

Small Value

Bailard Equity Strategies

U.S. EQUITY STYLE RETURN COMPARISONS, 1928-2011¹

INVESTMENT STYLE	1928-2011 ANNUALIZED RETURN	1928-2011 ANNUALIZED RETURN DIFFERENCE VS. SMALL VALUE	PERCENTAGE OF YEARS SMALL VALUE WINS VS. THIS STYLE
Small Value	13.1%	N/A	N/A
Small Growth	9.5%	-3.7%	58%
Large Value	10.9%	-2.2%	61%
Large Growth	8.5%	-4.6%	58%

¹ Source: Ibbotson Associates, Fama-French Style Data, 1928-1978, Wilshire Associates, Style Data 1979-2011. This chart does not represent the past or future performance of any Bailard product, strategy or account. All investments have the risk of loss. Past performance is no indication of future results.

OUR SMALL VALUE STRATEGY APPLIES BEHAVIORAL FINANCE TECHNIQUES TO CAPITALIZE ON THE INVESTMENT OPPORTUNITIES CREATED BY IRRATIONAL INVESTOR BEHAVIOR IN THE HISTORICALLY BEST-PERFORMING U.S. EQUITY STYLE.

THE OPPORTUNITY

“It is human nature to think wisely and act foolishly.”
—Anatole France

It is Bailard’s belief that you can’t change human nature, but you can profit from it. Due to behavioral biases and cognitive errors, investors tend to regularly overreact or underreact to new information in predictable ways. Behavioral Finance is the study of these types of economically irrational behaviors. Bailard applies proprietary Behavioral Finance techniques to stock selection and portfolio construction to capitalize upon these opportunities in the small cap arena, one of the most attractive areas of the U.S. equity market.

As the chart at the top indicates, small cap value has historically been the best performing U.S. equity style.

These stocks typically receive less scrutiny and less hype than stocks in other areas of the market. Behavioral finance suggests that small cap value’s attractiveness is very likely to persist in the future because of excessive investor optimism and familiarity bias.

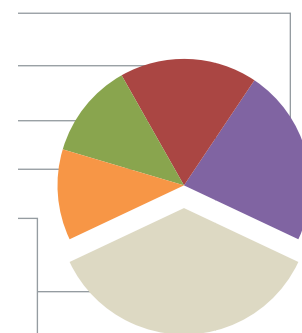
THE PRODUCT

Bailard’s Small Value Strategy is available as a separately managed account, and Bailard also sub-advises a mutual fund with the Small Value Strategy. A small cap value strategy portfolio will typically hold 250 to 300 small cap and micro-cap stocks. (Small cap stocks have market capitalizations of \$300 million to \$3 billion, while micro-cap stocks have market capitalizations of less than \$300 million.) Because micro-cap stocks are even less scrutinized by Wall

COMPOSITE SECTOR WEIGHTS²

(As of 12/31/11)

Financials	23.1%
Industrials	18.2%
Consumer Discretionary	13.1%
Information Technology	12.8%
Other	
Cash Equivalents	5.5%
Materials	6.4%
Health Care	6.5%
Energy	5.5%
Utilities	4.7%
Consumer Staples	3.8%
Telecommunication Services	0.4%



² Source: Bailard, Inc. The Small Value Composite (“the Composite”) includes all Bailard Institutional portfolios invested solely in small and microcapitalized U.S. equities which exhibit value characteristics. Data regarding holdings of the Composite reflect ownership information as of the date shown and are not intended to represent any past, present or future investment recommendations. Holdings are subject to change.

SMALLER CAP STOCKS: UNDER-FOLLOWED AND UNDER-OWNED³

(As of 12/31/11)

	S&P 500 INDEX	SMALL VALUE INVESTABLE STOCKS	MICRO-CAP STOCKS
Number of companies	500	~2,000	~2,000
Average number of analysts covering a stock	21	8	3
Percentage of institutional ownership	82%	73%	40%

³ Source: Baseline. Although indexes vary, typically Large cap stocks are companies with a market capitalization over \$1 billion; Small cap between \$300 million and \$1 billion; and Micro-cap between \$50 and \$300 million.

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Street analysts, they offer the potential for more mispricing opportunities than small cap stocks.

INVESTMENT PROCESS

Bailard has applied its quantitative expertise to create what is designed to be a robust and stable alpha engine. A variety of proprietary behavioral factor models are combined to determine which of the Strategy's investable universe of 4,000 stocks provide the best mispricing opportunities. These models cover a spectrum of behavioral biases including overconfidence, anchoring bias (underreaction), availability bias (overreaction) and hype. Additionally, two factor models examine the likelihood that a stock will live up to investor expectations. These models seek to gauge a stock's earnings sustainability and its compatibility with the current investment climate.

The product of all these factors is the Behavioral Ranking Model (BRM). The most promising stocks identified by the BRM are then scrutinized for qualitative behavioral anomalies. This qualitative enhancement accounts for about 20% of the stock selection process and helps ensure quality and conceptual appropriateness for portfolio construction.

Managing small cap and micro-cap stocks requires astute trading expertise. Bailard

uses a range of electronic platforms and systems to access crossing networks and dark pools of liquidity that do not publish quotes in the open market. Additional liquidity is provided by established relationships with micro-cap specialist brokerage firms and close monitoring of recent stock-specific broker activity. Navigating through these numerous pools of liquidity allows low volume stocks to be traded with reduced market impact.

RISK MANAGEMENT

The Strategy employs stringent risk controls in an effort to limit volatility and minimize unexpected outcomes. Economic cycle exposure is controlled by sub-sector neutralization to the client-specified benchmark. Stock specific risk is contained by holding a broadly diversified portfolio with a maximum position size of approximately 1.0%. The Strategy's goal is to neutralize all factors that are not expected to provide a competitive advantage in stock selection. Factor exposures are continually monitored and advanced optimization software employed in an effort to eliminate any unknown or unwanted bets.

THE PORTFOLIO MANAGERS

Tom Mudge, CFA, brings 25 years of investment experi-

COMPOSITE CHARACTERISTICS⁴ (AS OF 12/31/11)

	COMPOSITE	BAILARD SMALL VALUE INDEX
Price/Book Value	1.4x	1.3x
Price/Earnings (trailing 12 mo.)	11.0x	17.5x
Price/Earnings (forward 12 mo.)	10.7x	14.6x
Dividend Yield	1.7%	1.6%
Return on Equity	13.1%	7.6%
Debt to Capitalization	23%	27%
Average Market Capitalization (\$ millions)	1,360	1,020

COMPOSITE MARKET CAPITALIZATION⁴ (AS OF 12/31/11)

	COMPOSITE	BAILARD SMALL VALUE INDEX
\$3 billion and over	9.6%	0.0%
\$1.5–3 billion	27.4%	21.0%
\$300 million–1.5 billion	46.5%	72.0%
Less than \$300 million	16.5%	7.0%

⁴ Source: Bailard, Inc. Data regarding holdings of the Composite reflect ownership information as of the date shown and are not intended to represent any past, present or future investment recommendations. Holdings are subject to change. The Small Value Composite ("the Composite") includes all Bailard Institutional portfolios invested solely in small and microcapitalized U.S. equities which exhibit value characteristics. The Bailard Small Value Index is described on the following page in the Performance Disclosures under 'Market Index Definition.'

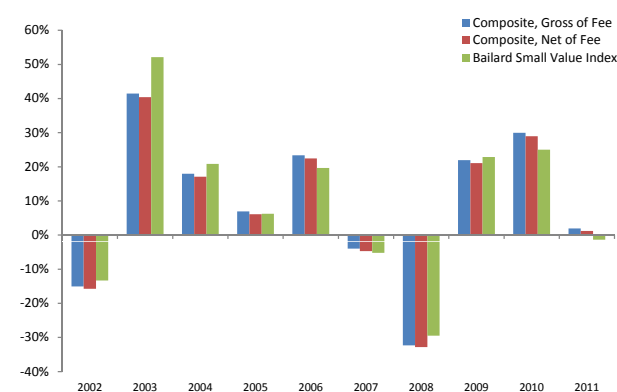
ence to his role of lead portfolio manager of the Bailard Small Value Strategy. He collaborates with George Sokoloff, PhD, CFA, who contributes his considerable quantitative analysis skills to the management of the Strategy. The portfolio management team also draws upon the talents of a centralized quantitative research group at Bailard.

Tom earned his BA at Northern Michigan University in 1985 and the designation of Chartered Financial Analyst in 1994. He has also completed the certificate program in Investment Decisions and Behavioral Finance at Harvard

University's John F. Kennedy School of Government.

George Sokoloff's responsibilities include the development of new quantitative models for the Bailard Small Value strategy. Prior to joining the firm in 2006, George developed quantitative stock selection models for StarMine. He earned his MS in applied mathematics from the Moscow Institute of Physics and Technology in 1998 and a PhD in management science and engineering from Stanford University in 2006. George received his Chartered Financial Analyst designation in 2006.

CALENDAR YEAR RETURNS⁵



PERFORMANCE DISCLOSURES

Composite Definition: The Small Value Composite ("the Composite") includes all Bailard Institutional portfolios invested solely in small and microcapitalized U.S. equities which exhibit value characteristics. As of December 31, 2011, the Composite consisted of a single mutual fund which has been managed in an advisory or sub-advisory capacity since 2001. As of 12/31/11, the Composite account had a market value of \$83.2 million, which represented 6.8% of the total assets under Bailard Institutional's management. The Composite's returns are total returns presented as labeled, both gross and net of management fees, and assume reinvestment of dividends and other earnings.

Through September 2009, gross of fee performance was calculated by grossing up the NAV performance by the annual expense ratio. Net of fee performance was calculated by netting down the gross return by an annual management fee of 0.75% (ap-

plied by reducing monthly returns by 1/12 of 0.75%). This model fee represents the highest management fee for the composite. From October 2009, both gross of fee and net of fee returns are taken directly from Bailard's portfolio accounting system, and net of fee returns are based on the actual fees paid by each account in the composite. The Composite's complete return history and a complete list of Bailard's composites are available upon request.

Individual account management and construction will vary depending on each client's investment needs and objectives, including liquidity needs, tax situation, risk tolerance and investment restrictions. Individual accounts may not have the same management fees, expenses, diversification, distributions and cash flows as the composite account. As a result, an account's actual performance may differ from the performance presented above due to, among other things, timing of investment, contribu-

TOTAL RETURNS⁶ (AS OF 12/31/11)

	COMPOSITE GROSS OF FEE	COMPOSITE NET OF FEE	BAILARD SMALL VALUE INDEX
Quarter	17.6%	17.3%	18.6%
1-Year	2.0%	1.2%	-1.4%
3-Year	17.3%	16.4%	14.9%
5-Year	1.0%	0.2%	0.3%
Since Inception (06/01/01)	7.1%	6.3%	7.2%

⁶ 3-year, 5-year and Since Inception returns are annualized.

tions and withdrawals, and the client's restrictions, such as restrictions on eligibility to participate in initial public offerings. In addition, performance does not reflect the effects of taxation, which result in lower returns to taxable investors. An investment in the Bailard Small Value Strategy involves a risk of loss, and the value of an investment in this Strategy may decrease as well as increase. No representation is made that any account will obtain similar results to those shown above.

Market Index Definition: The Bailard Small Value index shown in this presentation is different from a managed account in that it is unmanaged, uninvestable and does not reflect any transaction costs. The Bailard Small Value index is comprised of the Wilshire Small Value index from 6/1/01 through 6/30/04, the S&P SmallCap 600/Barras Small Value index from 7/01/04 through 9/30/05 and the S&P SmallCap 600/Citigroup Small Value index from 10/1/05 through 12/31/11.

The Wilshire Small Value index is a commonly used capitalization-weighted index that measures the performance of small cap value stocks as determined by Wilshire on the basis of size, price to book and price to earnings. The S&P SmallCap 600/Barras Small Value index was a commonly used capitalization weighted index consisting of those stocks in the S&P SmallCap 600 index deemed to be value, as opposed to growth stocks—as calculated by Barra and Standard & Poors. The S&P SmallCap 600/Citigroup Small Value index is a commonly used capitalization index consisting of those stocks in the S&P SmallCap 600 index deemed to be value, as opposed to growth stocks—as calculated by Citigroup and Standard & Poors. Unlike the Bailard Small Value index, the composite account can acquire stocks in initial public offerings and can hold cash equivalents and exchange-traded funds.

Past performance is no indication of future results.

Small Value

Bailard Equity Strategies

GOOD TO KNOW

Minimum Investment	\$5 million
Fee Schedule	0.90% of the first \$25 million 0.70% of the next \$25 million 0.60% of the next \$50 million 0.50% on amounts > \$100 million

WHY BAILARD?

Ever since we opened our doors in 1969, we've been seeking innovative ways to build wealth and generate solid returns for our clients. With over \$1.7 billion in assets, we offer institutional investors and wealth management clients intelligent, proprietary investment strategies and products; and a combination of stability, responsiveness and discipline that seeks to bring strong, consistent results and exceptional personal service.

RISKS

The Bailard Small Value Strategy is not by itself a complete investment program and is best suited for investors who can accept the above average risk generally associated with small cap and micro-cap stocks. These companies may face greater economic cycle risk, credit risk, geographic risk, product and customer concentration risk than that faced by larger companies. Small cap and—to a greater extent—micro-cap stocks are more volatile and less liquid than larger cap stocks, and may be more difficult to trade. In addition, the Strategy is subject to the risk that the market value of an investment will fluctuate as the stock markets fluctuate. There can be no assurance that Bailard, Inc. will achieve its investment objectives.

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For more information, please call 800.BAILARD (800.224.5273) or visit www.bailard.com.

Bailard Institutional
950 Tower Lane, Suite 1900
Foster City, California 94404