



IR Global Investor Review 2009



BACKGROUND

Building on its unique global franchise, FD's Global Investor Relations (IR) practice has completed a comprehensive review of evolving investor sentiment across all the key capital markets of the world. This is aimed at providing senior executive management and IR professionals with independent insight into the key themes and drivers for investors, helping to better prioritise time, messaging and capital requirements as they start to plan for 2010.

FD's global IR practice recently conducted interviews with leading fund managers at 150 of the largest institutional investment firms in the world, with combined assets under management of over US\$2.5 trillion. Respondents were based in the United States, the United Kingdom, Europe and Asia Pacific with a broadly similar sample size from each geographic market.

The questioning was focused on three key areas:-

- The extent to which market turmoil is now behind us and investors are looking forward with confidence.
- The extent to which attitude and outlook is influenced by company and / or investor origins.
- The importance to investors of the equity market regulatory environment.

SECTION

1

KEY FINDINGS

Investors confident on market prospects; concern over withdrawal of Government stimulus

- Over 75% of investors questioned were confident that equity markets had not peaked after the recent rally and that global indices are likely to rise further.
- The key driver of markets since March 2009 has been the broad range of Government stimulus packages across the world. While these remain in place, the outlook for equity markets remains positive. The key challenge facing Governments will be how to extract themselves from their current role of support, whilst maintaining market optimism.
- There are significant spreads geographically in the degree of optimism. Investors in Asia-Pacific are the most bullish; those in the UK and US are least bullish.

Healthcare and technology sectors favoured

- Healthcare and technology are the two sectors where investors are most optimistic for 2010, reflecting solid cashflows and stable maintenance income. This was particularly clear among US and UK based investors who were the largest group of respondents, but also the most cautious.

Investors' views on the financial services sector widely divergent

- The greatest divergence of opinion was in the Financials sector, with investors including it amongst their most favoured sectors for 2010, but also amongst their least favoured. How that difference is resolved will be crucial to any sustained recovery.



Asia Pacific is the preferred region for investment and its investors the most optimistic

- Asia Pacific is viewed as the most promising region for investment. On-going Government investment and a clear commitment to transform the Asia Pacific economy are expected to continue offering rewards. The US is attractive in its role as the perceived leader of the global economic recovery.
- In contrast, Latin America is expected to deliver average performance closely tied to a rebound in the US economy, while the economic challenges facing Eastern Europe are seen as substantial.
- Investors based in Asia Pacific are by some margin the most optimistic across the world. UK investors are the most pessimistic.

The regulatory environment of individual markets is extremely important

- 73% of investors said that the issue affects their inclination to invest either “Significantly” or “Very significantly”.
- The US and the UK have the most highly rated regulatory regimes. Eastern Europe and Latin America’s regulatory structures give investors the greatest cause for concern.
- The valuation of companies, particularly in emerging markets, is heavily influenced by investors’ perception of the strength of the regulatory environment. Asia Pacific is highest rated of the key emerging markets.

KEY THEMES FOR 2010

Market Dynamics

- Companies in general need to examine and be thoroughly prepared for the timing and nature of an exit of Government support from global financial markets.
- Companies in need of capital market support should aim to capitalise on the benign markets at the earliest opportunity. As and when Government support starts to reduce, the risk profile of global equities is likely to increase dramatically.

Investor marketing

- When marketing to investors, exposure to Asia Pacific looks to provide the greatest opportunity. Companies should seek to separate out earnings exposure to the region as far as possible.
- Healthcare & technology companies should accelerate their IR efforts into 2010, given clear investor interest.

- Cyclical companies and those looking to attract new investors should increase their IR efforts in Asia Pacific, where investors are most optimistic regarding global economic prospects.
- US and UK investors are more bearish about the medium term prospects. They are more likely to be attracted to companies with strong defensive qualities.
- Financial services remains one of the least well understood sectors in the market, with strongly divergent views on its health and prospects. It is essential that executives in this area work to improve levels of understanding, if confidence is to be maintained and grow.

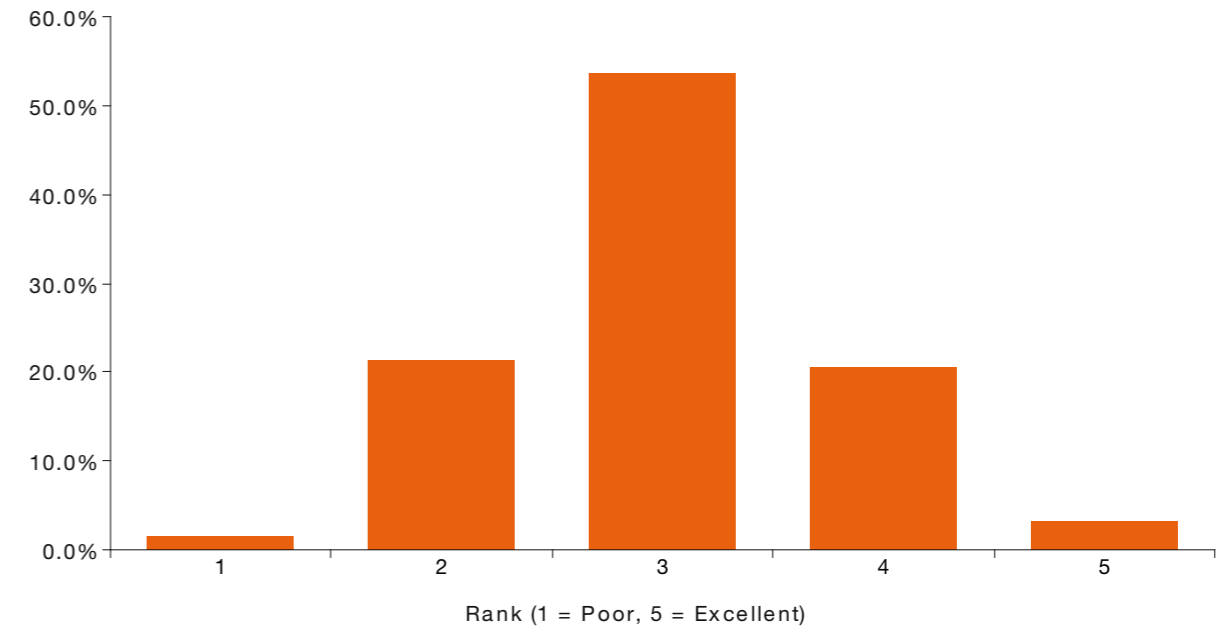
Regulation

- Companies that wish to attract global investors (and a commensurate valuation) need to benchmark corporate governance standards against the global best practices not just local minimum regulatory standards.

INVESTOR CONFIDENCE RELIANT ON ONGOING GOVERNMENT SUPPORT

With markets up over 50% from March 2009 lows, the key issue dominating current investor thinking is whether the rally has come too far, or whether the signs of global recovery are now secure and it is simply a matter of time before this is reflected in corporate earnings.

How do you view the prospects for equity markets looking into 2010 (Ranked 1-5, where 1 is Poor and 5 is Excellent)?



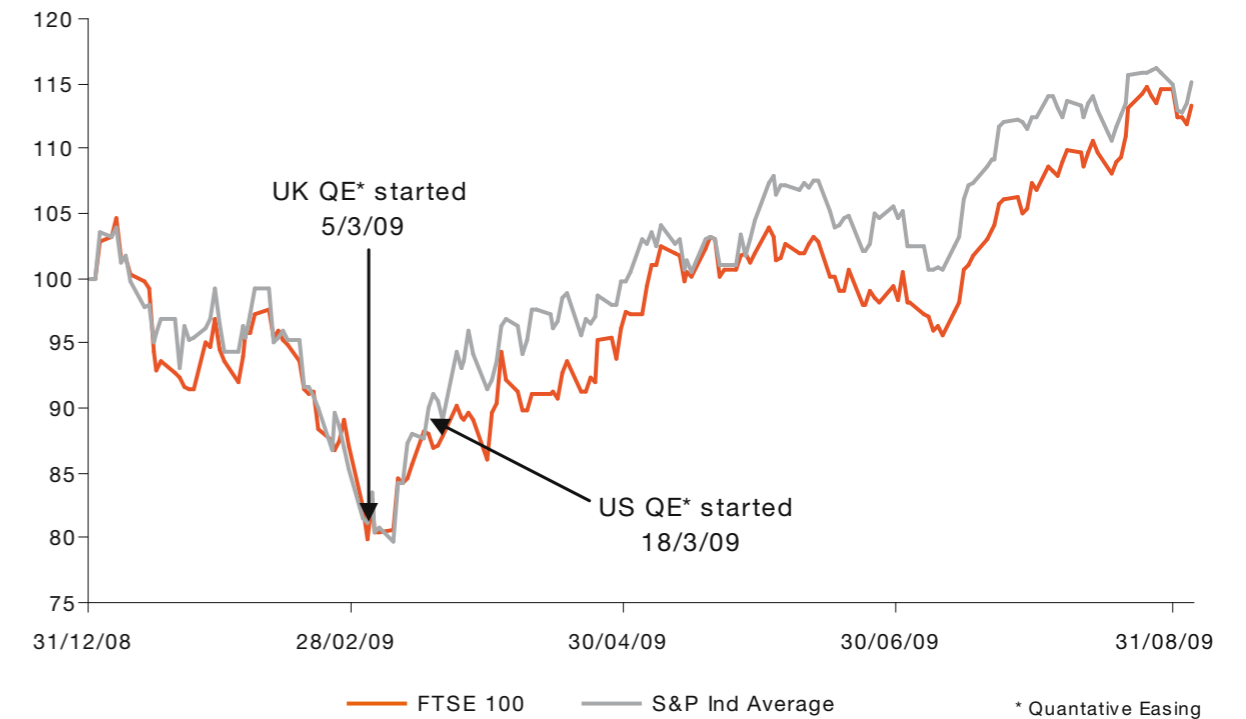
With that in mind, we asked investors how they viewed the prospects for global equity markets looking into 2010. This provided a surprisingly positive response, with over 75% of interviewees describing the prospects as neutral or positive. This is clearly in marked contrast to much of the current media speculation that the only logical end to the recent rally is another crash.



There are concerns at both the lack of earnings visibility - *"there is very low (earnings) visibility in the global markets right now"* - and the extent to which recent strength has been driven by sentiment rather than real improvement in corporate performance - *"... everything now is being driven by sentiment and not by any actual recovery"*.

However, the combined effect of government monetary stimuli throughout the world is providing a wall of money that is overwhelming any underlying market concerns - *"... there has been so much economic stimuli around the world that the markets can't help but go up. That will no doubt continue for the time being so I remain reasonably relaxed. Once the Government money runs out - that is when we will need to worry"*.

Total return to shareholders since year end 2008





This view is borne out by an analysis of market performance this year, with the recovery prompted in early March - consistent almost to the day with the start of Quantative Easing.

This highlights the key challenge facing Governments – how to remove the current raft of stimulus packages without contributing to a further downturn. It also highlights, for the corporate sector, the importance of taking advantage of the increasingly benign capital market environment. It is unlikely to be sustained indefinitely.



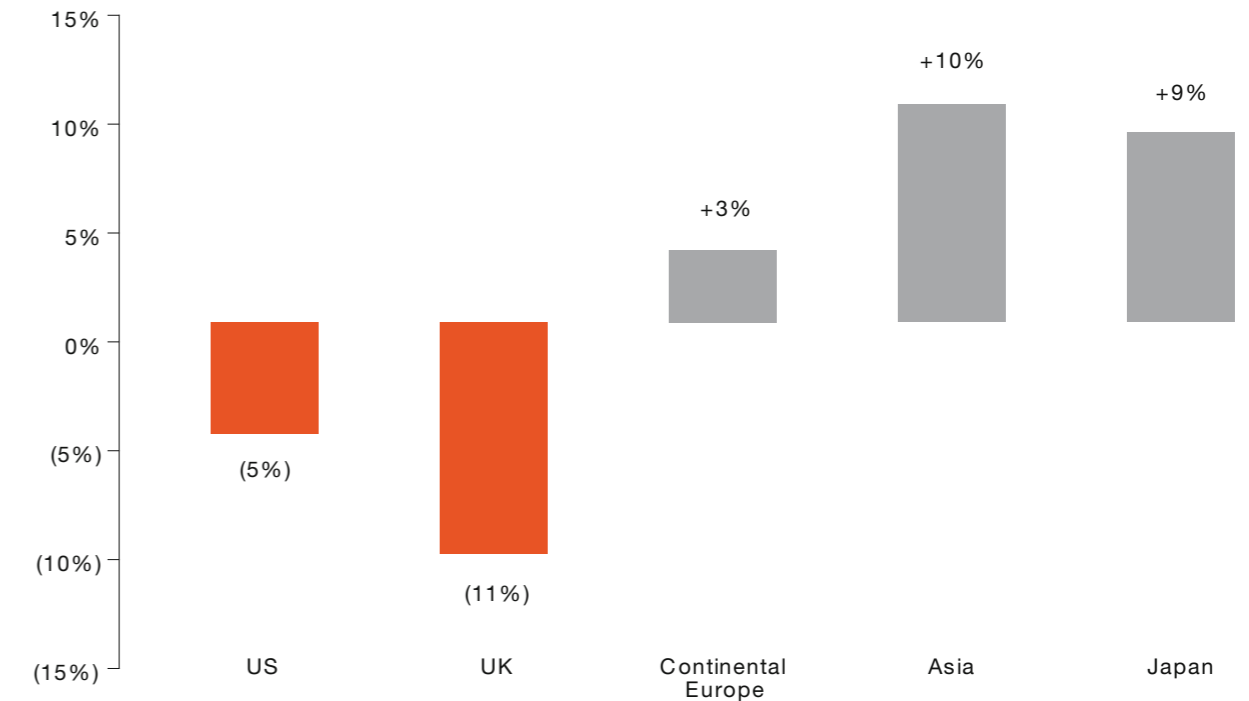
ASIA PACIFIC MOST OPTIMISTIC REGION IN THE WORLD

We have reviewed the relative levels of optimism for each geographic segment – both in terms of the attitude of investors within each country towards global equities, but also the attitude of global investors towards each region.

a) Asia Pacific investors are the most optimistic in the world

We asked investors throughout the world how they viewed the prospects for global equity markets, ranking from 1-5 (where 5 is Excellent and 1 is Poor). The average score across the world was 3.02, but with significant variations as detailed below.

Relative optimism score of investors based in particular geographies relative to global average





Asia Pacific is clearly the area of greatest optimism, with investors based there significantly more positive than average on the outlook for global markets. This unsurprising result no doubt reflects, amongst other things, the more buoyant state of their local markets / economies - *“while there are risks still out there, I think there is good potential in parts of the world - primarily China and this region”*.

Conversely, the UK has the most negative investors. Once again their perspective on the world is clearly influenced by local market concerns - *“... the green shoots of recovery are in place, but there are still some headwinds to face. In particular, the large levels of debt”*. Similar themes are prevalent in the US.

Clearly the above data would suggest that companies managing cyclical businesses should increasingly consider roadshows to Asia Pacific as an effective use of their time. Also, Continental Europe is likely to be more productive than the US / UK.

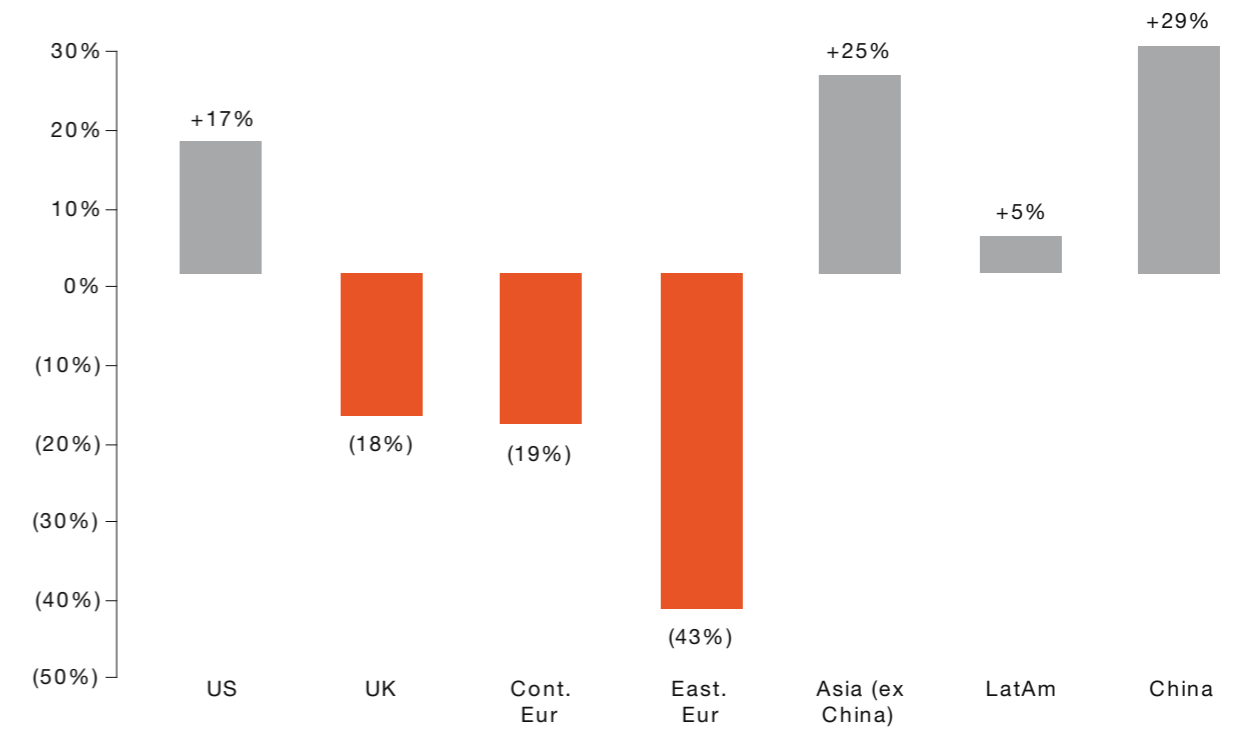


UK, and to a lesser extent US investors, are most likely to be interested in businesses with a solid defensive profile, given their more cautious view on the outlook.

b) Global investors are most optimistic towards Asia Pacific, least optimistic towards Eastern Europe

Separately, we have also asked individual investors to score individual regions from 1-5 (where 5 was “Very likely to buy” and 1 was “Very likely to Sell”). Overall the average score was 2.9. We have plotted the score of each region relative to that average on the chart below.

Relative attraction of geographic equity markets





In China, the key driver is the massive government investment and a clear commitment to transform the economy - *“Government stimulants and a commitment to develop the economy of China look set to continue; I am particularly looking at companies in the region that are receiving central government assistance”*.

The only concern with Asia Pacific is that the strong market recovery this year (China +60% year to date) has already run too far too fast - *“The fundamentals in Asia Pacific are generally better, but the markets there have rallied too much and too soon”*.

The attraction of the US appears to be driven by relative valuation and the logic that having been the first country into the downturn, the US is likely to lead recovery - *“the US is coming out of the recession before the UK and Europe because it went into it first - but not before emerging markets”*.

Interestingly, the emerging markets theme does not extend much beyond Asia Pacific. Latin America is only seen as averagely attractive, whilst the economic challenges facing Eastern Europe remain substantial - *“I am afraid that Eastern Europe is in terrible shape. Not close to Asia Pacific. It remains very difficult to see how they are going to solve the debt and banking concerns”*.

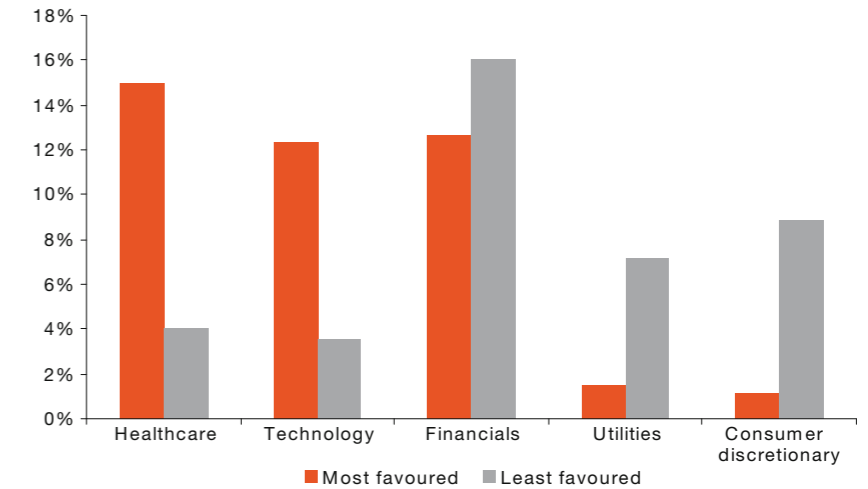
That said, investors are expecting to move more positive on Latin America once any US recovery gathers steam - *“Pay attention to Latin America, and Brazil in particular, longer term”*.

HEALTHCARE & TECHNOLOGY MOST FAVOURED; OPINION DIVIDED ON OUTLOOK FOR FINANCIAL SERVICES

We also asked investors to identify which were the three sectors that they viewed as “Most” and “Least” favoured looking into 2010.

Which sectors would you identify as “Most favoured” and “Least favoured” looking into 2010?

Healthcare and technology were the two sectors that received the most positive return, with 15% and 12% respectively of respondents highlighting each as amongst their most favoured sectors looking into 2010, against only 4% highlighting each as unfavoured.



These results would suggest that despite much short term interest in cyclical recovery stocks, defensive characteristics such as good cashflow and stable maintenance income are more important as investors look further into 2010.

On the negative side, investors remain very wary of any sectors reliant on discretionary consumer spending (luxury goods, etc). This was particularly clear in the US, where almost 70% of investors highlighted this as an area to avoid.

However, perhaps most interesting was the financial services sector where there was a marked divergence of opinion. 13% of investors highlighted it as one of their most favoured sectors and 16% as their least favoured. Clearly, this is likely to drive considerable volatility as the year progresses.

REGULATORY ENVIRONMENT INCREASINGLY IMPORTANT

The sharp correction in markets over the last two years has left investors increasingly focused on regulation. How much can they rely on what companies tell them? To what extent are investor interests protected in the event that things go wrong?

“Regulation is critical and less regulated environments to me indicates less transparency which indicates more uncertainty. I need to have a very good understanding of my investments, especially now, when everything has become less certain”.

To what extent does the regulatory environment of a given market affect your inclination to invest?

■ Very Significantly
 ■ Significantly
 ■ Not At All Significantly



73% of investors throughout the world highlighted that regulation affected their inclination to invest either Significantly or Very significantly – *“People need to have confidence in the markets. A strong regulatory environment improves investor appetite and increase confidence”.*

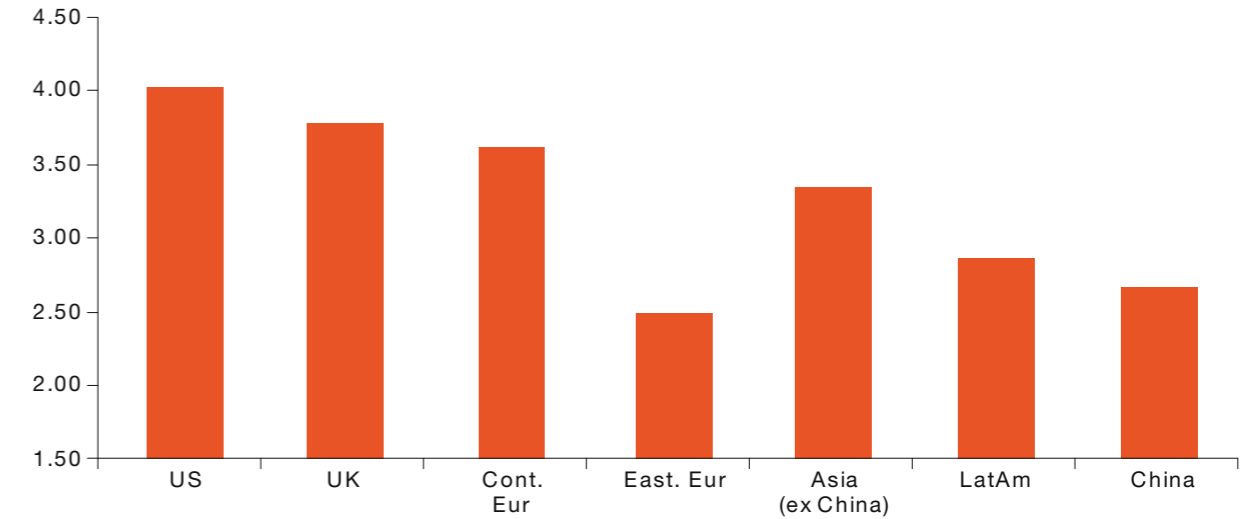
This area is particularly important for US and UK investors, where over 80% of respondents highlighted that the issue impacted their inclination to invest.

It is therefore crucial that companies think very carefully how to address any perceived weaknesses in their regulatory regime when roadshowing in these markets.

Furthermore, when deciding to list new shares, companies need to consider that while lighter listing requirements may make the process more straight forward, the subsequent valuation of the company may be negatively impacted - *“I simply apply a greater equity risk premium if it seems a dangerous environment”.*



How would you rate the regulatory environments in the following regions? (5 = Investor Friendly, 1 = Investor Adverse)



Looking at individual geographic markets, the US is the most highly rated by investors in terms of the robustness of the regulatory regime, closely followed by the UK and Continental Europe.

"It is very important here to differentiate between investor friendliness and investor protection. Some places, like China for example, are friendly to investors but when things go wrong offer no protection to minority, overseas investors".

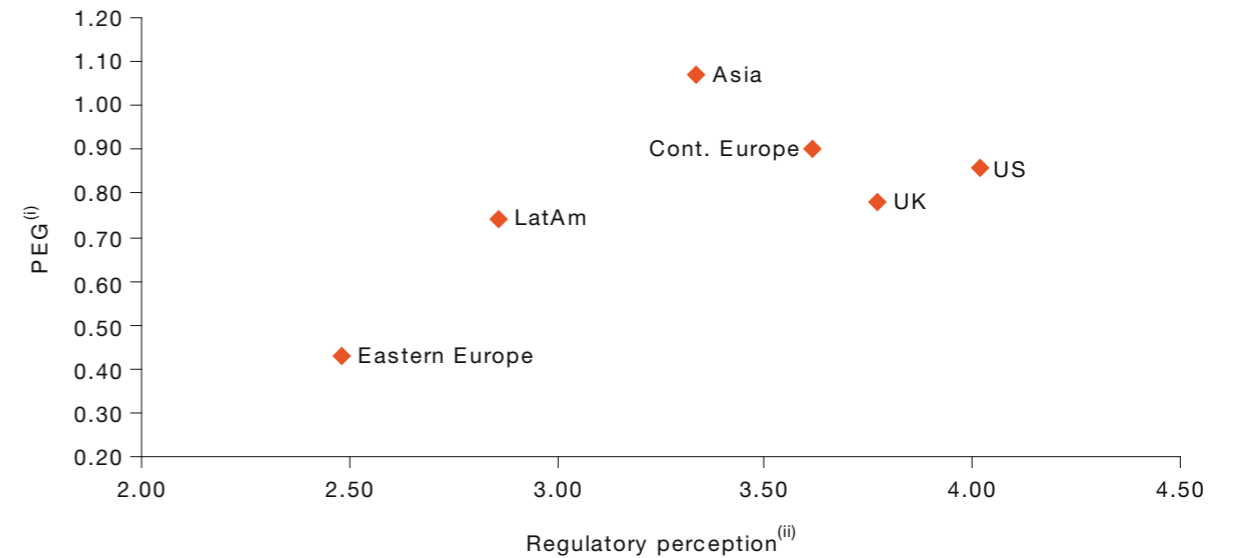
Eastern Europe received the lowest ratings, with over half of respondents scoring them 2 or less out of 5 for investor friendliness.

"The trouble with much of Eastern Europe is that there are few regulations, and those that are there are not well implemented. As an external investor we are always the last to hear of any problems".

The importance of regulation was highlighted further when looking at how much investors are prepared to pay for growth in particular markets.



PEG ratio against regulatory perception rating



- i) PEG ratio is a measure of how much investors are prepared to pay from growth, calculated as = PE (1yr fwd) divided by growth (CAGR 1-3 yrs fwd)
- ii) Investor perception of regulatory strength from 1-5, where 5= Investor friendly and 1= Investor adverse

This is particularly evident when one looks at the emerging markets (Asia Pacific, Latin America and Eastern Europe). As detailed in the chart above, Asia Pacific is perceived to provide the most rigorous regulatory environment of the three regions, which helps contribute to investors being comfortable paying more for that growth (as assessed by the PEG ratio).

In contrast, Eastern Europe is perceived as having a very weak regulatory regime, and investors are equally cautious about over-paying for potential earnings appreciation.

In the more mature economies, the markets trade off lower PEG ratios than might be expected looking at just the regulatory regime. However, this likely reflects expected growth rates over the medium-term, based on recovery from a downturn as against stronger (developing market driven) growth.

CONTACTS

FD International Leadership Academy Team

Carolin Amann
FD Frankfurt
+49 69 920 37 132

Hugh Barker
FD Dubai
+971 4 332 8832

Sarah Browne
FD Perth
+61 8 9386 1233

Marc Cohen
FD London
+44 20 7269 7216

Henrietta Green
FD Paris
+33 1 47 03 68 60

Alexandra Tramont
FD New York
+1 212 850-5723

FD's Global IR Practice

Edward Firth
FD London
+44 20 7269 7212

Diana Footitt
FD Hong Kong
+852 3716 9801

Mark Kenny
FD Dublin
+353 1 66 33 681

Gordon McCoun
FD New York
+1 212 850-5681

Elizabeth Saunders
FD Chicago
+1 312 553-6737

