

---

You can reach Global Emerging Growth Capital as follows:

**U.S. Telephone:**

212-889-6238

**By Mail:**

V. John Palicka, CFA CMT  
Global Emerging Growth Capital  
200 E. 57St. #5N  
New York, N.Y. 10022  
USA

**By E-Mail:** palicka@pipeline.com

**Global Emerging Growth Capital (GEGC)** is now a family office and tends to seed its accounts with relatively small sums of dollars in order to maintain a performance record with the reporting agencies. GEGC no longer seeks clients, but may entertain exceptional prospects. This is because GEGC serves to manage the millions of the portfolio manager who seeks long-term capital appreciation. For GEGC, growth of marketed assets is not as important as is performance from organic growth. Thus, should GEGC have a client prospect, it would be very selective. Qualified prospects would be screened on various measures, such as, suitability requirements. The minimum established account size is \$10,000,000.

GEGC is a specialized boutique and potential marketing is on a very low-cost basis. GEGC spends virtually no money on marketing in order to keep operating costs low. GEGC uses no salesforce nor does it cold call prospects. While GEGC would manage assets under AUM models, of growing importance is its participation in consultancy models (AUC).

GEGC was founded in 1990 by V. John Palicka, CFA CMT in New York. As has been stated, GEGC is now a family office. It has been registered with an ADV of the SEC and the State of New York Office of The Attorney General.

**Should You Hire an Active Manager and consider GEGC?**

For many years, GEGC has said that most likely you should NOT hire an active manager, even though GEGC is an active manager. GEGC encourages index investing for the vast majority of investors. The reason for this decision is that the market is very efficient and risk-adjusted excess returns are not obtained by close to 90% of the active managers. Survivor bias and performance drift (cheating) probably makes the number of successful active managers even smaller. Therefore, one should hire only the very few good active managers.

The problem with this strategy is that successful managers tend to retire early or try managing other types of funds, some of which may have different styles and don't necessarily produce desired returns. They also tend to attract large sums of money and thus dilute performance while

absorbing more expenses in overhead and marketing. It is also very difficult to find the good managers ahead of time before the good returns were generated. One also has to consider that returns are a function of luck.

Index funds are attractive because their low fees help contain the risk of underperformance. They also speed up and make efficient the search process for asset management.

Thus, GEGC's activities are oriented to seasoned professional investors who demand risk-adjusted excess returns. In general, GEGC does not concentrate on seeking funds from individual investors who tend to be naive. Ironically, GEGC also does not seek funds from PERS accounts who tend to have professionals on staff, but fail to exploit risk-adjusted excess returns from their manager selections because of their large size. PERS have gravitated more to ETFs and index funds, a move that we applaud, as it lowers taxpayer expense. Ideally, PERS should be gradually phased out to pure defined contribution plans and thus eliminate bureaucratic costs.

### **What Do We Do and Why Would You Hire GEGC?**

GEGC has a long and successful record utilizing a very proprietary investment discipline that has attracted wide attention. Some of the multi-million dollar assets of GEGC's portfolio manager are in GEGC. Thus, he closely identifies with portfolio performance and the needs of affluent investors, as well. One thus better avoids agency conflicts, such as creating asset bloat in order to maintain corporate profit goals that may be at the expense of investors.

As a more personal side to GEGC investing, the money set aside for 4 years of college for one of GEGC's sons was invested with risk-adjusted excess return results. It was doubled in less than 3 years and prior to graduation. This also supports GEGC's view that college as a corporate finance activity should utilize appropriate debt borrowings to lower the cost of capital which is used in enhancing returns on both monetary and human capital. This view is contrary to that of many financial planners who view college's cost of capital as a liquidation of accumulated savings. GEGC's strategy enables human capital to index to the efficient frontier on the undergraduate level, but achieve Alpha with high performing graduate schools and certifications.

GEGC specializes in investments and activities that generate risk-adjusted excess returns in a global efficient market. For example, GEGC invests in global small-cap stocks because it is felt that over longer periods of time, small-cap stocks provide the potential for attractive gains and perform better than large-cap stocks. GEGC also provides a separate vehicle that invests mostly in US small cap stocks. GEGC utilizes Fusion Analysis, an investment approach that the manager has used for over 30 years (see Investment Discipline section). The investment strategy is bottoms up by seeking companies with above-average growth and balance sheet characteristics, purchased at favorable price-earnings ratios. Fusion blends all four investment forces: Fundamental, technical, behavioral, and quant. The resulting companies are special: either key players in their markets or even one-of-a kind. Management contacts and cyber-quant expert systems assist GEGC in making efficient investment decisions.

GEGC's investments also provide sophisticated investors the following vehicles:

- 1) High absolute return strategies
- 2) Portable Alpha strategies
- 3) Synthetic Hedge Fund vehicles at much lower cost
- 4) Pair Trading strategies

GEGC also provides:

- 1) Financial consulting services to global small-cap companies on a contract basis.
- 2) Advice on the construction and implementation of investment vehicles in global small cap and emerging markets on a percentage of assets and contract basis.
- 3) Financial engineering services utilizing valuation and MPT tools at a billing rate of \$750/hour.
- 4) Knowledge consulting services to organizations and universities on a contract basis.
- 5) Advanced technical analysis strategies for some of the leading hedge funds and investment banking firms.
- 6) Portable Wealth strategies

John managed/advised on over \$1.5 billion in assets since the 1970's, and has been considered as one of the leaders in exploiting the Efficient Market Hypothesis by producing risk-adjusted excess returns. John retired from managing money for large asset management firms near 40 to start GEGC.

### **How Does An Investor Know When It Is A Good Time To Invest In GEGC?**

GEGC has a successful long-term record but short-term outlooks may not provide sufficient risk-adjusted excess returns to investors. Therefore, investors may be better served by investing into more attractive investment vehicles. For this reason, GEGC provides a weekly valuation measure that rates the portfolio from BUY to SELL. This measure uses Artificial Intelligence to attempt to replicate the investment decision process. It combines fundamental/technical/behavioral/quant criteria to evaluate whether GEGC will outperform its benchmarks on a risk-adjusted basis. Ratings above HOLD indicate outperformance potential, whereas, ratings of HOLD or lower indicate underperformance, and investors should seek other managers or index funds. GEGC does not accept fund inflows with ratings of HOLD or lower. Ratings of SELL require mandatory distributions. GEGC also provides weekly portfolio MPT and investment characteristics to enable investors to ascertain possible deviations from investment objectives. These potential deviations are a major reason why the vast majority of funds underperform the indices.

### **GEGC's Investment Approach Has Been Innovative and Proven To Be Correct**

At the time of GEGC's inception date, its investment philosophy was unpopular and not expected to do well. However, over time, GEGC has become among the best global small cap managers and many competitors have had to shut their doors or be merged because the then conventional approach to global small-cap investing proved to be the wrong approach for them. Funds from firms, such as, Prudential, Paine Webber, and Van Eck were casualties. Today, more funds try to

imitate GEGC's style and, more academic articles have cast doubt on the old conventional approaches to global investing.

The growing popularity of bottoms up investing and stressing industries, rather than countries is just one measure of current global small-cap approaches. GEGC also believes that a low cost approach to global investing is doable, as evidenced by its fine record.

GEGC has also exploited other areas, such as guiding a specialized emerging markets fixed income fund to generate risk-adjusted returns and attract assets under management.

### **What Are Our Awards?**

GEGC is a premier global small-cap manager whose returns compare very favorably against competitor (Lipper) and index (S&P/Global Small Cap) returns. GEGC also ranks well against global money managers in the databases of leading reporting agencies, such as, Russell Investments, Effron, Money Manager Review, and Nelson. This rank has been achieved despite the departure of some weak managers who closed or were restructured, and who thus upwardly biased remaining returns within the context of survivorship analysis. GEGC's US small cap record, as shown further below, also demonstrates very favorable comparisons against index and competitor returns.

Since inception, 28 years ago, GEGC increased its money more than 34 times by returning 13.4% per annum (12.3% net of calculated fees) which compares favorably against competitor (Lipper Global Small/Mid-Cap Core Funds) and index (S&P/Global Small Cap) returns of 8.0% and 8.7%, respectively. As regards to performance comments, past performance is no guarantee of future results and GEGC's performance should be read in conjunction with its performance footnote.

### **Who Manages GEGC?**

GEGC is managed by V. John Palicka, CFA CMT who is a Chartered Financial Analyst Charterholder, a Chartered Market Technician, and has an MBA from Columbia University. Mr. Palicka also managed over \$1.5-billion in growth stock accounts, mostly in smaller-cap stocks in his 11 years (12/31/79-1/31/91) at The Prudential Insurance Co. During his tenure, Prudential's small-cap funds showed a premium of about 600 basis points per annum over the Russell 2000, and also a good premium over the competition as follows: Pru accounts 18.4% p.a.; Russell 2000 12.5% p.a.; and, Lipper Small Cap funds 14.0% p.a., as shown in the table below. He has been featured on Bloomberg, CNBC and radio business programs, in prominent business publications such as Business Week and Emerging Markets Week, and conferences, and authored articles on small-cap investing in magazines such as Institutional Investor and Equities. He is the author of the book, *Fusion Analysis*, published by McGraw-Hill. The book has also been translated into Mandarin for the Chinese market. His articles on Fusion Analysis have appeared in business journals. He also consults in the global small-cap market, and teaches finance at some of the leading business schools and financial training firms.

## How is GEGC Organized, Operated, and Staffed?

GEGC has three separate subsidiaries: Asset Management, Knowledge Consulting, and Financial Consulting. From its first day, GEGC was organized as a 21st century organization that today is gradually becoming the norm. GEGC uses virtual offices, online transparency, and full outsourcing with IC agreements without legacy costs. All activities are peer reviewed by outsiders under high professional standards. Activities are global in nature and involve dozens of personnel, almost all of whom focus on defined tasks of a subsidiary function and thus do not interact with other subsidiary activities. Common knowledge of all three activities is interchangeable, but formalized in different outputs.

AI and quant approaches are mostly used, hence human interaction is reserved for only high value judgments. Prospective staff is quant screened on required skill sets and proven practical performance against standards. Hence, entry staff is never utilized. Creative inputs from staff require 24/7 commitments, but outputs conform to client demands. **IN ALL CASES, TASKS MUST BE CONCENTRATED ON NICHE GOALS THAT ADD VALUE AND DIFFERENTIATE GEGC FROM COMPETITORS.**

| <b>11 YEAR PREMIUM TO THE RUSSELL 2000, per annum, In Per Cent</b> |             |
|--|-------------|
| <b>Palicka's Prudential Accounts</b>                               | <b>18.4</b> |
| <b>Russell 2000</b>  | <b>12.5</b> |
| <b>Lipper Small Cap</b>  | <b>14.0</b> |
| <b>Premium To Russell 2000</b>                                     | <b>5.9</b>  |