Capital Bridge
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OnTarget

CapitalBridge's monthly newsletter focusing on institutional targeting and investor relations

OnTarget – Best Practices

Marketing an illiquid stock

Building liquidity is one of the many "chicken-and-egg" problems in the world of investor relations (investors want to see liquidity before investing, but issuers need investors to build that liquidity by investing first), and facing this problem from a security that trades, say, 75,000 shares per day, this effort can seem daunting. Exchanges claim building liquidity as a unique benefit of their listings, of course, but can they truly build liquidity where little existed before?

The problem for investor relations is the effect that the spread of robust risk management systems at investment firms has on small-cap investor relations programs that are attempting to find investors for a relatively illiquid issue. While analysts/portfolio managers may be interested in your small-cap IR story, their trading desks and risk managers may prevent them from committing any serious amount of resources to it.

Even without a very liquid stock, however, you can market your story effectively. Looking at your investors' portfolios to give a good idea of where to spend your marketing time becomes an essential, though. Just a glance at the portfolio (in particular the small-cap portfolio) of an investor can give you a grasp of whether its risk management system and diversification style will "lock the manager down" and prevent them from making a significant investment in your company.

CapitalBridge used the simplest liquidity measure (average daily volume, in this case a six-month average) to devise a tool that will help gauge an institution's appetite for an illiquid stock. Our Depth of Position ("DoP") measurement was calculated for every U.S. buy-side firm with at least $1 billion in assets. We calculated DoP as follows:

Total Position (most recent quarter) / Average daily volume = Depth of Position (measure in days)

Basically, we are calculating the number of days it would take an institution to liquidate a position assuming that it was responsible for every trade. This approach mirrors the approach that the NYSE and Nasdaq take to calculate the Short Interest Ratio. When applied at an institutional level we are able to stratify a portfolio in DoP ranges. We selected five portfolio stratifications that begin with 0-1 Day DoP up to >10 Days DoP. Generally speaking, the higher the percentage of a portfolio in the 0-1 Day category, the less tolerant this institution is toward an illiquid stock. Tolerance for illiquidity increases as you move up the DoP scale. Here's a look at five prominent institutions and their respective portfolios' DoPs.

Firm Name	Equities Managed ($M)	Turnover	0-1 Days DoP (%)	1-2 Days DoP (%)	2-4 Days DoP (%)	4-10 Days DoP (%)	>10 Days DoP (%)
Capital Research & Mgmt.	$725,099.4	Low	11.3	17.5	19.6	28.9	22.7
Fidelity Investments	$713,006.9	High	32.4	12.6	15.1	23.0	16.7
AllianceBernstein, LP	$326,635.7	Low	82.7	5.6	4.8	5.3	1.7
Wellington Management	$321,637.2	Moderate	34.5	14.1	18.8	21.4	11.1
T. Rowe Price Associates	$194,218.1	Low	51.9	9.7	12.3	15.1	10.6

Reading left to right as an example, it's clear that the liquidity profile at AllianceBernstein differs drastically from Capital Research – just 17.4% of AllianceBernstein's overall portfolio is in positions greater than one day's volume (essentially, the firm can liquidate its holdings rather quickly without a heavy price impact). However, 88.7% of Capital Research's portfolio is in positions greater than one day's volume (it will be far more difficult for the firm to liquidate on short notice, meaning the firm has a higher liquidity risk tolerance).

Imagine trying to take your investment story for an illiquid security to any of these major firms and trying to secure a significant investment – Grantham Mayo, for example, can liquidate almost 93% of its holdings within one day's average daily volume.

Notable Firms with Low Liquidity Risk Tolerance:

Firm Name	Equities Managed ($M)	Turnover	0-1 Days DoP (%)	1-2 Days DoP (%)	2-4 Days DoP (%)	4-10 Days DoP (%)	>10 Days DoP (%)
Grantham Mayo (GMO)	$70,015.8	Moderate	92.9	5.6	1.5	0.1	0.0
ING Aeltus Investment Mgmt.	$30,122.9	Moderate	94.7	4.0	1.2	0.1	0.0
Credit Suisse Asset Mgmt.	$21,078.0	Moderate	94.1	3.6	1.8	0.5	0.0
Fifth Third Asset Management	$15,669.9	Low	96.8	1.8	1.0	0.4	0.1
Mason Street Advisors	$13,567.0	Low	93.5	4.3	1.7	0.4	0.2

But, on the flip side, it's likely that any of this next group of firms may be far more receptive to your story as an illiquid stock – these firms have as much as 50% or more of their portfolio in positions deeper than one day's volume. Columbia Wanger, in particular, has very limited focus on liquidity, and instead keeps a lower turnover and less diversification overall.

Notable Firms with High Liquidity Risk Tolerance:

Firm Name	Equities Managed ($M)	Turnover	0-1 Days DoP (%)	1-2 Days DoP (%)	2-4 Days DoP (%)	4-10 Days DoP (%)	>10 Days DoP (%)
MFS Investment Management	$101,884.1	Moderate	46.2	23.4	16.6	11.8	2.0
Lord Abbett & Company	$79,458.3	Moderate	46.1	15.3	11.0	15.8	11.8
Jennison Associates, LLC	$56,114.6	Moderate	52.0	20.8	15.8	10.4	1.0
TCW Group, Inc.	$54,522.4	Moderate	51.2	15.6	18.3	13.1	1.9
Columbia Wanger Asset Mgmt.	$28,675.6	Low	10.2	18.0	23.1	30.9	18.0

In general, when marketing an illiquid story, the goal is to build the investor's trust in management by any means necessary. Obviously the best way to do this is to offer consistent access to management and investor relations officers, and to push for as complete, ongoing, and "plain-English" a disclosure policy as possible. Of note, if yours is a relatively illiquid stock, the sell-side community is *much less* likely to take an interest in your company.

An illiquid stock is the clearest situation in which top-notch investor relations can add value – when the activity of even a single investor that is committed to your investment story accounts for a large percentage of your volume, convincing just a few individuals of your company's merits can produce immediate returns to your stock price (and gives the IRO a clear impact on the company's bottom line).

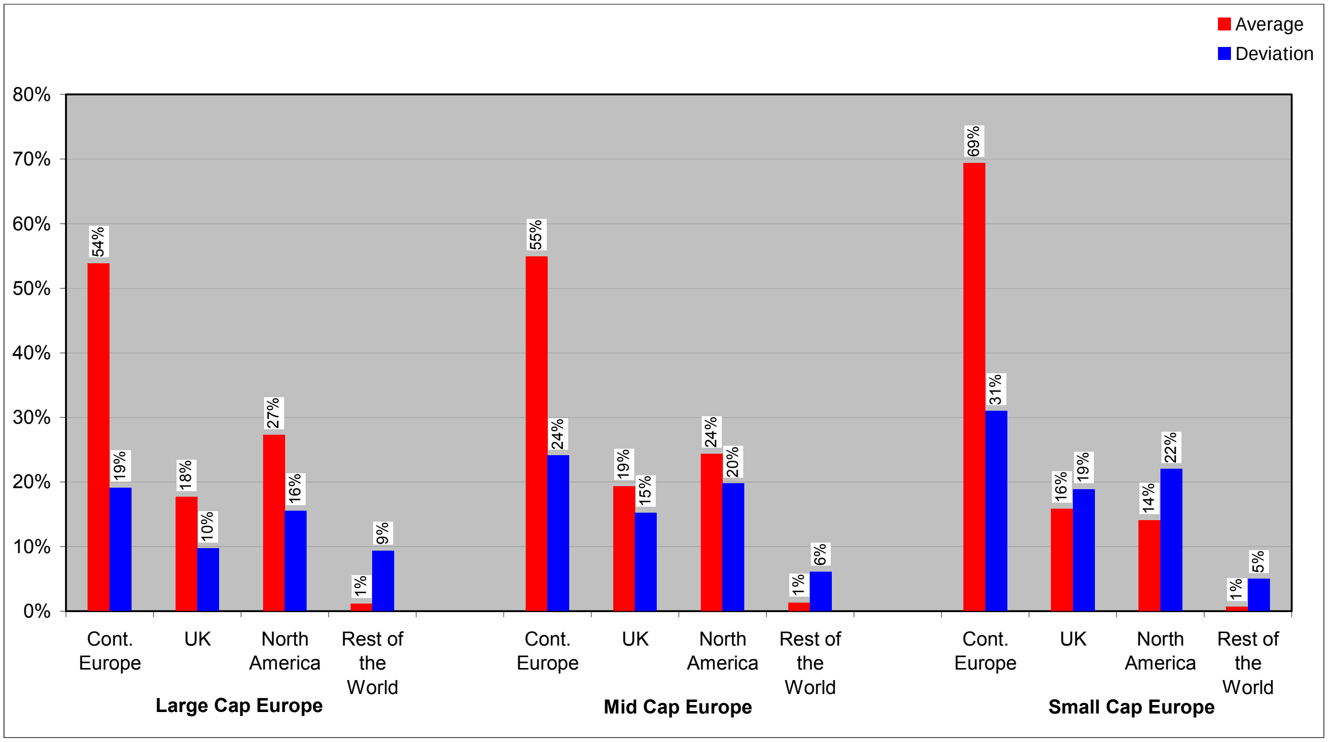
For more on marketing illiquid issues (and details about your current/potential investors' liquidity profiles – no charge, of course), drop us a line at: targeting@cap-bridge.com.

OnTarget – Trends

Ownership Distribution of Smaller European Companies

Large-cap companies from continental Europe tend to enjoy a wide ownership distribution, with significant participation from the three regions with high levels of investable equity capital, namely North America, UK, and continental Europe. However, when it comes to smaller companies from the continent, the ownership distribution is, on average, skewed towards the home market and away from the UK and North America. While it is true that as a matter of course large European companies attract more capital from the UK and North America, are smaller companies, always destined to always be owned mainly by investors in and around their home market, or are there opportunities for a small company's shareholder base to garner the wide international ownership of a much larger company? CapitalBridge's research shows that not only is it possible, but there are many companies that have already accomplished it.

We took a look at the regional ownership distribution of continental European companies across three market cap segments and the findings are presented below.



We observe here that the smaller the company, the higher the proportion of shareholding in Europe, but also the higher the variance in that proportion. In other words, many companies have lower shareholding in continental Europe, and consequently higher shareholding outside Europe, a pattern similar to larger companies. Clearly there are smaller companies that are able to attract significant capital from outside Europe. In fact many of them perform better than mid-cap companies and a handful better than the average large-cap company. So what makes these small companies special?

To isolate the potential factors we separated the small-cap universe into two groups. Group A consisted of companies that are better than average at attracting capital outside Europe, and Group B consisted of small-cap companies with more Eurocentric shareholder bases. We looked at four common criteria for investing. First, we looked at whether there is a regional bias (country), second, an industry bias, third, valuation, and fourth, profitability. The goal was to determine if widely held companies (Group A) mostly come from a particular country or sector or display valuation and profitability characteristics different from less widely held companies (Group B).

We found that both Group A and Group B had investors from a wide array of countries as well as industries. We also found that Group B's valuation (defined by P/E or P/B) was on average the same as Group A's. Also, both groups contained significant numbers of companies that were both earnings positive and earnings negative. This suggests that country, industry, valuation, and profitability, while important factors in determining whether the stock is attractive or not, do not seem to matter when it comes to determining if the stock is attractive outside Europe. For example, Norwegian employment services company StepStone is not profitable but has a higher-than-average ownership outside continental Europe, with 41% and 23% of its shareholder base in UK and North America, respectively. Conversely, Spanish construction and engineering company Avanzit is profitable but 84% of its ownership is in continental Europe. The same applies to valuation as higher or lower valuation does not appear to influence geographical ownership distribution.

It therefore appears that other (softer) factors are at play. Chief among these are the visibility and profile of the company with investors, as any small company IRO will attest. While the world is a smaller place nowadays, foreign capital still gravitates towards larger companies. Getting on the radar screen of potential investors is key for smaller companies, and irrespective of whether your valuation is high or low or whether you are profitable or not there is potential for higher ownership outside continental Europe. Importantly, keeping the investment story constant, the effects of investor outreach is measurable in terms of increased participation in conference calls and meetings and eventually higher ownership in the regions with under-representation. If your stock is attractive to institutions in Europe it should be attractive in other regions as well.

Let us know if you'd like an analysis run on your company's ownership penetration into specific countries/regions, free of charge. Drop us a line at targeting@cap-bridge.com.

OnTarget – Firms

Target Firm: Artisan Partners

Targeting Profile
Artisan's "edge" in the investment community has been as a small-to-mid-cap "stock-picker" with a strong global awareness. The firm's *Artisan International Fund* has been a top performer within its peer group, in particular, and represents over a quarter of the firm's overall equity investment base.

How to Approach
From a domestic (U.S.) standpoint, the firm will generally cleave its investments focus into small caps ($200 million with sufficient liquidity up to $1.5 billion) and mid caps ($1.5 billion up through around $10 billion, though it will occasionally look at larger companies). Both small- and mid-cap teams look closely at the competitive position of issuers – this should be the greatest emphasis of your presentation. Its largest domestic new purchases over the last quarter were Alliance Data Systems (ADS), a transaction services company with a large installed base across many industries, and Research in Motion (RIMM), the maker of the ubiquitous Blackberry. Focus on any sustainable competitive advantages, and for small-caps, return on capital invested, should attract interest from the firm's managers. For an international issuer, Mark Yockey's team in San Francisco has a similar overall approach in finding investments; this gives you an extra opportunity to help define your markets and competitive advantages – recent large purchases of financials with global exposure are one example.

Average equity holding period: 1.4 years

How Not to Approach
Major liquidations over the last quarter give a hint as to companies the investor may shun. The firm closed out a $50mm position in Oracle (ORCL), a firm that has faced rapidly increasing competition from open-source software. Another liquidation, Royal Carribbean Cruises (RCL), has also faced added competition from other cruise providers and vacation sources. Especially with mid-cap investments, the firm is willing to "pay up" for a proven growth prospect; don't necessarily focus on your relative valuation versus competitors, but keep the discussion on your operational advantages.

Largest Portfolios Managed
Artisan International Fund – $11.0b equity – Mark Yockey
Artisan Mid Cap Fund – $6.1b equity – Jim Hamel/Andy Stephens
Artisan Small Cap Value Fund – $1.8b equity – Jim Kieffer/Scott Satterwhite
Artisan Small Cap Fund – $700 mm equity – Marina Carlson/Craig Cepukenas

Investment Potential
Average holdings for the firm at each market cap range:
Giant-cap: ~$70 mm
Large-cap: ~$45 mm
Mid-cap: ~$42 mm
Small-cap: ~$28 mm
Micro-cap: ~$10 mm

OnTarget – Funds

Target Fund: Oppenheimer Capital Appreciation Fund

Managing Firm: OppenheimerFunds – Bill Wilby (212-323-0510, bwilby@oppenheimerfunds.com), Marc Baylin (212-323-0200, mbaylin@oppenheimerfunds.com).

Targeting Profile
Net size of the fund has fallen, measured at just over $8.0 billion. The fund's returns have been solid, however, generally beating benchmarks. Bill Wilby and Marc Baylin are relatively new managers, having taken over the reins in October 2005. This size and its impressive potential purchasing power make it well worth a discussion with the fund if you're a mid- to large-cap investment.

How to Approach
While the fund's boilerplate lists it as a "bottom-up" player that looks at each company on its own merits, in reality the fund lets top-down trends drive a large portion of its trading. On the purchases side, after the change in management the fund is beginning to rotate into mid caps and out of giant caps, with eight of its twelve new purchases coming in companies under $10 billion in market cap. Despite a stated "value" tilt, the fund seems content to hold positions in relatively highly valued issues – average price/book ratio (even given that most of its holdings are well-established companies) is a high 4.57x. Don't worry about positioning yourself as a "cheap" investment; position your company as a long-term investment. In any sense, after the management change, it makes sense to bring a fresh version of your story to the managers who may not be as familiar as others at OpFunds.

How Not to Approach
Recent large sales have focused around the "top-down" trend of advertising revenues moving away from traditional media towards "new media," so don't get in the way of that trend. Three of its four largest sales: Comcast (CMCSA), Walt Disney (DIS), and Time Warner (TWX), result from it. Drug stocks aren't a hot topic recently, with sells coming in all five of its pharm holdings and a position in Johnson & Johnson (JNJ) liquidated.

Investment Potential
Average holdings for the firm at each market cap range:
Giant-cap: ~$100 mm
Large-cap: ~$70 mm
Mid-cap: ~$47 mm

Average equity holding period: 1.7 years

OnTarget – Weightings

Emerging markets mutual fund manager is easily one of the toughest jobs in any investment firm. When making decisions, not only are you on your own in terms of easily-available company-specific research, but each investment you make faces a far wider array of risks than developed country managers – currency risk, political risk, liquidity risk, and other unique risk factors. Imagine trying to quantify the potential for infrastructure failures affecting your investments, and factoring that into a cash flow model. High risk and high reward is the name of the game here.

Emerging markets investors saw many of these risks come into play in May and June 2006, with emerging market investments and minor currencies showing heavy losses (and helping to drag down major equity markets). While public information is not yet available for most portfolios to show the effects of the blow to the emerging markets sector, it may be interesting to note some of the emerging markets investors that were already moving their holdings out of "riskier" countries' holdings into safer locations (including major exchange-listed companies that have emerging markets exposure, as well as lower-risk countries at the front of the "emerging markets" curve such as South Korea and Taiwan). These managers may be the ones that are *succeeding* at the toughest job in the equity investment industry.

Also – as an IRO from a developed country issuer, don't be surprised if you get a call from an emerging markets manager that's looking for a "safe haven" without all the extra risk; most emerging markets managers are allowed to stay invested (up to a certain percentage of the portfolio) in global investments, especially those that do business in emerging markets. You may be that safe haven for one of these managers. Here's some examples of funds that rotated into "safer markets" and out of "less safe" markets.

		Largest Weighting Increases in AA & AAA-rated* Countries			Largest Weighting Decreases by Country		
Fund Name	Managing Firm	Country	Debt Rating*	Chg in % of Port	Country	Debt Rating*	Chg in % of Port
UBS (Lux) Institutional Emerging Markets	UBS Global Asset Management	Taiwan	AA	+5.1%	South Africa	A	-6.8%
		South Korea	AA	+2.7%	Brazil	BB	-5.4%
		U.K.	AAA	+0.3%	Mexico	BBB+	-2.4%
DWS Emerging Markets	DWS Investments	South Korea	AA	+5.9%	China	A	-8.2%
		Taiwan	AA	+2.5%	Hungary	A-	-6.3%
		Austria	AAA	+2.2%	Malaysia	A+	-2.2%

* Fitch Sovereign Debt Long-Term Home Currency Default ratings

As usual, drop us a line at targeting@cap-bridge.com for more on emerging markets investments.

OnTarget – Contacts

Recent notable contact moves:

Henry J. Fisher II (Portfolio Manager) joined Trainer, Wortham & Company, Inc. in June 2006. He was formerly a senior vice president and portfolio manager at U.S. Trust Company of New York.

Claire Young and Blaine Rollins retired from Janus Capital Management, LLC in June 2006. During their tenure at the firm, Ms. Young functioned as an executive vice president and portfolio manager managing the Janus Olympus Fund and the Janus World Funds Plc - US All Cap Growth Fund. Mr. Rollins functioned as an executive vice president and a senior portfolio manager managing the Janus Triton Fund.

J. Gary Craven and Maureen Cullinane retired from Evergreen Investment Management Company, LLC in June 2006. During their tenure at the firm, Mr. Craven functioned as head of the firm's small/mid-cap equity team and a portfolio manager managing the Evergreen Mid Cap Growth Fund. Ms. Cullinane functioned as a portfolio manager managing several US multi- and large-cap growth funds.

Roy Blumberg (Director of Research) joined Janney Montgomery Scott, LLC in July 2006. He was formerly a director of research and chief equity strategist at Sterne, Agee & Leach, Inc.

To keep an eye on other major contact moves, subscribe to CapitalBridge's IRXtras monthly newsletter containing research updates on movements from contacts, firms, and funds. There is no charge for this newsletter. To subscribe, simply email IRxHelp@cap-bridge.com.

OnTarget – Conferences

The schedule's again a little on the light side for investment community conferences in August. For specific industries, you may get some opportunities to see a few investors (and possibly take a ride out to the Hamptons), but as to be expected most of the conference schedule waits until September and October to kick off again. Conferences for the month:

Conferences – August 2006

Mon	Tues	Wed	Thurs	Fri
	1 KBW Investor Conference – New York, NY	2 Robert W. Baird Oncology Conference – New York, NY Credit Suisse Electrical Equipment & Multi-Industry Conference – Southampton, NY	3 CIBC Wireless Technology Conference – New York, NY	4
7 Pacific Crest Securities Technology Forum Credit Suisse Aerospace & Defense Conference – Boston, MA	8	9 RBC Capital Markets North American Technology Conference – San Francisco, CA	10 CIBC World Markets Software Conference – New York, NY Bank of America Specialty Pharmaceuticals Conference – Southampton, NY	11
14 Keefe Bruyette & Woods Large Cap Bank Conference – New York, NY	15	16	17	18
21	22	23	24	25
28	29	30	31	

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