



GLOBAL EMERGING GROWTH CAPITAL

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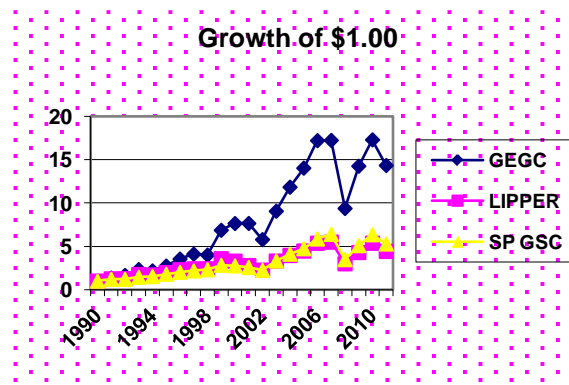
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GEGC THIRD QUARTER 2011 HIGHLIGHTS

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 20 3/4 years ago, GEGC increased its money over 14 times by returning 13.7% *per annum* (12.6% net of fees). During this period, global small cap stocks slightly led the SP500, but GEGC outperformed the SP 500 annualized return of 8.3% 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 popular periods of the emerging markets and Japan; and, sidestepping the "dot com" massacre and the housing bubble by taking some good profits, near the apex, in companies whose stock prices were inflated by these crazes.

TIME PERIOD	GEGC	LIPPER GLOBAL SMALL/ MID CAP FUNDS	SPGSC /SP500 INDEX
2011 Q3	-26.4%	-20.7%	-21.2/-13.9%
2011 YTD	-17.1%	-17.6%	-16.8/-8.7%
20 3/4YEARS, Since 12/31/90			
TOTAL RETURN	1337%	344%	430/425%
GROWTH OF \$1.00	\$14.37	\$4.44	\$5.30/\$5.25
ANNUALIZED RETURN	13.7%	7.4%	8.4/8.3%



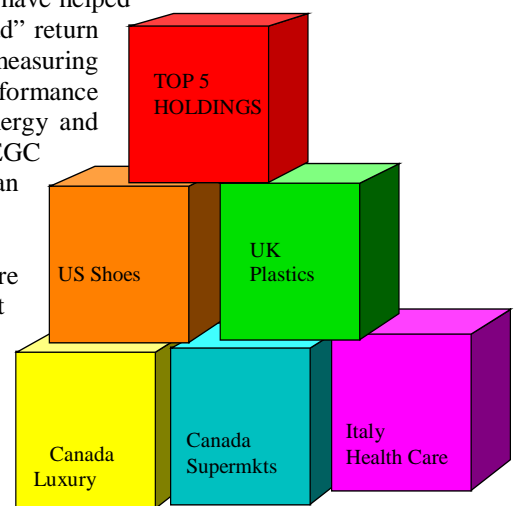
(Source: Reporting organizations and Barrons). Past performance is no guarantee of future results. Investment results should be read in conjunction with GEGC's performance footnote. Reporting agencies may revise data.

Q3 and YTD 2011 Performance: *The US Market-* Fearing a recession and European default concerns, investors sold stocks down sharply in the third quarter and ran for shelter. Thus, for the first nine months, the S&P 500 Index decreased by 8.7%. Energy and material stocks were among the worst performers. The NASDAQ decreased by 9%. Large cap growth stocks did slightly better than value stocks. US Small-cap stocks, as evidenced by the Russell 2000 Index showed a return of -17.0%, and significantly trailed the large cap stocks. The small-cap stocks slightly trailed large-cap stocks over the past five years, even though both small and large cap stocks showed modest negative returns during this period. For the first nine months, small-cap growth stocks showed a return of -15.6%. This was better than value's return of -18.5%. For the past 5 years, growth with modest positive returns of 1.0% did better than value which posted slight negative returns of -3.1%.

GEGC And Global Small-Cap Stocks- Global stocks also dropped in the first nine months and showed a return of -15.6%. Global small-company stocks did worse with a return of -16.8%. They were also impacted by sharp negative returns in energy and material stocks. GEGC slightly trailed the index but led the competitors with a return of -17.1%. Major global small cap markets showed returns of -14.7% in the United States, -11.9% in the UK, 1.1% in Japan. Europe (excluding the UK) showed a return of -20.2%. The Pacific Rim (excluding Japan) returned -24.7%. Emerging markets reversed their stellar returns of last year because of inflation fears. They produced a loss of 28.0%. Global small-cap growth stocks led global value stocks by about 80 basis points. Growth stocks did better than value in their cumulative 5-year performance.

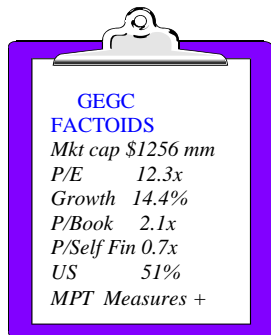
Competitors And The "Spread" Global SC- GEGC had a relatively poor performance in the third quarter. However, for the first nine months, it led the competitors. GEGC trailed the "spread" S&P/Global SC. The "spread" return for the first nine months was -16.6%. The "spread" return reflects our adjustment 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 underperformance of the "spread" was partly due to it being pressured from its energy and material stocks, as well as some consumer discretionary stocks. GEGC intends to keep these stocks for longer-term investment rather than trade them opportunistically.

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 20 3/4 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 20 3/4 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, further ETF benchmark strategies would be welcomed.

Reasons GEGC's returns for the first nine months were pressured by negative or low returns in a UK plastics firm and a US auction company. However, offsetting this to a small extent were positive results in some niche growth stocks in its portfolio. These stocks continued to produce good earnings:



GEGC FACTOIDS	
Mkt cap	\$1256 mm
P/E	12.3x
Growth	14.4%
P/Book	2.1x
P/Self Fin	0.7x
US	51%
MPT Measures	+

- Among the larger holdings in its portfolio, GEGC got strong positive returns from a US engineering firm, a US shoe company, and a UK staffing 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.

- During the year, GEGC established a position in a Canadian luxury company. This helped replace GEGC'S good profits in Bulgari which received a tender. GEGC also bought an insurance software firm, a UK staffing firm, a US health care firm, and added to its regional bank exposure. For the first nine months, GEGC also realized some good profits in several stocks. Some of these profits were distributed in cash as the portfolio became less attractive earlier in the year. 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. They would sow dangerous seeds for future problems that would be felt years later. One would be higher inflation rates and a declining dollar. This is what is happening now as the training wheels from the stimulus programs are off, with little to show for it. One has also seen a broad rise in commodity prices. Even the market rally in the US was partly at the expense of a declining dollar and poor performance in terms of gold prices. This has led to GEGC's correct prediction of social unrest which caught many by surprise. The unrest should further negatively affect the markets down the road.

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.

By way of background, GEGC reversed its defensive position of three years ago by placing more investments in this part of the stock market in the first quarter of 2009 when the market was near its low. The portfolio was evaluated with a BUY rating in the first quarter of 2009, after being unattractive for the prior 18 months. As of year end 2010, the portfolio was rated a Buy/Hold. However, it was downgraded to a HOLD in February, 2011. Since then, cash has been raised and distributed. This was prudent, given the rather flat second quarter performance. With the current sharp market drop, at the end of the third quarter of 2011, the portfolio was rated a BUY again

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 those 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 20 3/4 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, M^2 , and T^2 measures.

Outlook- The AI evaluator of GEGC's portfolio, as mentioned above, was downgraded to a Hold in February, 2011. It is now rated a BUY and redeployment of cash is recommended based on attractive

portfolio valuations. For example, the p/e paid for the growth rate of GEGC's stocks is now attractive. Thus, GEGC continues to feel that investors with both short and long- term horizons should be thinking of adding money to GEGC's accounts at this time. GEGC has thus reopened its doors for investment.

As GEGC has predicted, the current reviving economic expansion is still showing 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 further increases in global social unrest in a long period of anemic and volatile economic growth. This should result in changes in political systems that most likely will invite more radical economic policies. This should contribute to inflationary pressures which should continue to favor small-cap growth stocks and commodities. GEGC expects the choice small-cap stocks to be bid the best, as they tend to prosper with their niches.

Performance outlook can be measured in two ways: absolute dollar returns, and relative returns against an index and competitors. The above GEGC Factoids indicate sufficient values for investors who seek good long-term gains. Given GEGC's expectation of low longer-term economic growth, a good undiscovered small-cap growth stock could still produce good returns. 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 eventually favor GEGC's absolute and relative return prospects over the longer term.