

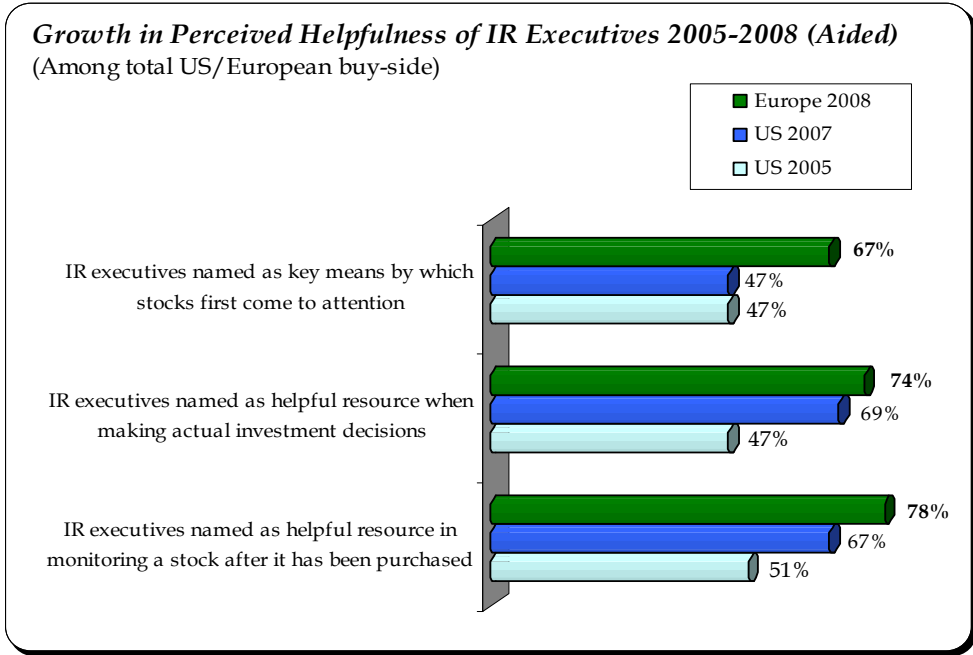
CORPORATE PRIORITIES: *Insights from the Rivel Database of Investment Community Opinion*

August, 2008

Topic: Digging Deeper in Europe: Looking for Opportunity

Our recently published international study focused on the European buy-side, *“Perspectives on the European Buy-Side (2008),”* illustrates some fundamental parallels between European and US institutional investors that can facilitate the overseas outreach of US companies with these investment professionals. Beyond obvious examples of size and diversity of the equity market, European money managers respond to similar corporate messaging and investment motivations that currently drive US fund managers and, to a far greater degree than US investors, look to corporations themselves for investment insight (probably reflecting a relative dearth of local in-house research and much less regular use of SEC filings). Compared to the US buy-side, European portfolio managers attribute greater influence over their investment decisions to management meetings, corporate websites, annual reports and, significantly, communications with investor relations officers.

Accordingly, while our studies have delineated the increased significance of IROs in the United States itself, the impact in Europe appears to be even greater. The following chart shows the extent to which “communications from investor relations officers” is deemed helpful by buy-side investment professionals in Europe (this year) compared to the US buy-side (in 2005 and 2007). Of particular note is the IRO’s role in Europe in first bringing companies to the attention of European portfolio managers.



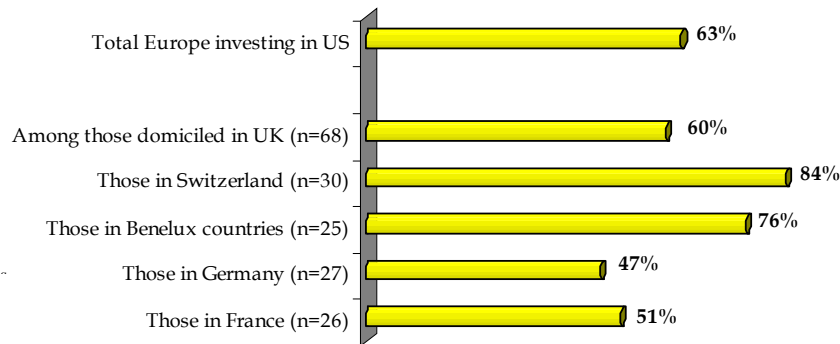
So, while Europe may seem like unfamiliar turf to many, it is also replete with opportunity as the locale of unusual IRO prominence. Even for companies with little prospect for proactive communications with the European buy-side, it is important not to shy away from inquiries from such offshore investors. Your words and insight will likely receive more attention and could help spur favorable investment decisions in their own right. For companies actively targeting European investors, IROs are perhaps even better positioned than they are in the US to serve as vital surrogates for their senior management teams. For the US company, a clear opportunity is in place to shape and influence the context under which its investment appeal is debated.

That's the good news ... The flip side to this story is typified by the need (in fact, a mandate) to differentiate oneself from a host of alternative investment opportunities, and to do so in an environment in which US companies have lost the "home" country advantage they have become accustomed to in the United States, to say nothing of today's roiling credit markets, declining dollar and recessionary environment. Many Europeans (just over a third of the buy-side universe) do not invest in American stocks, and those that do actually show a distinct preference for larger as opposed to smaller caps. Clearly, going to Europe is not for everyone (especially if you are a small-cap company) and to gain real traction among portfolio managers overseas, a US company needs a compelling story and a senior management committed to spending some time outside the US to ensure their company's story resonates and that Europeans can differentiate the firm's investment appeal from alternative equity opportunities.

For those US companies confident that they can fill this bill, the question then becomes where to go first and the answer often is, "How about the UK?" As the largest single equity market in Europe, this is a natural choice, especially in view of the common culture, language and business history. However, be prepared, for the UK currently is not necessarily the focal point of the most favorable attitudes about US equities today. Rather, portfolio managers in Switzerland, Germany and France assign higher attractiveness ratings to US equities than do their colleagues in the UK (albeit ratings given to US equities across Europe currently trail those attributed to the BRIC emerging markets - Brazil, Russia, India and China - again highlighting the difficulty involved in seizing investment attention in a crowded European marketplace).

The UK also is not where we found the greatest frequency of money managers indicating that they held positions in US stocks. While sheer size certainly argues for including the UK (London in particular) on any road show agenda, Switzerland emerges as an attractive target as well, with Zurich the obvious key city. Our study suggests that Switzerland may currently be the nation where a US company will find its most receptive institutional investor audience. A greater percentage of Swiss portfolio managers reports investing in US common stocks than in any other region included in the research - between eight and nine in ten (84%) say they currently own US equities.

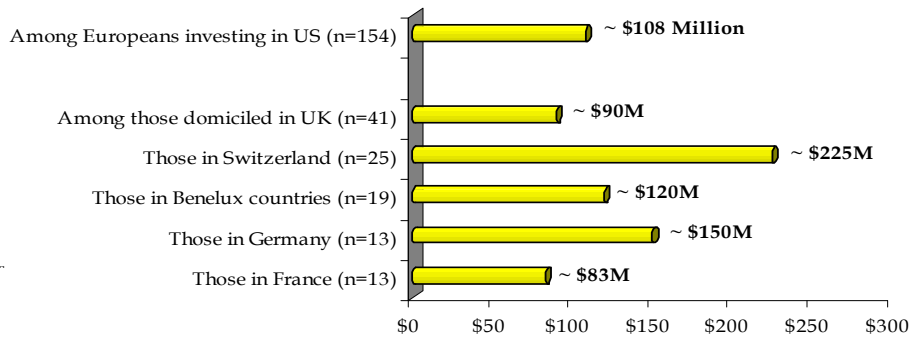
European Investment in US Equities by Country



Caution: Low base sizes. Margin of error exceeds the +/- 6% relevant for total European investors.

Swiss buy-side professionals also report having made the largest commitment to US stocks, raising the possibility that this is the region where IR resources are likely to be most efficiently spent (perhaps yielding the proverbial most “bang for the buck).” Combining data/results from two questions included in our study – median percentage of one’s total portfolio devoted to US equities with total size of personally managed equity portfolio – we have arrived at an estimate for the average US equity portfolio by European country. Using the exchange rate prevalent during much of the interviewing period, about 1.5:1 dollars to the euro, it appears that institutional investors in Switzerland manage the largest portfolios of US stocks – about \$225 million. While this is only a very rough estimate, it underscores the opportunity implicit in investor communications that go beyond the UK and place additional emphasis on Switzerland.

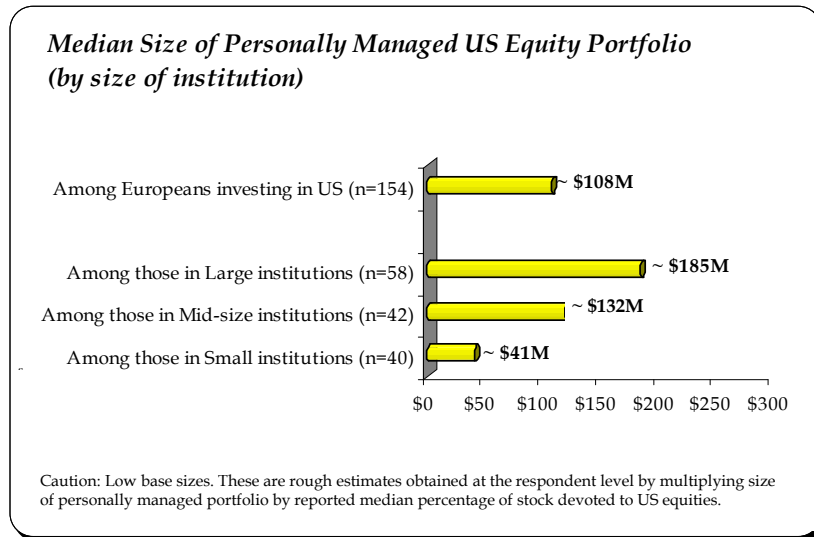
Median Size of Personally Managed US Equity Portfolio



Caution: Low base sizes. These are rough estimates obtained at the respondent level by multiplying size of personally managed portfolio by reported median percentage of stock portfolio devoted to US equities.

Beyond Switzerland, however, a couple other guidelines are important to stress and consider in planning and/or fine tuning US investor communications strategies among European portfolio managers.

- ❑ Unless there is compelling rationale to the contrary, only the largest European institutions (preferably, those managing global assets in excess of \$10 billion but also those in the \$5 billion plus range) should receive direct management attention. Not only are smaller-cap institutions a bit less likely to invest in US equities, the US portfolios that they manage are quite small.



- ❑ And, from the standpoint of investment style, companies whose financial performance can be aligned with the goals and objectives of GARP investors may also have a greater opportunity to speak to more meaningful and receptive investor audiences in Europe.

