



GLOBAL EMERGING GROWTH CAPITAL

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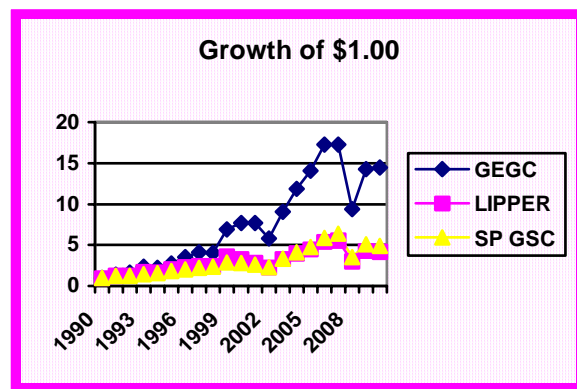
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GEGC SECOND QUARTER 2010 HIGHLIGHTS

Background Since 1990, Global Emerging Growth Capital (GEGC) has invested in global small-cap stocks. It is felt that over longer periods of time, small -cap stocks provide the potential for attractive gains and perform better than large- cap stocks. The investment strategy is bottoms up by seeking companies with above-average growth and balance sheet characteristics, purchased at favorable price-earnings ratios. The companies are special: either key players in their markets or even one-of-a-kind. GEGC use its proprietary Fusion investment discipline that blends fundamental, technical, behavioral, and quantitative analysis. GEGC is managed by V. John Palicka, CFA, CMT who managed over \$1.5-billion in growth stock accounts, mostly in smaller- cap stocks in his 11 years at The Prudential Insurance Co. Please visit GEGC's above website for more information.

Performance **Since Inception:** GEGC is a premier global small-cap manager whose returns compare very favorably against comparable competitor (Lipper) and index (S&P/Global Small Cap) returns, shown below. GEGC also ranks high against global money managers in the databases of leading reporting agencies, such as, Russell Investments, Money Manager Review, and Nelson. This rank has been achieved despite the departure of some weak managers who closed or were restructured, and who thus have upwardly biased remaining returns within the context of survivorship analysis. Since inception 19 1/2 years ago, GEGC increased its money over 13 times by returning 14.5% *per annum* (13.3% net of fees). During this period, global small cap stocks slightly led the SP500, but GEGC outperformed the SP 500 annualized return of 8.2% by a wide margin. GEGC's success has been due to several reasons: Foremost, good stock picks, including New Age (Economy) companies (growth companies in new industries) which generally returned a premium to their respective country's small-cap index return; being focused on promising small-cap stocks that are discovered ahead of competitors whose more sizable assets make them less able to maneuver; not overindulging in the underperforming periods of the emerging markets and Japan; and, sidestepping the "dot com" massacre by taking some good profits, near the apex, in companies whose stock prices were inflated by this craze.

TIME PERIOD	GEGC	LIPPER GLOBAL SMALL/ MID CAP FUNDS	SPGSC /SP500 INDEX
2010 Q2	-8.5%	-8.0%	-9.9/-11.4%
2010 YTD	-2.3%	-3.0%	-4.1/-6.7%
19 1/2 YEARS, Since 12/31/90			
TOTAL RETURN	1296%	318%	390/367%
GROWTH OF \$1.00	\$13.96	\$4.18	\$4.90/\$4.67
ANNUALIZED RETURN	14.5%	7.6%	8.5/8.2%



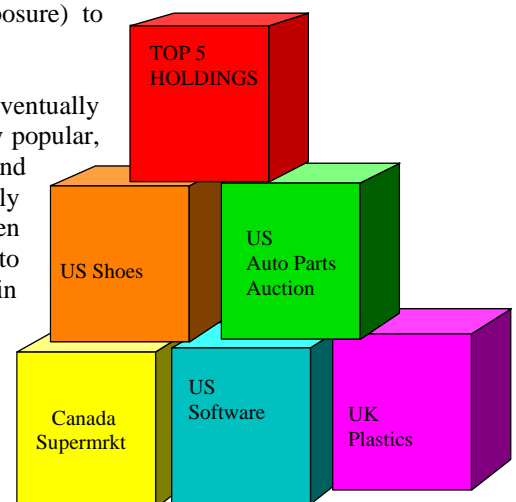
(Source: Reporting organizations and Barrons). Past performance is no guarantee of future results. Investment results should be read in conjunction with GEGC's performance footnote.

Q2 2010 Performance: *The US Market-* Investors sold stocks in the second quarter, thus reversing the gains of the first quarter. Concerns over the strength of the economic recovery, poor employment progress, and debt issues with the PIGS caused sharp market drops. For the first half, the S&P 500 Index decreased by 6.7%. Falling commodity prices, made the material and energy stocks were the worst performers. The NASDAQ decreased by 7.0%. Large cap value stocks did better than growth stocks. US Small-cap stocks, as evidenced by the Russell 2000 Index negative return of 2.0%, led large cap stocks. The small-cap stocks outperformed large-cap stocks over the past five years, even though both small and large cap stocks hovered near zero returns during this period. For the first half, small-cap value stocks showed a return of -1.6%. This was better than growth's -2.3% return, although for the past 5 years, growth did slightly better than value. However, both showed only nominal positive returns.

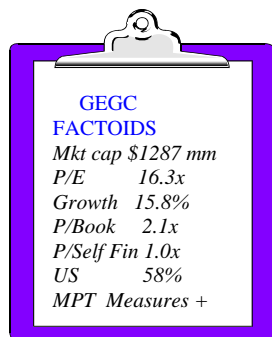
GEGC And Global Small-Cap Stocks- Global stocks also declined in the second quarter. For the first half they showed negative returns of 8.3%. Global small-company stocks did better, but still showed a negative return of 4.3%. They too were pressured by declines in energy and material sectors. For the first half, GEGC led the index and competitors, but showed a negative return of 2.3%. Major global small cap markets showed returns of -1.3% in the United States, -4.0% in the UK, but a positive return of 4.4% in Japan. Europe (excluding the UK) showed a return of -13.4%. The Pacific Rim (excluding Japan) returned -7.6%. Emerging markets after feasting on rising commodity prices and showing stellar returns last year, fell 3.6%. Global small-cap growth stocks led global value stocks by about 40 basis points. Both had negative returns. Growth stocks did better than value in their cumulative 5-year performance.

Competitors And The "Spread" Global SC- For the first half, GEGC outperformed the competitors and also the "spread" S&P/ Global SC return of -3.9%. The "spread" return reflects our adjustment for the potentially added benefit that should have been gained by being more weighed in growth stocks. This expected performance drift should have helped competitors better beat the S&P/ Global SC. Therefore, the "spread" return is a more realistic return expected by sophisticated investors in measuring investment skill when there is performance drift. GEGC's outperformance of the "spread" was helped by its low exposure (or even no exposure) to emerging market stocks, and energy and material sectors.

In the past, competitors who attempted performance drift were eventually penalized (fired or closed) for venturing into stocks that were very popular, such as emerging markets, internet companies, the Pacific Rim and Japan (in the initial hope of gaming the Global SC), which eventually underperformed. The competitors subsequently chased the then better performing markets, but unfortunately, some came too late to the party, stayed too long, and got whipsawed. This resulted in performance drift and eventual poor long-term records. Overall, the competition didn't add any special value over the past 19 1/2 years, and currently trail the actual Global SC. However, even this mediocre performance is biased upwards as survivorship analysis indicates that some poor performing funds are no longer around. GEGC has cumulatively beaten the "spread" for the past 19 1/2 years and was the first to use the S&P/ Global SC in measuring global small-cap performance. Now, more managers have adopted this measure, as their former benchmarks were inappropriate. GEGC expects the "spread" analysis, despite being somewhat subjective, to also grow as investors become more demanding and sophisticated. Ideally, ETF benchmark strategies would be welcomed.



Reasons GEGC's ability to outperform the index and competitors was also due to good positive returns in some of its various niche growth stocks. These stocks continued to produce good earnings. However, GEGC was dragged down by negative returns from an Italian pharmaceutical company and a US financial firm. Other offsetting positive factors included:



GEGC FACTOIDS	
Mkt cap	\$1287 mm
P/E	16.3x
Growth	15.8%
P/Book	2.1x
P/Self Fin	1.0x
US	58%
MPT Measures	+

- Among the larger holdings in its portfolio, GEGC got strong positive returns from a US software firm, a US shoe company, and a UK plastics firm. All produced good operating results, and gained market share with their differentiating product niches.

- GEGC no longer comments on country performance in its portfolio, as its attribution analysis is mostly dependant on a company's specific Alpha generation and to a smaller extent, sector weight decisions. GEGC's strategy does not use market timing or country allocations. Major country weights are still shown on GEGC's website.

- For the first half, GEGC established a position in two Canadian energy companies, a US specialty retailer, an insurance software firm, and an Italian luxury goods company. While, at times, it appears that much GEGC activity is in the US, it should be noted that many of GEGC's companies have products and services that are global. In the first half, GEGC also realized some good profits in some consumer and financial stocks. In general, purchases have good balance sheets, above-average growth rates, trade at or below market P/E ratios, and are not well known or favored by the analyst community. GEGC invests in companies that are major niche players in their markets.

Strategy, Industry Trends and Outlook

Strategy- Over three years ago, GEGC warned of market euphoria and its subsequent fallout. Calamity hit the economy in 2008, highlighted by the near demise of the financial sector. At the end of the third quarter of 2008, GEGC felt that the market was finally recognizing its economic problems. Subsequent government actions helped to stabilize the economy. However, here GEGC differed from the consensus, in that it believed that these actions would not spur long-term growth. This is what is happening now as the training wheels from the stimulus programs are off, with little to show for it. They have been mostly defensive in nature and not likely to stimulate good economic growth. In GEGC's opinion, growth will come from new companies that innovate new products and services. It will not come from trying to revive the sunset companies with more funds. Therefore, GEGC does not feel that buying the market in the hope of a rally will be as rewarding as cherry picking true growth companies. GEGC expects the smaller companies to provide the better returns over the coming years. GEGC reversed its defensive position by placing more investments in this part of the stock market in the first quarter of 2009. The portfolio was evaluated with a BUY rating in the first quarter of 2009, after being unattractive for the prior 18 months. We turned cautious once the portfolio was rated as Sell/Hold in early April, 2010 and started portfolio liquidations. Currently, the portfolio has been rated as a Buy/Hold upon the market drop. Again, GEGC is bottoms up and will make investments in promising companies, rather than attempt to time the market. Some past investments have been made in rather unknown or even unpopular stocks. This may have pressured performance in the short-term. Longer-term, good portfolio valuations have proven to be beneficial to the performance record of GEGC. GEGC will continue to concentrate on small-company global niche leaders, some of whom offer products and services that were not around only a decade ago. Yes, New Age companies. When GEGC started its global investments, this was an unpopular decision as it was felt that global investing should be done primarily on a top down basis, and mostly with traditional companies. This strategy would have generated much lower results than that of GEGC.

As stated in prior reports, the analytical requirements for global stock analysis have changed radically in the past several years. GEGC, as innovator, adapted and is on the leading edge, especially with its proprietary Fusion investment discipline. Its analysis sees a growing two-tier market in many geographic markets, whereby premium growth stocks (GEGC's destination) will continue to be bid up because of

global rather than parochial appeal. Few global fund competitors have the background to analyze the premium stocks -- which years ago, GEGC called New Age companies, and are now called New Economy companies -- in global small-cap markets and still produce returns above the "spread". These companies should not be confused with the bubble "dot com" speculations which had little in terms of sales and earnings.

Trends- Therefore, it is not surprising to see increased manager firings and fund restructurings in the global small-cap universe. The competitors have trailed the index. More competitors have recently tried to gravitate to GEGC's style. Competitors continue to be plagued with poor valuation models that seem to stress momentum, and also performance drift which eventually results in whipsaws. GEGC intends to stay with the smaller-cap stocks, and with its strict valuation discipline, despite temporary market bursts aided by some hot areas, such as, Internet or commodity stocks. GEGC has also sold some of its winners, including New Age stocks, as they have grown into efficiently- followed larger-cap stocks.

For the past 19 1/2 years, global small- cap stocks have outperformed global large-cap stocks. This is not too surprising as a good number of the smaller companies are choice companies. They have good growth prospects and are accepted by the market place. This is due to the innovation of their products and services rather than just overall economic conditions. These companies have proved to be rewarding, provided one has had the skill to find and properly value their potential.

In the past, GEGC has stated that distorted valuations between large and small cap stocks would eventually create a fertile area among the more attractively priced smaller companies. GEGC benefited from this, especially on market dips. In GEGC's case, valuation does not take second place to anything, including the growth of fund assets. Recall that not too long ago, some of GEGC's larger holdings were discovered by institutions and bid up to very high multiples. Hence, near year-end 1999, the valuation of our portfolio was no longer a bargain and was actually overvalued. Therefore, GEGC **stopped accepting new money and liquidated positions** between mid-December 1999 to mid-April 2000. Incredibly, many competitors kept taking in money and subsequently showed massacres on a dollar-weighted basis, which incidentally, the SEC may institute for performance measurement. Subsequently, the above GEGC Factoids showed more favorable characteristics upon the market decline and GEGC's rebalancing. Then, GEGC once again encouraged the placement of funds into its assets. However, by the end of 2006, GEGC's portfolio was no longer rated as attractive for investors. Thus, in 2007 and for the first nine months of 2008, GEGC **rejected all inflows of funds** because the valuation of the portfolio had not been attractive for potential investors. This proved to be the correct decision, as GEGC barely showed a positive return in 2007, and poor absolute results in 2008. However, the good news for GEGC was that it turned away assets and liquidated positions, thus preserving capital. In terms of growing assets, GEGC has made overtures to fund families to sell their poor performing funds to GEGC for management. It is incredible to realize that the management of the funds feel that there is no performance problem, all the way till the time the poor performing funds are closed or the management is changed!

MPT Measures- GEGC's outperformance is due to Alpha on an attribution analysis. It continues to have a high positive Information Ratio, and various other good comparisons that evaluate risk/reward. These include Sharpe, Jensen, Treynor, M², and T² measures.

Outlook- The AI evaluator of GEGC's portfolio, as mentioned above, has now been upgraded to a Buy/Hold in early July 2010. As mentioned, it had been mostly unattractive for about the prior 1 1/2 years during the market meltdown. Persistence of an upgrade would be desirable in order to give a better indication of longer-term outperformance potential, especially as recent valuations have been deteriorating. Some investment factors indicate potential underperformance of GEGC returns. For example, the p/e paid for the growth rate of GEGC's stocks is not particularly attractive. Thus, GEGC continues to feel that investors with both short and long term horizons should **not** be thinking of adding money to GEGC's accounts at this time. **Therefore, GEGC is still not accepting funds and has actually been liquidating some of the portfolio and distributing the cash.**

As predicted, economic expansion has greatly slowed, given the weakness in housing and a debilitated consumer. Lingering overseas US military action creates a war risk premium. This should continue to

pressure stocks in an unpredictable manner. Still, this premium is a worthwhile burden given the potential loss that the world can suffer from terrorism. GEGC expects increases in social unrest in a long period of anemic economic growth. This should result in changes in political systems that most likely will invite more radical economic policies. Investors have been jumping from one bubble to another and reckless investing methods are expected to continue, as bankruptcy is not a priority for government action. This should create an uncomfortable euphoria that should lead again to reckless investing and high levels of market volatility upon market rebounds. Most likely, the current hangover now foreshadows a longer market correction than expected by investors. While GEGC expects the choice small-cap stocks to be bid the best as they tend to prosper in economic expansions, the current scenario will be challenging for them. Consequently, while GEGC will continue to buy the best small-cap stocks it can find, it expects to get further bruises in near future.

Performance outlook can be measured in two ways: absolute dollar returns, and relative returns against an index and competitors. The above GEGC Factoids still indicate the need for better values in order to give an investor more comfort of achieving good long-term gains. Given GEGC's expectation of low longer-term economic growth, a good undiscovered small-cap growth stock should produce good returns, although not necessarily in the near future as the economic environment that would foster the development of such companies has been diminished. In GEGC's most recent survey of competitor holdings, a fair number of its stocks were not in their beaten-path portfolios (as has been the case since our inception). Therefore, these factors should further favor GEGC's absolute and relative return prospects over the longer term.