



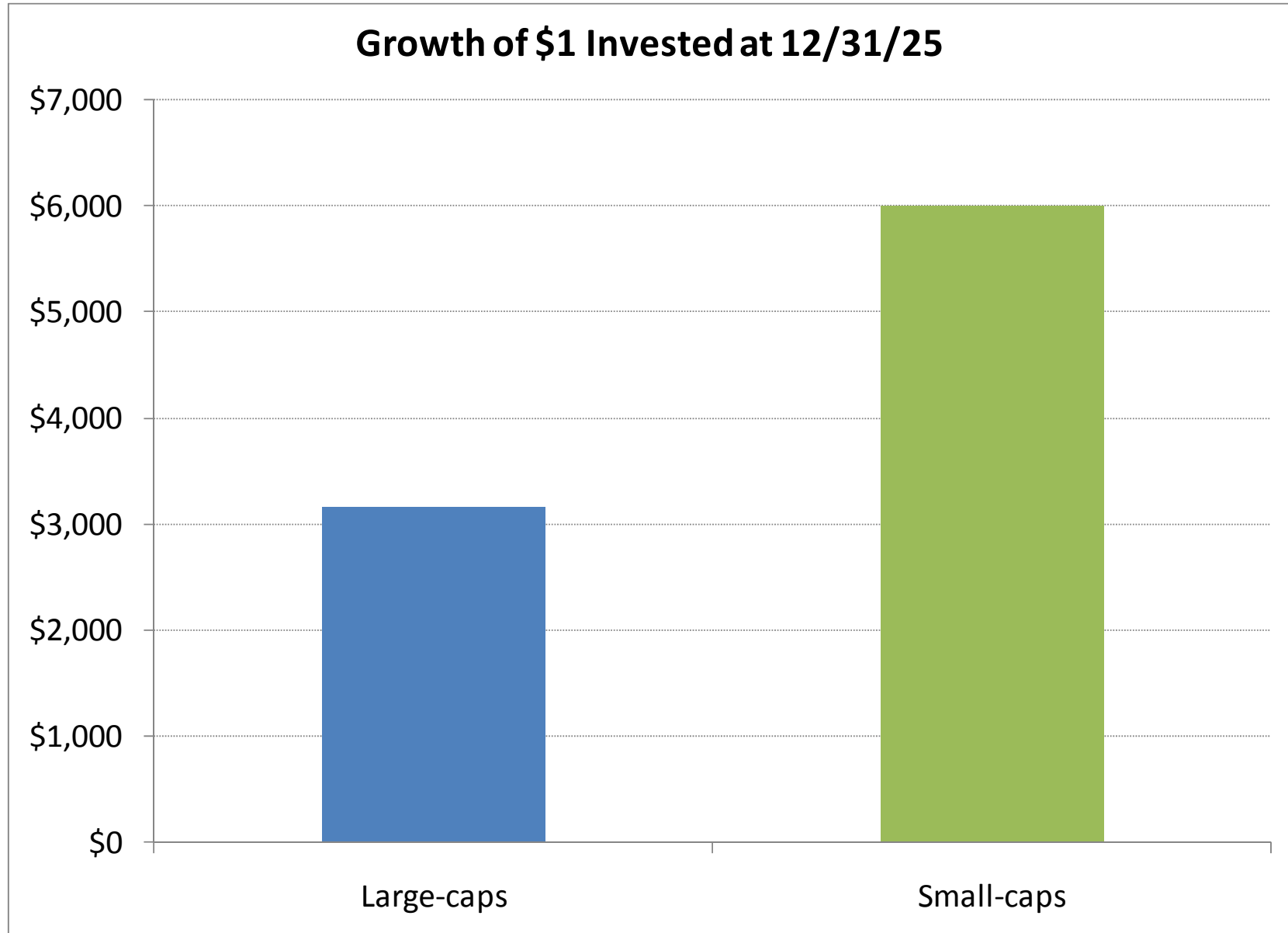
# Palisade Capital Management, L.L.C.

## The Small Cap Investment Cycle: The Beginning of the Beginning

March 15, 2010

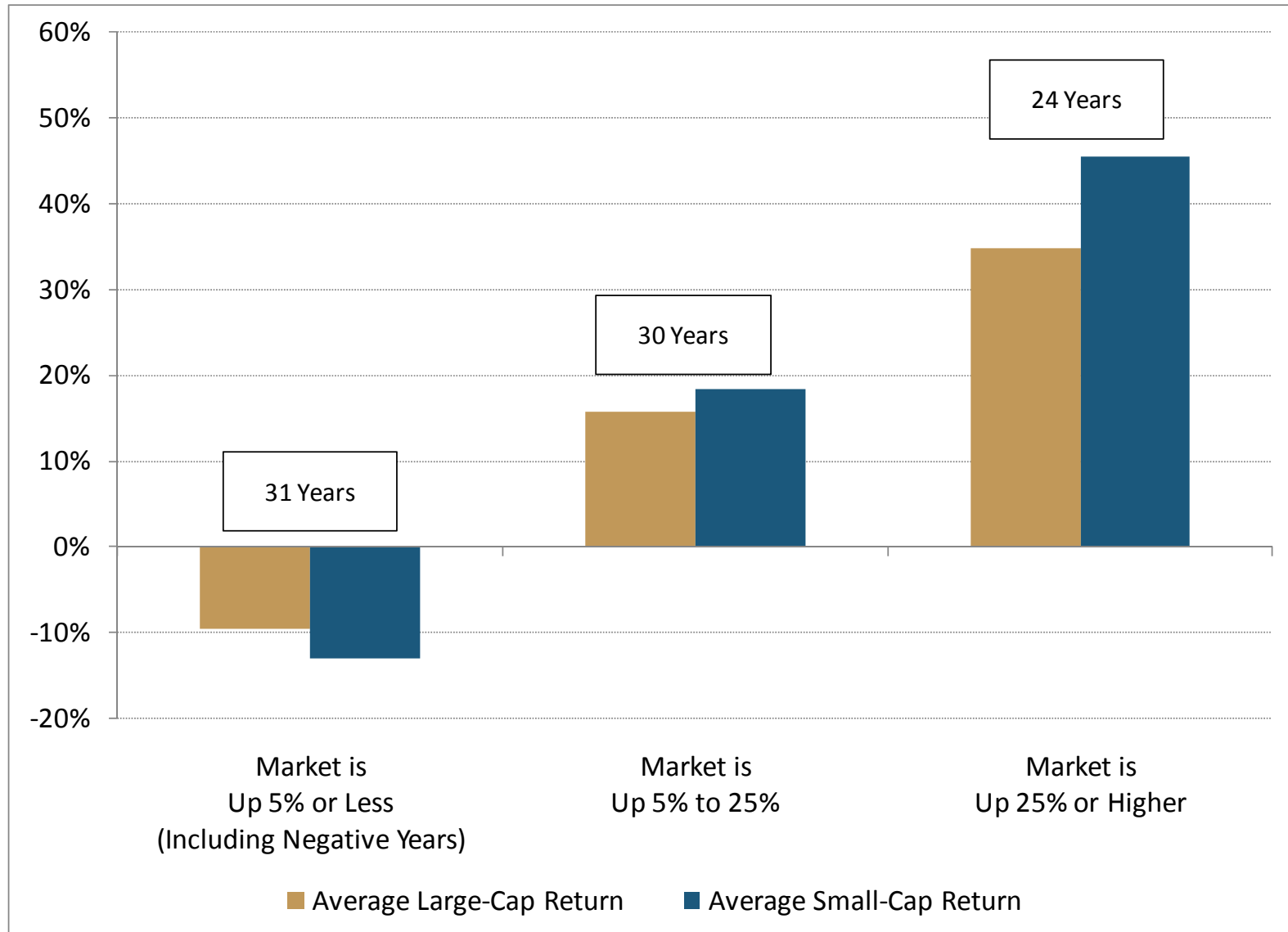


# *Small-Cap Historically Outperforms Large-Cap*



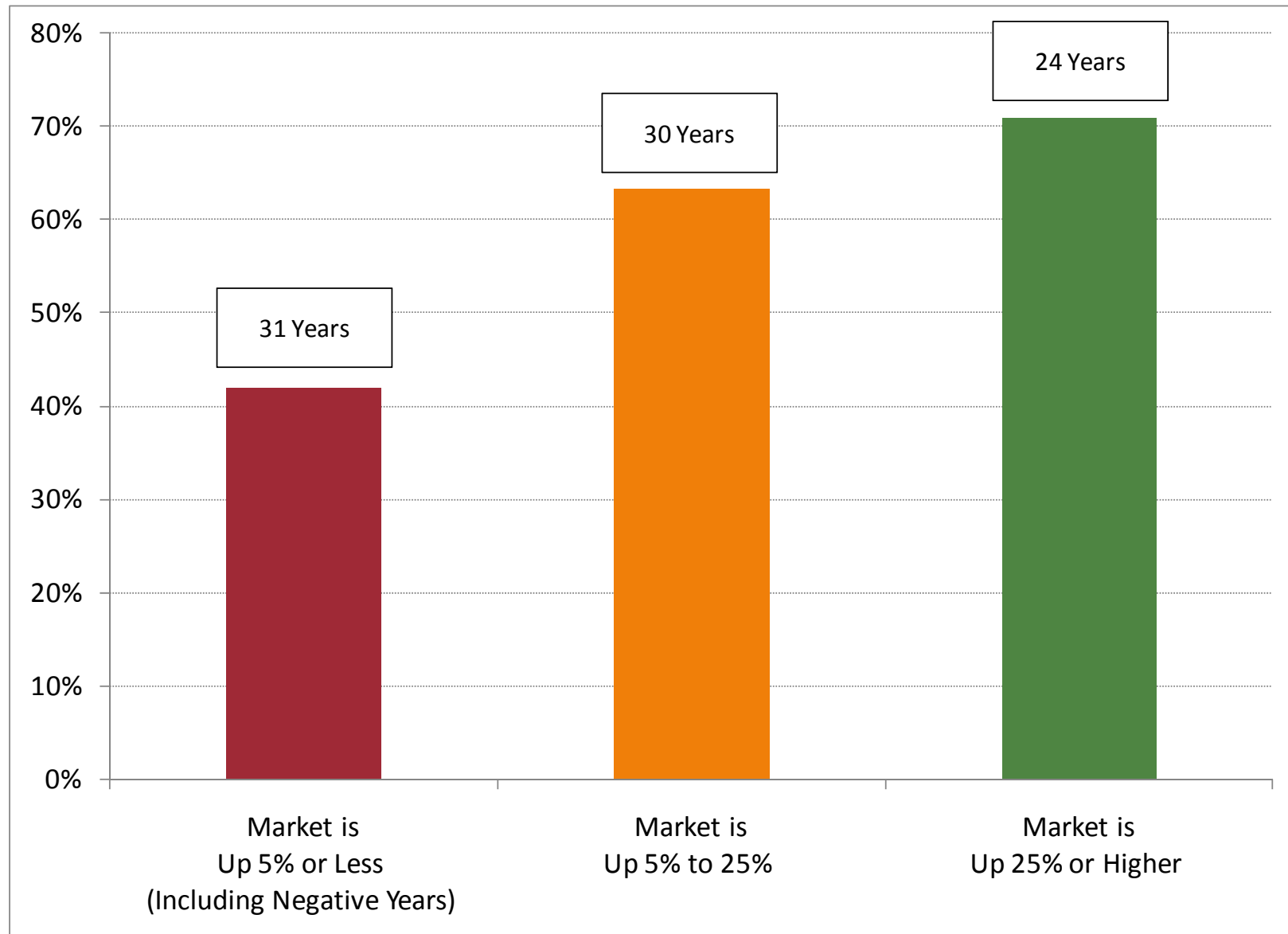
# Strong Up Markets Favor Small-Caps

**54 out of 85 years Small-Caps have outperformed Large-Caps**

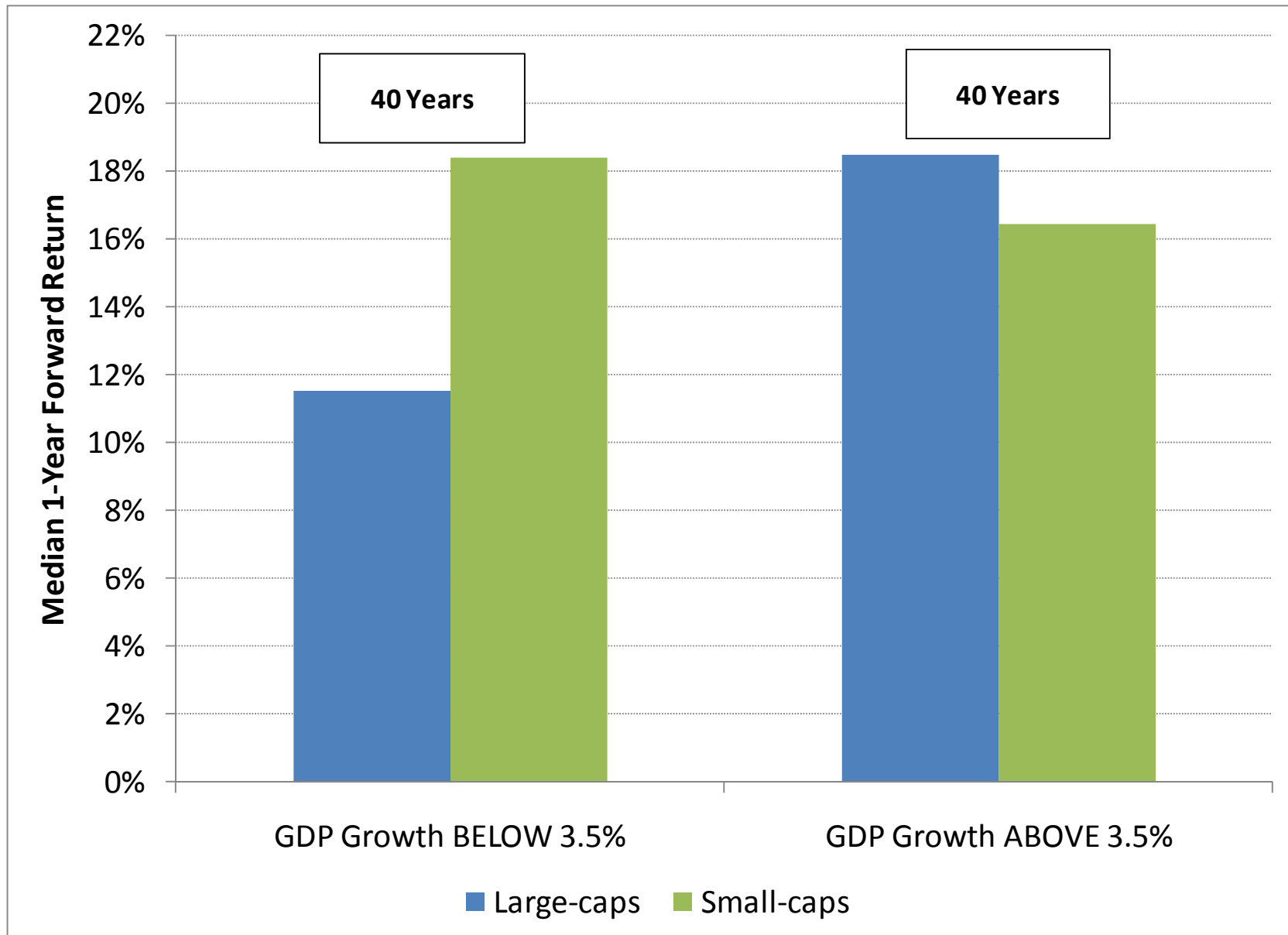


# Moderate & Strong Up Markets Favor Small-Caps

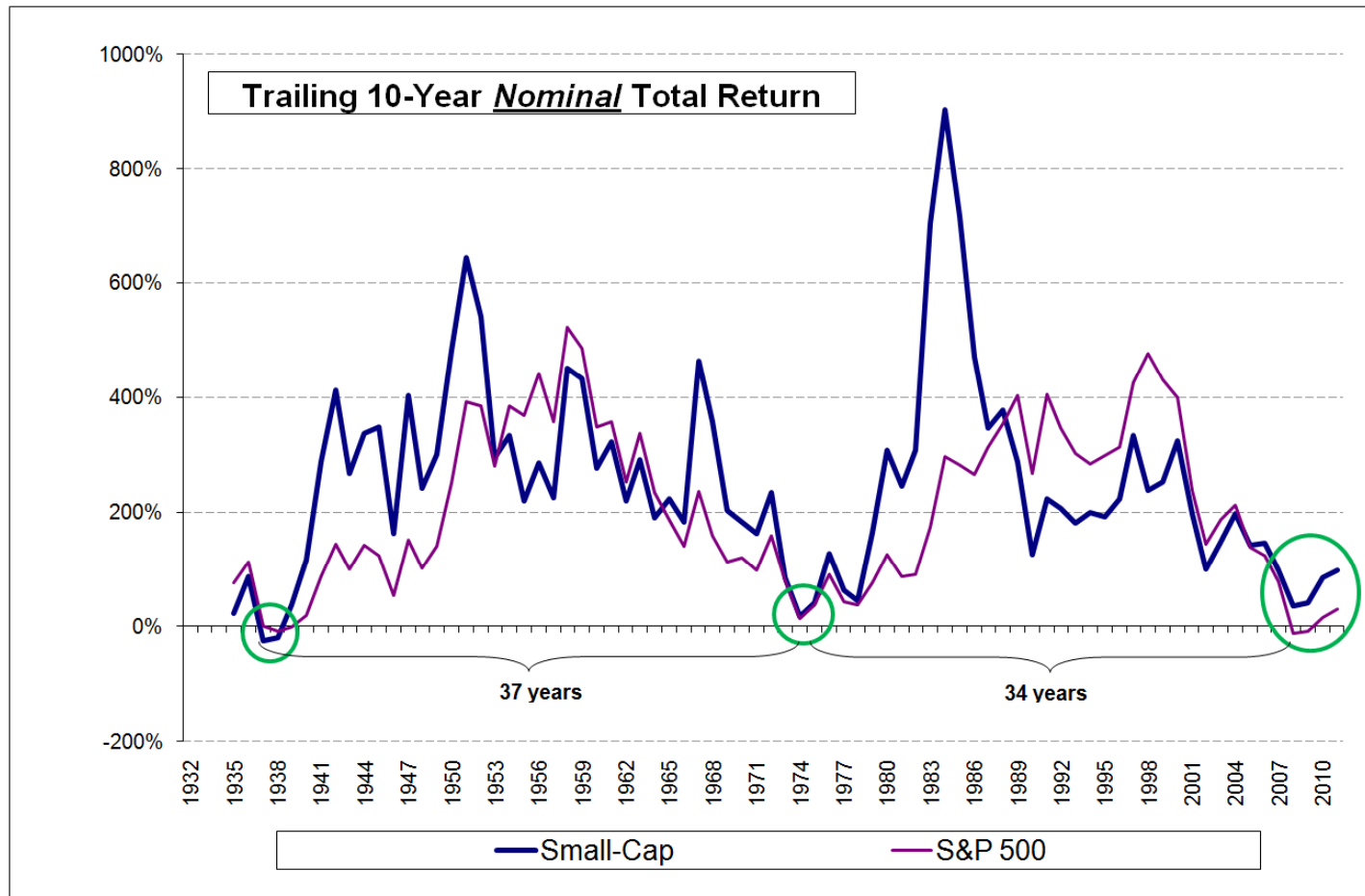
## Small-Cap vs. Large-Cap Batting Average



# Modest GDP Growth Implies Greater Small-Cap Outperformance



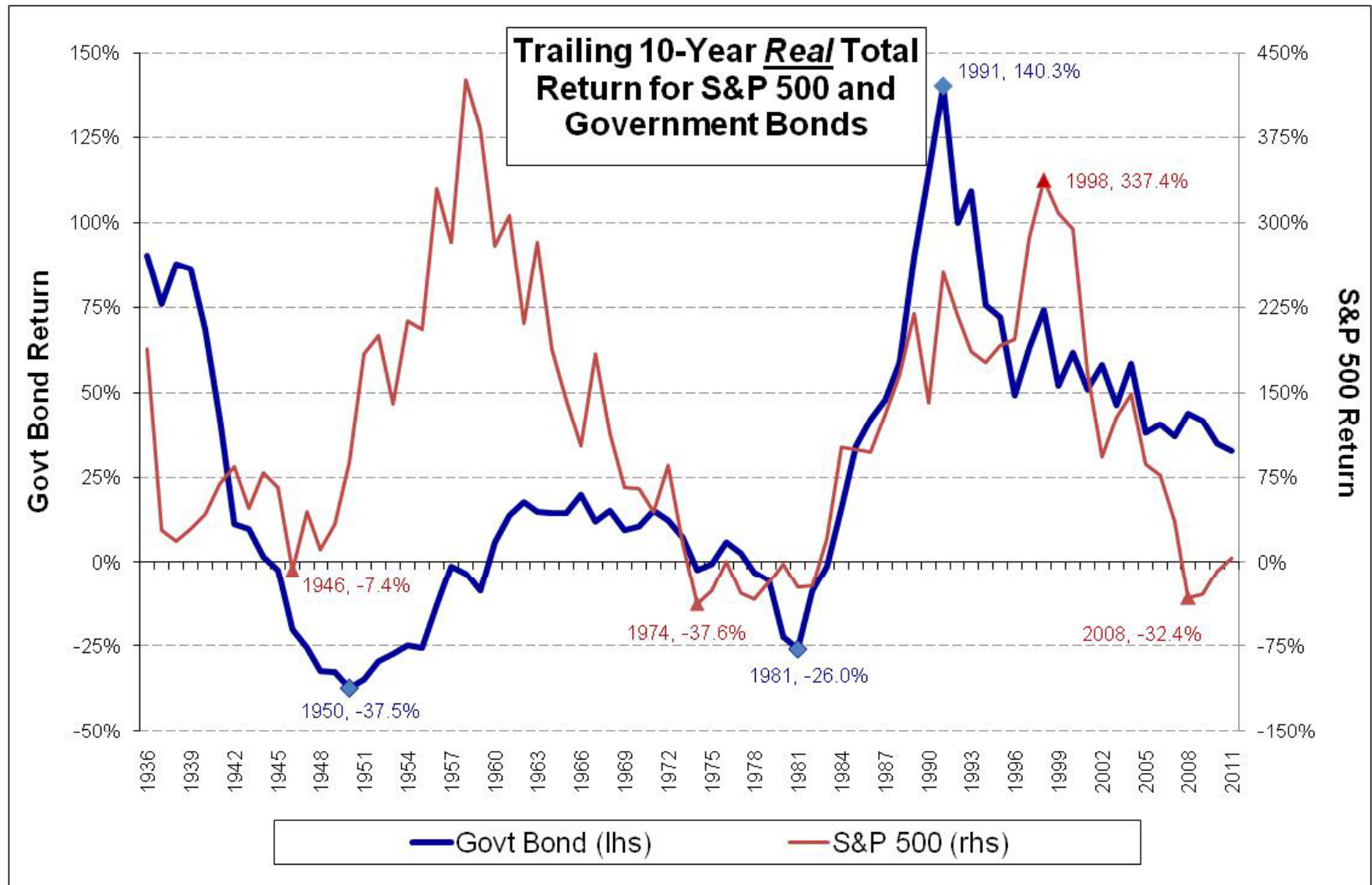
# Small-Caps Lead Out Of Major Bear Markets For Years



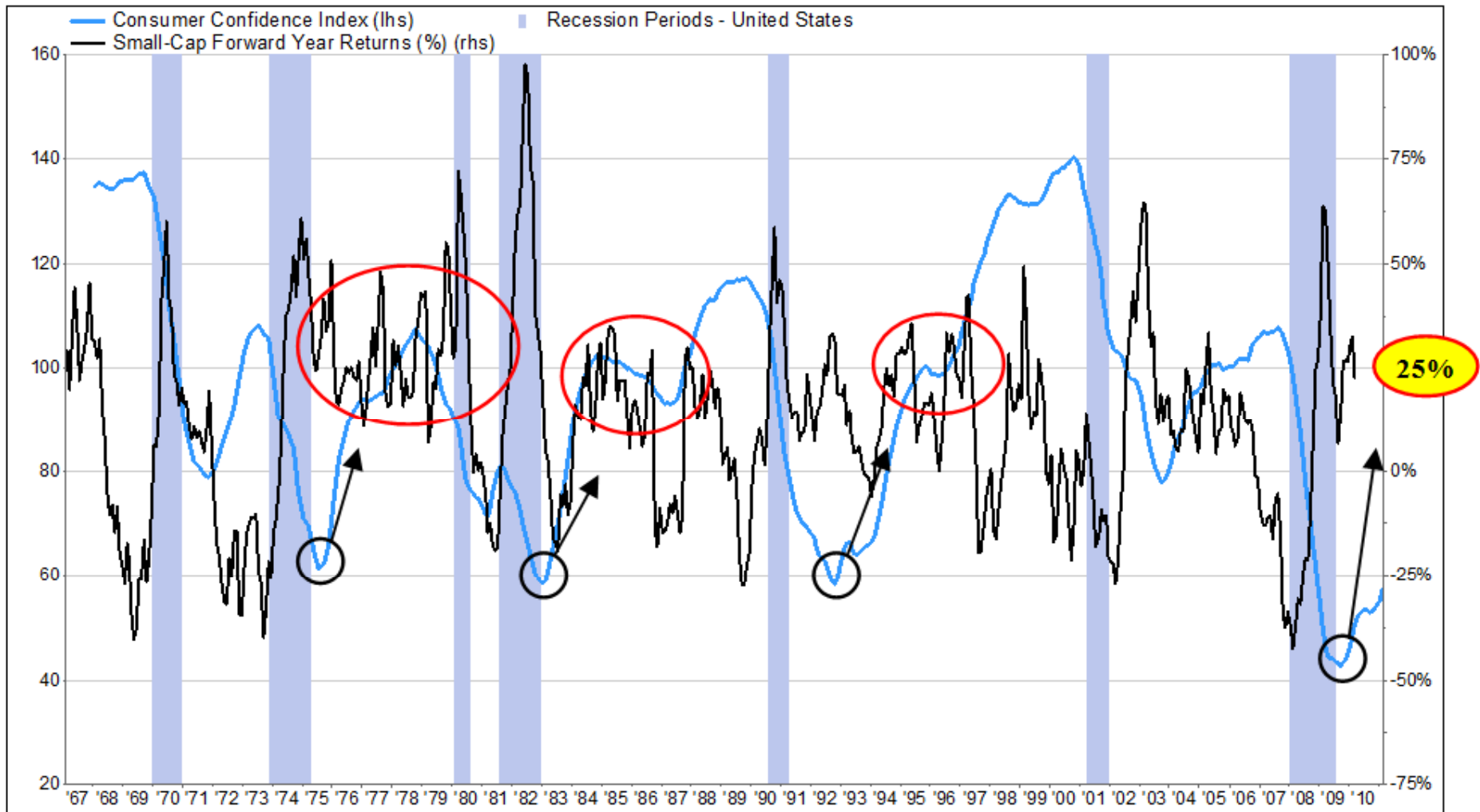
	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b><i>S&amp;P 500 Total Return Index</i></b>	<b>-37.0%</b>	<b>26.5%</b>	<b>15.1%</b>
<b><i>Russell 2000 Index</i></b>	<b>-33.8%</b>	<b>27.2%</b>	<b>26.9%</b>



# Sell Bonds, Buy Stocks



# Stocks Consistently Rise After Consumer Confidence Bottoms



## Low But Rising Inflation Environments Favor Equities & Small-Caps

*From a bond holder's perspective, if Bernanke gets his wish and inflation begins to rise, stocks will massively outperform bonds\**

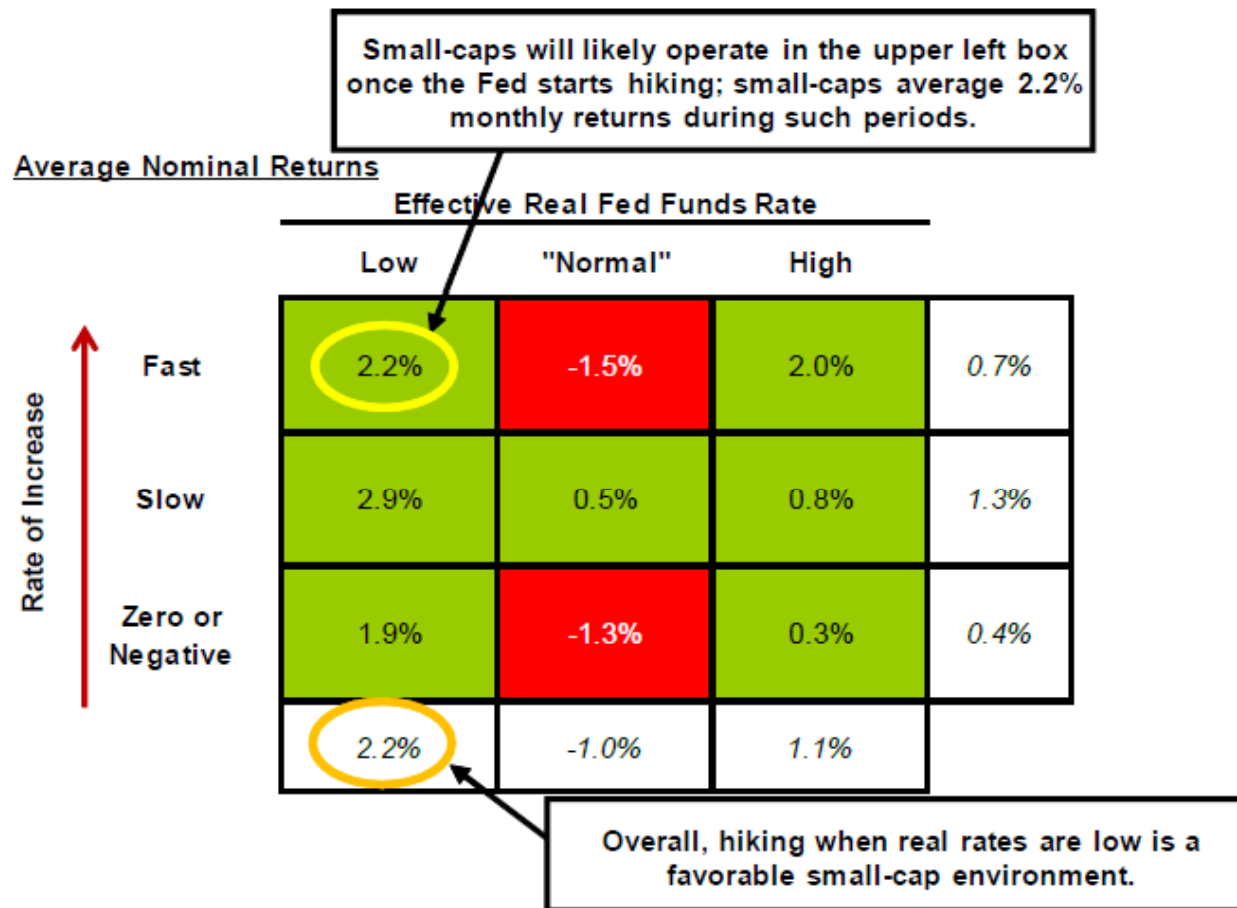
Average Relative Returns

		Core Inflation Level			
		LOW	AVG	HIGH	
Inflation Rate of Change	FALLING	3.0%	-9.7%	-2.5%	-2.0%
	STABLE	-11.9%	-4.2%	-5.2%	-6.6%
	RISING	-16.2%	-3.8%	6.9%	-2.2%
		-5.9%	-5.7%	0.3%	

Source: Furey Research Partners, LLC and FactSet Research



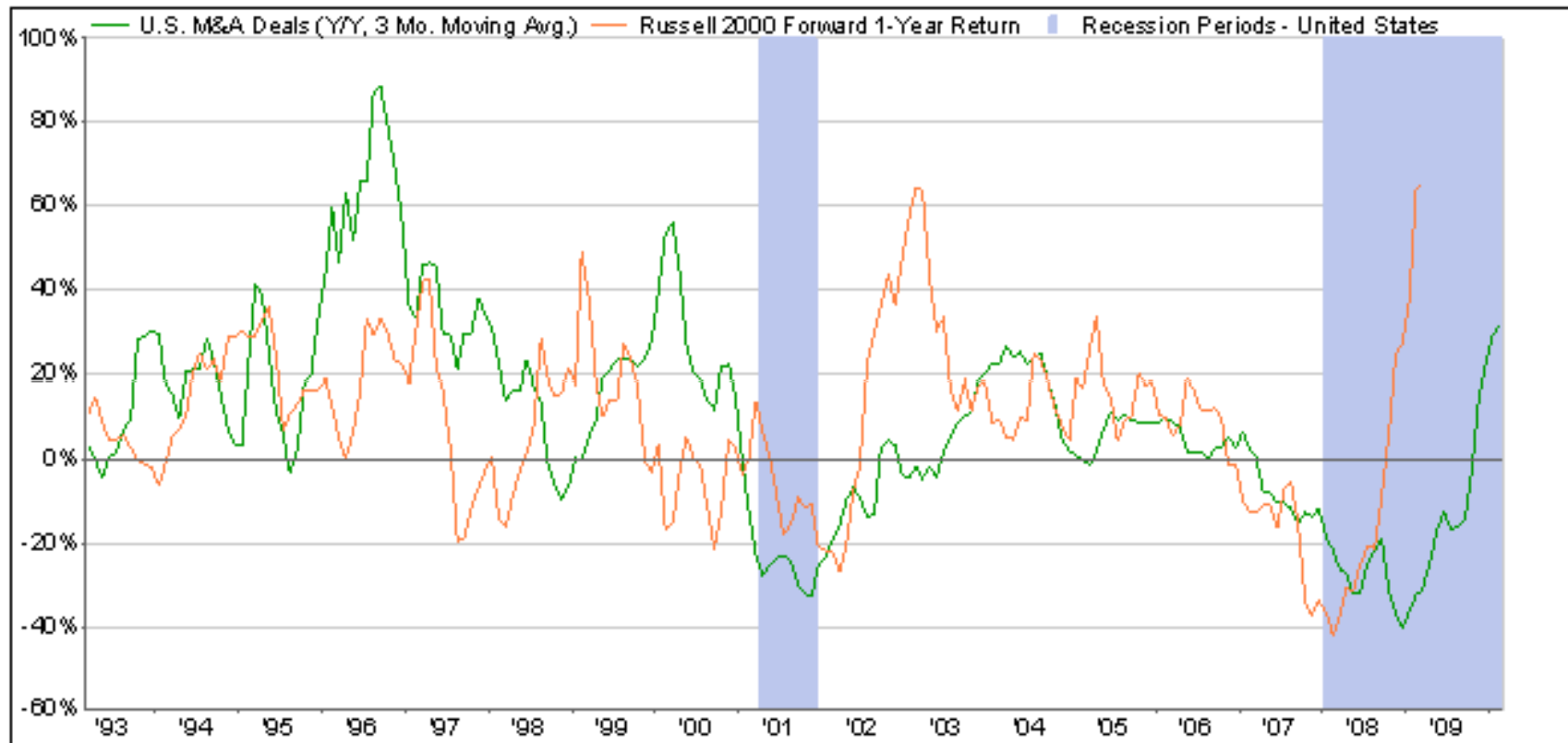
# Fed Won't Crush Stocks When They Raise Rates As It Will Be A Response To Accelerated Growth



# *M&A Cycle Is Young & Will Propel Small-Caps*

***Past accelerations of M&A activity have correlated with double digit forward returns***

**U.S. M&A Deals**

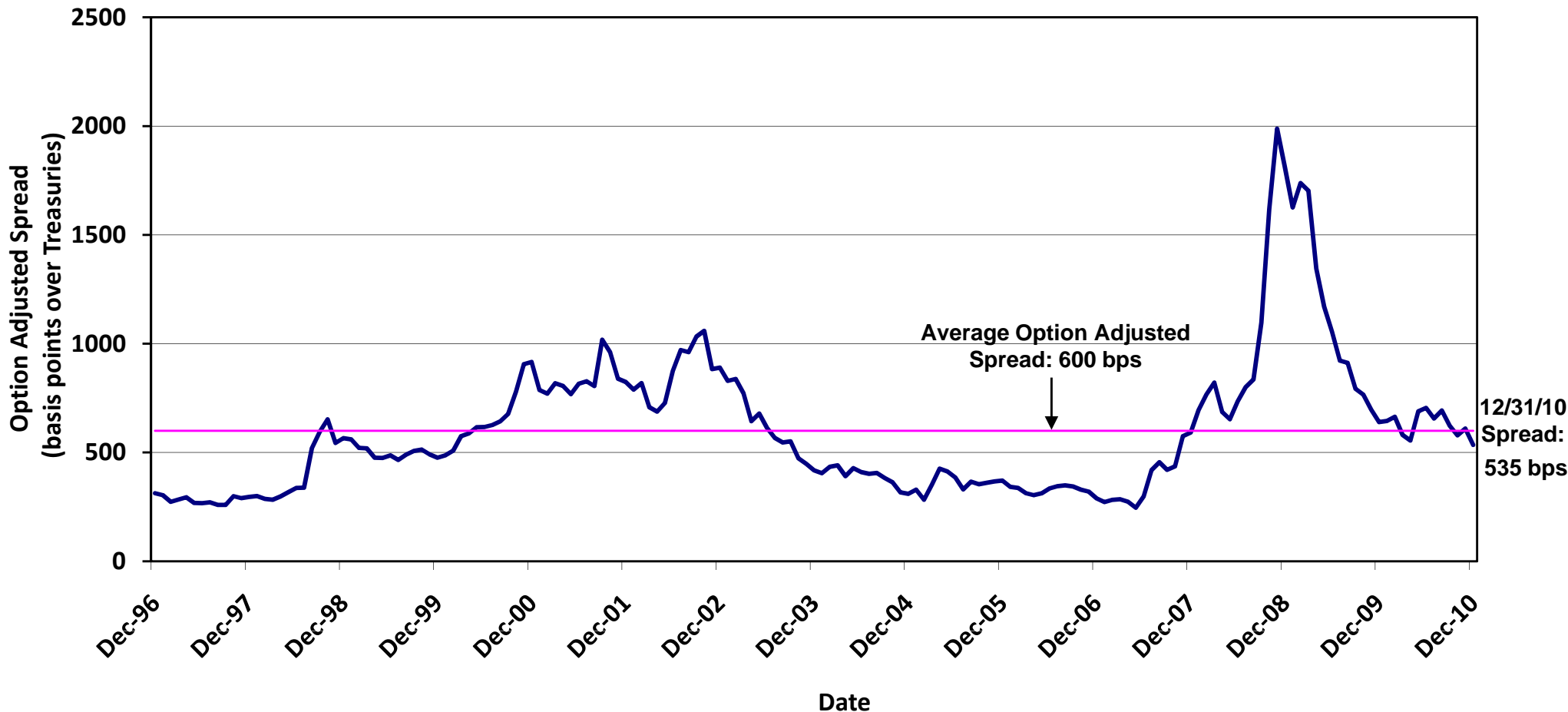


- In 2010 13 companies were acquired in Palisade's equity portfolios***
- Average deal premium 23.2%***



# Narrowing & Stable High Yield Spreads: Positive For Small-Cap

## Option Adjusted Spread Over Treasuries for the Bank of America/Merrill Lynch High Yield Master II Index\*

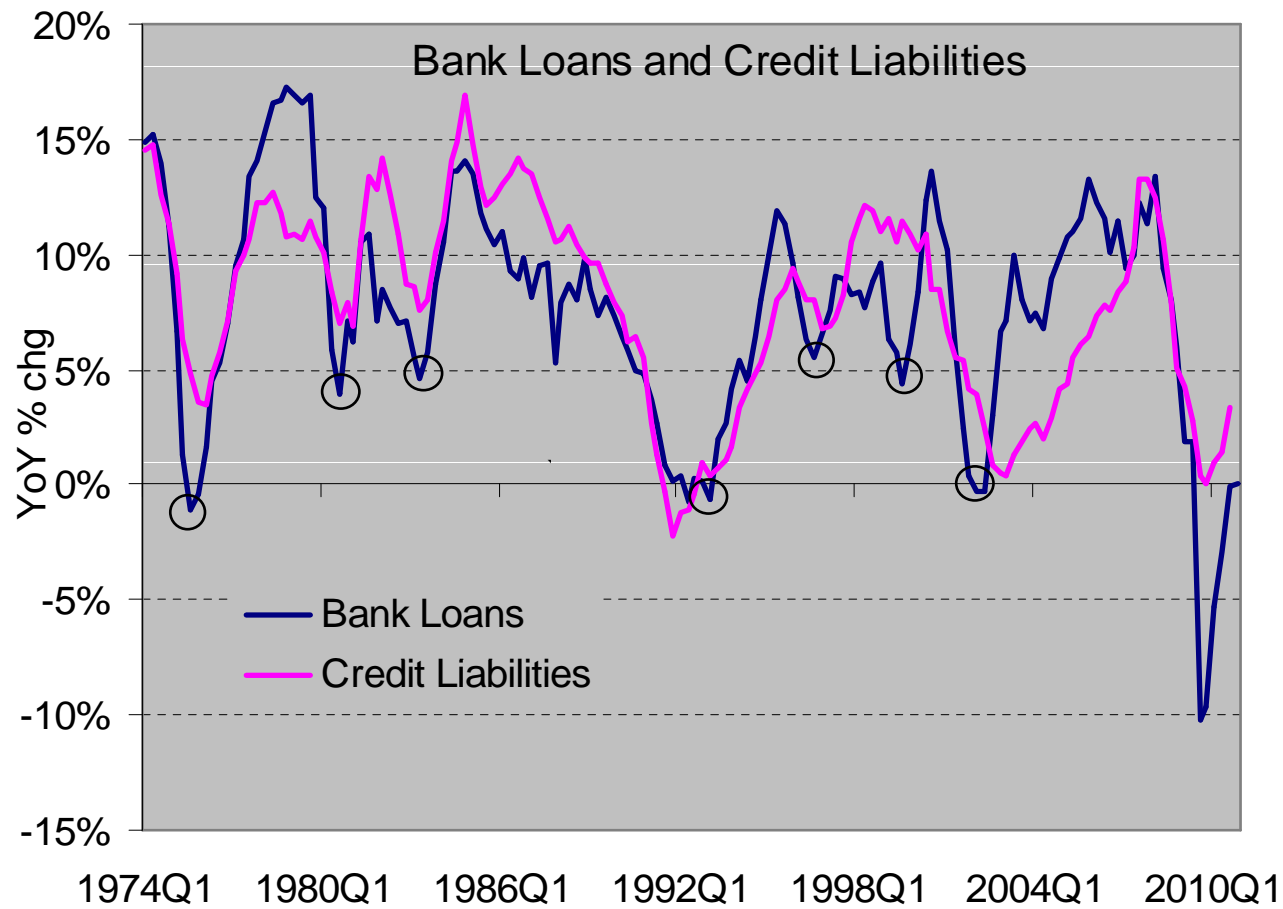


\*The spreads for high yield bonds are for illustrative purposes only. These spreads are not option adjusted spreads for convertibles.

Source: Bank of America/Merrill Lynch High Yield Bond Research

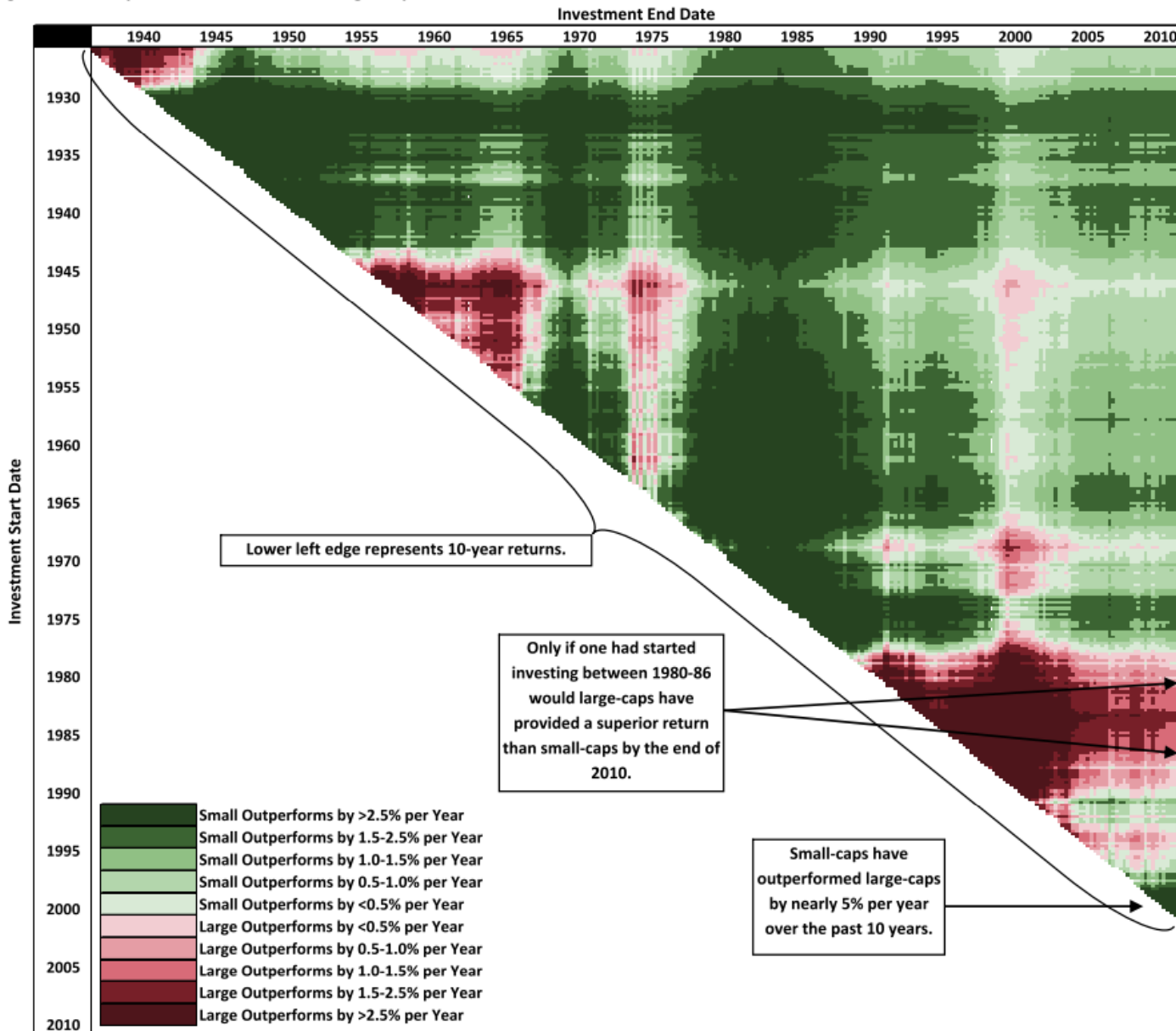


# *Lending Data Stabilized In 2010 & Likely To Recover In Next 12 Months*



# Small-Caps Have Outperformed Large-Caps Since 1940

Fig 4. Small-cap Returns Relative to Large-cap



Source: Furey Research Partners and FactSet

