The Better IIR Newsletter

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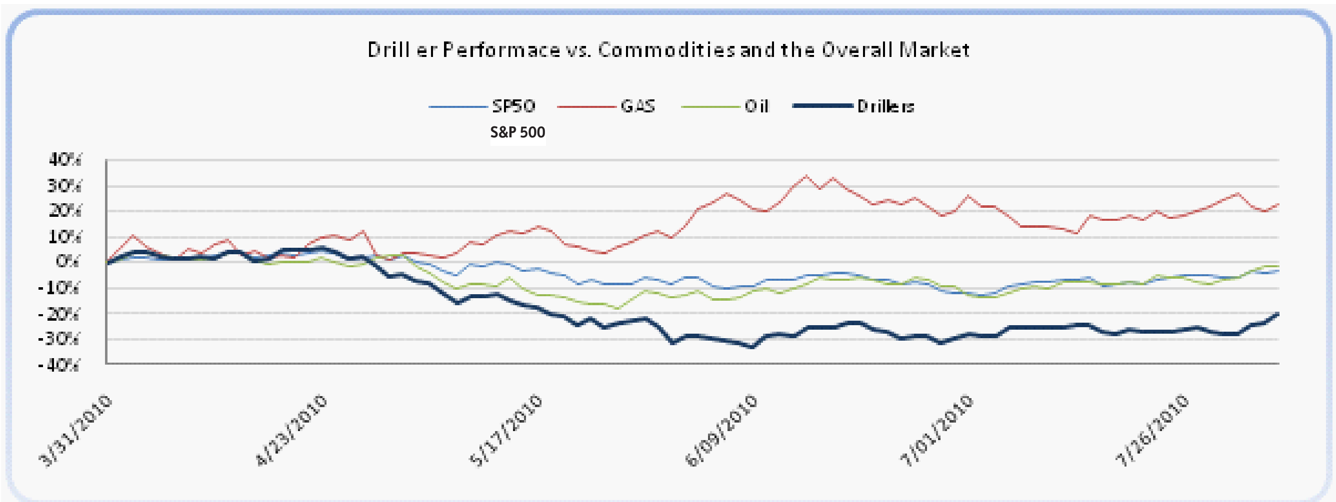
In the Wake of the Leak: Deep Value for a Long Term Horizon

From the time the Deepwater Horizon oil spill was first reported on April 20 through the end of July, the overall market sentiment on the future of the economy went from decidedly bullish to what can only be described as overly cautious of a double dip. Those who were burned in the 2008 market collapse have been seen seeking protection and rotating into safer investments, while many hedge funds have been intrigued by a number of distressed issuers.



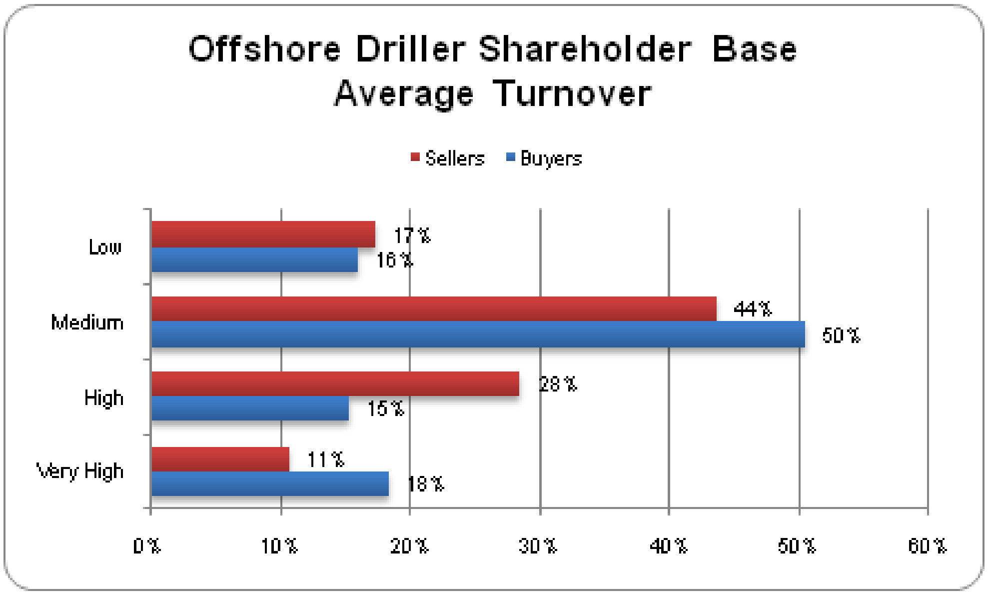
Source: Factset

Despite fairly stable oil prices over the period, drillers have significantly underperformed the overall market.

The financial impact on BP shareholders was immediate, with shares in the US giving up 13% within the first week of the accident and losing up to 55% of its April 20th value before the well was finally capped. As of August 1st, offshore drillers had underperformed the overall market by 23%, losing an average of 31% over the time period. Although the oil leak has since been capped for about a month, BP, which is still 35% off its April 20th value, faces more than 300 lawsuits, including a class action suit by Ohio and New York pension systems. In order to meet its financial obligations and likely settle pending lawsuits, BP sold off assets in the US, Canada and Egypt for $7 billion to APA and will likely look to raise another $3 billion through property sales. BP, which was once a staple for pension funds and income-oriented mutual funds has now become a holding for deep value investors with strong stomachs, as well as hedge funds. Drillers, along with BP, were also severely impacted by the accident. Although, the impact was quite varied among the different groups of drillers, the majority of top sellers across drillers were actively managed firms. Meanwhile, several of the top buyers of drillers and jackups over the quarter were quantitative hedge funds including Numeric Investors and Hussman Econometrics among others. While the rapid drop in the industry's valuations made many portfolio managers panic, it likely triggered the models of several funds to pick up shares of depressed companies.

The amount of oil spilled into the Gulf of Mexico is estimated to be around 5 mm barrels, while the long term environmental impact on the region is yet to be seen. However, the economic impact on the offshore drilling industry from new government intervention will likely be known before the year is through. On top of the temporary moratorium on deepwater drilling in the Gulf and the strict new rules on shallow-water wells, Congress will likely pass legislation on the industry that will tighten standards and raise the minimum damage liability for any future accidents. On August 16th, the Obama administration also announced it will require significantly more environmental reviews before approving new offshore drilling permits, making the well discovery process more expensive and time intensive. As such, industry valuations remain depressed as institutional investors wait to see what Congress comes up with, how costly it will be for offshore drillers, and how the new regulation will affect the long term growth prospects for the industry.

Since the new permit rules were set in place in June, the Bureau of Ocean Energy Management has approved only 3 permits for shallow water jackups through mid August, compared to 10-15 per week by the Minerals Management Service prior to the BP oil spill. In addition, permitting delays have idled 14 of the 46 available jackups in the Gulf. Due to the May 30 moratorium on deepwater drilling, 2 of the 33 available deep-water rigs have left the Gulf of Mexico for foreign contracts. However, this number may rise significantly over the next year if Congressional legislation forces drillers to seek friendlier waters.



As valuations fell, the overall investor base in offshore drillers shifted toward higher turnover institutional investors. Over the period, the weighted average turnover for buyers was 87% while sellers' average turnover was 76%.

In the recent past, the trend has been for offshore drillers to push towards deeper waters. From a research perspective, prior to the leak, it was hard to find a note that didn't point towards the overcapacity and falling day rates of jackup rigs. Taking a look back at 2004, there were 73 deepwater rigs, while it is estimated that in 2012 there will be 189 of these rigs *(*BMO Capital Markets)*. One notable example is offshore driller ESV, which in 2008, operated 44 jackup rigs and only 1 semisubmersible rig. Fast forward to today and ESV owns four ultra-deepwater rigs with another four under construction.

Drillers are often separated into three groups based upon their exposure to various types of drilling. The first group consists of companies like RIG, which is considered one of the leading names in deepwater drilling. Deepwater drilling is that which takes place in water depths beginning at 500 feet for 1st generation semisubmersible rigs to depths of up to 10,000 feet for 5th generation semisubmersible rigs and drillships and even deeper for the 6th generation. This particular group of companies has seen the most weakness since April 20th as the moratorium placed on drilling leaves a rather blurry picture of when companies will be able to begin receiving new permits to drill.

The second group consists of shallow water drillers, which have the capability to drill in depths of up to 500 feet. This includes companies like RDC, which is known for its high-specification jackups, and HERO, which has a fleet of more traditional jackups and barges. Initially following the accident, the group was a strong performer; however, delays in new permits and confusion as to when they will be issued has caused weakness in the group as rigs that fall off contract are idled. This weakness has been especially pronounced for HERO, which on a percentage basis saw a 26% institutional rotation out of the stock.

The last group is the traditional land drillers, which has garnered strength thanks to a surge in drilling from shale wells and other non-conventional resource plays. Given the recent ban on deepwater drilling and complications in shallow water permitting, the group has been the strongest performer since the Deepwater Horizon accident as rig demand grows and investors revisit the group. However, much like the shallow water group, there has been a significant divergence among the group as higher-spec operators have commanded higher day rates.

Many institutions have incurred losses from their BP holdings, as the company has been a staple of pension funds and mutual funds for years as a stable high cash flow company that pays a healthy dividend to shareholders. In fact, the company has had such a stellar reputation in the past, that as of 3/31/10 filings, the company was the 35th most commonly held stock by socially responsible investors, which on average pick stocks based on their social and environmental impact on society.

British and American pension funds are most impacted by this accident, and the subsequent decision by BP to limit and cut their dividend. Around $1.50 of every $10 paid out by British pension funds was formerly from BP (source: Belfast Telegraph). Following the suspension of the BP dividend, many low turnover firms sold significant positions in BP, as it saw its income stream from the company's high-yielding stable dividends threatened by government intervention and public scrutiny as well. Large pension fund sellers over the quarter include West Midlands Metropolitan Authorities Pension Fund, U.S. Steel & Carnegie Pension, and United Nations Joint Staff Pension Fund, among many others. Moving forward, it will be interesting to see if these institutional investors and pension funds begin increasing their BP exposure over the course of Q4 and Q1 2011 in anticipation of the re-initiation of the dividend in February.

The largest institutional investor in BP, BlackRock (UK), which holds approximately 9.5% of BP's total institutional shares, slightly increased its position over the quarter by $81.1 mm, while its second and third largest holders, Legal & General and Kuwait Investment Authority sold down their positions. Kuwait Investment Authority, typically known as a deep value/special situation investor, sold 27% of its $2,630.1 mm position in BP, by far the greatest position change by its top shareholders. Top sellers also included many low turnover institutions, some of which rarely sell a single position over the course of a year. State Farm Investment Management Corporation sold nearly all of its $379 mm position in BP over the quarter, while several other major low turnover investors, such as Northern Cross, sold out of BP completely.

Fidelity Management and Research was the largest buyer in BP over the last quarter, nearly doubling its total position and taking advantage of lower valuations and attractive entry points. The firm was also a significant buyer in RIG over the time period. However, while the firm picked up the companies directly involved with the spill, Fidelity sold off a significant portion of RIG's drilling peers, making it the 7th largest seller of the overall industry despite the large investment in RIG. As Fidelity rotated out of drillers overall, the firm rotated into other oil and gas industries, including large increases in integrated companies, as well as those with significant shale assets.

Overall, deepwater rig companies dropped off throughout the quarter, with investors rotating out of Transocean and its direct peers. Pride International seemed to be the only deepwater driller to benefit from this crisis, as one of the only deepwater drillers to have institutional investors rotate into the company. Other drillers with positive institutional inflow included Atwood Oceanics and Seahawk Drilling. The largest loser over the quarter by dollar value was Transocean. Surprisingly, several jackup focused companies were rotational losers as well, despite the fact that the imminent future will likely be significantly harsher on the deep sea drillers rather than jackup drillers.

Top Rotation Winners

Rank	Company Name	Rotation In ($ mm)	Percent of Rotation
1	Pride International, Inc.	44.5	1.3%
2	Atwood Oceanics, Inc.	24.1	1.4%
3	Seahawk Drilling, Inc.	4.5	3.7%

Top Rotation Losers

Rank	Company Name	Rotation Out ($ mm)	Percent of Rotation
1	Transocean, LTD	-1,270.2	-11.2%
2	Rowan Companies, Inc.	-134.8	-5.6%
3	Nabors Industries, LTD	-129.0	-3.0%
4	Noble Corporation	-112.1	-1.8%
5	Diamond Offshore Drilling, Inc.	-89.1	-1.0%
6	Hercules Offshore, Inc.	-49.8	-26.3%
7	Parker Drilling Company	-4.4	-1.4%

Source: Ipreo Research

With stagnant oil prices and looming government intervention in the offshore drilling industry, institutions have become more cautious on the sector, as they are now more aware of the risks involved with deepwater drilling investments. Generalist investors will likely be concerned about risks within the industry and further government interference given the media attention and public outcry. Companies operating within the oil and gas space will likely see smaller margins from higher regulatory costs, while deepwater drillers may be forced out of the Gulf altogether. Given the level of change in BP's shareholder base over the previous quarter, low turnover conservative investors may rethink their investment strategy and exposure to the sector, as they are now more aware of how risky even the "blue-chips" can be.

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**BMO Capital Markets note October 2009 titled "adding value: position on the OFS Evolutionary Ladder Matters"*

Long Term Equity Allocation Trends: Moving on from the Financial Crisis

We all hope that the worst of the financial crisis is comfortably behind us. Over the past couple of years there has been significant speculation as to the impact of the financial crisis on investors' regional asset allocations. Did investors, as one might expect, go back to "what they know" and re-domesticate assets from foreign markets? And how has the make-up of the institutional investor landscape changed given the numerous acquisitions, combinations, and, of course, start-ups and shut-downs?

It is with these questions in mind that Ipreo analyzed the equities under management of the largest global institutional investors between Q1 2007 and Q1 2010, to try to identify key trends in the regional equity allocations of both European and US institutional investors.

In the analysis Ipreo conducted, we included firms that held a minimum of US$500 million in each of Asian, European and US equities in Q1 '07. To provide a level playing field, ownership values for the current period have been rebased to take into account the performance of global equity markets between the two periods analyzed, as per the table below.

Table 1: Regional equity market performance, 31st March '07 vs. 31st March 2010

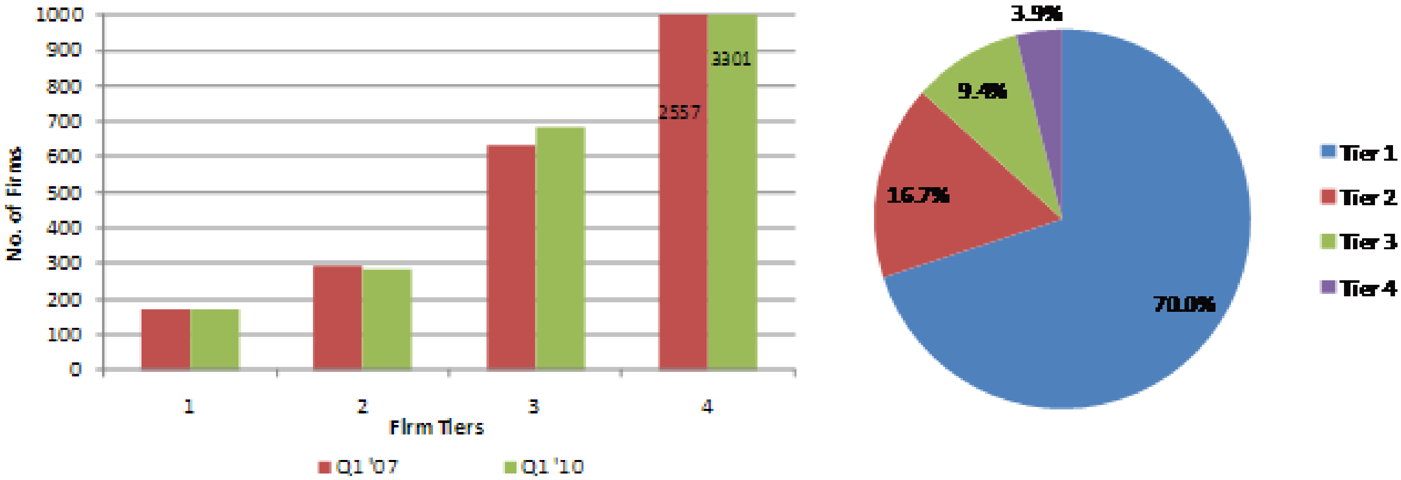
	MSCI Europe	MSCI N. America	MSCI Asia
Mar '07	130.3	1,478.6	144.7
Mar '10	91.4	1,249.5	125.1
% Change	-29.8	-15.5	-13.5
Rebase Factor	***1.43***	***1.18***	***1.16***

Source: Bloomberg

The most interesting ownership trends that Ipreo identified from the data are:

- European investors are expanding their allocation in US equities at the expense of investment in European equities;
- The number of institutions within Ipreo's Tier 1 & 2 categories (the largest investors by equities managed) has fallen, with the largest group of asset managers becoming more concentrated as a result of mergers and acquisitions, whilst there has been a large increase in the number of institutions in our Tier 3 & 4 categories.

Chart 1 & 2: Global Investment firms by Tier & EAUM.



Source: Ipreo Research

Regional Equity Allocations by European Investors

Table 2: Average Regional Equity Asset Breakdown of European investors by tier.

Tier	Europe Q1 '10 Allocation	Asia Q1 '10 Allocation	N. America Q1 '10 Allocation
1	67.2%	9.1%	23.7%
2	61.3%	13.0%	25.8%
3	55.3%	18.1%	26.6%
ALL	61.3%	13.4%	25.4%

Source: Ipreo Research

Table 3: Average change in USD exposure to Europe, Asia & US of European investors by tier.

Tier	Europe Q1 '07 to Q1 '10 Change	Europe Q1 '07 to Q1 '10 Rebased Change	Asia Q1 '07 to Q1 '10 Change	Asia Q1 '07 to Q1 '10 Rebased Change	N. America Q1 '07 to Q1 '10 Change	N. America Q1 '07 to Q1 '10 Rebased Change
1	-15.4%	20.6%	26.5%	42.0%	29.9%	53.7%
2	-30.1%	-0.3%	-23.0%	-11.0%	7.9%	27.7%
3	-40.9%	-15.7%	-26.6%	-15.1%	-15.4%	0.1%
Total	-19.5%	14.8%	4.0%	19.2%	22.3%	44.7%

Source: Ipreo Research

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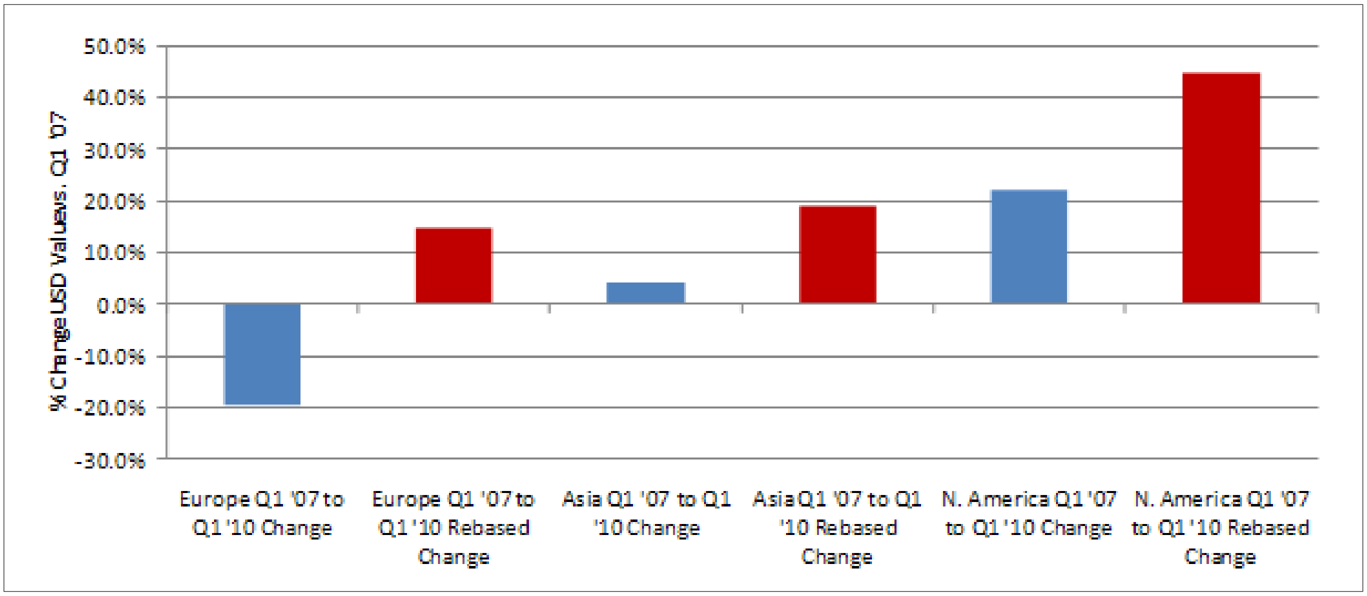
Chart 3: European Investors – Standard and Rebased Percentage Change to European, Asian and N. American allocations, Q1 '07 to Q1 '10.



As table 2 above shows, European investors allocate on average 61.3% of their portfolios to European equities, 13.4% to Asian equities and 25.4% to North American equities. Table 3 shows how the value of investors' holdings across Europe, Asia and North America have changed on a like for like USD basis between Q1 2007 and Q1 2010.

Unexpectedly, whilst overall exposure to Europe has increased in US dollar terms, North American equities have been the real winner, with an additional US$223bn billion being added on a like-for-like basis and allocations rising in total by 44.7% vs. Q1 '07. Investment in Asia is up US$43 billion since Q1 2007 (or 19.2%), whilst the 14.8% rise in European investments represents a total increase of $279bn.

The contrarian activity of Tier 1 investors stands out, having increased holdings across each global region whilst Tier 2 & 3 investors have seen the value of their investments in both Europe and Asia fall on a like-for-like basis. This trend can be explained by the change in equity assets of each investor tier. Tier 1 firms have seen assets grow by 27%, whilst Tier 2 firms' assets have grown by just 2%, and Tier 3 investors' assets under management have fallen by 14%.

This trend may be as a result of investors moving assets to 'safer' bulge bracket firms during the economic crisis where investments can be spread across a more diverse product range, including passive strategies in particular, which gained further traction in the past few years as active strategies failed to prove outperformance. A large majority of index funds are managed by Tier 1 investment firms (87% in total). As an example, in Q1 2010, the index fund portion of top manager BlackRock (Formerly Barclays) received US$18.2 billion net inflows into equity products, whilst actively managed strategies experienced net redemptions totalling $22.3bn. Asset management, up to a point, is a scalable business, and competition on cost ratios between asset managers has contributed to the market share gains seen by some of the largest managers.

One further trend from the data highlights a distinction between UK firms and Continental European firms' attitude towards European investment as a whole. A large number of UK firms made a much clearer move away from Europe, resulting in net European assets rising just 0.6% among UK firms in Q1 2010, whilst for Continental European firms the comparable figure was a 32.5% increase.

That said, the most significant trend remains that of firms' large increases to allocations to US equities across the board.

This raises the question of whether the increased investment in US stocks has been part of firms' defensive strategy to increase USD exposure during turbulent times, and if so, is there likely to be a rebalancing towards other higher growth regions in the near future as investors continue to de-risk and look for higher returns, perhaps increasing allocations to Asia and emerging markets?

Naturally, the answers to these questions vary from investor to investor, so sweeping statements are difficult to make. However, there are specific lessons that issuers can use to benefit their IR programs going forward.

For the average issuer, the impact is likely to be two-fold. First, the increasing assets among top tier investors (over 20% of which are managed in index funds) means issuers which are not included in an index will be missing out on an increasingly large pool of assets, particularly given the scale of inflows into these strategies in recent months.

Table 4: Global Investment firms by Tier, Q1 '07 vs. Q1 '10

Tier	Q1 '07	Q1 '10	Change (%)
Tier 1	170	171	0.6
Tier 2	294	283	-3.7
Tier 3	635	685	7.9
Tier 4	2557	3301	29.1
Total	*3656*	*4440*	-

Source: Ipreo Research

The increase in the overall number of investment managers (and the increasingly unrestricted flow of capital between regions) also has a broader impact on the IR profession. While a larger percentage of assets are managed by the large Tier 1 investors, lower barriers to entry in the asset management space have led to increasing numbers of Tier 3 and Tier 4 firms vying for both new institutional mandates and vying for attention from issuers' IR teams. IR will be under increasing pressure to maintain close relationships with the largest investors that have greater and greater impact on the share price, but will be forced to prioritize its time and resources more carefully to be able to handle the appropriate level of dialogue with more and more small firms. Having as much information about each smaller firm at your fingertips as possible is increasingly important in this more democratized world.

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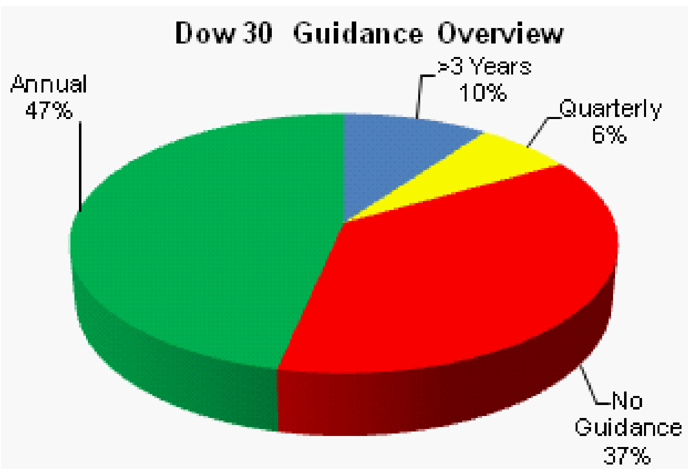
Guidance Summary - Seeking Out Investors for the Long Haul

The level and frequency of guidance is an age-old question that is frequently debated, yet never reaches a clear conclusion. The sides of the argument are well known, with analysts seeking more clarity to assist in building financial models and issuers preferring to not be bound by short term targets that are often resource and time drains. On the other hand, the buy-side has been known to favor either view, depending on their objectives and strategies employed. In our March 2009 BetterIR issue we discussed changes to guidance policies and how companies were considering eliminating some guidance due to the difficulty of predicting company performance in a volatile operating environment. The economic circumstances that led companies to decrease guidance were unfortunate; however, this also provided an opportunity for companies to reevaluate how guidance is given and propose alternative methods that are more constructive and useful to management as well as investors. Obviously, different issuers will always have different investor demands for transparency and different levels of clarity in their forecasting; however, it is a useful exercise to compare guidance practices against other issuers. As the most visible corporate issuers, Ipreo looked in-depth at the guidance practices of the Dow 30 components.



Currently 20% of the Dow 30 provides “hard” guidance for top-line or bottom-line quarterly guidance, while 57% provides annual guidance. Clearly the trend is for guidance to be longer-term in nature, but that does not necessarily mean less disclosure or transparency. If anything this should be an opportunity for companies to convey specific drivers, initiatives and macro opportunities, which are the types of topics scrutinized by long-term investors. This type of outlook can also promote management credibility and can be used strategically to attract like-minded investors.

The pie chart to the left illustrates the longest time horizon of guidance that Dow Jones Industrial companies publicly provide. For example, if a company such as Hewlett Packard provides both quarterly and annual guidance, they will only be represented in the annual segment.

Is What’s Around the Corner More Important Than Where We’re Going?

In the wake of the economic crisis, many companies have been searching for new and creative ways of transparency to satisfy the investor community while allowing the company to focus on its long-term goals. One method of aligning company objectives with long-term investors is the practice of providing three-to-five-year financial targets. Three Dow components that have done this include DuPont, IBM, and Kraft each with reasons as to why they can meet these goals. Although this far-reaching outlook does not give insight as to the immediate expectations, it does give the investor community an idea as to where the company is headed and what strategies and trends will allow them to achieve these goals. It should also be noted that while these three companies all give long-term guidance, none of them have released quarterly guidance. While this practice may not be easily enacted by companies in industries with less predictability, it is an important strategy to consider and move towards breaking out of the short-term focus that issuers often contend with. This type of strategy might seem challenging for cyclical companies; however it can help smooth out volatility in the stock by not focusing on short term aspects of the business, but rather the broader growth trajectory. Furthermore this strategy could help limit such trading opportunities for short-term investors.

Taking a look at estimate ranges for members of the Dow Jones Industrials indicates that companies that do not provide quarterly guidance are subject to wider research estimate EPS ranges. According the below chart, on average companies that provide a level of quarterly guidance exhibit an average 5 quarter trailing standard deviation of 3.2% compared to a wider range of a 8.1% standard deviation for companies that do not provide quarterly guidance. From this sample, more transparency appears to lead to tighter estimate ranges; however, the same goal can likely be achieved with annual guidance combined with detailed segment outlook. This approach has become a trend for companies such as General Electric and Deere & Company, which have reduced guidance during the recent economic crisis, yet have focused on providing more transparency without publishing hard quarterly guidance numbers.

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Dow - Guidance Impact on Earnings Spreads

	Next Quarter Estimates ($)			StDev of Estimates (%)		# of Estimates		Volatility	Guidance	
Company	Mean EPS Est.	Low EPS Est.	High EPS Est.	Next Qtr. StDev.	5 Qtr.* Avg. StDev	Cur. Qtr. # Ests.	5 Qtr. Avg. # Ests.	Avg. Beta (2yr)	Qtr EPS Y/N	Qtr Rev Y/N
Hewlett-Packard Co.	$1.08	$1.05	$1.10	1.0%	1.6%	30	28	0.87	Yes	Yes
McDonald's Corp.	$1.24	$1.19	$1.29	2.0%	1.7%	20	19	0.57	No	No
Wal-Mart Stores Inc.	$0.96	$0.93	$1.01	1.8%	1.7%	24	22	0.48	Yes	No
Johnson & Johnson	$1.15	$1.10	$1.19	1.9%	1.8%	17	17	0.53	No	No
Intl. Business Machines Corp.	$2.74	$2.67	$2.87	1.4%	1.9%	20	21	0.72	No	No
Procter & Gamble Co.	$0.99	$0.97	$1.02	1.4%	2.1%	20	15	0.60	Yes	Yes
Verizon Communications Inc.	$0.54	$0.52	$0.55	1.7%	2.1%	26	26	0.73	No	No
Cisco Systems Inc.	$0.39	$0.30	$0.43	6.1%	2.3%	36	29	1.04	No	Yes
Merck & Co Inc	$0.82	$0.78	$0.84	1.7%	2.4%	17	14	0.81	No	No
Coca-Cola Co.	$0.89	$0.87	$0.91	1.3%	2.5%	12	10	0.56	No	No
AT&T Inc.	$0.58	$0.51	$0.61	3.6%	2.6%	27	26	0.82	No	No
United Technologies Corp.	$1.28	$1.23	$1.32	2.1%	2.7%	18	17	0.93	No	No
Pfizer Inc.	$0.51	$0.48	$0.54	3.3%	3.1%	18	15	0.75	No	No
3M Co.	$1.50	$1.43	$1.55	2.4%	3.1%	12	12	0.79	No	Yes
Kraft Foods Inc.	$0.49	$0.45	$0.54	4.8%	4.1%	17	15	0.57	No	No
E.I. DuPont de Nemours & Co.	$0.32	$0.28	$0.37	9.1%	5.7%	12	13	1.16	No	No
Exxon Mobil Corp.	$1.44	$1.29	$1.65	6.4%	5.8%	13	15	0.96	No	No
Walt Disney Co.	$0.48	$0.39	$0.67	14.9%	5.8%	22	22	1.12	No	No
Travelers Cos. Inc.	$1.36	$1.12	$1.60	9.3%	6.0%	17	18	1.12	No	No
Microsoft Corp.	$0.55	$0.52	$0.61	3.8%	6.1%	30	27	0.93	No	No
Home Depot Inc.	$0.71	$0.68	$0.74	2.4%	7.2%	26	26	0.95	No	No
General Electric Co.	$0.27	$0.25	$0.31	6.0%	7.4%	12	12	1.19	No	No
Boeing Co.	$1.03	$0.92	$1.15	6.8%	7.9%	22	21	0.99	No	No
Chevron Corp.	$2.29	$2.06	$2.58	6.3%	8.4%	14	16	1.10	No	No
Intel Corp.	$0.54	$0.49	$0.58	3.5%	8.6%	40	29	1.01	No	Yes
JPMorgan Chase & Co.	$0.88	$0.70	$1.16	13.6%	11.3%	23	18	1.72	No	No
American Express Co.	$0.81	$0.62	$0.95	10.9%	16.2%	20	18	1.67	No	No
Bank of America Corp.	$0.13	$0.01	$0.33	17.2%	24.3%	25	18	2.19	No	No
Caterpillar Inc.	$1.04	$0.93	$1.23	7.2%	25.0%	21	20	1.21	No	No
Alcoa Inc.	$0.09	-$0.01	$0.18	*64.3%	32.7%	15	15	1.71	No	No
Average:				5.3%	7.1%	21	19	0.99		

* Denotes Outlier Excluded from Average
Source: FactSet, Ipreo Research

As issuers try to reduce the focus and reliance on short-term targets, it is important to consider that reducing hard short-term guidance does not necessarily mean the company is reducing transparency. Providing more detailed information on trends and company strategies can help align the interests of management and the type of long-term shareholders that investor relations seeks. By considering new strategies, issuers can achieve such a goal while providing the transparency necessary to aid the sell-side with their research.

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BetterIR - Firm Snapshot

Targeted Firm: Columbus Circle Investors ($11,767.40 M)

Targeting Profile:
Columbus Circle Investors (CCI), founded in 1975 and located in Stamford, Ct., is an aggressive-growth investment firm with reported equity assets of $11.8Bn. It invests in U.S. small- to mega-cap growth stocks, with its heaviest portfolio weighting (42.4%) residing in large caps, and it predominantly focuses on the Technology and Healthcare sectors. Despite its heavy weighting in large-caps, CCI is well diversified in small-caps, with small-cap securities accounting for roughly 40% of its total number of holdings. CCI's portfolio is most heavily concentrated in U.S. and Canadian securities, which combine for over 96% of its portfolio holdings, with European issues comprising less than 3%.

In Q210, CCI was an overall net seller of equities, possibly as a result of bearish sentiments or internal issues. The firm decreased its positions by $3.2Bn, while making purchases of just $1.8Bn. CCI reduced its overall exposure to the Technology sector, its most heavily-weighted sector, by $399.3mm. This can be largely attributed to sales in Apple, Inc. (-$172.7mm), NVIDIA Corporation (-$89.8mm), and Google, Inc. CL A (-$89.5mm). Given that Apple, Inc. is CCI's top holding, it is possible that this sale was merely meant to rebalance the portfolio, and was not a reflection of CCI's opinions on the Tech sector as a whole. In the Healthcare sector, which it historically over-weights, CCI sold $360.7mm. Three of its four biggest sales were in pharmaceuticals, including the liquidation of its $127.4mm position in Mylan, Inc. The Industrial sector, which CCI generally under-weights, was the only industry to see significant buying this past quarter. CCI increased its allocation by $208.2mm, highlighted by its $86.21mm purchase of General Electric Company.

How to Approach:
High growth companies domiciled in the U.S. are the most attractive investments for CCI. The firm's 42.4% weighting in large-cap securities suggests that CCI would find high growth companies with a market cap of over $10Bn to be very appealing. However, given that small-cap companies account for 40% of CCI's total security holdings, companies under $2Bn should also feel confident approaching CCI. Of Columbus Circle Investors' 101 small-cap holdings, roughly 1/3 are Healthcare companies, which reflects CCI's focus on high growth. Therefore, small-cap Healthcare (and other growth) companies would likely be of interest to CCI. Historically, the firm has dramatically over-weighted the Technology sector relative to the broader market, holding an average of ~27% since Q406, compared to its current holdings of 24.3%. Finally, companies that lead their respective sectors in growth, and consistently exhibit positive momentum and positive earnings surprise, are ideal investments for CCI.

How not to Approach:
CCI's heavy portfolio allocation towards North American stocks, including 95% of securities domiciled in the U.S., would make it difficult for international companies to garner significant interest from the firm. Furthermore, Ipreo's analyses indicate that a majority of CCI's portfolio is held in highly liquid positions, and therefore, companies which trade at very low volumes would not likely be model investments. Additionally, it may be difficult for low-growth value companies who trade at low multiples to penetrate CCI's portfolio. The firm puts little priority on dividend paying stocks, so sectors such as Utilities or Energy generally command less attention.

Largest Funds Managed:
- Principal Investors-Largecap Growth Fund ($1,900.05mm); Anthony Rizza
- Transamerica Partners Funds Group – Mid Growth Fund ($251.21mm); Michael Iacono
- Principal Variable Contract-LargeCap Growth Account ($225.78mm); Anthony Rizza

Portfolio Fundamentals:
- TTM Price/Earnings: 24.5x
- Avg. 3 Yr. Revenue Growth: 12.7%
- Dividend Yield: 0.8%
- Price/Book: 4.0x

Average Equity Holding Period: 1.12 years

BetterIR - Fund Snapshot

Targeted Fund: Perkins Mid Cap Value Fund ($10,562.21 M)

Portfolio Manager:
- Jeffrey Kautz; 1-312-922-0355; jeff.kautz@perkinsjanus.com
- Thomas Perkins; 1-415-351-2300; thomas.perkins@perkinsjanus.com

Targeting Profile:
The $11Bn Perkins Mid-Cap Value Fund is the largest of the Perkins Investment Management family of funds and is co-managed by Jeff Kautz and Thomas Perkins. Although 50% of the portfolio is invested in companies with market caps between $2Bn-$10Bn, the fund has recently been diversifying in terms of company size – most notably in Small and Mega caps with purchases such as The Ryland Group (+$33mm) and State Street Corporation (+$65mm).

The portfolio managers have a focused value approach. Typically they look for low P/E multiples, low price-to-book values, strong cash flows, and reasonable growth expectations. Occasionally, the managers will invest in companies that have experience business challenges as of late, but which they believe show promising recovery potential.

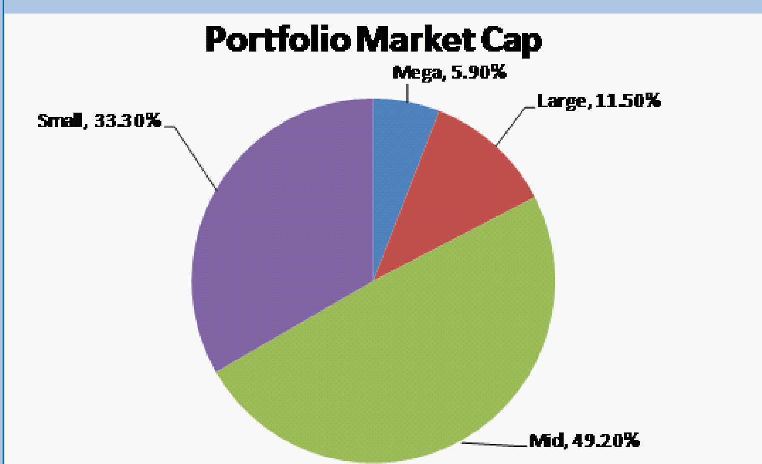
The fund's assets are widely distributed across many sectors with the strongest concentration in Financials, Consumer Services, and Industrials. Recent filings indicate Financials and Industrials as two focal points with buy-ins such as State Street Corporation (+$65mm), Bank of Hawaii Corporation (+$64mm), Pactiv Corporation (+$61mm), and Kellogg Brown & Root (+$40mm). Additionally, in Q2 manager commentary, the PMs have said they have found "attractive opportunities" in the health care sector and "good value" in the technology sector, exhibited by purchases of Life Technologies Corporation (+$35mm), Beckman Coulter (+$28mm), McAfee (+$34mm), and Qualcomm (+$19mm). Energy has been of less appeal, most significant in completely selling-off positions in the controversial driller Transocean (-$72mm) and Kinder Morgan Energy Partners (-$64mm).

How to Approach:
Currently, the fund may be an attractive target for larger companies that trade at lower P/E multiples – according to the most recent June filings, 39% of the fund is made up of companies larger than $10Bn. On the other end of the spectrum, the fund has taken on many new positions in companies under $2Bn, specifically in Technology and Financials. Although these two sectors are the largest of the portfolio, the fund is fairly evenly distributed across industries. When meeting with the PMs, issuers should be prepared to advocate for their future growth potential. If the company is coming off a rough patch, they should be able to decisively explain what will enable them to regain past valuation levels.

How not to Approach:
If your company trades at a premium to the market or with respect to its peers you may have a better chance with other managers. Given recent selling in Energy and select Transportation companies, issuers related to economically sensitive industries may garner a weak reception. Recent managerial comments indicate the PMs have worries regarding continued unemployment and weak consumer spending, calling into question their confidence in the consumer space. Despite recent buys in J.C. Penney and American Eagle Outfitters the fund has been selling retail overall, decreasing its exposure by $150mm.

Portfolio Fundamentals:
- TTM Price/Earnings: 18.9x
- Avg. 3 Yr. Revenue Growth: 6.0%
- Dividend Yield: 1.8%
- Price/Book: 2.4x

Average Equity Holding Period: 1.82 years



Metro Area Targeting Focus - Amsterdam, Netherlands

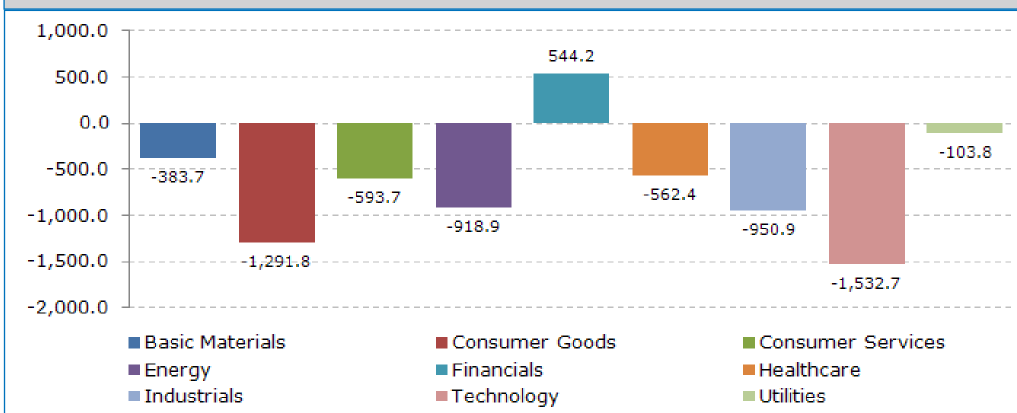
Money Center Statistics

Reported Equity Assets ($B):	$212.9
Number of Institutions:	61
World Rank:	18/183
Top Sector Weighting:	Financials
Technology Weighting:	26.8%
Top Region Weighting:	Europe
Europe Weighting:	43.8%
Total Net Buying ($B):	$12.3
Total Net Selling ($B):	-$18.1
Total Net Activity ($B):	-$5.8

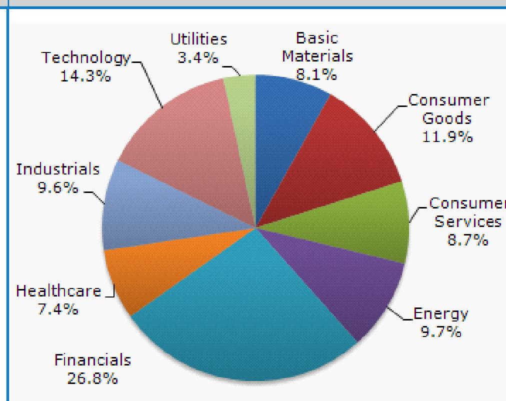
Summary Notes

With a capital markets legacy dating back to the 16th century, the Dutch still rank among the world's foremost market participants. Based on disclosed figures, the Amsterdam metro ranks 18th globally by equity assets under management, and 6th in the UK/Eurozone. Within Continental Europe, Amsterdam sits second behind Paris and narrowly ahead of Frankfurt. On the whole, Amsterdam investors tend to favor Financials (27% of portfolio), Technology (14%), and Consumer Goods (12%). Large stakes in home country multinationals Philips and Unilever help overall weightings in Tech and Consumer Goods, while Real Estate makes up a significant portion of the allocation to Financials. Real Estate and REITs make up roughly 33% of total Financials exposure, and 9% of disclosed overall holdings-- making it a definite Amsterdam specialty. High yields associated with REITs and Real Estate are likely behind the overweighting, with large Dutch pension funds like **APG- All Pensions Group and PGGM Vermongesbeheer** looking for current income. For US REIT issuers planning European roadshow work, Amsterdam is often worth a stop. During the recent period, Amsterdam investors were net sellers of equities, reducing exposure across all industries, with the exception of Financials. Financials enjoying notable net buying over the period included HSBC and the Dutch private bank, Van Lanschot NV, alongside US REITs-- namely Boston Properties, Vornado, and Ventas. Excluding REITs, Amsterdam investors were notably bearish on North American equities, listing Berkshire Hathaway, Exxon Mobil, Procter & Gamble, Apple, and AT&T amongst top sells. **ING Investment BV, APG**, and **BNP Paribas NV** led the sell-offs, favoring value buys at home and elsewhere in the Eurozone.

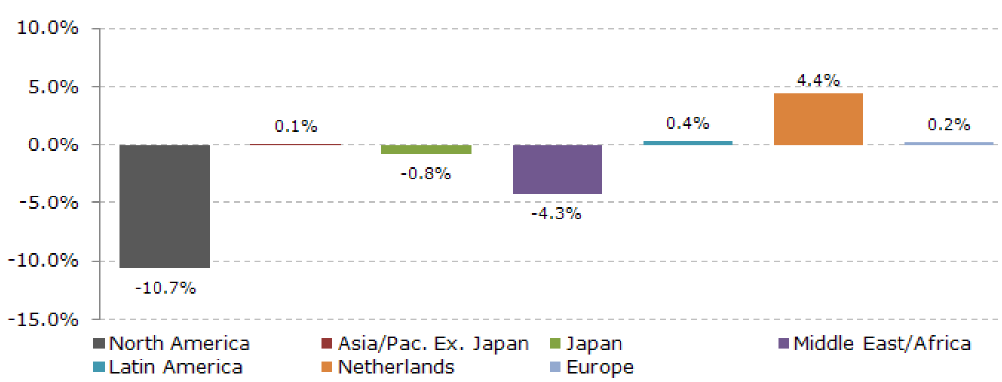
Sector New Activity (% Change)



Sector Allocation



Regional Net Activity (% Change)



Geographic Allocation