

## COMPANY INFORMATION

<b>Full Description</b>	Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value
<b>Firm Name</b>	Morgan Dempsey Capital Management, LLC
<b>Product Name</b>	Morgan Dempsey Small/Micro-Cap Value
<b>Parent Company</b>	N/A
<b>Contact</b>	Maury McCoy
<b>Phone</b>	512-775-0944
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<b>Address</b>	309 N. Water St.
<b>City</b>	Milwaukee
<b>State</b>	Wisconsin
<b>Zip Code</b>	53202
<b>Website</b>	www.MorganDempsey.com

## PRODUCT INFORMATION

<b>Vehicle Type</b>	Separate Account
<b>Product Type</b>	Equity
<b>Scope</b>	United States
<b>Strategy</b>	Active
<b>Equity Style</b>	Value
<b>Market Cap</b>	Small Cap
<b>Sector</b>	Broad/Diversified
<b>Region</b>	NA
<b>Current Hedging</b>	NA
<b>Fixed Style</b>	NA
<b>Maturity</b>	NA
<b>Currency</b>	USD
<b>Firm Assets (\$mil)</b>	141.00
<b>Product Assets (\$mil)</b>	4.30
<b>Number of Accounts</b>	7
<b>Open or Closed?</b>	Open
<b>Minimum Account (\$mil)</b>	1.00
<b>Firm Year Founded</b>	1994
<b>Employee Owned</b>	100
<b>Minority/Women Owned?</b>	No
<b>Socially Responsible?</b>	No
<b>AIMR Compliant?</b>	Yes
<b>AIMR Begin Date</b>	October, 2002

## FIRM HISTORY

Morgan Dempsey Capital Management, LLC is a successor company of National Investment Services of America, Inc. (NISA), a Milwaukee investment management firm founded in 1975. Morgan Dempsey was established by the shareholders of NISA in 1994 to continue the equity philosophy developed over the past 20 years by Kathleen A. Morgan, CFA while she was portfolio manager and shareholder of NISA. Morgan Dempsey continues a 14 year tradition of providing fundamental equity management, along with a conservative approach to fixed income investments. The firm is 100% owned by employees and does not have affiliations with any brokerage firm or holding company.

## FIRM OWNERSHIP

The firm is 100% owned by employees

## PRODUCT FEE STRUCTURE

1% of AUM

## PRODUCT PHILOSOPHY

- We focus on the area of the market where we can gain a significant advantage through fundamental research. Our ability to pursue micro-cap companies in addition to small-caps provides us with opportunities that are off limits to larger institutional strategies.
- We pursue companies with strong competitive characteristics and equally strong balance sheets that are selling at a discount to our conservative intrinsic value estimates.
- We believe that disciplined, fundamental, bottom-up research is the key to gaining an information advantage. We believe in having conviction in our analysis and patience in our convictions.
- We are buy-and-hold investors. We want to be long-term partners with great companies and we want to remain fully invested at all times.

## PRODUCT PROCESS

We apply a Graham & Dodd value style with a contrarian bias. We believe through focused, disciplined research we can identify small companies trading at a significant discount to our computed intrinsic value and that those companies will produce positive long-term results for our investors.

The process consists of our proprietary valuation model which screens for a number of quantitative and qualitative factors applicable to bottom-up analysis of the stock universe.

Qualitative factors that influence a purchase or sale decision include the company's competitive position in its industry along with the sustainability and durability of a company's business model. We look for an emerging catalyst which will drive earnings going forward and prefer a founder/owner/operator structure with a strong heritage and culture.

Quantitative factors that influence the decision to purchase or sell an investment include many investment metrics, but of primary importance is a "fortress balance sheet" with little to no debt and strong free cash flow. We wait for the opportunity to purchase these companies at a significant margin of safety compared to our computed intrinsic value estimates.

Our value style fosters a capital preservation and risk control philosophy, in conjunction with sensitivity to trading costs and tax liability. While we consider ourselves value investors, many companies in the small and micro-cap space have prospects for significant growth. Growth is just one of the many factors we take into consideration when computing our intrinsic value estimates.

Our contrarian bias affords us the freedom to be agnostic to benchmark weightings and to instead focus on the best companies in the most promising areas of the market.

## PRODUCT PORTFOLIO CONSTRUCTION

The portfolio will typically hold between 55-75 companies. We will tilt our portfolio weightings towards our strongest ideas.

We purchase both micro-cap and small-cap companies. Historically we have owned nearly equal amounts of both from a number and weighting standpoint.

Our contrarian bias affords us the freedom to be agnostic to benchmark weightings and to instead focus on the best companies in the most promising areas of the market. That said, we will typically have a diversified industry and sector balance at <8% company, <20% industry and <35% economic sector.

Our focus on companies with extremely robust balance sheets, including ample cash reserves and tangible assets gives us an added level of security in addition to diversification.

**PRODUCT BUY DISCIPLINE**

We use our proprietary "Value Franchise Model 15" to evaluate and identify target companies. This is a two step process involving 15 fundamental criteria to identify and evaluate potential investment decisions.

The discovery phase attempts to identify small/micro capitalization stocks, which exhibit our "Margin-Of-Safety 3". The three factors we look for in the first phase are:

- "Fortress balance sheets" - These companies typically have little to no debt, tangible assets, cash reserves and do not have excess goodwill on the balance sheet. The ability to generate free cash flow is paramount. Companies with quality core earnings that generate free cash flow serve as a hedge against unwanted volatility in the portfolio.

-An emerging catalyst that will drive earnings power and free cash flow generation. We want to avoid the inertia exhibited by many small company value stocks.

-A discount to our computed intrinsic value - We measure the LBO private market value, relative historic value and a discounted free cash flow value in an attempt to find companies selling at a 30%-70% discount to our computed valuations. We target companies with increasing intrinsic values which allow our holdings to grow and build shareholder value over long periods of time.

In the second step, companies that have met the "Margin of Safety 3" are evaluated using more stringent financial criteria to identify businesses that exhibit superior operating and financial metrics.

**PRODUCT SELL DISCIPLINE**

We tend to be long-term holders of securities and consider ourselves partners with the companies we own. The majority of our holdings have been in the portfolio for many years. That said, we monitor our holdings closely and will sell for the following reasons:

1. A company's price meets or exceeds our intrinsic value estimate
2. A position becomes larger than 8% of the portfolio
3. A deterioration in fundamentals occurs (liquidity, solvency, profitability)
4. We can replace a current holding with a new holding that has greater potential
5. A failure of thesis, strategic business model or an ethics/governance issue

**PRODUCT TRADING STRATEGIES**

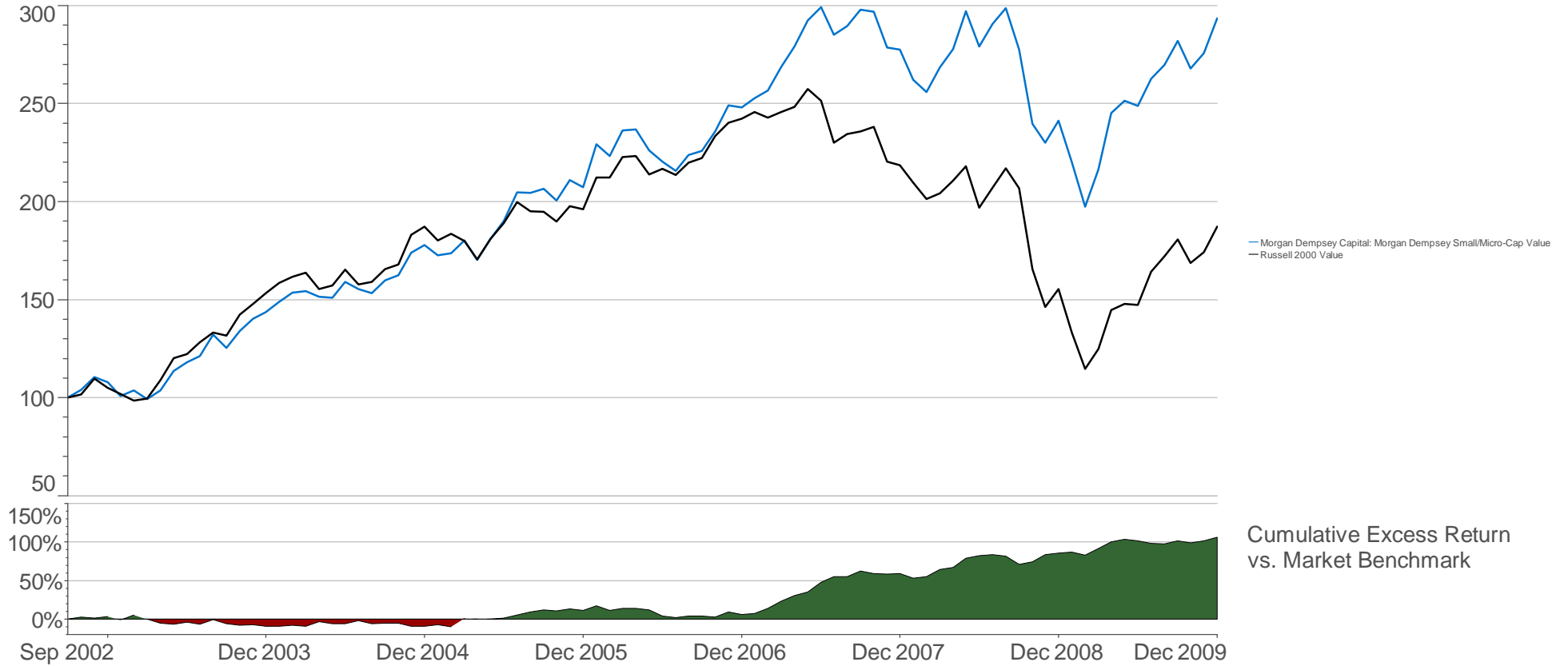
We are buy-and-hold investors and this approach mitigates many liquidity issues that arise from dealing with smaller companies.

We are infrequent traders - Our gains tend to be earned at the research desk more than the trading desk. That said, we use all the tools available to us to minimize both the explicit trading costs and implicit execution costs associated with less liquid securities.

We tend to scale into less liquid investment ideas on a 45%/35%/20% basis over a period of 90 days. We want to participate in the market not move it. If an idea dictates that we act more quickly, we will do so as necessary.

# Manager Performance

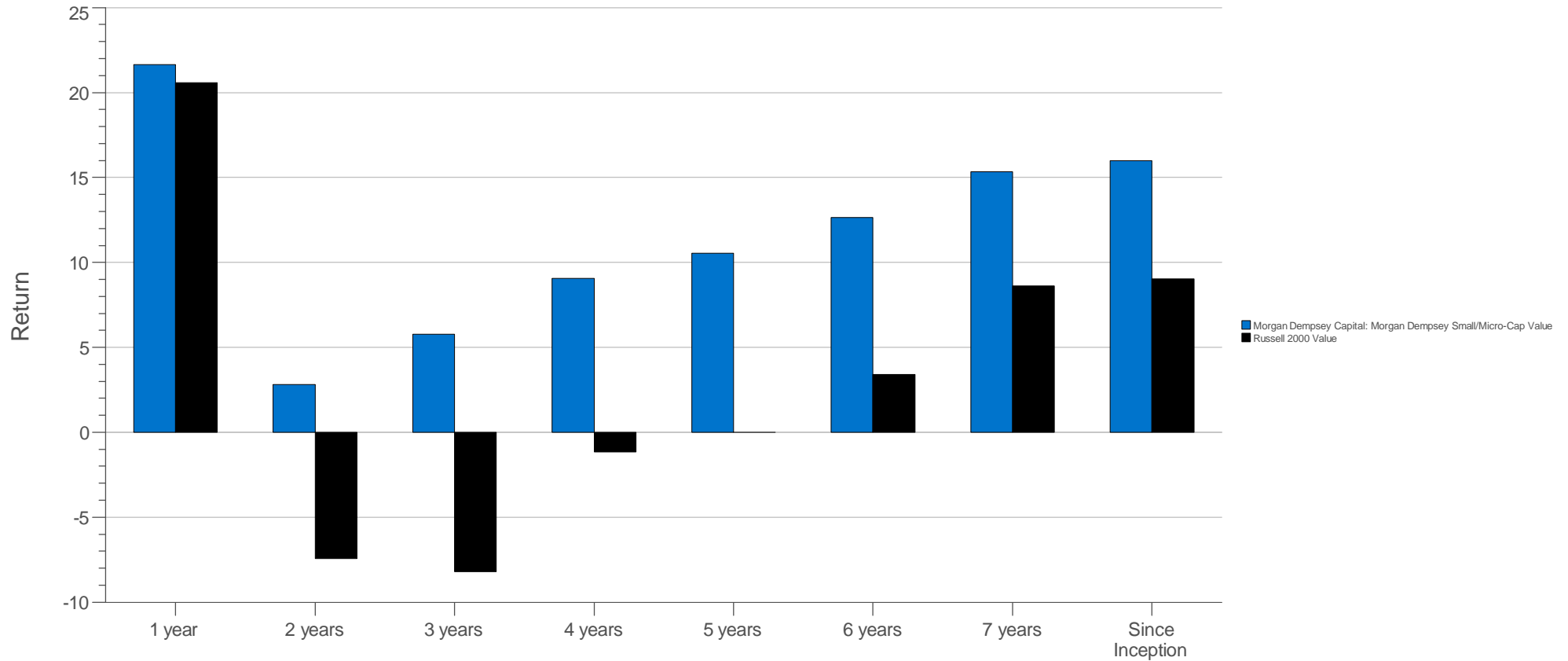
October, 2002 - December, 2009 (Single Computation)



	Portfolio Performance			vs. Russell 2000 Value					
	Annualized Return (%)	Cumulative Return (%)	Std Dev (%)	Annualized Excess Return (%)	Cumulative Excess Return (%)	Info Ratio	Significance Level (%)	Explained Variance (%)	Tracking Error (%)
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	16.00	193.36	17.08	6.97	106.12	0.76	96.07	79.08	9.17

### Manager vs Benchmark: Return

October, 2002 - December, 2009 (not annualized if less than 1 year)



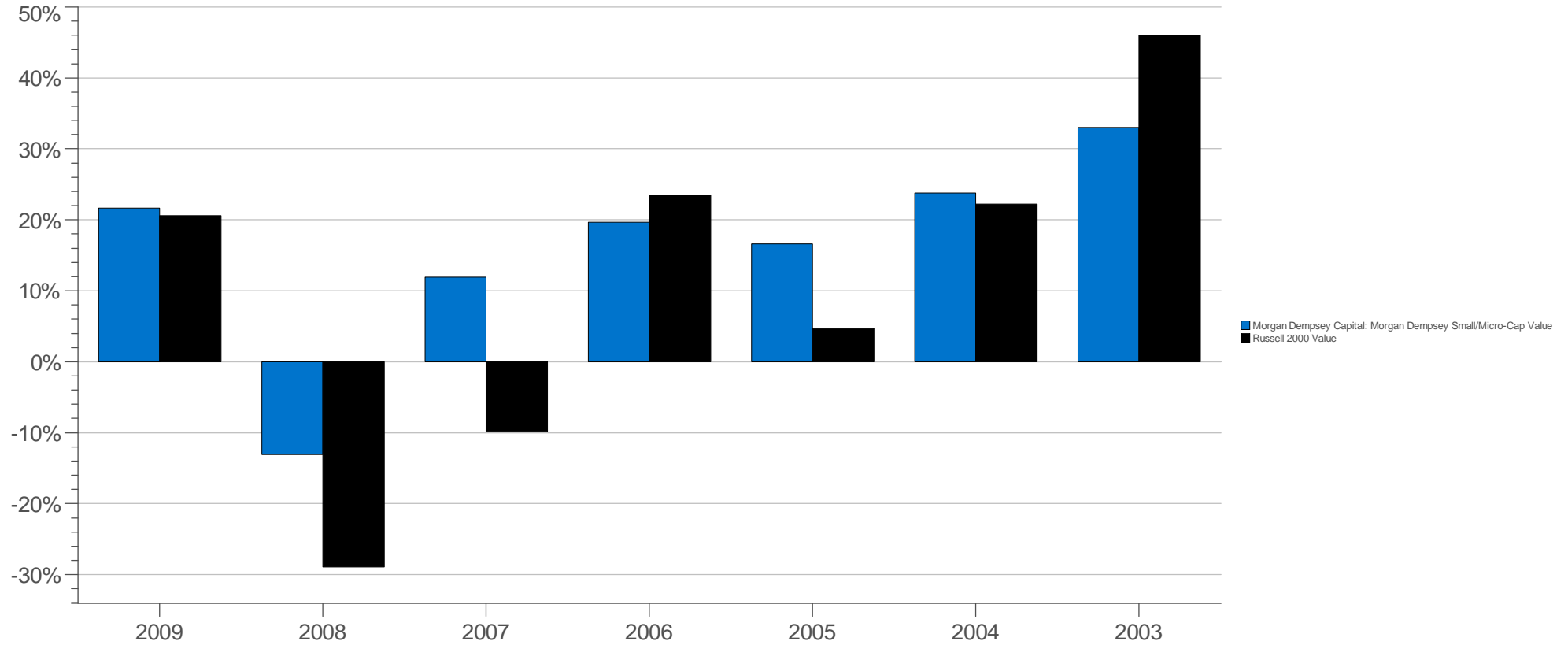
### Manager vs Benchmark: Return

October, 2002 - December, 2009 (not annualized if less than 1 year)

	1 year	2 years	3 years	4 years	5 years	6 years	7 years	Since Inception
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	21.64%	2.81%	5.76%	9.07%	10.54%	12.65%	15.35%	16.00%
Russell 2000 Value	20.58%	-7.43%	-8.22%	-1.15%	-0.01%	3.40%	8.63%	9.04%

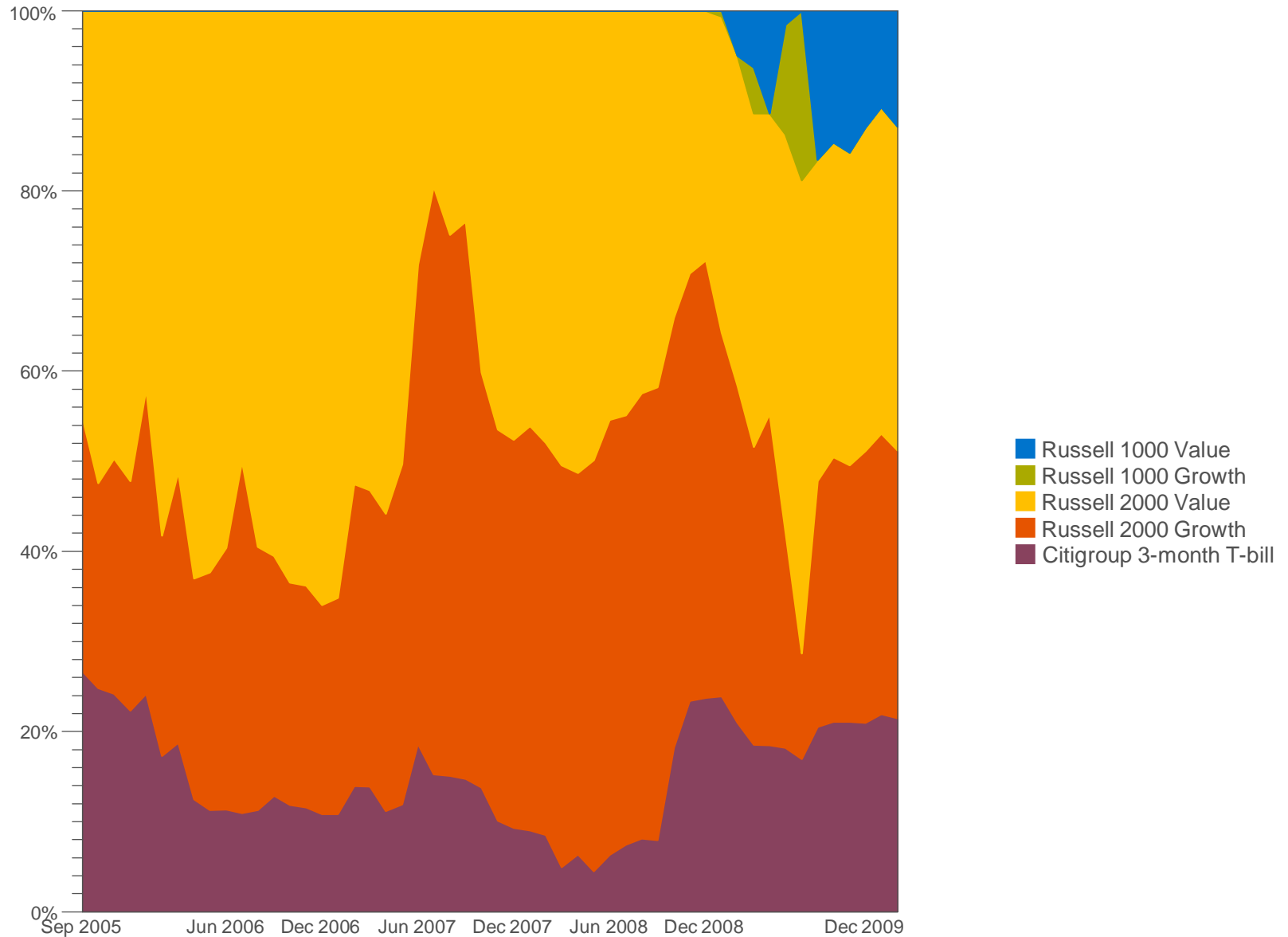
# Calendar Year Return

As of December, 2009



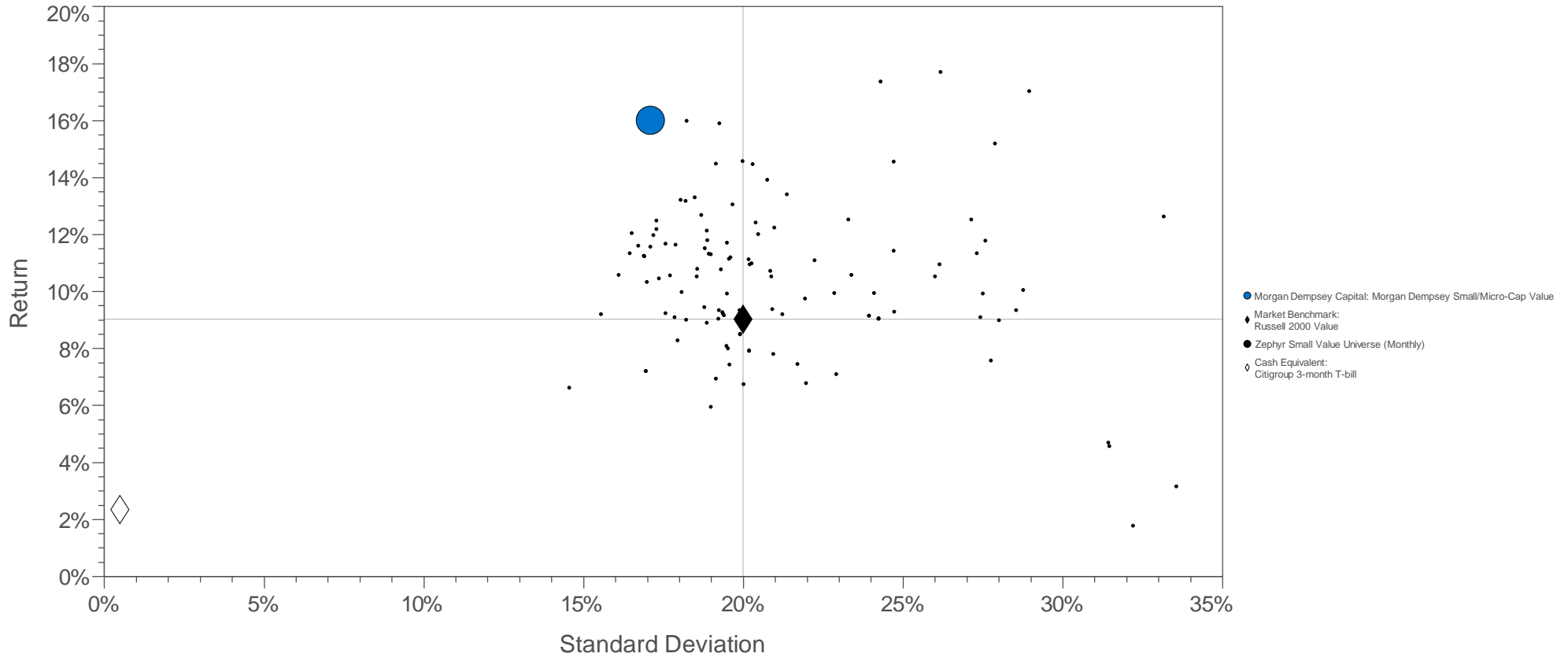
	2009	2008	2007	2006	2005	2004	2003
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	21.64%	-13.11%	11.94%	19.64%	16.61%	23.80%	32.98%
Russell 2000 Value	20.58%	-28.92%	-9.78%	23.48%	4.71%	22.25%	46.03%

Customized Asset Allocation: Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value  
 October, 2002 - December, 2009 (36-Month Moving Windows, Computed Monthly)



### Risk / Return

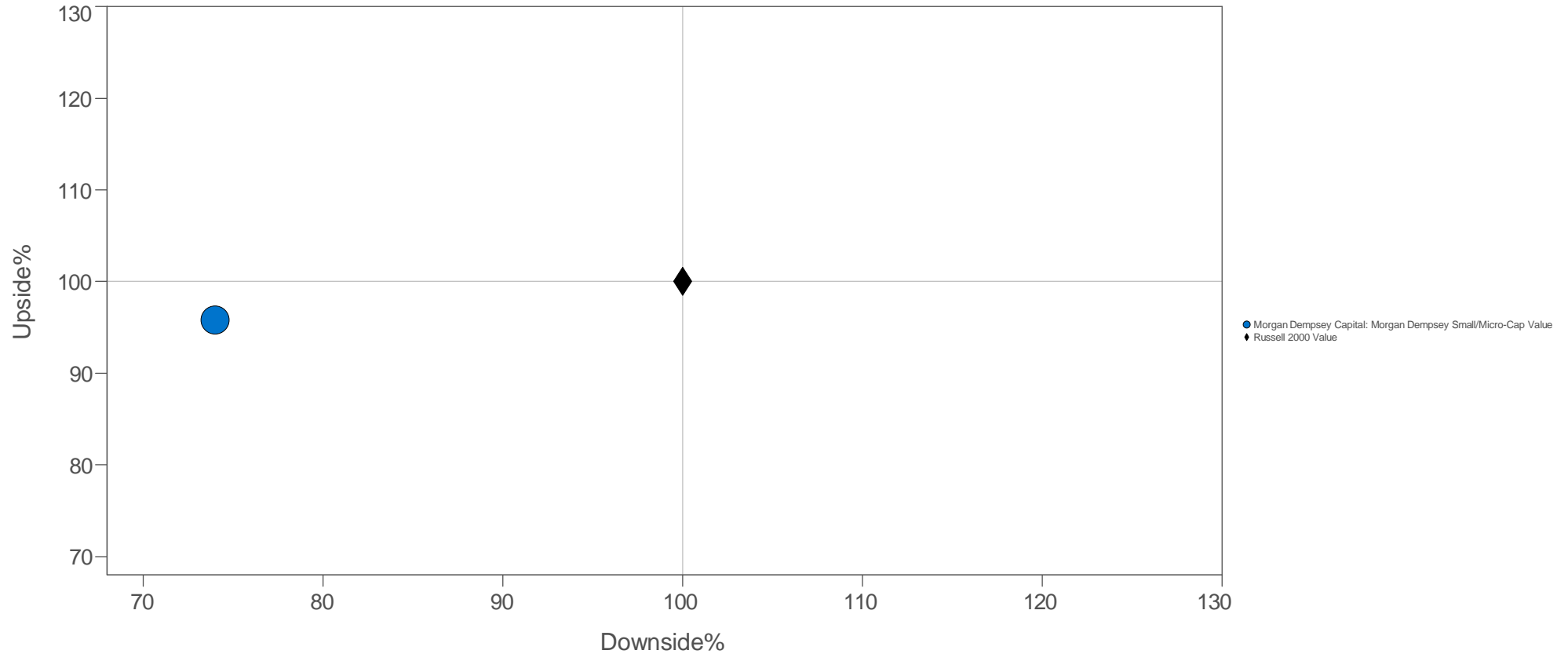
October, 2002 - December, 2009 (Single Computation)



	Return (%)	Std Dev (%)	Downside Risk (%)	Beta vs. Market	Alpha vs. Market (%)	R-Squared vs. Market (%)	R-Squared vs. Style (%)	Sharpe Ratio	Tracking Error vs. Market (%)	Observs.
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	16.00	17.08	12.85	0.7599	8.56	79.08	81.93	0.7990	9.1709	87
Russell 2000 Value	9.04	19.99	15.40	1.0000	0.00	100.00	100.00	0.3343	0.0000	87

## Upside / Downside

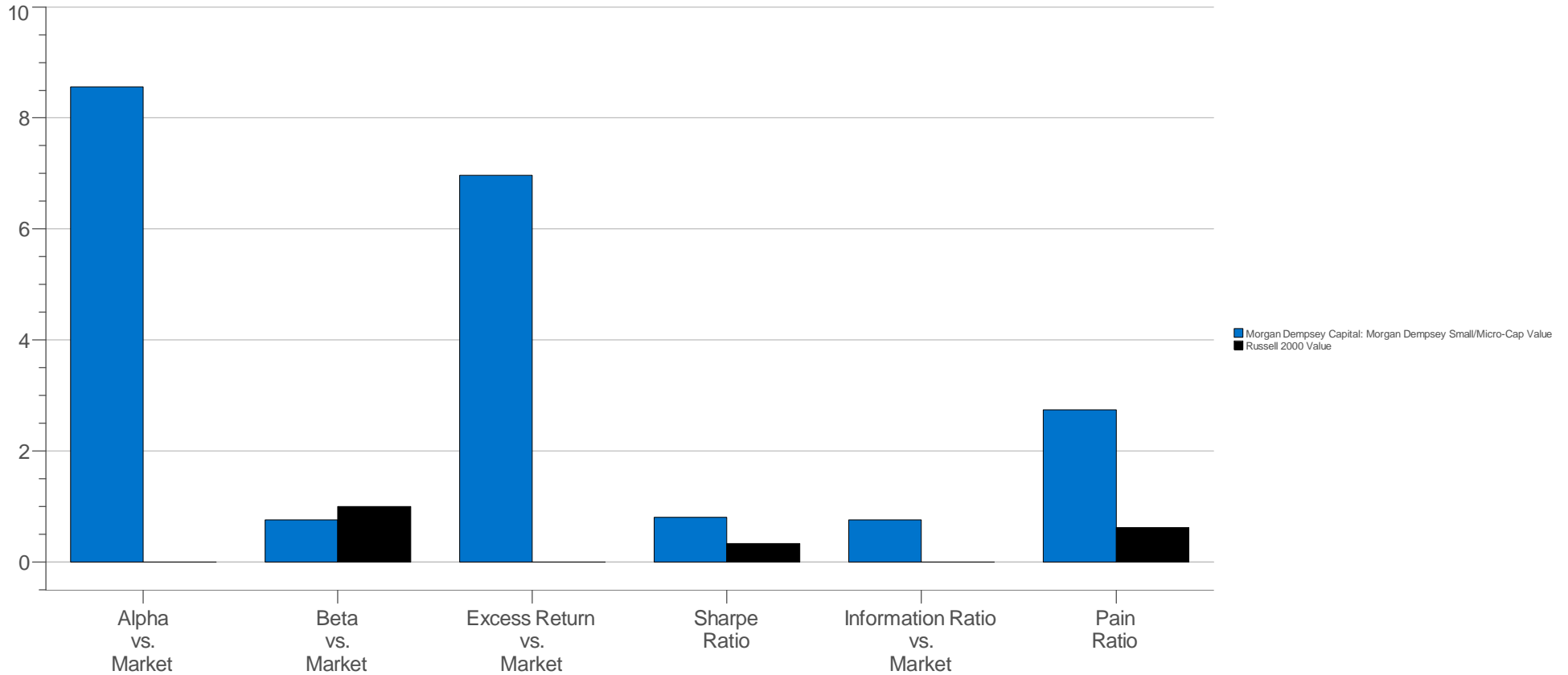
October, 2002 - December, 2009 (Single Computation)



	# of Months		Average Return (%) vs. Market		Month (%)		1-Year (%)		Market Benchmark (%)		
	Up	Down	Up Market	Down Market	Best	Worst	Best	Worst	Up Capture	Down Capture	R-Squared
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	55	32	3.98	-3.37	13.15	-13.66	55.48	-22.94	95.8	74.0	79.08
Russell 2000 Value	56	31	4.12	-4.94	15.87	-19.98	64.49	-43.03	100.0	100.0	100.00

### Multi-Statistic

October, 2002 - December, 2009



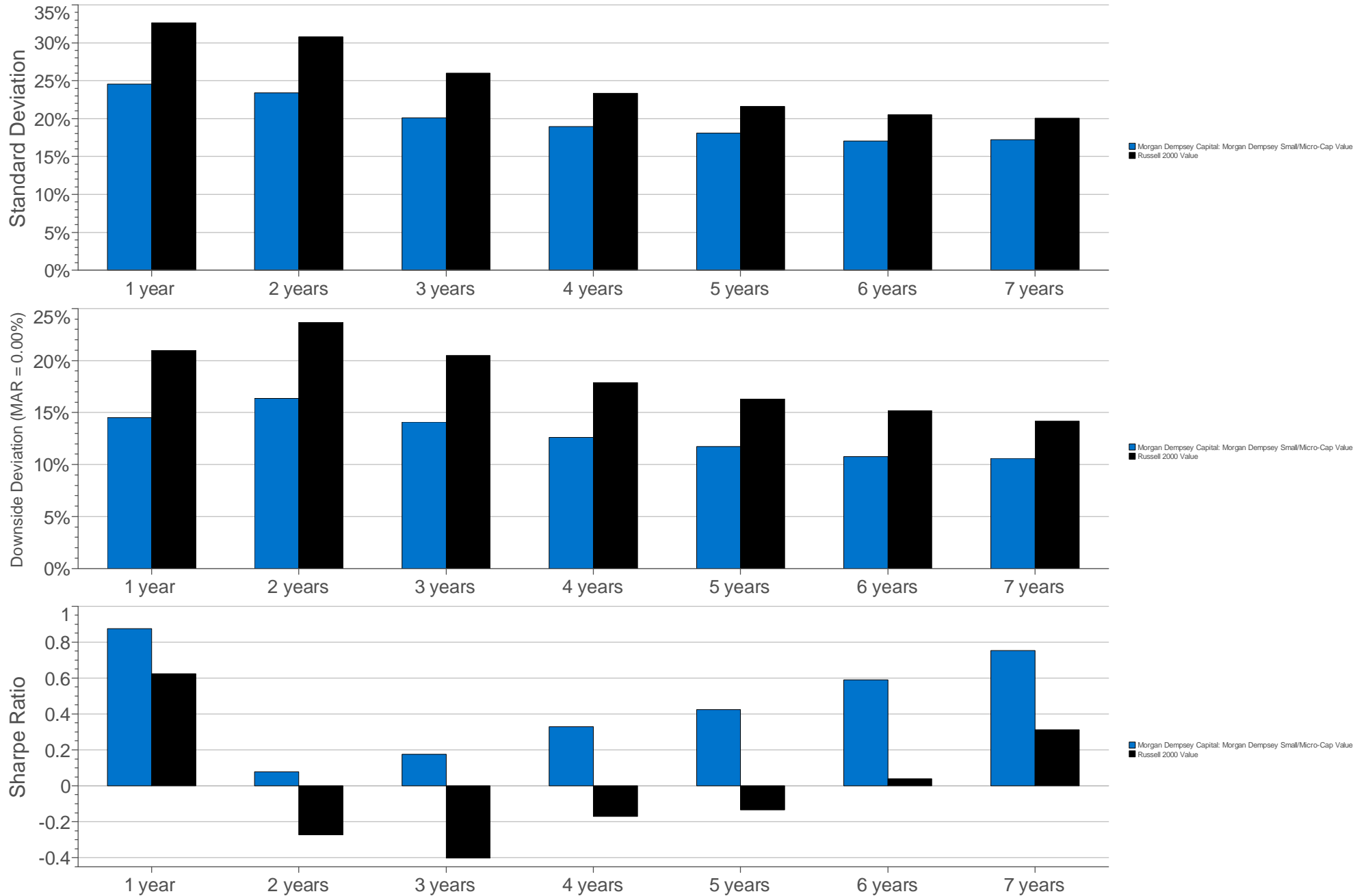
### Multi-Statistic (Custom Table)

October, 2002 - December, 2009: Summary Statistics

	Alpha vs. Market	Beta vs. Market	Excess Return vs. Market	Sharpe Ratio	Information Ratio vs. Market	Pain Ratio
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	8.56%	0.76	6.97%	0.80	0.76	2.74
Russell 2000 Value	0.00%	1.00	0.00%	0.33	0.00	0.62

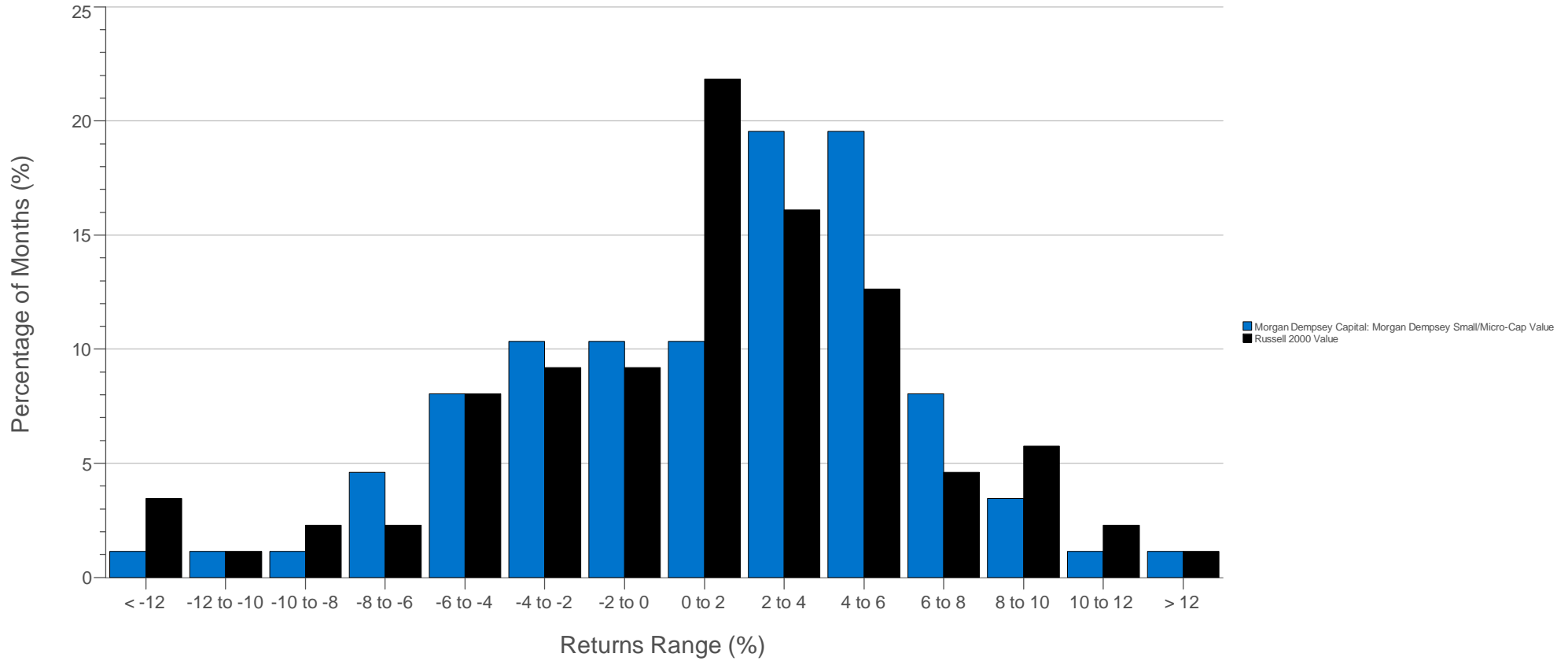
### Manager vs Benchmark: Multi-Statistic

October, 2002 - December, 2009 (not annualized if less than 1 year)



# Histogram of Returns

October, 2002 - December, 2009



## Histogram of Returns (Custom Table)

October, 2002 - December, 2009: Summary Statistics

	Skewness	Kurtosis	Standard Deviation	# of Down Periods	Average Down Return	Downside Deviation (MAR = 0.00%)	# of Up Periods	Average Up Return	Upside Deviation (MAR = 0.00%)	Omega (MAR = 0.00%)	Sortino Ratio (MAR = 0.00%)
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	-0.45	0.26	17.08%	32	-3.92%	10.45%	55	4.44%	14.20%	1.95	1.53
Russell 2000 Value	-0.79	1.96	19.99%	31	-4.94%	14.00%	56	4.12%	14.44%	1.51	0.65

Excess Return vs. Market Benchmark / Time  
 October, 2002 - December, 2009 (36-Month Moving Windows, Computed Monthly)

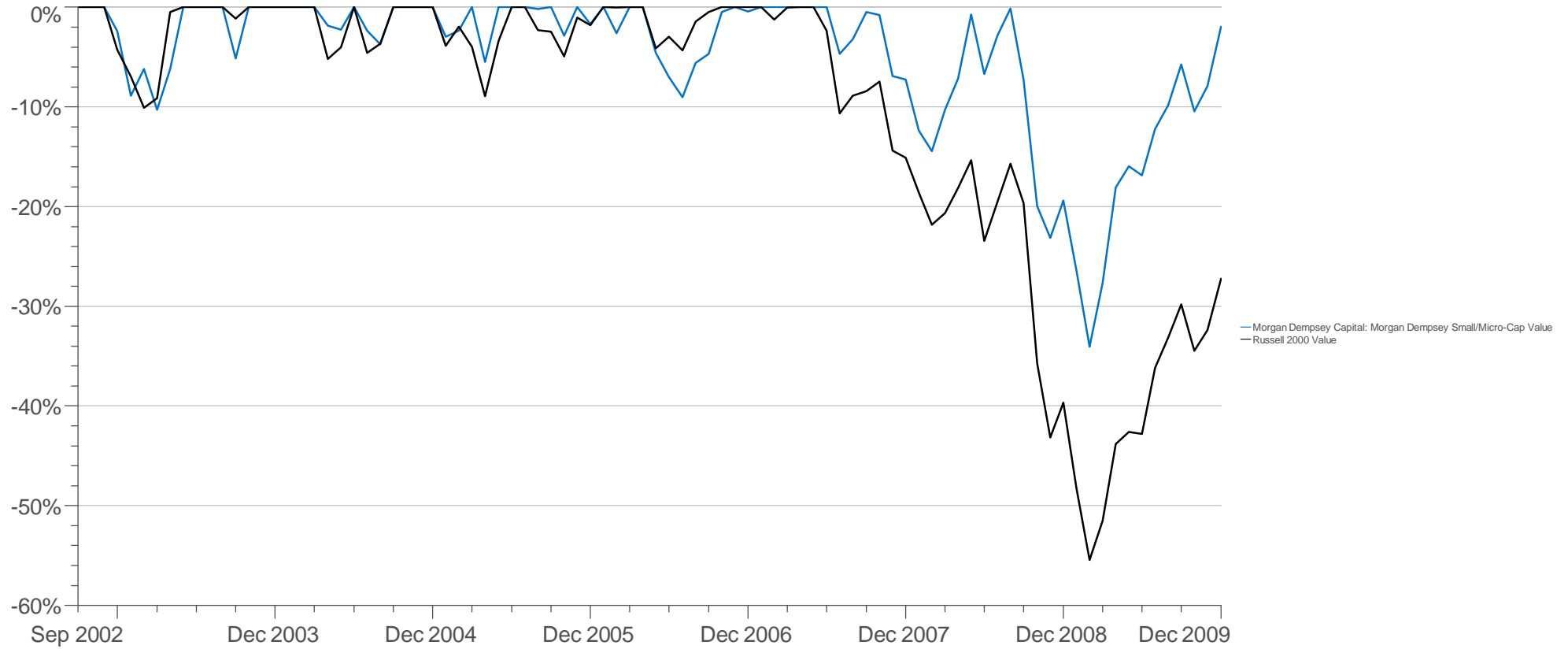


Std Dev of Excess Return vs. Market Benchmark / Time  
 October, 2002 - December, 2009 (36-Month Moving Windows, Computed Monthly)



# Drawdown

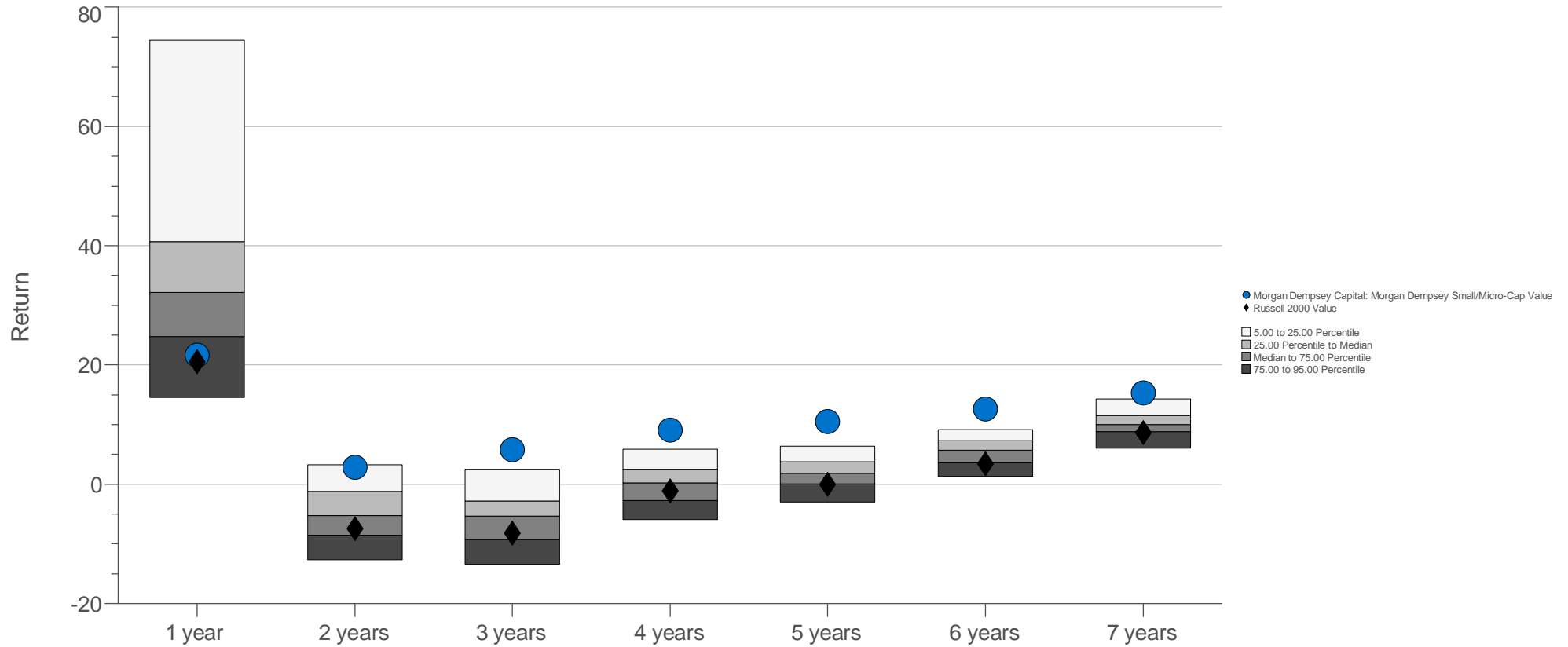
October, 2002 - December, 2009



	Max Drawdown	Max Drawdown Begin Date	Max Drawdown End Date	Max Drawdown Length	Max Drawdown Recovery Date	Pain Index	Pain Ratio	Omega (MAR = 0.00%)	Gain to Loss Ratio	High Water Mark Date	To High Water Mark
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	-34.07%	Jul 2007	Feb 2009	20	N/A	4.99%	2.74	1.95	1.13	Jun 2007	1.99%
Russell 2000 Value	-55.46%	Jun 2007	Feb 2009	21	N/A	10.75%	0.62	1.51	0.83	May 2007	37.44%

### Manager vs Zephyr Small Value Universe (Monthly): Return

October, 2002 - December, 2009 (not annualized if less than 1 year)



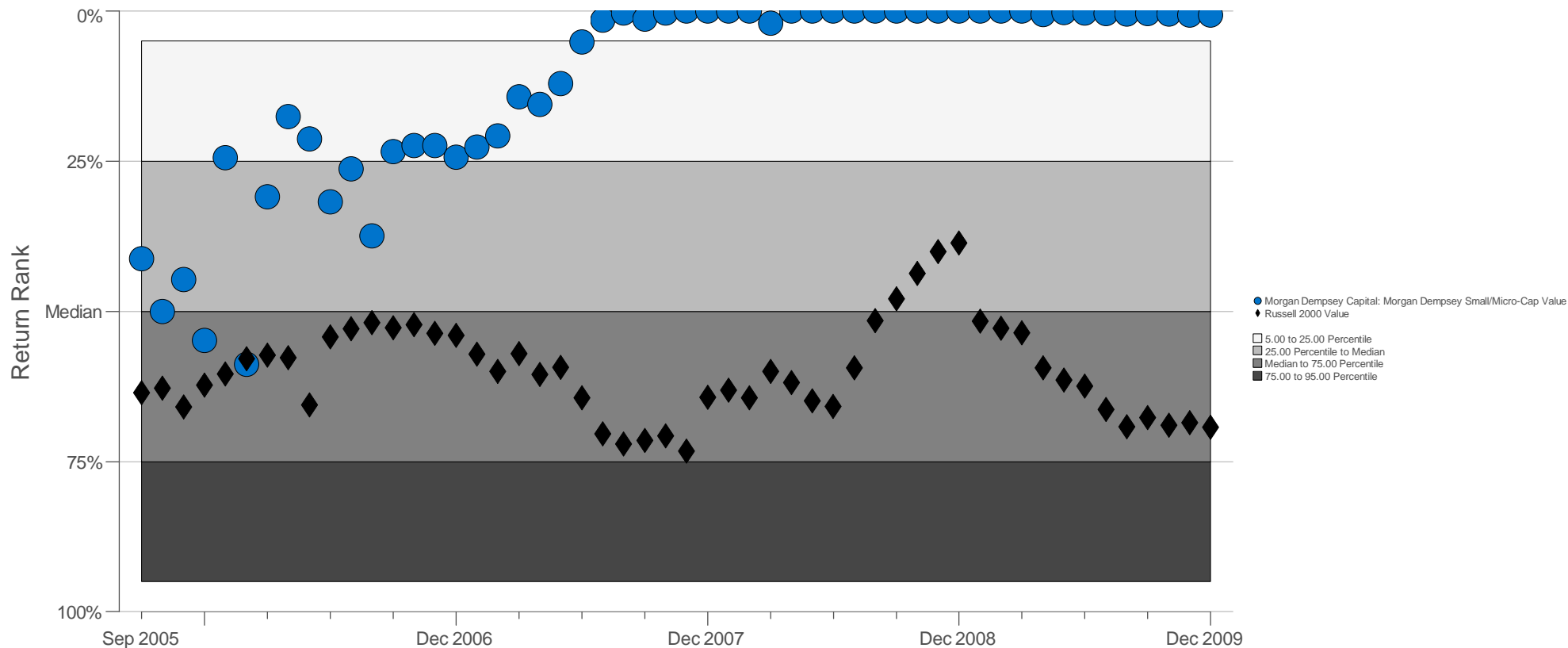
### Manager vs Zephyr Small Value Universe (Monthly): Return

October, 2002 - December, 2009 (not annualized if less than 1 year)

	1 year	2 years	3 years	4 years	5 years	6 years	7 years
	153 mng	146 mng	142 mng	137 mng	133 mng	127 mng	120 mng
Median	32.13%	-5.22%	-5.35%	0.22%	1.81%	5.67%	9.97%
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	21.64%	2.81%	5.76%	9.07%	10.54%	12.65%	15.35%
Russell 2000 Value	20.58%	-7.43%	-8.22%	-1.15%	-0.01%	3.40%	8.63%

### Manager vs Zephyr Small Value Universe (Monthly): Return Rank

October, 2002 - December, 2009 (36-Month Moving Windows, Computed Monthly)



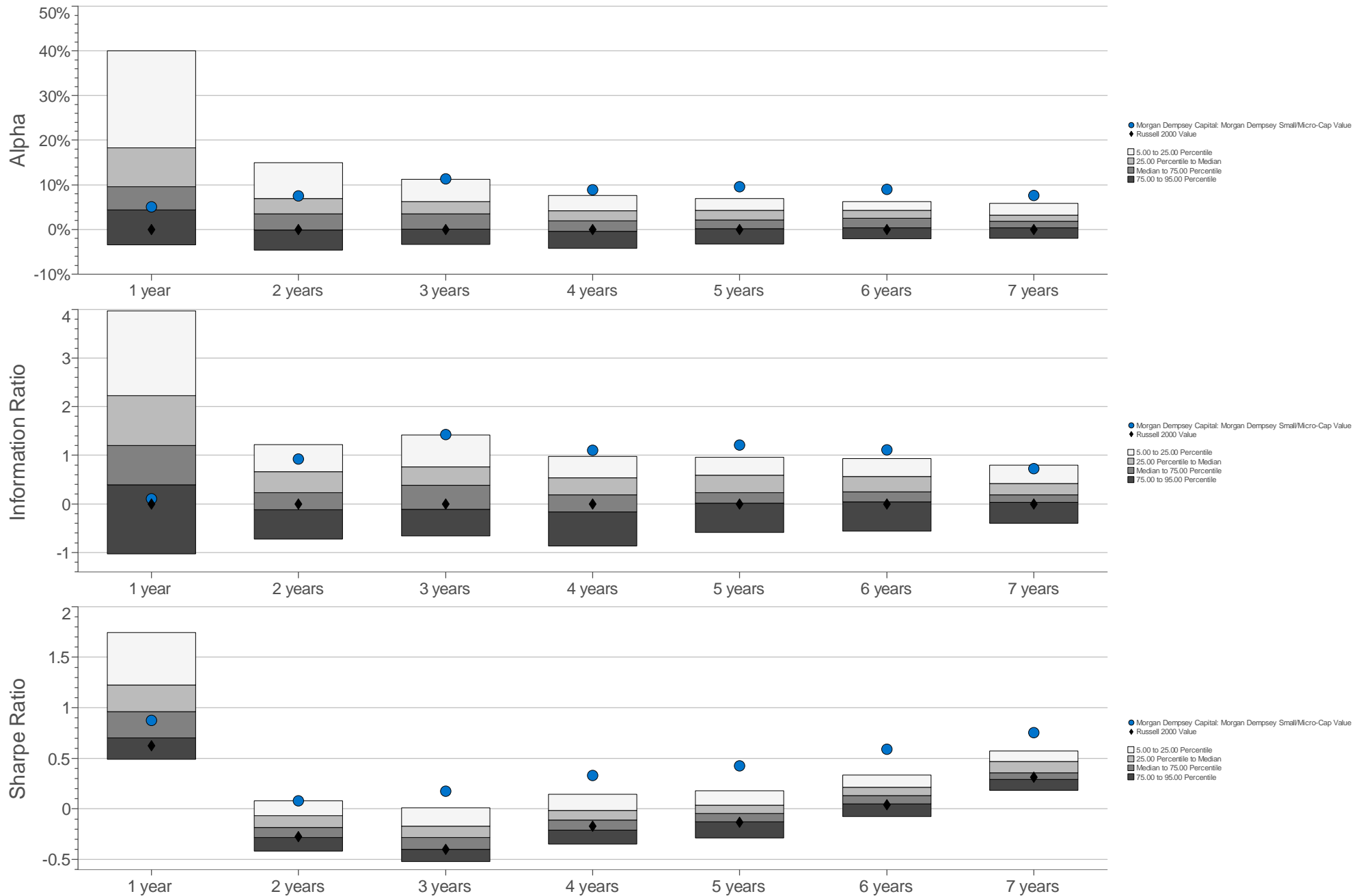
### Manager vs Zephyr Small Value Universe (Monthly): Return Rank

October, 2002 - December, 2009 (36-Month Moving Windows, Computed Monthly)

	Jan 2006	May 2006	Sep 2006	Feb 2007	Jun 2007	Oct 2007	Mar 2008	Jul 2008	Nov 2008	Apr 2009	Aug 2009	Dec 2009
	162 mng	164 mng	166 mng	177 mng	180 mng	180 mng	186 mng	183 mng	184 mng	185 mng	178 mng	142 mng
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	24.40%	21.27%	23.37%	20.80%	5.15%	0.34%	2.06%	0.00%	0.00%	0.60%	0.53%	0.66%
Russell 2000 Value	60.38%	65.57%	52.69%	59.96%	64.35%	70.73%	60.03%	59.40%	40.08%	59.44%	69.18%	69.30%

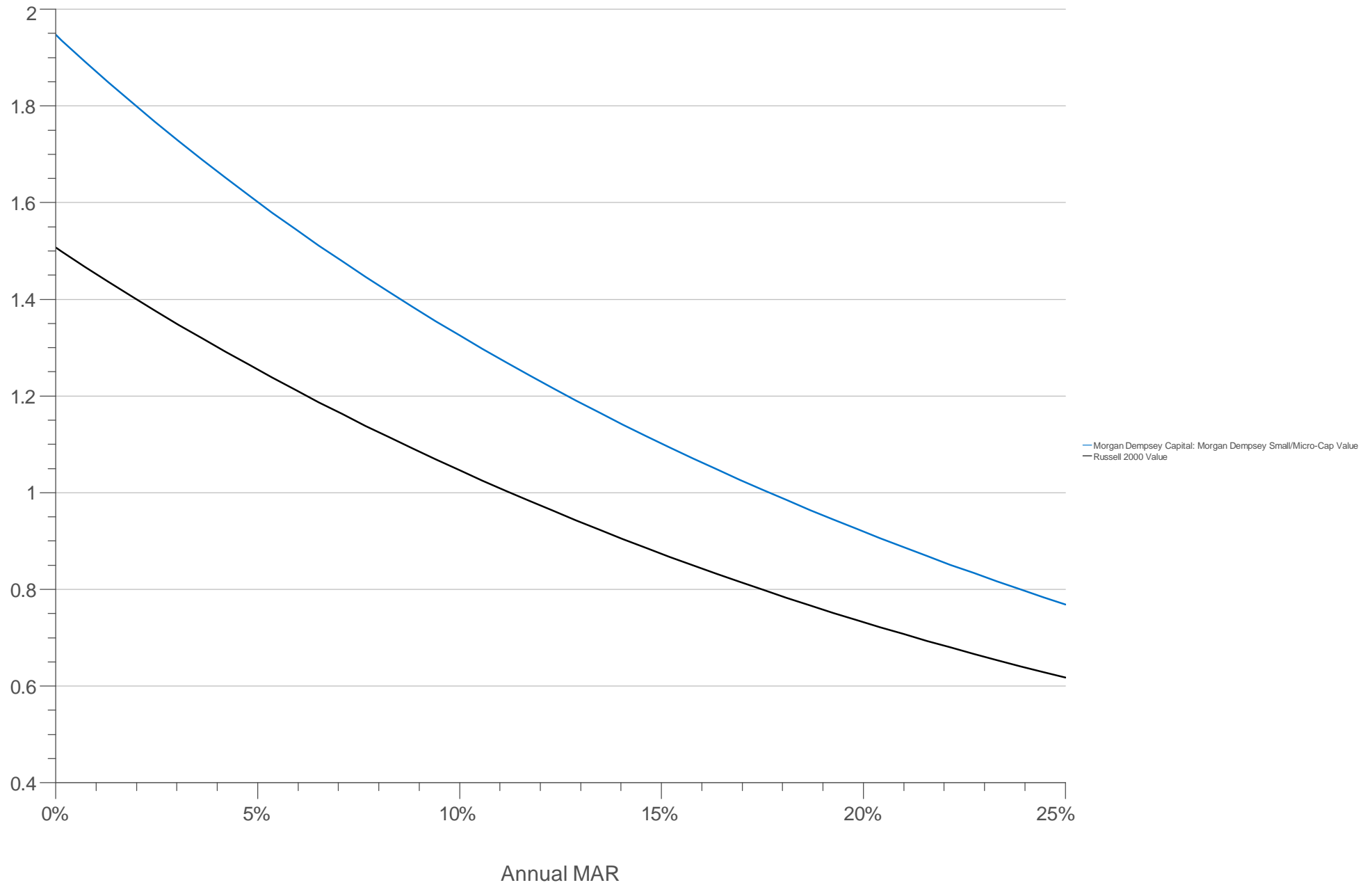
# Manager vs Zephyr Small Value Universe (Monthly): Multi-Statistic

October, 2002 - December, 2009 (not annualized if less than 1 year)

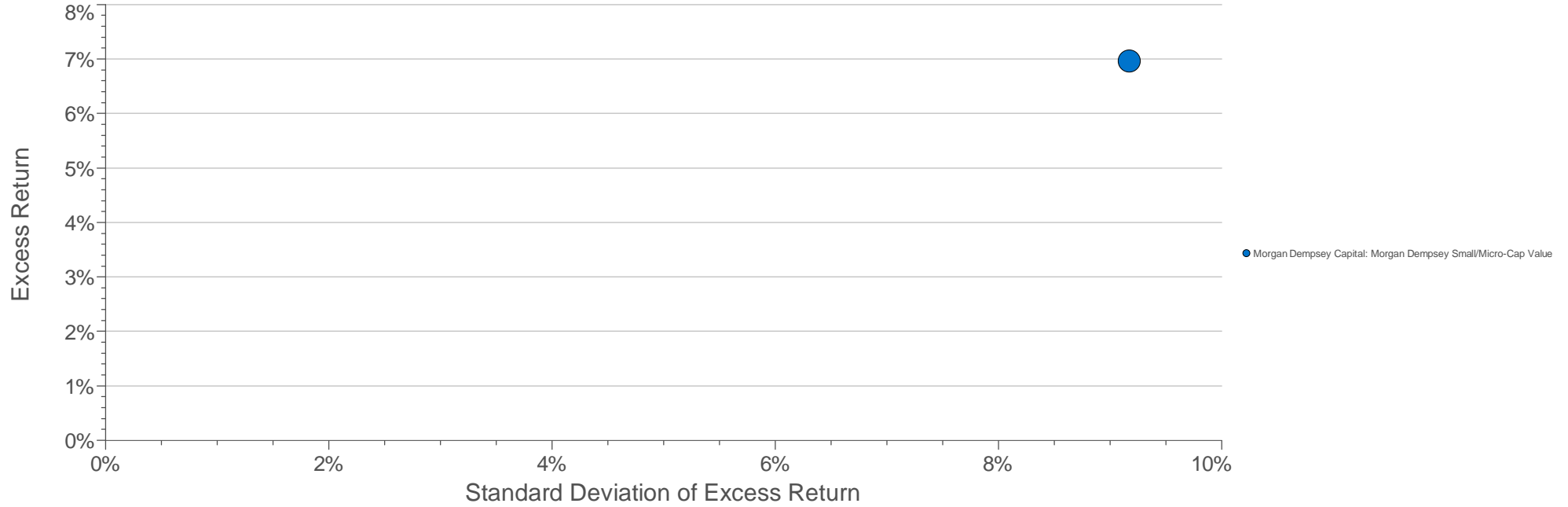


# Omega

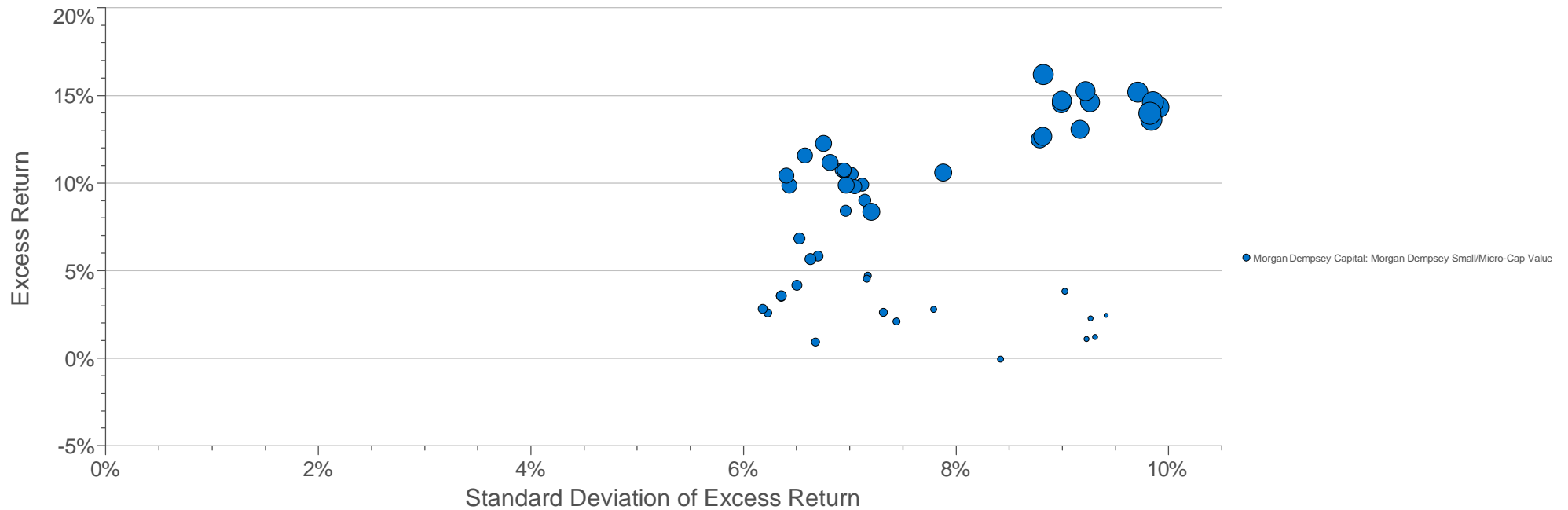
October, 2002 - December, 2009



Annualized Excess Return / Standard Deviation of Excess Return (vs. Russell 2000 Value)  
 October, 2002 - December, 2009 (Single Computation)



Annualized Excess Return / Standard Deviation of Excess Return (vs. Russell 2000 Value)  
 October, 2002 - December, 2009 (36-Month Moving Windows, Computed Monthly)



# Correlation Matrix

October, 2002 - December, 2009

	(1)	(2)
1) Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	1.00	
2) Russell 2000 Value	0.89	1.00

## Periodic Returns

January, 2005 - December, 2009

		Jan	Feb	Mar	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4	Year
Morgan Dempsey Capital: Morgan Dempsey Small/Micro-Cap Value	2009	-8.75	-10.37	9.79	-10.21	13.15	2.63	-1.07	14.88	5.58	2.70	4.54	13.35	-4.99	2.85	6.45	4.02	21.64
	2008	-5.53	-2.38	4.84	-3.31	3.53	6.92	-6.03	4.02	4.13	2.78	-7.12	-0.60	-13.66	-3.99	4.85	-13.08	-13.11
	2007	1.94	1.57	4.60	8.30	3.88	4.80	2.34	11.41	-4.70	1.55	2.85	-0.46	-0.30	-6.19	-0.35	-6.80	11.94
	2006	10.63	-2.62	5.79	13.97	0.28	-4.60	-2.51	-6.73	-2.17	3.76	0.99	2.51	4.37	5.63	-0.41	9.79	19.64
	2005	-2.95	0.59	3.89	1.42	-5.50	6.28	5.00	5.46	7.73	-0.16	0.97	8.60	-2.87	5.16	-1.71	0.40	16.61
Russell 2000 Value	2009	-14.28	-13.89	8.88	-19.64	15.87	2.16	-0.32	18.00	11.56	4.73	5.02	22.70	-6.64	3.18	7.57	3.63	20.58
	2008	-4.10	-3.97	1.51	-6.53	3.16	3.42	-9.60	-3.55	5.13	4.75	-4.69	4.96	-19.98	-11.58	6.15	-24.89	-28.92
	2007	1.50	-1.23	1.21	1.46	1.04	3.67	-2.33	2.30	-8.51	2.00	0.45	-6.26	1.09	-7.49	-0.85	-7.28	-9.78
	2006	8.27	-0.01	4.84	13.51	0.27	-4.14	1.23	-2.70	-1.39	2.99	0.98	2.55	5.09	2.85	0.87	9.03	23.48
	2005	-3.87	1.99	-2.06	-3.98	-5.16	6.10	4.42	5.08	5.69	-2.30	-0.17	3.09	-2.51	4.06	-0.77	0.66	4.71