



July 2009

***IronBridge Capital Management, L.P.
Second Quarter 2009 Small Cap Core Review***

Dear Fellow Investor,

Stocks surged in the second quarter. The Russell 2000^{®1} Index increased 20.69%, which is the largest quarterly increase in over a decade. IronBridge's Small Cap Core Equity Composite² increased 21.80% net of fees³ in the second quarter, outperforming the benchmark.

What caused stocks to surge? More than likely, the sharp rebound was a combination of better than expected earnings associated with massive corporate cost cutting efforts and a "quantitative easing" that began on March 9, 2009. Since that date, the Russell 2000 Index is up 49%. Quantitative easing entails a forced increase in the money supply, which is aimed at offsetting powerful deflationary forces and freeing up credit markets. So far, the quantitative easing is having its intended effect of offsetting powerful deflationary forces as the asset prices of everything from corn to oil to stocks have stopped falling and significantly increased. However, the key asset price that needs to stabilize in order for the economy to stabilize is the price of housing. We believe that quantitative easing will continue until house prices stop falling. Recent house price data suggests that we may be getting close.

Second Quarter Performance Attribution

The IronBridge portfolio performed better than the Russell 2000 Index in the second quarter. The excess return is attributed to the fact that stock selection was fairly strong among our Utilities, Financials, Health Care, Industrials, Energy, and Consumer Staples holdings, but weaker among our Information Technology, Consumer Discretionary, and Materials holdings. According to our attribution analysis, the net contribution of our stock selections for the quarter was approximately 200 basis points, while our asset allocations detracted approximately 100 basis points due to cash drag as well as being underweight in the Technology and Consumer Discretionary sectors and overweight the Utilities sector.

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 This Supplemental Information supplements the Small Cap Core Equity Composite presentation (as provided on pg. 12).

³ Net of fees returns are after trading expenses and less our management fee. The standard management fee is 1.00% of assets. Net returns are computed by compounding monthly. Past performance does not guarantee future results. Returns reflect reinvestment of dividends, gains, and other earnings. Returns for periods longer than one year are annualized. Annualized performance figures assume steady compounding, while actual results fluctuated over time.

The approximate 100 basis points of quarterly excess return is consistent with our objective. We are surprised to have achieved this aggressive goal in such a historically unique investment environment. The U.S. Federal Reserve's aggressive quantitative easing strategy is an experiment in monetary policy that this country has never tried before. It is bold in that the Federal Reserve has indicated a willingness to expand its balance sheet by \$3 trillion, thereby releasing \$30 trillion⁴ of liquidity into the economy in the hope of offsetting the debt deflationary forces that were gripping the economy and led to the quantitative easing of March 9, 2009. From a historical perspective, the largest expansion of the Federal Reserve's balance sheet in history was \$100 billion. This takes the "government intervention phase" to a completely new level. It is a game changer.

The Impact of Quantitative Easing at the Individual Stock Level

The strategy of quantitative easing amounts to using a huge monetary sledgehammer to pound down the systemic cost of capital. Rather than allowing the market to determine the cost of capital, the Federal Reserve tries to push the cost of capital to where the Fed wants it to go in order to fix what the Fed assumes is a broken market. There is no question that the Federal Reserve and the Government got what they wanted in the near term. Quantitative easing had the immediate effect of driving a powerful rally in the debt and equity markets. Interest rates fell, capital markets thawed, and consumers began to refinance their mortgages at historically low, long-term mortgage rates.

The idea that the government can manipulate the cost of capital concerns us. Readers of these market commentaries know that we prefer market-based pricing mechanisms, across all markets, in order to optimize resource allocation within the economy. Perhaps quantitative easing is the right near-term solution, as it appears to have had the desired effect of stabilizing asset prices, which is critical for a global banking system as leveraged as the current one. However, at the company-specific level, it changes the relative winners and losers in ways that make it difficult for free market-oriented investors to outperform, at least in the near term.

Who wins and who loses at the company-specific level under this untried and untested monetary experiment of quantitative easing? Apparently, not our stocks; they have been on the losing end. This observation was evident shortly after March 9, 2009, when quantitative easing began. On March 12, we were shocked by the fact that the portfolio had underperformed its benchmark by 200 basis points – three days after quantitative easing began. We always turn to Sam Eddins, our Director of Research, to explain anomalies like this. We asked him to help our investment team understand why we struggled so much, even though we had a solid portfolio of well-managed businesses with attractive risk/reward characteristics. Sam explained that the equity of a highly leveraged, unprofitable firm on the verge of bankruptcy is valued differently from a more traditional business. For a more traditional business, our pricing equation, included on the following page, illustrates that the equity value of a business is the present value of the expected net cash receipts less debt.

⁴ \$3 trillion of capital in the banking system converts into \$30 trillion of lending capacity at current reserve requirements.

Pricing Equation

$$\text{Equity Value} + \text{Debt \& Equivalents} = \text{Enterprise Value} = \frac{\text{CFROI \& Asset Growth}}{\text{Cost of Capital}}$$

This equation works for businesses that meet the “going concern” test. However, for companies on the verge of bankruptcy, where the “going concern” assumption is in question, the equity value does not really represent true intrinsic value, but rather is more representative of a “call option value.” While the option pricing model below looks complicated, it is pretty basic. The most important inputs are current price, strike price, cost of capital, volatility and time.

Black-Scholes Option Pricing Model

$$\text{Call Price} = S_0 N(d_1) - K e^{-rT} N(d_2)$$

$$\text{where } d_1 = \frac{\ln(S_0/K) + (r + \sigma^2/2)T}{\sigma\sqrt{T}}$$

$$d_2 = \frac{\ln(S_0/K) + (r + \sigma^2/2)T}{\sigma\sqrt{T}} = d_1 - \sigma\sqrt{T}$$

and

$$\begin{aligned} S_0 &= \text{Current Price} \\ K &= \text{Strike Price} \\ r &= \text{Cost of Capital} \\ \sigma &= \text{Annual Volatility} \\ T &= \text{Time in Years} \end{aligned}$$

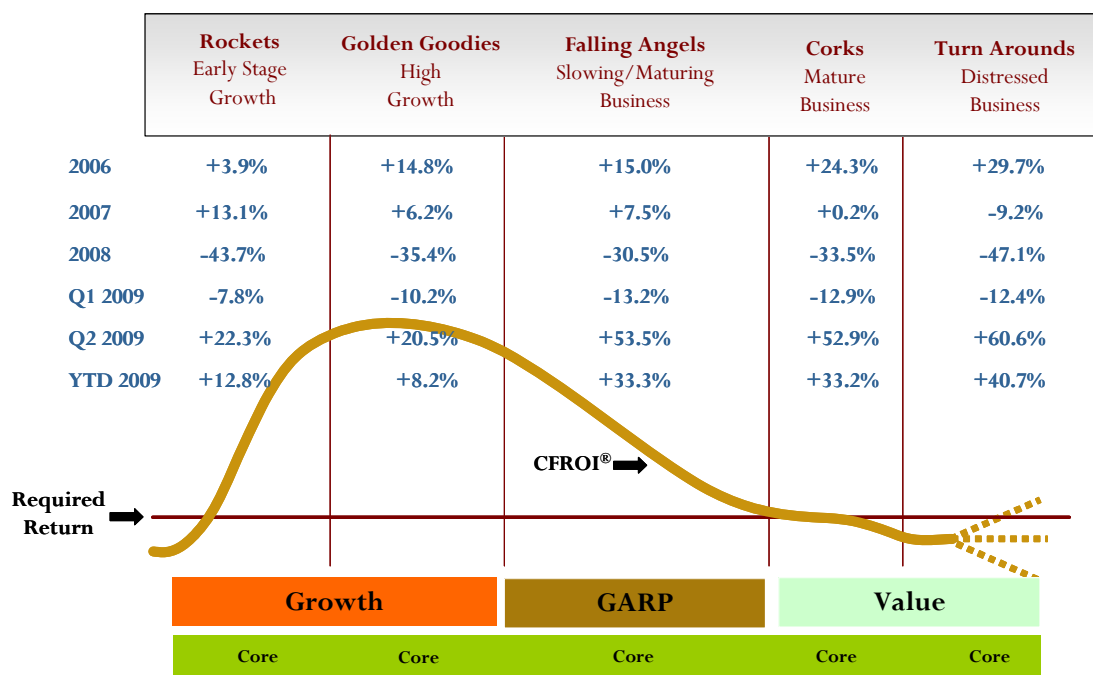
As the financial crisis expanded more deeply into the economy, more companies experienced dramatic declines in valuation due to declines in net cash receipt (CFROI^{®5} & asset growth) forecasts and a higher systemic cost of capital. This meant the number of companies on the verge of bankruptcy, where the “going concern” assumption was in question, was rapidly expanding. For these companies, the option-based approach is more suitable for understanding the market value of equity. As the current enterprise valuations (S_0) dropped to (or below) the strike price of the debt obligations (K), near-term bankruptcy became a realistic possibility. Increased bankruptcy risk shortened time horizons, further reducing the value of the equity call

⁵ CFROI is a registered trademark in the United States and other countries (excluding the United Kingdom) of Credit Suisse or its affiliates.

option. Our relative performance significantly benefited as this process unfolded because our wealth-creation bias kept us from investing in companies that were most likely to go bankrupt.

The increased bankruptcy risk also meant that the structure of the market, and particularly of our benchmark, started to change. The percentage of Turn Arounds within the Russell 2000 has increased from approximately 7% in February 2009 to almost 13% in June 2009. Many of these Turn Arounds were highly leveraged, which means they should have been valued using the option valuation model because the going concern is in doubt. If one views the impact of quantitative easing through the options formula above, one observes that all the inputs change in ways that are positive for option valuation. The call option increased significantly in value when quantitative easing pounded down the cost of capital and extended the time horizon for these companies. While the value of all equities increased from a decline in the cost of capital, the Turn Arounds got an extra boost from an increased time horizon. Therefore, the relative winners were the most highly leveraged, least profitable, and most likely to go bankrupt. Thus, Turn Arounds (+60%) were the big winners from a Life Cycle perspective this quarter. Golden Goodies (+20%) were the relative losers. This posed a challenge for us, as our wealth creation rules for Turn Arounds require an improvement in credit worthiness before we purchase. Our bias was out of step with the relative-winning beneficiaries of quantitative easing. Fortunately, quantitative easing of this magnitude is a rare event. So rare, it has never happened in the developed world since the 1920s.

Life Cycle Returns – Russell 2000® Constituents by Life Cycle



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Source: IronBridge Capital Management, L.P.

Quantitative easing may prove to be the right political strategy, but it runs counter to how we, at IronBridge, think. To our way of thinking, if the market were not manipulated rates would have

remained higher. This would be painful in the near term because of rising bankruptcies, but beneficial for the long term as the remaining businesses would be the relatively better stewards of capital. The creative destruction would free capital from unproductive uses and allow it to migrate toward more productive uses, driving future wealth creation and higher standards of living. Under a free-market based approach, which assumes the market automatically allocates capital most efficiently, highly leveraged, unprofitable, poorly managed businesses would fail (lose) while cash rich, highly profitable businesses would gain market share (win). However, quantitative easing turns all this on its head by extending the life of poor stewards of capital – essentially rewarding them for bad behavior. This poses a challenge to all investors who are grappling with the near-term and long-term impact of individual companies in the midst of this federal monetary experiment.

The secondary, company-specific impact of quantitative easing is liquidity based. As quantitative easing unleashes liquidity into the financial system to hammer down rates, the least liquid stocks are affected the greatest. It is like a tsunami in that the wave gets bigger as it approaches the shore where the water is shallow, and the wave is smaller farther out in the deep ocean. Similarly, when the Federal Reserve unleashed the quantitative easing tsunami, the least liquid (shallowest water) stocks benefited significantly more than the larger more liquid stocks in the Russell 2000 Index. This is more easily understood by observing the performance of the Russell 2000 and Russell 2500 Indexes, sorted by size, and broken down into quintiles.

Second Quarter Quintile Performance

R2000 Quintile Performance

Q2 2009

	Quintile	Beginning Weight	Return	Contribution	
Smallest	1	2.9%	66.8%	2.0%	} Smallest outperformed largest by 52.4%
	2	7.2%	41.0%	3.0%	
	3	13.2%	30.5%	4.0%	
	4	23.9%	23.0%	5.5%	
Largest	5	52.7%	14.4%	7.6%	
			<i>Summed</i>	22.0%	
			<i>Actual Return</i>	20.6%	
			<i>Error</i>	1.4%	

R2500 Quintile Performance

Q2 2009

	Quintile	Beginning Weight	Return	Contribution	
Smallest	1	2.0%	64.3%	1.3%	} Smallest outperformed largest by 50.6%
	2	5.2%	39.4%	2.1%	
	3	10.7%	31.7%	3.4%	
	4	21.7%	25.7%	5.6%	
Largest	5	60.4%	13.7%	8.3%	
			<i>Summed</i>	20.6%	
			<i>Actual Return</i>	20.7%	
			<i>Error</i>	-0.1%	

Source: Russell & Bloomberg

To summarize, the initial beneficiaries of quantitative easing are the highest leveraged, least liquid stocks relative to the higher quality, more liquid stocks in the near term. It is a monetary experiment that appears to have worked in the near term by halting the debt-based deflationary downward spiral in asset values and economic activity. The importance of this is not underappreciated. It certainly makes communication with clients pleasant. However, there may be costs down the road that are not fully understood today. One potential cost may be significantly higher inflation once the economy stabilizes, growth returns, and the velocity of money increases. Another cost may be structurally higher unemployment as capital is trapped in businesses that should have failed and, therefore, starves out other more productive or innovative job-creating investments. Perhaps the benefit of halting the collapse in asset values today is worth the future unknown costs of tomorrow. We might never really know. What we do know is that quantitative easing is a game changer, and companies and investors will need to adapt as its near-term impact on the relative winners and losers within the economy are likely to change.

Market Recovery Milestones

The following is an update of the important milestones necessary to create the next bull market based on wealth creation.

- 1) **Valuation:** This milestone had been achieved, but is back in question this quarter. Essentially, since the investors' cost of capital was pounded down to 5% by quantitative easing, the torch is now passed to the numerator of the pricing equation, CFROI and asset growth. CFROI and growth must stabilize and recover to justify current market valuations. This is not to say equity prices cannot go up without CFROI and growth improvement, because we do not know how low the cost of capital (denominator of the pricing equation) can drop in the current environment of quantitative easing. We imagine it could potentially drop to almost zero if the government wants it to, which could potentially double or triple the market value from these levels (this is not a prediction, only a remote possibility). However, from a long-term, economic equilibrium perspective, market undervaluation is not achieved, especially after a near 50% increase, unless CFROIs and asset growth improve.
- 2) **Poor Business Models Need to be Allowed to “Go Bust” (Expedite Bankruptcy):** We continue to see improvement in this milestone. Last quarter, we highlighted the Nortel and Circuit City bankruptcies as well as consolidation in the pharmaceuticals and homebuilding industries as well as over \$350 billion in mergers this year. This quarter, we witnessed the bankruptcy of General Motors, Chrysler, Thornburg Mortgage, General Growth Properties, Bank United Financial, R.H. Donnelley, Extended Stay Hotels, and Visteon. USA Today reports that business bankruptcies are up 240% since 2006.
- 3) **Good Business Models Take Share:** As bankruptcies unfold, we are starting to see progress. For example, Goldman Sachs and Morgan Stanley are benefiting from the demise of Lehman Brothers and Bear Stearns. This quarter, several communications equipment companies are benefiting from last quarter's bankruptcy of Nortel.
- 4) **New Financial Regime:** Poorly structured and ineffective government regulations not only allowed, but also encouraged, certain key industries in the financial sector to become “too big

to fail” as they diversified into riskier lines of business. Ultimately, we should see a simpler financial framework emerge, where the objective is to encourage a return to normal risk-taking behavior in a real economy instead of “over optimizing” the financial system itself.

Update – Financial reform proposals are currently being debated. They are clearly aimed at the financial “sinnovators” who contributed to this financial crisis.

Proposals include:

- a) New power for the Federal Reserve so it can monitor institutions “too big to fail.”
- b) A new agency to regulate credit cards, mortgages, and other financial products marketed to consumers.
- c) New regulations for credit default swaps and complex financial products.
- d) New requirements that investment advisers of hedge funds register with the SEC.
- e) More stringent capital requirements for banks.
- f) Better disclosure about how credit rating agencies rate various securities as well as better disclosure about potential conflicts of interest.
- g) A requirement that originators and sellers of asset-backed debt would be required to maintain a 5% stake in all debt originated.

We applaud the current administration for trying to reign in financial sinnovation by recognizing that:

- a) Regulators were largely unaware of the systemic risk that was growing. Thus, better access to institutions “too big to fail” might help to identify increasing systemic risk sooner.
- b) Dubious methods of marketing credit to consumers resulted in an extension of credit to those who should have never had access to it; and the new agency to regulate credit cards should restrict predatory lending.
- c) Credit default swaps and collateralized debt obligations sucked capital from the real economy as wealth transfer strategies consumed more of the economy’s resources. Regulating them should restrict and make the strategy less profitable, which would potentially redirect capital back toward wealth-creating activities.
- d) Certain hedge funds exacerbated the crisis via stock price manipulation of critical financial institutions and often executed other wealth transfer schemes, which may be harmful to the underlying economy. Thus, requiring advisers of hedge funds to register with the SEC should minimize behavior that undermines efficient market pricing.
- e) An overleveraged banking system based on flawed risk management tools poses unacceptable levels of systemic risk.
- f) Credit agencies perpetuated the illusion of wealth creation by utilizing flawed risk models and were incentivized to do so via conflicts of interest.
- g) Debt originators need to be held more accountable for the credit if it defaults; and debt originators need a greater incentive to restrict poor credit creation. Recognizing that a shift in the lending model from principal to agency results in lower lending standards. By requiring a 5% stake by originators, lending standards should improve.

We respect the administration's desire to reign in the financial sinnovators. Unfortunately, it is attacking the symptoms without fully understanding the causes. The current proposals assume that sinnovators were motivated purely by greed and knowingly drove the economy into the ground. This is a dim view of humanity. Therefore, the Administration reasons that to contain the "destructive forces of greed" they need to enact more regulation, and government intervention is required. What we wish they understood better is that the sinnovators were responding to market prices that were distorted by existing government policy regarding housing, the tax code, insurance regulation, and other government-based incentives. These policies all contributed to the financial crisis. The sinnovators were simply responding to incentives created by our own government.

Additionally, we are concerned that the de-leveraging of the private sector is being replaced by the re-leveraging of the public sector, which is like robbing Peter to pay Paul. In this case, Peter, and future generations, is the taxpayer. Paul is the ever-expanding government. Ultimately, debt (whether private or public) must be paid out of the future wealth created from productivity and innovation of existing and future generations.

A better long-term solution that attacks the causes rather than the symptoms would address incentives and wealth creation.

a) Incentives:

Minimize regulations and taxes that incentivize capital to enter areas of the economy that would otherwise not attract capital without explicit incentives from the tax code or regulation. Simplification of the regulations and tax codes is necessary.

Regulations and taxes have expanded to epic proportions in order to serve the various insatiable appetites of constituents (political contributors). The social agendas of our elected officials is at the point where the best interest of the general population is no longer being served, but rather the interests of the friends and associates of those in Washington who have access to the largest pool of capital in the world. Surely, one of the most important lessons of this crisis is that no matter how well intended the government's plans, they result in misallocations of capital, which results in wealth destruction.

The roots of the current crisis began with the intention to increase "home ownership" which Congress decided was good for Americans. Congress passed the Community Reinvestment Act and expanded Federal National Mortgage Association (FNMA)–Fannie Mae and Federal Home Loan Mortgage Corporation (FHLMC)–Freddie Mac to encourage less-than-creditworthy people to buy homes. Our research finds that many financial crises are rooted in government policy that intended a positive outcome, but instead resulted in distorted incentives that responded in unpredictable ways, often ending in financial crisis. Therefore, we should push to minimize any government policy that alters incentives to direct capital toward projects that the markets themselves do not support. Additionally, policymakers should make sure that the government incentives or regulations in place actually support long-term wealth creation and compensate for systemic risk in the pursuit of wealth creation.

For example, rather than raising capital requirements for all banks, government could tier capital requirements to risk. The more complex and less transparent the lending that a bank engages in, the higher the capital requirement should be. The Basel II Accords, which are recommendations on banking laws and regulations issued by the Basel committee on banking supervision, attempted to do this but defined and measured risk inappropriately. Properly defining risk to include liquidity, transparency and complexity allows the more conservative, more transparent banks to lower capital requirements to optimize wealth creation. Unfortunately, the proposed regulation to require higher capital requirements for all banks penalizes the more conservative, well-managed banks relative to riskier banks.

b) Wealth Creation:

We believe the primary role of government is to protect its citizens from internal and external threat and to promote gains in the standard of living for its people. Wealth creation is what drives gains in standards of living. Therefore, as “change” comes to Washington, a wealth-creation framework is required to understand whether any given proposal promotes wealth creation or restrains it.

- 5) **A New Tax Regime:** Many of the problems of the financial crisis have their roots in, or were amplified by, a misguided tax regime that encouraged imprudent, leveraged, wealth transfer rather than prudent wealth creation. Since our last letter was written, tax reform has moved up on the administration’s agenda. It appears that most tax proposals are aimed at taxing the highest income earners at higher rates, going after corporations who have legitimate foreign operations in lower tax countries in order to make them pay higher taxes, and potentially introducing a Value Added Tax. Unfortunately, all of these proposals are anti-wealth creation and install new incentives that drive capital out of the United States.

Higher taxes oppose wealth creation because they 1) lower CFROI and growth and 2) increase the investors’ required rate of return. Higher taxes favor business formation in other more tax-friendly countries, which would likely reduce U.S. global competitiveness, and increase the unemployment rate even further. Consider how major corporations responded to recent higher tax proposals. Accenture and fifteen other large U.S. companies announced their intention to relocate to Switzerland. Recently Tim Hortons made a decision reorganize itself as a Canadian public company where corporate taxes are moving to 15% by 2012 thereby rescinding their higher taxed U.S. domicile. Mr. Ballmer, Microsoft’s CEO, said that if Congress enacts Mr. Obama’s plans to impose higher taxes, “We’re better off taking lots of people and moving them out of the U.S., as opposed to keeping them inside the U.S.” Lesson: capital goes where it is best treated. We are disappointed that this important milestone is still so far off the mark.

Portfolio Strategy

IronBridge’s portfolio strategy never waivers – we buy companies that we believe create shareholder value and offer attractive payoff structures. We diversify the portfolio by sector and Life Cycle to help force excess return to come from stock selection and to minimize factor bets.

Our Life Cycle approach compels us to think about the nature of competition and the changing winners and losers in the competition for capital. The degree to which the U.S. government is proposing to interfere with the natural market forces that determine the future winners and losers has never been this high. This complicates current decision-making – there is so much that can change (or not) over the next several months. Current major proposals being considered include Health Care Reform, Cap & Trade, Tax Reform, and Financial Reform. The passage (or not) of these massive intrusions into the private markets will undoubtedly influence future CFROIs, and growth rates, and the relative competitive position of thousands of companies. Some proposals, if passed, could literally turn the wealth-creation process upside down. We must consider this in our assessment of the long-term competitive position of both the companies we own, and those we do not own.

For example, our holdings in the Financials sector are generally higher quality, more conservatively managed companies that did not participate in financial innovation. This approach has served the portfolio well in terms of excess return among our Financials holdings relative to those held in the benchmark. However, if financial reform results in increasing the reserve requirements for ALL banks, the more conservative banks will be less profitable because of less leverage and have nowhere to go but down, while the least conservative banks will generate fewer losses, improve their balance sheet, and will likely go up. Using our current approach, the potential effect could negatively impact our results.

At the same time, the self-correcting mechanisms of capitalism present opportunities. For example, as bankruptcies and unemployment rates rise, many consumer-related companies lose and others win. On a company-specific basis, Aaron's Inc. (AAN) is an interesting buy candidate. It offers electronics and furniture on lease to less creditworthy customers. As credit becomes scarce, and consumers become averse to purchases due to the fear of losing their jobs, Aaron's Inc.'s market is actually growing. Customers are shifting their purchases from Best Buy, for example, to renting from Aaron's. Aaron's value proposition to this growing demographic is the benefit of monthly payments with the right to eventually own or return items at any time. This flexibility is highly valued in such uncertain times.

The stock looks like a potential buy. It has a great wealth-creation track record. However, the risk/reward payoff is hard to calculate because, under the proposed financial reforms, the government may deem AAN's lease contract as purchase via extension of credit that would subject the transaction to new restrictions, imposed rates, and new government regulations. This is an example of opportunities we are seeking, but we prefer to buy the ones where government interference does not create such an uncertainty in the payoff structure. We are finding many buy ideas and carefully reloading the portfolio with the objective to position it for future excess return.

Our reluctance to get all of our new buy ideas into the portfolio immediately relates to the uncertainty regarding the previously identified government proposals, which could change the competitive landscape across multiple industries. Therefore, for the moment, we continue to own companies with skilled management teams who are doing the right things to create shareholder value and companies that have attractive payoff structures, recognizing that many of these payoff structures can change depending on the degree of government intrusion into their

markets. Then there are many holdings that actually benefit from the intrusion, such as American Superconductor, which has a rapidly growing alternative energy business.

From a risk control perspective, we are trying to “stay in the middle of the goal post.” This term refers to study results that indicate that soccer kickers have a greater chance of scoring on penalty kicks if they direct the ball at the middle of the goal post since the goalie tends to make a guess and commit to defend either the left or right side. When we say the portfolio is in the middle of the goal post, we mean that we do not want to guess on these various proposals. Therefore, we try to stay broadly diversified and fairly tight to our benchmark weights in terms of the portfolio’s sector and Life Cycle weights. The only exception is with Turn Arounds. Turn Arounds have benefited from what we believe is a very rare exceptional increase in value due to an increase in option value associated with quantitative easing. Because option value is a function of the square root of time, the upside from here is less attractive relative to the downside. We do not believe it is prudent to add highly leveraged, potentially bankrupt companies to the portfolio, even if non-ownership might hurt us. Additionally, payoff structures are unusually wide, given the greater uncertainty. This supports the case for more stocks in the portfolio at this time. Therefore, the current number of stocks we own is at the higher end of our historical range. As events unfold, and payoff structures narrow, the number of stocks in the portfolio may fall as we adapt to the new environment and learn from our calculations of downside risk versus upside reward potential.

The IronBridge Outlook

While we were more optimistic entering the second quarter, our outlook is a little more cautious for the third quarter because the valuation milestones are less clear, especially following the dramatic market increase. Earnings season is about to kick off, and we will have a better idea as to whether CFROI and asset growth can keep the markets moving higher now that quantitative easing has had its desired impact on the cost of capital. While there is genuine progress on several milestones that relate to the self-correcting mechanisms of capitalism, there is also tremendous uncertainty as to what degree the changes proposed in Washington may or may not influence winners and losers in the competition for capital across virtually every industry.

The good news is that we have a list of buy candidates prepared and will take advantage of opportunities as they present themselves and as more information regarding various government proposals succeed, are modified, or fail. Then we will have even more confidence in our calculated payoff structures, and we will be in position to act for the benefit of our clients.

Thank you for your continued support.

Best regards,



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

Disclosures

Past performance is not indicative of future results.

All returns are expressed in U.S. dollars.

Portfolios are valued monthly on trade date basis including accrued dividends. Returns are calculated after taxes are withheld on foreign dividends.

Small Cap Core Equity Composite

April 30, 1999 to December 31, 2008						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	15.16	14.03	-3.02	<5	NA	16.0	11.8
2001	18.80	17.63	2.49	<5	NA	24.6	20.8
2002	-11.88	-12.77	-20.48	<5	NA	61.0	50.6
2003	48.28	46.85	47.25	<5	NA	521.3	233.6
2004	19.85	18.68	18.33	22	0.36	1,878.0	1,112.2
2005	4.37	3.34	4.55	28	0.54	2,692.9	1,343.4
2006	16.37	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
2008	-30.62	-31.33	-33.79	26	0.34	3,902.4	943.1

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 Index. The annualized composite return since inception is 9.43% before management fees, 8.35% after fees; and the annualized benchmark return is 2.81%.
- 3 The composite includes small cap equity portfolios invested in undervalued companies as suggested by IronBridge's proprietary economic return framework, with relatively small market capitalizations (generally under \$2.5 billion at the time of purchase) and with both growth and value attributes. The composite excludes portfolios under \$5 million and portfolios that are tax-sensitive or have client-driven restrictions that hinder the investment strategy. 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 In the 2008 presentation, some previous years' gross returns were restated by between +0.02% and -0.03%, due to rounding differences in a new portfolio accounting system. Net returns were unchanged.
- 9 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.
- 10 Derivative use within the composite is minimal and deemed immaterial.
- 11 A complete list and description of all IronBridge composites is available upon request.
- 12 Additional information regarding policies for calculating and reporting returns is available upon request.