



THE MARKET

- Market volatility in Q4 continued at extremely high levels. After declining by -22.25% in Q3 2011, the Russell 2000 Growth Index gained +14.99% in Q4 2011, ending the year with a loss of -2.91%.
- The average daily volatility of the Russell 2000 Growth Index continued at historically high levels. During Q4 2011, the average daily move of the index was 2.42%. Slightly lower than the extreme 2.97% in Q3, but nearly 25% above the average for the index over the past 10 years (1.94%).
- Irrespective of business fundamentals, we believe the main factors driving a stock's performance during 2011 were market cap and liquidity. Stocks that comprised the top half of the Russell 2000 Growth Index in terms of market cap had an average return of +13.43%, while those in the bottom half in terms of market cap lost an average of -7.61%, a 21% differential. From a liquidity stand point, the stocks that comprise the top half of the index for dollar volume (shares x price) had an average return for the year of +12.91% versus -2.05% for those in the bottom half.

RUSSELL 2000 GROWTH 2011 AVERAGE RETURNS (MARKET CAP WEIGHTED)

Russell 2000 Growth Index	Top Half Average Return	Bottom Half Average Return
2011 By Market Cap	+13.43%	-7.61%
2011 Volume	+12.91%	-2.05%

Source: Goldman Sachs

- The M&A market gained momentum in Q4. Companies flush with cash and in need of long-term growth have been turning to small, fast growing companies. Strategic and financial buyers are taking advantage of the dislocation in the marketplace and offering to buy these high-growth businesses at very attractive valuations. During Q4, two companies in the portfolio were beneficiaries of cash acquisitions.
- The best performing sectors (R2000G) in Q4 were Energy (+28.2%) and Industrials (+20.8%). After seeking the shelter of defensive sectors such as Healthcare and Consumer Staples in Q3, and high dividend yielding stocks, a slightly more stable global environment drove investors toward the more economically sensitive sectors of Energy and Industrials. Additionally, oil prices surged +24.8% during the quarter as tension with Iran increased despite a generally soft demand backdrop. While this helped generate positive returns for our Energy stocks, higher oil prices had negative implications across many other sectors.
- Worst performing sector (R2000G) in Q4 was Consumer Staples (+6.9%). Investors rotated out of the perceived defensive sectors such as this to make room for the more popular "risk on" names with higher trading volumes and stock price momentum. The increase in crude oil also contributed to the underperformance of the group.

PORTFOLIO REVIEW

PERFORMANCE

- The U.S. Small Cap Growth Equity composite return for the quarter was +12.51% gross of fees (+12.25% net of fees) vs. +14.99% for the Russell 2000 Growth Index. For the year, the U.S. Small Cap Equity Composite return was -2.88% gross of fees (-3.83% net of fees) vs. -2.91% for the Russell 2000 Growth. (important disclosures about this performance can be found on page 6).

CONSUMER DISCRETIONARY

- During Q4 we remained underweight Consumer Discretionary, and for the first time in over a year underperformed in this sector. This was largely attributed to the negative performance of one of our larger sector holdings. The company reported October same store sales below expectations, caused by their decision not to sell low margin Halloween merchandise any longer. Historically this has exposed them to an increased risk of being stuck with unsold seasonal merchandise. We feel this was the best long-term decision for the company, however the market punished it by selling the stock off 21% in one day. After performing our own channel checks and speaking with management, we believe the growth story is still intact, the risk/reward very favorable (currently trading at 7X '12 EPS ex cash), and the overhang from this short term issue is now behind them.

CONSUMER STAPLES

- We continued to avoid the Consumer Staples sector entirely in Q4. Investors appear willing to pay a premium for these low-margin, slow growth stocks, traditionally viewed as “safe” and “defensive” in volatile markets. Our philosophy of not paying for growth at any price relegates us to the sidelines in this sector for the time being.

HEALTHCARE

- We maintained a small underweight position in Healthcare, slightly underperforming the index for the quarter. We had particularly strong stock selection in the pharmaceutical subsector. Here we have remained focused on well-capitalized drug development companies whose positive cash flows are utilized to fund R&D for their future drug pipeline. One of our themes which continues to develop is in the area of electronic patient record retention, maintenance and portability. We are working to identify the ultimate “winners” within this specialized market in the race to make this long overdue technology a reality for hospitals, clinics and small practice groups. Certain segments within Healthcare are facing new challenges. Reductions in Medicare reimbursement imposed by the “super committee” is resulting in significant headwinds causing direct impacts to the pricing power of device companies and many providers’ willingness to make capital expenditures.

ENERGY

- Our best performing sector on an absolute basis for the quarter was Energy. While many of our selections in this space performed well with the jump in oil prices, two companies that provide advanced seismic equipment and related services had the greatest contribution. These continue to be our highest conviction names in the group going forward, as we believe they have only just begun to tap the energy reserve potential from the many unconventional, domestic energy resources within the United States.



INDUSTRIALS

- Our best performing sector on a relative basis was market-weighted Industrials. We outperformed this quarter from positive contributions in the Machinery and Air Freight/Logistics industries. We are identifying companies that are benefiting from focused pockets of strength in this slow recovery economy. Some of these areas include the prolific domestic shale regions in the oil & gas sector, large order backlog from commercial aerospace, and pricing benefits from capacity reductions in the trucking industry.

INFORMATION TECHNOLOGY

- Our largest sector overweight during the quarter was Information Technology. Our negative performance contribution came primarily from our large exposure to the semiconductor industry. The current macroeconomic uncertainty around the globe, along with a negative mid-quarter update from Intel caused investors to reduce exposure to any and all small-cap semiconductor companies. We believe this indiscriminate selling of all semiconductors is misplaced by investors and has presented an opportunity to selectively add to our positions. For example, the negative news out of Intel was based almost exclusively on poor sales of chips and hard drives for PCs. Many Semi companies (like we own) only supply into the storage and networking areas, with no business related to PCs. Regardless of zero correlation to Intel's news, these companies were punished in the short term.
- A secondary cause of our underperformance in the Tech Sector can be attributed to our lack of exposure to the high-flying Software-as-a-Service (SaaS) sector. This has become a near term "must own" area for the momentum crowd in small-cap growth. These companies typically offer hosted solutions and bill customers on a subscription basis versus the traditional software model of a one-time payment for the right to a perpetual license. A majority of these companies fail to generate the earnings or cash flow to reasonably support current valuations. Making the valuations even less palatable is the large disparity in GAAP (the Generally Accepted Accounting Principles) and non-GAAP EPS, driven primarily by stock option expenses. As these companies "spend at any cost" to drive revenue growth, they tend to pay substantial amounts of employee compensation in the form of stock grants and/or stock options, a cost which many of these managements believe we should ignore when analyzing their business results and cash-flow. Also, in order to sustain the revenue growth required to justify such high valuations, most of these companies continually acquire revenues, versus growing them organically, using their over-valued stock as a currency. Margin expansion continues to be pushed out without a clear picture of when meaningful earnings and cash flow will accrue to shareholders and when the issuance of stock will end. The market's willingness to ignore the real economic value of stock option awards and money losing acquisitions confounds us, particularly in the context of current valuations. On average, the 25 SaaS companies represented in the R2000G index account for a 3.6% weight in the index and trade at an average P/E ratio of 105.6x (excluding stock option/stock grant expenses) and a EV/Sales of 5.5x! If you attempt to value the company's earnings using GAAP, the resulting P/E ratio would be a very large negative number because on average all the companies are losing money. But, during Q4 2011 six of the top ten contributing Information Technology stocks in the R2000G were SaaS companies. Those six names contributed +71bps, with one company alone contributing +25bps. We believe the infatuation with these companies will slow in the coming quarters and have decided to keep our clients capital out of these money losing operations.

OUTLOOK

Recovery in the U.S. Economy has been stubborn since the cyclical low of 2009, with Real GDP growth expected to register less than 2% for 2011 based on Bureau of Economic Analysis statistics through Q3 2011 and current estimates for Q4 by leading economists. Global growth has been similarly anemic with developed markets suffering the slowest growth rates and emerging economies picking up the slack. We expect the global economy to produce more of the same in 2012. It also remains to be seen if China will be able to engineer the soft landing necessary to support the primary engine behind incremental demand for commodities and goods from companies in highly cyclical industries. For Europe, the only question at this point is how deep their recession will be and what effect it has on other regions. We believe the bottom line for U.S. employment, the housing market, industrial production, and consumer spending has been and will continue to be very slow, but steady progress. Fortunately, U.S. companies are extremely well positioned compared to just a few short years ago in terms of balance sheet strength, efficiency and profitability. U.S. companies are holding more cash and cash equivalents today than at any point on record, just over \$2 Trillion. This represents an increase of about 25% from a year ago, the largest increase in percentage terms going back to 1952 according to the Federal Reserve. This again should drive another extremely active year for M&A. The biggest problem facing the U.S. economy, and stock market, is a crisis of confidence rooted in global financial concerns and domestic political gridlock. But that doesn't mean 2012 won't have pockets of extraordinary opportunity for innovative companies, select industries and geographies.

While our outlook for the greater economy has not changed much in the last 10 quarters, price swings have been absolutely wild for equities. We typically do not invest for 90 day periods and the environment today continues to warrant a focus on more defensive growth names that can sustainably thrive in a low-growth macro environment. We have and will continue to favor companies that are not dependent on the rising tide of economic growth. But rather those companies driven by unique secular growth trends, raw innovation, true pricing power, and market share gains into new, fast growing geographies both domestically and internationally.

Some examples of areas where we are focusing our efforts include:

- Products and services that aid in corporate efficiency and expense control
- Domestic and international energy development
- Agriculture related spending
- Hospital acquired infection diagnosis and disease control
- LED technology adoption
- Companies serving niche markets with expanding unit volumes - unique products and services.

Having said that, our philosophy and process remain founded on owning the best companies in our investable universe - companies that exhibit top line revenue growth, strong cash flows, improving margins, and identifiable growth catalysts.

In the face of a slow-growth, cash-hoarding, conservative corporate environment, we believe no sector is better suited to thrive than Technology. We continue to find our best long term opportunities here and this is why we remain substantially overweight this sector. Although corporations are unlikely to embark on aggressive plant and workforce expansions until they see sustained end demand, they are more willing to pay incrementally to enhance existing facilities making them more



efficient. Some specific examples within our own portfolio include a company that provides a career building website and corporate recruiting tools for some of the fastest growing segments of the U.S. employment market. The company reports that a scarcity of skilled and qualified professionals exist in namely two sectors: Technology and Energy. Another example is a company providing networking and storage solutions to address the massive demands of data proliferation and cloud computing. As we look for companies that can grow faster than the market we are also finding a large number of companies in the Industrial and Energy Sectors. In addition to owning an exploration and production company participating in two of the more prolific shale regions in the country, we also own 2 companies that provide advanced seismic equipment and services to exploration companies nationwide. In Healthcare, we own companies that provide advanced technology and solutions for rapid and cost effective testing for infectious diseases (particularly hospital-acquired diseases) at the point of care and also a company that produces powerful antibiotics to treat these infections effectively. Consumer names will remain the most challenging due simply to high unemployment. Although we will likely remain underweight until we see a legitimate change here, we believe we have still found several high-quality retailers with strong concepts and ample store growth potential. These are just some of the many avenues we are pursuing to exploit opportunities in companies which have the ability to grow rapidly if the economy as a whole remains stagnant.

The current European problems are too big to ignore and we are focusing on U.S. companies which have acknowledged this fact and are looking to diversify away from this region, focusing their efforts on markets that continue to exhibit rapid growth. No doubt that the environment will be challenging for many "growth" companies, but a range of positive underpinnings are present such as an extremely accommodative Federal Reserve, corporate balance sheet strength and historically high U.S. corporate profitability. This leaves us cautiously optimistic heading into 2012. We think the U.S. economy in the coming year has room for some level of growth similar to 2011. Also similar to 2011, we anticipate the time between now and the fall elections to be very volatile. These turbulent markets will continue to create tremendous opportunities for long-term, research intensive growth managers. To begin 2012 we have already seen correlation begin to revert down toward more historically normalized levels which set up well for true stock pickers like Sparta. This will be a critical factor for absolute and relative performance, as well as alpha generation. We remain focused on company specific opportunities. We believe that having a deep understanding and conviction in what drives these businesses is paramount during uncertain, volatile periods. With that, we have a number of significant event-driven positions in the portfolio which have identifiable upside catalysts and secular tailwinds which are independent from the current macro environment. While we cannot predict how other market participants will value our companies on a daily, monthly, or quarterly basis, we have the utmost confidence in our long-term focus and will continue to put the interests of our investors first.

As always, we assure you that our focus is singular and our efforts vigilant. Thank you for your continued support.



Ryan Carr
Chief Investment Officer
Sparta Asset Management

U.S. SMALL CAP GROWTH EQUITY DISCLOSURE

Sparta Asset Management, LLC (SAM) US Small Cap Growth Equity Composite consists of fully discretionary equity portfolios seeking to achieve long-term capital appreciation by identifying securities of small-capitalization growth companies with the potential for significant long-term price appreciation. Portfolios generally include 55 – 65 stocks with market capitalization between \$100 Million - \$3 Billion at market value. The composite is measured against the Russell 2000 Growth Index. The minimum account size for inclusion in the composite is currently \$5,000,000. From September 17, 2007 through September 30, 2008 the minimum account size was \$250,000. From July 1, 2005 through September 14, 2007 the minimum account size was \$1,000,000. Prior to July 1, 2005 the minimum account size was \$100,000.

Sparta Asset Management, LLC claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS standards. Sparta Asset Management, LLC has been independently verified for the periods September 17, 2007 through September 30, 2011 by Ashland Partners & Company LLP.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The US Small Cap Growth Equity Composite has been examined beginning September 17, 2007.

Sparta Asset Management, LLC is a registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. Inherent in any investment is the potential for loss.

The US Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. From 7/1/07 to present, net of fee performance was calculated using highest management fee of 1.00%. Prior to July 1, 2007 net of fee performance was calculated using actual management fees. Prior to July 1, 2005, the composite was comprised of 100% bundled fee accounts. During this period gross performance returns were reduced by transactional costs and net of fee returns were net of all fees. The bundled fee includes all advisory, trading, custody, and administrative fees charged to the portfolios. The annual composite dispersion presented for years 2000 – 2004 is an equal-weighted standard deviation calculated for the accounts in the composite the entire year. The annual composite dispersion for year 2009 going forward is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for valuing portfolios, calculating and reporting returns, and preparing compliant presentations are available upon request.

The management fee schedule is as follows: 1.00% on first \$25 million; 0.85% on next \$25 million; 0.80% on next \$50 million; and 0.75% on assets over \$100 million. Each client's returns will be reduced by the advisory fee and any other expenses incurred in the management of the investment advisory account. Actual investment advisory fees incurred by clients may vary.

The US Small Cap Growth Equity Composite was created on September 17, 2007. The period October 1, 1995 through September 14, 2007 represents the equity portfolio track record established by the Portfolio Manager while affiliated with a prior firm. The Portfolio Manager was the only individual responsible for selecting the securities to buy and sell. Performance shown from the prior firm does not necessarily indicate how the US Small Cap Growth Equity Composite will perform in the future. Ashland has reviewed this track record for compliance with the portability requirements of GIPS standards. The verification and performance examination reports are available upon request.

This performance information gives some indication of the risks of an investment in the US Small Cap Growth Equity Composite. Performance figures for the period ended shown herein represent a composite of fully discretionary, fee-paying SAM equity accounts above \$5,000,000. The composite is size weighted and includes terminated accounts through their last full month under management. The returns presented reflect the reinvestment of dividends and other earnings. Beginning September 17, 2007, composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 10% or more of portfolio assets. There is no guarantee that the portfolio manager will achieve similar results in the future. Please refer to the Sparta Asset Management, LLC Form ADV Part 2 for a full disclosure of the fee schedule and other detailed information regarding the services offered. The returns presented have sustained significant gains and losses due to market volatility.

INDEX INFORMATION

The Russell 2000 Index is a market value weighted index of the 2000 smallest US companies in the Russell 3000 Index, which includes 3000 of the biggest US stocks. The Russell 2000 Growth Index consists of those Russell 2000 companies with higher price-to-book and higher forecasted growth values. The volatility of the indices may be materially different from the individual performance attained by a specific investor. In addition, Adviser's holdings may differ significantly from the securities that comprise the indices. The indices are disclosed to allow for comparison of the investor's performance to that of certain well-known and/or widely recognized indices. You cannot invest directly in an index.

COMPOSITE PERFORMANCE			ANNUAL PERFORMANCE RESULTS							
COMPOSITE ASSETS (USD)										
YEAR END	TOTAL FIRM ASSETS (THOUSANDS)	COMPOSITE ASSETS (THOUSANDS)	NUMBER OF ACCOUNTS	COMPOSITE GROSS	COMPOSITE NET	RUSSELL 2000 GROWTH	COMPOSITE DISPERSION	3Yr ANNUALIZED STANDARD DEVIATION COMPOSITE	3Yr ANNUALIZED STANDARD DEVIATION RUSSELL 2000 GROWTH	
2011	531,399	345,621	16	(2.88%)	(3.83%)	(2.91%)	0.08%	24.49%	24.31%	
2010	550,061	441,991	16	24.17%	22.98%	29.09%	0.12%	27.79%	27.69%	
2009	441,668	228,833	10	34.45%	33.18%	34.47%	0.34%	n.a.	n.a.	
2008	226,053	171,246	9	(38.75%)	(39.45%)	(38.54%)	n.a.	n.a.	n.a.	
2007	166,885	90,195	five or fewer	3.00%	2.03%	7.05%	n.a.	n.a.	n.a.	
2006	n.a.*	74,211	five or fewer	14.96%	13.98%	13.35%	n.a.	n.a.	n.a.	
2005	n.a.*	1,251	five or fewer	10.73%	9.63%	4.15%	n.a.	n.a.	n.a.	
2004	n.a.*	11,160	43	18.41%	16.81%	14.31%	0.43%	n.a.	n.a.	
2003	n.a.*	6,159	24	55.71%	53.44%	48.54%	0.96%	n.a.	n.a.	
2002	n.a.*	2,639	12	(12.51%)	(14.04%)	(30.26%)	0.66%	n.a.	n.a.	
2001	n.a.*	3,388	15	(5.68%)	(7.33%)	(9.23%)	0.96%	n.a.	n.a.	
2000	n.a.*	4,011	20	11.21%	9.40%	(22.43%)	3.94%	n.a.	n.a.	
1999	n.a.*	2,807	12	74.75%	72.18%	43.09%	n.a.	n.a.	n.a.	
1998	n.a.*	941	five or fewer	(3.75%)	(5.40%)	1.23%	n.a.	n.a.	n.a.	
1997	n.a.*	742	five or fewer	22.89%	20.76%	12.95%	n.a.	n.a.	n.a.	
1996	n.a.*	245	five or fewer	31.38%	29.09%	11.26%	n.a.	n.a.	n.a.	
1995 ¹	n.a.*	108	five or fewer	(0.46%)	(0.92%)	1.48%	n.a.	n.a.	n.a.	

¹ 1995 represents a partial year beginning 10/1/1995 and ending 12/31/1995.

n.a.* Total firm assets were from a prior firm. See important disclosures about this performance information herein.

n.a. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.



SPARTA
ASSET MANAGEMENT

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