capital	22%	28%



# Small Cap Equity Performance for periods ending June 30, 2012



	2Q12	YTD	1 Yr	3 Yrs	Since Inception
Great Lakes Advisors Value Equity Composite -Gross of Fees	-8.26	5.28	-3.39	17.85	8.35
Great Lakes Advisors Value Equity Composite- Net of Fees	-8.47	4.80	-4.27	16.76	7.57
Russell 2000	-3.47	8.53	-2.08	17.83	5.23

Returns greater than 1 year are annualized  
 Please see appendix for performance disclosure statement  
 Inception for Great Lakes' Small Cap Composite is 6/30/08



## Small Cap Equity Disclosures

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- All data is as of June 30, 2012 unless otherwise noted. The portfolio's returns are based upon historical results and are not necessarily representative of future performance. Returns and net asset value will fluctuate. Performance figures shown assume reinvestment of dividends and interest. All performance figures net of fees have been reduced by the maximum actual fee charged to the composite. Actual fees may vary depending on certain factors, including the relevant fee schedule and portfolio size. Great Lakes Advisors fees are available upon request and may be found in our Form ADV Part 2A. Total returns presented for periods less than one year are cumulative. For performance current to the most recent month end, please call 866-WH-DIRECT.
- Statistics and Sector Breakdown are subject to change without notice. All holdings available upon request.
- P/E data excludes non-earning stocks.
- The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The index is unmanaged and cannot be invested in directly.
- The Standard & Poor's (S&P) SmallCap 600 Index covers approximately 3% of the domestic equities market. Measuring the small cap segment of the market that is typically renowned for poor trading liquidity and financial instability, the index is designed to be an efficient portfolio of companies that meet specific inclusion criteria to ensure that they are investable and financially viable. Index returns are provided to represent the investment environment existing during the time periods shown. For comparison purposes, each index is fully invested, which includes the reinvestment of income. The returns for the index do not include any transaction costs, management fees or other costs. The index is not available for direct investment.
- To determine if this strategy is an appropriate investment for you, carefully consider the investment objectives, risk factors, and expenses before investing. This and other information can be obtained by contacting Great Lakes Advisors at 866-WH-Direct.



# Investment Management Team

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## **Gary Lenhoff, CFA** Director of Small Cap Strategies, Portfolio Manager

Gary Lenhoff brings more than 25 years of industry experience to Great Lakes Advisors, as the head of the Small Cap team. Before joining the firm, Gary was Chief Investment officer at Ironworks Capital Management. Previous to that, Gary was responsible for managing a seven person team of analysts at Bricoleur Capital Management. During his tenure there, Gary helped grow the long/short equity hedge fund from \$450 million to over \$1.3 billion. Before Bricoleur, Gary served as a Portfolio Manager at Anderson, Hoagland & Co. in St. Louis. Gary's career began as an Investment Analyst with Prudential Investment Company, where he was responsible for managing a \$3.3 billion portfolio at the time of his departure. Gary is a Chartered Financial Analyst. He earned his MBA with distinction from the University of Michigan. Prior to that, Gary secured his BA in Economics, from the University of Rochester.

## **Benjamin Kim, CFA, CPA** Senior Research Analyst

Ben Kim brings over 12 years of stock analysis and selection experience in a number of industries to Great Lakes Advisors. He is a Senior Research Analyst on the Small Cap Strategy team, responsible for coverage of the Technology, Industrial and Materials sectors. Prior to joining Great Lakes Advisors, Ben was an Investment Analyst at Harris Associates after spending 8+ years at Skyline Asset Management as a small cap securities analyst, covering the Industrial and technology sectors. Ben is a CFA charterholder and a Certified Public Accountant. Ben graduated from the University of Chicago, with an M.B.A. with a concentration in Finance and Economics. Prior to that, he earned a B.S. in Accounting from Indiana University.

## **Bryan Engler** Research Analyst

Bryan Engler works as a Research Analyst on the Great Lakes Advisors Small Cap Strategy team. Bryan is responsible for coverage of the Health Care, Consumer Discretionary and Consumer Staples sectors. Bryan employs rigorous fundamental research in seeking attractive investment opportunities. Prior to joining Great Lakes, Bryan was the director of the Corporate Advisory Group at Thomson Reuters consulting with a number of public executive teams on matters concerning capital structure and corporate strategy. Bryan attended Tulane University where he earned a B.A. in Political Science and English, with honors.