

Take Note

US SMALL CAP EQUITY FUND (RIC) – MANAGER CHANGE



In March 2007 we replaced Nicholas Applegate with DePrince, Race & Zollo (DRZ), both value-oriented managers.

Why did we make the change?

Nicholas Applegate, a subsidiary of Allianz Global Investors, has announced that it intends to exit the value investing business for strategic reasons. As a result, all value portfolios previously managed by Nicholas Applegate will now be managed by NFJ Investment Group, also an Allianz subsidiary. The Nicholas Applegate Small Cap Value portfolio manager, Mark Stuckleman, will not join NFJ.

DRZ provides diversification to the other value managers in the Fund due to its focus on higher quality, low priced stocks with some measure of dividend yield. It believes that picking from within the universe of stocks that offer a high dividend yield is an effective means of seeking superior returns with reduced risk.

With respect to the other value managers in the Fund, David J. Greene emphasises fundamental research. It favours unappreciated stocks with compellingly low valuations and contrasts to DRZ's search at the other end of the value spectrum. These stocks tend to be companies involved in complex situations and which have fallen out of favour with the market as a result. Integrity, on the other hand, is a core value manager with a thematic component.

DePrince, Race & Zollo

Florida-based DRZ uses fundamental bottom-up research to identify undervalued stocks. DRZ begins its process by identifying small-cap value stocks with above-market dividend yields. It also confirms stocks are truly undervalued by identifying whether the screened stocks are selling at attractive valuations relative to their historic levels using criteria such as price-to-earnings, price-to-cash flow, and price-to-book. Next, the firm conducts fundamental analysis to determine if the company's prospects are improving and if there is a catalyst present which may increase investor interest and the stock price.

One of the key attractions of the product is our view of Greg Ramsby and John Race, the Co-Portfolio Managers who make the key portfolio decisions. We have been impressed with their discipline, knowledge and strong awareness of investor behaviour towards different stock groups in various points of the market cycle.

Another attractive feature of this manager is the global perspective of the firm. The analysts compare US stocks with other stocks in similar industries globally to compare relative valuations before picking a stock. To exploit this manager strength, we allow the manager latitude to hold a small portion of non-US stocks.

Changes to manager weights in the RIC US Small Cap Equity Fund

Manager	Mandate	Previous Fund Weight (%)	New Fund Weight (%)
Next Century	Sustainable growth and earnings surprises, quality focus.	13	13
Transamerica	Growth, bottom up with thematic element, quality focus	18	18
Gould	Strong earnings growth, technical characteristics, earnings surprises	13	13
Integrity	Core value, thematic	20	20
David J. Green	Value, fundamental analysis, special situations	6	8
Nicholas Applegate	Relative value	10	-
PanAgora	MO, quantitative approach, value bias, momentum	10	10
ClariVest	MO, quantitative approach, qualitative overlay, momentum	10	10
DePrince, Race & Zollo	Value, quality and high dividend yield	-	8

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