*Fourth Quarter 2015*

# SMid-Cap Portfolio Commentary

*Mariko O. Gordon, CFA*
*Founder, CEO & CIO*

*We exited the year with fanfare, as our smid-cap composite outperformed the Russell 2500 in the fourth quarter by 313 basis points, up 6.41% vs. 3.28%. We were ahead of the Index in all three months. This is notable, as the quarter included months when the market was up more than 5% and down more than 4%. We did consistently well in very different and changing market environments. Stock selection drove performance, and we overcame the 88 bps that REITs and Biotechnology stocks contributed to the Index. These are both industries where we have zero portfolio exposure.*

## Fourth Quarter Stock Performance Review

We had three stocks that were up 40% or more. Specialty pharmaceutical company Pacira Pharmaceuticals (PCRX) (+86%); life science equipment manufacturer Bruker (BRKR) (+48%); and apparel and accessories retailer Francesca's Holdings (FRAN) (+42%).

### Fourth Quarter top three contributors

| Ticker | Company | Description | Contribution (%) |
|---|---|---|---|
| PCRX | Pacira Pharmaceuticals | specialty pharmaceuticals | 2.22 |
| BRKR | Bruker Corp. | life sciences equipment | 1.45 |
| FRAN | Francesca's Holdings | apparel & accessories | 0.91 |
| | | | Total 4.58% |

All of this stock price appreciation translated into healthy contributions to performance from our big winners. Our top 3 stocks generated a total of 458 bps.

Pacira sold off late in the third quarter over an FDA warning letter that hamstrung their marketing efforts, tighter spending controls from hospital pharmacists, and fears over the political response to perceived pharmaceutical price gouging.

Investors bid the stock up when sales trends started to accelerate, and the FDA withdrew its warning letter, giving investors confidence that sales momentum would continue.

Investors reacted favorably to Bruker's third quarter results, which showed the company's turnaround was on track. Margin improvement continued, not only due to a successful restructuring program, but because higher margin products grew faster.

Francesca's is showing a turn in same store sales as customers react favorably to new merchandise. Traffic is picking up both in the bricks and mortar stores and online.

In sharp contrast, we had four stocks that were down 10% or more: global branded apparel maker PVH (PVH) (-28%); satellite imagery and analysis provider DigitalGlobe (DGI) (-18%); refined petroleum transportation company Scorpio Tankers (STNG) (-11%); and baked goods producer/distributor Flowers Foods (FLO) (-10%).

Investors punished PVH, along with other apparel companies, given weak mall and store traffic, due to warm weather and indifferent U.S. consumers.

**Fourth Quarter**

| | Contribution (%) |
|---|---|
| Best | 4.58 |
| Worst | -1.67 |
| Best Minus Worst | 2.91 |
| Rest of Portfolio | 3.50 |
| Total Daruma | 6.41 |
| Russell 2500 | 3.28 |
| Return Difference | 3.13 |

**Year to Date**

| | Contribution (%) |
|---|---|
| Best | 2.61 |
| Worst | -5.62 |
| Best Minus Worst | -3.01 |
| Rest of Portfolio | -1.81 |
| Total Daruma | -4.82 |
| Russell 2500 | -2.90 |
| Return Difference | -1.92 |

### Return by Sector for the Fourth Quarter (%)

| *Sector* | *Daruma* | *R2500* | *Variation* |
|---|---|---|---|
| Energy | 9.08 | -7.01 | 16.09 |
| Health Care | 23.62 | 7.81 | 15.81 |
| Consumer Discretionary | 5.86 | -1.16 | 7.02 |
| Materials & Processing | 7.00 | 4.83 | 2.17 |
| Producer Durables | 5.01 | 3.17 | 1.84 |
| Financial Services | -0.79 | 3.82 | -4.61 |
| Utilities | 0.00 | 5.34 | -5.34 |
| Technology | -2.33 | 5.02 | -7.35 |
| Consumer Staples | -10.30 | 2.45 | -12.75 |

### Contribution by Sector for the Fourth Quarter (%)

| *Sector* | *Daruma* | *R2500* | *Variation* |
|---|---|---|---|
| Health Care | 3.70 | 0.89 | 2.81 |
| Consumer Discretionary | 0.92 | -0.15 | 1.07 |
| Producer Durables | 1.11 | 0.44 | 0.67 |
| Energy | 0.43 | -0.18 | 0.61 |
| Materials & Processing | 0.83 | 0.37 | 0.46 |
| Utilities | 0.00 | 0.29 | -0.29 |
| Consumer Staples | -0.29 | 0.07 | -0.36 |
| Technology | -0.29 | 0.53 | -0.82 |
| Financial Services | 0.00 | 1.02 | -1.02 |
| **Total** | **6.41** | **3.28** | **3.13** |

*Source: FactSet*

### Fourth Quarter top three detractors

| *Ticker* | *Company* | *Description* | *Contribution (%)* |
|---|---|---|---|
| PVH | PVH Corp. | global branded apparel | -0.87 |
| DGI | DigitalGlobe | satellite imagery & analysis | -0.47 |
| STNG | Scorpio Tankers | refined petroleum transportation | -0.33 |
| | | Total | -1.67% |

The strong U.S. dollar also meant reduced tourist spending in the U.S. stores, and hurt foreign exchange translation on almost half of PVH revenue.

DigitalGlobe sold off on a weaker than expected third quarter report. Commercial revenues fell short, and the company is restructuring to go to market more cost effectively. Investors are also concerned that DGI will lose market share to small satellites -- fears we believe are overblown.

Despite a good third quarter report, Scorpio Tankers stock was dragged down along with other energy stocks. Spot rates for refined petroleum product tankers are strong, and STNG's cash flows are rising, but investors didn't bother to make the distinction.

Flowers Foods clarified guidance post acquisitions and disappointed investors who expected the timing of synergies to be more immediate.

We met our goal of keeping losers small and letting our winners run. The rest of the portfolio generated 350 bps, beating the Index, a sign of performance quality.

### Fourth Quarter Portfolio Changes

We bought one new stock, New York Community Bancorp (NYCB), a leading producer of multifamily real estate loans in New York City for more than 40 years. NYCB has a history of highly efficient operations and is considered to have superb integration skills, having made 11 successful acquisitions since 2000. We expect that a merger with Astoria Financial Group, scheduled for completion in Q4 2016, will be the gateway to a new period of growth and expansion by acquisition.

We sold baked goods producer/distributor Flowers Foods after a handful of lawsuits became more than a nuisance but a real distraction to management.

We let managed care services provider Wellcare (WCG) go as price targets were hit and expected future growth is moderating.

## 2015 Annual Performance Review

We lagged the Russell 2500 by 192 bps, closing out the year down 4.82%.

It was a challenging year, which started off badly. The first quarter was hit hard, with a single stock costing us 216 bps -- by no means an everyday occurrence. We bottomed on a relative basis in July, when we trailed by 675 bps, but we substantially made up that ground over the back half of the year.

We trailed slightly in the second and third quarters but the portfolio started to behave a lot better relatively when the market regime shifted late in the summer.

### Performance Highlights for the year

Our sizing skill (contribution of our adds and trims) was our best in 5 years, turning positive after 3 consecutive negative years.* Better short-term blocking and tackling are the building blocks for long-term performance.

One notable example of the benefits of knowing our companies well: Pacira Pharmaceuticals was down 15% for 2015, yet was a *positive* contributor of 80 basis points for the year. Our adds and trims generating performance in such a volatile stock confirms our better execution this year.

In addition, our sell discipline once again contributed to performance and was the best in 5 years - and has been positive for two years running.*

We weathered the period of underperformance by sticking to our discipline, remaining focused, and not compromising our investment process.

### Our Best Stocks in 2015

| *Ticker* | *Company* | *Description* | *Contribution (%)* |
|---|---|---|---|
| OC | Owens Corning | building materials | 0.98 |
| BRKR | Bruker Corporation | life sciences equipment | 0.83 |
| PCRX | Pacira Pharmaceuticals | specialty pharmaceuticals | 0.80 |
| | | | Total 2.61% |

Owens Corning demonstrated the tremendous earnings potential it can achieve when all three business segments are performing. Bruker's third quarter results showed that the company's long awaited turnaround was on track; margins improved significantly and revenues grew nicely.

Pacira announced a very favorable resolution of its dispute with the FDA, a re-acceleration of sales in the third quarter results of its post-surgical pain drug Exparel, and positive comments about the fourth quarter trends sent the stock up at the end of the year.

Despite the healthy contribution of our winners, our biggest detractors cost us more, a total of 562 bps.

### Return by Sector for 2015 (%)

| *Sector* | *Daruma* | *R2500* | *Variation* |
|---|---|---|---|
| Producer Durables | 6.15 | -9.30 | 15.45 |
| Energy | -30.46 | -39.23 | 8.77 |
| Health Care | 11.35 | 9.41 | 1.94 |
| Utilities | 0.00 | -1.42 | 1.42 |
| Materials & Processing | -8.18 | -8.78 | 0.60 |
| Consumer Staples | -4.41 | -0.74 | -3.67 |
| Technology | -8.69 | -0.71 | -7.98 |
| Consumer Discretionary | -15.51 | -5.31 | -10.20 |
| Financial Services | -13.11 | 3.16 | -16.27 |

### Contribution by Sector for 2015 (%)

| *Sector* | *Daruma* | *R2500* | *Variation* |
|---|---|---|---|
| Producer Durables | 1.29 | -1.31 | 2.60 |
| Health Care | 1.74 | 1.02 | 0.72 |
| Energy | -1.40 | -1.72 | 0.32 |
| Utilities | 0.00 | -0.03 | 0.03 |
| Consumer Staples | -0.16 | -0.04 | -0.12 |
| Materials & Processing | -1.18 | -0.68 | -0.50 |
| Financial Services | -0.40 | 0.76 | -1.16 |
| Technology | -1.38 | 0.00 | -1.38 |
| Consumer Discretionary | -3.33 | -0.90 | -2.43 |
| **Total** | -4.82 | -2.90 | -1.92 |

*Source: FactSet*

** Source: Cabot Research*

## Our Worst Stocks in 2015

| Ticker | Company | Description | Contribution (%) |
|---|---|---|---|
| LL | Lumber Liquidators | hardwood flooring retailer | -2.16 |
| DGI | DigitalGlobe | satellite imagery & analysis | -1.91 |
| PVH | PVH Corp. | global branded apparel | -1.55 |
| | | Total | -5.62% |

Lumber Liquidators was hit hard after a 60 Minutes episode aired questioning the safety of its products, which subsequently hurt sales. DigitalGlobe's sales have been disappointing all year, resulting in lower guidance. PVH started selling off late in Q3 due to several headwinds impacting the whole retail space.

The rest of the portfolio beat the Index, down 181 bps. vs. 290 bps. For most of the year, the portfolio struggled to beat the Index, so we are encouraged by this reversal.

## 2015 Portfolio Changes

We bought six new positions in the year, and sold nine, one of which was acquired by another company.

While it is typical for our holdings turnover to decline late in a market cycle, we remain committed to increasing the flow of new ideas, which is the lifeblood of our investment process. Our speed to closure has increased and the size of our idea funnel has widened, both of which are promising leading indicators.

## Market Outlook

A high-growth, narrow, momentum market has morphed into one becoming increasingly buffeted by macro factors. Emerging markets weakness, geopolitical uncertainty, rising U.S. interest rates as well as a rising dollar are causing investors to rotate to more defensive industries and sectors. Absolute valuations still remain expensive, but smid-caps look very cheap relative to large-caps, the cheapest they have looked since the tech bubble.

Though relatively more attractive, smid-caps will be hurt more should investors aggressively adopt a "risk off" stance. Defensive groups are currently among the market's most expensive. When REITs, which we do not invest in, and other defensive and income producing industries like Utilities do well, we historically have had a tendency to lag.

We exit the year with lots of dry powder for new ideas, and plan to take advantage of market dislocations to get the portfolio further invested. Bad markets give us great opportunities to buy good businesses at great prices, and we relish the opportunity to do so.

# Noteworthy Positions

## Our Best Three Contributors

| Company | Quarter End Position Size | Contribution |
|---|---|---|
| Pacira Pharmaceuticals | 4.0% | 2.22% |
| Bruker Corp. | 4.0% | 1.45% |
| Francesca's Holdings | 3.1% | 0.91% |
| **Total of Best Three** | | **4.58%** |

**Pacira Pharmaceuticals** (PCRX) - specialty pharmaceuticals
Pacira stock had a wild ride in 2015. The first three quarters of 2015 seemed to be filled with negative catalysts. Among the negative catalysts were: the impact of regulatory headwinds (an FDA Warning Letter issued in September 2014 caused Pacira to change how it marketed its drug Exparel), pushback from hospital pharmacists who were trying to reduce their hospital's drug spend, and the "tweet heard round the [healthcare] world" (Hillary Clinton's tweet about pharma price gouging).

**Bruker Corp.** (BRKR) - life sciences equipment
Bruker reported third quarter results that showed the company's turnaround is progressing on schedule. Margins continue to improve, based partly on a successful restructuring program, and partly on greater sales growth of higher margin products. Bruker is also seeing solid demand for its nuclear magnetic resonance (NMR) product line, orders for which should benefit revenue growth beginning in 2016. Bruker stock, as well as life sciences peers stocks, also got a boost in late December, when President Obama signed into law a bill that would increase the National Institutes of Health's budget by around 6%, after years of no increases. Roughly half of Bruker's sales are into government and academic customers, and so the increase in funding to NIH should provide some benefit to Bruker over the coming year or two.

**Francesca's Holdings** (FRAN) - apparel & accessories retailer
Investors are getting the feeling the fix is in at Francesca's. During the beginning of the quarter, Francesca's announced two long awaited critical hires, first the Chief Merchandising Officer and second the Senior VP Direct-to-Consumer & Marketing. In the middle of the quarter, FRAN announced favorable financial results, most notably positive comparable sales and an increase to its full year guidance. The final piece of the fix was FRAN's merchandising mix; early data indicates FRAN outperformed expectations during the 2015 holiday season. In our opinion FRAN has room to continue improving, the stock price will benefit from sequential positive comps, on target merchandising, and the build out of the company's online platform.

## Our Worst Three Detractors

| Company | Quarter End Position Size | Contribution |
|---|---|---|
| PVH Corp. | 2.5% | -0.87% |
| DigitalGlobe | 3.0% | -0.47% |
| Scorpio Tankers | 3.0% | -0.33% |
| **Total of Worst Three** | | **-1.67%** |

**PVH Corp.** (PVH) - global branded apparel
PVH had been exposed to several headwinds in the retail environment this quarter. The exceptionally warm weather and the general weak US consumer patterns resulted in reduced traffic in malls and retail locations. Additionally, the strong US dollar negatively impacted the number of tourists visiting the stores in locations geared for tourists. The strong dollar also exacerbated the foreign-exchange impact on almost half of PVH revenues, which are gained internationally. Though these headwinds will likely continue into Q1, we believe the company is undervalued considering the fundamental operational improvements management had gained in the Tommy Hilfiger and Calvin Klein brands.

**DigitalGlobe** (DGI) - satellite imagery & analysis
DigitalGlobe reported weaker than expected results for the third quarter, lowered its full year guidance, and announced modifications to its operating strategy. Financial results continue to be impacted by weakness in DGI's commercial business – internet mapping companies have yet to buy DGI's latest products, and energy companies have decreased their spending. Management reduced full year guidance after determining approximately $45M in revenues was not going to come in this year. DGI is restructuring its operating segments, cutting costs, and changing the focus of its product offerings – based upon our research these changes make a lot of sense. Although the quarter was characterized by investors as a "tough" one, we note the bulk of DGI's revenues remain tied to contractual government spending and the company earned greater than 50% EBITDA margin. DGI has been unable to meet customer demand for imaging because of its government contracts – the other side of the sword. During 2016 DGI will launch a new satellite, WorldView4, which should lead to increased revenues and free cash flows. We continue to believe DGI offers a tremendous risk-reward scenario.

**Scorpio Tankers** (STNG) - refined petroleum transportation
Scorpio Tankers reported a reasonably good third quarter, and provided fourth quarter guidance that was just slightly below street expectations. Fundamentals for product tankers and STNG specifically remain favorable: spot rates are generally strong, and STNG's cash flows are rising. But as we have seen, STNG's stock price is affected by negative sentiment of oil prices and the energy sector rather than by product tanker fundamentals. So we attribute STNG stock's weakness in the fourth quarter to weakness in oil prices and the energy sector generally. STNG stock was down 11% in the quarter, versus WTI crude down 18% and the energy sector down 7%.

# Noteworthy Positions

## Our Best Three Contributors

| Company | Year End Position Size | Contribution |
|---|---|---|
| Owens Corning | 3.7% | 0.98% |
| Bruker Corp | 4.0% | 0.83% |
| Pacira Pharmaceuticals | 4.0% | 0.80% |
| **Total of Best Three** | | 2.61% |

**Owens Corning** (OC) - building materials manufacturer
Owens Corning began to show not only stability in each business segment, but also the tremendous earnings power when all three segments are producing. OC has taken share in Composites, offsetting a slowdown in global industrial production, and we expect this to continue in 2016. In the Insulation segment, mothballed insulation factories have kept existing utilization rates high, allowing OC to see price improvement. Lastly, with Roofing, competitive pricing appears more rational than a year ago and OC has significantly benefitted from asphalt deflation. OC is poised to build on these trends and deliver even higher free cash flow next year.

**Bruker Corp.** (BRKR) - life sciences equipment manufacturer
The knock on Bruker was that it is a publicly owned business that has been run like a family owned business (margins are well below peers). In 2012, Bruker hired CFO Charlie Wagner, a well-respected turnaround specialist. The next two years saw the Bruker turnaround happen in fits and starts. We believe that operational improvements were being made, and underlying margins were improving, but were masked by currency headwinds and the lack of organic revenue growth. When Mr. Wagner announced he was resigning to join a private company led by a CEO he worked with in the past, the street proclaimed the turnaround story dead and dumped the stock. We held on because of the turnaround strategy that was already in place and being led by line managers. Bruker's strong third quarter confirmed our optimism: margins were up, and sales growth accelerated. Bruker is also seeing solid demand for its nuclear magnetic resonance (NMR) product line, orders for which should benefit revenue growth beginning in 2016. Bruker also got a boost in late December, when the National Institutes of Health's budget was boosted by ~6% after years of no increases. Roughly half of its sales are to government and academic customers, so the increase in NIH funding helps Bruker over the coming year or two.

**Pacira Pharmaceuticals** (PCRX) - specialty pharmaceutical company
Pacira started the year at $89, peaked at $120 in February, bottomed around $37 in October (we added around $40), then bounced back and ended the year at $77. While the stock price is down 15% for the year, it was a positive contributor, given our timely adds and trims. The stock's decline during the first half of the year was driven by a deceleration in revenue growth, primarily due to regulatory headwinds (an FDA Warning Letter issued in September 2014) and pushback from budget conscious hospital pharmacists. The third quarter's sell off was caused primarily by anti-pharma campaign rhetoric. We felt the decline was way overdone, given several imminent positive catalysts. First, Pacira, confident in the data, took the highly unusual step of suing the FDA over the Warning Letter. Second, our checks suggested that sales of Exparel had turned the corner. Indeed, third quarter results and commentary about the fourth quarter were positive, sending the stock up. Then, on December 15, a very favorable resolution with the FDA hit the tape and boosted the stock further.

## Our Worst Three Detractors

| Company | Year End Position Size | Contribution |
|---|---|---|
| Lumber Liquidators | 0.0% | -2.16% |
| DigitalGlobe | 3.0% | -1.91% |
| PVH Corp. | 2.5% | -1.55% |
| **Total of Worst Three** | | -5.62% |

**Lumber Liquidators** (LL) - hardwood flooring retailer
Lumber Liquidators, a position we sold in Q1, remained the largest drag on performance this year. While our sale was a good one (the stock is ~50% lower than where we sold it), the position unfortunately experienced a sharp sell off due to a 60 Minutes segment concerning product safety issues on laminate flooring products imported from China. While we believed LL management was not one to cut corners to boost profits, it did not matter as brand damage and store traffic were negatively affected. Short interest doubled since the start of the year as hedge funds pounded the stock, smelling blood in the water. The loss for us was one we did not take lightly, since 2002 only 2 stocks have detracted more (one in 2011 and one in 2002), if we exclude 2008 given that year's extreme 30%+ market meltdown.

**DigitalGlobe** (DGI) - satellite imagery & analysis provider
In 2015 investors lost confidence in the growth of both of DGI's business segments: the U.S. government division and private enterprise. The head of the National Geospatial-Intelligence Agency (NGA) spoke of large constellations of small satellites "darkening the skies" which the market interpreted (wrongly we believe) as future lost business for DGI. Since then, the NGA has reiterated that it cannot do its job without DGI and we expect continued annual contract renewals through 2020, and a new multi-year master contract to be announced well before then. The commercial stream was weak for three reasons: 1) internet mapping companies did not pay up for newly available higher resolution images; 2) low commodity prices hurt miners and drillers (who use DGI images to prospect); and 3) satellite capacity was not available to earn commercial revenues. Under the current contract the U.S. has preemptory rights to DGI capacity. A new satellite in 2016 will give DGI more capacity to address this market.

**PVH Corp.** (PVH) - global branded apparel retailer
Over the first three quarters of the year, PVH had been in the process of brand restructuring for its major brands: Tommy Hilfiger and Calvin Klein. Both brands were seeing gains internationally, and the company was executing well on its strategy of re-acquiring licenses. However, during Q3, PVH had been exposed to several headwinds that had impacted the whole retail space. In the US, the warm weather and strong dollar kept locals and tourists out of malls and stores. Internationally, the gains both brands had made were obscured by foreign-exchange headwinds, as the company reported revenues in the stronger US dollar. While these headwinds will likely persist into Q1, we believe PVH is undervalued considering its performance relative to peers and its ability to generate substantial free cash flow.

*Fourth Quarter 2015*

# Snapshot of the SMid-Cap Landscape

*Ron Viener*
*Director of Research*

## A Tale of Two Cities

Choppy market conditions in the fourth quarter created a mixed bag of decile returns. Clearly it was a stock picker's market, as no broad themes emerged.

By year-end, investors punished high beta and heavily shorted stocks, mostly biotech and pharmaceutical companies. This was a stunning reversal for those biotech and pharmaceutical companies that were the market darlings in the first half of 2015.

Other areas investors shunned included popular, broken, or income generating stocks. Over-owned stocks and those with high dividend yields, mainly REITs, remained out of favor throughout 2015, showing some of the weakest decile readings. The weakest stocks in 2014, especially those in the energy sector, continued to get pounded all year.

Among the best performers were low beta stocks (largely in financial services) which generated strong steady returns throughout the year.

### Russell 2500 Performance (%) of Attributes by Decile

In these charts, the Russell 2500 is sorted into deciles of performance according to different characteristics, some fundamental and some sentiment-based. The percentage in each box is the performance of that attribute (e.g. beta) for that decile.

**Fourth Quarter**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Market Cap* Largest to smallest | 7.4 | 3.3 | 6.3 | 3.6 | 7.6 | 4.1 | 5.9 | 8.0 | 1.6 | -13.1 |
| *P/E Ratio* Lowest to highest[1] | -4.5 | -0.6 | 2.8 | 4.0 | 5.8 | 8.3 | 8.1 | 6.0 | - | 3.4 |
| *Dividend Yield* Highest to lowest[2] | -2.4 | 4.2 | 3.7 | 4.8 | 7.4 | - | - | - | - | 3.8 |
| *Short Interest* Lowest to highest | 6.9 | 4.8 | 4.1 | 5.9 | 4.2 | 0.7 | 2.7 | 3.1 | 3.8 | -1.2 |
| *Beta* Lowest to highest | 4.8 | 3.2 | 4.4 | 4.5 | 3.1 | 3.1 | 3.3 | 3.0 | 5.4 | 0.1 |
| *Sales Growth* Best to worst | 3.9 | 5.5 | 7.4 | 5.8 | 3.5 | 2.9 | 1.9 | 2.9 | -1.2 | -0.4 |
| *Analyst Ratings* Best to worst | 5.7 | 5.4 | 4.9 | 5.5 | 2.4 | -0.2 | 2.7 | 0.9 | 4.0 | 2.6 |
| *Institutional Ownership* Most to least[3] | 1.7 | 2.0 | 4.5 | 4.1 | 3.6 | 4.9 | 3.1 | 5.5 | 2.4 | 3.3 |
| *% Change in 2014* Best to worst[4] | 4.1 | 4.3 | 5.7 | 5.4 | 4.3 | 3.4 | 1.1 | 5.0 | -5.7 | - |

**2015**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Market Cap* Largest to smallest | 14.7 | 2.0 | 2.6 | -3.9 | 6.9 | -2.8 | -2.7 | -8.4 | -10.4 | -36.6 |
| *P/E Ratio* Lowest to highest[1] | -21.2 | -6.8 | 2.2 | -1.2 | 4.4 | 8.3 | 2.8 | -2.0 | - | -9.4 |
| *Dividend Yield* Highest to lowest[2] | -20.5 | -1.9 | 1.1 | 4.3 | 9.9 | - | - | - | - | -4.8 |
| *Short Interest* Lowest to highest | 5.1 | 1.4 | 1.6 | 1.5 | 0.4 | -3.5 | -4.5 | -8.1 | -13.4 | -18.2 |
| *Beta* Lowest to highest | 8.7 | 7.8 | 8.1 | 3.9 | 1.8 | -4.5 | -3.8 | -11.9 | -14.5 | -31.7 |
| *Sales Growth* Best to worst | 7.2 | 8.2 | 7.1 | 4.8 | -0.6 | -3.8 | -9.7 | -15.0 | -26.5 | -30.4 |
| *Analyst Ratings* Best to worst | 5.1 | 7.3 | 0.9 | 1.1 | -2.1 | -14.3 | -7.4 | -13.2 | -7.8 | -17.7 |
| *Institutional Ownership* Most to least[3] | -14.8 | -3.9 | -1.6 | -2.9 | -1.8 | -0.5 | -5.2 | -1.6 | -3.3 | -0.7 |
| *% Change in 2014* Best to worst[4] | -2.2 | -0.9 | 0.2 | 3.1 | 0.2 | -3.5 | -8.8 | -11.1 | -20.4 | - |

The red circle indicates the worst-performing decile for the category.

The green circle indicates the best-performing decile for the category.

1. Decile 10 of P/E Ratio category is made up of all stocks that have no P/E.

2. Decile 10 of Dividend Yield category is made up of all stocks that pay no dividend.

3. Institutional Ownership may be over or under stated due to timing of filings.

4. Decile 10 of % Change in 2014 is made up of stocks with no complete 2014 performance.

*Sources: CornerStone Macro & Daruma Capital Management*

# General Disclosures

It should be noted that this commentary should not be construed as an offer or a solicitation of an offer to buy interests/shares in any investment fund managed by Daruma. Any such offer will be made only to qualified investors by means of a confidential Private Offering Memorandum and other operative documents, and only in those jurisdictions where permitted by law. Neither the Securities and Exchange Commission nor any U.S. State or international securities regulator has passed on or endorsed the merits of any such offerings of these securities, nor is it intended that they will. Any representation to the contrary is a criminal offense. The firm does not offer or provide tax or legal advice. Individuals are urged to consult with their own tax or legal advisers before entering into any advisory contract.

Past performance is not a guarantee of future results. Many factors affect performance, including changes in market conditions and interest rates, as well as other economic, political and financial developments. Performance for 2015 is not yet audited and subject to change upon audit. You should not assume that investment decisions we make in the future will be profitable or will equal the investment performance of the past.

The portfolio is actively managed, so holdings, sector weightings and other portfolio characteristics may have changed since the date shown. They should not be considered recommendations to buy or sell any security or of a particular allocation. You should not presume that any holding or allocation shown has been or will be profitable. A list of the Top Ten holdings as of 09/30/15 is available on our website at http://www.darumanyc.com/portfolio/smid-cap/.

The appropriate comparison benchmark for the SMid-Cap Equity strategy is the Russell 2500. The Russell 2500 includes approximately 2500 of the smallest U.S. common stocks based on a combination of their market cap and current membership in the Russell 3000. The Russell 2500 Value Index includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values, while the Russell 2500 Growth Index includes those with higher price-to-value ratios and higher forecasted growth values.

The SMid-Cap Equity strategy is a concentrated strategy that is not managed to a benchmark, so there are material differences in characteristics, such as the number of holdings and sector and industry weightings. In addition, benchmark performance does not include any fees or expenses. Because of these differences, benchmarks should not be considered a completely accurate comparison.

Several charts are included in the book to demonstrate certain information or conclusions. You should not make any investment decision relying only on these charts.

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