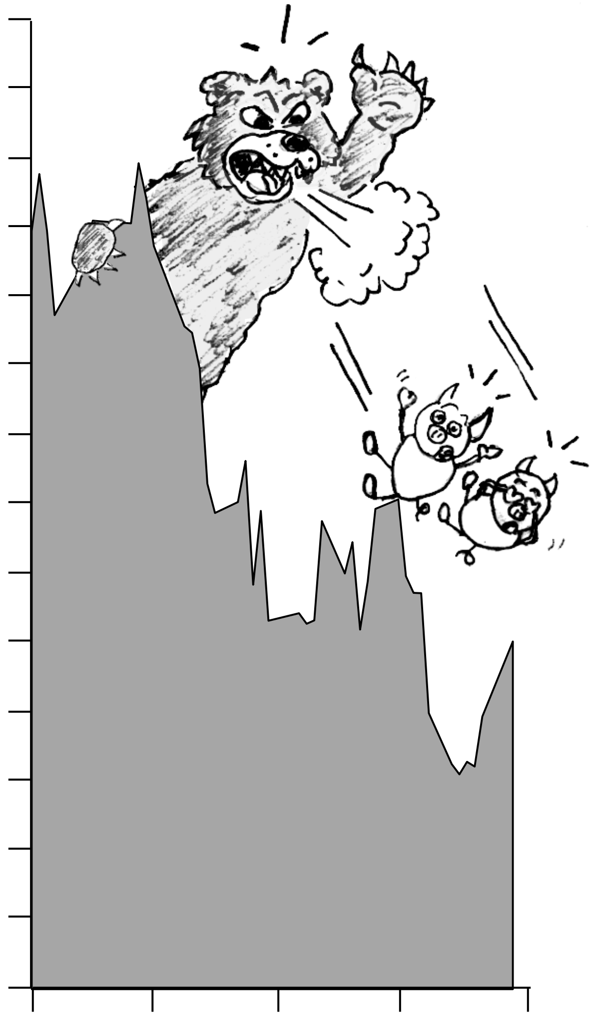
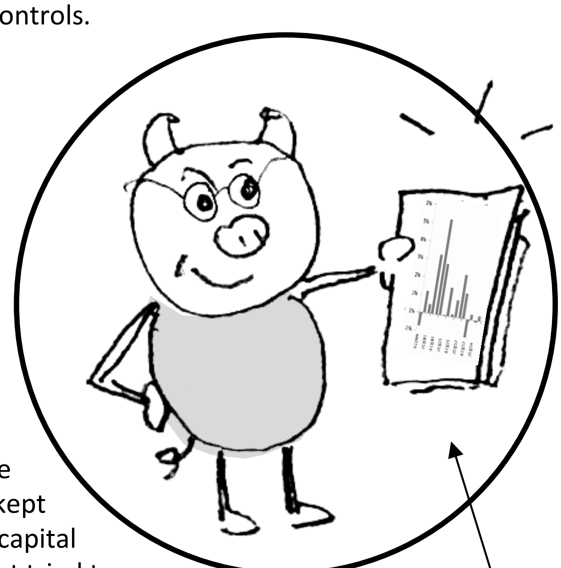
*Should we head into a Big, Bad, Bear Market, here's a cautionary tale to consider…*

Once upon a time there were three little pigs. One pig built a passive index portfolio of market-weighted stocks. The second pig built a passive index portfolio with equal-weighted stocks. They built their portfolios very quickly without any regard for price discovery, liquidity, value, management skill or accounting quality. They sang and danced all day because their work was done. But the third little pig kept working. He built an active portfolio upon the best allocators of capital, significant fundamental and valuation work and important risk controls.



The big bear stock market saw the two little pigs while they danced and played and thought, "What juicy tender meals they will make!" He chased the two pigs; and they tried to sell the stocks in their portfolios. But no one wanted to buy many of their risky, overvalued, low-quality, illiquid stocks. The big bear stock market went to the first portfolio. He huffed and he puffed and he blew the market cap-weighted index portfolio down. The frightened little pig ran to the second pig's index portfolio that was made of equal-weighted stocks. The big bear market huffed and he puffed and he blew the equal-weighted index portfolio apart too, especially the less liquid names that had been over-owned by smart beta. Now, the two little pigs were terrified and ran to the third pig, whose portfolio was made of the best allocators of capital, having applied significant fundamental, valuation work and important risk controls.



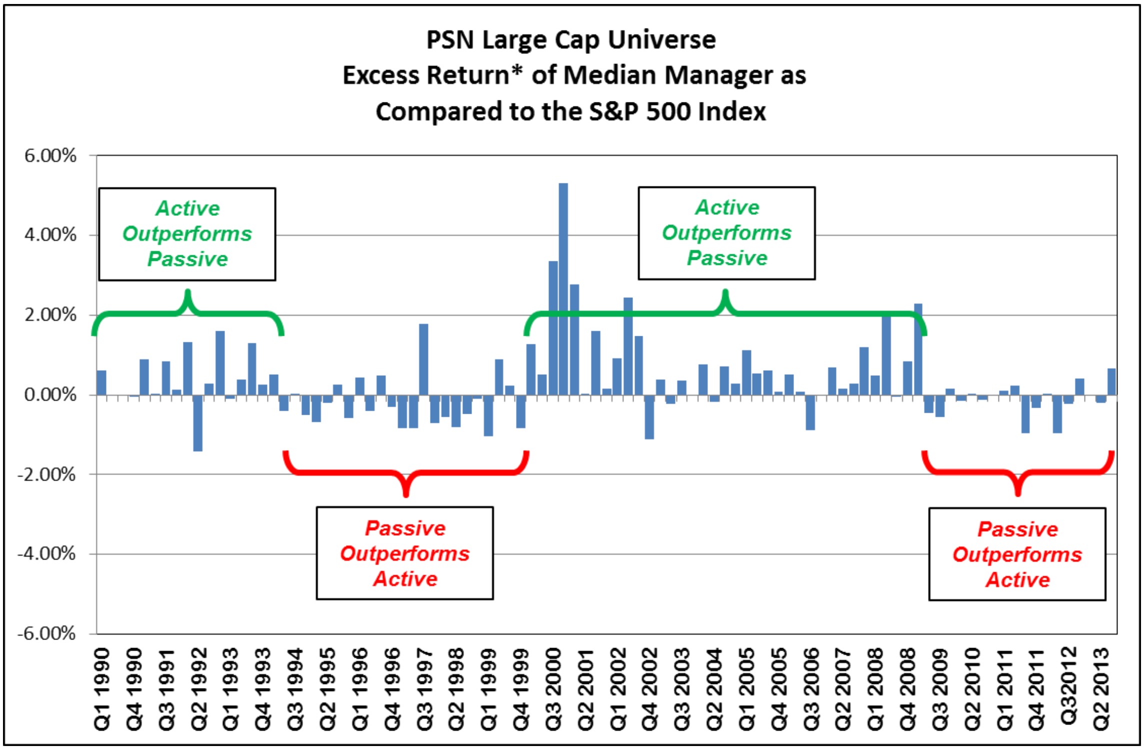
The big bear market huffed and puffed and tried to blow the alpha from the active portfolio down, but he could not. He kept trying, but the portfolio was strong and the third little pig's capital and excess return was much safer. While the big bear market tried to consume the alpha, the third little pig continued to buy the best allocators of capital at a discount to fair value and exploited the other price- and liquidity-insensitive indexers. The big bear market finally died and the third little pig's portfolio continued to compound capital from a much higher base.

The first two little pigs now appreciated the important role of capital markets as they relate to price discovery and efficient capital allocation. They admired the third little pig and his active portfolio built with the best allocators of capital, significant fundamental and valuation work and important risk controls. *And they lived happily ever after.*

During the Tech Bust Bear Market, Active Managers outperformed Passive Managers
Source: PSN Large Cap Universe Excess Return of Median Manager
as Compared to the S&P 500 Index for periods 4Q99 – 3Q03

IronBridge
Capital Management, L.P.

# The Alpha Cycle Thesis




Source: IronBridge and PSN

- Excess Return from Active Management runs in cycles
- Changes in Passive Flows in/out may distort Market Pricing Mechanisms

The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market. The index does not reflect investment management fees, brokerage commissions, or other expenses associated with investing in equity securities. A direct investment in an index is not possible.

Past performance is not indicative of future results.