The Better IR Newsletter

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Western European Banking Update

You can always count on good old Mark Twain for an appropriate quote when one's needed. His quip that 'we have the best government money can buy' would seem to be somewhat at odds with the opinion of Standard & Poors at the moment. And while Twain's acerbic wit was most likely directed at the moral fibre of the then-day government, his comments are no less appropriate this week after the recent announcement from the rating agency. It appears that the US does not have the best government money can buy. The bond maestro Bill Gross recently sold €28 billion of US Treasuries - and proceeded to short US government debt in the Total Return Fund (TRF) - so perhaps the threat of a downgrade did not come as such a surprise as it could have. Notwithstanding the Gross changes, there will be plenty of people out there that think another of Twain's quotations would be more relevant to the situation: 'It is better to keep your mouth closed and let people think you are a fool than to open it and remove all doubt.' Ratings agencies take note.

This shock comes at a time when the choppy waters of the banking sector were just beginning to appear a little clearer – at least on the western side of the Atlantic. Until this week, pretty much all the colourful debate had been about the European banking landscape with the US seen as the clear preference in the sector. Perhaps things are no longer as clear cut as previously thought but there will be plenty of time in the coming days to mull over the pros and cons of US banks and the strength of the sovereign structure supporting them. But for now, we look to Europe.

Sovereign risk looms large in the background of the European banking landscape, while the capricious subject of capital raising dominates the foreground. How these two factors develop over the next few months will go some way to deciding the short and mid-term fate of the banking sector in the region.

In comments that will come as a surprise to no one, the IMF concluded that many European banks needed larger capital cushions to reduce the risk of sparking another global financial crisis. The institution went as far to say that those banks were 'caught in a maelstrom of interlinked pressures' needing to raise a 'significant amount of capital.'

Even ignoring the hanging uncertainty of sovereign risk and potential write downs, the US seems to offer the preferred selection of stocks within the sector. Less leverage and better Tier 1 capital ratios have proven to be more attractive to momentum and cautious investors alike, leaving European banks as the preference of the more adventurous and/or value-oriented investor.

Top Buyers of European Banks (Q4 2010)

Investor Name	Country	Style	Value ($m)	Value Change ($m)
Janus Capital Management	United States	Value	1,244.3	731.2
Allianz Global Investors	Germany	Growth	1,551.0	625.0
Scottish Widows Investment Partnership	United Kingdom	Value	5,871.1	556.6
Harris Associates,	United States	Value	896.4	534.3
Deutsche Bank Trust Company Americas	United States	Value	685.1	421.1
Amundi Asset Management	France	Value	1,886.7	393.6
BlackRock Investment Management (U.K.)	United Kingdom	Growth	23,553.0	352.1
MFS Investment Management	United States	Value	1,376.9	301.2
Natixis Asset Management	France	Value	2,531.5	283.2
Swedbank Robur Fonder	Sweden	Growth	4,687.7	280.7

Source: Ipreo Research

The table shows 60% of buyers motivated by the value visible in an under-performing sector.

What stocks did the growth buyers acquire?

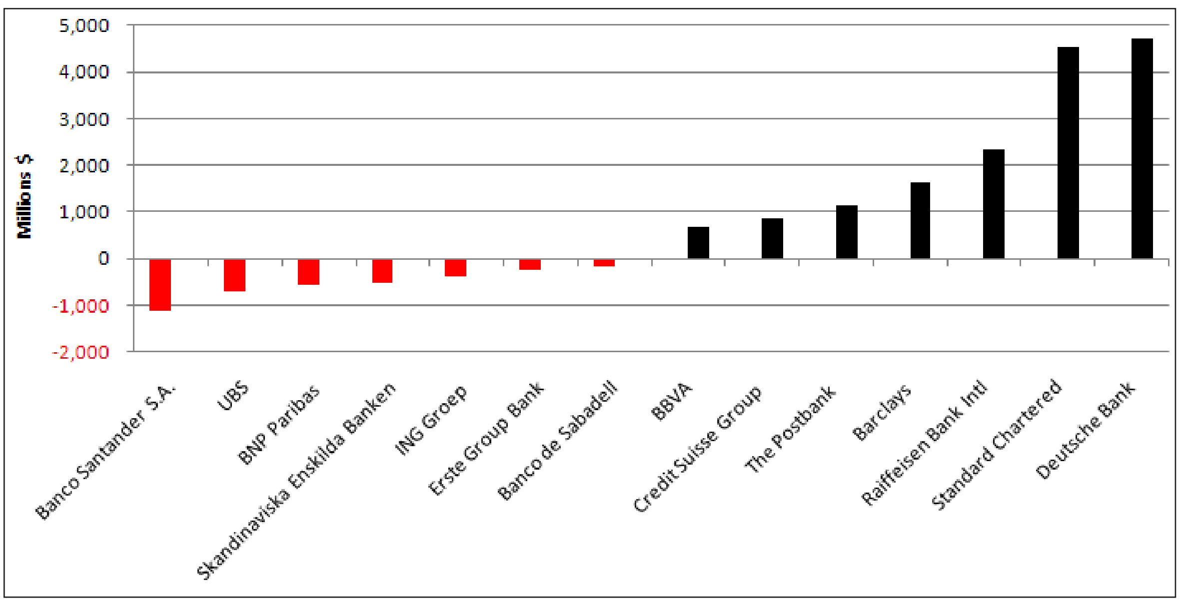
#1, by a country mile: Deutsche Bank. Allianz GI bought $615 million of Deutsche, BlackRock UK bought $312 million. They also bought some emerging stocks (notably Sberbank, VTB and Turkiye Halkbank. Swedbank bought locally (Nordea & Handelsbanken). Janus, the value investor, bought BBVA – spending $569 million to make BBVA the most bought Spanish bank – and Deutsche Bank. Value investor Amundi had Deutsche Bank top of their list (buying $310 million), Natixis bought Deutsche but preferred HSBC, Harris plumped for Santander (a rarity) and Intesa Sanpaolo, and MFS went for Erste Bank.

However, as they no doubt say in some parts, 'a falling tide does not lower all boats equally.' And while the component parts in the region are having to deal with similar issues, there remains a great deal of difference in how they are affected by them. For the banking sector there appears to be a fairly clear divide between the North and the South – or the core and the periphery* if you prefer. Certainly all the talk from managers and commentators has revolved around the obstacles needing to be navigated by the periphery.

However, even splitting Europe in two doesn't really tell the full story, and investor sentiment is often separated along sovereign boundaries, saying a great deal about the perception of the implied sovereign underwriting of the banking sector. Consequently, the play in Europe is becoming more nuanced into 2011 with the likes of French banks being chosen over others for the perceived systemic protection while Norwegian banks may be chosen to ride the swell in oil.

During the week of April 14th, European leaders gave a shot in the arm to the banking sector by agreeing to increase the size of the Eurozone rescue fund and widening measures to deal with indebtedness. Trading volumes in the banking sector spiked and Mislav Matejka, European equity strategist at JP Morgan Europe said at the time: *'Banks underperformed over the past month and are the worst sector over the past six months. We are using this opportunity to upgrade banks, from neutral to overweight. We are positive on French and Italian banks, but would not chase periphery beyond a potential initial bounce."*

Most Bought/Sold European Banks



Source: Ipreo Research

Two points stand out from the table of most bought & sold stocks

- *Buys are much greater in aggregate than sells*
- *Northern banks are seeing a great deal more of the net investment, and less of the net divestment, than southern ones with Santander the biggest loser by a large margin, but the trend is far from exclusive. BBVA would have been flat without Janus's massive buy.*

At the turn of the year things were seen somewhat differently by Capital International, however, clearly backing away from financial stocks – particularly in countries that were at the sharp end of the wedge with regards to fiscal problems. Capital sits at the top of the sellers table of European banks and literature from the Capital International Global Equity fund sheds more light on their investment motives; they were concentrating on firms that they believed to have strong balance sheets and solid long-term prospects. Santander, the most heavily sold bank in Europe, was cited as a main detractor from performance. One of their favoured picks, UBS, had also underperformed while Bank of America was eliminated from the

IPREO

portfolio altogether. Basically, the financial sector as a whole had been a major drag on performance and was subsequently reduced. Only two financial stocks (JP Morgan and Citigroup) made it into the top 25.

Fidelity Management & Research, the third largest seller of European banks was likewise distancing itself. The Fidelity Global Financial Services fund, which also favoured JP Morgan and Citigroup, showed movement towards US banks, being 4% overweight when compared to its MSCI World Financials benchmark. Interestingly the UK, Japan and Switzerland were all overweight as well at 3%.

Filings data from Q4 2010 shows that the banking sector waned in popularity, while insurance witnessed significant inflows – with the major beneficiaries being Prudential of the UK and Allianz and Munich Re of Germany. Emily Adderson, the steward of the Henderson Global Financials fund, cited in the February Factsheet that global insurance stocks were providing some of the strongest performance in the portfolio. This preference is born out by European fund flow data (which had top buyers including Berkshire Hathaway and ING Clarion Real Estate, neither of whom were buying banks), as well as by opinion at the recent Morgan Stanley European Financials conference in London, discussed in more detail below.

Susan Sternglass Noble, manager of the Axa Framlington Financial fund, said that the sector remains in a state of flux, with Eurozone shares likely to remain volatile in the wake of the credit crisis and its satisfactory resolution: '*Valuations remain the most compelling on a global basis and should prove sound investments over the medium term*', continuing by stating, '*shares in many strong and growing banks and insurance companies are representing better value*'.

Similarly upbeat on valuations in the sector is Jupiter's Guy de Blonay, lead manager of the £878 million Jupiter Financial Opportunites fund, who in his March address stated that valuations for global financials remain low: '*Overall, with economic conditions improving, we believe 2011 could be a compelling year for global financials*'. At the time his fund had a relatively low exposure to European financial stocks - although they still made up almost a third of the portfolio. Instead he was more bullish on the US (hoping to benefit from a cyclical recovery) and, over the longer term, in the likes of China, Brazil and Turkey which have compelling stories with regards to credit creation, structural growth, and low levels of personal and sovereign debt.

Top Sellers of European Banks (Q4 2010)

Investor Name	Country	Style	Value ($m)	Value Change ($m)
Capital Research Global Investors	United States	GARP	7,419.5	-733.8
Artio Global Management	United States	Growth	1,671.0	-551.6
Fidelity Management & Research Company	United States	Growth	4,401.0	-484.2
Threadneedle Asset Management,	United Kingdom	Growth	1,029.6	-441.5
CIS Unit Managers,	United Kingdom	Growth	563.1	-324.7
AFA Försäkringar	Sweden	Yield	776.6	-302.2
Wellington Management Company	United States	Value	714.8	-291.8
Fidelity International Limited	United Kingdom	Growth	3,901.1	-278.6
Morgan Stanley IM U.K.	United Kingdom	Value	422.6	-275.0
Northern Cross	United States	Value	1,105.8	-251.9

Source: Ipreo Research

What value investors are to net investment in European banks, growth investors are to net divestment with Capital Research leading the way. Capital Research sold over $1 billion of Santander whereas Artio sold principally emerging market banks.

The Morgan Stanley European Financials conference held in London at the end of March 2011 highlighted some very interesting views on the sector. The firm polled 800 investment professionals who attended the conference and the results of the poll make for intriguing reading.

Confirmation came that investors see European banks as cheap, trading at a discount to their global peers. Half of the respondents expected the sector to finish between 5-15% up for the year, while another third expecting it to shuffle sideways. The major issues holding the sector and region back revolved around funding, clarification of capital rules, and greater policy support to the periphery.

There were also marked differences in how the Northern European banks and the Southern 'periphery' are perceived. The main issues affecting those in the North revolve around the development of earnings power against a backdrop of lower economic growth (with a deleveraged capital structure and termed out funding). In the Southern periphery, cost of funding, capital levels (in light of the stress tests), and sovereign risk are questions that loom large in the foreground.

While the sovereign and credit issues are weighing heavily on many European banks, leading to a distinct lack of enthusiasm on the whole, some countries are relatively more favoured than others, as seen with US banks being far more appealing than their average European counterparts. Here the only exception to the European story is insurance.

Expected to perform better in the region are the UK, France, and surprisingly Spain, with Italy and Germany less attractive. Comments in the IMF's Global Financial Stability report go some way to explaining the view on Italy and Germany, citing a greater occurrence of savings banks with low levels of capital, making them more vulnerable to further shocks. Spanish and Portuguese savings banks were also mentioned as being susceptible. Meanwhile Germany was mentioned alongside Ireland in facing particular pressures from the 'wall of maturing debt' looming large on the horizon.

However, it is rather telling that notwithstanding the 'wall of maturing debt,' the perception of Germany as a stable sovereign state means that it was still seen as a 'safer option', alongside France, with regards to Tier 1 capital. Four fifths of the survey respondents stated that if the Tier 1 in these two states was 8.5%, then UK & Swiss banks would need 10%. On cue, the Independent Commission on Banking (ICB) published its report on the future of British banking, stating that UK banks should hold 10% of Tier 1 capital.

Given that most of the UK banks are well on the way to holding that amount by 2012 anyway, this does not seem to be a difficult pill to swallow – particularly when figures of 15-20% had been mooted by the BofE and the FSA. However, Sir John Vickers, the chap leading the report, did later say, 'We have not said 10% but at least 10%. We're not saying 10% is fine, and that is the end of the story'.

In further review of the Morgan Stanley poll, it seems that respondents were broadly divided on how much more capital raising would be seen in 2011, with the favoured amount being around €40bn - even taking into consideration the current round of stress tests. Consensus had no more than ten banks failing the stress tests with an expected €10-15 billion needing to be raised in their wake.

Perhaps the Street is expecting another round of light-touch treatment from the regulators, but a nagging doubt remains that those in charge may decide to bear a few more teeth this time – although the ICB in the UK has come under some criticism for straining under the weight of intense lobbying from the banking sector. Given the relatively high number of banks that only marginally passed the test last time (and the subsequent lack of capital raising activity from those entities – UBI Banca and Bankinter excepted), investor responses may smack of wishful thinking. Ireland and UK regulators have recently offered contrasting scenarios on how the rest of Europe might fare.

Eyebrows may be raised at investor opinion towards the stress tests themselves; specifically in relation to their capacity to enhance confidence or reduce uncertainty with regards to the adequacy of bank capitalisation. A quarter of respondents branded the tests as irrelevant and another quarter said that they will have no curative effects at all. Meanwhile, the other half weakly agreed that there would be some positive effect, although the fact that only 1% of respondents strongly agreed suggested more than a dash of world-weary cynicism emerging from the majority.

Around half of the group polled by Morgan Stanley thought that the Street's expectations for Eurozone retail banking margins were somewhat bullish, particularly for those in the south of Europe being squeezed by deleveraging and high funding costs. Meanwhile, regarding Eurozone rate rises, the most recent hike by the ECB came as no surprise and consensus expect rates to rise another 25-50 basis points by June 2012.

Moving forward, the boost given to the sector in March by the European Financial Stability Fund was gratefully received by investors. There remains a great deal of caution on the Euro, and the ECB rate rise may turn out to be something of a double edged sword for its recipient nation states – particularly if additional increases to the European rate follow. Meanwhile, until the results of the stress tests are made public at the start of June, European banking stocks are likely to remain the hunting ground of the more adventurous value investor the same as they were in Q4 2010. With S&P's vote of no confidence in the US executive's ability to deal effectively with the $14.3 trillion debt ceiling, things have just gotten a little more complicated on the other side of the pond. This in turn will have a knock-on effect on how and where the money flows. Out of the frying pan and into the fire anyone?

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**Traditionally the periphery would include Iceland, Ireland, Portugal, Spain, Italy, Greece, and around the Baltic but it is likely that the term resonates differently depending on who you are talking to. The Core is everything on the inside of the region – basically 'old' Europe. The North is France upwards, inclusive. The Iberian peninsula and the rest of the European countries bordering the Mediterranean would be considered the South.*

Quiet Period Expiration: Understanding and Managing Volatility

All newly-listed companies on US exchanges are subject to a 40 calendar day "quiet period" during which analysts at affiliated underwriters are prohibited from publishing research or recommendations on the securities. Stocks usually see a spike in volatility in the days surrounding the termination of the quiet period as investors anticipate and react to initial analyst coverage. Of course, not all companies are created equal, and some are more affected by the analyst coverage than others. For companies pursuing a public offering, the following analysis provides a guide for navigating through the first days of analyst coverage.

Methodology

We looked at nearly 700 IPOs, excluding Blank Checks, Closed-End Funds and Business Development Companies, from 2006 to February 2011 with proceeds over $200,000. Two volatilities were compared: the annualized 10-day volatility in the ten trading days surrounding the expiration of the quiet period and the annualized 10-day volatility of the stock's prior ten days of trading. We calculated the volatilities by annualizing the standard historical volatility calculation, which finds the standard deviation of the natural log of the changes in a stock's daily closing price. The calculation in equation form is as follows:

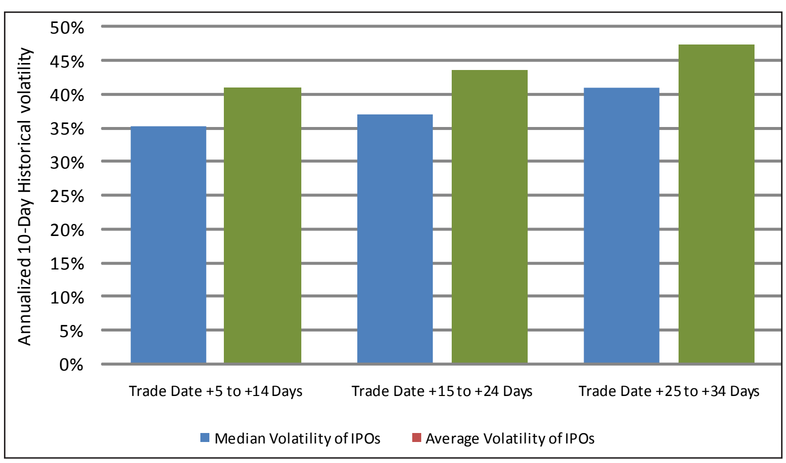
$$\text{Volatility} = \sqrt{\left(\frac{252}{N-1}\right)\sum_{n=1}^{N}\left[\mathrm{h}\left(\frac{S_n}{S_{n-1}}\right)-\left(\frac{1}{N}\sum_{n=1}^{N}\mathrm{h}\left(\frac{S_n}{S_{n-1}}\right)\right)\right]}$$

Findings

Many factors play a role in how well a stock can weather the spike in volatility associated with the end of the quiet period. Market capitalization and business sector seem to have the most prominent effects, while a company's country of domicile, surprisingly, is not typically a determining factor in the magnitude of the volatility change. Of course, as an IRO, not much can be done to change these features of your business, but our findings can arm you with important information to keep management aware. Additionally, we found that the number of analysts initiating coverage as well as the average rating of the stock are highly correlated with the volatility spike. Such findings point to the importance of market visibility for a stock in mitigating volatility associated with quiet period expiration.

Average Volatility of IPOs

Increased Volatility Around Quiet Period Expiration

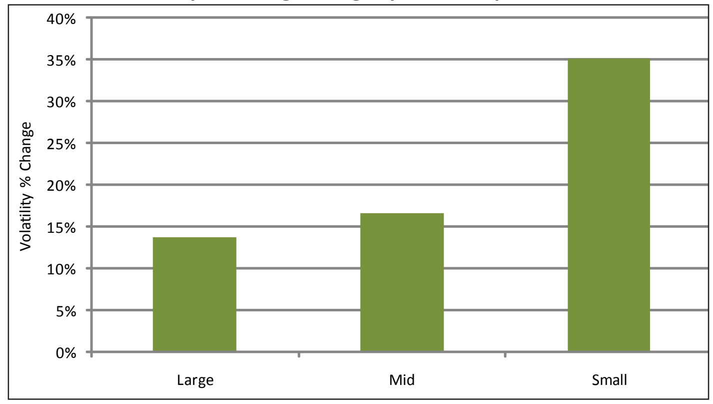


Source: Ipreo Research

Company Size

Unsurprisingly, we found that larger companies usually generate a less-significant spike in volatility around quiet period expiration than smaller companies. Companies with market caps of less than $2B saw their volatility spike 2.1x more than companies with market caps between $2B and $10B and 2.6x more than companies with market caps larger than $10B. Larger and better-known companies with more liquid markets are at an advantage because an abundant amount of information on these stocks has likely already permeated the market and been factored into prices by the end of the quiet period, so the recommendations of the analysts would unlikely cause a stir. On the other hand, lesser-known companies will likely be more affected by initial coverage as the reports could mark the first time many investors are receiving insight into some of these stocks. Unfortunately, IROs can't magically expand their business overnight, but smaller companies may need to take a more proactive stance in soliciting interest in their stock and creating healthy market discussions that can lead to a more stable pricing pattern.

Volatility Percentage Change by Market Capitalization

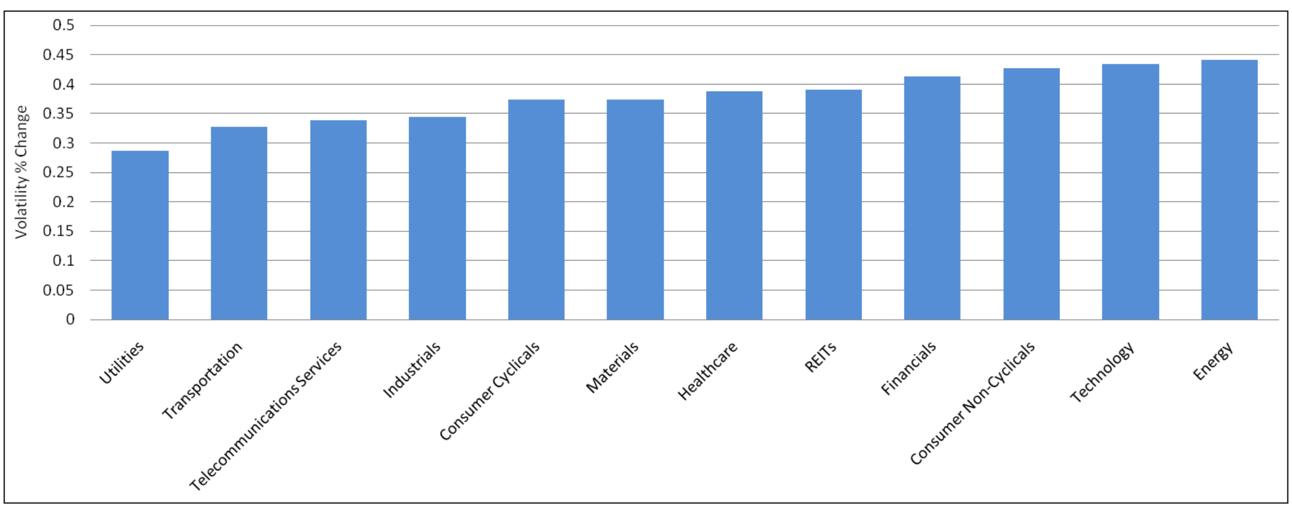


Source: Ipreo Research

Company Sector

We also examined whether the stock volatility of businesses in certain industries are more sensitive than others to the expiration of the quiet period. Our data showed that the most sensitive sectors are Energy and Technology while Utilities stocks saw the smallest change in their volatility. Technology IPOs are usually growth stories with compelling new products. Analyst opinions are especially important for these innovations as investors look to professional opinions on technology they are not familiar with. Such dependence could explain some of the spike in volatility stocks in this industry experience around quiet period expiration. Utility IPOs, on the other hand, are often held as defensive positions within portfolios due to the industry's non-cyclical nature. Analyst recommendations for this sector rarely divulge unexpected information, so stock volatility is relatively immune to the initiation of analyst coverage. Even if your business operates in a traditionally risky sector, steps can be taken to diminish your volatility risk. For example, the change in volatility of Chinese video hosting site Youku.com was among the bottom 10% for all IPOs in our study. Youku had generated a lot of investor attention after posting a 161% first day pop and the market was flooded with related commentary. The strength and visibility of the offering minimized the impact of the initiation of official analyst coverage. IROs can help mitigate volatility increases by creating broader market awareness, improving price discovery throughout the quiet period.

Volatility Percentage Changes by Sector



Source: Ipreo Research

Company Domicile

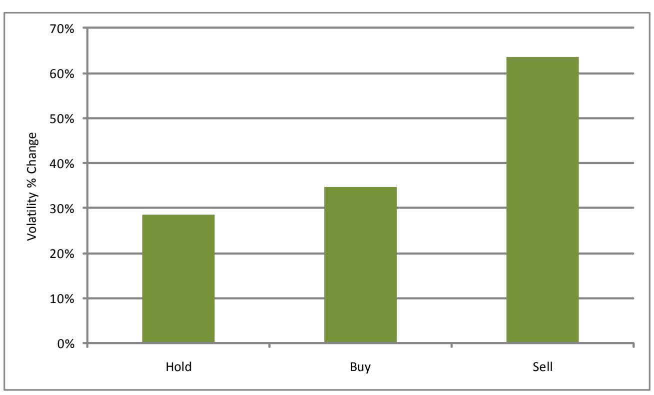
We also grouped the IPOs based on their domicile country and found that, interestingly, a company's country of origin does not have a noteworthy impact on the volatility change caused by the quiet period. Common perception has been that stocks from emerging markets such as China should be more affected by analyst recommendations since U.S.-based investors are less familiar with the offerings, but this was not the case. In fact, the change in volatility was 1.3x higher for companies from developed countries than companies from emerging markets. Additionally, US firms posted 1.4x higher volatility change than Chinese firms. Therefore, firms from emerging markets may not necessarily expect elevated volatility due to their country of domicile.

Power of the Analysts

Finally, we turned our attention toward the actual recommendations by the analysts and discovered, predictably, a strong correlation between the strength of recommendations and spikes in the stocks' volatility around quiet period expiration. Specifically, we looked at historical analyst recommendations provided by Factset, ranked on a scale of 1 to 5, with "1" representing a strong buy recommendation and "5" representing strong sell. Companies with an average "sell" rating, (>3.5) two weeks after the expiration of the quiet period saw a 58% larger spike in their volatility than did those with an average "buy" or "hold" rating. "Sell" ratings are rare for recently-listed companies, as underwriters usually award positive evaluations to the stocks they helped take public, so the market's negative response to pessimistic analyst sentiment is not surprising. In fact, only seven IPOs in our population had an average "sell" rating two weeks post quiet period. Of note, a majority of these companies garnered strong aftermarket performance in their first month of trading, so "sell" ratings from analysts might have been unexpected, creating volatility. Country Style Cooking, MSCI, ExlService and eHealth all saw their stock prices rise over 80% in their first month of trading, while Intrepid Potash and Altus Pharmaceuticals rose around 50% in the period. Meanwhile, even the worst performing of the group, Grupo Aeroportuario, managed a 12% increase in its first 30 days as a public company.

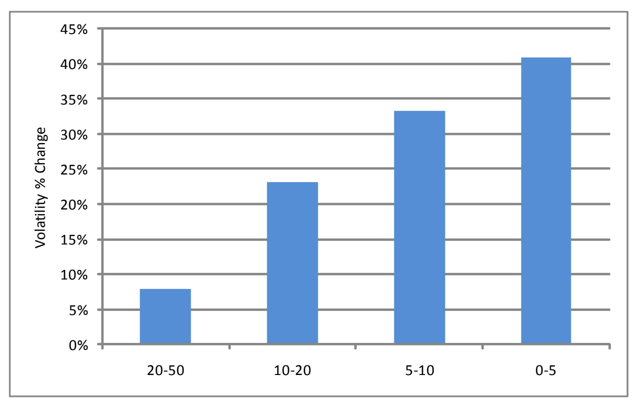
Additionally, the number of analysts that initiated coverage of a stock post-IPO also appears to affect the stock's volatility. The spike in volatility decreases as the number of analyst recommendations increases. In fact, stocks that are covered by less than five analysts saw increases in their volatility that were 5.2x higher than those stocks covered by more than 20 analysts. As expected, the degree of analyst following correlates with firms' sizes and name recognition, as many of the companies with a wider coverage base are larger, better-known brands, including Visa, athenahealth, MetroPCS and Chipotle.

Volatility Percentage Change by Average Analyst Recommendation



Source: Ipreo Research

Volatility Percentage Change by Number of Recommendations



Source: Ipreo Research

Conclusion

For IROs, the key takeaway is that investor and analyst recognition of an initial offering is very helpful toward minimizing volatility spikes associated with the expiration of the quiet period. Volatility risks related to some business-specific characteristics, such as size, industry and location, are obviously unavoidable. However, programs can be implemented to create awareness for the stock both on the buy-side and sell-side to improve pricing efficiency during the quiet period and alleviate volatility as analysts initiate coverage.

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The Downside of Convertible Debt - A Look at Convertible Arbitrage

For some time now, issuers have used convertible debt in order to raise capital with more favorable terms than traditional avenues. While convertible debt issuance can provide liquidity in times of need, it is not without its costs which are hidden to some. This article will shed some light on the effects of convertible debt, and more specifically the effects of the practice of convertible arbitrage, on the underlying equity. From an investor relations perspective, being knowledgeable about convertible debt and its effects can help explain aberrational trading activity in a post-issuance timeframe, as well as provide the investor relations department with information to add to the strategic discourse at the management level when raising capital becomes a priority.

A convertible security is one that can be converted into another security at a pre-set time and price. For the most part, this definition applies to a bond that can be converted into stock. Usually, these securities have a lower interest rate than other bonds, because they can be converted into stock. A convertible bond holder may hold the bond and collect interest, sell the bond at a later date ideally at a higher price, or convert the bond into stock if the conditions are favorable.

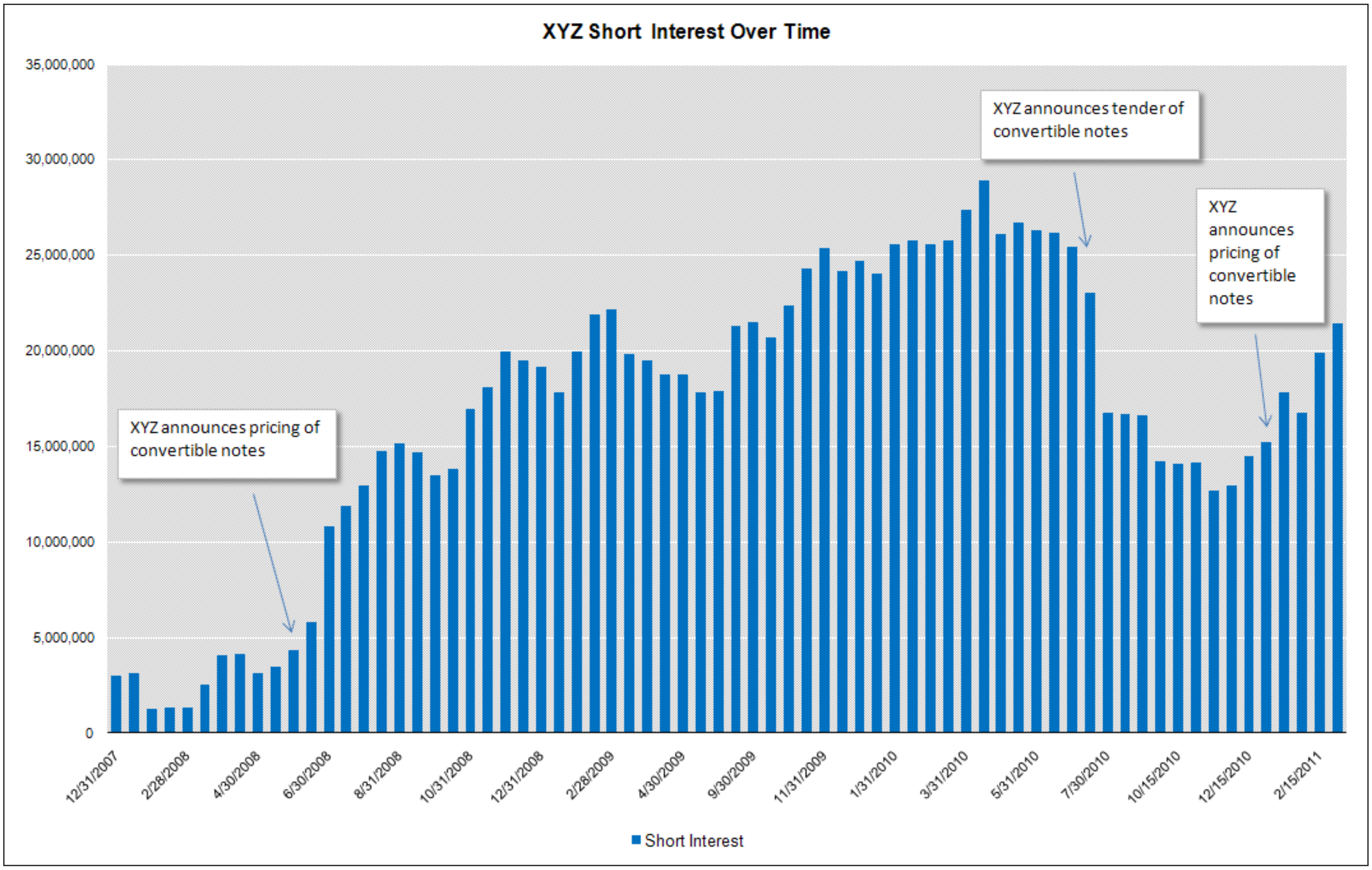
Convertible arbitrage is a market neutral strategy involving the simultaneous purchase of convertible securities and the short sale of the same issuer's common stock. Convertible arbitrage traders will attempt to profit when a company's convertible bonds are priced inefficiently relative to the company's stock, for many different reasons such as illiquidity or market psychology.

Typically, hedge funds or specialized convertible arbitrage funds will employ the convertible arbitrage strategy. The convertible arbitrageur will buy convertible debt, and short the underlying stock. If the stock falls, then the trade is often profitable because the short position will earn more than the loss in value of the bonds since they are buffered by their value as fixed-income instruments. If the stock price rises, the trader can profit when the bonds convert into stock and the shares are sold at a market value higher than the strike price, ideally more than compensating for any losses on the short position.

A convertible arbitrageur will employ a practice known as "delta hedging", which has a direct impact on the number of shares sold short in order to create the trade. The number of shares sold short and the number of bonds owned reflect a market neutral, or "delta neutral", ratio in order to create a situation where the total position is impervious to market or individual equity fluctuations. This process often requires rebalancing, which is the aforementioned delta hedging, as traders will increase or decrease their short position.

This has a large impact on the issuer and the underlying stock price as it adds to the stock's short interest, i.e. creates sellers or shorts in a stock where there ordinarily would not be. While the issuer may enjoy a capital infusion, as well as a low interest rate on the debt issuance, the equity will typically suffer as short interest spikes and volatility increases due to delta hedging. In effect, the stock will experience strong resistance and a "cap" as the stock approaches the strike price of the convertible debt and arbitrageurs step up delta hedging, increasing their short position at that price point, knowing that if the stock breaks through and moves higher they can always convert the bond at that price and cover their short positions for minimized losses regardless of how high the stock moves.

In order to gauge how much of an effect a given convertible debt offering might have on an underlying equity, we can make an educated guess by calculating how many shares the entire bond issuance would convert into. Then, we can estimate that the arbitrageurs would delta hedge 50% of it by shorting an amount roughly equivalent. In a very simplified example, a $100M issuance that converts into 10M shares may cause 5M shares to be shorted, along with the effect of a 5M share seller in the stock and an associated price movement. Please refer to the graph below for an example of short interest over time after an actual convertible bond was issued and then later retired.



To be sure, convertible arbitrage is not easy money. Since arbitrageurs must typically hold the convertible bonds for a specified amount of time before they can be converted, care must be taken that proper market conditions will coincide with the time frame of the conversion. Additionally, unforeseen events have caused convertible arbitrage funds to suffer. For example, many convertible arbitrage players had long positions in GM convertible bonds, and were short the stock, as Kirk Kerkorian sought to invest heavily in GM stock and credit agencies were downgrading its debt. Additionally, during the crash of 1987, convertible bonds fell more than their underlying stock because of a lack of liquidity. Lastly, convertible arbitrage has become increasingly popular in recent years driving down coupon rates, which has reduced the profitability of the strategy.

It is worth noting that not all convertible debt investors employ this strategy, and some are simply plain vanilla fixed income investors. Additionally, while issuing convertible debt has its pitfalls, it remains an effective way to raise large sums of money at reasonable terms for many companies that would otherwise have trouble accessing the capital markets in more traditional ways. However, issuers and investor relations departments are well served to be informed on the full effects of this method of capital raise before jumping in.

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BetterIR - Firm Snapshot

Targeted Firm: PIMCO – Pacific Investment Management Company ($2.6Bn EAUM)

Targeting Profile:
Newport, California-based PIMCO, led by famed bond king Bill Gross and former IMF chief Mohammed El-Erian, is synonymous with fixed income investing; however, since 2009 the firm has emerged in the active equity space with $2.6Bn EAUM. The shift from a traditionally fixed income house to a diversified asset platform was a result of macro negative sentiment within the firm concerning lower returns within the fixed income asset class and US diminishing presence in the global market. Currently the firm's active fund platform includes one deep value fund and multiple hybrid funds. However, in its attempt to build out its adolescent equity offerings primarily through organic growth, the firm plans to launch numerous emerging market focused funds in early 2011. Furthermore, with continued growing demand for PIMCO equity funds the firm intends to also expand to growth and income strategies in the near future as stated by recent PIMCO press releases.

PIMCO has long been associated with its isolated Newport Beach location; however, its equity portfolio managers and analysts are dispersed primarily between its London and New York offices with a small group of the active equity team located in PIMCO's Singapore and Sydney locations as well.

Inherent to the deep value strategy, the firm tends to hold for a three- to five-year investment horizon, allowing out-of-favor companies to materialize. Currently the firm seeks out-of-favor and undervalued companies, specifically those that have been recently hindered by an overreaction to certain company specific events. Furthermore, steeply discounted stocks with solid earnings power, strong free cash flow generation and sustainable business models are typically within management's periphery. Accordingly, the firm's largest holdings include recently distraught and deeply discounted securities Intel ($327mm), PPL Corp ($123mm) and American International Group ($77mm). Moreover, the firm's current deep value theme has resulted in an increase in exposure to the healthcare space which has been battered by recent regulatory reform. Large purchases in the space include biotech and pharmaceutical companies Vertex Pharmaceutical ($49mm), Bristol Myers Squibb ($41mm) and Valeant Pharmaceuticals ($20mm). Though currently concentrated within developed North American and European markets, the firm has proposed plans to increase exposure substantially to developing markets most notably Russia and China as stated by PIMCO. As PIMCO's equity offerings mature, look for the firm to diversify itself between various strategies and a more global presence.

How to Approach:
Out-of-favor securities with strong growth potential and developed business models are often at the forefront of management's investment universe. Though no apparent sector bias the firm does blend its in-depth top-down knowledge from its fixed income operations to seek recently beat down sectors. Sectors that may be appealing in the investment process include healthcare and financials. Securities within such sectors should find it easier in attracting management's attention. Moreover, as a result of the firm's future focus on emerging markets, companies with large business exposure to developing economies may be viewed in a favorable light.

How not to Approach:
Approximately 75% of the firm's portfolio is allocated to companies with greater than $10Bn market cap. Consequently small and mid cap securities may find it difficult to garner attention. Furthermore, momentum play stocks will largely be overlooked as the firm seeks out-of-favor companies that have the ability to restructure in a 3-to 5-year period. In addition, high growth stocks trading at steep premiums should seek investment elsewhere.

Largest Funds Managed:
- AST Advanced Strategies Portfolio ($2.1Bn EAUM)
- HC Capital Trust Institutional Growth Equity Portfolio ($900mm EAUM)
- HC Capital Trust Institutional Value Equity Portfolio ($709mm EAUM)
- PIMCO EqS Pathfinder Fund ($676mm EAUM)

Portfolio Fundamentals:
- Forward P/E: 13.0x
- 5 Yr Proj. Growth Rate: 11.1%
- Dividend Yield: 2.0%
- Price/Book: 2.8x

Average Equity Holding Period: 9 months

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BetterIR - Fund Snapshot

Targeted Fund: Janus Overseas Fund ($13.7Bn EAUM)

Portfolio Manager:

- Brent Lynn

Targeting Profile:

The Growth oriented Janus Overseas Fund (founded in 1994) is solely managed by Brent Lynn, and part of Janus Capital Management's family of funds. Brent Lynn was recently named the 2010 International-Stock Fund Manager of the Year by Morningstar, and has been with Janus since 1991. Mr. Lynn and his team tend to apply a "bottom up" approach when deciding asset allocation, and spend ample time on the road meeting with prospects, in attempt to uncover vital information which can be hard to come by in overseas markets. As the name suggests, the fund is well diversified across an array of regions, including Asia (38%), North America (32%), Europe (23%), and South America (7%). Despite this diversification, Brent and his team are known to invest in companies based on their individual merits rather than geography or sector. Nonetheless, the fund's $13.7Bn is allocated to a mere 69 positions, and is 100% equity focused.

In regards to industry allocation, the Janus Overseas Fund is overweight Financials, seeing as this sector makes up about a third of the portfolio ($4.3Bn). Moreover, the fund increased its exposure to the Financial sector by $910mm through buying Mizuho Financial Group ($268mm), Banco Bilbao ($265mm), Bank of America ($220mm), and Nomura Holdings ($194mm). Another key characteristic of the fund is its strong presence in the Passenger Airline industry, which makes up roughly $1.2Bn of the portfolio. Although on a macro level, the Consumer Services industry saw a net sell of $143mm, the Airline industry went untouched. In addition, the largest sells of the Consumer Services sector were Shangri La (-$72mm), and Crown (-$53mm). Nevertheless, the majority of the Janus portfolio remained unchanged seeing as 48 of its positions saw no buy or sell activity, thus signifying the fund's rather long equity holding period of ~2.8 years. As evident from the fund's low turnover, Hong Kong based Li & Fung LTD ($799mm) has essentially held the top position within the portfolio for over 3 years, and currently makes up 6% of the total portfolio.

How to Approach:

On average, garnering exposure to the Janus Overseas Fund will be difficult due to the fund's low turnover and minimal number of securities held. The fund's portfolio is far from volatile, and tends to add new positions only if sufficient opportunity is present. With this being said, companies domiciled in Asia, North America, and Europe will have the best chances seeing as over 80% of the portfolio is allocated to these regions. More specifically, Japan and Spain are of recent interest to the fund, as these countries have increased exposure by $462mm and $265mm respectively. In addition, Banking, Oil & Gas, and the Passenger Airline industries tend to be favorites of Brent Lynn, as he has designated 33% of the portfolio to these specific industries. The fund also tends to invest in larger companies, as evident from the 48% held in Large Cap companies, followed by Mid Cap (30%), and Mega Cap (16%).

How not to Approach:

The fund has minimal exposure to Small Cap companies (5%), and no exposure to Micro Caps, thus smaller companies will find it very difficult to garner attention from the fund. Furthermore, the Real Estate and Semiconductors sectors saw portfolio decreases of 22% and 19% respectively, thereby signifying the fund's current lack of optimism within these industries. Additionally, the Healthcare industry only represents 3% of the portfolio and has seen a net sell of $69mm.

Portfolio Fundamentals:

- Forward Price/Earnings: 14.4x
- 5 Yr Projected Revenue Growth: 18.6%
- Dividend Yield: 1.3%
- Price/Book: 3.3x

Average Equity Holding Period: 2.77 Years

Metro Area Targeting Focus - Boston, Massachusetts

Examining Institutions with Less than $15Bn

Money Center Statistics

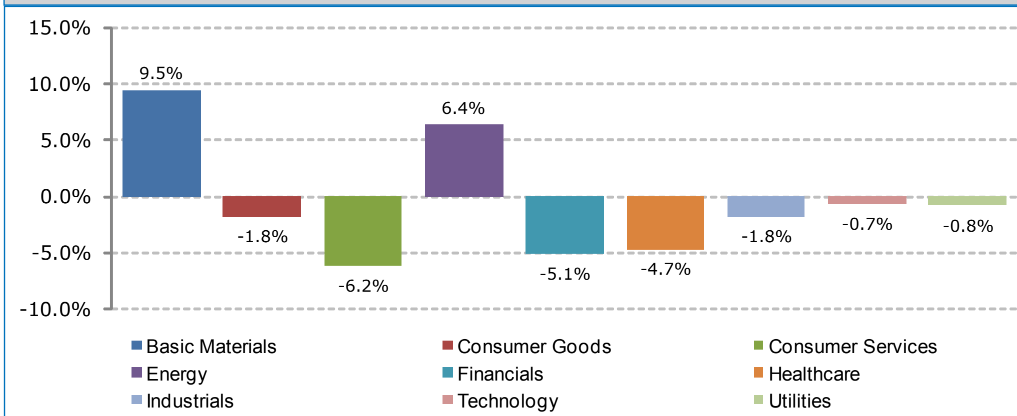
All numbers below are based on global institutions lees than $15 Billion

Reported Equity Assets ($B):	$215.1
Number of Institutions:	247
World Rank:	3/172
Top Sector Weighting:	Financials
Financials Weighting:	21.4%
Top Region Weighting:	N. America
N. America Weighting:	88.2%
Total Net Buying ($B):	$34.3
Total Net Selling ($B):	-$38.2
Total Net Activity ($B):	$-4.0

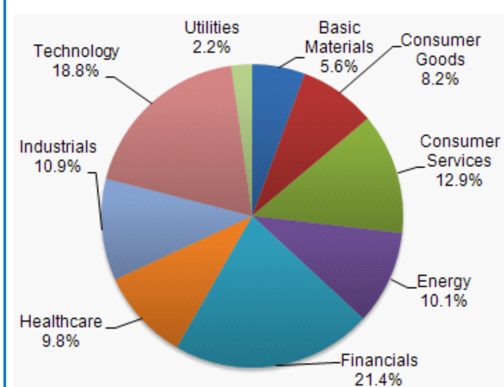
Summary Notes:

When issuers travel to Boston they frequently ask about the big players in the metro, investors such as, **Fidelity Management & Research Co., Wellington Management Co.,** and **MFS Investment Management,** but what about the small- and mid-tier shops? Although Boston institutions under $15Bn in equity assets account for just 15% of the metros total equity assets, the metro is still the third largest metro in the world, when accounting for the equity assets limit. Typically a very Tech focused investment center, Boston small- and mid-tier institutions' top sector is Financials, accounting for over 20% of sector allocations. However, according to most recent filings, metro area investors sold roughly $2.5Bn within the space. Tech is still a strong focus point of these investors, as collective allocations amount to over $40.5Bn, or 19% of the metro area's portfolio. Based on the most recent filings, Basic Materials and Energy have been the only sectors with postive net activity, as each increased 9.5% and 6.4%, respectively. **Capital Growth Management** led the way in net buying in Basic Materials, adding $322mm in the sector, followed by **Standard Life Investments**, which increased its exposure to the sector by 140%, or $318mm. Within the Energy space, **Westfield Capital Management Co**. and **Manulife Asset Management** both lead the metro in total value with $1.9Bn and $1.7Bn, respectively. REIT issuers visiting Boston may want to make contact with **AEW Capital Management**, as the REIT specialized investor has been the second largest net buyer of equities. Recent filings show the firm has bought over 30 securities, including an initiated position in Simon Property Group for $495mm. Bottom line, although the top firms are good meetings to have, Boston also has more to offer than just big name investors.

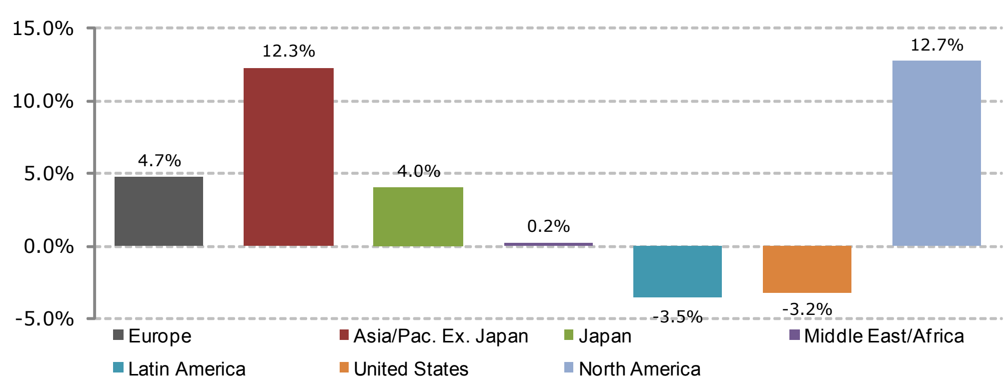
Sector New Activity (% Change)



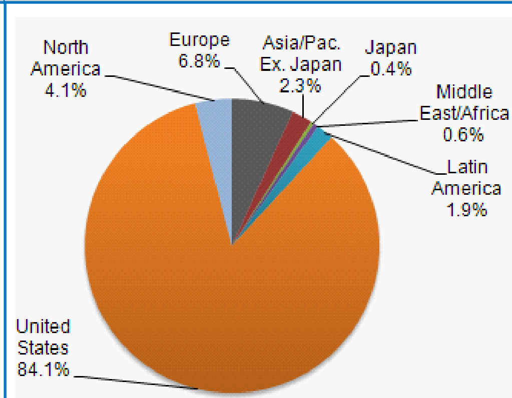
Sector Allocation



Regional Net Activity (% Change)



Geographic Allocation



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