

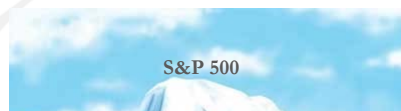
Eudaimonia Asset Management, LLC

US Micro Cap

“The Inefficient Frontier of the U.S. Stock Market”



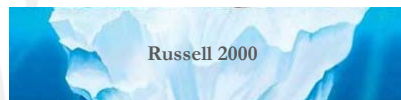
## What is Micro Cap? The US Stock Market by Number of Opportunities



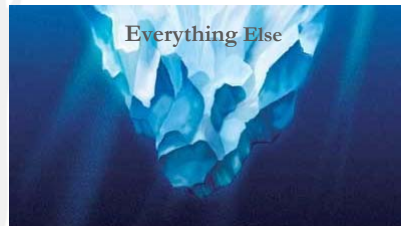
78% of the total market cap  
11% of the total opportunities



88% of the total market cap  
21% of the total opportunities



8% of the Total market cap  
43% of the total opportunities

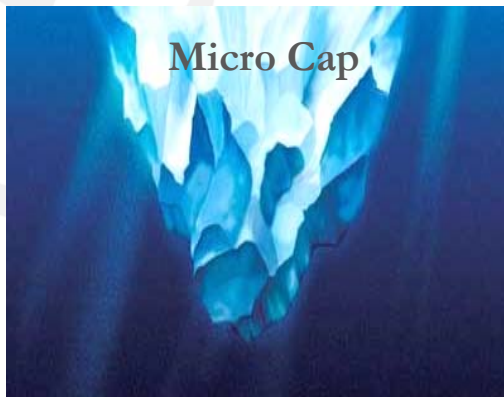


Everything Else

As of 10/30/09

Source: William O'neill, Eudaimonia Asset Management, LLC

## What is Micro Cap? The US Stock Market by Number of Opportunities



Everything Else is Micro Cap

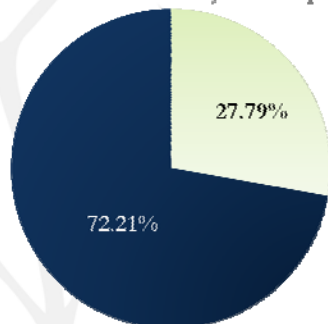
- 4% of Total market cap
- 36% of Total Opportunities
- \$500B of Total Market Cap

As of 10/30/09

Source: William O'neill, Eudaimonia Asset Management, LLC

## Typical Small Cap Allocation

Russell 2000 Index by Market Cap



■ Below \$500M  
■ Above \$500M

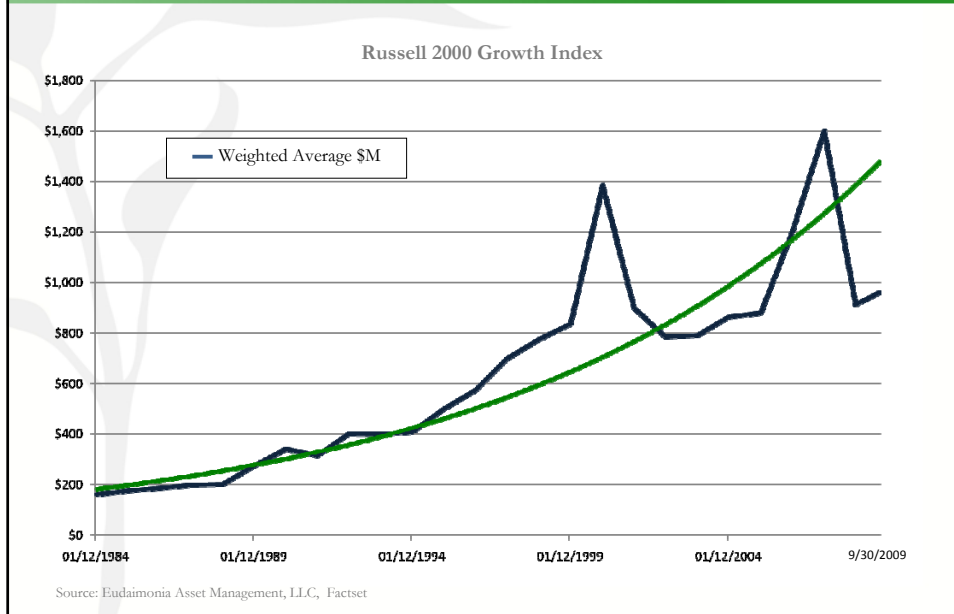
• Typical Small Cap Allocation does not fully exploit Micro Cap Opportunity

• Cannot Access Directly without Specialized Manager

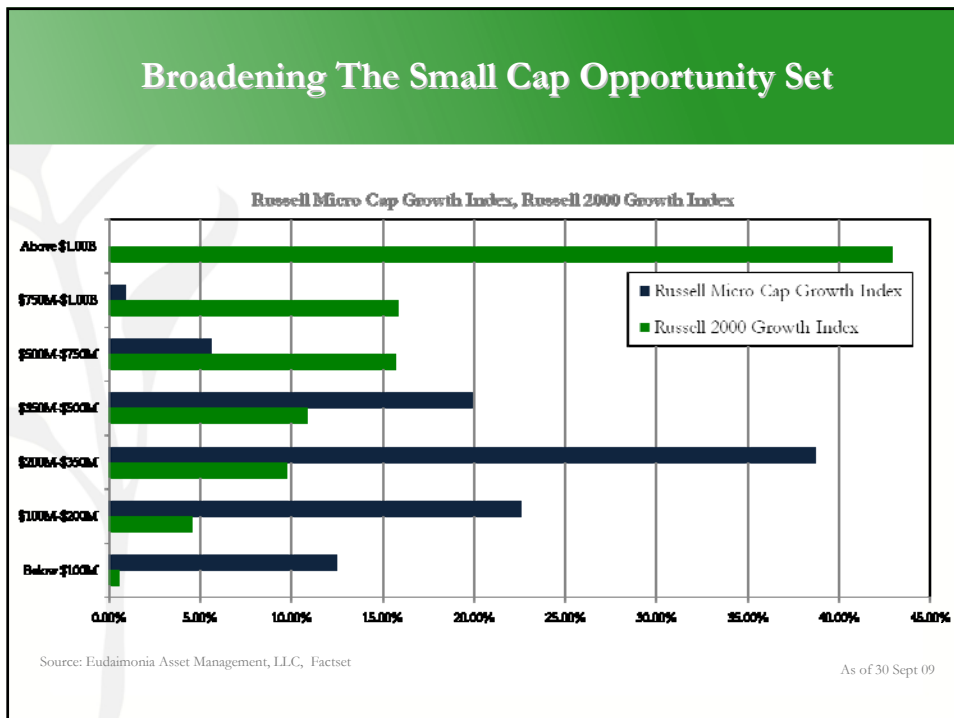
Source: Eudaimonia Asset Management, LLC, Factset

As of 30-Sept-2009

## The Changing Definition of Small Cap



## Broadening The Small Cap Opportunity Set



## Micro Cap Defined

- Russell “institutionalizes” Micro Cap in 2005 with the creation of the family of Russell Micro Cap Indexes
- \$500m or below at time of purchase
- Bottom 4% of the US stock market



## Why Should You Care?

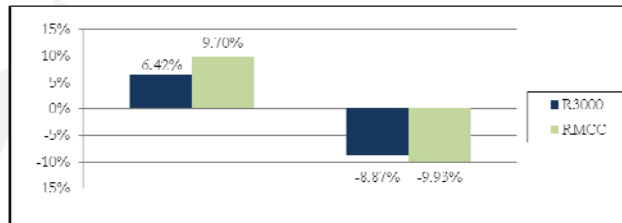
### Higher Returns with Comparable Risk

- Micro Cap has returned 12.2% annualized since 1926 versus 9.5% for Large Caps<sup>1</sup>
- Standard Deviations Comparable to Small Cap: 5Yr. Standard deviation of 26.73 for Russell Micro Cap Growth versus 23.25 for Russell 2000 Growth<sup>2</sup>
- Up/Down Quarter Performance

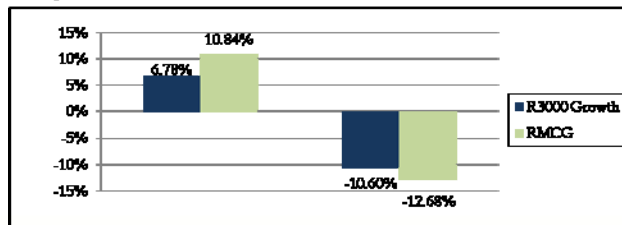
Source: 1 CRSP 9-10 Index, Merrill Lynch (as of 6/30/08)  
2 Russell Investments

## Average Quarterly Returns Up Quarters/Down Quarters

Russell Micro Cap Core Index vs. Russell 3000 Index  
21 Up Quarters & 16 Down Quarters



Russell Micro Cap Core Index vs. Russell 3000 Index  
21 Up Quarters & 16 Down Quarters



Source: Russell Investments, EAM, L.L.C.

## Why Should You Care?

### Lower Valuations Relative to Growth Prospects: Russell Micro Cap Growth Versus Russell 3000 Growth

- Expected CY 2010 Earnings Growth: 22.78% versus 11.53%, Est. 3-5 year Earnings Growth 17% versus 11%.
- PE CY 2010: 16x versus 15x, Price/Book 2.43 versus 3.32.
- PEG 2010: 0.71 versus 1.26.



Source: Factset, EAM, L.L.C.

## Why Should You Care?

### Structurally Inefficient = Strong Case for Active Management

- Wall Street analyst coverage: 60% for Micro Cap versus 98% for the rest of the market.
- 2 analysts cover your average micro cap company versus 9 for the rest of the market.
- Wall Street incentives create long-term structural inefficiencies.



Source: EAM, LLC, William O'Neil

## Why Should You Care?

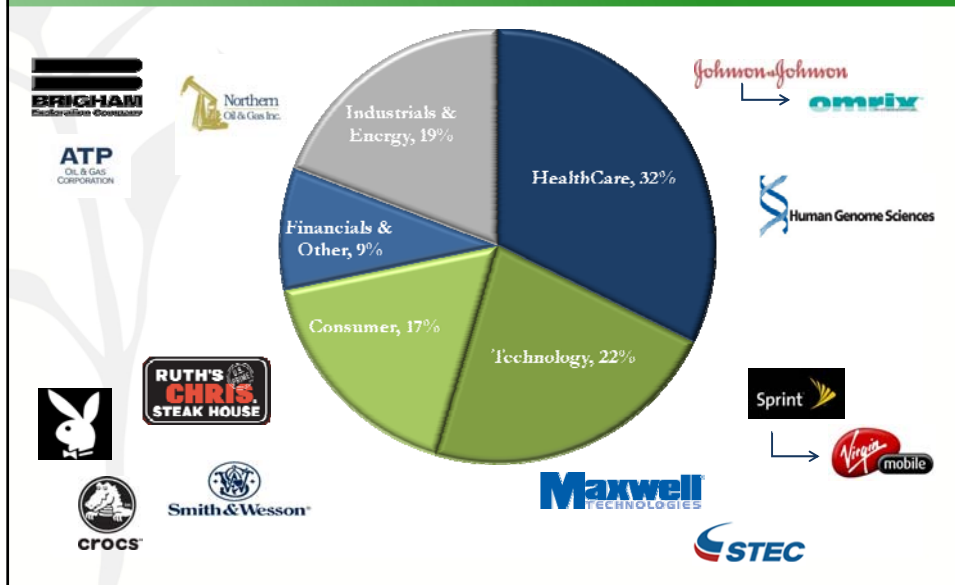
### The Engine Of Innovation

- Target of acquisitions: 92 deals in last 13 months, median premium 39% versus 11 mid-cap and 11 large cap deals, median premium 31%
- Nimble enough to exploit change
- Where innovation happens



Source: Factset MergerStat

## Micro Cap Universe: Leaders in Growth



## Why Eudaimonia Asset Management?

- Experience
- Focus
- Nimble, Boutique Manager
- Investment Philosophy and Process that Exploits Discovery and Change

