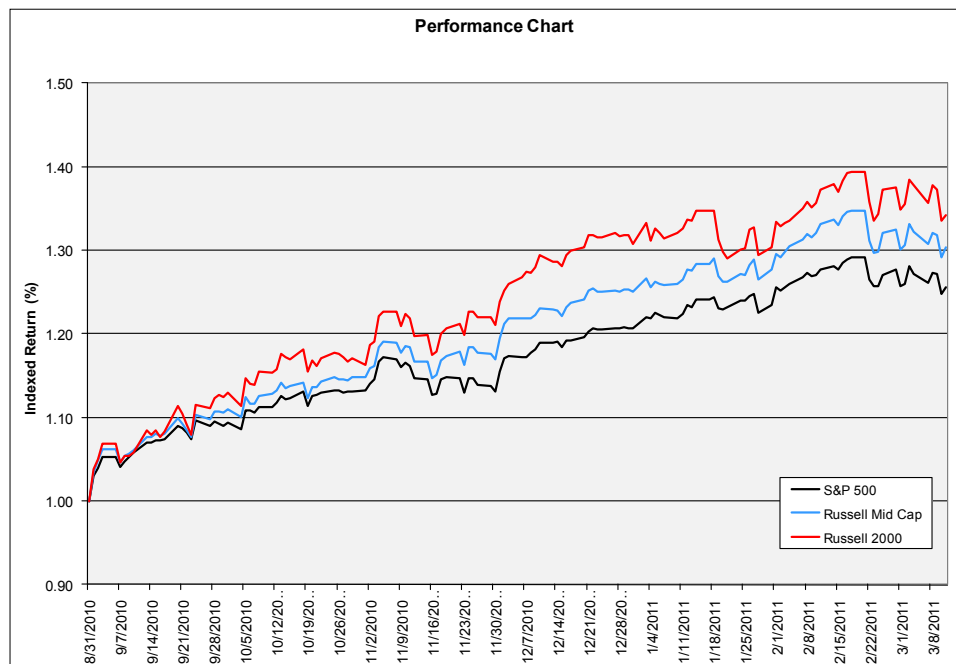


Small Caps Continue to Outperform Large Caps in February *Several Tailwinds Remain*

March 2011

After a sluggish start in January, the Russell 2000 index pulled ahead of the Russell Mid Cap and S&P 500 in February to post a gain of 6%. The chart below compares performance of the Russell 2000, Russell Midcap and S&P 500.

Exhibit 1: S&P 500 versus Russell 2000 and Russell Midcap Price Performance



Source: FactSet
August 30, 2010 through March 11, 2011

Several key themes have been driving small cap performance:

- Economic recovery remains on track with better-than-expected economic data
- Higher quality companies with the highest ROE have outperformed
- Reported earnings have been strong
- Acceleration of merger and acquisition activity has picked up; and
- Flows to small-cap mutual funds are increasing as risk appetites rise

The underlying economic recovery has gained better traction as economic data points have continued to improve. As fears of a global double-dip recession subsided last August, all sectors in the Russell 2000 have generally outpaced larger cap peers in the S&P 500. As shown in the table below, from September 2010 through the end of February 2011 small cap stocks outpaced the S&P 500 in all sectors except Consumer Discretionary.

Exhibit 2: S&P 500 and Russell 2000 Price Performance by Sector

GICS Sector	R2000 (%)	S&P 500 (%)
Energy	10.5	7.2
Information Technology	7.4	1.9
Telecommunication Services	5.8	2.4
Materials	5.6	2.7
Consumer Discretionary	5.5	6.0
Consumer Staples	5.2	2.5
Health Care	4.7	3.1
Industrials	4.4	2.4
Financials	3.9	2.9
Utilities	2.8	1.4

Source: FactSet, September 1, 2010 through February 28, 2011



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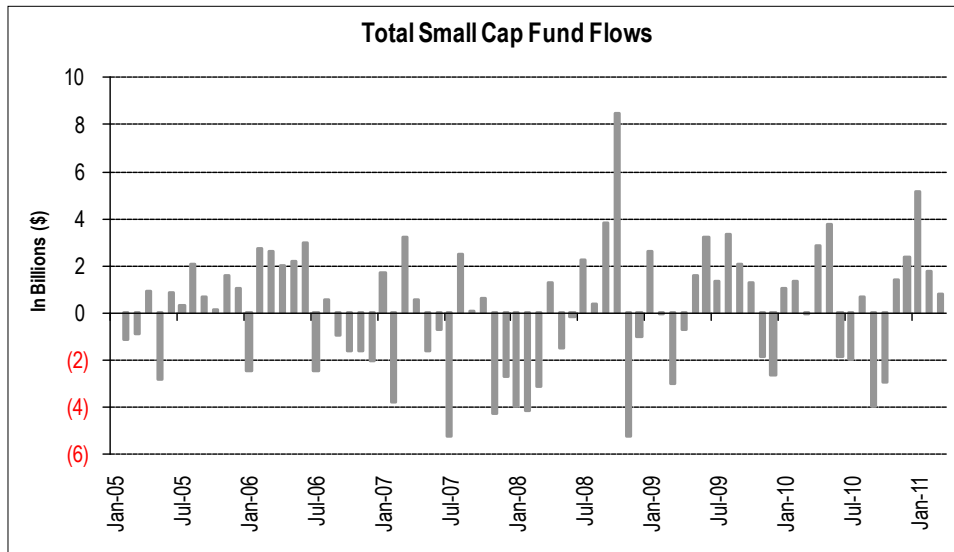
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Generally, riskier or more volatile asset classes such as small caps, tend to outperform as risk appetites increase. As macro concerns subsided, the gradual improvement in the economy encouraged investors. As risk aversion fell, flows into small cap funds rose. So far this year, one of the key drivers of outperformance in the Russell 2000 relative to larger caps was the increased flows into small cap mutual funds. We expect flows to continue into small cap funds as risk appetites rise, which should favor performance.

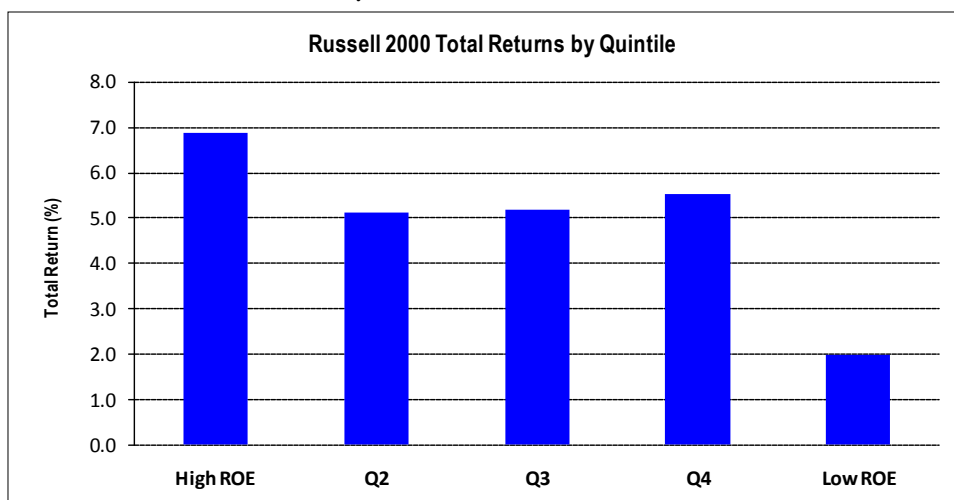
Exhibit 3: Small Cap Fund Flows



Source: Credit-Suisse
As of March 11, 2011

In sharp contrast to the low quality rally off the market low of March 2009, companies with the highest ROE have transitioned from laggards to be the leaders of 2011. We expect this trend to continue as the U.S. economy continues to recover and smaller companies benefit from a number of tailwinds in their favor relative to large caps.

Exhibit 4: Russell 2000 Total Returns by ROE Quintile

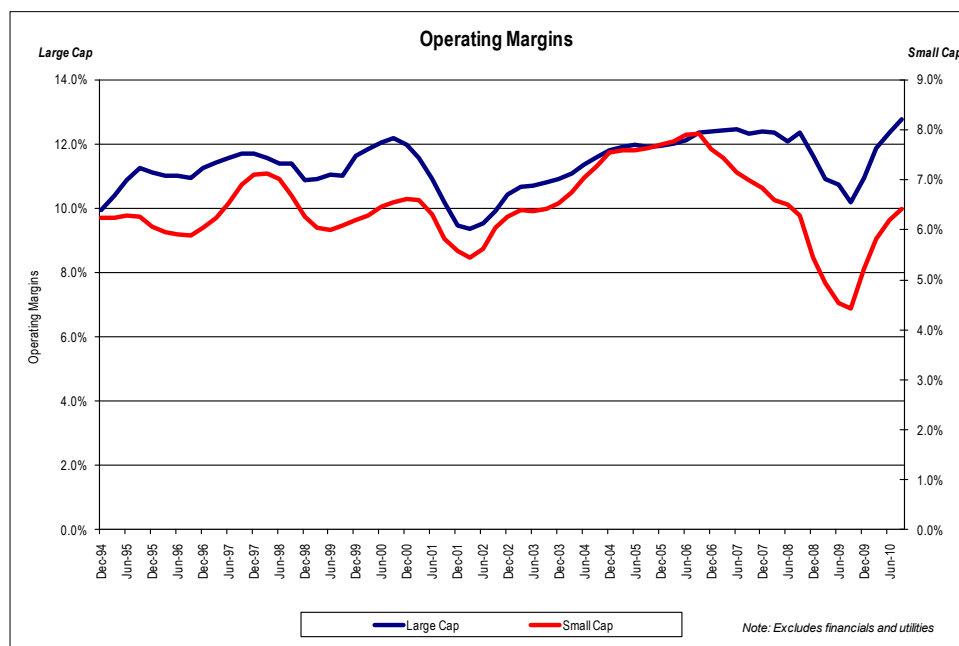


Source: FactSet
Year to date as of February 28, 2011

The information contained in this memorandum is intended for the sole use of prospective investors in understanding and evaluating the impact of market events and is not designed or intended to be used for any other purpose. The document may contain forward-looking statements, which are based on current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements.

Better-than-expected economic data suggest that the U.S. recovery remains on track. With economic recovery intact, we believe earnings should continue to surprise to the upside and macro concerns that dominated markets in 2010 should recede. Most small cap companies have reported their 2010 earnings: small cap profits are up over 20% and revenue growth is stronger than in both large and mid caps. In spite of strong performance, these key themes should remain intact. Profits have been strong and we believe small cap companies have higher operating leverage that should provide greater margin expansion. The chart below compares operating margins by cap size.

Exhibit 5: Operating Margins of S&P 500 versus S&P 600 Companies



Source: Compustat
As of December 31, 2010

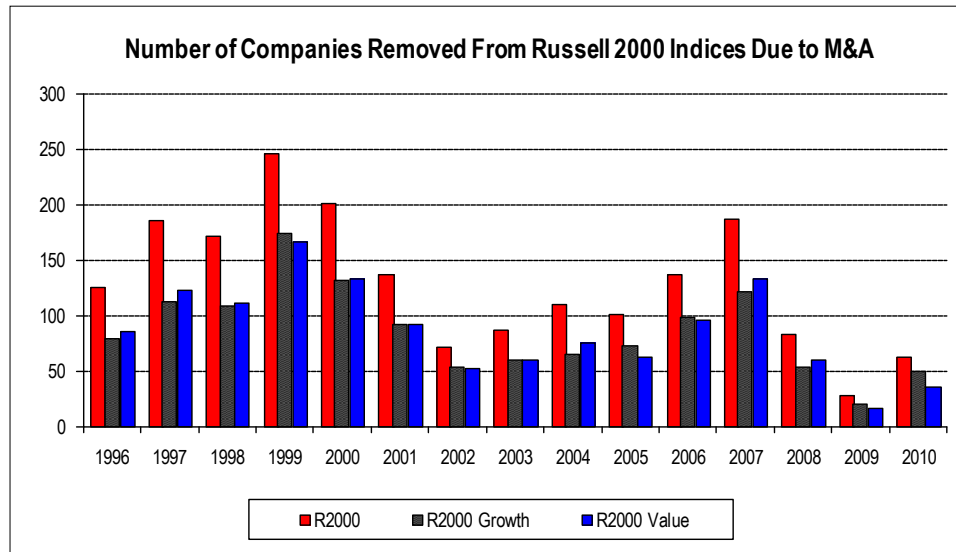
We believe sell side analysts currently underestimate the potential for small cap revenue acceleration. This should provide EPS momentum as estimates are revised upward. Generally, small cap exposure makes sense given the higher inefficiencies in pricing of smaller, less understood and typically underfollowed companies. As risk aversion peaked during the financial crisis, investors bailed out of smaller companies, dumping shares at distressed prices.

Since the financial crisis, Wall Street has reduced sell side coverage of smaller companies. Less coverage by sell side analysts creates larger disparities in pricing. As stock correlations continue to fall, stock selection becomes more important and small caps provide greater pricing inefficiencies to take advantage of than large caps.

An improving economy, easy monetary policy and near record low interest rates have also driven the pick up in merger and acquisition (M&A) activity. Takeovers and acquisitions have benefited small cap returns, particularly in the Technology sector. The following chart shows the number of companies removed from Russell 2000 indices due to M&A activity. So far this year, there has been a noteworthy amount of M&A activity with 18 deals in the Russell 2000. The wave in M&A has been fueled by large amounts of cash on balance sheets. Companies also have easier access to capital. Larger companies seeking to boost growth or enhance strategic advantages look to smaller companies to accomplish these goals and have snapped them up at higher premiums.

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Exhibit 6: Merger and Acquisition Activity in Russell 2000



Source: Credit Suisse
As of December 31, 2010

We believe global economic activity will continue to improve throughout the rest of this year. Corporate earnings should grow along with the expansion in global economic activity. However, the rate of earnings growth should slow to more reasonable levels as profit margins, excluding financials, are now slightly above normal. We are very bullish on the prospect for greater merger and acquisition activity. Corporate balance sheets are flush with cash. Lending markets are again open to deals. Valuations remain reasonable. Merger and acquisition activity will be aided by these factors and by the release of pent-up demand due to the lack of corporate investment over the past 3 years.

Our small cap portfolio favors under-valued companies in good financial positions with reasonable growth prospects. We believe these companies should benefit from improving economic activity and the increase in mergers and acquisitions.

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