

# 4Q

Allianz Global Investors Capital

## US Ultra Micro Cap

### Fourth Quarter 2011 Commentary

#### Market Overview

U.S. stocks rebounded sharply in the fourth quarter after registering steep declines in the prior period. Throughout the quarter, positive U.S. economic data and corporate earnings lifted investor sentiment, while fears of a deepening European sovereign debt crisis pressured equities.

October's stock surge accounted for nearly all of the market's quarterly gain, while November and December closed mostly flat despite notable intra-month volatility.

For the period, the Russell Microcap Index rose 13.8%, underperforming Russell 2000 Index by 1.6%, but besting a return of 11.8% for the Russell 1000 Index. Within the micro-cap universe, growth stocks trailed value stocks by a percent.

Within the Russell Microcap Growth Index, all sector returns were positive. Economically sensitive stocks including Energy, Industrials and Materials led all sectors as economic growth concerns waned.

In contrast, counter-cyclical sectors such as Consumer Staples, Utilities and Telecommunications underperformed the market by the greatest magnitude as investors rotated out of defensive names.

#### Portfolio Overview

The US Ultra Micro Cap portfolio returned 21.7% (gross of fees), outperforming the Russell Microcap Growth Index's return of 13.3%. For the year, the portfolio returned -1.6% versus -8.4% for the index.

Over the last three months, equity pricing was more rational as stocks generally reflected underlying company fundamentals – a reversal of what occurred in the third quarter. From an attribution perspective, security selections in the Information Technology, Materials and Energy sectors were the main factor contributing to relative outperformance. Separately, stock-picking within Health Care and Telecommunication Services negatively impacted relative returns. The total level asset weighting effect was negligible.

#### Contributors

Fabless semiconductor company **Silicon Motion Technology Corp.**, which was recently purchased in August, moved higher over the quarter after topping estimates and raising guidance. The company is uniquely positioned because it offers a better product at a lower price with faster lead times.

In addition to increasing mobile phone storage requirements, the company should benefit from demand for its innovative products and new market opportunities, which in turn should lead to upside earnings surprises.

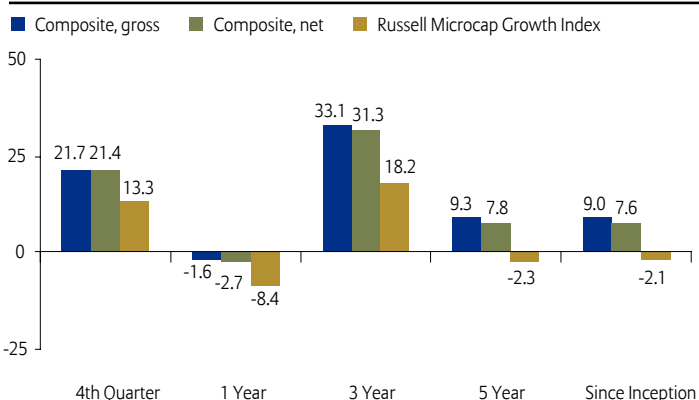
**Flotek Industries Inc.** moved higher after exceeding profit projections. The supplier of drilling and production products to the energy industry has reached an earnings inflection point and should begin to exhibit robust top- and bottom-line growth due to better pricing, market share gains and exposure to key regions.

Overall, seismic equipment supplier **Mitcham Industries Inc.** is benefiting from strengthening shale development demand. Near-term earnings could top projections due to higher Seemap sales and capex projections, capacity additions in Latin American and stronger-than-expected demand for high resolution data.

Shares of **HealthStream Inc.**, a provider of health care training software, gained ground over the quarter as investors began to price in the potential for higher earnings growth. The company is capitalizing on industry-related mandates and structural changes, which are driving training demand.

Five Largest Contributors	Avg Wgt (%)	Contrib. (bps)
Mitcham Industries	1.6	112
Flotek Industries Inc	1.5	107
Silicon Motion Technology	1.3	85
HealthStream Inc	2.1	79
DXP Enterprises Inc	1.4	77
Five Largest Detractors	Avg Wgt (%)	Contrib. (bps)
8x8 Inc	1.6	-31
Hansen Medical Inc	0.3	-25
Cardiovascular Systems Inc	0.9	-22
Points International Ltd	1.0	-21
Easylink Services	0.6	-18

#### Performance (%)



All data as of December 31, 2011 unless otherwise noted. Composite inception date: December 1, 2006. Contributors and Detractors do not represent all of the securities purchased, sold or recommended for advisory clients during the stated measurement period. A list of all recommendations made, and every holding's contribution to the representative account's performance during the past 12 months is available upon request. Portfolio contributions are calculated by multiplying the portfolio weight by the rate of return during the measurement period. Performance of less than one year has not been annualized. Past performance is not indicative of future results. Source: Allianz Global Investors Capital.

# US Ultra Micro Cap

## Contributors (continued)

Additionally, HealthStream's online delivery is less expensive and more efficient than competitor options. Going forward, acute care expansion and acquisitions could provide additional growth opportunities.

Industrial MRO products distributor **DXP Enterprises Inc.** continued to exhibit sustained earnings growth predicated on broad-based business momentum, new sales wins and an accretive acquisition.

## Detractors

**Points International Ltd.** provides various e-commerce and technology services to loyalty program operators. The company's transition from a principal to agency model has dramatically increased partners and revenue opportunities. Cross-sell opportunities, a new PayPal program and a potential airline deal are likely catalysts for upside earnings potential.

Shares of **8x8 Inc.**, an Internet protocol services developer, were lower after reporting earnings that missed forecasts due to investments and dilution from the Contactual acquisition. This is likely a non-event as revenues topped estimates.

Furthermore, third quarter investments should translate into future customer adds. With the company successfully undergoing a business transition, it should be well positioned to profit from virtual office growth, an improved product line up and an expanded channel partner base.

**Hansen Medical Inc.**, a developer of medical robotics designed for accurate positioning of catheters, posted lower-than-expected profits and revenues. Said earnings report in conjunction with the news of a product launch delay and dilutive financing deal led to the sale of this position.

Similarly, **Cardiovascular Systems Inc.**, a developer of catheters and medical devices, posted lower-than-expected earnings and revenues and reduced guidance due to a shift in customer base.

This event is notable, but should not impede our longer-term growth projections. Penetration of an underserved market, a differentiated product and the potential for new indications all remain earnings drivers over the coming year.

An unfavorable patent infringement case ruling and higher legal costs pressured **EasyLink Services International Corp.** shares and earnings, respectively.

Despite these issues, the growth trajectory of the Internet service provider remains on track. An expanded product offering should increase the size and number of deals, while greater market penetration, increasing international presence, cross-sell opportunities and strong end demand are expected to boost future sales growth.

## Purchases and Sales

**Big 5 Sporting Goods Corp.**, a sporting goods operator, was added to the portfolio during the quarter. We believe the market is underestimating the company's earnings growth potential, which is predicated on new merchandising efforts favoring higher margin products, strategic pricing initiatives, lower input costs and an increasing ability to leverage a fixed income model.

Sales and technical training provider **GP Strategies Corp.** was also purchased during the period. Strengthening demand within the LNG and automotive sectors, Chinese sales, Microsoft cross-sale opportunities as well as acquisitions have the potential to lead to upward estimate revisions. As investors account for these catalysts, the stock price should continue to trend higher.

Shares of **EDAC Technologies Corp.**, which produces tools for the manufacture and assembly of jet engines, were bought in November. Record backlog, favorable product mix, operating efficiencies and improved cost absorption should boost revenue growth going forward.

Sales growth concerns led to the sale of **ZAGG Inc.** and **Measurement Specialties Inc.** from the portfolio. Shares of **Magma Design Automation Inc.** were sold after Synopsys Inc. announced they would acquire the company.

## Outlook

While the U.S. economy continues to muddle along, leading economic indicators remain encouraging. Recession fears and continued uncertainty in Europe in conjunction with a macro-headline focused equity market may result in similar levels of equity volatility. However, corporate profitability has been strong, balance sheets are healthy and in general, corporate managements remain cautiously optimistic. Deploying cash should lead to additional shareholder buybacks, increased dividends and merger and acquisition activity.

Small-cap growth equities continue to exhibit attractive risk-reward profiles due to company-specific improving fundamentals, attractive earnings yields compared to bonds, superior growth prospects and the potential for significant bottom-line leverage on improved revenue growth. Additionally, growth stocks are better exposed to exciting, new secular opportunities and overseas economic drivers relative to their value counterparts.

Despite volatility associated with mixed macro economic data points, we believe that company specific results ultimately dictate performance. We continue to find exciting, new positive change-based opportunities within the small-cap investment universe.

**Allianz Global Investors Capital ("AGIC") was formed from the combination of three affiliates: NFI Investment Group ("NFI"), Nicholas-Applegate ("NACM"), and Oppenheimer Capital ("OpCap"). In July 2010, all employees of NACM and OpCap became employees of AGIC, and the transition of management of client assets from NACM and OpCap to AGI Capital was initiated. AGIC provides oversight with respect to the investment management services provided by NFI, as well as non-investment functions including marketing, operations, technology, legal/compliance, and client service. AGIC and NFI are SEC registered investment advisers.**

AGIC claims compliance with the Global Investment Performance Standards (GIPS). AGIC is an SEC registered investment adviser that provides investment management and advisory services primarily to separate accounts of institutional clients, and registered and unregistered investment funds. For GIPS purposes, the Firm is defined and held out to the public as the investment management and advisory services provided by AGIC and its SEC registered investment adviser subsidiary NFI Investment Group LLC, excluding (i) administrative and/or sub adviser oversight services, and (ii) separately managed account (wrap) services. The firm's list of composite descriptions, as well as information regarding the firm's policies for valuing investments, calculating performance, and preparing compliant presentations, are available upon request by contacting (619) 687-2800.

**Past performance is not indicative of future results.** The strategy may not achieve its desired results. Gross returns do not give effect to investment advisory fees, which would reduce such returns. All returns presented are calculated using U.S. dollars unless otherwise noted. Advisory fees are deducted periodically from the account and have an impact on performance. As an example, the effect of investment advisory fees on the total value of a portfolio assuming (a) \$1,000,000 investment, (b) portfolio return of 5% per year, and (c) 1.00% annual investment advisory fee would be \$10,268.81 in the first year, \$56,741.68 over five years, and \$129,160.05 over ten years. Actual fees charged may vary by portfolio due to various conditions, including account size. Investment advisory fees are described further in Form ADV Part 2A Brochure. Where "net of fee" performance is indicated, actual fees charged were used for performance calculations.

The asset and industry reports contained herein are unaudited. The summation of dollar values and percentages reported may not equal the total values, due to rounding discrepancies. Portfolio characteristics are derived using currently available data from independent research resources that are believed to be accurate. Estimates (est.) are preliminary and unaudited. Unless otherwise noted, AGIC is the source of illustrations, performance data, and characteristics. Past recommendations are supplemental information, and supplement the composite performance presented herein.

Contributors and Detractors are the holdings or recommendations of a representative portfolio that had the greatest positive (and negative) impact on performance over the quarter, relative to the impact of that security to the performance of the indicated benchmark index. Purchases reflect the top three new positions during the period. Sales are based on position size at quarter-end compared to the prior quarter-end. To exclude rebalancing, only new additions to the portfolio and completely liquidated positions are considered. For a description of these inclusion methodologies, and a complete list of all representative buys and sells for the last 12 months, please contact AGIC at (619) 687-8000.

References to specific securities and their characteristics are examples of securities held in the portfolio and are not intended to be, and should not be interpreted as an offer, solicitation or recommendation to purchase or sell any financial instrument, an indication that the purchase of such securities was or will be profitable, or representative of the composition or performance of the portfolio. "Representative Holdings" are as of the date indicated and are subject to change without notice. Holdings are selected based on size of positions, from a representative account. Representative account characteristics and partial lists of past recommendations do not reflect composite performance, which may be different. Additional information regarding account characteristics, and a complete list of all representative buys and sells for the last 12 months is available upon request. Portfolio and benchmark characteristics for this strategy are provided by FactSet, and calculated according to FactSet methodology.

Unless otherwise noted, equity index performance is calculated with gross dividends reinvested and estimated tax withheld, and bond index performance includes all payments to bondholders, if any. Indexes are referred to for comparative purposes only and are not intended to parallel the risk or investment style of the portfolios in the Composite. Indexes do not utilize leverage. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. Index data contained herein (and all trademarks related thereto) are owned by the indicated index provider, and may not be redistributed. The information herein has not been approved by the index provider.

Currency conversions are provided by Russell Performance Universe and are based on monthly linked performance converted from U.S. dollar. Exchange rates are provided by the Federal Reserve Statistical Release as of month end. The US Ultra Micro Cap Composite (the "Composite") consists of all accounts purchasing primarily domestic growth equities with market capitalizations below the weighted average market capitalization of the Russell Microcap Growth Index at the time of purchase. The Russell Microcap Growth Index is an unmanaged index comprised of the Russell Microcap companies with higher price-to-book ratios and higher forecasted growth values. The Russell Microcap Index is an unmanaged index which includes the smallest 1,000 securities in the Russell 2000 Index plus the next 1,000 securities. Russell Growth Indexes measure the performance of those companies with higher price-to-book ratios and higher forecasted growth values. Investment Risks: Ultra micro-cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the markets for these stocks may adversely affect the value of these investments.