



MATARIN CAPITAL

Investing with Insight and Integrity

## Q1 2011 Quarterly Letter

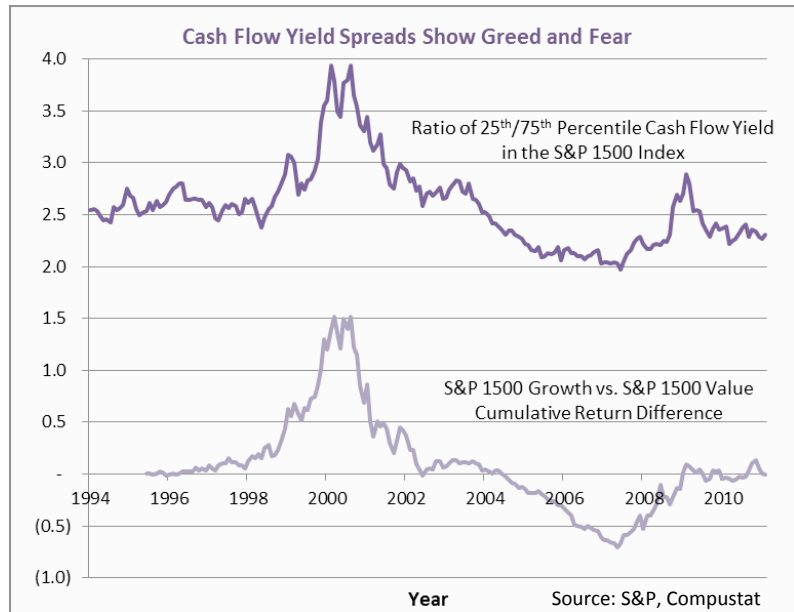
### About Matarin

**Matarin Capital Management, LLC was established in July 2010. We are an independent, women-owned emerging asset management firm. Our product suite currently includes small-cap and market neutral U.S. equity strategies.**

### U.S. Markets

The U.S. Equity markets were surprisingly calm during a quarter filled with global turmoil, which included citizens' revolts in the Middle East and the triple tragedy in Japan. Both events resulted in rising energy prices which, in turn, spurred the energy sector higher though most other market sectors retreated in response. Despite these events, broad market performance results were positive for the quarter. Returns of 5.9% for the S&P 500 Index and 7.7% for the S&P Small Cap 600 Index were realized as stocks continued to discount the likelihood of prospective positive economic growth.

This muted reaction to the turmoil of the quarter leads us to conclude that the market is in a period of complacency. Often as markets go from complacency to greed (the tech bubble) or to fear (the financial meltdown) growth indexes tend to outperform value indexes. As the markets settle in and cash

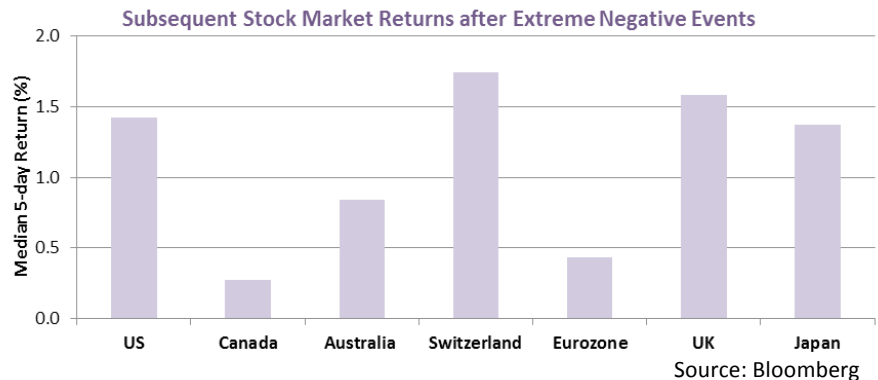


flow yield spreads narrow, value managers tend to outperform. (See above.) No particular style bias tends to outperform consistently during periods of market complacency. Instead, the market tends to favor, and reward, stocks of firms with good underlying businesses that are managed by good capital allocators. As our stock selection model captures these qualities, we expect and anticipate that our equity strategies should perform well in the current market environment.

### Global Markets

The behavior of the stock markets after the tragic events in Japan on March 11th reminded us of an important aspect of risk in time of crisis: the tendency for reversal after extreme moves. At its worst, the Nikkei was down 17.5% in the three days following the quake, but it experienced a strong reversal, recovering 9.8% in the next 5 days. As of March 31st, the Japanese stock market has made up 65% of its initial losses.

Looking back at the history of reversal after extreme events in stock markets around the world, the data speaks loudly. Based upon daily stock index returns broken down into baskets by standard deviation, median returns over the subse-



quent 5 days following the largest downward moves in each market (<-2.5 standard deviations) are overwhelmingly positive.

For investors, this underscores the importance of avoiding "fear selling" during times of crisis. At Matarin, we strive to use a disciplined investment process that, based upon a balanced analysis of the opportunities, recognizes that buying is often the best strategy after extreme sell-offs.

Data as of March 31, 2011