OnTarget

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

OnTarget – Best Practices

Extended-Hours Trading

Whether your company is listed on the New York Stock Exchange or the NASDAQ, you have certainly had block trades cross pre- or post-market hours, and you've probably had management question you about it. So-called extended-hours trading encompasses any securities transaction that occurs outside the regular trading session. This time frame is universally accepted as the two and a half hours before the U.S. markets open at 9:30 a.m. EST and the four hours after the markets close at 4:00 p.m. EST, but can occur at anytime after market hours. Think of the extended hours market as a separate, limited market, where a few traders are able provide and find small amounts of liquidity.

The majority of the transactions that occur in extended hours trading are processed through computerized alternative trading systems, also known as electronic communications networks, or ECNs. ECNs were initially developed as private trading systems for institutional investors and broker-dealers, but have now been opened up to retail investors as well. The current equity ECNs in operation are linked to the NASDAQ National Market System through SelectNet. They are: INET, Bloomberg's Tradebook, REDIBook, Attain, NexTrade, and MarketXT. The largest names in the ECN business, as recently as about two years ago, were Archipelago and BRUT, until Archipelago was acquired by the NYSE and BRUT was acquired by NASDAQ in another phase of competition between the exchanges.

Major macroeconomic, corporate, or commodity events that normally cause volume spikes during regular market hours are the most prevalent reasons for trading after hours. Swings in prices in the non-US markets (especially as occurred in the last sessions of February 2007) tend to lead to additional extended-market liquidity, as investors are willing to pay more in trading costs to be the "first responders" to an issue. All types of investors can participate in extended hours trading, but much of the activity is probably provided by smaller asset managers, hedge funds, and/or retail investors that rarely need to move large orders or split up orders to move blocks of stock. In the extended hours, traders run a much higher risk of not getting shares at the price they desire; larger fund managers will typically execute trades during regular trading hours. "Best execution" is often a requirement of fund mandates, and especially with higher scrutiny of mutual fund expenses, it becomes less and less likely that traders for major funds will be active outside the primary session.

CapitalBridge, using data from Bloomberg LP, took a look at the trading period from July 2006 through January 2007, capturing all of the extended hours trading data for the members of the S&P 500 Index. All told, the average percentage of total volume occurring during the extended hours for the S&P 500 Index constituents is approximately 1.9%. This broke down into an average pre-market percentage of total volume at 0.65%, and an average for post-market trading of 1.25% of volume.

Industries that were likely to be sensitive to political events (often occurring out of session) or commodity prices (liquid in global markets almost 24 hours a day) showed the highest percentages of extended-session trading. The tobacco industry had the highest percentage of total volume attributed to extended hours trading, but the various energy sub-sectors dominate the top five, due to the volatility of this market as well as merger-related activity. In addition, four of the top five companies with the highest after hours trading are all energy-related companies (Kinder Morgan – 14.87%, PSE&G – 14.36%, Constellation Energy Group – 10.69%, Altria Group – 8.09%, KeySpan – 7.86%). Other industries represented in the ranks of heavy extended-hours trading include consumer finance (with the rough performance faced by the sub-prime loan industry), thrifts and mortgage finance (heavily influenced by global interest rate activity) and diversified telecom (a source of heavy M&A activity).

So, as an IRO, what does this all mean to you? The process of extended hours trading is always good to know, in case there are sessions when volume does increase dramatically. To gain a detailed perspective on the ebb and flow of your company's extended-hours trading, both NASDAQ-listed and NYSE-listed companies should easily be able to contact their exchange representatives for a breakdown of pre- and post-market hour trading distribution and prices. But depending on your company and the industry your company is in, extended hours trading is most likely only a fractional part of your stock's daily volume and does not typically include your company's top shareholders. If you do see heavy liquidity in your stock after hours, it's likely to be due to a particular event or events that generate interest in your industry or your specific company, and you'll probably hear about the event (such as a merger or legal decision) separately. Keep in mind that the trend is towards 24-hour liquidity, however, not away from it. And, as U.S. exchanges pursue closer and closer ties with European and Asian counterparts, don't be surprised if the liquidity that you see occurring in extended hours in the U.S. begins to mesh more closely with global exchange liquidity.

For help in looking at your company's extended-market trading, contact us at targeting@cap-bridge.com.

OnTarget – Trends

Proxy Voting in Europe – Quorums in Peril

In the January 2007 issue of the OnTarget Newsletter we discussed the challenges that European companies face in soliciting votes from institutional shareholders, particularly those based outside of their home country. Our friends at Automatic Data Processing (ADP) were kind enough to share some voting statistics with us on a country-by-country basis. The table below indicates the average vote return as a percentage of the number of shares held by institutions that utilize ADP to cast their votes at shareholder meetings.

Country	Voting (%)	Country	Voting (%)	Country	Voting (%)
Austria	31%	Germany	37%	Poland	25%
Belgium	15%	Greece	22%	Portugal	30%
Czech Republic	27%	Hungary	33%	Romania	19%
Denmark	67%	Ireland	76%	Slovenia	18%
Estonia	61%	Italy	26%	Spain	62%
Finland	58%	Netherlands	32%	Sweden	51%
France	20%	Norway	61%	United Kingdom	66%

Source: ADP

The figures are rather grim, as countries with some of Europe's biggest companies, such as France, Germany, and Italy have vote returns of 20%, 37% and 26%, respectively. Some of the countries that have healthier returns include the UK (66%), Ireland (76%) and Spain (62%). Most of the Nordic countries also enjoy relatively high voting returns.

It's hard to pinpoint a reason for the disparity in vote returns. Some of the markets with low voting returns were former blocking regimes, while others were not. Of course, ownership distribution has something to do with it. Companies with higher ownership in the UK and the US, where institutions are more proactive regarding proxy matters, will likely have higher voting returns. That explains the higher percentages for companies based in the UK and Ireland, but does not explain why Spanish companies get more votes than their counterparts in France, Germany and Italy. Regardless, these numbers are sobering and represent the challenges that many companies will face as AGM season approaches, especially those with high quorum requirements or seeking shareholder approval for a variety of reasons.

For more information on proxy outreach to European investors, contact us at targeting@cap-bridge.com.

Socially Responsible Investing Trends and What They Could Mean for You

At the recent Academy Awards ceremony in Los Angeles, Al Gore grasped the Oscar for Best Documentary of 2006 and said to the huge global audience (lame "announcement" notwithstanding), simply, we need to act now and there isn't anything political about it. At this moment, it almost seemed to move climate change from an issue of "the future," to something that needs consideration now. This continues the trend of recent times, from the UN's Principles for Responsible Investment (PRI) process, as well as major corporations taking steps towards going carbon neutral, such as HSBC has already committed to. Major US media are also starting to look at the issue; the *Los Angeles Times*, in one case, printed multiple pieces on the Gates Foundation, and possible conflicts of interest within its investments, suggesting that it may be investing in companies potentially harming the health of Africans, at the same time that the foundation makes separate, charitable contributions to improving the health of the same people.

The CapitalBridge SRI Leaders Index (as previously reported in the OnTarget Newsletter of August 2006) represents a consensus of SRI fund manager sentiment. While there are many different measures of a company's social and/or sustainability focus, the overlap between each manager's usage of these measures can represent a rough "consensus" as to whether a company successfully presents a strong socially responsible profile.

The SRI Leaders Index is reconstituted semi-annually and comprised of the companies most held by SRI-focused managers, with the most recent reconstitution as of 12/31/06, and the trends in its components are noteworthy. First of all, most of the companies that were the most favored by SRI-focused managers remain so, helping to validate the widely held belief that SRI fund managers are buy-and-hold, long-term owners. As a result, these investors are an important group to get "on the good side of" in order to help establish a loyal, long-term shareholder base. Among the changes over the past six months, companies rapidly rising up the charts, so far as increased SRI fund manager interest is concerned, include Pearson Plc of the UK (publisher of the *Financial Times*), and Veolia Environnement of France. Pearson is a company with a quality rating from leading SRI fund manager Morley in the UK, so the increased interest is not surprising. Veolia likewise has a specific commitment to the subject (see www.sustainable-development.veolia.com).

From an operational standpoint, most of the SRI Leaders members were profitable over the past twelve months, suggesting, as Bono might say, that you can make money and save the world at the same time. 97% of the SRI Leaders membership was profitable over the last 12 months, versus 95% of the S&P 500's constituents. Also, 88% of the initial constituents produced positive total returns for the second half of 2006, versus just 77% of the S&P 500.

Separately, combining ownership and SRI can be used in other ways that can help illuminate investor perception and behavior. Recently, *CRO* (Corporate Responsibility Officer) *Magazine* published a list of Top 100 Best Corporate Citizens 2007, which CapitalBridge reviewed from an ownership perspective to see which funds invest the most in these companies, and which ones the least. Among the funds most weighted towards these "best actors" include SRI funds, but interestingly, the most weighted towards these companies is the Jensen Portfolio, 237% overweight the Top 100 CRO; this fund purchases companies that have generated ten straight years of at least 15% return on equity. The second most overweight fund is John Hancock US Global Leaders, which primarily invests in companies with multinational operations that hold leading market shares of their relevant industries. In other words, fund managers heading towards quality companies that figure to have sustainable earnings, are also turning out to be among the best actors from a socially responsible perspective. It's possible that the converse may also be true – multinational companies with large market shares may have the "most to lose" from a media perspective (or political perspective) if they don't present a positive socially responsible image. The plot thickens.

Top Active Mutual Funds Weightings in Top 100 CRO Companies					
Fund	Style	Managed Equities ($M)	% US Equity	% in Top 100 CRO	Top 100 CRO Weighting
Jensen Portfolio	Growth	2,293.6	100.0	35.3	237
John Hancock US Global Leaders Growth Fund	Growth	1,690.5	94.1	32.5	218
MFS Massachusetts Investors Growth Stock Fund	Growth	5,312.9	90.5	31.7	213
Domini Social Equity Trust	Social Inv.	1,533.1	99.8	31.6	212
MFS Strategic Growth Fund	Agg. Growth	1,341.6	85.4	30.6	205

On the flip side, it's interesting to note that many of the funds (with at least 75% of their holdings in US large caps) that were least weighted in these Top 100 US companies per *CRO Magazine*, were value-oriented. For example, among the four major US mutual funds with significant US large-cap equity, but no holdings in the Top 100 CRO companies, is the Fairholme Fund (motto: "Ignore the crowd"), whose most recent letter to shareholders includes the quote: "…you are right when your facts and figures are correct, regardless of what Mr. Market is doing," channeling Benjamin Graham's famous metaphor. Another example is the Sequoia Fund, which completely avoids Top 100 CRO companies. Like Fairholme, it favors a Graham-and-Dodd approach and is a low-turnover, buy-and-hold investor; both funds have been outperformers over time. If and when funds of this nature start to factor in SRI, the market impact will likely be significant.

Lowest Active Mutual Funds Weightings in Top 100 CRO Companies					
Fund	Style	Managed Equities ($M)	% US Equity	% in Top 100 CRO	Top 100 CRO Weighting
Fairholme Fund	Value	1,941.6	68.7	0.0	0
Sequoia Fund	Value	3,432.6	96.6	0.0	0
American Century Heritage Fund	Growth	1,043.7	79.3	0.0	0
Oppenheimer Capital Income Fund	Income	1,540.2	82.4	0.0	0
RS Value Fund	Contrarian	1,290.4	79.0	1.6	11

As an IRO, you'll likely begin to see more investors that either internally or externally manage state or local pension dollars asking more about your socially responsive positioning. States are piece-by-piece reviewing their investing approaches in order to make political gains. For example, Pennsylvania state treasurer Bob Casey recently enacted the "Keystone Green Investment Strategy," which, in addition to establishing specific portions of state investment funds dedicated to "green" investments, also requires increased scrutiny of the decisions made by all outside investment managers that manage the state's funds. Such outside managers include Credit Suisse Asset Management, JPMorgan Investment Management, Emerald Advisors, Federated Investors, and others, which will now have SRI principles tied to their mandates. Expect buy-side managers in the U.S. to follow the same trend as in Europe – soon you may see a group inside major U.S. investors that will scrutinize your company's carbon footprint and sustainability approach, much like another group within the firm already focuses on your corporate governance and proxy issues.

For more on socially responsible investing and the components of the CapitalBridge SRI Leaders Index, simply drop us a line at targeting@cap-bridge.com.

OnTarget – Firms

Target Firm: NWD Investments

Targeting Profile

NWD (an investment wing of the Nationwide Financial Group) is in the midst of a rebranding effort, separating itself from its former parent, UK-based Gartmore Investment Management, to focus on its US-based clients. This rollover, as with many changes in institutional manager structures, can lead to new opportunities for IR, as analysts and portfolio managers take on new and different responsibilities. Take advantage of this by making sure your investment story is in front of the manager and ready for use. Of particular note – under the new structure the firm retains its close relationship with NorthPointe Capital, a Troy, MI-based small-cap manager; as a small-cap story, you'll see both sets of managers making separate decisions.

How to Approach

Despite claiming to focus on a more bottom-up approach, the firm makes niche bets into industries and sub-industries where it sees attractive valuations relative to growth. One "hot" sector is the investment banking/brokerage group, where it has sharply increased holdings in Goldman Sachs, Bear Stearns, Merrill Lynch, and Lehman Brothers in the fourth quarter; it has also poured capital into the broadcast sector, where companies that have been beaten-down in valuation but are producing strong cash flows abound (such as Time Warner, Disney, and News Corp.) Therefore, you may see investment as part of an industry play, and may do well to display your industry's strong points as well as your competitive advantages within your industry.

Average equity holding period: 1.7 years

How Not to Approach

The firm's portfolios tend to be more diversified than their peers, and are able to absorb losses in single securities more easily; also, with larger portfolios (and a large number of separate accounts managed), the hurdle for attracting an investment from at least one portfolio is lower. Standing out from the crowd here may be more difficult, however. Cultivate your sell-side relationships in order to keep your story in front of a company where a smaller number of analysts are managing a larger number of securities.

Largest Portfolios Managed

Gartmore Nationwide Fund ($1.2 billion equity) – Gary Haubold, (610 238 3606, haubolg@nationwide.com)

Gartmore Small Cap Fund ($500 million equity) – Charles Purcell (610 238 3607, purcelc1@nationwide.com)

Investment Potential

Average holdings for the firm at each market cap range:
Giant-cap: ~$55 mm
Large-cap: ~$25 mm
Mid-cap: ~$6 mm
Small-cap: ~$2 mm
Micro-cap: ~$1 mm

OnTarget – Funds

Target Fund: T. Rowe Price Growth Stock Fund

Managing Firm:

T. Rowe Price Associates – Bob Smith (410-345-7743, bob_smith@troweprice.com)

Targeting Profile

This fund's asset base has simply exploded over the last several years based on good performance; it now runs over $18 billion in assets (which would rank it among the largest growth-oriented funds on the planet), up sharply from about $5.6 billion as reported in 2003. Despite the relatively low turnover, the inflows of new cash into the fund lead it to initiate new positions consistently – generally anywhere between 5 and 15 new positions appear each quarter.

How to Approach

Don't expect much interest if you're a company under $5 billion in market cap, but for larger companies with a good track record, you'll find a lot of available capital here to tap into. Focus your presentation on establishing a track record; many of the firm's holdings are among the fastest long-term growers in terms of revenue (17.6% 5-yr CAGR average) and earnings (24.6% 5-yr CAGR average), and nearly all show double-digit growth in operating cash flows. The fund's been adding to its tech holdings with buys of Google, Microsoft, and Autodesk, but even in its other holdings you'll see an increasing tech bias (E*Trade and Chicago Mercantile Exchange in the financial space, Amazon.com in the retail group, Medtronic and Amgen in the healthcare sector); keep this in mind when emphasizing your company's tech approach and how it contributes to sustainable cash flow growth.

How Not to Approach

While the fund does divert from the faster growth fund group in terms of its longer-term approach, it follows along with more traditional aggressive portfolios in showing a limited need for a high dividend yield produced by its holdings. Just 17 of its 122 equity holdings pay a higher yield than the S&P average yield of 1.86%. Make sure your discussion of free cash flow usage is focused on building up your existing business (though it appears that the fund doesn't avoid companies engaging in large buyback programs either). The fund has recently pulled back on several large stakes in consumer-oriented stocks (such as Home Depot and Wal-Mart), but hasn't seen fit to sell these firms aggressively despite flat performance.

Investment Potential

Average holdings for the firm at each market cap range:
Giant-cap: ~$205 mm
Large-cap: ~$135 mm
Mid-cap: ~$100 mm

Average equity holding period: 2.9 years

OnTarget – Contacts

Recent notable contact moves:

Eric Bannash left his role as an Equity Analyst at Perry Capital, L.L.C. in February 2007 to start up his own business.

Chris Bartel (Portfolio Manager and Director of Research) left Fidelity Investments in January 2007. He previously managed the Fidelity Select Industrials fund. Tobias Welo (Portfolio Manager and Research Analyst) will assume responsibility of the fund.

Laurence Bleicher (Equity Analyst) joined Noble Financial Group in January 2007, covering the healthcare biotechnology and pharmaceutical industries at the firm. He was formerly a research associate at Marsico Capital Management.

Katrina Dudley (Portfolio Manager) has been appointed as the lead portfolio manager of the Franklin Mutual European Fund as of January 2007.

Cyrille Filott (Portfolio Manager and Equity Analyst) at M&G Investment Management Limited began his career with the firm in September 2005 as an equity analyst and was promoted to his current position in January 2007, managing the M&G Investment Funds (1) OEIC – Global Technology Fund.

Rob Flores (Senior Security Analyst) joined Westfield Capital Management Company, LLC January 2007, covering the technology application software industry. He was formerly an equity analyst at Magnetar Capital.

Andrej Kledzik (Equity Analyst) joined Nordea Investment Management Sweden in mid February 2007 where he will be covering small- to mid-cap Swedish equities. He was formerly a portfolio manager at Robur AB.

Keith McCullough (Portfolio Manager) joined Carlyle Blue Wave Partners in January 2007, covering the consumer discretionary sector. He was formerly a portfolio manager at Magnetar Investment Management, LLC.

Christine Montgomery (Investment Partner) joined Edinburgh Partners Ltd. in February 2007 covering the insurance industry. She was previously an equity analyst at Franklin Templeton Investment Management Ltd.

Walter Prendergast (Senior Portfolio Manager) joined Paradigm Capital Management, Inc. in January 2007. He was formerly a portfolio manager and an equity analyst at William D. Witter, Inc.

David Rose (Portfolio Manager) joined Pyramis Global Advisors, LLC in February 2007. He was previously a vice president and portfolio manager at American Century Investment Management, Inc.

Jing Sun (Equity Analyst) joined ING Investment Management Co. in February 2007, covering the electrical components and equipment industry. He was formerly a managing director of active investments and an equity analyst at TIAA-CREF Investment Management.

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.

Conference activity is beginning to pick up again in March.

Conferences – March 2007

Mon	Tues	Wed	Thurs	Fri
			1	2
5 Raymond James 28th Annual Institutional Investors Conference – Orlando Bear Stearns 20th Annual Media Conference – Palm Beach Merrill Lynch Global Automotive Conference – Geneva Morgan Stanley Technology Conference – San Francisco	6 Piper Jaffray 4th Annual China Growth Conference – Beijing	7 CIBC World Markets 2nd Annual Small & Mid Cap 'Best Ideas' Conference – San Francisco CIBC World Markets 10th Annual Retail Conference – Toronto	8 Friedman Billings Ramsey Washington Aerospace/Defense Conference – Washington DC	9
12 Janney Montgomery Scott 11th Annual Global Water Conference – NYC JPMorgan Global Internet Conference – NYC Credit Suisse Global Services Conference – Phoenix Cowen & Co 27th Annual Health Care Conference – Boston	13 Stifel Nicolaus & Co 4th Annual Consumer Conference – NYC UBS Global Software & Services Conference – London Bank of America Consumer Conference – NYC	14 Bear Stearns Global Oil & Gas Conference – NYC Commerzbank Growth & Responsibility Conference – Frankfurt Morgan Stanley Global Electricity & Energy Conference – NYC	15 UBS US Homebuilding & Building Products Conference – London	16
19 Lehman Brothers 10th Annual Global Healthcare Conference – Miami	20	21 JPMorgan Aviation & Transportation Conference – NYC JPMorgan Gaming, Lodging & Restaurant Conference – Las Vegas Dresdner Kleinwort Capital Goods & Aerospace/Defense Conference – London	22	23
26 Merrill Lynch "All Stars" Germany & Austria Conference – NYC	27 Credit Suisse 10th Annual Asian Investment Conference – Hong Kong	28	29 Dresdner Kleinwort Beverages & Tobacco Conference – Dublin	30

This calendar shows a sampling of investment community events held around the world during the month.

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