The Better IR Newsletter

Volume 4, Issue 1
January, 2011

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Say-on-Pay 2011 - The Investor's Viewpoint

On October 18, 2010 the SEC issued rules in response to Section 951 of the Dodd-Frank Act which would now require companies to include a mandatory "say-on-pay" advisory vote on the ballot for shareholder meetings taking place on or after January 21, 2011. In addition, as part of its rulemaking, the SEC also introduced the separate concept of shareholder advisory votes on the timing of advisory votes on compensation plans, or what is often derisively referred to as "say-on-say-on-pay." Issuers were given the option of offering annual, biennial, or triennial advisory compensation votes, but were required to offer this decision out to shareholders as an advisory vote beginning in the 2011 proxy season. Management of calendar-year fiscal year companies is now tasked with coming up with the best approach to this issue prior to the upcoming proxy season – and it's on the minds of nearly every US IRO at this point.

Depending on the structure of the company, proxy issues sometimes fall under the domain of the corporate secretary instead of the IRO. However, this year in particular, it's important that the IRO have the complete picture of the investor base not just from an investment standpoint, but also from a voting standpoint.

History

Investors have long demanded more control over issuers' activities, and through much of the decade the SEC has considered one form of proposal or another that would expand investor input into corporations. However, the movement to give shareholders a direct (though nonbinding) vote on executive compensation in the United States first truly took hold in 2007, when Aflac became the first U.S. issuer to voluntarily provide its shareholders with a say-on-pay vote.

Note that although say-on-pay voting is a new instrument to U.S. companies, the United Kingdom has mandated say-on-pay votes since May of 2003. Within the first year of voting, a major company failed the majority vote; GlaxoSmithKline. The pharmaceutical giant became the first company whose executive compensation failed approval from shareholders (the "against" vote was only 50.7%). Upon the failing of GlaxoSmithKline, many U.K. companies began to openly solicit shareholder feedback to ensure that there was full consensus on what executive compensation would look like for the year, thus limiting the probability of a surprise rejection of their compensation package.

While in 2008 a smattering of companies offered voluntary say-on-pay votes to issuers, the first U.S.-government mandated say-on-pay votes took place during 2009, with legislation requiring all companies receiving funds from the U.S. Treasury (through the TARP program and other activities) to offer an advisory compensation vote to shareholders.

2009 / 2010 Say-on-Pay Votes

During 2009 and 2010, with the prevailing winds suggesting its eventual broader adoption, a number of major issuers began to offer voluntary say-on-pay votes to their investors. According to ISS, 28 issuers offered say-on-pay votes to shareholders for the first time in 2010, and in total the average level of support for management say-on-pay votes in 2010 rose to 89.6% from 87.4% in 2009.

Say-on-pay votes are typically technically non-binding, but a decisive vote against a compensation scheme can be a very negative outcome for a company. During 2010, three issuers saw their say-on-pay votes fail to produce a majority in support: Key Corp, Motorola, and Occidental Petroleum. Key Corp's vote was required as part of the conditions of the U.S. government's TARP program, while Motorola and Occidental Petroleum held voluntary say-on-pay votes. ISS recommended against each of the advisory votes these issuers conducted. As the vast majority of institutional investors do tend to side with management on most votes of any kind, it's particularly interesting to analyze the voting records of investors with respect to these votes, which led to a negative outcome for all three issuers.

Figure 1 shows the set of the 25 US mutual funds that were the largest mutual fund holders of the group of three issuers in aggregate; it displays this information by fund family (given that only very rarely do mutual funds operated by the same manager direct their votes in opposing directions on the same issue). Notably, despite the negative recommendation, index managers Vanguard Group and State Street Global Advisors voted with management in each case. However, Blackrock Fund Advisors (the former Barclays Global Investors), which often follows ISS recommendations, chose to vote in favor of Motorola and Occidental, while voting against Key's comp plan.

Figure 1: Top US Mutual Funds Holding Failed 2010 Say-on-Pay Vote Issuers – by Mutual Fund Group

Investor			Investment		Company			Vote		
Rank of	Fund Name	Investor Name	$ Invested	# Co's Held	KEY	MSI	OXY	KEY Vote	MSI Vote	OXY Vote
23	iSHARES Russell 1000 Value Index Fund	Blackrock Fund Advisors	153.4	3	0.2%	0.1%	0.2%	For	Against	For
20	iSHARES S&P 500 Index Fund	Blackrock Fund Advisors	207.3	3	0.2%	0.2%	0.2%	For	Against	For
22	Calamos Growth Fund	Calamos Advisors, LLC	161.7	2	0.0%	0.1%	0.2%	-	For	-
11	American Funds Fundamental Investors	Capital World Investors (U.S.)	533.0	1	0.0%	0.0%	0.8%	-	-	Against
3	American Funds Growth Fund of America	Capital World Investors (U.S.)	1,057.8	2	0.0%	0.4%	1.5%	-	For	Against
19	American Fds Washington Mutual Inv.	Capital World Investors (U.S.)	213.9	2	0.8%	0.0%	0.2%	Against	-	Against
14	Selected American Shares Fund	Davis Selected Advisers, L.P.	392.3	1	0.0%	0.0%	0.6%	-	-	Against
2	Davis New York Venture Fund	Davis Selected Advisers, L.P.	1,183.7	1	0.0%	0.0%	1.6%	-	-	Against
12	Dodge & Cox Balanced Fund	Dodge & Cox	519.7	1	0.0%	0.0%	0.4%	-	For	For
1	Dodge & Cox Stock Fund	Dodge & Cox	1,889.0	2	0.0%	5.7%	1.4%	-	For	For
9	Fidelity Contrafund	Fidelity Management & Research	620.6	2	0.0%	0.0%	0.9%	-	-	Against
18	Fidelity Equity Income Fund	Fidelity Management & Research	252.7	3	1.1%	0.3%	0.2%	Against	Against	Against
13	Fidelity Magellan Fund	Fidelity Management & Research	435.8	1	0.0%	0.0%	0.6%	-	-	Against
16	Janus Fund	Janus Capital Management, LLC	333.5	2	0.0%	0.2%	0.4%	-	Against	Against
17	Harbor Capital Appreciation Fund	Jennison Associates, LLC	266.9	1	0.0%	0.0%	0.4%	For	Against	For
24	Lord Abbett Affiliated Fund	Lord Abbett & Company, LLC	146.0	1	0.0%	0.0%	0.2%	-	-	For
21	Oppenheimer Main Street Fund	OppenheimerFunds, Inc.	201.1	2	0.3%	0.0%	0.3%	-	-	Against
15	SPDR Series-Energy Select Sector SPDR	State Street Global Advisors (SSgA)	335.2	1	0.0%	0.0%	0.5%	For	For	For
25	T. Rowe Price Mid Cap Value Fund	T. Rowe Price Associates, Inc.	136.9	1	1.2%	0.0%	0.0%	Against	For	-
5	Vanguard 500 Index Fund	The Vanguard Group, Inc.	849.5	2	0.9%	0.0%	0.9%	For	For	For
10	Vanguard Energy Fund	The Vanguard Group, Inc.	583.2	1	0.0%	0.0%	0.8%	-	-	For
8	Vanguard Institutional Index Fund	The Vanguard Group, Inc.	637.9	3	0.7%	0.7%	0.7%	For	For	For
4	Vanguard Total Stock Market Index	The Vanguard Group, Inc.	926.7	2	1.0%	0.0%	1.0%	For	For	For
6	Vanguard Windsor II Fund	The Vanguard Group, Inc.	736.3	2	0.2%	0.0%	1.0%	For	-	For
7	CREF Stock Account	TIAA-CREF Investment Management	697.3	3	0.3%	0.3%	0.9%	-	For	Against

Source: SEC.gov

Investor Reaction – Portfolio Managers vs. Proxy Governance Specialists

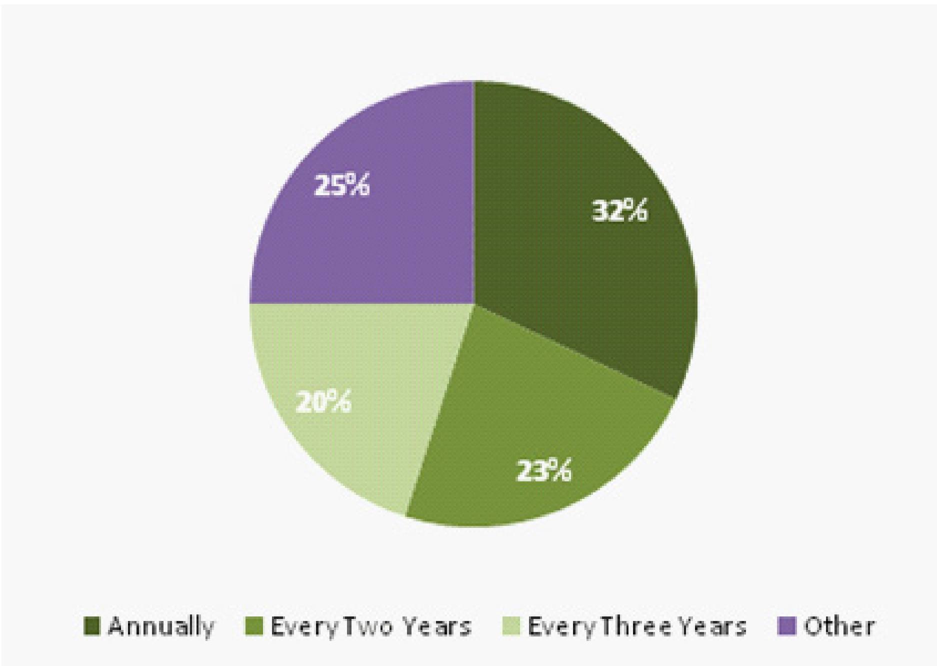
So far in 2011, it appears issuers are split on how often to propose their say-on-pay votes; a December Towers Watson survey of 135 U.S. public companies showed 51% of issuers expecting to hold annual votes, 10% of issuers expecting to hold biennial votes, and 39% of issuers expecting to hold triennial votes. ISS announced in November 2010 that it would favor annual votes for public companies, leaving a significant obstacle for issuers seeking to hold less-common votes to explain their reasoning for doing so.

Despite what many of the institutional investment community organizations (CFA Institute, Council of Institutional Investors, Managed Funds Association) have said in public statements, it appears there may be more internal disputes about the expression of shareholder power within investors' organizations than you might think. Particularly on the question of the timing of a say-on-pay vote, there are many individuals within the investment community that believe a less-common vote is more in line with long-term shareholder interests than a more-common vote.

IPREO

During December 2010 and January 2011, Ipreo polled contacts from a set of 44 large active U.S. institutional investors with regards to their views on say-on-pay voting. Notably, though, Ipreo specifically spoke to investment decision-makers (analysts and portfolio managers, often the individuals most familiar with the issuer) at each firm, instead of proxy governance specialists.

Figure 3 – Frequency of Survey Responses – Timing of Say-On-Pay Vote



Source: Ipreo Research

For all of the talk that has been devoted to the subject as of late, there is little consensus amongst this community as to what the ideal frequency for holding a say-on-pay vote is

- 32% of the survey population believed that a say-on-pay vote should be held annually because of new scrutiny on the subject of executive compensation and because they feel it will enhance management accountability.
- 23% of respondents felt this vote should be held every other year because they do not want management to be distracted by short-term goals, but they also think that three years is too long between votes.
- 20% of investors favor voting on a three-year basis because they felt that management teams should be focused on their companies' long-term strategies and their compensation programs should reflect those plans.

A diverse set of opinions were expressed in the study. While an annual vote was supported by a plurality of investors expressing a preference (in the words of a growth fund analyst, "an across-the-board say-on-pay vote should be held every year because there has been quite a bit of backlash against Wall Street, and against CEO and CFO pay in particular. Even if they were still being compensated handsomely, I think that any company that is willing to be transparent about it would gain shareholder trust"), some investors believe they already have a say-on-pay vote. One analyst summed up this viewpoint by stating, "At the end of the day, we vote for the compensation committee, so if the compensation committee is competent and independent, then we don't need to vote on management pay, unless there is a big change in management compensation."

In summary, don't assume that investors are entirely in lockstep with ISS and other governance consultants on this topic; listen to what your shareholders have to say on the topic. In the end, it's the analysts and portfolio managers that drive the investment committees at major investors, not the proxy governance teams, and the communication between the two may be less than you think. You may be surprised what your investors have to say on either side.

Preparing for a Say-on-Pay Vote – Know Your Shareholder Base

In much the same way that accountants adjust for the different sets of rules between IFRS treatment and GAAP treatment, many of the best IROs keep "two sets of books" with respect to their ownership bases – one associated with the goals of growing and diversifying the shareholder base, and one with the goals of anticipating any risks from a proxy standpoint. Marrying the information provided from a market surveillance perspective with the knowledge set of a proxy advisor is the most complete and accurate way to do this, but even without this set of tools there's a lot you can do to gauge your proxy/governance risk level, particularly with required say-on-pay votes that may have a higher profile than routine proxy matters.

First off, view your ownership base not just from an "investment" standpoint, but from a "voting" standpoint. Each investor that files a quarterly Form 13F disclosing its holdings in your (U.S.-listed) security is required to disclose not just the dispository power it has, but also the voting power for the shares it holds discretion over – either "sole", "shared", or "no" voting power, depending on the type of arrangement it has with the institutional client it manages your position on behalf of. One useful exercise is to look at the raw filings for many of your largest investors and identify those that leave voting discretion outside their firms (and potentially beyond the direction of the firm's proxy governance teams).

Figure 3 below shows the set of investors with the largest investments in US stocks. For each firm, the percentage of its total disclosed holdings that has outside voting authority (either "shared" or fully "external", is displayed). Note that some major institutional investors do not retain the voting rights on the securities that they have investment power over. In particular, note investors such as Northern Trust and Wellington Management that leave the voting rights in the hands of their clients. As a clarification – Fidelity is one investor that reports having no voting authority for most of its positions, but it structures the firm such that a separate legal entity internal to Fidelity conducts the voting for all of its positions (leaving all voting authority inside Fidelity anyways).

Figure 3 – Reported Voting Authority of Top US Investors as % of Reported Equity, Sept 2010

		Voting Authority		
Rank	**Investor Name**	**Sole**	**Shared**	**None**
1	BlackRock Fund Advisors	100.0%	0.0%	0.0%
2	The Vanguard Group, Inc.	96.7%	3.3%	0.0%
3	State Street Global Advisors (SSgA)	98.6%	0.0%	1.4%
4	FMR Corp / Pyramis	99.8%	0.0%	0.2%
5	Capital World Investors (U.S.)	84.5%	0.0%	15.5%
6	Wellington Management Company, LLP	47.9%	7.4%	44.7%
7	Capital Research Global Investors (U.S.)	98.3%	0.0%	1.7%
8	Northern Trust Investments, NA	32.1%	67.7%	0.2%
9	BlackRock Advisors, LLC	100.0%	0.0%	0.0%
10	AllianceBernstein, L.P. (U.S.)	82.3%	0.0%	17.7%
11	TIAA-CREF Investment Management	100.0%	0.0%	0.0%
12	Columbia Management Investment Advisers, LLC	80.6%	2.9%	16.4%
13	Invesco Advisers, Inc.	94.8%	0.1%	5.1%
14	J.P. Morgan Investment Management, Inc.	81.5%	4.3%	14.2%
15	Goldman Sachs Asset Management, L.P. (U.S.)	89.1%	0.2%	10.7%

Source: SEC.gov

Public pension fund clients (such as California State Teachers' Retirement and Massachusetts State Pension Fund) are among the most likely to retain their voting rights, potentially based on political / civic requirements. Be aware of the relationships that pension fund managers have with outside managers; for example, the City Of New York pension and group trust accounts use managers such as Thornburg Investment Management, Acadian Asset Management, and GE Asset Management as outside investment managers, but often retain the voting rights internally. You won't ever see this manager on an ownership list displayed by descending investment discretion, but displayed by voting authority of its shares it can become a notable investor.

Of particular note – one of the components of the Dodd-Frank legislation requires all 13F-filing institutions to disclose their votes on each issuer's say-on-pay votes in an annual filing (forcing increased transparency on investors in addition to issuers). This vote disclosure will allow issuers the full view of an institution's voting record, and may for the first time offer transparency on hedge funds' voting practices; previously only mutual fund managers were required to make any public disclosure of their voting records, leaving out most hedge fund managers.

Second, communicating with your ownership base from a voting standpoint is important, particularly in 2010. As noted above, much of the time the investment analyst responsible for maintaining coverage of your company is not fully aware of the investor's view on your company from a corporate governance standpoint. Some investors such as TIAA-CREF will have two completely separate teams conducting research on your company, and in some cases the communication between these teams is far from perfect. Don't assume that a good relationship with your investment analyst or portfolio manager will translate into a vote in support of management in the upcoming season – make sure to seek out the individuals that maintain proxy coverage of your company and make sure your story is in front of them.

Authors: Michael Mougias, Michael Byrne, and Brian C. Matt, CFA

Michael Mougias is an Analyst with Ipreo's Corporate Analytics Group. Michael Byrne is an Analyst in Ipreo's Perception Research Team. Brian C. Matt, CFA, is Director of Data Strategy & Analytics with Ipreo.

International Roadshows - Best Practices for US Issuers

One of the most common practices among investor relations departments is the non-deal roadshow. Significant portions of IR resources and time, as well as management's time, are dedicated to the matter of getting on the road, meeting with current shareholders, and courting potential shareholders. As investment markets have become more global, the practice of investor relations and the non-deal roadshow have followed suit. The following research and analysis assesses the current state of the US-based international roadshow and outlines the best practices as laid out by some of Ipreo's most proactive corporate clients.

Ipreo published an article in the June issue of BetterIR titled, "*No Longer Foreign – The Growing presence of Non-US Investors in US Stocks*" regarding the growing presence of non-US investors (http://betterir.com/#jun.htm). This research picks up where that article left off, as it intends to expand on some of the compelling quantitative data Ipreo uncovered, with some qualitative insights, comments, and advice from practitioners in the field.

Who Goes? Where? Why?

While the majority of Ipreo's US clients focus their outreach on US soil, an increasing number are traveling abroad chasing international investment capital. According to the Bank of New York Mellon's 2010 "Global Trends in Investor Relations" survey, the U.K., Europe, and Asia are the top three non-deal roadshow locales behind the US While this is fairly common knowledge, the real question becomes why do these companies travel internationally? Also, what kinds of companies travel internationally? Where do they go?

For the most part, companies that are travelling to the fringes of the investment world, such as Hong Kong, Shanghai, and Singapore, are companies with direct exposure to these economies through sales, supply chains, etc. However, as investors in Europe, Japan, and the U.K. look to allocate more capital to US investments, companies without direct exposure to these markets are finding it worthwhile to spend the time and resources traveling to places like Zurich, London, and Tokyo.

Please see the table below for a list of non-US investors with meaningful amounts of capital allocated to US public companies. Other cities and countries that survey participants have traveled to in the past two years include Stockholm, Copenhagen, Frankfurt, Paris, Amsterdam, Australia, Milan, Scotland, and Barcelona, amongst others. Several IROs mentioned that they go to Asia to meet with investors in conjunction with a scheduled trip to meet with suppliers or customers, rather than a standalone roadshow. The consensus is that the companies that have brand recognition internationally get the most bang for their buck, with other companies using the international roadshow largely as an afterthought to a pre-existing trip, especially in Asia.

Ipreo solicited feedback directly from IROs:

> *"We've traveled to Western Europe predominantly, and a little in the Asia-Pacific region. Mostly London, Paris, Frankfurt, Milan, and Switzerland. We are planning on going to China within the next three years, but we just haven't had the right circumstances. We're also looking to sell our drugs in that area too. China is on our radar for the next five years." – IRO, Large-Cap Healthcare Company*
>
> *"We have typically done one trip per year to Continental Europe. Next year, we probably will go twice. We always go to London and Frankfurt, where there are numerous investors who are very conversant with US media, cable and satellite. There is effectively no difference between these meetings and meetings in New York. We also have had decent meetings in Stockholm, Copenhagen, Paris, the Netherlands, and Switzerland." – IRO, Large-Cap Media Company*
>
> *"A main reason for the trips to Asia is the fact that a lot of our customers are located in Asia." – IRO, Mid-Cap Technology Company*

"I guess it makes sense for Microsoft and Intel to go to China because they have huge operations in China and the brand recognition is there. We have almost no brand recognition in China and it would be a huge uphill battle. It has not even crossed our minds to think about IT Services in China." – IRO, Large-Cap Technology Company

Figure 1 – Largest Non-US Investors in US Equities, most recent public ownership

Investor Name	U.S. Equities ($mm)	City	Style	Turnover %
Norges Bank Investment Management (Norway)	86,668	Oslo	Value	21.5
Legal & General Investment Management, LTD	44,088	London	Index	10.0
BlackRock Investment Management (U.K.), LTD	38,600	London	Growth	51.9
Blackrock Japan Company, LTD	30,589	Tokyo	Growth	62.3
J.P. Morgan Asset Management (U.K.), LTD	25,833	London	Growth	68.9
APG - All Pensions Group, LTD	21,805	Amsterdam	Yield	42.0
Fidelity International Limited - FIL Investment Services (U.K.)	21,763	London	Growth	55.2
UBS Global Asset Management (Switzerland) AG	19,595	Zürich	Yield	22.2
Mitsubishi UFJ Trust & Banking Corporation	16,241	Tokyo	Growth	22.9
BlackRock Advisors (U.K.), LTD (formerly Barclays Global)	15,649	London	Index	31.1

Source: Ipreo Research

Roadshow Logistics

Nearly 100% of survey participants use investment banks or sell-side firms to arrange investor meetings abroad, handle the logistics of the meetings, and sometimes cover expenses as well. Hence, it has certainly become the best practice to utilize this resource. The relevant questions become: *Which firms are best? How do I choose? What are the best practices for interacting with these firms?*

Our participants mentioned nearly every bulge-bracket firm, including UBS, Morgan Stanley, Bank of America, Citibank, J.P. Morgan, as well as smaller firms such as Cowen and Atlantic Equities. Based on the responses, we can conclude that choosing a firm to organize your trip is surely a company-specific decision.

IROs base this decision on several factors. First and foremost, a healthy relationship with the sell-side firm drives many of these decisions. Successful meetings in the past and help with past transactions would certainly foster these relationships. Secondly, when the sell-side has people on the ground in a given region, as well as strength (or perceived strength) of the analyst in that particular sector, IROs have decided to use them. To be sure, brokerage firms are not supporting the IR function of public companies as a charitable service. Brokerage firms set up meetings for their clients as part of their service to them, and they will typically pick their best, most actively trading clients. As such, IROs will typically approve the meeting list and may even provide a list of firms they would like to meet with.

"Issuers should not leave themselves at the mercy of the sell-side firm, because the sell-side firm might take them to a lot of shorts and hedges and people that they have business with, but who never would buy the stock. You have to do your own homework. If you're going to take a CEO with limited time, maybe have the IR person go there first to feel these people out and give them some background. Get them up to speed with healthcare and biotechnology and why your company is different and fills a niche that no one else does. You don't want to go into something cold where you're not going to make the best presentation and waste your CEO's time." - IRO, Large-Cap Healthcare Company

"The investment banks give us some great information; Equity Assets Under Management, Investment Style, Peer Ownership, US Equity Ownership, plus some individual knowledge about the account. With an investment bank, someone travels with you. There's lots of hand-holding. JP Morgan and Citibank were especially helpful. They call

the account afterwards. The banks are working a lot harder on these non-deal roadshows now. We think the reason is because equity research is not making as much money as it used to, so we notice the banks are concentrating more on these non-deal roadshows. Investment banks also tell us what topics clients are interested in. Sometimes, the qualitative feedback from them is more important to us than the quantitative feedback." – IRO, Mid-Cap Technology Company

"We rotate between the sell-side firms, but we base it on who has the best presence in those countries; who has done the best job, who has the best reputation. Bigger bulge-bracket firms have a better presence in those countries, but if someone came to us and they were small, had a really good pitch, and had a lot of contacts, we wouldn't dismiss that." - IRO, Large-Cap Healthcare Company

"For the first European trip we chose Cowen because they had organized and evolved a lot of the targeting and access program for our CFO when he was early in the process, and they had impressed him. In 2010, it was an assessment that Citibank was reasonably strong in London. It was based on the strength or the perceived strength of the sell-side against their relationships. We were very impressed with the most recent trip and the analyst at Atlantic Equities was very knowledgeable about the space. They cover US companies for European investors and seem to be very well plugged in. We chose them based on our perception of how strong they are in terms of knowing our industry, knowing about our company and also about knowing the investors who might be interested in our company. I think it is in our best interest to stay with one firm rather than keep jumping around. For Singapore and Hong Kong, we will use Credit Suisse. One of the reasons for Credit Suisse is that the analyst who covers the space is based in Singapore. We thought it made sense since he actually lives in the market. One of the things we started doing was asking the investors themselves, "Who do you respect?" You invariably will know some of the portfolio managers or analysts in Europe, so ask them what they think." – IRO, Large-Cap Technology Company

Domestic vs. International

As globalization takes hold and international capital markets open, management teams have stretched across oceans in search of untapped capital in foreign markets. As it stands, London is the most popular destination as it is fairly easy to get to, there is no language barrier, its financial institutions are familiar with the business practices and markets of the West, and there is a concentration of investment capital.

See the table below for a list of top U.K.-based investors. Continental Europe has followed suit as a secondary destination, as European institutions chase growth beyond the European Union. The most recent frontier has been Asia, with Tokyo the most common destination, but expanding into Singapore and Hong Kong as well. Australia, South America, Russia, and India were mentioned by participants in our survey, but to a far lesser extent, so we focused on the details of roadshows in the U.K., Europe, and Asia.

Figure 2 – Largest U.K. Investors in US Equities, most recent public ownership

Investor Name	U.S. Equities ($mm)	City	Style	Turnover %
Legal & General Investment Management, LTD	44,088	London	Index	10.0
BlackRock Investment Management (U.K.), LTD	38,600	London	Growth	51.9
J.P. Morgan Asset Management (U.K.), LTD	25,833	London	Growth	68.9
Fidelity International Limited - FIL Investment Services (U.K.), LTD	21,763	London	Growth	55.2
BlackRock Advisors (U.K.), LTD (formerly Barclays Global)	15,649	London	Index	31.1
HSBC Global Asset Management (UK), LTD	13,094	London	Growth	66.9
Baillie Gifford & Company	10,831	Edinburgh	Growth	27.3
Aberdeen Asset Managers, LTD (U.K.)	10,239	Aberdeen	Growth	33.4
Schroder Investment Management, LTD	9,310	London	GARP	41.0
Walter Scott & Partners, LTD	9,242	Edinburgh	Growth	43.3

Source: Ipreo Research

There are several differences that our US clients have pointed out between domestic and foreign investors, with the most common being the investment horizons and the tone of the conversations. In general, participants feel that the investors abroad are more long-term oriented and the tone of the conversations were broader in scope. For example, there tend to be more conversations about trends in the industry than there are about next quarter's numbers. Also, while European investor meetings were deemed different than domestic meetings, the experience in Asia was even more so. Tokyo received the best marks as an investment center, as IR teams felt the meetings were more worthwhile. Investors were more knowledgeable and long term oriented in Tokyo than Hong Kong or Singapore. However, one participant noted the large number of index funds in Tokyo. The firm may own a stock, but meetings will not necessarily move the needle one way or the other as the firms will only slightly overweight (or underweight) a position.

"There is a huge difference in the meetings with international investors. They ask bigger picture questions regarding industry trends. They'll want to talk about healthcare reform and the state of medicine and innovation, whereas Americans look at the minutiae, like 'when is the trial data coming?' No one ever minds meeting with European investors." - IRO, Large-Cap Healthcare Company

"The level of company-specific knowledge may be lower in an international roadshow, compared to a domestic roadshow. In Continental Europe, my perception was that the thinking was more long-term and more strategic." – IRO, Mid-Cap Technology Company

"We find the people we meet with on international roadshows have not covered our Company specifically, but have covered our peers, and they know the industry from our peers' perspective. The meetings tend to be a little more basic, where we are running through the basic model and outlining competitive differentiators." – IRO, Large-Cap Technology Company

Measuring Success

Measuring success is a bit trickier for international roadshows due the lack in reporting of non-US investors. In the US, issuers have the benefit of quarterly 13F filings to compare ownership pre- and post-roadshow. Many of our clients utilize Ipreo's International Identification team in order to gauge ownership, but other sources of measurement are available as well. Participants have been impressed with the level of feedback from the sell-side firms that host the trips, as well as the feedback received through Ipreo's perception studies. These firms can collect valuable feedback from your trip and report back to the issuer. Additionally, more anecdotal methods have been cited, such as the number of incoming follow up calls and the level of sophistication of questions, in order to gauge meeting quality.

"Transparency of ownership is certainly a big problem in that data availability is much more limited than it is in the US or even Europe for that matter. Although the institutions themselves will begrudgingly talk about whether or not they own us, they won't go into detail about how big or small that ownership position is." - IRO, Large-Cap Consumer Services Company

"One way to measure success is from the number of inbound calls that I am getting. I get a lot more foreign inbound calls now than I did in the past, as a result of international roadshows." – IRO, Mid-Cap Technology Company

"We find out if people buy, or if people increase their positions, if they ask any follow up questions. And then we get the feedback from the sell-siders, the roadshow people, the good, the bad, and the ugly. We ask for all of it. Whoever is taking us around gives us the background, and Ipreo gives us the background, so I don't feel like I'm behind the eight ball. I always feel informed. " - IRO, Large-Cap Healthcare Company

Lessons Learned

Our clients offered some lessons that can be shared. Perhaps most importantly, it was mentioned more than once that IR professionals should go to Europe or Asia first, before bringing management. Getting a sense for a sell-side firm's reach and presence in the region, nailing down logistics, and vetting investors would top the list of priorities on this first trip. Regarding Asia, Tokyo might be a good place to start with a preliminary trip. Tokyo has a large amount of capital and long-term investors that are allowed to invest in US equities. This brings up another takeaway, which is to make certain that the investors on the schedule have the ability to invest in your company. Particularly in mainland China, there are only a few firms that have government permission to invest in foreign companies. Additionally, survey participants stressed the importance of continuing to participate in international roadshows. These investors will take some more courting, but have the capital and low turnover to make repeat trips worthwhile.

> *"I think much more so than the domestic roadshows, who brings you out does make a difference. Over the last several years it would appear that the larger firms have pulled back from Europe or have had some turmoil and do not cover it as well as they use to. As a result, the relationships with some of the firms are not as good as they could be. It can also just be a hit or miss sometimes." – IRO, Large-Cap Technology Company*

> *"It's really important to nail down the logistics. You're dealing with different languages and different time zones. You really have to take into account the travel times and what works in those localities for travel. You may say you want to take a little puddle jumper plane from here to there, but some of the sell side firms might say you're better off taking a high speed train from this country to that country. It just takes more time, more homework. It's not like going to an American city where you've probably been there before." - IRO, Large-Cap Healthcare Company*

> *"Make sure the investors that you are meeting on your trip are legally allowed to buy your stock." – IRO, Mid-Cap Technology Company*

> *"Do it yourself first. Don't take the management team right away; have the IR team go first and feel it out. Then bring the management team on later trips." – IRO, Mid-Cap Technology Company*

> *"I would say if you have never done a roadshow to Asia before and you wanted to dip your toe in the water, start with Tokyo due to the amount of money available, the likelihood of success, and the long-term orientation. But here's the caveat: Asian investors in general, and I think Japanese in particular, are very relationship-oriented. If you are going to take the time to do a roadshow then hopefully you are making a long-term commitment. If you are going to go there once and not do it again, you've wasted your time." - IRO, Large-Cap Consumer Services Company*

Author: Jason Oury

Jason Oury is a Director in Ipreo's Global Market Intelligence Group

A Look at the Deal Backlog - What IROs Can Expect in 2011

The deal backlog provides issuers with a sneak peek into which companies and sectors are turning to U.S. equity markets to raise capital, either through IPOs or secondary offerings, in the near term. For the purposes of this study, Ipreo defines backlog as all deals, excluding converts and shelf filings that have filed or updated their initial filings over a six month trailing period ended January 17, 2011. Closed end funds and blank check companies are also excluded in this examination. Ipreo's Equity Deals Database was used to compile the data in this report.

Ipreo recommends that IROs monitor demand in the primary market, as existing issuers are always in competition for capital with new issuance. Additionally, a healthy IPO and/or secondary offering market, particularly in your sector, can give an idea of the potential demand for secondary offerings if your company wants to raise new equity capital at some point in time.

Key Stats in the Current Backlog

Comprised of 124 offerings filing to raise nearly $23.4 billion in proceeds, the current six-month backlog stands at its largest, on both a deal count and value basis, since the beginning of 2008 (Figure 1). In the current backlog, an aggregate of 94 companies will look to debut on U.S. exchanges through initial public offerings, while 30 companies plan to raise additional capital though secondary offerings.

Figure 1: Historical U.S. Pipeline

Period	Backlog As of:	# Filed Deals		Proceeds ($mm)	
		Total	IPOs	Total	IPOs
6-month Backlog	1/17/2011	124	94	23,409	21,156
1-year ago	1/17/2010	118	82	20,308	17,563
2-year ago	1/17/2009	46	35	12,329	10,894
3-year ago	1/17/2008	129	106	36,901	34,730
4-year ago	1/17/2007	134	90	23,215	16,980
5-year ago	1/17/2006	122	80	20,058	15,803

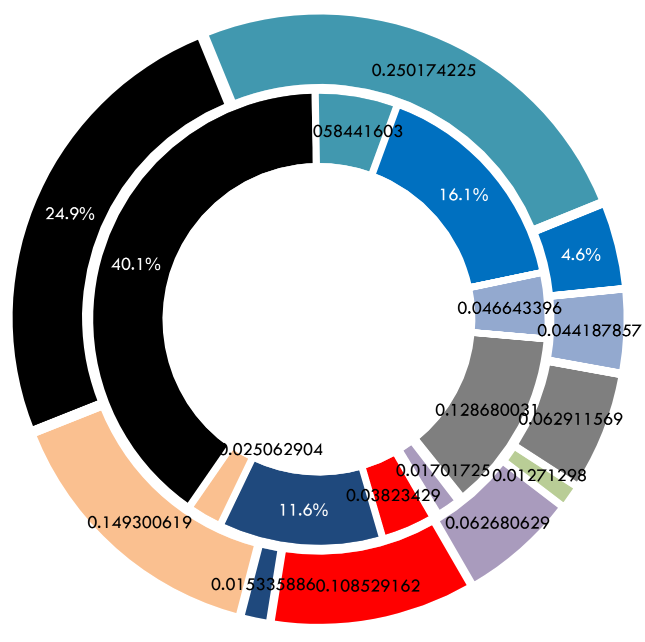
Source: Ipreo Research

How Does the Backlog Break Down by Sector?

Looking at the backlog by sector, the composition of the six-month deal calendar remains similar to the year-ago period, as Financials, Technology, and Healthcare deals pack the pipeline, grabbing 54% of deal count and 56% of stated proceeds (Figure 2). However, when compared to the year-ago period, proceeds in the current backlog are more evenly distributed amongst sectors. In the previous year's backlog, offerings from the Financials, Tech, and Healthcare space combined to reap an overwhelming 62% of deals and 59% of filed proceeds. Nearly two-thirds of these proceeds were collected by the Financials sector. Meanwhile, in the current period, Financials represent just 25% of filed proceeds, markedly less than the 40% of proceeds garnered by this sector in the previous year.

Within Financials, real estate deals (primarily REITs) remain active, with 11 IPOs and six follow-ons waiting in the wings to raise capital for property acquisitions. Separately, Industrials deals fizzled on both a deal count and proceeds filed basis, while Energy offerings reentered the queue on the back of a $1.5 billion IPO from Kinder Morgan.

Figure 2: Stated Proceeds by Sector
Year-ago Backlog (inside) vs. Current Backlog (outside)



Source: Ipreo Research

Figure 3: Top Filed Deals in U.S. Six-month Pipeline					
Company Name	Filing Date	Issue Type	Proceeds ($mm)	Sector	Domicile
HCA Holdings, Inc.	12/22/2010	IPO	4,600.0	Healthcare	U.S.
Nielsen Holdings B.V.*	01/10/2011	IPO	1,500.0	Consumer Cyc.	U.S.
Kinder Morgan, Inc.	11/23/2010	IPO	1,500.0	Energy	U.S.
Frac Tech Services, Inc.	12/14/2010	IPO	690.0	Energy	U.S.
Eola Property Trust	10/06/2010	IPO	675.0	Financials	U.S.
Schottenstein Realty Trust, Inc.	12/21/2010	IPO	517.5	Financials	U.S.
Kosmos Energy Ltd.	01/14/2011	IPO	500.0	Energy	U.S.
First BanCorp.	12/02/2010	FO	402.5	Financials	Puerto Rico
Adecoagro S.A.*	01/13/2011	IPO	400.0	Industrials	Brazil
ECM Realty Trust, Inc.	08/26/2010	IPO	380.0	Financials	U.S.

**Priced or Expected to Price as of Publication Date* — *Source: Ipreo Research*

Who are the Key Issuers in the Backlog?

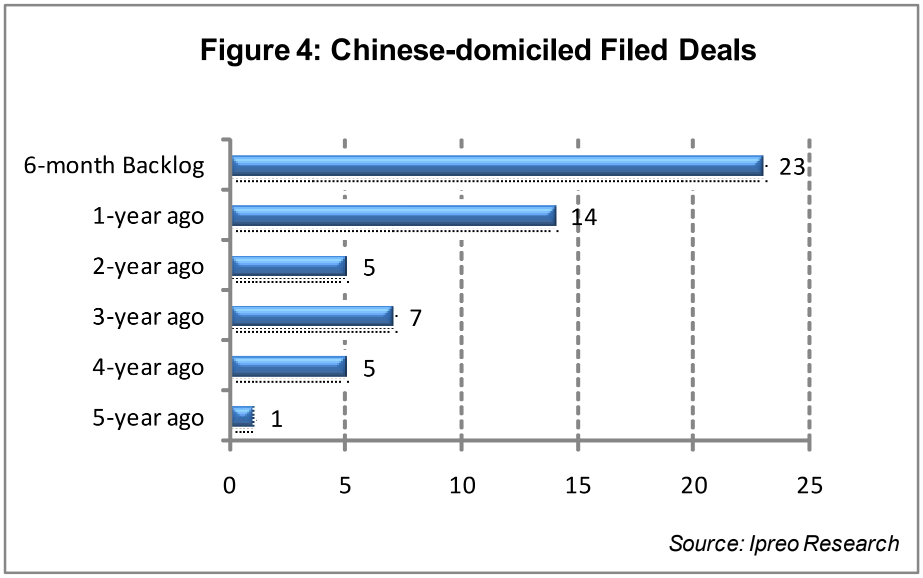
The current six-month backlog houses the largest number of billion-dollar offerings since January 2006, when Sterlite Industries India, MetroPCS Communications and China's Shanghai Baosteel Group, registered to raise a combined $3.6 billion. However, unlike the 2006 period, the three largest filings in the current pipeline boast private-equity backing from some of the most respected financial sponsors worldwide, including KKR, Blackstone Group, Bain Capital and Carlyle Group (Figure 3). HCA Holdings, taken private in 2006 by a consortium of private equity investors, filed to raise up to $4.5 billion in December, as the company looks to pay down over $25.7 billion in debt by returning to public markets for the third time since 1969. Following General Motors' successful $15.8 billion IPO in November an increasing number of debt-laden firms will look toward U.S. primary markets to raise additional capital. Billion-dollar offerings from Kinder Morgan and Toys "R" Us, which both feature higher debt-to-TTM EBIDTA ratios than HCA, will gauge investors' appetite for such offerings in the new year. However, investors have reason to remain wary of these deals following Caesars Entertainment's $500 million withdrawal in November, which despite double the debt-to-TTM EBIDTA multiple of HCA, was bogged down by approximately the same $26.0 billion debt load.

Who is Creeping in the Shadow Backlog?

The so-called "shadow backlog", or pipeline of companies believed to be considering primary market debuts but have yet to formally file, is rumored to include a variety of notable deals from both the U.S. and China. The most highly anticipated of these offerings is, of course, Facebook. After generating a reported $1.2 billion in revenue in the first nine months of 2010, Facebook's expected move to tap U.S. capital markets by 2012 has spurred smaller comparables including LinkedIn, Twitter, and Zynga to weigh IPOs of their own before this date. LinkedIn, likely to be the first social-media IPO of 2011, is expected to raise north of $2.0 billion this spring, while Skype S.A., which has also already filed, could raise as much as $1.0 billion by the end of this year. Pandora and Groupon are also likely to make primary market debuts before this date.

Can New Issuance from Non-U.S. Companies Keep Up?

Despite tighter filing requirements for foreign issuers, Chinese-domiciled deals continue to build a presence in the U.S. pipeline. In the current backlog, fifteen Chinese firms will turn to U.S. primary markets to raise capital through initial public offerings, while eight will look to bolster balance sheets through secondary offerings (Figure 4). On a deal volume basis, filings from Chinese firms stand at the largest in over five years, as offerings from Chinese issuers have surged 64% from the year-ago period to 23 deals, despite a 16% drop in filed proceeds to roughly $862 million over the same period. Consumer-oriented deals from China remain in the spotlight, as companies such as Tudou Holdings, which filed to raise $120 million, look to capitalize on the performance of Chinese peers in the final months of 2010.



What Can IROs Take Away?

While IPOs traditionally dominate the backlog, the secondary offering market appears healthy so far in early 2011, particularly in the Financials and Technology sectors, with 30 secondary offerings currently on the plate. Issuers in these markets should expect a fairly robust interest level in moderately-sized capital raises. IROs should remain aware of the timing of larger placements (such as the HCA, Kinder Morgan, and the rumored AIG IPO) in their sector, as marquee deals may draw attention away from any planned capital raising by your company. Additionally, IROs planning non-deal roadshows or marketing efforts should remain mindful of a busy calendar within their sector. In total, it makes sense to keep your management team apprised of the health of both the equity and debt capital markets; simply the knowledge that you'll have access to capital if you need it can give management a powerful tool to enhance shareholder value.

Author: Courtney Reed

Courtney Reed is an Analyst with Ipreo's Capital Markets Analytics group.

BetterIR - Firm Snapshot

Targeted Firm: Manulife Asset Management LLC ($11,799.4mm EAUM)

Targeting Profile:
Manulife Asset Management, previously known as MFC Global Investment Management, has offices throughout North America, Europe, and Asia. They manage the John Hancock family of retail and institutional mutual funds, and hold over $11bn in equity assets and nearly $80Bn in fixed income assets. Research strategies for the firm tend to favor a bottom up approach in deciding investment allocation. Generally, Manulife is apt to follow the guidelines of the Growth at Reasonable Price (GARP) investing style, however they do manage a number of value and yield funds as well. Another key aspect of the firm is their low turnover rate of 49%, thus demonstrating how their primary investment focus lies in long term buy and hold cycles.

Their portfolio is heavily weighted in the Financial sector (32.50%); however aside from financials, the portfolio is consistently distributed. Nonetheless, Manulife has recently been making substantial additions to Technology positions within their portfolio. Specific position increases include $75.34mm in Hewlett Packard (totaling $101.66mm), $70.83mm in Microsoft (totaling $280.68mm), and $67.32mm in Google (totaling $134.17mm). Overall, their top industry net sells were of Healthcare (-$133.7mm), Financials (-$71.4mm), Consumer Services (-$69.4mm), and Basic Materials (-$43.3mm). More specifically, their largest individual sells were Pfizer (-$91.08mm), East West Bancorp (-$70.94), and Blackrock (-$35.07mm). Manulife's international diversification is quite limited with 79.06% of their portfolio in the United States, followed by Canada at 5.59%, and Brazil at 1.97%.

How to Approach:
Although Manulife's macro investing style is GARP focused, the individual fund strategies are well diversified. This lays out numerous opportunities for companies who do not necessarily fit the criteria of the firms GARP investing style. Manulife's primary focus is to capitalize on companies whom can achieve consistent above market earnings growth, while being cautious on those with high valuations. United States companies within the Technology, Industrial, and Financial (despite recent selling) sectors, will definitely be of special interest. Another factor to consider is Manulife's portfolio distribution, which calls for investors to typically have a market-cap of at least $1Bn.

Mega-cap and large-cap companies encompass around 47% of their portfolio, whereas small and micro-cap account for only 11%. Additionally, Manulife engages in an array of income producing equity funds, such as the John Hancock Tax-Advantaged Dividend Fund ($855.07mm), and the John Hancock Premium Dividend Fund ($738.66mm).

How not to Approach:
Small and micro-cap companies will have a hard time obtaining Manulife's attention; especially firms located outside of the United States region. In addition to the above, Energy constitutes nearly 15% of their portfolio however they have recently exited 17 positions within the Oil and Gas industries, which could make it exigent for companies in these industries to gain new attention. Also, as previously noted, they have recently sold $133.7mm from their Healthcare sector, while the majority of this outflow was indeed Pfizer, Manulife failed to purchase into other additional companies with any conviction, thus suggesting their current lack of interest in the industry.

Largest Funds Managed:
- John Hancock Large Cap Equity Fund ($2,746.40mm); Roger Hamilton
- John Hancock Global Opportunities Fund ($983.35mm); Timothy Malloy
- John Hancock Tax-Advantaged Dividend Fund ($855.07mm); Mark Maloney

Portfolio Fundamentals:
- TTM Price/Earnings: 21.2x
- 5 Yr Proj. Growth Rate: 12.1%
- Dividend Yield: 1.7%
- Price/Book: 3.5x

Average Equity Holding Period: 2.04 Years

BetterIR - Fund Snapshot

Targeted Fund: Sequoia Fund ($2,491mm EAUM)

Portfolio Manager:

- Robert D. Goldfarb
  +1 212-829-4600; robertg@ruanecunniff.com
- David Poppe
  +1 212-829-4600; davidp@ruanecunniff.com

Targeting Profile:

The $2.5Bn Sequoia Fund is the only retail fund managed by New York-based investment advisor Ruane Cunniff & Goldfarb. The four decade old fund is a product of its founders value oriented approach, who along with Warren Buffett, are disciples of celebrated value investor and former Columbia University lecturer, Benjamin Graham. As a result of its long-term buy and hold disciplines, the fund on average holds positions for 3.3 years and rarely deviates from holding more than 30 securities at a given time. Furthermore, the fund utilizes a stringent bottom-up research approach with a particular interest in companies with market cap's greater than $1Bn that exhibit a strong balance sheet and sustainable earnings over a long duration. The fund's portfolio managers, which have changed minimally since the funds inception, tend to take contrarian views of the market, often seeking out of favor stocks with consistent revenue streams.

The Sequoia Fund's largest regional exposure is within North American securities (94% portfolio) though historically the fund has held minor positions in the United Kingdom, Germany and Australia. Traditionally the fund's sector allocations diverge from market averages with current overweight exposure to the Consumer Services (23%), Industrials (28%) and Healthcare (22%) sectors. Furthermore, the fund historically is significantly underweight the Technology (5%) and Consumer Goods (0%) space relative to market averages. The fund's largest Consumer Services holdings include TJX Companies ($220mm), Advance Auto Parts ($91mm), and O'Reilly Automotive ($90mm). Despite its relative upward trajectory in the space over the last few years, Consumer Services represented the most notable decrease as a result of liquidated positions in drug retailer Walgreen Company ($-57mm) and car manufacturer Porsche Automobil ($-50mm) over the past period. In contrast, as a result of low valuations within the Healthcare space, the fund has exhibited bullish sentiment towards the sector recently, initiating positions in Valeant Pharmaceuticals (+$258mm) and generic drug leader Perrigo Company (+$34mm).

How to Approach:

The Sequoia Fund's attraction to North American securities makes U.S. and Canadian domiciled companies a strong fit within the fund's portfolio. However, the fund has held exposure in securities from large developed economies outside North America including United Kingdom, Germany and Australia in the past. Companies that can exhibit consistent revenue streams, a strong balance sheet and sustained earnings that are fixtures in developed markets should be within management's periphery.

How not to Approach:

As a result of the fund's geographic concentration, companies outside of developed Europe and North America are likely to be excluded in the investment research process. In addition, management tends to discount macro themes, concentrating mostly on a company's fundamentals and its strategic positioning within the industry. Accordingly, companies within favorable industries that lack a significant presence should seek investment elsewhere. Lastly, companies below the $1Bn market cap threshold will find it tougher in gaining the attention of management.

Portfolio Fundamentals:

- Forward Price/Earnings: 17.3x
- Dividend Yield: .8%
- PEG: 1.6x
- Price/Book 3.8x

Average Equity Holding Period: 3.3 years

Metro Area Targeting Focus - Stockholm

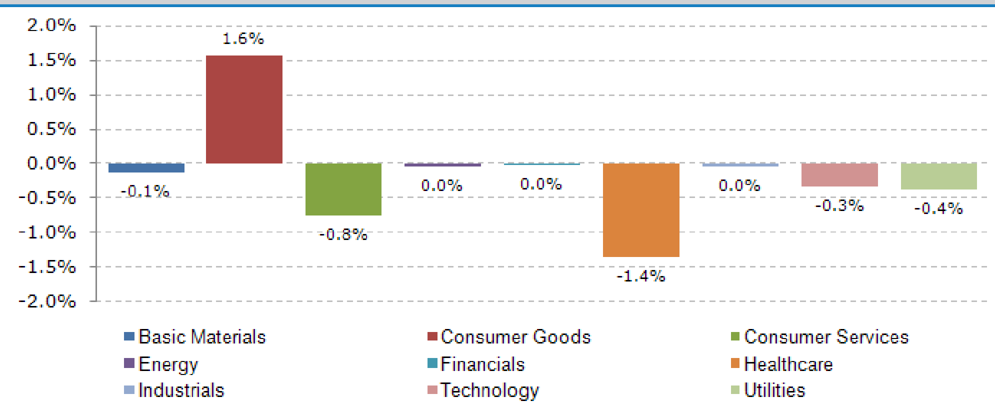
Money Center Statistics

Reported Equity Assets ($B):	$297.2
Number of Institutions:	97
World Rank:	14/184
Top Sector Weighting:	Industrials
Financials Weighting:	23.6%
Top Region Weighting:	Europe
Europe Weighting:	80.4%
Total Net Buying ($B):	$4.6
Total Net Selling ($B):	-$4.8
Total Net Activity ($B):	$-0.2

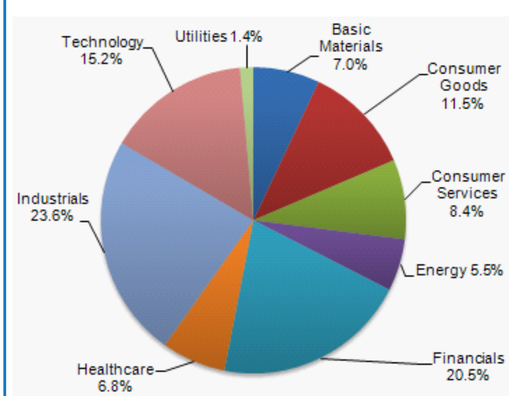
Summary Notes

Based on disclosed equity assets under management, Stockholm ranks as the 14th largest financial centre in the world and 4th largest in Europe with $297.4Bn, only behind London, Paris, and Oslo. In general, Stockholm tends to favor Industrials (23.6% of portfolio), Financials (20.5%), and Technology (15.2%); however, recently the metro has shown a significant interest and confidence within the Consumer Goods sector (11.5%), as it marks the only sector with positive net activity ($535mm), according to most recent filings. Stockholm, not unlike other metros, has a strong bias for its home country investments, accounting for roughly 54% of its portfolio. Excluding Sweden, other European domiciled securities record the 2nd largest destination of Stockholm investments (27% of portfolio), followed by North American securities (13%). As of most recent filings, Stockholm recorded negative net activity in all regions except Latin America, Europe (excluding Sweden), and the Middle East/Africa - the last of which saw positive net activity of .7%. Amongst all investors in Stockholm, **Swedbank Robur Fonder AB** invests more than any other investment manager in North American ($7Bn) securities; however, recent filings show zero net activity in the firm's North American investments. **Lancelot Asset Management**, although one of Sweden's smaller investors, invests half of its portfolio in North American stocks and has recently purchased a number of blue chip technology companies such as IBM ($6mm), EMC ($5.6mm), and Hewlett-Packard ($2.4mm). As of the latest data, the most active investor in North American securities is **Investor AB**, as they injected $47mm into North American companies. The firm's three largest buys include a variety of sectors, including Healthcare (Jazz Pharmaceuticals, +$7.3mm), Financials (Bank of America, +$5.2mm), and Basic Materials (Freeport McMoRan Copper & Gold, $4.3mm).

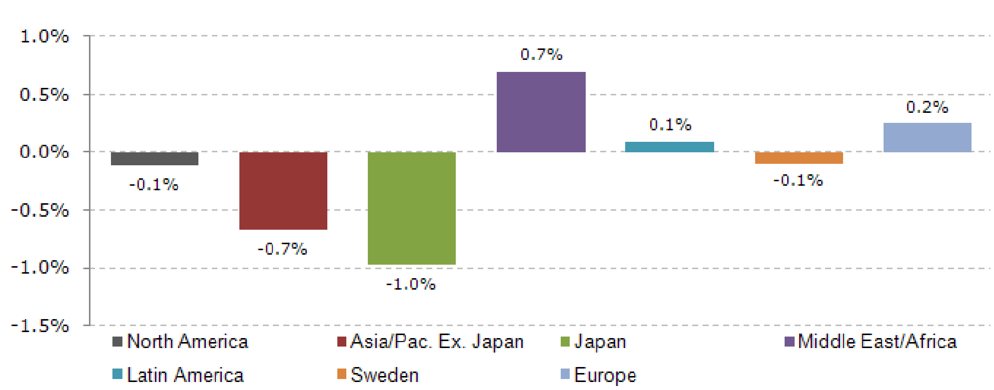
Sector New Activity (% Change)



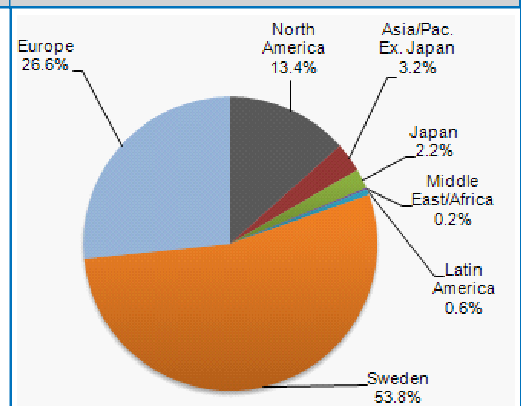
Sector Allocation



Regional Net Activity (% Change)



Geographic Allocation



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