July 2008

IronBridge Capital Management, L.P.
Second Quarter 2008 Small Cap Core Review

Dear Fellow Investor,

Stock prices tried to recover during the second quarter of 2008. The Russell 2000®[1] Index increased 0.58% while our Small Cap Core product increased over 4%[2] (gross of fees) during the quarter. The quarter was punctuated with high volatility, which we expected. The second quarter roared out of the gates with a gain of approximately 13% during April and May with first quarter earnings much more robust than investors had feared. Additionally, many investors were comforted by the assurance of Ben Bernanke and Hank Paulson that the "worst is over" for the credit crisis. However, in June, more warnings about additional bank writeoffs, the need for more capital infusions, rumors about the financial viability of Lehman, fears that second quarter earnings would not be strong enough to sustain market levels and the specter of rising inflation combined with lower economic growth sent stocks down, making it the worst June performance since 1930. The Russell 2000 Index returned -7.70% for the month of June. Given such volatility, it is easy for investors to get whipsawed. We are very pleased to have posted a gain for our clients this quarter.

It is likely that high volatility is here to stay for a while as the self-correcting mechanism of capitalism continues to weed out poor allocators of capital while politicians and sovereign wealth funds (SWF) step in to save them. The great unwinding of financial "sinnovation" is upon us, and with it comes increases in market volatility, likely changes to the structure of many markets, but also long-term opportunity for those who understand the importance of proper capital allocation, wealth creation, and valuation.

Second Quarter Performance Attribution

During the second quarter of 2008, the performance of the Small Cap Core product increased over 4% compared to 0.58% for the Russell 2000 Index. Stock selection drove virtually all of the excess return. Stock selection was particularly strong among our Health Care, Industrials, Information Technology, Financials, and Consumer Staples names, but weaker

[1] Russell 2000® Index is either a registered trademark or tradename of Russell Investment Group in the U.S. and/or other countries. Indexes are unmanaged and cannot be invested in directly.
[2] Return is gross of fees. Past performance does not guarantee future results. Returns reflect reinvestment of dividends, gains, and other earnings.

One Parkview Plaza | Suite 600 | Oakbrook Terrace, Illinois 60181 | 630.684.8300 | Fax: 630.684.8301

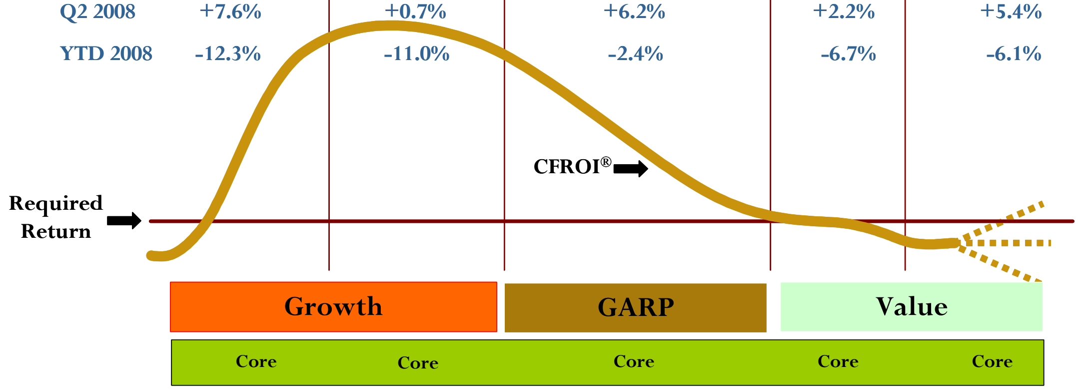
among our Energy, Materials, and Consumer Discretionary holdings. The sector allocation's contribution to relative performance was approximately 40 basis points and derived mostly from our modest underweights in Financials and Consumer Staples sectors.

What is truly remarkable about this quarter is the more than 40% gain in the Energy component of the Russell 2000 Index compared to the nearly 13% decline in the Financials component! Portfolio managers who make sector bets will find themselves either "heroes" or "chumps." If a manager did not own any Energy names, it must have been virtually impossible to outperform. It is quarters like this that highlight the importance of managing macro-economic risks within portfolio construction. The IronBridge "dual diversification" approach to portfolio construction continues to serve our clients well by neutralizing macro-economic bets while forcing excess return from stock selection. This is critical to helping us achieve our goal of consistently outperforming for our clients.

From a Life Cycle perspective, Rockets bounced back, increasing 7.6%. Note that all of the Life Cycle classes for constituents of the Russell 2000 Index were positive for the second quarter, which seems counterintuitive. However, Financials, which were down -12.9%, are not included in the Life Cycle classification schematic due to their unique asset base and cash flow characteristics.

Life Cycle Returns – Russell 2000® Constituents by Life Cycle

	Rockets Early Stage Growth	Golden Goodies High Growth	Falling Angels Slowing/Maturing Business	Corks Mature Business	Turn Arounds Distressed Business
2006	+3.9%	+14.8%	+15.0%	+24.3%	+29.7%
2007	+13.1%	+6.2%	+7.5%	+0.2%	-9.2%
Q1 2008	-18.5%	-11.6%	-8.2%	-8.8%	-10.9%
Q2 2008	+7.6%	+0.7%	+6.2%	+2.2%	+5.4%
YTD 2008	-12.3%	-11.0%	-2.4%	-6.7%	-6.1%



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Source: IronBridge Capital Management, L.P.

What Next?

Unfortunately, we do not know what is next to come. We do not know how far or how deep the credit/housing crisis will cut into global economic growth. We do not know how regulators will change the rules of finance for the banking system. We do not know if the recent spike in inflation is the beginning of a more serious problem that might require Volker-type discipline to tame, or if it is a temporary phenomenon likely to dissipate. We do not know if the massive deleveraging of the financial system will bring about a nasty case of "Japan-style" persistent asset price deflation. We do not know how international governments will cope with double digit inflation brought on by U.S. dollar-based currency peg policies. Both U.S. presidential candidates are campaigning with the "Change" theme, but we do not know what they want to change to. We do not know which is more likely over the next 12 months – oil prices moving up to $250 a barrel or down to $80 per barrel.

Our "don't know" approach has served us well over the years because it drives our risk control process of dual diversification and, thereby, reduces style and factor bets. For example, when oil jumped from $20 to $40, we did not know whether to expect it to drop back to $20 or to keep heading higher, so we neutralized the portfolio to unpredictable moves in oil prices by making sure we owned what we considered to be the best-managed oil companies with the most attractive risk/reward profiles within our investable universe. Yes, the portfolio has benefited from the increase in the price of oil over the past several years, but, more importantly, stock selection within the energy sector has added approximately 270 basis points over the last three years.

What we do know is that the roots of the current market turmoil are planted in a widespread fundamental misunderstanding of how markets function and their proper role in society by investors, regulators, and politicians. Markets are trying to teach them. Hopefully, they will learn. We also know that, over the long term, the market rewards good stewards of capital and punishes poor stewards of capital in the form of wealth creation or destruction. Our job is to invest your money with companies whose managements demonstrate good stewardship of capital through following the appropriate wealth-creation strategies, where legitimate wealth creation is likely to persist over the long term.

We know that "the great unwind" creates headwinds for markets to make progress in the near term, but it creates opportunities for skilled allocators of capital, who manage for the long term. Consider, for example, that several of our companies are skilled acquirers and create wealth by purchasing less efficiently run businesses and add value by employing superior business processes and extracting synergies. Kaydon Corporation and IDEX Corporation are two companies in the portfolio that we consider to be skilled acquirers. For the last five years, they have had to walk away from many opportunities because they had to compete with private equity firms, who were willing to outbid them because private equity had a lower cost of capital due to tax advantaged structures and access to a capital markets that disregarded risk due to flawed risk models. However, today's environment is more positive for skilled acquirers because deal prices are much more rational as private equity has lost some of its advantage due to the repricing of risk. They (private equity) scramble to exit from commitments and have to deal with several problems in their portfolios.

Now, consider Cullen/Frost Bankers Incorporated, which refused to get caught up in financial “sinnovation” and maintained a relatively pristine credit portfolio. A year ago, even if you lent to credit worthy customers, it was harder to make money lending with paper-thin spreads. Today, as credit spreads have widened, lending is more profitable. Additionally, banks that have done a superior job of managing credit risk have less competition. Their less-creditworthy competitors are busy cleaning up a big mess in their loan portfolio and, therefore, have significantly reduced lending. The point is that skilled allocators of capital can prosper even (perhaps especially) in challenging times, and market volatility allows investors to own these companies at very attractive entry points.

Outlook

I can not recall a macro environment this challenging in a long time. The market is teetering on official “bear market” status as the cleansing process wipes out poor allocators of capital and drags even good stewards of capital down into the vortex. It is clear that financial innovation, which has driven twenty years of increased leverage to the international banking system and brought with it a massive liquidity expansion, has hit a wall due to flaws in risk models exposed by the current sub-prime meltdown. Debt securitization and the agency model is sick and most likely will require new “rules” or even a return to a principal lending model again. So, many of the forces that have been driving profitability upward are reversing, or at risk of reversing, and the requirement to de-leverage is causing market instability. Positive absolute returns could remain challenging in the near term. Times like these require discipline to avoid getting “whipsawed.”

We expect more volatility. We believe volatility will present opportunities to make good investments for the long term. Eventually, the markets will sort out misallocations of capital, and, when the cleansing process is complete, the stage will be set for a new era of wealth creation fueled by the benefits of globalization and expansive adoption of free markets around the world. Skilled allocators of capital will be in the best position to benefit from the turn. Additionally, risk appears to be more realistically priced today, removing one of our concerns regarding market valuations and improving the long-term profitability picture for skilled allocators of capital like Kaydon and Cullen/Frost. This is a great time to be investing for the long term, but we are keeping near-term expectations realistic while also recognizing that timing the market is impossible. It is likely that the market will begin pricing the new era of wealth creation at least six months before there is any evidence of a turn.

Thank you for your continued support.

Kind regards,

Christopher C. Faber
IronBridge Capital Management, L.P.

Small Cap Core Equity Composite

April 30, 1999 to December 31, 2007 — Assets & Returns in USD

Year	IronBridge Gross Return %	IronBridge Net Return %	Russell 2000® Return %	Number of Portfolios at End of Year	Composite Dispersion	Total Firm Assets End of Period $ Millions	Total Assets in Composite $ Millions
1999	19.50	18.70	17.67	<5	NA	7.9	4.9
2000	15.19	14.03	-3.02	<5	NA	16.0	11.8
2001	18.79	17.63	2.49	<5	NA	24.6	20.8
2002	-11.87	12.77	-20.48	<5	NA	61.0	50.6
2003	48.29	46.85	47.25	<5	NA	521.3	233.6
2004	19.84	18.68	18.33	22	0.36	1,878.0	1,112.2
2005	4.35	3.34	4.55	28	0.54	2,692.9	1,343.4
2006	16.36	15.22	18.37	25	0.35	3,696.4	1,221.9
2007	10.78	9.68	-1.57	24	0.48	4,429.0	1,169.6

IronBridge Capital Management, L.P. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

1 IronBridge Capital Management, L.P. is a dedicated equity manager, and an independent investment management firm that is not affiliated with any parent organization.

2 The benchmark is the Russell 2000. The annualized composite return since inception is 15.32% before management fees; 14.18% after fees; and the annualized benchmark return is 8.16%.

3 The composite includes all small cap portfolios, invested in companies with relatively small market capitalizations (i.e., generally under $2.5 billion), with both growth and value attributes. The composite excludes portfolios under $5 million, and portfolios that are tax-sensitive or have client-driven restrictions. The composite was created on March 31, 2002.

4 The inception date of the composite is April 30, 1999. The returns for 1999 for the composite and benchmark include May 1 through December 31 and are not annualized.

5 The standard management fee is 1.00% of assets. Net returns are computed by compounding monthly.

6 Gross of fees returns are presented after trading expenses, but before all other fees.

7 IronBridge uses equal-weighted standard deviation as the dispersion measure.

8 Accounts are removed from the composite when significant cash flows occur, for the month of the flow and the month after. Significant cash flows are defined as 50% or more of the account value. Prior to 2007, significant cash flows were defined as "50% of the account value or $15 million or other amounts IronBridge believes will materially affect performance." The change was made in order to ensure consistency in the application of the cash flow rules. Additional information regarding our cash flow policy is available upon request.

9 Derivative use within the composite is minimal and deemed immaterial.

10 A complete list and description of all IronBridge composites is available upon request.

11 Additional information regarding policies for calculating and reporting returns is available upon request.