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Brokers, Trading Commissions, and the Buy-Side: Follow the Money

Buy-side analysts and portfolio managers have some of the most overworked phone lines in the investment business. In addition to handling calls from their own clients (such as hedge fund limited partners, pension account managers, and high-net worth individuals), they need to constantly be communicating with other members of their own research departments, their investment committees, information sources, economists, sell-side analysts, institutional sales, and corporate access teams. And all of this is *before* communicating with corporate IR teams. Add in the increased coverage universes seen by many buy-side shops (as investment managers diversify to cover new and different types of securities) and you've got a pretty busy day for most of your buy-side contacts. (The increasingly popular term "attention economy" comes to mind).

Therefore, whenever an analyst or portfolio manager is contacted, they're always looking to get something in return from the individual on the other end of the line. Institutional sales forces, however, often have the edge in terms of gaining attention from the buy-side, relative to many of the constituencies listed above. After all, the value they bring when reaching into the buy-side is often something that has clear benefit – for example, a soft-dollar relationship that covers research, or strong execution in making a market for a particular security or securities. Some IRO's conduct active communications with the institutional sales desks of major brokers, which can give the sales force good "talking points" when they speak to the buy-side. Indeed, a broker with a good institutional sales force and a good research staff can sometimes help raise your profile with a long-term investor that you haven't previously had much contact with.

However, it's difficult to know which brokers have the relationships that you're looking to leverage. Brokers are very protective of their client lists, and have an incentive to lead you to believe they have relationships with *every* major investor. However, SEC filings allow some limited ability for you to "follow the money", by identifying the relationships that investment managers have with their top brokers, and conversely, the relationships that brokers have with their investment manager clients.

Disclosures

Mutual-fund managers are required by the SEC as part of their semi-annual reporting to disclose the total commissions that they paid for trading on behalf of their mutual fund accounts. Similarly, they are required to disclose the names of the ten largest brokers that they paid commissions to during the prior semi-annual period, as well as the dollar commissions and the percentage each broker represents of the total. This information is filed at the mutual fund *family* or *registrant* level with the SEC (so a firm like *Janus Capital* may actually file on behalf of multiple mutual fund families). You can find these filings on the SEC website under the fund family's name as form NSAR.

Ipreo analyzed this data set by viewing all mutual fund family information aggregated for each mutual fund manager in the BD Corporate database, separately assigning brokers a classification of either Bulge Bracket (all brokers that provide research and corporate access with over \$100mm in total commissions paid), Mid-Tier, Electronic (brokers with purely execution systems such as ITG and Liquidnet), or Other.

While by no means a complete picture of the trading habits and brokerage relationships of investors (for example, some fund families do manage balanced funds that include fixed income trading as well as equity trading, and the very nature of the data does minimize the impact of smaller brokers), this data set can give a unique perspective on investor tendencies, and can give you an idea of how best to use your sell-side relationships to attack the best pools of capital for your investment story.

The Investor's Perspective

The days of investors having a single trading relationship with one broker, or even a few trading relationships with a few brokers, are long gone. Mandates often require investors, as part of their fiduciary duties, to seek best execution in trading,

which necessitates using multiple brokerages in order to make sure the investor is getting the best price and trading for the client's money. Therefore, it's nearly *impossible* to make the generalization "Investor X trades with Broker Y". However, investors do have closer relationships with some brokers than others, particularly if a research/soft-dollar relationship is involved, so many investors do exhibit tendencies that can be followed that provide useful insight for IR.

One interesting group of investors is the set of large "Tier 1" investors that pay a large percentage of their commissions to smaller, mid-tier brokers. While mid-tier brokers may not have the global reach of the bulge bracket brokers, they often differentiate themselves on quality research, and many of the tier 1 firms that pay out to the mid-tiers are the ones that have the heaviest focus on research quality.

Tier 1 (>\$50b EAUM) US Investors with Highest Commissions Paid to Mid-Tier Brokers			
Investor	Total Commissions Paid, Annual (\$)	% to Mid-Tier Broker	Selected Top Mid-Tier Brokers
Royce & Associates, LLC	12,152,000	43.3%	Cowen, Collins Stewart, Rochdale
Northern Cross, LLC	18,290,000	23.6%	Rochdale, Bernstein
Pioneer Investment Management, Inc.	6,707,000	23.0%	Bernstein, BTIG, William Blair
First Eagle Investment Management, LLC	7,284,000	20.5%	SG Americas, Calyon, Bernstein
Primecap Management Company	10,908,000	20.1%	RBC, Bernstein

Source: Ipreo Research

Interestingly, *Franklin Advisers* pays over one-third of its disclosed commissions to electronic brokers; firms that pay a smaller percentage of their overall commissions to brokers that provide research and corporate access services may be making a statement that execution is more important to them than research (and that these firms are "voting with their dollars" *against* sell-side research relative to other firms).

Tier 1 (>\$50b EAUM) US Investors with Highest Commissions Paid to Electronic Brokers			
Investor	Total Commissions Paid, Annual (\$)	% to Electronic Broker	Selected Top Electronic Brokers
Franklin Advisers, Inc.	17,450,000	34.2%	Electronic Specialist, Liquidnet
Columbia Wanger Asset Management, L.P.	5,924,000	30.8%	Liquidnet, ITG
ING Investment Management Co. (U.S.)	16,263,000	30.1%	IT, Liquidnet
Victory Capital Management, Inc.	8,300,000	23.3%	Liquidnet, ITG, Knight
Janus Capital Management, LLC	46,946,000	22.0%	Liquidnet, Instinet

Source: Ipreo Research

Small-cap portfolio managers often find best execution in different locations than the usual bulge bracket firms that trade every security; often a focused firm (such as *Kornitzer Capital*, below) is more likely to work with brokers that have heavy weightings toward niche sectors or industries.

Selected Tier 2/3 (>\$1b-\$50b EAUM) US Investors with Highest Commissions Paid to Mid-Tier Brokers			
Investor	Total Commissions Paid, Annual (\$)	% to Mid-Tier Broker	Selected Top Mid-Tier Brokers
Kornitzer Capital Management, Inc.	2,347,000	63.6%	Morgan Keegan, Stifel, William Blair
TimesSquare Capital Management, Inc.	1,908,000	36.5%	Oppenheimer, BTIG, Baird
Tocqueville Asset Management, L.P.	2,634,000	28.0%	Jefferies, Nesbitt Burns, Jones
Legg Mason Capital Management, Inc.	11,435,000	22.8%	Jefferies, C.I.S.
Cramer Rosenthal McGlynn, LLC	6,479,000	20.1%	Stifel, KeyBanc

Source: Ipreo Research

The Broker's Perspective

A broker that's hoping to work with your management team for corporate access purposes will always paint its institutional sales efforts in the best light, and will always describe the advantages its team brings to the table. Where the broker houses a top-rated analyst, or a particularly experienced equity sales force, expect the broker to highlight this information. However, based on surveys Ipreo has conducted of issuers and the factors they use to select corporate access partners, analyst quality and team experience rank lower than the *quality of buy-side access*; namely, does the broker let me tell my story to a good set of long-term investors.

Commissions information can't necessarily be used to "rate" or "rank" brokers given its incomplete status – remember that the 11th-largest broker receiving commissions from one of Fidelity's large fund families doesn't get disclosed – but it can help identify the *existence* of relationships that you can use to further your objectives. The group below is a set of mid-tier brokers that maintain large "market shares" with Tier 1 firms.

Selected Mid-Tier Brokers that have High Market Share in Tier 1 Firms			
Broker	Total Commissions Received, Annual (\$)	% by Tier 1 Firm	Selected Top Tier 1 Investors
RBC Capital Markets Corporation	36,131,000	79.0%	Fidelity, Putnam, Cap Re, Mackenzie
Macquarie Capital USA, Inc.	43,904,000	70.8%	Cap Re, Artio, T. Rowe, Alliance
Sanford C. Bernstein & Company, Inc.	50,239,000	70.8%	Invesco, American Century, T. Rowe
Robert W. Baird & Company, Inc.	10,720,000	66.6%	Blackrock, Artisan, Royce, Columbia
Rochdale Securities, LLC	5,901,000	64.3%	Northern Cross, Alkeon, Royce

Source: Ipreo Research

A common refrain you'll hear from mid-tier brokers is: "My firm will get your story into smaller investors that the bulge brackets brokers don't want to waste their time on due to their size." This statement isn't necessarily true for all small brokers (large and small brokers alike are always available to compete for trading business), but for some small brokers it's clear that they have outsized reach into certain institutions based on the commissions information the institutions make available.

Selected Mid-Tier Brokers that have High Market Share in Tier 2 Firms			
Broker	Total Commissions Received, Annual (\$)	% by Tier 2 Firm	Selected Top Tier 1 Investors
Keefe, Bruyette & Woods, Inc.	7,369,000	70.5%	Keeley, T. Rowe, Heartland
Calyon Securities (USA), Inc.	48,862,000	44.7%	Thrivent, Lazard
ISI Group, Inc	4,728,000	36.9%	Tradewinds, Oak Associates
Jefferies & Company, Inc. (CA)	64,602,000	36.9%	Fairholme, Eaton Vance
Oppenheimer Securities	5,285,000	32.2%	Montag & Caldwell, TimesSquare

Context Around Daily Trading Activity

Knowledge of the relationships between brokers and investors, as mentioned above, is not on its own going to give you the identities of who is trading your stock on a same-day basis. Simply to look at the name of a broker that has advertised heavy trading, then look at its list of clients and find the largest ones, is often an exercise in futility.

However, knowledge of the relationships between brokers and investors can serve as *one piece* of the broader puzzle of shareholder identification. For example, if you've recently had a number of phone calls with several investors subsequent to a conference hosted by a mid-tier broker, and your designated market maker gives you information that the broker in question is active in trading that day, knowledge of the set of investors that have close relationships with the broker could be a useful tool in narrowing down the group to find the right investor.

The Next Movement

Brokers are constantly seeking a way to differentiate themselves in an environment of intense competition among brokerage firms. Electronic trading firms that offer purely execution services will continue to drive prices lower for the active brokers, forcing them to offer more to the buy-side firms that they service (and thereby increasing the demand for good corporate access service, among other things).

More than ever, in this competitive environment, *brokers need you*, and maintaining appropriate relationships with the *right* brokers may give you more opportunities to advance your investor targeting goals, build liquidity, and diversify your investor base. From the qualitative perspective, it's a good idea to maintain not just the history that you have directly with the buy-side manager, but also to maintain the knowledge set of the broker relationships each investor has – this information is a valuable currency that can build value for your IR program.

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Is There Such a Thing as Good Convertible Bond Investors

Convertible bond holders are often a big mystery for IROs. In many cases convertible investors are assumed to be high turnover investors motivated by arbitrage, or fixed income investors that will immediately exit the stock upon conversion. While there is certainly some truth to that, convertible bond holders can also be targeting opportunities and may provide an easy means to develop relationships with new potential equity investors.

Convertible bonds have been an attractive way for issuers to raise capital, and in many cases the only way for an issuer to raise capital during the challenging capital markets of the last few years. While historically not as popular as secondary offerings, convertibles have maintained the role of a consistent method of raising capital during an environment where secondary offerings proved to be volatile. The hybrid nature of convertible offerings, allows for some of the security and consistency that a fixed income instrument provides with potential upside available at the time of equity conversion. Since 2008, convertible issuance has remained relatively stable, excluding the surge in Financial issuance in 2008, while secondary offerings have peaked and troughed over the last two years, as portrayed in Figure 1. Financial companies in particular were dependent on the convertible market in 2008 where \$40Bn was raised over 35 deals. Although not approaching 2008 volumes, Financials have remained consistent convertible issuers along with Consumer and Technology issuers.

Figure 1

	U.S. Convertible Issuance					
	2010 YTD		2009		2008	
	Proceeds (\$mm)	# of Deals	Proceeds (\$mm)	# of Deals	Proceeds (\$mm)	# of Deals
Financials	8,571.5	25	6,636.7	16	40,582.7	35
Consumer	7,684.0	8	9,547.5	23	5,590.5	11
Technology	7,895.7	20	5,577.8	17	4,162.5	11
Energy	3,276.0	9	1,884.0	9	4,160.0	11
Healthcare	4,953.8	10	1,475.0	4	3,159.5	11
Industrials	1,252.5	5	4,123.5	16	806.0	8
Materials	1,286.1	4	2,982.5	7	584.0	3
Utilities	1,632.8	3	1,351.8	5	00.0	0
Total	36,552.4	84	33,578.7	97	59,045.2	90
Secondary Offerings	122,956.5	459	197,831.6	542	148,262.7	233

Source: Ipreo Capital Markets

In all cases, issuers are often wary of the potential for convertible offerings to attract fast money and arbitrage investors; however, such offerings can also be an excellent way to diversify one’s shareholder base and attract new long-term holders. While many companies were forced into a convertible offering by the need to raise capital during a weak deal environment, this should also be viewed as an opportunity for an IRO to interact and attract new investors that they normally might not have a relationship with. This scenario presents an opportunity for large-, mid, and small-cap companies alike. Convertible holders are often overlooked; however, a periodic review of who holds those securities is a practice to consider, as a way to limit volatility as convertible bonds approach maturity.

Large-cap Issuers

For the most part, large-cap issuers have not needed to raise capital through convertible offerings to the extent of mid- and small-cap investors. This is due to several reasons; including the scale and diverse revenue streams these companies typically have, as well as benefits that being a larger “brand name” company often bring to the table. Figure 2 shows the largest holders of convertible securities held by institutional investors. Naturally, some high turnover arbitrage investors such as Advent, Waterstone, and SAC Capital Advisors are prominent, as well as fixed income investors; however, long-term holders actually dominate the list. In Figure 2, 13 of the 20 investors are long institutional equity investors.

Figure 2

Institution Name	Total Assets (\$mm)	Equity Assets (\$mm)	T/O %	Style	City	Convert	Value
						Value (\$mm)	Change (\$mm)
Largest Convertible Holders - \$50Bn Market Cap Companies							
PIMCO - Pacific Investment Management Company	746,187.0	1,543.5	139	Deep Value	Newport Beach	577.4	458.7
Loomis Sayles & Company, Inc.	140,900.0	13,922.2	78	Agg. Growth	Boston	372.1	3.6
Calamos Advisors, LLC	30,207.0	17,646.0	66	Agg. Growth	Naperville	359.6	48.5
BlackRock Advisors, LLC	242,658.5	221,952.4	43	Value	New York	294.1	-78.1
American Century Investment Management, Inc.	78,016.7	54,846.5	58	Growth	Kansas City	246.8	-45.8
Invesco Advisers, Inc.	290,193.9	117,326.1	61	Growth	Atlanta	243.5	-87.7
Columbia Management Investment Advisers, LLC	148,814.8	112,676.0	39	Value	Minneapolis	166.2	-3.4
Fidelity Management & Research Company	594,849.0	504,192.0	39	Growth	Boston	157.9	-2.3
Advent Capital Management, LLC	4,500.0	326.1	395	Specialty	New York	151.1	-26.8
Lord Abbett & Company, LLC	102,100.0	43,465.3	53	Value	Jersey City	146.9	-8.3
Largest Convertible Holders - \$10Bn-\$50Bn Market Cap Companies							
Calamos Advisors, LLC	30,207.0	17,646.0	66	Agg. Growth	Naperville	1,778.3	-233.5
PIMCO - Pacific Investment Management Company	746,187.0	1,543.5	139	Deep Value	Newport Beach	715.8	321.8
Lord Abbett & Company, LLC	102,100.0	43,465.3	53	Value	Jersey City	619.8	-59.4
Advent Capital Management, LLC	4,500.0	326.1	395	Specialty	New York	575.5	7.1
BlackRock Advisors, LLC	242,658.5	221,952.4	43	Value	New York	547.6	-9.3
MacKay Shields, LLC	43,196.8	1,612.2	83	Growth	New York	483.5	-32.5
Invesco Advisers, Inc.	290,193.9	117,326.1	61	Growth	Atlanta	404.3	49.8
Waterstone Asset Management, LLC	1,700.0	198.0	456	Alternative	Plymouth	399.4	-85.9
Fidelity Management & Research Company	594,849.0	504,192.0	39	Growth	Boston	364.9	-29.6
SAC Capital Advisors, LLC	9,000.0	9,949.7	208	Alternative	Stamford	327.9	9.0

Source: Ipreo Research

PIMCO, which appears towards the top of both lists in Figure 2, has historically been known as one of the largest fixed income investors; however, in April 2010 they announced a plan to launch their first actively managed equity fund, the PIMCO Pathfinder Fund. Though the convertible holdings are held in PIMCO’s traditional fixed income funds, the launch of PIMCO’s active equity fund provides an opportunity to gain interest after the convertible matures. PIMCO co-chief investment officers Bill Gross and Mohamed El-Erian’s have stated their strategic initiative to move beyond fixed income and expand the firm’s product offerings. The fund, expected to launch in early 2011, will be co-managed by Chuck Lahr, formerly of Franklin Mutual Advisers, and Anne Guddefin, formerly of Franklin Templeton UK. The Pathfinder Fund is expected to follow a contrarian and deep value approach¹. For large Cap issuers who feel like they constantly talk to the same investors, PIMCO could be an excellent opportunity to develop new relationships and market to new potential equity shareholders.

Small- and Mid-cap Issuers

For small- and mid-cap investors, convertible investors could provide more of an opportunity to find new equity investors, particularly in securities where the equity is not widely followed. However, in these cases the IRO will have to be somewhat selective; as according to Figure 3, high turnover and arbitrage focused investors tend to be more likely to invest in the convertible issues of smaller companies. That being said, 9 of 20 companies in Figure 3 are long-term equity investors that could contribute to a stable shareholder base.

Figure 3

Institution Name	Total Assets (\$mm)	Equity Assets (\$mm)	T/O %	Style	City	Convert Value (\$mm)	Convert Value Change (\$mm)
Largest Convertible Holders - \$1Bn-\$10Bn Market Cap Companies							
Citadel Investment Group, LLC (U.S.)	12,300.0	14,268.1	181	Alternative	Chicago	3,215.6	-177.0
Calamos Advisors, LLC	30,207.0	17,646.0	66	Agg. Growth	Naperville	2,503.1	-118.1
Oaktree Capital Management, L.P.	76,117.0	2,676.3	75	Value	Los Angeles	2,068.7	-129.2
Advent Capital Management, LLC	4,500.0	326.1	395	Specialty	New York	1,624.6	-74.7
Soros Fund Management, LLC	26,800.0	4,635.9	129	Alternative	New York	1,551.2	198.3
Invesco Advisers, Inc.	290,193.9	117,326.1	61	Growth	Atlanta	1,543.7	-18.0
Fidelity Management & Research Company	594,849.0	504,192.0	39	Growth	Boston	1,460.2	-323.1
Whitebox Advisors, LLC	4,144.1	538.4	224	Alternative	Minneapolis	1,287.0	-83.0
Lord Abbett & Company, LLC	102,100.0	43,465.3	53	Value	Jersey City	1,063.1	-57.0
Waterstone Asset Management, LLC	1,700.0	198.0	456	Alternative	Plymouth	973.9	74.9
Largest Convertible Holders - \$200mm-\$1Bn Market Cap Companies							
Oaktree Capital Management, L.P.	76,117.0	2,676.3	75	Value	Los Angeles	669.9	31.4
Citadel Investment Group, LLC (U.S.)	12,300.0	14,268.1	181	Alternative	Chicago	519.9	-29.7
Fidelity Management & Research Company	594,849.0	504,192.0	39	Growth	Boston	391.8	-55.8
Franklin Advisers, Inc.	233,935.1	49,974.9	32	GARP	San Mateo	361.7	-15.0
Bessemer Investment Management, LLC	30,351.0	12,208.7	62	Growth	New York	350.8	32.8
Wolverine Asset Management, LLC	2,899.4	979.5	165	Alternative	Chicago	335.4	34.9
Soros Fund Management, LLC	26,800.0	4,635.9	129	Alternative	New York	267.7	46.3
T. Rowe Price Associates, Inc.	324,188.3	273,223.4	31	Growth	Baltimore	243.5	-25.8
Lazard Asset Management, LLC (U.S.)	90,670.9	62,719.9	39	Value	New York	239.6	16.6
Rumson Capital, LLC	712.0	-	-	Alternative	Red Bank	229.7	-246.9

Source: Ipreo Research

Targeting convertible holders could be an effective way to expand a company's shareholder base and begin relationships that might not have previously existed. It is a good practice for IROs to periodically review convertible holders as a targeting opportunity regardless of company size. Additionally, as a convertible approaches maturity it is important for IROs to gain an understanding of what investors might become equity holders ahead of any conversion and to distinguish investors that have the potential to hold the equity upon conversion. Keep in mind that the Portfolio Manager responsible for the convertible holding may not be a suitable equity contact; however the fact that the institution has any holding can often lead to a conversation starter and hopefully an opportunity to begin a relationship with an equity contact at the firm. In any event, knowing who owns your convertible securities might be an opportunity; however, one thing that is for certain is you will not know unless you become familiar with who those holders are.

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(Endnotes):

¹ Pimco to Start Global Stock Fund Amid Equity Push, Bloomberg, December 30, 2009

IROs in the Outback: How to Bring Home the Boomerang

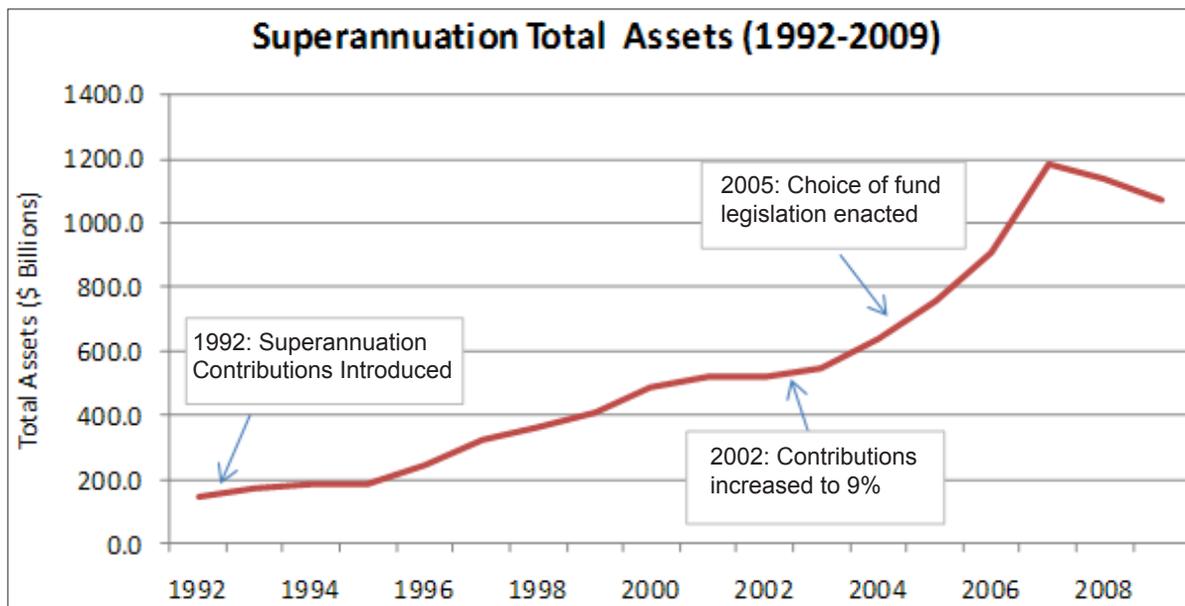
Australia has rapidly emerged onto the scene as a major global investor hub of late. The country's rise can be attributed to two primary factors: a booming resource-led and Asia-tied economy, and a progressive mandatory pension scheme known as the Superannuation. The following article recaps the rise of Australia as a global money center, focusing on the evolution of Superannuation and its impact on the broader institutional investment landscape.

Superannuation and the Evolution of the Australian Institutional Investor

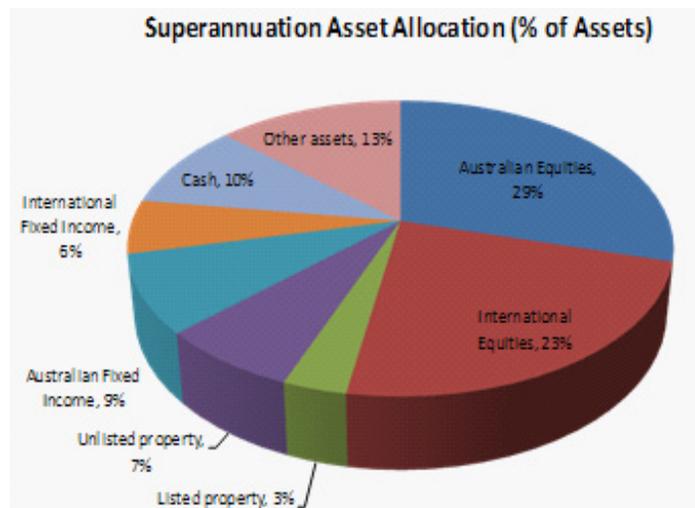
The birth and expansion of modern Australian institutional investment can be traced to the early 1980s development of a mandatory pension scheme. In the 1980s, Australia faced a maturing population, a low savings rate, an increasing income gap, and an inefficient socialized pension plan. Prior to the 1980s, less than a third of the population, primarily middle class men, were covered under the original underfunded plan. In response, a widespread institutionalized employee fund was created in 1986, the "Superannuation", which commenced with a 3% employer contribution. By 1987, coverage grew to 79% of all Australian employees, increasing the fund's assets to over US\$41Bn.

Despite rapid growth within the first few years of Superannuation's inception, problems persisted regarding the level of private sector employee coverage as well as the minimal contribution and its impact on retiree quality of life. Early fund shortcomings prompted contentious legislation in 1992 rendering employer contributions on behalf of employees mandatory. The intention of the so-called "Superannuation Guarantee" was to extend coverage and improve employer compliance. More importantly, the guarantee ensured a continued increase in employer contributions over a ten year period from 3% in 1992 to 9% in 2002. As a result, over the next decade total assets within Superannuation funds grew by \$370Bn to \$518Bn by 2002.

In the early days of Superannuation, assets were concentrated amongst a small group of fund advisors, and beneficiaries were granted limited authority over asset allocation and manager selection. Prior to 2005, the majority of employees were enrolled in a "defined benefits" fund which predetermined one's asset allocation and payout scheme. In 2005, however, legislation was ratified enabling employees to choose the allocation of their accounts in numerous complying funds, including retail funds. These "accumulation funds" granted employees discretion over their choice of investment managers, funds and strategies, but transferred all investment risk to the beneficiary. The new legislation encouraged diversification and opened up a range of investment options, spurring growth and innovation within the country's investment management industry. Since the 2005 legislation was ratified, publicly disclosed institutional equity assets under management more than doubled, increasing by more than \$87Bn. Accordingly, during the same period, the Superannuation asset pool grew to \$1.1T, a \$526Bn increase.

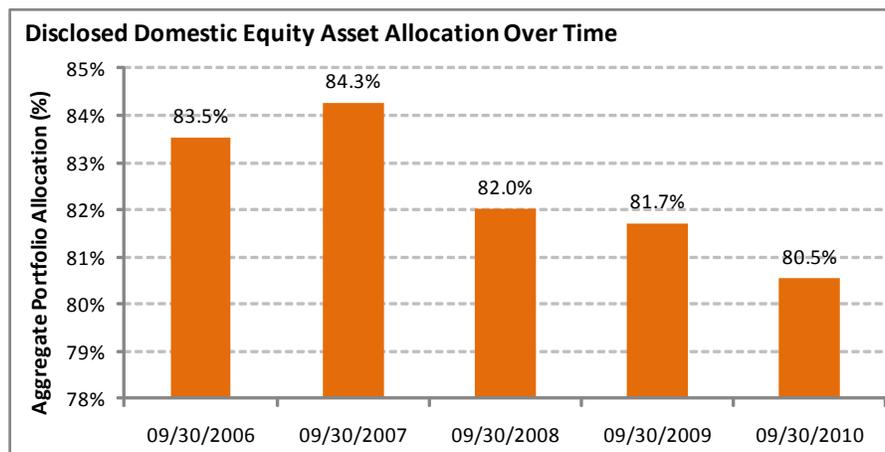
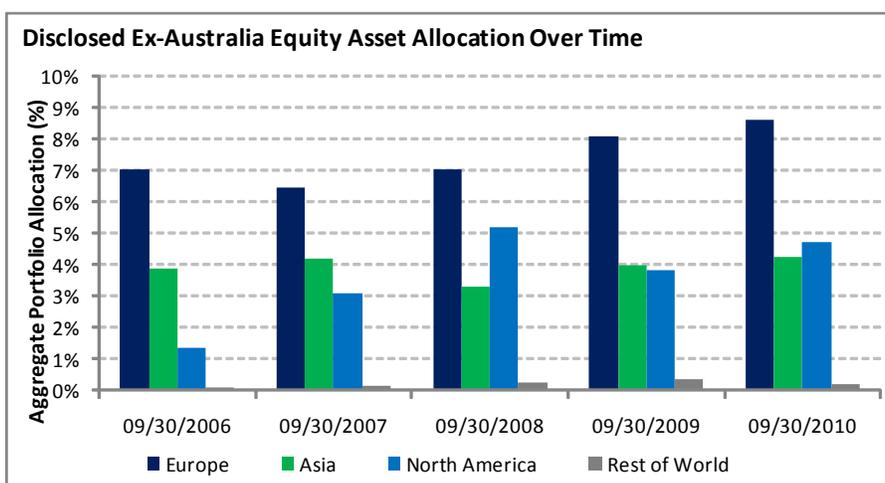


According to recent Australian Prudential Regulation Authority (APRA) data, Superannuation’s equity allocation is evenly distributed between domestic and international equities with domestic securities representing 29% of assets and international equities accounting for 23%. As a result of loose regulation concerning geographic allocation and the government’s commitment to long-term contribution increases, Australia may provide international issuers a unique targeting opportunity moving forward. Following the divergence from the defined benefit plan, Australian investors have displayed elevated interest in international companies as they look to diversify away from home-country and home-region investments, seeking balanced exposure to developed markets.



Anatomy of the Australian Investor

Based on disclosed assets, Australian investors historically have been overweight domestic equities with an emphasis in the Basic Material space. With heavy exposure to domestic markets and a dependency on often volatile commodity and resource prices, Australian firms have sought to broaden their investment horizons, providing a targeting opportunity for international issuers, specifically in North America and Europe. Over the past five years, Australian institutions have increased their exposure to North America in excess of \$6Bn while simultaneously increasing positions in Europe by \$8Bn. Over the same period, Australian investors have steadily reduced their aggregate allocation to Australian equities from a recent peak of 84.3% of portfolio in 2007 to 80.5% as of Q3 2010.



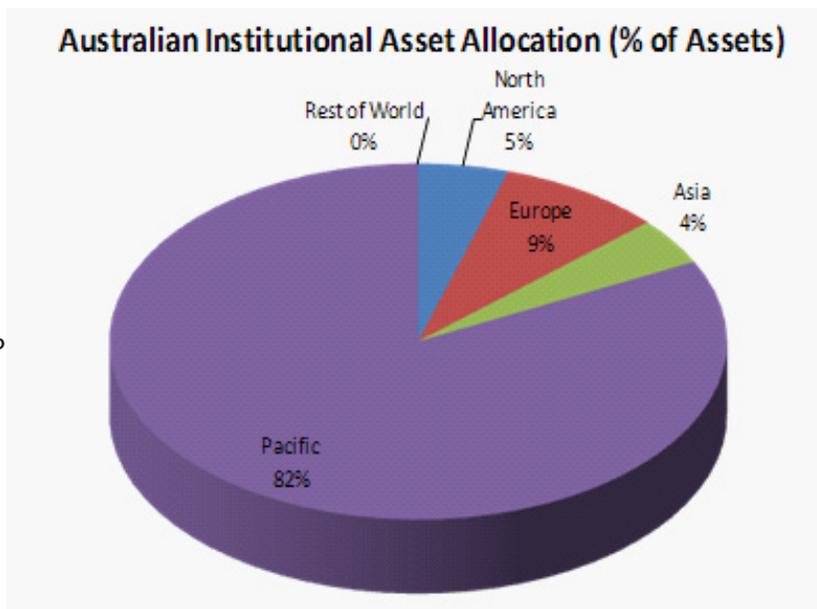
Growth and value oriented strategies are the most prevalent among Australian investors with hedge funds and alternative asset managers holding less than 6% of total equity assets. Generally, Australian institutional investors are more long-term focused than the typical US investment manager, likely attributed to the conservative bias of a pension scheme. The weighted average turnover for Australian investors is 28% compared to 50% for all US Investors. Furthermore, Australian investors tend to limit micro and small capitalization securities from their international strategies preferring more liquid large-and-mega-capitalization companies.

Australian Equity Asset Allocation by Sector and Domicile				
Sector	Region			
	US	Europe	Asia	Pacific
Financials	42%	30%	31%	37%
Technology	13%	9%	16%	5%
Energy	12%	8%	5%	5%
Healthcare	10%	4%	1%	3%
Consumer Services	7%	6%	17%	14%
Utilities	5%	3%	1%	1%
Consumer Goods	4%	13%	10%	3%
Basic Materials	4%	20%	7%	21%
Industrials	2%	6%	12%	11%

Australian Equity Asset Allocation by Industry and Domicile				
Industry	Region			
	US	Europe	Asia	Pacific
Real Estate	36%	16%	11%	9%
Oil and Gas	11%	7%	4%	3%
Biotech and Pharma	7%	3%	1%	1%
Telecommunications	6%	6%	5%	4%
Computer Software	6%	0%	2%	1%
Utilities	5%	3%	1%	1%
Financial Services	3%	6%	5%	13%
Banking	1%	6%	14%	13%
Semiconductors	1%	2%	8%	0%
Metals and Mining	1%	14%	3%	16%

Within the United States, Australian firms are predominantly overweight Financials with a particular bias towards the Real Estate space, which represents 36% of total equity assets. Australia’s lack of established fixed income markets, in part due to Australia’s lack of tax neutrality across asset classes, is a likely driver behind Australian institutions’ taste for high-yielding Real Estate across developed regions. Large positions within the sector include Real Estate Investment Trusts (REITs) Simon Property Group, Boston Properties, and Taubman Centers. In addition to Real Estate, the Tech and Healthcare sector represent 13% and 10% of the aggregate portfolio, respectively, with Johnson & Johnson, Cisco and Microsoft all within the top five of U.S. securities held by Australian institutional investors. Over the past year Australian investors have maintained their bullish stance towards US Healthcare, Industrials, and Consumer Services while decreasing net positions over the period within the Tech space.

European securities represent the second largest regional allocation by Australian firms behind home-country issuers. Similar to their US portfolios, Australian firms have a bias towards the European Real Estate space. Large holdings within the sector include Mirvac, The British Land Company and Unibail-Rodamco. A large portion of Australians’ European holdings also sit within the Basic Materials sector though its largest exposures are concentrated within domestic issuers’ international subsidiaries such as BHP Billiton and Rio Tinto. To date, Australian firms have boosted their interest in European Consumer Goods which currently represent 13% of European holdings. British American Tobacco, BMW, Diageo, Henkel AG & Company and Pernod Ricard are the largest holdings within the sector, all falling within the top 25 of Australians’ European holdings.



Recent Australian Investor Activity

The largest of the active Australian investment managers, value oriented investor **AMP Capital**, has been an active buyer of international securities over the past year, increasing its exposure by 42%. The firm's US allocations are predominantly held in REITs which represent over 87% of the regional holdings. Similar to its US portfolio, the firm's international portfolio is primarily Real Estate focused with large exposure to the United Kingdom and France. Sydney based **Perennial Investment Partners** currently allocates 15% of its portfolio in North American domiciled securities. During the last twelve months, the firm has increased holdings in the US by 57% with notable purchases of LaSalle Hotel Properties and Camden Property Trust. Similar to AMP Capital, Perennial is heavily overweight the Real Estate space in regards to its North American holdings. **Macquarie Investment Management**, whose funds drift across multiple strategies and geographic regions, is the second largest Australian asset manager in terms of assets held in US securities. The firm has increased its holdings in the US by 63% over the last twelve months. Macquarie's US portfolio is predominantly concentrated within the Energy and Utilities space. In terms of international exposure, the firm has allocated nearly half of its holdings in international securities. Over the past year, the firm was a net buyer of international securities with particular bullish sentiment in the Tech and Consumer Services sectors. Its largest international purchases included Taiwan Semiconductor, Ambow Education, Infosys and BCE. A subsidiary of Schroder Investment Management in London, **Schroder Investment Management (Australia)**, currently allocates over a third of its portfolio to international securities, primarily in Europe (18%) and Asia (15%). Though overweight domestic companies with international subsidiaries such as BHP Billiton and Rio Tinto, the firm does allocate a substantial portion of its portfolio to the ex-Australia Construction Products and Banking industries with large positions in James Hardie Industries and China Construction Bank. In addition, the aforementioned firms have all shown an increased interest in international securities by meeting with numerous international issuers, predominantly by means of one-on-ones at international conferences. Other notably active firms, in terms of recent meetings with international issuers, include hedge fund **Platinum Asset Management**, **Colonial First State Global Asset Management**, and **BT Funds Management**

Top 10 Active Australian Institutions (by EAUM)

Firm	EAUM (\$mm)	% TO Style	City	% US	% Europe	% Asia	% Pacific	% Rest of World
1 AMP Capital Investors, LTD	15,646.3	25% Value	Sydney	10%	4%	2%	84%	0%
2 BlackRock Investment Management (Australia), LTD	11,868.7	30% Growth	Melbourne	0%	2%	0%	98%	0%
3 Perpetual Investment Management, LTD	7,573.6	16% Growth	Sydney	0%	5%	0%	95%	0%
4 ING Investment Management (Australia), LTD	6,757.0	31% Growth	Sydney	1%	6%	0%	93%	0%
5 Platinum Asset Management, LTD	5,303.1	59% Alternative	Sydney	17%	27%	45%	0%	11%
6 QIC, LTD	4,800.2	27% Value	Sydney	0%	2%	0%	98%	0%
7 Perennial Investment Partners, LTD	4,698.3	39% Yield	Sydney	15%	4%	1%	80%	0%
8 Australian Foundation Investment Company, LTD	4,686.3	5% Yield	Melbourne	0%	1%	0%	99%	0%
9 Macquarie Investment Management, LTD	4,062.3	66% Yield	Sydney	32%	4%	6%	53%	5%
10 Schroder Investment Management (Australia), LTD	3,978.1	35% GARP	Sydney	0%	18%	15%	66%	1%

Top Active Australian Institutional Holders of European Securities

Firm	Value in European Securities (\$mm)	% Europe
1 Platinum Asset Management, LTD	1,447.7	27%
2 Schroder Investment Management (Australia), LTD	710.9	18%
3 AMP Capital Investors, LTD	629.2	4%
4 Aberdeen Investment Management Australia, LTD	461.5	39%
5 ING Investment Management (Australia), LTD	381.7	6%

Top Active Australian Institutional Holders of US Securities

Firm	Value in US Securities (\$mm)	% US
1 AMP Capital Investors, LTD	1,490.6	10%
2 Macquarie Investment Management, LTD	1,192.1	32%
3 Platinum Asset Management, LTD	913.7	17%
4 Perennial Investment Partners, LTD	749.7	15%
5 Magellan Asset Management Pty., LTD	425.9	87%

As Australia continues to accumulate capital and modernize its pension scheme, investor targeting opportunities in the region should remain plentiful. For issuers who currently conduct outreach in Asia and Japan, Australia can be a natural complement for a Pacific Rim roadshow. For smaller issuers, or where time and travel costs might prohibit a trip down under, IROs should keep an eye on Australian investor attendance at conference events in their home continent. Ipreo has noted a number of Australian names on recent conference lists and we anticipate this trend will continue. Whatever your firm's plans in 2011, it's worth keeping an eye on Australia.

Authors: Andrei Grskovic and John Demler

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Sources:

Australian Prudential Regulation Authority (APRA) Insight: Issue Two 2007, "A Recent History of Superannuation in Australia." 2007.

ISC Annual Report 1988-89

Australian Prudential Regulation Authority (APRA) Insight 2009

BetterIR - Firm Snapshot

Targeted Firm: Orbis Investment Management (\$19Bn EAUM)

Targeting Profile:

Hamilton, Bermuda based Orbis Investment Management is a value oriented fund manager with \$19Bn equity assets under management. The firm often takes a contrarian view of the markets, habitually seeking out-of-favor stocks that are trading below intrinsic value. As a result of its contrarian, value oriented disposition, Orbis tends to take large positions in companies with the intention of a long-term buy and hold cycle, exemplified by its 53% turnover. Furthermore, the firm's portfolio holds highly concentrated positions, with an average of 3.5% shares outstanding per security. The firm utilizes an intensive bottom-up approach, often negating broad macroeconomic themes. The research effort, which is the main proponent in the investment decision, is led by advisory teams in Orbis' satellite offices in London, Seoul, Sydney, San Francisco and Cape Town. The portfolio management portion of the investment process is based out of its Bermuda location in which "policy" teams are strongly influenced by research recommendations from its satellite offices.

Orbis' individual funds are divided and focus on specific geographic regions; Global (predominantly US and Japan), Japan and Asia ex- Japan. As a result, the firm's portfolio is heavily weighted towards North America and Asia which represent 39% and 43%, respectively. Furthermore, the firm tends to have a notably high propensity towards holding common shares instead of DR's for all its foreign holdings. Though Orbis' research efforts rarely focus on top-down sector themes, the firm has gravitated towards the Technology and Consumer Services space over the past five years. Currently, the Technology space comprises of 31% of allocations while Consumer Services represent 23%. Over the past period, the firm increased its exposure further in the Consumer Service space by +11%. The increase in exposure was primarily attributed to the firms two largest purchases of the quarter, CVS/Caremark (+\$333mm) and Sears (+\$209mm). Orbis has a notable bias towards mid cap securities, which represent 43% of the firm's holdings. It is common for the firm to hold greater than 5% of shares outstanding of its core small and mid cap holdings.

How to Approach:

Undervalued securities trading at discounts are the most appealing investments to management. Despite the value oriented designation, Orbis does not exclude high growth premium valued companies in its research efforts. As a result of its bottom-up research approach, issuers should emphasize company strength and prospects irrespective of sector performance in light of management's lack of focus on macro themes. Issuers with home-country domiciled common shares in the United States and Japan are preferable in the investment process though increasing exposure to China, Canada and the UK are promising opportunities moving forward.

How not to Approach:

Due to the firm's concentration within North America and Asia, specifically the United States and Japan, European issuers are likely to be excluded from the periphery of management. Furthermore, in favor companies trading at a premium should seek investment elsewhere. In addition, the firm often overlooks mega cap blue chips, opting for the smaller-sized companies.

Largest Funds Managed:

- Orbis Global Equity Fund (\$8.8Bn EAUM)
- Orbis SICAV Global Equity Fund (\$4.2Bn EAUM)
- Orbis Japan Equity Fund (\$2.5Bn EAUM)
- Orbis SICAV Asia Ex-Japan Equity Fund (\$1.0Bn EAUM)

Portfolio Fundamentals:

- Forward P/E: 15.4x
- Dividend Yield: 1.4%
- Price/Book: 2.0x
- 5 Yr Proj. Growth Rate: 15.1%

Average Equity Holding Period: 1.88 Years

BetterIR - Fund Snapshot

Targeted Fund: Columbia Acorn Fund (\$15,705.95mm)

Portfolio Manager:

- Charles P. McQuaid, CFA; (312)-634-9238
chuck.mcquaid@columbiamanagement.com
- Robert A. Mohn, CFA; (312)-635-9213
robert.mohn@columbiamanagement.com

Targeting Profile:

The Columbia Acorn Fund, which is managed by Columbia Wanger Asset Management, is an aggressive-growth mutual fund with \$15.7Bn in equity assets. The fund primarily invests in North American securities, with the majority of its portfolio allocated to companies domiciled in the U.S. (84.9%). The fund also has significant investments in Canada, (4.5%) as well as some international holdings, most notably in Europe (5.3%) and Asia (3.3%). The Acorn Fund's portfolio is most heavily-weighted toward securities under \$10bn in market cap, with mid-cap issues (\$2Bn-\$10Bn) accounting for 55.5%. Despite the portfolio's heavy concentration in mid-caps, it also has sizable small-cap holdings, with small-cap securities accounting for over half of the fund's total number of equities held, and 37.6% of its equity portfolio.

In terms of industry exposure, the Acorn Fund's portfolio is most heavily-weighted in Industrials, (22.4%) followed by Technology (19.9%) and Consumer Services (16.5%). Its top holding is Crown Castle International Corp., a wireless communications company, of which it holds \$271.7mm. However, the fund's most significant recent buying and selling activity took place in its less heavily-weighted sectors. The Acorn Fund initiated a \$248.5mm position in FMC Corporation, a Basic Materials company, making the security its second largest holding, and increasing the fund's Basic Materials holdings by over 50%. The firm was also a net buyer in the Consumer Goods sector (+\$55.1mm), with \$20.9mm of its net purchases coming in the clothing and accessories industry. The Acorn Fund's single largest sale was in the Energy industry, which represents 6.9% of its portfolio. It liquidated its \$211.7mm position in FMC Technologies, Inc., an oil and gas equipment services company. The fund also sold a number of companies in the Healthcare industry, most notably in the Biotech sector, including QIAGEN N.V. (\$25.7mm liquidation) and Alexion Pharmaceuticals, (-\$47.8mm) its top Healthcare holding. Additionally, the fund was a net seller of medical appliances and equipment stocks,

while making purchases in the pharmaceutical industry.

How to Approach:

The Acorn Fund's affinity for North American equities makes stocks domiciled in the U.S. and Canada strong fits for its portfolio. However, European and Asian securities with high growth outlooks may also be attractive investments. Over 95% of the fund's equity assets are held in securities under \$10Bn in market cap, so small- and mid-cap companies in particular should feel confident approaching the fund's PMs. Securities which are situated in the fund's most heavily-weighted industries, Technology and Industrials, continue to be likely investments, though industries such as Basic Materials and Consumer Goods also appear to be gaining the interest of the PMs.

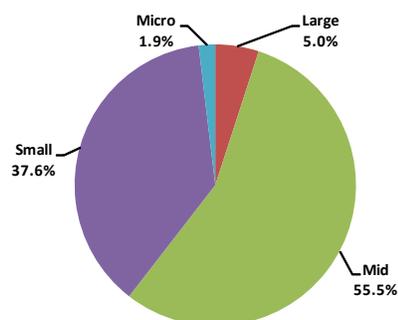
How not to Approach:

The fund does not hold any mega-cap securities and was a net seller of large-caps (of which it holds just 9 securities). Securities domiciled in emerging markets are also not as likely to garner significant interest, given the fund's tendency to invest in more developed markets, such as the U.S. and Canada. Industries which do not exhibit consistent growth, such as Utilities, are also lower priority investments for the aggressive-growth fund. Judging by the fund's recent sales, Energy and non-pharmaceutical Healthcare companies appear to be falling out of favor with the fund's PMs.

Portfolio Fundamentals:

- TTM Price/Earnings: 28.0x
- Avg. 3 Yr. Revenue Growth: 8.8%
- Dividend Yield: 0.8%
- Price/Book: 4.3x

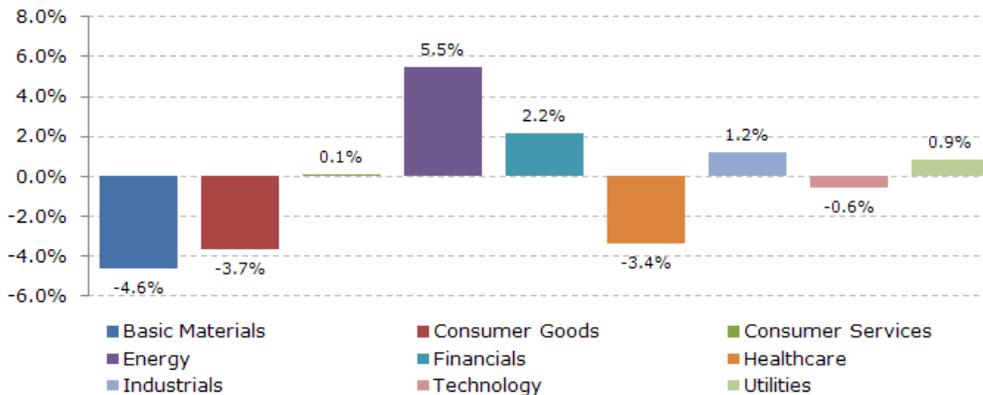
Average Equity Holding Period: 2.63 years



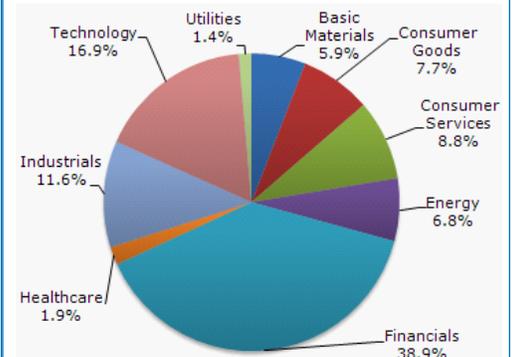
Metro Area Targeting Focus - Singapore

Money Center Statistics	Summary Notes
<p>Reported Equity Assets (\$B): \$251.8</p> <p>Number of Institutions: 121</p> <p>World Rank: 16/184</p> <p>Top Sector Weighting: Financials</p> <p><i>Financials Weighting:</i> 38.9%</p> <p>Top Region Weighting: APAC Ex. Japan</p> <p><i>APAC Ex. Japan Weighting:</i> 77.8%</p> <p>Total Net Buying (\$B): \$10.4</p> <p>Total Net Selling (\$B): -\$9.0</p> <p>Total Net Activity (\$B): \$1.4</p>	<p>One of the four “Asian Dragons”, Singapore ranks as one of the largest and most important financial centers of Asia. Based on disclosed equity assets under management, the island country ranks 16th in the world and 3rd in Asia with \$257.7Bn. Although the country has roughly 120 investment institutions, a large majority of the country’s holdings and activities can be traced to a small concentration of investment firms. The two largest firms, Temasek Holdings Pte. LTD and GIC Asset Management Pte. LTD, are both Sovereign Wealth Funds (SWF) and account for nearly 50% of the equity assets within the country (\$128Bn). From a sector point of view, Singapore tends to favor Financials (39%), Technology (17%), and Industrials (12%). Recently, the country has shown a strong shift towards the Energy space, up 5.5% from the last period. Although Energy had the largest percentage increase in net activity, Financials also proved to be a strong sector, as investors added \$2.1Bn in the space. Regarding the regional aspect, Singaporean investors have been bullish on the emerging markets such as Asia and Latin America, while acting bearish towards many western markets, most notably towards North America, down 4%. When visiting Singapore there are three distinct sets of investors. First, there are the SWFs, second are large global institutional investors with offices around the world, and third are the ground-up global Singaporean investors. The second group, while having larger holdings, does run the possibility of the firms analytics coming from an office in another country, and therefore having less knowledge of some issuers. The last of these groups include investors such as Lion Global Investors (22nd largest North American holder) and UOB Asset Management (3rd largest North American holder). Overall, Singapore continues to be a strong source of purchasing power for companies from all different industries; however, the country has a strong home country bias.</p>

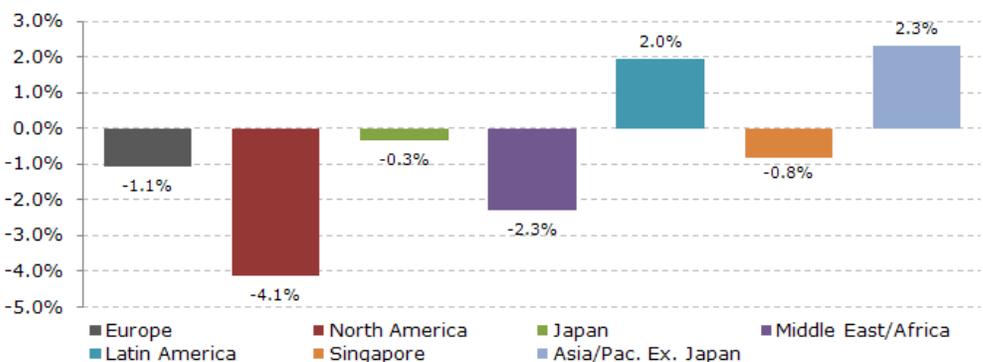
Sector New Activity (% Change)



Sector Allocation



Regional Net Activity (% Change)



Geographic Allocation

