The Better IR Newsletter

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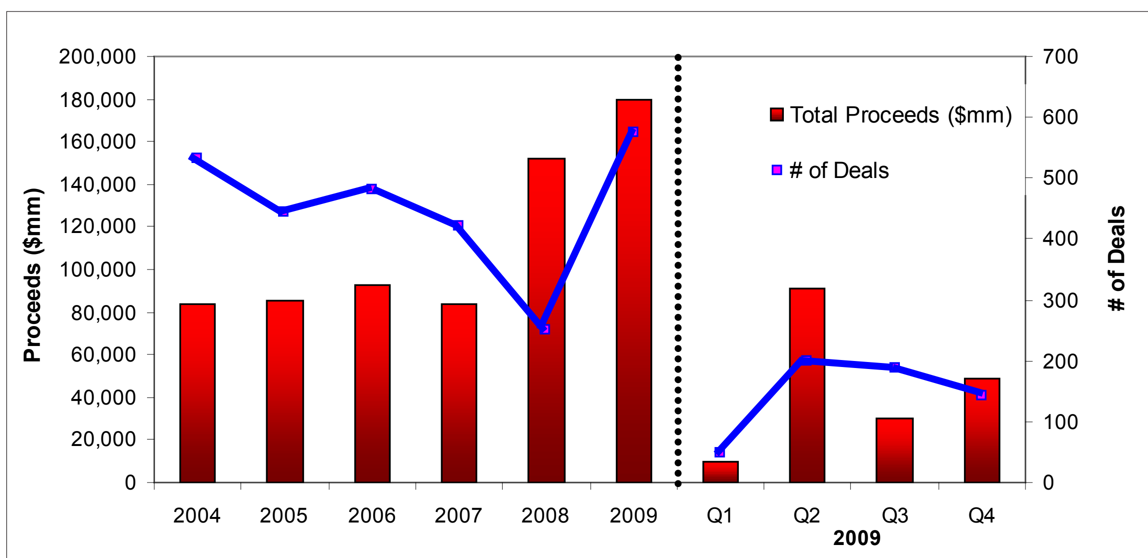
2009 Equity New Issuance Recap

The Thawing of the Capital Markets

The rebound in the equity markets makes the new issuance environment significantly more navigable than it was last year at this time. A return to market stability and continuous money coming back into play in the market has allowed a rush of companies to raise capital in recent months. Healthcare and Biotechnology companies, as well as real estate firms, project to be active in the new issuance market as they all face changing industry landscapes.

2009 was a period of recovery for the U.S. new issuance markets. The first quarter signified the bottoming of major equity indices, and, as a result of depressed share prices and widespread risk aversion, the deep freeze in the capital markets during late 2008 carried over into the following year. Massive government intervention helped to bring liquidity back to the marketplace, and with it investor confidence. The second, third and fourth quarters saw a historic rebound in equity indices as investors' appetite for risk increased and money returned. As companies strapped for cash saw their share prices increase and their need for capital intensify, they turned to the new issuance market to solidify their balance sheets. Last year will be remembered as a year of mending the wounds inflicted by the credit crisis and, possibly, a move towards normalcy for the new issuance landscape.

US Secondary Offerings



Largest US IPOs and FOs in 2009

Top 10 IPOs							
Offer Date	Issuer	Ticker	Amt + Ovl ($mm)	Offer Price	Initial Midpoint / Offer	Offer / 1 Day	Industry
10/06/09	Verisk Analytics, Inc.	VRSK	2,155.9	22.00	10.0%	23.7%	Industrials
11/04/09	Hyatt Hotels Corp.	H	1,092.5	25.00	2.0%	12.0%	Consumer Cyc.
09/30/09	Talecris Biotherapeutics Holdings Corp.	TLCR	1,064.0	19.00	0.0%	11.3%	Healthcare
08/11/09	Starwood Property Trust, Inc.	STWD	931.5	20.00	0.0%	0.0%	Financials
12/15/09	Cobalt International Energy, Inc.	CIE	850.5	13.50	-15.6%	0.0%	Energy
02/10/09	Mead Johnson Nutrition Co.	MJN	828.0	24.00	6.7%	10.1%	Consumer Non-Cyc.
11/12/09	Dollar General Corp.	DG	823.5	21.00	-4.5%	8.2%	Consumer Cyc.
09/23/09	Artio Global Investors Inc.	ART	650.0	26.00	4.0%	4.8%	Financials
11/19/09	Cloud Peak Energy Inc.	CLD	459.0	15.00	-11.8%	-1.1%	Energy
10/22/09	Dole Food Company, Inc.	DOLE	446.4	12.50	-10.7%	-1.8%	Consumer Non-Cyc.
		Total ($mm):	**9,301.4**	**Mean:**	**-2.0%**	**6.7%**	
		% of Total IPOs:	**55.9**				

Top 10 Follow-Ons[1]							
Offer Date	Issuer	Ticker	Amt + Ovl ($mm)		Current File / Offer	Last Trade / Offer	Industry
05/06/09	The Dow Chemical Co.	DOW	2,250.0		-8.1%	-1.3%	Materials
04/01/09	American Electric Power Company, Inc.	AEP	1,690.5		-2.3%	-3.6%	Utilities
05/12/09	Ford Motor Co.	F	1,638.8		-21.9%	-5.2%	Consumer Cyc.
06/04/09	Express Scripts Inc.	ESRX	1,613.5		-5.4%	-2.1%	Healthcare
05/12/09	Anadarko Petroleum Corp.	APC	1,365.0		-6.8%	-6.8%	Energy
01/28/09	Newmont Mining Corp.	NEM	1,276.5		-11.3%	-4.2%	Materials
04/08/09	ProLogis	PLD	1,153.7		-3.2%	-3.2%	Financials
05/13/09	MGM Mirage	MGM	1,151.2		-43.5%	-19.5%	Consumer Cyc.
05/11/09	The Principal Financial Group, Inc.	PFG	1,150.4		-16.6%	-2.9%	Financials
05/07/09	Simon Property Group, Inc.	SPG	1,150.0		-8.8%	-8.8%	Financials
		Total ($mm):	14,439.4	Mean:	-12.8%	-5.8%	
		% of Total Follow-Ons:	7.2				

1: Fully Marketed and Accelerated Offerings, includes Blocks, excludes placements related to TARP repayments

Industry Trends

Banks continued to dominate both in terms of proceeds raised and the number of deals coming to market, with several mega deals from bulge-bracket banks to repay TARP funds in 2009. Financial proceeds from non-bank secondary offerings last year were roughly triple the capital raised in 2007 due to the influx of real estate-related issuers. Real Estate companies raised roughly 80% more in total new equity proceeds during 2009 than in 2008 and more than double the amount issued in 2007 as a slew of IPOs from REITs created to buy distressed mortgage assets saturated the market, and commercial real estate companies such as ProLogis attempted to deleverage through capital raises. Proceeds were also bolstered by issuers in strong financial positions, such as Simon Property Group, raising capital to acquire the assets of beleaguered competitors at attractive prices. (See "Ownership Trends and Recovery the US REITs Space" for further discussion of REITs)

Among other sectors, Consumer Cyclicals saw proceeds more than triple to $17.9B in 2009, driven by large deals from Ford, which raised $4.5B through two offerings as it attempted to meet its obligations with the UAW, and a $1.0B IPO from Hyatt Hotels, which popped 12.0% on its first trading day despite a challenging environment for the hospitality industry.

Amid an uncertain healthcare coverage landscape and a flood of expiring patents, Biotechnology firms issued new shares to the market frequently and in large amounts during 2009. Last year these issuers rose over $5B in new capital, surpassing 2008 and 2009 levels, both of which were around $1.3B. Average deal size for Biotechnology issuers rose to $143mm from $99mm in 2008 and $62mm in 2007.

Secondary Offering Marketing Periods

Executing a secondary offering through a fully-marketed roadshow (greater than one trading day of marketing) was generally considered more risky during early 2009 due to the volatile markets. As a result, issuers raised capital through accelerated offerings (one day or less of marketing). This form of offering reduces the issuer's risk and results in less depreciation between the announcement of the offering and the pricing. Oftentimes, the issuer is forced to sell shares at a greater discount, however. As the broader markets returned to stability and the VIX sharply dropped over the year, more and more deals were fully marketed.

2009 Follow-on Offerings - Marketing Periods

	Total		Marketing Period		Accelerated % Change			Fully Marketed % Change		
Quarter	Proceeds ($mm)	# of Deals	Accelerated	Fully Mktd	Last / Offer	File / Offer	Offer / 1 Mo	Last / Offer	File / Offer	Offer / 1 Mo
Q1 09	7,427.0	27	70%	30%	(2.6)	(7.2)	9.1	(7.0)	(18.7)	19.8
Q2 09	86,070.8	165	79%	21%	(6.4)	(11.3)	7.6	(5.9)	(13.5)	8.4
Q3 09	26,458.8	154	55%	45%	(5.8)	(11.7)	10.3	(4.7)	(11.3)	10.9
Q4 09	45,685.0	110	44%	56%	(5.2)	(9.1)	5.6	(5.1)	(11.4)	5.9
2009	165,641.6	456	62%	38%	(5.8)	(9.9)	8.1	(5.2)	(12.1)	9.6

Market Cap Breakdown

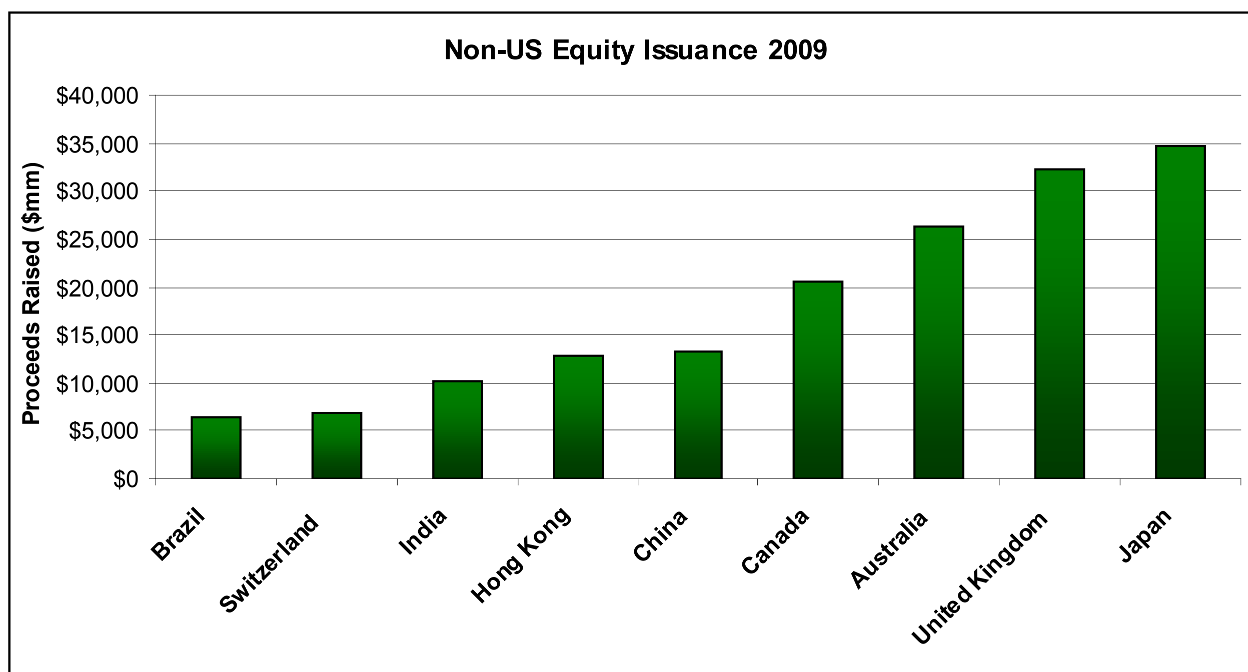
Follow-on Issuance by Market Cap

Market Cap	# of Deals	Total Proceeds ($mm)	Avg Proceeds Raised ($mm)	Avg Share Dilution	Avg File/Offer	Avg Last Sale/Offer	Avg Offer/1 Month
Large/Mega (>$10B)	27	$81,488	$3,018	6.5%	-7.1%	-4.8%	5.8%
Mid ($2B to $10B)	98	$47,745	$487	12.3%	-6.9%	-3.7%	8.9%
Small ($250mm to $2B)	289	$41,014	$142	17.0%	-9.8%	-5.0%	7.1%
Micro (<$250mm)	113	$4,559	$40	26.5%	-15.3%	-8.7%	9.4%

The large/mega cap offering data is heavily skewed by major financial companies raising capital in massive quantities to escape the TARP umbrella. The smaller companies experienced the toughest environment to raise capital in last year, likely due to the widespread risk aversion by investors. Additionally, smaller companies generally dilute their shares by greater amounts in capital raises through new issuance.

As equity indices rebounded and new issuance levels approached healthy volumes, issuers became more dilutive in their offerings. In 2007, issuers diluted their outstanding share base by an average of 18.4%. Once the credit crisis deepened and the equity indices dropped, companies diluted their base by just 14.7% before recovering to 17.9% in 2009. Financial issuers were by far the largest diluter, reaching an average of 20.7% last year.

Money Raised Through Secondary Offerings in the International Markets



While much of the new issuance buzz in 2009 and the beginning of this year has been the IPO activity from Chinese issuers, the above chart is a reminder that China still has some ways to go before its secondary offering market rivals those of more developed financial nations. However, with continued growth and more public companies, you can expect numbers from Chinese secondary offerings to grow. Brazil and India are poised to grow for the same reasons China is, but possibly at lesser rates of expansion. Japan and the U.K., both in the midst of a fragile recovery, experienced a similarly robust follow-on market to the U.S. as beleaguered firms looked to plug balance sheet holes. For comparison's sake, U.S.-domiciled companies raised close to $200B in the public secondary equity market.

Conclusion

Last year, the increase in investor risk appetite and subsequent recovery in the equity markets led to an unthawing of the capital markets space at a time when many issuers desperately needed the new capital. Changing political environments and regulatory conditions influenced sentiment of investors and in turn determine the success of equity offerings. Companies took advantage of windows of market opportunity to effectively execute their offerings by shortening their marketing periods. As volatility subsided, issuers felt increasingly comfortable subjecting their stock to a longer marketing period. International new issuance, especially that from China, expects continued growth, but the markets are still far off from matching the size of the U.S. public equity market. This year has already proved to be a hospitable market environment for issuers; both the IPO and secondary offering markets are on pace to surpass levels from the past two years and could even exceed levels from the pre-credit crisis era. If you are considering raising capital through the new issuance market, be aware of the context in which you are doing so as this will determine how investors respond to your actions, and ultimately, how your stock reacts.

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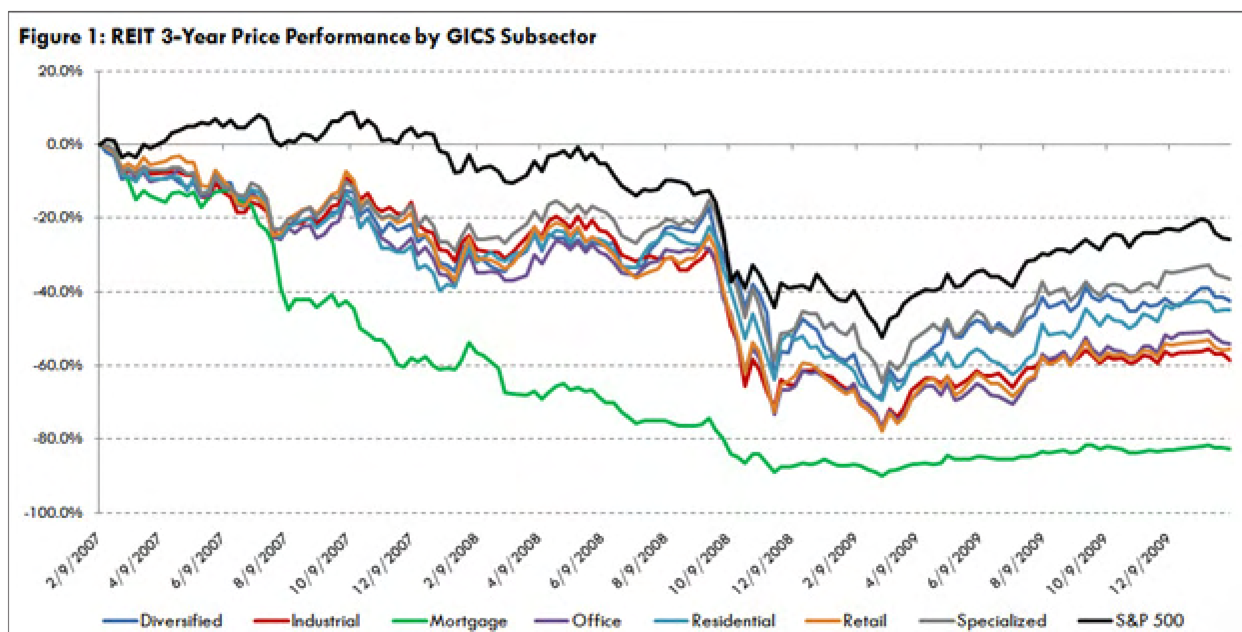
Ownership Trends & Recovery in the US REIT Space

Overview

The US REIT sector has been hit hard over the past two years. Once viewed as a stable sector characterized by sticky rental revenue, strong dividends, and low volatility, the US downturn which began in winter of 2007 has challenged the sector on all fronts. Figure 1 shows three-year price performance of REITs delineated by GICS subsector. The chart shows marked underperformance across all sub-sectors off the bat, with severe pain hitting the Mortgage REIT space by late summer 2007 as problems in the mortgage backed securities market came to the fore. Specialized REITS (composed of hospitals, long-term care facilities, storage units, and hotels), Industrial REITS, and Diversified REITs, meanwhile, proved more resilient through the early stages of the downturn. Rent revenues from these sectors appeared relatively insulated from discretionary-tied Retail REITs and the obvious difficulties in the Residential REIT space. Moreover, larger diversified REITS and industrial REITs tied to the global economy may have benefitted from a belief in relative insulation from US economic woes. Examining REIT performance through the first half of 2008 actually shows REIT outperformance relative to the S&P 500 as conservative investors sought risk compensation through dividends in the REIT sector.

With the Lehman event in September 2008 and the massive deleveraging event which followed, REITs across all subsectors entered a new phase of distress. Pain was particularly acute for debt-laden REITs who had levered up during peak years to acquire property and fund expansion at inflated prices. For these institutions, frozen credit markets through late 2008 and early 2009 made refinancing or negotiation with creditors difficult if not impossible. Amid ongoing delinquencies, write downs, and rapid deterioration across the real economy, investors saw little cause for optimisms within the space and punished REIT shares throughout late 2008 and early 2009. From September '08 through the broad market trough in March '09, the MSCI US REIT index underperformed the S&P by approximately -20%.



As oversold conditions drew investors back to market in the Spring of 2009, REITs of all sub-sectors recovered nicely. Aided early-on by the popular beta-trade favoring beat-up and levered issuers, sentiment was soon aided by renewed activity in the debt and secondary equity markets. Blue chip REIT Simon Property Group was the first REIT to return to the debt markets in late March 2009, auctioning $650M in 10-year bonds— albeit at a 497.9 spread to Treasuries. Despite prohibitive spreads early on, debt markets continued to improve for REITs, and secondary offerings took off through early spring. Balance sheet restoration also benefitted from a temporary congressional bill allowing REITs to pay stock dividends as opposed to cash (angering many investors looking for income amid the downturn). From March troughs to year-end 2009, REITs had achieved a remarkable comeback— the MSCI US REIT index outperforming the S&P 500 over the period by approximately 40%. Into 2010, the REIT recovery has tracked closely with the broader market.

Amid colored recent REIT history and ongoing recovery in the sector, the following article investigates institutional ownership trends pre and post-downturn, and explores 2009 recovery in the secondary markets.

Who Holds REITs?

Unlike most sectors, REIT ownership has historically been concentrated within a specialized group of institutional holders. Reasons underlying the concentration center on the differentiated financial structure and non-traditional accounting standards encountered across REITs. Special treatment of property depreciation and use of Funds from Operation (FFO), for example, often requires an analyst with a non-traditional background in real estate or prior exposure to the REIT structure. Additionally, since REITs are usually viewed as a yield investment, the universe of institutions and analysts with a relevant income focus is reduced to begin with.

In Figure 2, we show the top 15 US REIT investors (>$1B in Equity Assets) by descending REIT percent of portfolio. Sorting on percent of portfolio draws out the REIT market staples like ***APG Investments, RREEF America, ING Clarion, LaSalle Investment Management***, and ***Cohen & Steers***. The majority of these specialized REIT investors are diversified by sector and tend to buy and hold, but some shops like ***Heitman Real Estate*** and ***Brookfield Redding*** record higher turnover and will rotate between issues and subsectors more frequently. While some specialized REIT investors manage only their own funds, many like Cohen & Steers and ING Clarion will sub-advise mandates from more traditional institutional investors who lack analyst teams equipped to follow the REIT space.

Continued...

Figure 2: Top 15 REIT Investors by % of Portfolio (>$1B Equity Assets)

Investor Name	Equity Assets ($M)	% T/O	Style	City	REIT % Port.	REIT Value ($M)	REIT Val. Chg. ($M)	# REITs Held
Security Capital Research & Management, Inc.	$2,595	61%	Specialty	Chicago	100.0%	$2,595.0	-$25.9	36
Heitman Real Estate Securities, LLC	$4,874	106%	Specialty	Chicago	99.3%	$4,839.8	$2,872.6	47
APG Investments U.S., Inc.	$6,521	36%	Specialty	New York	99.0%	$6,455.1	$106.8	90
Adelante Capital Management, LLC	$1,726	40%	Specialty	Oakland	97.2%	$1,676.9	$21.7	42
Invesco Realty Advisors, Inc.	$1,286	56%	Specialty	Dallas	96.5%	$1,240.3	$108.8	90
RREEF America, LLC	$4,145	93%	Specialty	Chicago	95.9%	$3,972.8	-$439.4	70
Urdang Securities Management, Inc.	$1,298	71%	Specialty	Plymouth Meeting	95.8%	$1,243.2	$41.1	42
ING Clarion Real Estate Securities (U.S.)	$7,980	43%	Specialty	Radnor	93.3%	$7,444.1	-$276.0	68
Brookfield Redding, LLC	$1,931	131%	Specialty	Chicago	89.8%	$1,733.6	$43.3	41
AEW Capital Management, L.P.	$3,793	25%	Specialty	Boston	87.8%	$3,330.2	-$4.3	67
LaSalle Investment Management Securities, L.P. (U.S.)	$5,282	49%	Specialty	Baltimore	80.2%	$4,234.3	-$175.8	52
Cohen & Steers Capital Management, Inc.	$17,072	62%	Specialty	New York	55.0%	$9,396.9	-$147.6	92
DIAM USA, Inc.	$6,136	57%	Alternative	New York	43.6%	$2,674.9	$13.0	105
Promark Global Advisors, Inc.	$2,860	65%	GARP	New York	42.1%	$1,203.8	$10.1	93
Duff & Phelps Investment Management Co., Inc.	$3,448	28%	GARP	Chicago	36.5%	$1,259.6	-$26.4	60

Sorting the REIT ownership universe by dollar Value Held in REITs produces a more diversified top 15 displayed in Figure 3. While percent of portfolio levels decline across issuers like ***Fidelity Management, T. Rowe Price, Goldman Sachs,*** and ***Wellington Management***, these institutions are large enough to devote specialized resources to a sector that still receives an even weighting across the full institutional portfolio. Also worthy of note on the list are institutions like ***Morgan Stanley*** and ***Principal Global Investors*** who overweight REITs significantly despite an otherwise diversified, plain-vanilla reputation. A handful of similar diversified investors weighting REITs above average in the 3-5% range are not uncommon across the US and represent strong targeting prospects for un-owned issuers.

Figure 3: Top 15 REIT Investors by Value Held (>$1B Equity Assets)

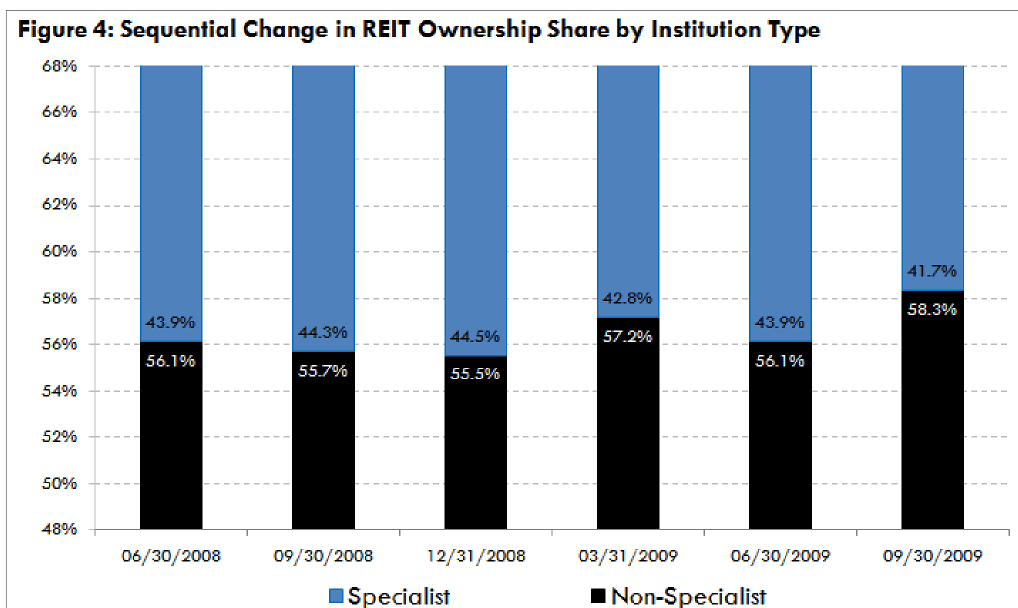
Investor Name	Equity Assets ($M)	% T/O	Style	City	REIT % Port.	REIT Value ($M)	REIT Val. Chg. ($M)	# REITs Held
Cohen & Steers Capital Management, Inc.	$17,072	62%	Specialty	New York	55.0%	$9,396.9	-$147.6	92
ING Clarion Real Estate Securities (U.S.)	$7,980	43%	Specialty	Radnor	93.3%	$7,444.1	-$276.0	68
APG Investments U.S., Inc.	$6,521	36%	Specialty	New York	99.0%	$6,455.1	$106.8	90
Fidelity Management & Research Company	$503,192	44%	Growth	Boston	1.1%	$5,416.5	$41.1	133
Morgan Stanley Investment Management, Inc. (U.S.)	$61,093	35%	Growth	New York	8.1%	$4,949.4	-$328.6	114
Heitman Real Estate Securities, LLC	$4,874	106%	Specialty	Chicago	99.3%	$4,839.8	$2,872.6	47
LaSalle Investment Management Securities, L.P. (U.S.)	$5,282	49%	Specialty	Baltimore	80.2%	$4,234.3	-$175.8	52
RREEF America, LLC	$4,145	93%	Specialty	Chicago	95.9%	$3,972.8	-$439.4	70
T. Rowe Price Associates, Inc.	$248,228	31%	Growth	Baltimore	1.5%	$3,621.1	-$2.8	104
AEW Capital Management, L.P.	$3,793	25%	Specialty	Boston	87.8%	$3,330.2	-$4.3	67
Goldman Sachs Asset Management, L.P. (U.S.)	$87,912	69%	GARP	New York	3.1%	$2,739.5	$161.0	124
Wellington Management Company, LLP	$242,335	49%	Value	Boston	1.1%	$2,725.0	-$718.8	58
DIAM USA, Inc.	$6,136	57%	Alternative	New York	43.6%	$2,674.9	$13.0	105
Security Capital Research & Management, Inc.	$2,595	61%	Specialty	Chicago	100.0%	$2,595.0	-$25.9	36
Principal Global Investors, LLC	$24,562	59%	Growth	Des Moines	9.9%	$2,440.0	-$36.9	121

Ownership Trends: Specialists vs. Non-Specialists

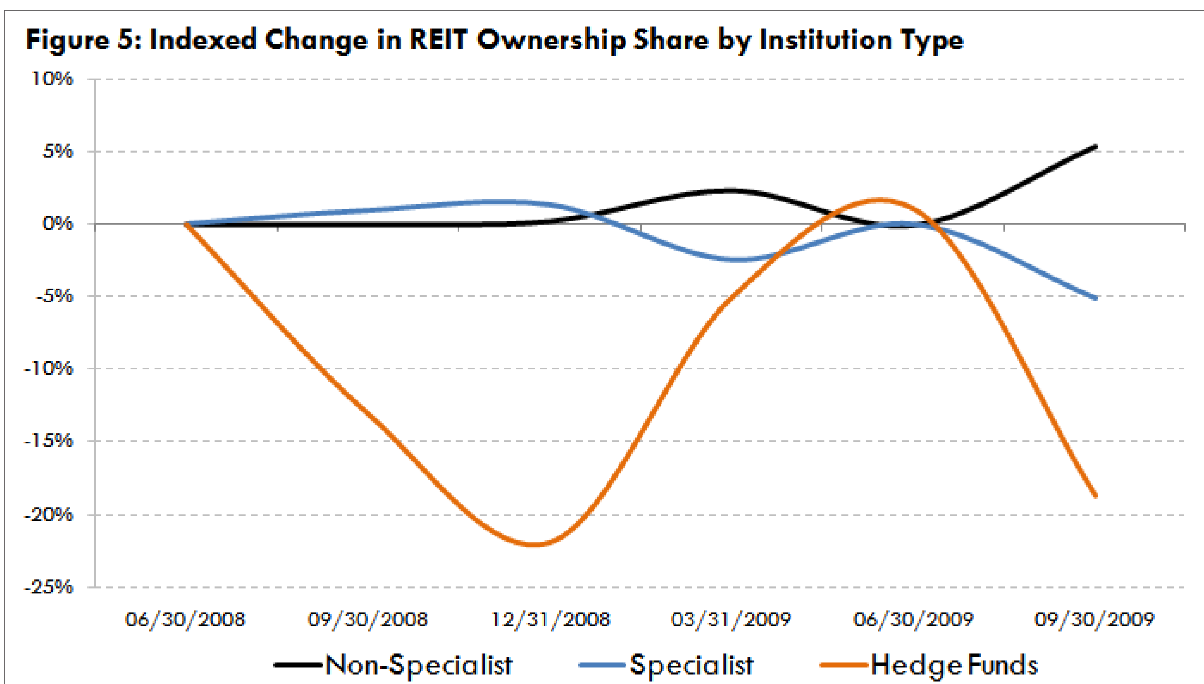
To examine trends in Specialist vs. Non-Specialist ownership, Ipreo looked historically at the breakdown in REIT market share by institutions with greater than 10% of their portfolio devoted to REITs (Specialists), and the remaining universe of sub-10% REIT holders (Non-Specialists). Results in Figure 4 show consistent market share from 2Q08 through 4Q08 with Specialists controlling around 44% of the US REIT market.

As equity markets bottomed in 1Q09 and assumed recovery 2Q-3Q09, the chart shows slight changes in market share. Non-Specialist ownership rises to 57.2% in 1Q09 as Non-specialists purchased $2.1B in the sector to the Specialists' $1.2B in buying. After a correction in 2Q09, REIT ownership share by Non-Specialists rose again in 3Q09 to 58.3%. Over the course of three quarters, Specialists totaled $6.8B in net activity while the Non-Specialists added with $7.7B in total buying.

While the maintenance of a trend of increased Non-Specialist ownership remains to be seen, the pattern observed over the past year makes sense in the context of 2007-2009 REIT market performance. Specialist investors overweight the REIT sector coming into the downturn likely found themselves underperforming with less cash on hand to fund buying at depressed prices. REIT-specific shops may also have been hit by investor redemptions which could have forced selling or tempered any buying efforts. While Non-Specialists were, no doubt, hurting as well, diversified institutions were likely in a better position to buy bargain REITs early in 2009 and take REIT ownership share from the Specialists.



Hedge Funds played a significant role in the rapid recapitalization of equity markets in early 2009. Risk-tolerant, fast money was active across all sectors, "catching knives" and providing liquidity to distressed issuers. Were hedge funds also active in the REIT space? Using the same market share measures share used above, Figure 5 takes a similar approach to examine changes in hedge fund ownership through the downturn. Indexing ownership share to 2Q08, we see a sharp decline in hedge fund REIT ownership share as deleveraging took place late in 2008. By early 2009, however, we see a sharp rise in hedge fund share as distress in the REIT sector reached its peak and oversold issues were plentiful. As the equity rally cooled off in 3Q09, the chart shows hedge funds leaving the REIT space once again as opportunities were became plentiful across the broader market.



To be sure, overall hedge fund REIT ownership share has always remained relatively low, averaging approximately 3.0% of total REIT ownership over the past six quarters. Hedge funds have traditionally avoided the REIT sector because of general disinterest in dividends and liquidity issues in some cases. While the low ownership share base may amplify sequential change in Figure 5, it is worth noting that for hedge funds' average 3.0% REIT market share, the industry assumed 9.4% and 5.9% of total net REIT buying activity in 1Q09 and 2Q09, respectively. While the hedge fund industry will likely continue to play a small part in the overall REIT ownership base, hedge fund willingness to assume risk and provide liquidity in times of severe distress should not be overlooked.

Who's Been Buying, Who's Been Selling?
Looking at historical net activity data aggregated across all REITs reveals some interesting trends. Figure 6 shows Specialist net activity remaining positive over all periods with the major exception of heavy net selling in 3Q08. A sharp contrast emerges here when comparing Specialist activity for 3Q08 to Non-Specialist activity over the same period (Figure 7). While Specialists recorded sharp selling activity, Non-specialists were slower to sell shares, and sold the majority of their REIT holdings a quarter later when Specialists were back buying.

While it's impossible to determine the exact rationale behind specialist and non-specialist buying and selling, one interpretation could be that specialists overweight REITs were experiencing particular pain amid the severe market declines in September of 2008. REITs underperformed the market over this period and investors demanding redemptions may have forced selling during the period.

An alternative interpretation of the sell timing differences could date the majority of Specialist selling ahead of the severe market declines late in 3Q08. While few were able to predict the massive sell-offs which followed the Lehman collapse, Specialists may have been more acutely aware of the risk-factors posed by their sector with REIT ties to the financial sector and significant debt for many issuers. If selling proceeded the worst of the 3Q08 declines, this could explain Specialists ability to get back on the buy side of the transaction shortly thereafter in 4Q09.

Whatever the case may be with respect to net activity patterns between Specialists and Non-Specialists, the case for some level of differentiation between investment styles and tendencies of the two groups can begin to be made. By segmenting net activity by REIT subsector, we can further reveal differences in Specialist vs. Non-Specialist REIT investing.

Figures 8 and 9 show mixed buying and selling patterns by subs-sector for most all periods. For example, during 3Q09, Specialists were most bullish on residential REITS, while Non-Specialists focused their buying in the Specialized REIT space (predominantly Storage, Hospitals, and Hotels). Additionally, in the recent period, Specialists were net sellers of only one subsector— Office REITs. Meanwhile Non-Specialists were net buyers of the Office REIT space.

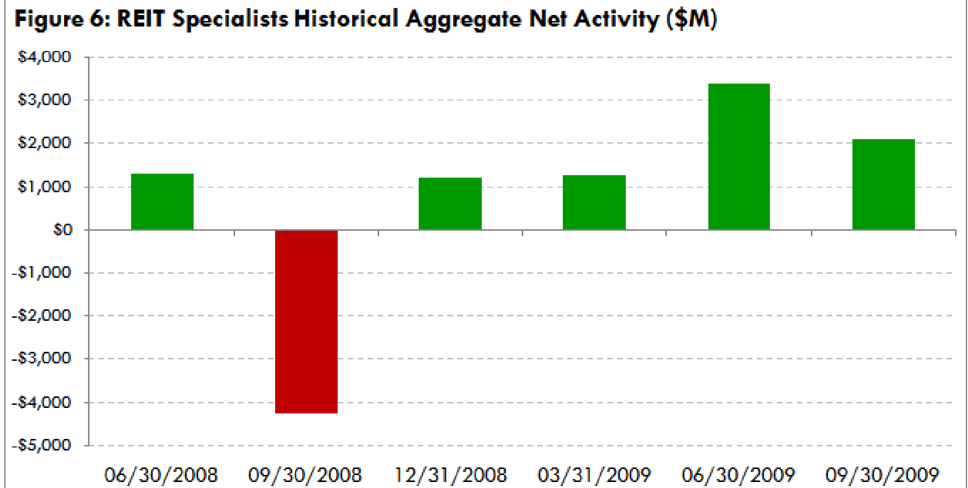


Figure 6: REIT Specialists Historical Aggregate Net Activity ($M)

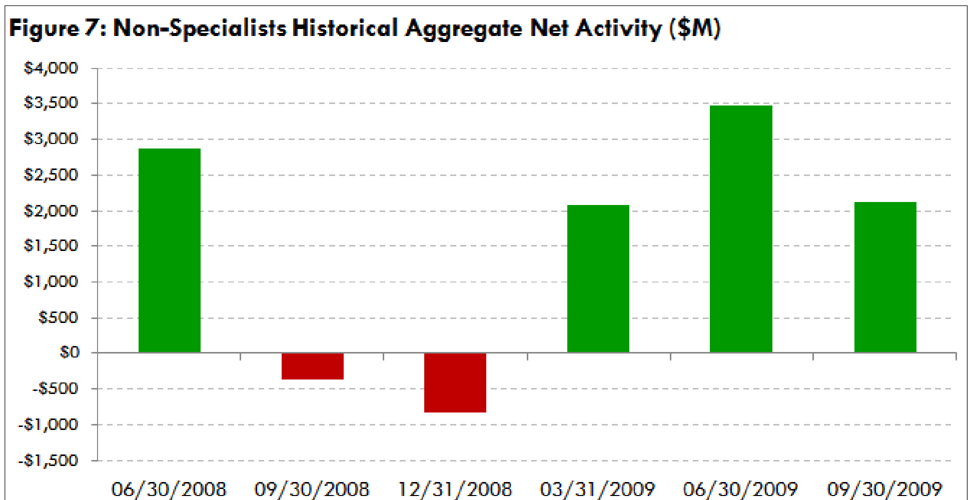


Figure 7: Non-Specialists Historical Aggregate Net Activity ($M)

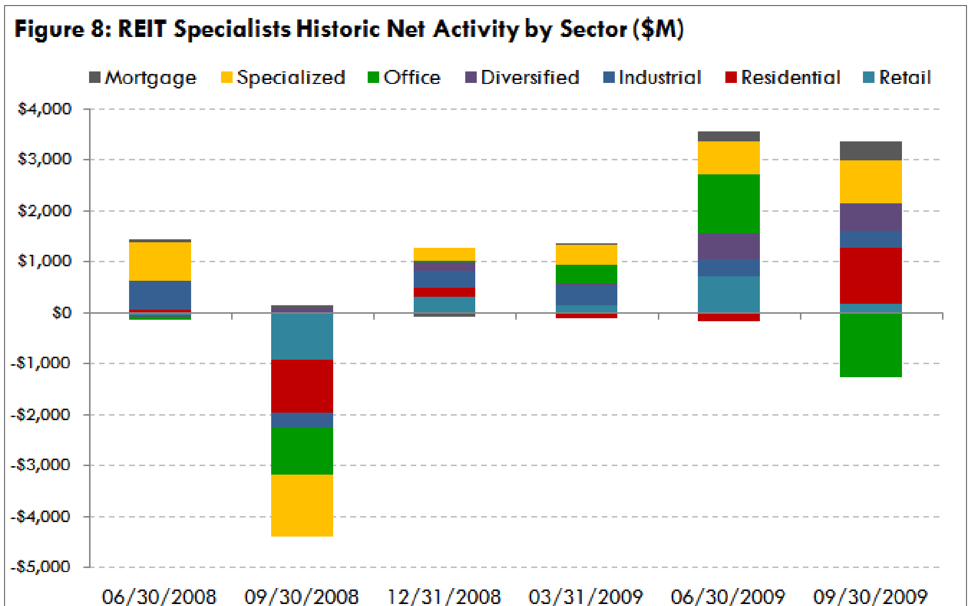
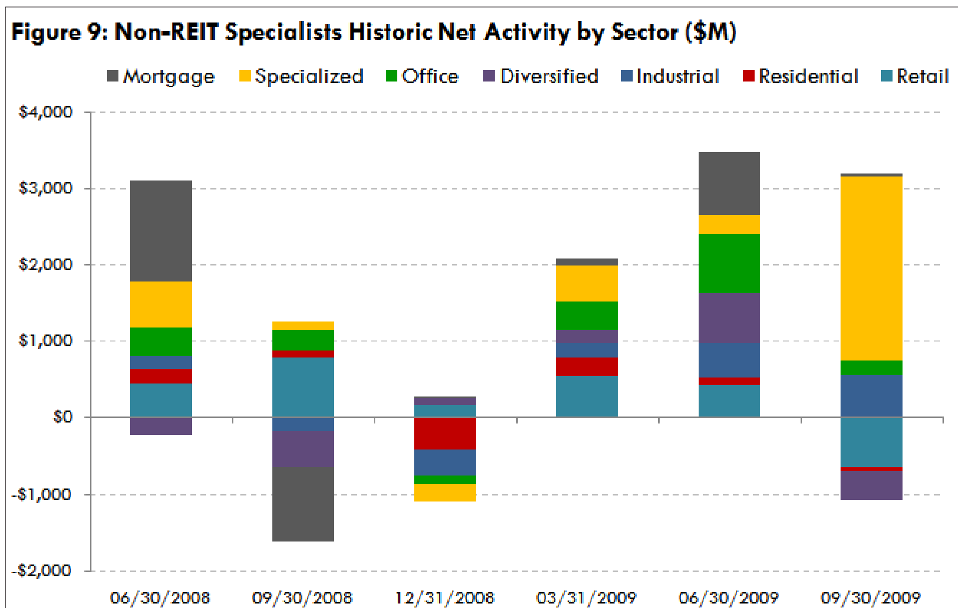


Figure 8: REIT Specialists Historic Net Activity by Sector ($M)

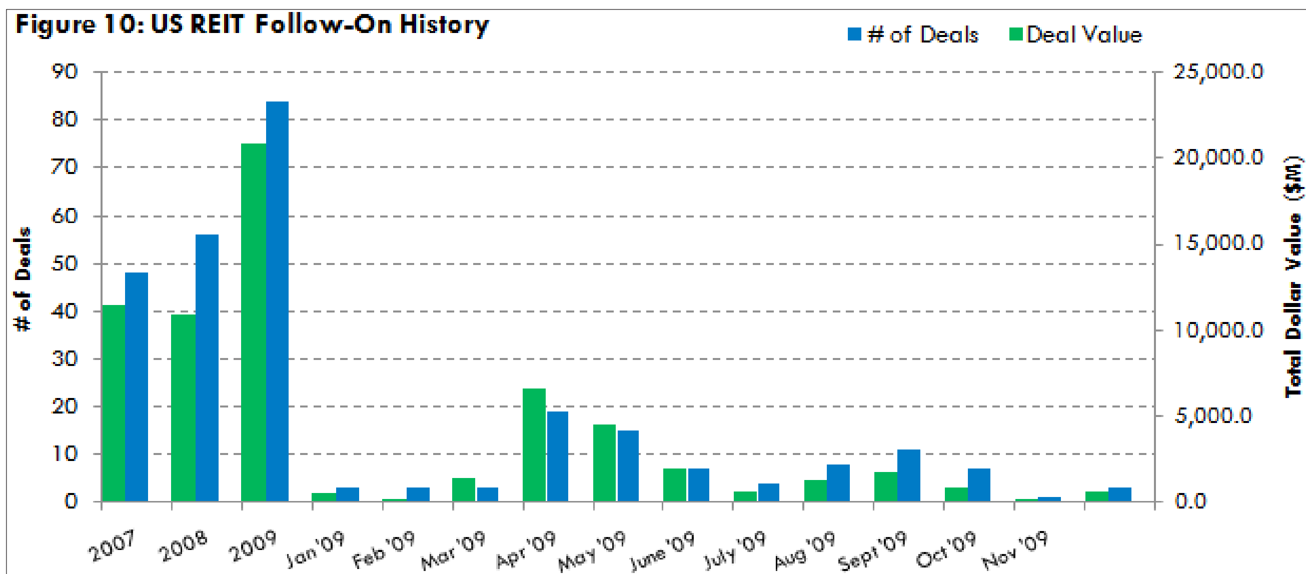
Each REIT sub-sector carries a different set of assumptions, valuations, recent performance records, future expectations, and risk profiles. The Specialized space, for example, tends to be characterized as a more of an early-cycle play on the REIT sector with its shorter-term lease contracts. The Retail REIT space is clouded by weak consumer spending, and perceptions of oversupply in the market. Given the varying stories between sub-sectors, buying and selling of a given set of REITs can say something about an investors overall strategy and propensity to buy a particular REIT going forward. While it's difficult to explain the differences in aggregate buying and selling of Specialists and Non-Specialists, looking at individual investors' net activity by sub-sector can assist dramatically in REIT targeting. In example, if an investor is new to the REIT space, knowledge of the investor's preference for Diversified REITs or Industrial REITs can help assign appropriate priority to a given target.



Is a REIT Recovery At Hand?

The REIT sector took its first steps towards a return to normalcy in 2009 as real estate fundamentals bottomed out, credit markets thawed, and REITs began to shore up their balance sheets. Much of this recovery in the REIT sector can be attributed to the successful capital raising efforts of a number of REITs and their ability to unlock the equity and debt markets for the rest of the REIT sector.

The credit markets, which were largely inaccessible for the sector since the Lehman collapse, began to unfreeze in large part due to Simon Property Group's successful debt offering in March of 2009. As previously mentioned, Simon Property Group auctioned $650M in 10-year bonds at a 10.35% coupon in late March of 2009. As Simon Property Group's bonds entered the marketplace, the spread on the yield on the 10-year notes gradually narrowed and by early August the notes were trading only 350 basis points more than U.S. Treasuries with a similar maturity with a yield of approximately 7.26%. Following that successful debt offering, Simon Property Group looked to the debt markets again and made two additional debt offerings in May and August, raising $1.1B in proceeds at yields of 7.00% and 5.46% respectively. As yields were coming down in the debt market, equities rallied and between March and August of 2009 all three major indices gained between 20% and 40%, while the MSCI US REIT index surged upwards of 70%. This rise gave way to a lower equity cost of capital for REITs by some 43% by August 2009 and drove down yields on bond issuances across the sector.



Following that debt auction, the lower spreads encouraged several other REITs to access the credit markets as the corporate credit market rallied in the latter half of 2009. Duke Realty Corporation raised $500M through a dual-tranche debt offering with yields of 7.375% and 8.250% and maturities of 2015 and 2019 on their senior unsecured notes.

As the credit markets began to unfreeze, the REIT sector took another big step towards recovery in the equity capital markets as 19 REITs were able to access the new issuance market in April of 2009 and raise nearly $6.6B in follow-on offerings, nearly triple the amount of capital raised in the first three months of 2009. ProLogis led the effort as it sold 152mm shares and generated $1.3B in new equity in a follow-on offering, which it used to repay maturing debt on its balance sheet. Picking up where April left off, the REIT sector rallied and outpaced the broader markets as investors' risk appetite for the sector began to return following another successful 15 REIT follow-on offerings in May.

Conclusions

Turmoil in the REIT sector combined with a non-traditional ownership base creates an interesting arena for REIT Investor Relations. At Ipreo, we advise REIT clients to place high priority on relationships with Specialist holders and targets while also looking for inroads with more traditional, diversified investors. Watching REIT sub-sector activity and monitoring changes in REIT exposure over time can reveal strong targets for prospective outreach. Alternatively, monitoring both Specialist and Non-Specialist selling activity by sub-sector, debt profile, or valuation can highlight risks to an existing shareholder base. The REIT recovery of 2009 was an impressive showing, but hurdles and remain for the industry. Targeted investor outreach and upkeep in the current environment is advised.

Authors: John Demler & Mark Masterson

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German Proxy Season Opens Door for Shareholder Activism

The 2010 German Proxy Season opened with a bang, with the first "Proxy Fight" over the appointment of a Supervisory Board Member candidate in Dax 30 history.

Infineon Technologies AG put forward an agenda with elections to their Supervisory Board and suggested the re-election of four existing Supervisory Board Members and the election of a Chairman of the Board.

On 19 January, 3 weeks after the publication of the Invitation to the Meeting and the official Agenda to be voted on, Hermes Equity Ownership Services filed a shareholder countermotion to Agenda item 7, the Election of Mr. Klaus Wucherer as the chairman of the Supervisory Board. They instead proposed the election of Mr. Berchtold, a management board member of ZF Friedrichshafen, an automotive supplier.

This was a highly unusual step for Hermes to take, but as they argued in their press release from 19 January 2010, previous dialogue with the company had "not proved fruitful".

Mr. Wucherer is in his 10th year of tenure on the German chipmakers Supervisory Board and in order to better adapt to the industry and recent financial crisis, Hermes felt it was time for change at the helm of the company.

Infineon rebuffed Hermes's approach with a letter to shareholders, vigorously defending their candidate as a competent and experienced member of the Supervisory Board and asking for shareholder support for the company's candidates.

In the meantime, other Investors joined the Hermes initiative, such as Legal & General Investment Management, DWS Investments and VIP (Association of Institutional Investors). Both DWS and VIP made their support for the Hermes countermotion publicly known, with VIP also filing a very similar countermotion. According to news releases, the Hermes countermotion was gaining broad support from other international

investors of Infineon, even Proxy Advisory Agencies such as US based RiskMetrics, which provides vote recommendation services to a large number of international investors, supported Hermes' endeavours.

On 27 January 2010, Infineon confirmed that Mr. Wucherer had stated that if elected, he would only serve as Chairman of the Board for a period of one year while Infineon will initiate a search for an independent successor.

Not surprising to most parties, the vote result was still highly supportive of Mr. Wucherer's candidacy, with Hermes's candidate, Mr.Berchtold receiving only 27% of support from the votes cast. Some say this may have been due to the complicated and often unclear method of counting the actual votes on the day of the Meeting.

Voting at German AGMs is still overshadowed by a complicated set of procedures and administration before the vote of the international investor reaches the tabulator. In order to support the countermotion and for it to become effective, the majority of votes need to be against the Agenda item, therefore letting it fail and for the countermotion to stand instead.

The practise of bringing a countermotion against an already existent Agenda item is a popular practice in Germany, with the majority of them being brought by private shareholders with opposing views to the Agenda item. For an institutional shareholder to file a countermotion, and to be publicly supported, is almost unheard of in the German market.

Despite these difficulties and the defeat at the Infineon AGM, we expect this to set a precedent for the coming months and the many German Shareholder Meetings yet to be held.

Author: Angelika Horstmeier

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BetterIR - Firm Snapshot

Targeted Firm: RCM Capital Management, LLC ($15,935.36 M)

Targeting Profile:
Based in San Francisco, RCM Capital Management manages nearly $16 billion in equity assets, divided among 960 holdings. Formerly part of the Travelers Group, RCM is now owned by Dresdner Bank, which is a wholly owned subsidiary of Allianz Insurance Group. The firm invests primarily in growth stocks, seeking companies that have potential to exceed analysts' earnings expectations, though RCM generally purchases such securities only at a reasonable price. During Q4 2009, RCM portfolio managers seized upon additional strength in the US stock market to increase net equity positions by $771 million. Included in this figure is $411 million that was used to initiate approximately 150 new positions during the quarter.

Three of the firm's top five funds by size are specifically dedicated to discovering and purchasing technology equities. As such, RCM's technology analysts are well-versed in all the subtleties related to steps along the manufacturing process. Although RCM has exhibited such a technology bias for quite some time, the firm recently reduced its exposure to the sector from 43% of total equity assets in Q2 '09 to 39.5% in Q4 '09. Regardless, eight of the firm's top ten holdings fall within the Technology sector, including bellwethers such as Apple, Microsoft, Google, Intel, and Hewlett-Packard. Recent buying, however, indicates that firm portfolio managers are continuing to diversify across all sectors. For example, RCM more than doubled its position in discount retailer Target (+$89.9mm) and hotel operator Starwood Hotels & Resorts Worldwide (+$80.2mm) in Q4 2009. Similar diversification can be seen in large purchases of Human Genome Sciences (+$73.4mm), Occidental Petroleum Corporation (+$71.8mm), and Kellogg Company (+$71.5mm).

How to Approach:
If your company can justify its business as technology-focused, RCM will represent an obvious target. Despite decreasing its allocation to the sector slightly over the past several quarters, RCM is still one of the largest institutions with such a sizable technology focus. Furthermore, if your company is widely considered to be a cyclical stock, it is essential that you make clear any factors contributing to your company's outsized growth prospects, unrelated to simple economic cycles.

Because RCM analysts carefully consider restructuring and cost minimizing efforts in studying potential investments, it would also be wise to make any such programs clear.

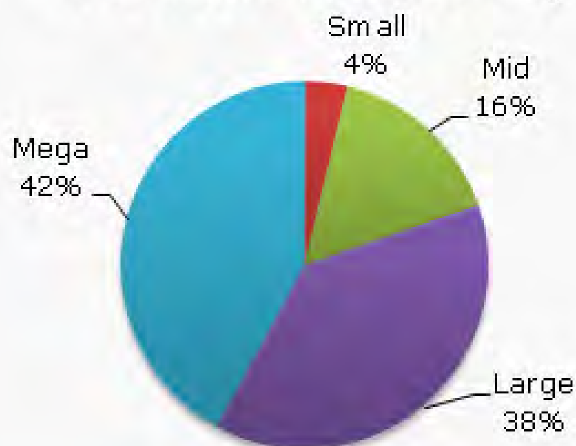
How not to Approach:
Companies outside of the United States are much more likely to have a difficult time convincing RCM portfolio managers of their merits. 95% of the firm's publicly disclosed holdings are allocated to US-based companies, with the next largest percentage, belonging to Chinese issues, falling to just 1% of total equity assets. Furthermore, if your company's market cap falls below approximately $1-2 billion, it would be wise to spend targeting efforts elsewhere. RCM's combined micro and small cap holdings total less than 4% and, thus, investor outreach for companies of such a small size is likely to have minimal impact.

Largest Funds Managed:
- Allianz RCM US Equity Fund – C2 - USD ($2,546.3 M); Seung Minn
- Allianz RCM Technology Fund ($991.7 M); Huachen Chen
- Allianz RCM Large Cap Growth Fund ($402.7 M); Peter Goetz, et al.

Portfolio Fundamentals:
- TTM Price/Earnings: 24.3
- Avg. 3 Yr. Revenue Growth: 13.6%
- Dividend Yield: 1.3%
- Price/Book: 4.1

Average Equity Holding Period: 1.75 years

RCM Capital Management, LLC ($15,935.36 M)



BetterIR - Fund Snapshot

Targeted Fund: Columbia Marsico 21st Century Fund ($3,923.63 M)

Portfolio Managers:

- Corydon Gilchrist - (303) 454-5618 – c.gilchrist@marsicocapital.com

Targeting Profile:

The Columbia Marsico 21st Century Fund is a relatively high turnover, open ended mutual fund managed by Marsico Capital Management's Corydon Gilchrist. The fund is the third-largest of all Marsico's mutual funds and retains many of the same characteristics attributed to its parent institution. In particular, the 21st Century Fund seeks to accumulate growth securities that are expected to perform exceedingly well, even if this necessitates paying a higher premium than for other issues. Also, although the fund's nearly $4 billion in equity assets are spread across 52 different holdings, 42% of the portfolio's total value is attributed to its top ten holdings. Portfolio manager Gilchrist arrives at investment conclusions through a combination of both top down and bottom-up research, first scanning the macroeconomic environment for broad-based trends in each industry. After determining just how each sector will respond to the constant stream of economic news, Gilchrist chooses specific companies within each space that are likely to reap the greatest benefit from any current trends and forthcoming developments.

Accordingly, the fund's allocation to the Financials space currently stands at 36%, by far the most heavily weighted sector, in an attempt to capitalize upon the bull market rally of the past year. In addition, this allocation had increased by approximately 5% throughout the fourth quarter of 2009. Within this space, Gilchrist saw opportunity in First Horizon National Corporation, initiating a $40.4mm position, and J.P.Morgan (+$23.3mm), likely reacting upon stronger than expected third quarter earnings. Conversely, the fund rotated conspicuously away from Technology securities during the same period, selling down large position in Apple (-$87.2mm) and Google (-$63.7mm), and liquidating a large stake in Qualcomm (-$84.9mm).

How to Approach:

Large and mega cap companies greater than $10 billion in market value are likely to have a much easier time making their case for inclusion than those that are noticeably smaller. The fund allocates nearly 70% of its equity assets to securities of this size and only 5% to small/micro caps. In addition, if your company is internationally based, particularly if it is located in Brazil, you may be able to convince Gilchrist to consider your pitch. The 21st Century Fund currently owns five different

Brazilian equities that account for 5.7% of total portfolio holdings, though this number is down significantly since Q3 2009. Regardless, in order to gain inclusion in the fund, you must be confident of your company's growth potential and explain this with aplomb.

How not to Approach:
Those companies within the Basic Materials and Utilities spaces are not likely to make much headway in appealing to Gilchrist, given slower growth rates across these industries. The fund liquidated all of its Basic Materials holdings as of October 2009, and its only Utilities holding remains fast-growing "green energy" provider, Vestas Wind Systems, which was reduced significantly in Q4 '09. Similarly, due to the fund's recent aversion to the Technology sector, it not unreasonable to conclude that such bearish sentiment may continue throughout the current quarter.

Portfolio Fundamentals:

- TTM Price/Earnings: 31.2
- Avg. 3 Yr. Revenue Growth: 21.0%
- Dividend Yield: 1.0%
- Price/Book: 3.6

Average Equity Holding Period: 0.57 years

Columbia Marsico 21st Century Fund ($3,923.63 M)

Metro Area Targeting Focus - London, United Kingdom

Money Center Statistics

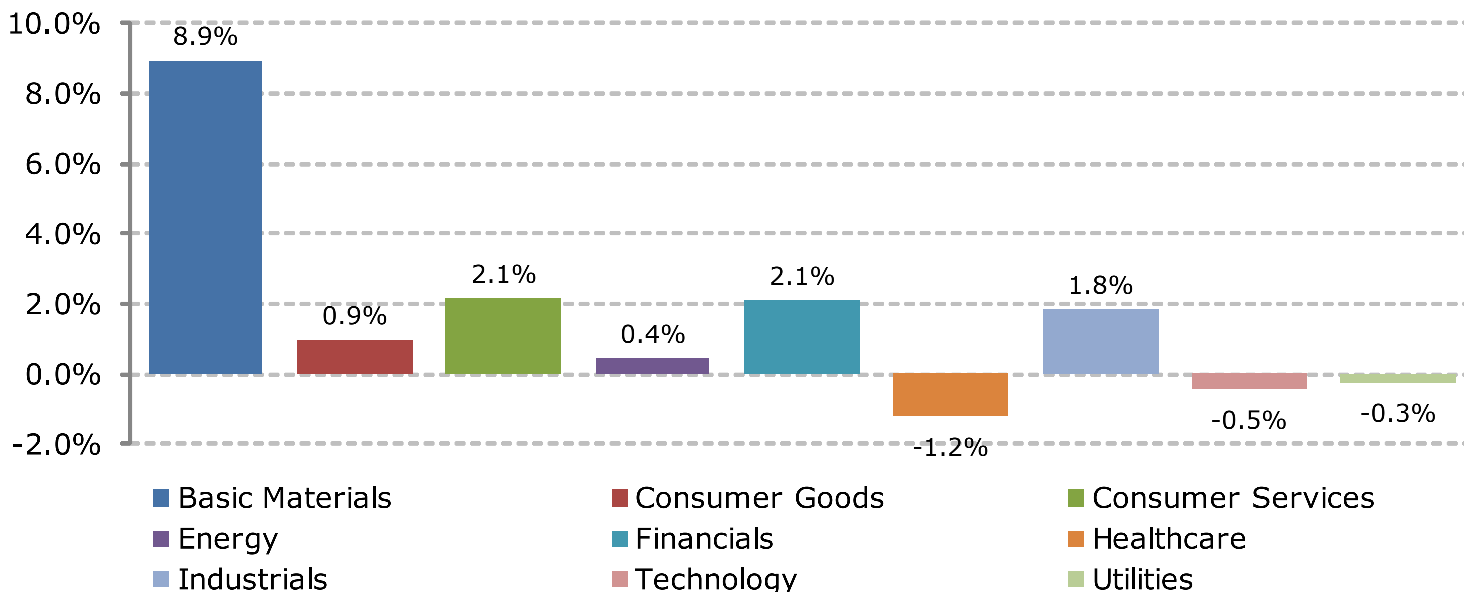
Reported Equity Assets ($B):	$1,382.8
QoQ Value Change:	19.8%
Number of Institutions:	339
World Rank:	3/155
Top Sector Weighting:	Financials
Q2 Financials Weighting:	21.3%
Top Region Weighting:	Europe
Q3 Europe Weighting:	66.3%
Total Net Buying ($B):	$115.5
Total Net Selling ($B):	-$94.1
Total Net Activity ($B):	$21.4

Summary Notes

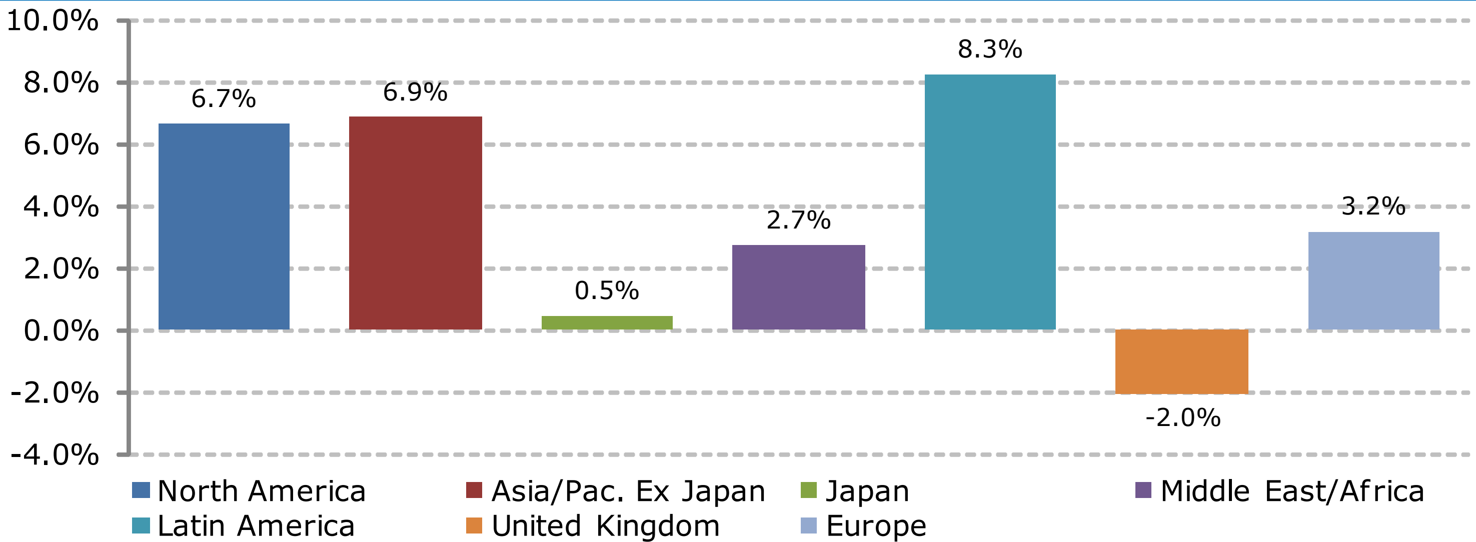
London is the third largest global money center behind New York and Boston. International issuers planning European outreach tend to visit London first, and with good reason. London institutions allocate a generous portion of their holdings outside the UK and Europe, and quarter-over-quarter changes suggest Londoners are going increasingly global with their portfolios. Allocations to emerging Asia/Pacific and Latin American issuers were particularly strong over the recent period as UK investors grappled with views of weak growth in developed European markets going forward. London investors were also strong buyers of North American securities over the period, adding $14.5B in total net activity. **BlackRock UK** and **Lansdowne Partners** were particularly bullish on North American equities, recording net buying of $2.4B and $1.3B, respectively.

While no clear sector biases exist on an aggregate percent of portolio basis, Londoners did show an outsized preference for Basic Materials issuers over the recent period. **F&C Management** aided buying in the sector with pickups in steel and building materials totalling $673M. In keeping with the prior quarter, Londoners remained bearish on the Healthcare sector. **Threadneedle Asset Management** and **Newton Investment Managment** led net selling in the sector, down -$555M and -$180M apiece.

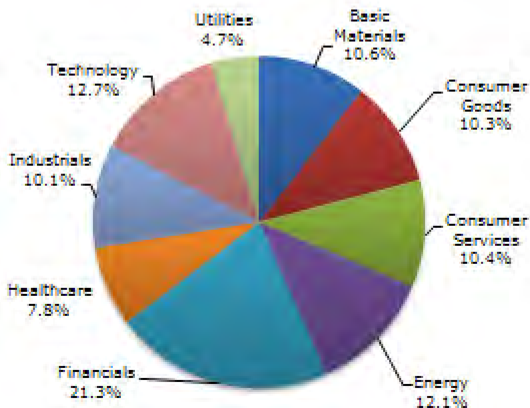
Q3 Sector New Activity (% Change)



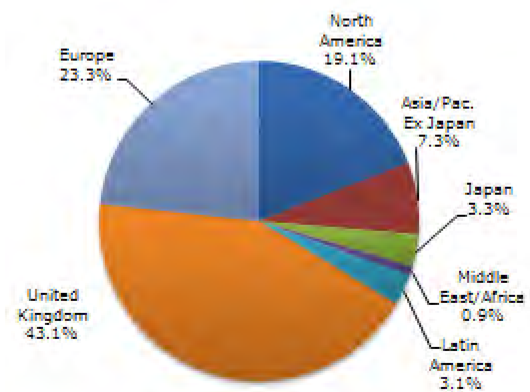
Q3 Regional New Activity (% Change)



Q3 Sector Allocation



Q3 Region Allocation



BUYERS

	Investor	Style	Turnover	City	Q3 EQA ($M)	Net Activity ($M)	Q2 EQA ($M)	QoQ % Δ EQA
1	Legal & General Investment Management, LTD	Index	Low	London	153,846.8	6,463.2	126,146.9	22.0%
2	Barclays Global Investors (U.K.), LTD	Index	Medium	London	82,165.6	3,924.8	67,078.3	22.5%
3	BlackRock Investment Management (U.K.), LTD	Growth	Medium	London	120,478.1	2,479.1	99,409.5	21.2%
4	Fidelity International Limited (U.K.), LTD	Growth	Medium	London	71,903.8	1,281.1	59,601.6	20.6%
5	M&G Investment Management, LTD	Growth	Low	London	59,008.2	1,222.7	48,616.4	21.4%
6	The Children's Investment Fund Management (U.K.)	Alternative	High	London	2,371.6	1,160.2	1,222.2	94.0%
7	AXA Investment Managers (U.K.), LTD	Growth	Low	London	21,033.6	984.2	17,598.4	19.5%
8	Schroder Investment Management (UK), LTD	GARP	Medium	London	51,860.4	969.0	42,879.9	20.9%
9	Aviva Investors Global Services, LTD (U.K.)	Growth	Medium	London	30,938.1	933.1	25,088.7	23.3%
10	F&C Management, LTD	Value	Low	London	25,824.7	867.5	21,350.5	21.0%
	Sub Total:				**619,430.9**	**20,285.1**	**508,992.5**	

SELLERS

	Investor	Style	Turnover	City	Q3 EQA ($M)	Net Activity ($M)	Q2 EQA ($M)	QoQ % Δ EQA
1	Threadneedle Asset Management, LTD	Growth	Medium	London	30,728.9	-3,825.6	29,571.1	3.9%
2	Morgan Stanley Investment Management, LTD (U.K.)	Value	Medium	London	19,221.2	-983.0	17,283.6	11.2%
3	J.P. Morgan Asset Management (U.K.), LTD	Growth	Medium	London	49,251.0	-936.0	42,303.5	16.4%
4	Capital International, LTD (U.K.)	Value	Medium	London	10,488.1	-902.7	9,831.1	6.7%
5	GAM London, LTD	Value	Low	London	5,876.0	-549.7	5,515.4	6.5%
6	Toscafund Asset Management, LLP	Alternative	Low	London	901.2	-475.8	1,133.3	-20.5%
7	Newton Investment Management, LTD	Growth	Medium	London	34,135.5	-460.9	30,221.2	13.0%
8	Cazenove Capital Management, LTD	Growth	Low	London	6,587.9	-442.1	5,855.8	12.5%
9	CQS (UK), LLP	Alternative	Very High	London	1,698.8	-438.7	297.2	471.7%
10	RBC Private Banking, LTD	Growth	Very High	London	335.9	-381.1	628.5	-46.6%
	Sub Total:				**159,224.6**	**-9,395.6**	**142,640.6**	