



Thompson, Siegel & Walmsley LLC

INVESTMENT MANAGEMENT

# Why Allocate to Active Mid Cap?

As of 12/31/09

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# Executive Summary – Going Passive LCV with an Active MCV Allocation

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## TS&W Thesis

- Passive allocations to large cap miss the most fertile alpha opportunities by having a mega cap bias.
- A compelling argument can be made for committing a portion of one's large cap allocation to active mid cap stocks both from a return and risk-reward perspective.
- The returns as a result of an active mid cap tilt can enhance the overall return of the portfolio without adding incremental risk.

## Findings

- A passive approach to the Russell Top 200<sup>®</sup> Value Index mixed with an active approach to the Russell Midcap<sup>®</sup> Value Index can yield increasing returns while keeping a favorable risk/reward ratio.<sup>1</sup>

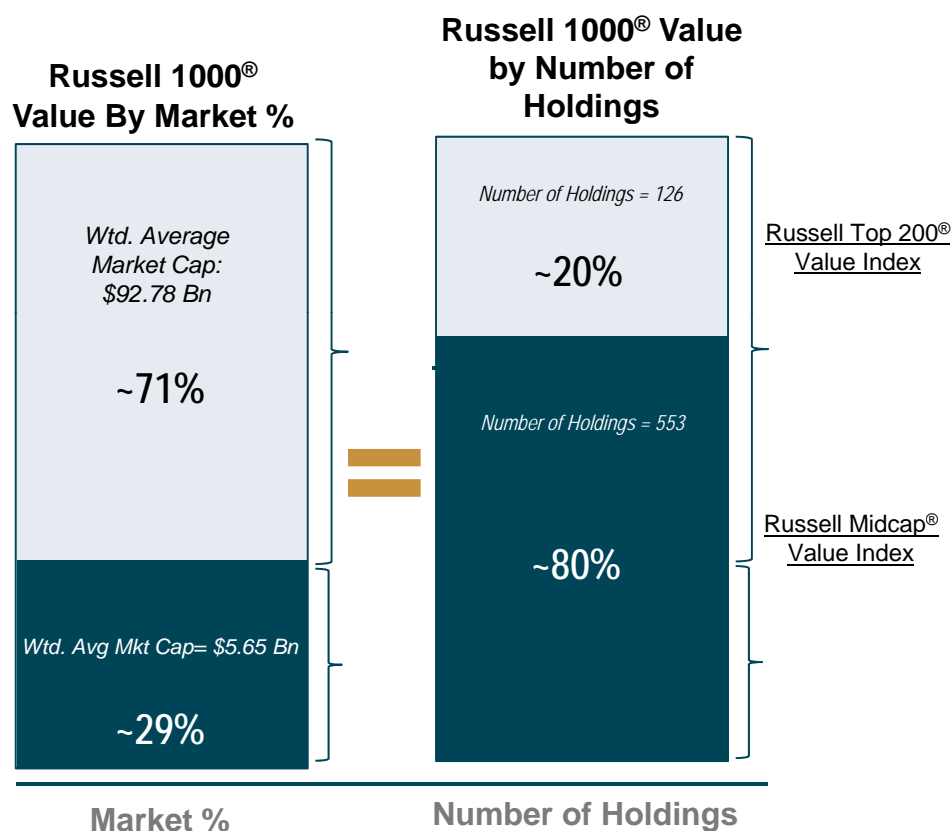
## Why Mid Cap?

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- The universe of mid cap stocks is very large, approximately 800 stocks, offering plenty of opportunity to unearth attractive names
- Mid cap stocks tend to be under-researched by Wall Street analysts
- Mid cap stocks generally outperform because they are in the prime of growth and seeing both cash flow and earnings per share accelerate, especially compared to large caps
- Rolling 5-year Sharpe & Information Ratio results demonstrate mid cap's ability to deliver consistent value-add relative to the amount of risk taken
- The average mid cap manager has outperformed the average large cap manager 70% of the calendar year periods for the past 15 years (1994 – 2008)
- Mid cap allocation has offered consistent upside market capture as well as downside protection in most extreme market types

# Russell Top 200<sup>®</sup> Value and Russell Mid Cap<sup>®</sup> Value Index Weights in the Russell 1000<sup>®</sup> Value Index

September 30, 2009



- The Russell 1000<sup>®</sup> Value Index is majority-weighted to mega cap stocks (i.e., the Russell 200<sup>®</sup> Index), even though mega caps comprise a minority of the investable universe
- We believe the alpha-generating potential within the Russell 1000<sup>®</sup> Value Index is greater among the less-followed stocks (i.e., the Russell Midcap<sup>®</sup> Value Index)
- Historically, an investor seeking Russell 1000<sup>®</sup> Value Index exposure would have experienced better risk-adjusted returns by combining a passive Russell 200<sup>®</sup> Index investment with an active Russell Midcap<sup>®</sup> Index allocation<sup>1</sup>
- A portfolio comprised of 70% passive Russell 200<sup>®</sup> Index and 30% active Russell Midcap would mimic the market capitalization of the Russell 1000<sup>®</sup> Index and has historically delivered better returns without increasing risk<sup>1</sup>

# Increased Return, Decreased Standard Deviation

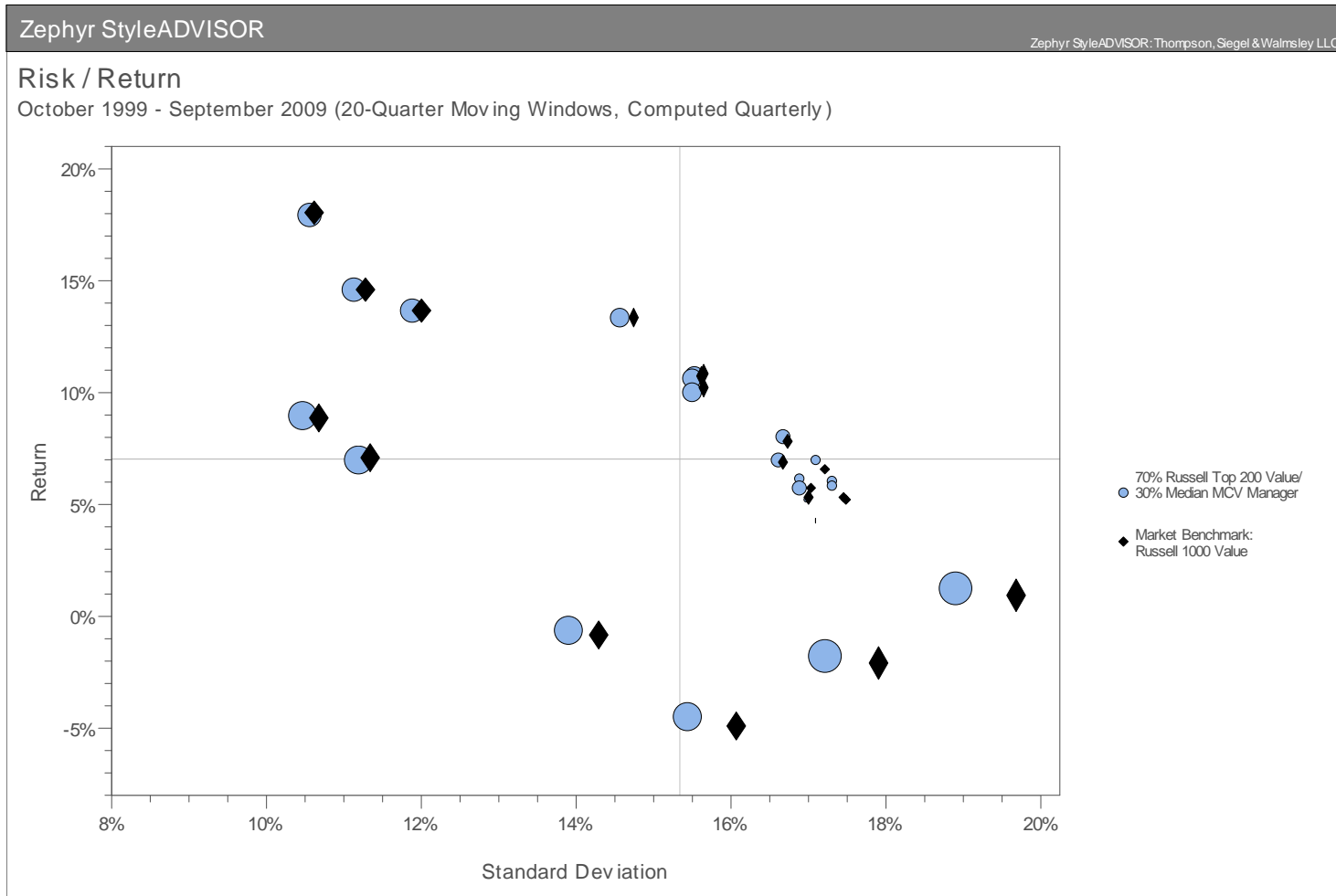
As of September 30, 2009

Portfolio	3 Yr		5 Yr		10 Yr		Estimated Fees*
	Estimated Return	Estimated Standard Deviation	Estimated Return	Estimated Standard Deviation	Estimated Return	Estimated Standard Deviation	
Passive Russell 1000® Value Index	-7.87%	21.25%	0.90%	17.23%	2.59%	16.18%	10 bps
70% Passive Russell Top 200® Value Index & 30% Active Mid Cap Value Median Manager <sup>1</sup>	-6.95%	20.51%	1.23%	16.67%	3.23%	15.83%	27 bps

\*Estimated fees are for illustrative purposes only and are based on TS&W estimates of industry fees for accounts managed according to the above styles.

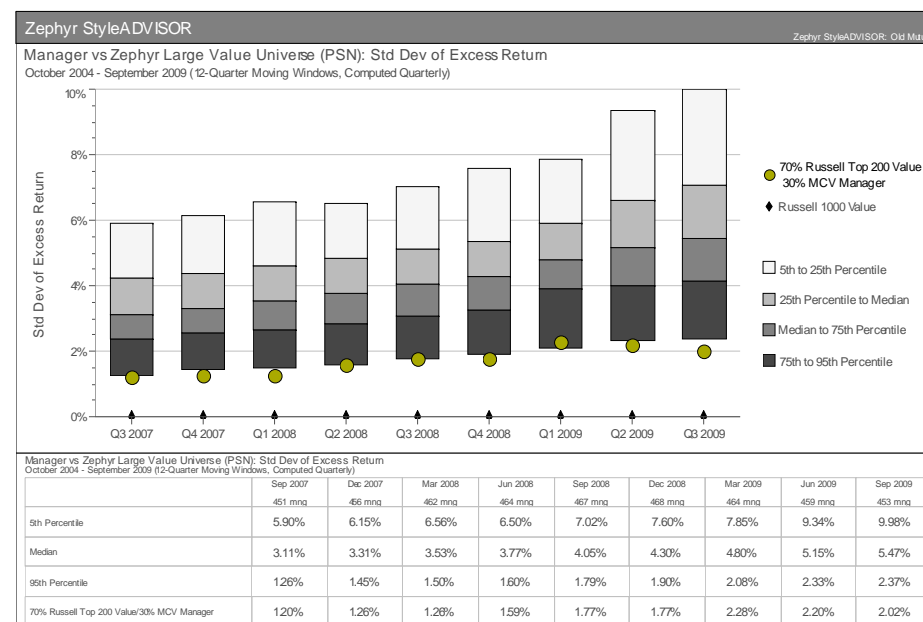
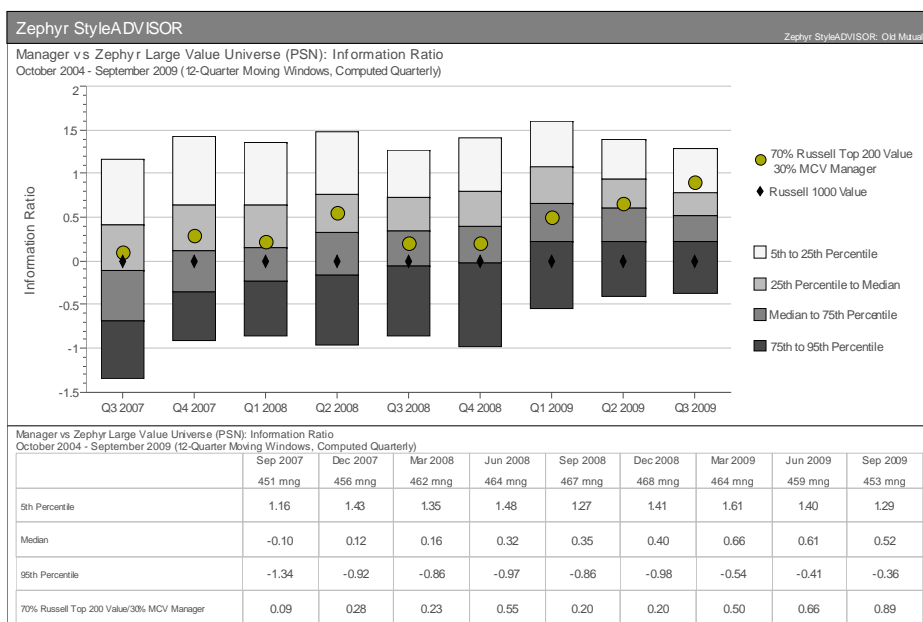
# Blended Passive Large Cap Value/Active Mid Cap Value Rolling 5-Year Risk/Return

*Active management of Mid Cap Value stocks combined with passive management of the Russell Top 200® Value Index consistently generates a more attractive risk/return profile than passive management of the Russell 1000® Value Index.*



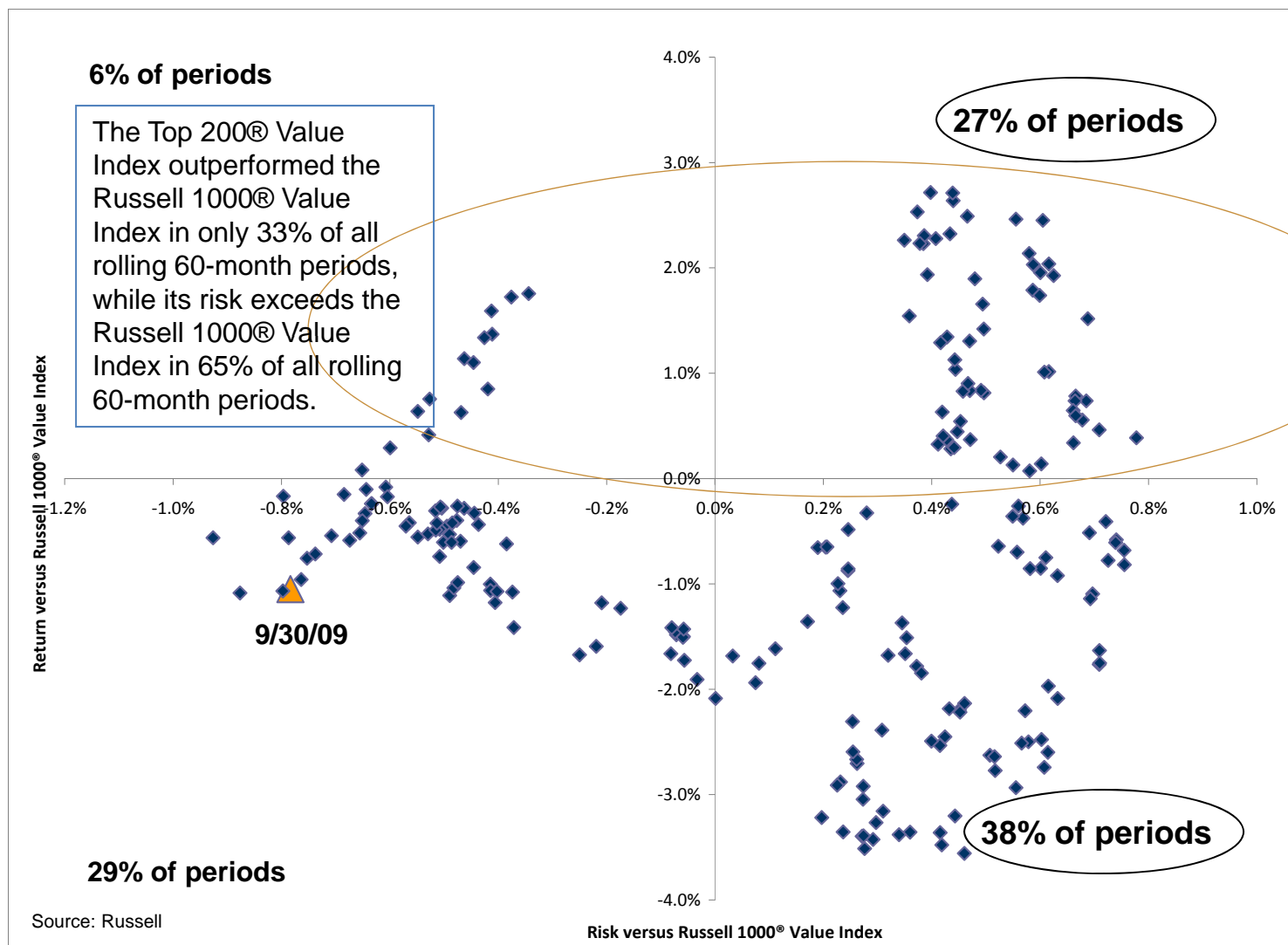
# Rolling 5-Year Information Ratio and Tracking Error Results

*Allocating 30% of your passive portfolio to an active Mid Cap Value manager may keep your risk budget in line with your passive allocation while delivering incremental return*



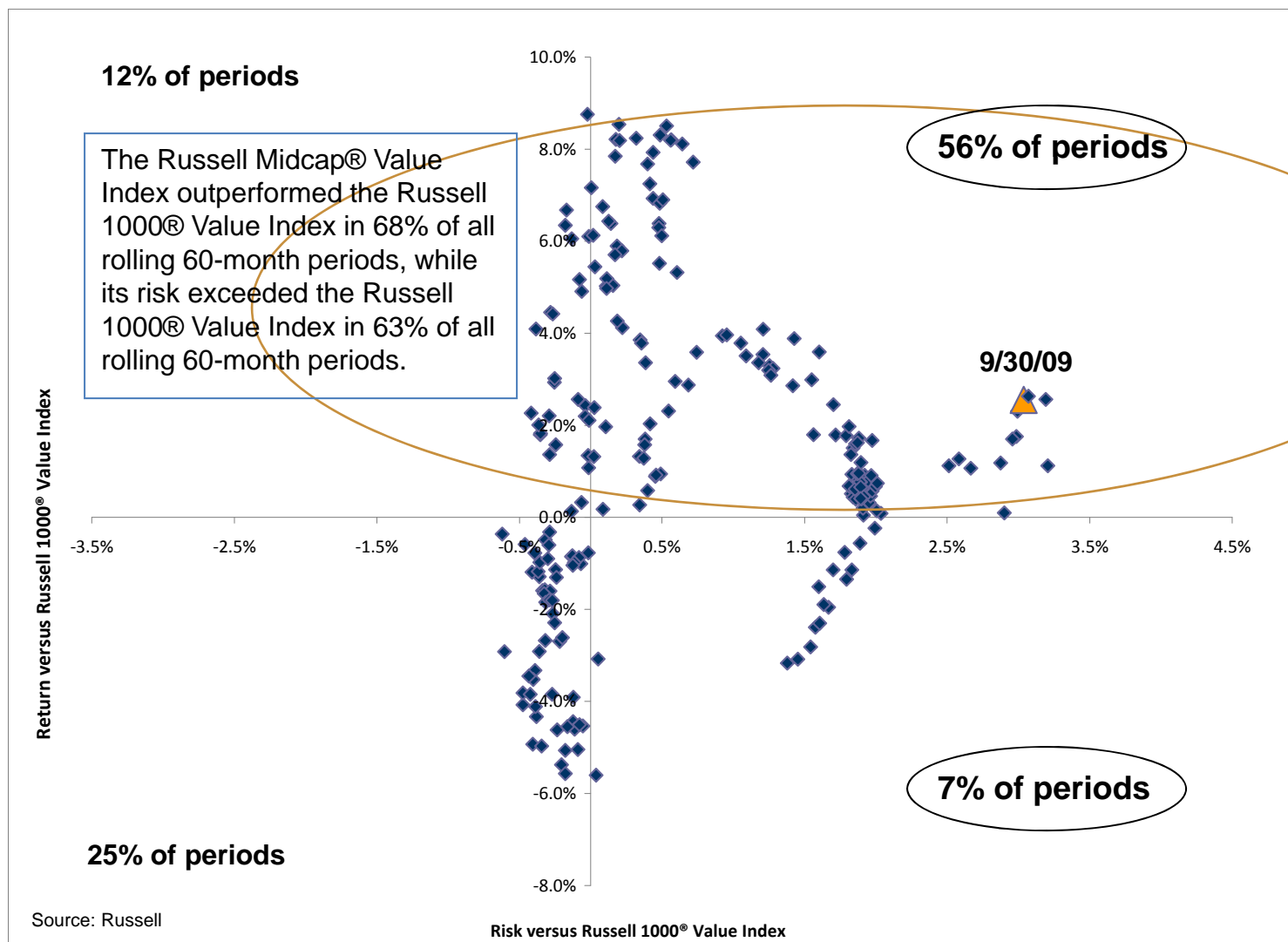
# Russell Top 200<sup>®</sup> Value Index Return and Risk Profile

Rolling 60-Month Periods from 12/31/90 – 9/30/09



# Russell Midcap® Value Index Return and Risk Profile

Rolling 60-Month Periods from 12/31/90 – 9/30/09



# Mid Cap Managers Outperform Their Benchmark

## Mid Cap Value Equity versus Russell Mid Value Index

Percent of Three-Year Periods where Manager Beat Benchmark by More than 50 Basis Points (by Percentile)

	Small Cap Vs. Russell 2000 Growth	Small Cap Vs. Russell 2000 Broad	Small Cap Vs. Russell 2000 Value	Mid Cap Vs. Russell Mid Cap Growth	Mid Cap Vs. Russell Mid Cap Broad	Mid Cap Vs. Russell Mid Cap Value	Large Cap Vs. Russell 1000 Growth	Large Cap Vs. Russell 1000 Broad	Large Cap Vs. Russell 1000 Value
Median	80%	83%	70%	63%	55%	36%	39%	16%	20%
45th Percentile	83%	93%	71%	65%	69%	50%	46%	43%	31%
40th Percentile	95%	98%	80%	70%	79%	64%	55%	56%	39%
35th Percentile	98%	98%	84%	75%	81%	69%	71%	74%	49%
30th Percentile	100%	99%	90%	80%	85%	78%	78%	85%	58%
25th Percentile	100%	100%	96%	86%	89%	85%	86%	91%	69%

Source: Callan Associates. Small Cap manager universe as defined by the Callan CAI: Sm Cap Growth Style universe. Mid Cap manager universe as defined by the Callan CAI: Mid-Cap Value Style universe. Large Cap manager universe as defined by the Callan CAI: Ld Cap Value Style universe. Period ending 9/30/2009.

# Conclusions

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- Active management of mid cap value stocks combined with a passive management of the Russell 200<sup>®</sup> Value Index has been shown to generate a more attractive risk/return profile than passive management of the Russell 1000<sup>®</sup> Value index<sup>1</sup>
- The universe of mid cap stocks is very large, approximately 800 stocks, that tend to be under-researched by Wall Street analysts despite the fact that they are in the prime of growth and seeing both cash flow and earnings per share accelerate
- The average mid cap manager has outperformed the average large cap manager 70% of the time over the past 15 years and the rolling 5-year Sharpe and Information Ratio results demonstrate mid cap's ability to deliver consistent value-add
- A portfolio comprised of 70% passive Russell 200<sup>®</sup> Value and 30% active Russell Midcap<sup>®</sup> Value has been shown to mimic the market capitalization of the Russell 1000<sup>®</sup> Value Index and may deliver better returns without increasing portfolio risk

# Endnotes & Disclosures

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<sup>1</sup> Based on past performance of the passive Russell 1000<sup>®</sup> Value Index as compared to a hypothetical blended portfolio of 70% passive Russell Top 200<sup>®</sup> Value Index and 30% Active Mid Cap Value Median Manager. Active Mid Cap Value Median Manager data is based on eVestment Alliance Mid-Cap Value universe. **This hypothetical blended portfolio is for illustrative purposes only and does not represent performance of any TS&W managed account.**

## **PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS**

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Investment in small/mid capitalization companies may involve greater risk and price volatility than securities with larger, more established companies. Risks may be greater for investments in companies with medium sized market capitalizations because they tend to have more limited product lines, markets and financial resources than larger, more established companies.

Index information has been provided for illustrative purposes only and is not intended to imply the past or future performance TS&W. Investors cannot invest directly in an index. The performance of indexes assumes dividend reinvestment, no transaction costs, taxes, management fees or other expenses.

The Russell Top 200<sup>®</sup> Index measures the performance of the largest cap segment of the U.S. equity universe. The Russell Top 200<sup>®</sup> Index is a subset of the Russell 3000<sup>®</sup> Index. It includes approximately 200 of the largest securities based on a combination of their market cap and current index membership and represents approximately 65% of the U.S. market. The Russell Top 200<sup>®</sup> Index is constructed to provide a comprehensive and unbiased barometer for this very large cap segment and is completely reconstituted annually to ensure new and growing equities are reflected.

## Endnotes & Disclosures (cont.)

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The Russell Top 200® Value Index measures the performance of the especially large cap segment of the U.S. equity universe represented by stocks in the largest 200 by market cap that exhibit value characteristics. It includes Russell Top 200 companies with lower price-to-book ratios and lower forecasted growth values. These stocks also are members of the Russell 1000® Value Index. The Russell Top 200 Value Index is constructed to provide a comprehensive and unbiased barometer of this larger cap value market. The Index is completely reconstituted annually to ensure new and growing equities are reflected and companies continue to reflect value.

The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® Index represents approximately 27% of the total market capitalization of the Russell 1000 companies. The Russell Midcap® Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set.

The Russell Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap® Value Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap value market.

The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the U.S. market. The Russell 1000® Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are reflected.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.