

T H E

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CONTENTS:

High Frequency Trading

Global View and Local Impact

Socially Responsible Investing

Green is the New Black

Equity Investment in Troubled European Economies

Portugal, Ireland, Italy, Greece & Spain

Firm Snapshot -

Global Thematic Partners, LLC

Fund Snapshot -

BNY Mellon U.S. Core Equity 130/30 Fund

Metro Area Targeting Focus -

Chicago, Illinois

Volume 4, Issue 3
March, 2011



High Frequency Trading Update - Global View and Local Impact

Global View and Local Impact

“What impact is HFT having on the market for my shares?”

Various forms of this question have percolated throughout the global IR community over the last several years, with few concrete answers made available to issuers. Transparency is certainly not one of the primary goals of any trading system that has an investment horizon of mere microseconds, and regulatory structures don't offer much ability to view order and trade books with any level of understanding of the type or identity of each trader, HFT or not, behind each trade.

Therefore, much like a scientist observing not the atom itself, but the evidence of the atom, issuers, institutions, and researchers use indirect means to monitor the presence of and impact of high-frequency trading in order to understand it. To date, academic research continues to show that HFT, in and of itself, does not appear to weaken markets, as measured by depth, breadth, continuity, or other basic measures. For example, Jonathan Brogaard of Northwestern University analyzed sets of trade-level data for a wide set of HFT firms over specific weeks and concludes that “HFTs activities are not detrimental to non-HFTs” and “HFT tends to improve market quality.” Academic work tends to coalesce around the belief that HFT adds liquidity and dampens volatility in already-liquid issues, serves generally as a “price taker,” and aids in the price discovery process.

Ipreo last broached the impact of high-frequency trading in the BetterIR Newsletter in September 2009, prior to the May 2010 “flash crash” and the debate over the Dodd-Frank legislation. While it's apparent that HFT was not the sole “cause” of the flash crash, or of other instances of market volatility seen since then, it is important to be aware of the changes to market structures and their impact when monitoring your own trading. Also, Ipreo has seen, at least in the US, a general moderation of the size of HFT in large-cap issuers' trading, possibly due to more investors starting to understand the market (at least, better than the Ivy Asset Strategy Fund did on a certain day in May 2010...)

Separately, does a market structure with HFT representing a large percentage of overall trading volume occur across the globe, and in other asset classes as well? Essentially, operating a high-frequency trading firm has fairly low initial barriers to entry – it simply needs a) a market with limited transaction costs, b) a purely electronic interface, c) a sufficient, though small, amount of trading capital, and d) enough hardware and software power to compete with other traders on latency. These characteristics apply to many markets across the globe. Academic research would suggest HFT is prevalent globally, and Ipreo has seen similar increases over time in the portion of trading represented by non-institutional traders as well.

Institutional Capture Rate Methodology

Ipreo has used the Institutional Capture Rate calculation since 2006 to approximate the percentage of all trading that is sourced back to institutional investors with a sufficiently long investment horizon. In the US, for example, the calculation is based on the complete disclosures that institutions make available from Form 13-F:

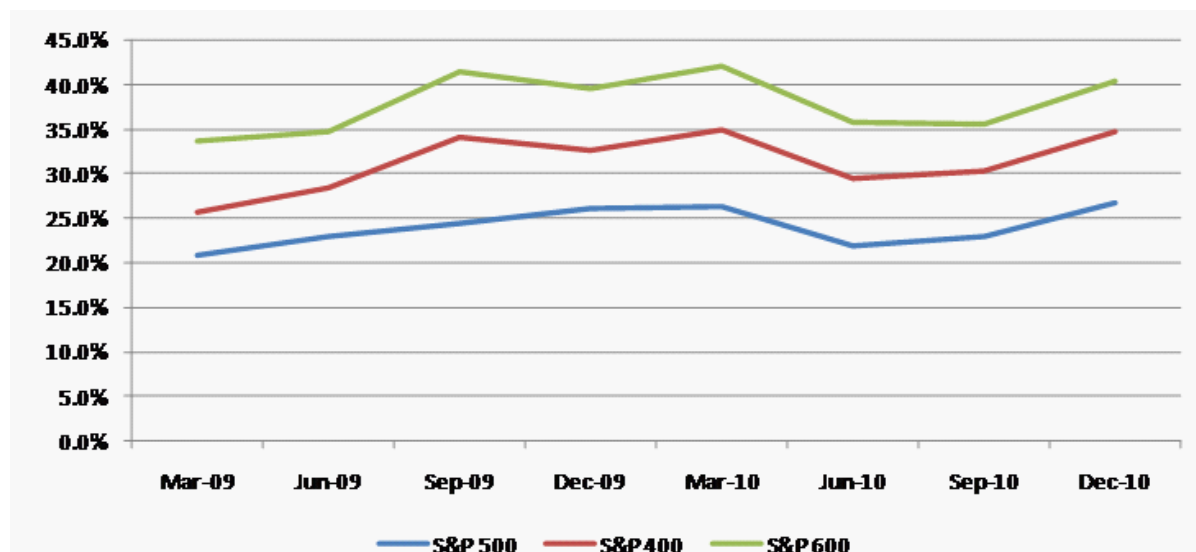
$$[(\sum \text{Total Institutional Increased Positions}) + (\text{ABS}(\sum \text{Total Institutional Decreased Positions}))] / \text{Total Trading Volume}$$

This figure is expressed as a percentage, and can be used as evidence of the amount of institutional trading vs. “other” trading (including HFT) that occurs during any period. The institutional Capture Rate calculations are used across any market in which a complete picture of ownership and trading volume – while a quarterly view of this figure is available through analysis of US 13F filings, it is also possible to calculate this figure for non-US companies as well, based on bespoke shareholder identification analysis. Through the prism of ICR, it is possible to estimate the impact of HFT for a wide range of global regions and determine the relative size of HFT over time for any issuer, as well as a comparison to any market.

US Institutional Capture Rate Update

According to the broader view of institutional capture rates, it appears that the percentage of market represented by HFT may be moderating over the last two quarters. Indeed, looking across the broad range of all S&P 1500 securities, Figure 1 shows average institutional capture rates for each security rising fairly sharply across large, mid, and small-cap securities over the last two periods to near three-year high levels. The trend is actually most pronounced in the mid-cap S&P 400 range, in which the mean average capture rate of S&P 400 securities has risen from 25.6% in Q1 2009 to 34.6% in Q4 2010 (a relative increase of over 35%)

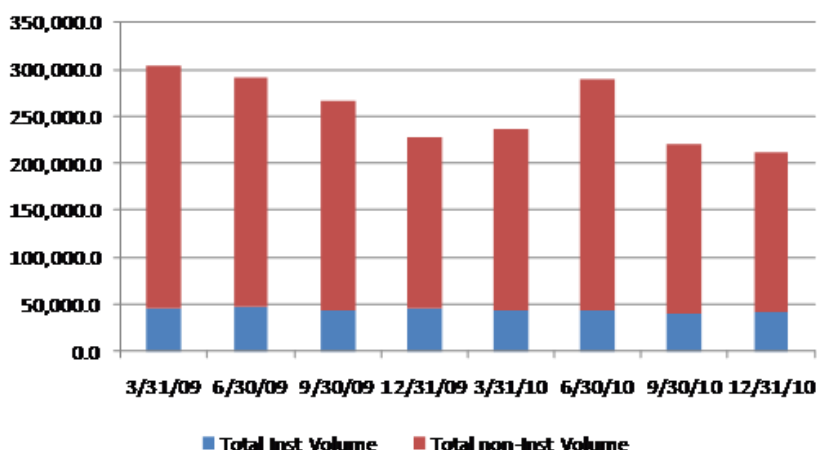
Figure 1: Equal-Weighted Mean Institutional Capture Rate, S&P 1500, Quarterly, 3/08 - Curr



Source: Ipreo Research

Figure 2 shows that a significant portion of the source of this change is due to lower trading volume; as an example, total S&P 500 share volume of 212.3b shares traded in Q410 represents an over 30% drop in total trading volume versus the height of market activity seen in Q109. However, the total volume sourced to institutions shows a decrease of just 8% relative to the Q109 period, with only a 4% drop shown in institutional net buying shown as well. In total, as volumes have declined during the second half of 2010, HFT as measured by ICR has also decreased.

Figure 2: S&P 500 Total Share Trading Volume, Quarterly, 3/09 - Curr



Source: Ipreo Research

The converse of the general thesis of “liquidity begets liquidity” may also prove true as well, as the broader slowdown in volumes may lead to fewer securities with sufficient liquidity for HFT to make significant profits with minimal capital. For one thing, the difficulty that bulge bracket brokers have had recently due to the new limitations the Dodd-Frank legislation places on proprietary trading may be leading to ongoing decreases in liquidity. Without significant volatility and significant available liquidity already in place, HFT may have to search for new opportunities to use its advantages to turn profits. More importantly, while institutions and those filling large orders are always the “price makers” in any market, issuers seeing declines in trading volume may interpret these as having institutions represent a larger portion of overall trading now than in the more volatile periods of 2008 and 2009.

European Impact and Institutional Capture Rate

UK issuers see fairly complete and timely disclosures of institutional ownership in public form based on the public register system – many data providers deliver information on the FTSE 100 issuers in monthly or every-other-month format, offering the ability to calculate a good approximation of the Institutional Capture Rate for UK issuers over an even shorter period of time than in the U.S.

At a glance, large-cap UK issuers appear to have slightly higher institutional capture rate levels than their U.S. counterparts, with the Median ICR across the FTSE 100 companies sitting at 33.8% relative to the S&P 500’s Median ICR of 26.1%. Also, amongst specific securities, UK issuers appear to show very similar biases by sector and by size to the US market, with mega-caps, financials, and commodity-based business showing lower average ICR than the market as a whole.

Incomplete ownership disclosure exists across much of Continental Europe, preventing a serious examination of broad institutional capture rates across the multiple exchanges on the continent by sector or market cap. However, by analyzing bespoke shareholder identification work performed by Ipreo on a frequent basis (at least 3 ID projects per year), it’s possible to get at least a rough benchmark of the levels of ICR trading going on in other markets. These figures (aggregated in Figure 3) represent useful comparison points for European issuers, though they are not based on a comprehensive set of companies.

Figure 3: Average ICR by European Exchange, Ipreo Shareholder ID Clients, 6/09 – Current

Exchange of Listing	Avg ICR	Median ICR
Deutsche Boerse	38.2%	34.8%
Euronext Paris	42.6%	43.3%
Swiss Exchange	29.8%	26.4%
Vienna Bourse	33.5%	35.3%

Source: Ipreo Research

Getting Granular – HFT and Daily Trading

Ipreo’s Global Markets Intelligence Team is responsible for tracking the daily trading activity of a wide range of corporate issuer customers in both the large and small-cap ranges, and over the expansion of HFT as a higher percentage of overall trading has become acutely aware of the patterns short-term traders take alongside volatility.

Frank Zhang and Stuart Baden Powell, writing in CFA Magazine’s March/April 2011 issue, discussed the impact of HFT and highlighted on piece that came from the CFTC’s study on the May “flash crash.” *“The automated execution of large orders by institutional investors, which often use trading volume as the proxy for liquidity, could help trigger excessive price*

movement and extraordinary losses” (emphasis Ipreo’s). Essentially, just because large *volumes* have been recorded during a volatile trading session, it may not necessarily follow that sufficient *liquidity* exists for an institution to fill a large order – higher volatility may be attracting increased HFT, which will not necessarily offer the ability to complete institution-sized orders without a large price impact.

Ipreo sees a similar pattern across its clients during volatile trading sessions as part of its tracking process through Depository Trust & Clearing Corporation (DTCC).

After any trade is settled, the custodian or broker position for the buyer will show an increase in shares held of the trade size at T+3, while the custodian or broker of the seller will show a corresponding decrease, unless one of two conditions happen: a) the trading accounts for both the buyer and seller of the security exist at the same custodian, in which case the trade is settled *intra-custodially* and a zero balance will be displayed at end of day, or b) the buyer and/or seller reverse their positions by the end of the trading session, in which case a zero balance will be displayed as well. If you make the assumption that intra-custodial trading is fairly evenly distributed across trading days, it is then possible to get a closer approximation of the amount of trading of type b), trades which reverse themselves during the same session, by looking at daily DTC balances and comparing them between volatile and less-volatile sessions.

In a small sample of ten mega-cap issuers (as previously identified, mega-caps are the companies most likely to see the highest % levels of HFT relative to overall volume), Ipreo looked at the total number of position increases and decreases at the custodian / broker level for each settlement date relative to the volume on the corresponding trade date (settlement occurs at T+3 after trading).

Figure 4 - % of Trading Reflected in DTC Settlement, Ipreo Mega Cap Clients, 12/15/10 – 3/15/11

Security	Top 3 Most Volatile Sessions	All Other Sessions
ABC	21%	47%
DEF	24%	48%
GHI	18%	45%
JKL	20%	40%
MNO	30%	40%
PQR	35%	52%
STU	16%	46%
VWX	29%	41%
YZA	29%	43%
Mega-Cap Average	25%	45%

Source: Ipreo Research

As noted in Figure 4, a significantly smaller percentage of trading is reflected in the normal daily settlement process on the most volatile trading periods. This data supports the thesis that HFT generally represents a higher percentage of volume during volatile trading periods. HFT’s, which are generally assumed to close their positions before the end of trading, are not seen in this settlement process, and the increase in HFT on very volatile dates likely represents a large portion of this nearly 20% of trading volume gap that is seen in the mega-cap stocks analyzed. During many volatile sessions, it may be more difficult for an institution to fill a large order than it may seem.

Gather Your Own “Mosaic”

Whether or not you believe high-frequency trading represents a benefit or a hazard to trading in your issue, its presence is now a fact of life in equity trading across global, not just U.S., trading markets. While no one market participant – regulator, trader, market maker, portfolio manager – will have a complete view of what HFT’s impact will be on your issue, it’s possible to put together an effective picture of what your market looks like by gathering evidence from a number of sources. In addition to watching your own trading and speaking to your market intelligence firm, talk to your traders as well; traders (particularly those hoping to win your stock buyback business in the future) will often be willing to have candid conversations with you about the quality of your market, and this can give you important information to keep management aware.

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Socially Responsible Investing - Green is the New Black

Although it goes by many names within the investment community, Socially Responsible Investing (SRI), also known as sustainable or ESG (environmental, social, governance) investing is an investment approach taking into consideration companies’ broader impact on society along with standard investment analysis. Such investors often follow a “triple bottom line” approach encompassing analysis of environmental, social, and financial performance across all asset classes. The breadth of individual fund strategies utilized incorporates a vast array of societal issues including ethical, sustainability, environmental, governance, and religious concerns. In recent years, SRI strategies have emerged as a conventional investment tool epitomized by the tremendous growth of SRI oriented offerings which include the emergence of mutual funds, indexes, and exchange traded funds. Over the last 2 years, publicly disclosed assets by socially responsible mutual funds have grown 3.1% but when taking into account public pension funds, hedge funds, and investment management firms, it has been estimated that since 1995, total assets under management using an SRI strategy grew in excess of 380% to \$3.07 trillion in 2010 (“2010 Report of Socially Responsible Investing Trends in the US”). Though predominantly a European approach, SRI strategies have gained traction in other developed parts of the world as well as emerging markets, most notably through Shariah compliant funds. The recent growth is a testament to an increasing social and environmental consciousness globally which has been driving demand for socially responsible investment vehicles.

Rating Companies

Over the past several years, ESG has become a fundamental part of investors’ due diligence prior to making investment decisions. Rather than analyzing each individual company themselves, many institutional investors rely on 3rd party rating agencies to perform due diligence to insure companies comply with ESG guidelines and rate each company accordingly. Although investors each may focus on a certain criteria, ratings agencies typically analyze all areas of a business and give individual ratings on each category before giving an overall rating to each company. One publication many SRI investors and ratings agencies pay particularly close attention to is the Fortune Magazine’s annual list of the “100 Best Companies to Work For”. Many studies have determined that employee satisfaction is positively correlated with employees’ overall performance as it typically reflects working conditions and safety within a company. Corporate governance includes a company’s strategy and adaptability as well as pay practices, board independence, external auditors, etc. Obviously

a company's environmental impact, including historic liabilities and operating risk, is a large factor for ESG agencies. Finally a company's social impact is analyzed including its product safety, supply chains, and emerging market strategy. Ratings agencies use multiple categories in their overall assessment of a company, but institutional investors may only be concerned with a few factors when making investment decisions.

Eventually ESG data will be just another part of a company's investment story, and it will not be unusual for institutional investors to refer to it when analyzing a company's fundamentals. Over the past several years, institutional investors have used ESG data in different ways. As the ability to hedge and short stocks adds a tool to an investor's arsenal, so too does ESG data. Hedge funds, such as Ada Investments, have begun using this data in long/ short funds, shorting both fundamentally weak companies as well as companies that score poorly from an ESG perspective. Further, institutional investors may be more concerned with certain ESG criteria than others. Many investors care deeply with corporate governance but may not be concerned with the industry a company is in, its overall environmental impact or social issues surrounding a company. It may surprise some that certain industries, including the tobacco and alcoholic beverage industries, are not completely boycotted by all ESG oriented investors. Several investors have stated in the past that they do not consider alcohol, tobacco, or gambling an ESG issue, as each are optional for each individual person (although I would prefer not to encounter second hand smoke while enjoying a beverage at the casino.) On the other hand, certain types of SRI investors, especially Shariah compliant investors, are held to certain guidelines stated in their prospectus that they will not invest in certain industries including alcohol, tobacco, gambling, defense, or, in Shariah cases, securities that pay interest.

How Screens are Used

Environmental, social and governance (ESG) screens are most prevalent typically as an excluding tool which is a key proponent in the creation of an investing universe for investors. For instance, funds negatively screen companies on amount of carbon emissions in a given year, omitting those that fall above their criteria. Companies that meet the funds' specific criteria are then analyzed in a conventional manner similar to the customary investing community.

In addition to exclusionary screenings, many funds implement positive screens which take into account eco-efficiency, product responsibility, and environmental management, to name a few. For example, SAM Sustainable Asset Management takes a unique investment approach analyzing their investment universe through the distribution of in-house corporate sustainability questionnaires to companies. It uses the results to positively screen for securities that fit the criteria of its fund offerings. Moreover, as a supplement to in-house research, institutional investors often rely on external specialty research firms to aid in the security universe selection process.

Boutique research houses, such as MSCI ESG Research, tend to dig through corporate documents and channel checking on behalf of the SRI community. In addition to in-house screening and the use of external consultancies, SRI rating agencies are used as a complement in the decision making process as well as in investors screens. Such agencies include Innovest, EIRIS, and Oekom Research, which rate companies based on the entire spectrum of social issues based on individual criteria. Many portfolio managers incorporate rating agencies rankings within their traditional financial models of securities.

To further distort what constitutes an SRI investment, no legislation exists requiring managers to follow a certain criteria in any country. However numerous European government entities and independent institutions have been at the forefront of streamlining requirements that would officially label and approve an SRI methodology. Research firm Eurosif currently rewards complying funds with a transparency label if certain criteria are met. Similarly, the Austrian government provides conforming funds with an "eco-label" ensuring that a stringent process is followed in the security selection process. It is important to note that methodologies across funds fluctuate tremendously as a result of the vast array of societal issues employed as well as varying definitions of what social responsibility means. Nevertheless, SRI funds methodologies and investment criteria usually fall into two distinct categories: exclusionary top-down negatively screening out unsuitable sectors/industries and bottom-up research with social principles considered on a company level. However, in an effort to achieve diversification, portfolio managers have slowly shifted strategies from negatively screening out industries focused

on areas like alcohol, tobacco and weapons to a more nuanced approach considering individual companies based on their contribution to society. For example, New Hampshire-based Pax World, a pioneer of sustainable investing, has shifted its strategy away from what not to invest in in an effort to expand its exposure to numerous industries. Moreover an increasing number of SRI activists have emerged seeking socially troubled companies and pushing them for change further distorting a cohesive approach to SRI criteria. Accordingly, companies that are considered an SRI investment in one fund may be excluded in a screen in another.

Proliferation of ESG Activism

ESG shareholder activism has its roots in prior decades in the form of unions pressing pension funds to advocate governance reform. Furthermore socially responsible activism gained traction in the early 1990's during apartheid in South Africa as many socially conscious funds pushed for companies to steer investments elsewhere. Despite recent inactivity in the activism space since, Norges Bank, in 2009 began demanding separation of the CEO and Chairman of the Board positions. Similarly, change beyond management alterations has gained traction as demand for ESG strategies have increased. Bethesda-based SRI activist Calvert Asset Management, which was one of the first to create an SRI oriented family of mutual funds, has actively been involved in lobbying for change in topics ranging from diversity to sustainability. Since 2008, the firm has launched funds with the intention to push change specifically in its flagship Calvert Large Cap Value Fund. For example, contrary to many other SRI funds during the BP spill, Calvert funds were actually increasing exposure to the security in an effort to advocate change within the industry. As the proliferation of demand for SRI strategies increase, activism within the space will put pressure on issuers as well as regulators to disclose and report more on societal matters as exemplified by the recent abundance of corporate social responsibility efforts on behalf of companies.

Ipreo SRI Leaders Index

In an effort to present a view of the SRI space including the companies most widely held in SRI funds as well the leaders in SRI investment, Ipreo created the SRI Leaders Index in 2006. The Ipreo SRI Leaders Index is comprised of the top 100 securities held across all worldwide mutual funds which designate themselves as having a socially responsible strategy, representing a "consensus view" as to what constitutes an SRI strategy. From this list of companies, we are able to look closer into any one region or industry to see what the potential for investment in the space is as well as which funds and firms companies that want to target SRI investors should approach. In addition to analyzing the SRI equity space, the new SRI Leaders Index also includes the largest securities held within the SRI fixed-income space in response to of SRI managers diversifying across asset classes.

Top holdings by SRI oriented mutual funds: SRI Leaders Index- Winter, 2011

	Company	Industry	# SRI Funds Owning
1	Vestas Wind Systems A/S	Alternative Energy	155
2	BG Group Plc	Oil and Gas Exploration and Production	154
3	Vodafone Group PLC	Wireless Communications	148
4	Cisco Systems, Inc.	Communications Equipment	143
5	Roche Holding AG	Pharmaceuticals	138
6	Novartis AG	Pharmaceuticals	137
7	ABB, LTD	Diversified Electrical Equipment	130
8	HSBC Holdings, PLC	Banks	128
9	Koninklijke Philips Electronics N.V.	Consumer Electronic Equipment	127
10	Allianz SE	Accident, Life, and Health Insurance	125

It is no surprise that European securities and funds are at the forefront of SRI investing. However, recently we have seen growing interest from SRI funds in North American securities. Accordingly North American securities account for 30% of companies held by SRI funds, led by mega-caps Cisco Systems, IBM, Intel, Microsoft, Hewlett-Packard and Procter & Gamble on a number of funds holding the security basis. Beyond the typical SRI players such as technology and alternative energy companies, a few non-traditional SRI securities were included in the current list. With negative attention and controversy surrounding the Oil & Gas industry post-BP, it is counterintuitive to think SRI funds would consider investing heavily in securities within the space. However, five companies, including Norwegian Oil and Gas conglomerate Statoil, Royal Dutch Shell, Italian diversified oil and gas giant ENI S.p.A., and Swiss-domiciled Noble made the top 100 list of most widely-held securities by SRI funds. Further, until the Deepwater Horizon oil spill, BP was consistently a top 50 holding within SRI funds. Another notable inclusion to the index is Johnson & Johnson which has been the center of controversy regarding recalls of some of its most popular products recently. Similarly, Toyota was included in the most recent top 100 despite its recent regulatory woes concerning alleged malfunctions in its automobiles. Moreover, clothing retailer H&M was widely held by SRI funds despite unethical rumors concerning the use of child labor for materials utilized in their products.

Despite a lack of transparency on behalf of the investing community in terms of SRI criteria, companies have the ability to make themselves a more appealing SRI play through use of proactive ESG reporting and active engagement in the SRI community. Omission from SRI funds can often be attributed to lack of disclosure on the corporate side as rating agencies and investors often only know what a company discloses. In order to cater to both ESG oriented investors and ratings agencies alike, over the past several years, many companies have been producing annual corporate sustainability reports. These reports detail how a company attempts to be more energy efficient, governance guidelines including how their board of directors is comprised, pay practices for corporate executives, a company's code of ethics, as well as how a company is involved in its community. A poor rating can be simply a reflection of high leverage or, as has been a large topic over the past year, the CEO-Chairman of the Board relationship. Companies that score poorly in an agency's report, need to look at the company as a whole as the reasons for a poor rating can vary greatly. However, ratings typically take into consideration many different components of a company's business, especially for larger conglomerates that may be involved in many different industries and sectors.

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Equity Investment in Troubled European Economies - Portugal, Ireland, Italy, Greece & Spain

Introduction

In examining Western European equity investment data for Q4 2010, it is clear that Spain, by contrast, was a significant net loser when compared to the rest of troubled Europe over the quarter. As observed by many commentators, a lot of investors reduced or closed their underweights in Portugal, Ireland, Italy, Greece and Spain (PIIGS) in Q4 and beyond; a policy which looked to be validated by the revamping of the existing European Financial Stability Facility (EFSF) in February and its confirmed replacement from 2013 by the European Stability Mechanism (ESM) the week of 21st March. Equity investors found value in Portugal, Ireland and Greece, were unmoved (for or against) by Italy, and only found fault with investment prospects in Spain.

As of today, the jury is out again. The EMS is set to replace the EFSF (with Germany to put up 27% of the cash in 2013, France 20%, Italy 18%, Spain 12%, Portugal 2.5% and Ireland 1.6%), while Ireland is underpinned by:

- €100 billion from the European Central Bank
- €70 billion from the Irish Central Bank
- €60 billion medium-term funding from the ECB
- €85 billion from the EU and the IMF

However, the scale of the numbers indicates why fears about Portugal are not dispelled solely by the ESM agreement (2 years out), the key question being how it continues to raise money between now and the commencement of the ESM kicking in 2013. Richard McGuire, a strategist at Dutch bank Rabobank, said: "There is clear scope for Portugal coming under yet greater strain should the country's politicians opt to defer requesting a bailout in favor of campaigning for a likely upcoming election." (Guardian, 25th March)

As of Q4 at least, equities retained plenty of attraction. Certain fragile economies – Greece and Italy – were left untouched while others attracted a great deal of attention.

Portugal (Net Winner)

Portugal was the net winner of the group in terms of investment in Q4 2010 with net investment of \$700 million on €17 billion or 4.1% investment. Of that €700 million, Capital World & Capital Research alone invested over \$600 million. Capital World doubled its exposure to Portugal in Q4, Capital Research increased its investment by 32%. The only other investor up by that amount, in dollar and percentage terms, was Norges Bank, up \$175 million/17% and still the largest public investor in the country. Other big US buyers, though not on the same scale as the "Capitals", included MFS, FMR, Morgan Stanley IM and Vanguard. At the same time Capital World decreased its Eurozone investment by over \$10 billion and Capital Research by over \$6 billion, thus representing a marked divergence from their overarching Eurozone policy suggesting that while they were prepared to close some of the Eurozone and PIIGS underweights, Portugal was the exception – the rule was a major reduction of their Eurozone exposure.

On the back of the three buyers listed above, Portugal was dominated by an increase in Value investors, up 15%, and GARP up 10%, and saw a decrease of Growth by 2% suggesting a fairly clear conclusion that provided the market prices accordingly, value-driven investors will flock to Portuguese equities, a conclusion repeating Ipreo's findings in Italy at the height of the Eurozone crisis in Q2 2010 when deep value investors headed by Dodge & Cox made several big plays. Outside the US investors, French investors invested marginally, +2.5%, Spanish investors were flat, and German investors were net sellers of Portugal.

At the same time, Allianz Global were the biggest divestors, selling \$85 million in Portuguese stocks, while US firms Brandes & BlackRock trimmed positions as well.

Sector/Stock

Consumer Services saw net inflows over \$100 million for Q4 as for Q3. The biggest sector gains were registered in Technology (up \$480 million) and Utilities (up \$200 million, down by similar amount in Q3). Financials were \$21 million down after \$92 million net investment in Q3. The biggest stock winners were Portugal Telecom, EDP and EDP Renovaveis, Consumer Services dominated by Jeronimo Martins & ZON Multimedia. Losers were headed by Galp Energia (-\$54 million), BCP and Banco Espirito Santo – but no flight here, this was a small trim.

Spain (Big Loser)

Net equity investment results for the Spanish market can really all be gleaned from one number: Q4 2010 saw a net divestment of 5% from Spanish equities, but US divestment ran at over 20% in Q4. Apart from this US divestment, however, there were slight changes from Germany (+2%), France (+1%), and the UK (-3%).

Capital World and Capital Research, who between them invested \$600+ million in Portugal in Q4, pulled over \$5 billion from Spain (Capital World -\$4.6 billion, Capital Research -\$1.7 billion). Other major sellers of Spain were US institutions and the “Capitals”, followed by FMR, Artio, Marsico and Northern Cross.

We see the same buyers of Spain in Q4 as of several PIIGS in Q2 – a US-led rotation with Janus, Dodge & Cox, Harris, and Manning & Napier investing \$1.5 billion between them. At the time, this could have been considered a significant opportunistic US investment, but in Q4 this was massively out-scaled by the major sells.

For the quarter, the most sold stock was Santander (-\$920 million), and the most bought was BBVA (+\$337 million). Telefonica and Iberdrola were among the biggest net sells, Repsol among the largest net buys. Financials, however, were not the cause of the problem Spain (off only 1%). Most money was withdrawn from the Technology and Consumer Services sectors.

In sharp contrast to Portugal, GARP and Value styles both reduced heavily by 10% or more, whereas investment by Growth investors fell by only 2.3%. As in other fragile economies, we saw a big increase only in aggressive styles – both Aggressive Growth and Deep Value, up 33% and 20% respectively – with Specialty also up, 7%.

Italy (Flat)

Italy's case in equities in Q4 reflects its current status in debt markets. Where other troubled European markets are seeing massively increased costs of borrowing, Italy is relatively steady. There was very little movement in or out of Italian equities in Q4 2010.

On a regional basis, and unlike its massive activity in Iberian markets, the US was flat. UK was the exception with 6% net investment in Italy where investment from other countries was as static as the US.

As in Spain, Janus & Harris were at the head of the buyers, in this case along with Wellington. Capital Research sold, but only 5%, nothing like the swings seen in Portugal and Spain. Capital World barely moved.

The biggest investment inflows went into the Financial and Energy sectors, with the biggest outflows coming from Utilities and Consumer Goods. The biggest stock loser was ENEL (though ENEL Green Power was a big net winner), along with Saipem and Parmalat. The biggest two buys were bank stocks Unicredit and Intesa SanPaolo.

Aggressive Growth was the big style winner as in Spain, up 33%. Value was up 4% with Growth down 2%.

Greece (Flat)

Buying & selling was US dominated, but with little net effect (US net investment up 6%). The biggest change came in the replacement of Growth by Alternative investors (Growth down \$250 million, -1% – Alternative up \$247 million, +25%). Aggressive Growth fell sharply in Greece, unlike in Italy and Spain, falling by -27%.

Industrials were the big sector winner, Consumer Goods the loser. Financials and Utilities were also secure (+4% and +6% respectively), suggesting that they had been hard enough hit the previous two quarters to be seen as attractive buys.

Ireland (Capital Influence)

In short, Ireland would have been largely flat without the activity of Capital World, who as in Portugal bought very heavily. Capital World's net investment in Ireland in Q4 2010 exceeded \$1 billion. Norges Bank and Jennison Associates were also major buyers, albeit at about a quarter of Capital World's rate.

As a result we saw Value investors making the biggest buys, which can most likely be attributed to Capital World's heavy influence. Aggressive Growth saw the biggest sells by an investment style, represented by a number of US investors selling heavily including Wells Capital Management, Gilder Gagnon Howe, Columbus Circle, Capital Growth, and Westfield.

Financials was not a weak sector for Ireland as it saw net investment in Q4. The worst affected sectors were Healthcare and Technology, with Covidien and Shire being the most sold stocks, dragging down healthcare. CRH was the most bought, followed by Allied Irish Banks. Thus far, the events of Q1 2011 do not suggest that the Q4 result will be repeated in this quarter.

What to come?

As we saw in Q2 2010, there is clear evidence of major buying activity across a number of styles, headed by Value and Aggressive Growth. This activity preceded the major reallocation of global emerging markets money seen from January 2011 onwards and turning from a trickle into a flood in February, which will show up in heavy buying of primarily US equities in Q1 2011 with a secondary focus on European equities. In addition, Eurozone issuers can take heart from the flight out of ETFs and index funds into active strategies offering IROs more active potential investors with more funds for them to engage with. Portugal's current climate remains of prime concern, but its banks are not as vulnerable as Ireland's and as in Q2 2010 there is plentiful evidence of buyers being ready to acquire assets in troubled economies when they represent value or offer real growth opportunities

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BetterIR - Firm Snapshot

Targeted Firm: Global Thematic Partners, LLC (\$7.99B EAUM)

Targeting Profile:

Global Thematic Partners, LLC is headquartered in New York, and was spun off from Deutsche Investment Management America, Inc. during Q3 2010. Although the firm is primarily GARP oriented, the fund family spans a diverse set of investment strategies, including Value, GARP, and Specialty (Consumer Goods) funds. Of the 10 mutual funds managed by Global Thematic, the DWS Invest SICAV-DWS Invest Global Agribusiness (\$2.8B), DWS Global Thematic Fund (\$1.2B) and the DWS Global Agribusiness A2 (\$955M), are among the largest, and make up roughly half of the firm's assets under management. With the firm so heavily vested in the agricultural business, the firm creates both a global and agricultural strategy by dividing its assets between different themes. Likewise, all three of these funds are managed by founder and CEO Oliver Kratz.

When selecting potential investments, the firm uses a top-down and bottom-up approach, taking into consideration qualitative and quantitative factors on the macro and microeconomic levels. As the name suggests, the core discipline and strategy of the firm is global diversification. The firm looks to effectively produce the most risk-adjusted upside opportunity, via diverse geographic distribution. The firm currently allocates 56% of its portfolio to North America, 20% to Europe, 10% to Asia, and 7% to South America. As evident from its large specialty funds, the firm places high importance on the global agribusiness, specifically food scarcity, discontinuity, and the solutions to overcome them. In light of this strategy, Global Thematic seeks to invest in and balance global inefficiencies, with a long time horizon.

Global Thematic has also taken a broad stance on its sector coverage. The Consumer Goods sector accounts for a quarter of its portfolio (26%), while Financials, Basic Materials, Technology and Healthcare all comprise between 10%-15% each. In addition, the firm currently shows a light market cap bias toward Large Cap (35%) and Mid Cap companies (30%), while Small Cap and Mega Cap comprise 19%, and 14% respectively. Unfortunately it is difficult to discern buy/sell activity seeing as the 12/31/10 filing was the first time the firm filed for the complete portfolio. Nonetheless, the largest holdings within the firm's portfolio include agriculture companies; Monsanto (\$322M), Syngenta (\$260M), and Archer Daniels (\$212M).

How to Approach:

With Global Thematic's vast coverage, a diverse spectrum of companies could have potential in the firm's portfolio. With that being said, North America domiciled companies will have a slight advantage, seeing as this region makes up roughly 56% of the portfolio. As stated earlier, the firm also designates a variety of funds to the Consumer Goods sector, specifically agricultural products, thus companies falling within this industry could have an advantage. Excluding the Consumer Goods sector, the firm has substantial exposures (on the mid level) to Financial Services (8%), Banking (7%), Telecommunications (6%), and Retail (6%).

How not to Approach:

One key factor to note is the firm's minimal exposure to micro cap companies (1%). Additionally, the firm has minimal exposure to the Utilities (1%), and Energy (4%) sectors. Despite the global connotation, the firm also displays little exposure to Africa (0%), and Pacific (2%).

Largest Funds Managed:

- DWS Invest SICAV – DWS Invest Global Agribusiness (\$2.8B)
- DWS Global Thematic Fund (\$1.2B)
- DWS Global Agribusiness A2 (\$995M)
- Marquis Institutional Global Equity Portfolio (\$292M)

Portfolio Fundamentals:

- Forward P/E: 14.9x
- Dividend Yield: 1.5%
- Price/Book: 2.5x
- 5 Yr Proj. Growth Rate: 13.1%

Average Equity Holding Period: 1.25 Years

BetterIR - Fund Snapshot

Targeted Fund: BNY Mellon U.S. Core Equity 130/30 Fund (\$314M EAUM)

Targeting Profile:

The \$314M BNY Mellon U.S. Core Equity 130/30 Fund, advised by Jeffrey McGrew and Sean Fitzgibbon of The Boston Company Asset Management, negates a mutual fund's long-only constraint by allowing the fund to implement short strategies. The short strategies are leveraged to increase the funds long equity positions thus magnifying its long exposure (hence the 130% long 30% short exposure nomenclature). As a result of the magnification of the fund's long positions, securities utilized in the long strategy are usually a compilation of the manager's and/or fund advisor's "best ideas."

As of December 2010 the fund had a 131.7% long and 33% short equity position with the remaining long exposure accounting for money market holdings. The fund currently allocates its long exposure between 109 securities and its short positions between 50 securities. As of the same filings, the fund's largest short positions include food manufacturer H.J. Heinz (-1.4%), pharmaceutical company AstraZeneca (-1.1%), Flower Foods (-1.1%) and soft drink giant Coca-Cola (-.9%). From a top-down perspective the portfolio's largest short allocations by sector include Technology (-10.6%), Consumer Staples (-8.3%) and Healthcare (-7.7%). It is important to note that it is typical for such funds to fluctuate throughout the year above and below the confines of the 130/30 standard.

Irrespective of long or short strategies the portfolio is primarily a blend between growth and value large cap companies, utilizing bottom-up research in the security selection process. Despite its core equity namesake, the fund does allocate 27% of its assets to the below \$10B market cap space in addition to its primarily mega and large cap holdings. As a result of the fund's neutral 130/30 strategy, its portfolio is relatively evenly distributed across all sectors.

As a result of the magnification of a 130/30 funds long exposure and thus its use of "best ideas", it is characteristic to see high correlation between the fund's and the fund advisor's largest holdings. For example, The BNY Mellon US Core Equity 130/30 fund consists of 27 securities held within The Boston Company Asset Management's top 100 holdings, a testament to the firm's best ideas being leveraged in such strategies. Accordingly, a view of 130/30 long positions can provide indication of a firms

overall strategy in a security or industry moving forward. Top holdings across firm and fund include pharmaceutical giant Pfizer (\$10.6M), soft drink manufacturer Pepsi (\$8.9M), financial services company Wells Fargo (\$5.9M), diversified oil and gas company Occidental Petroleum (\$4.8M), and Consumer Staple Newell Rubbermaid (\$6M). Moreover, both the firm and fund follow apparent macro themes increasing exposure in the Healthcare, Consumer Goods and Industrials space during the past period.

How to Approach:

Historically the portfolio concentrated on securities above \$10B market cap; however the fund currently allocates 27% to the mid cap space, providing opportunities for companies outside of the mega or large cap designation. As a result of the fund's 130/30 strategy and subsequent bottom-up research approach, the portfolio shows no apparent sector bias. Consequently, issuers should emphasize company strength and prospects irrespective of sector performance. Also, despite the fund's lack of macro focus, management has been bullish towards the Healthcare space of late. Issuers in this sector may find it easier to emerge in management's periphery.

How not to Approach:

In light of the fund's U.S. namesake, foreign issuers may find difficulty capturing the time of management. Similarly, issuers with market caps below \$1B may be omitted in the security selection process. Additionally, the fund often seeks value opportunities enhancing the difficulty for high-growth companies to appear on management's radar. Likewise, 3 of the fund's top 5 short holdings fall within the Consumer Goods sector, possibly suggesting a lack of current optimism in the sector.

Portfolio Fundamentals:

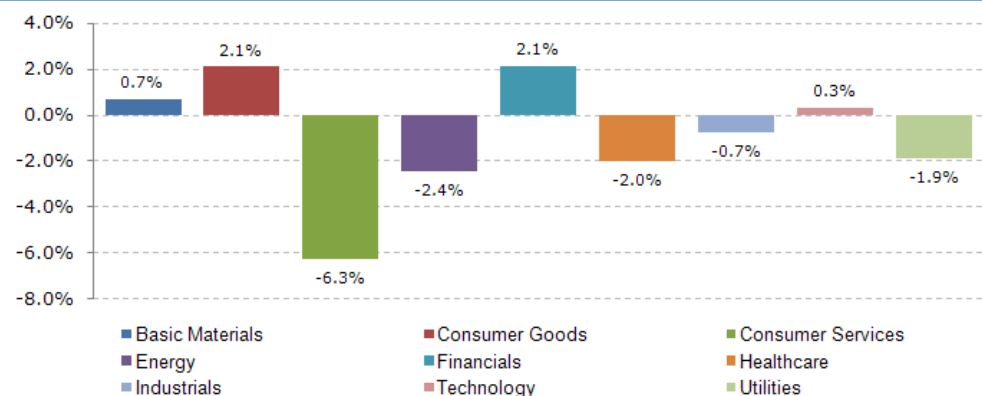
- Forward P/E: 14.3x
- Dividend Yield: 1.5%
- Price/Book: 3.1x
- 5 Yr. Proj. Growth Rate: 12.5%

Average Equity Holding Period: 7.4 months

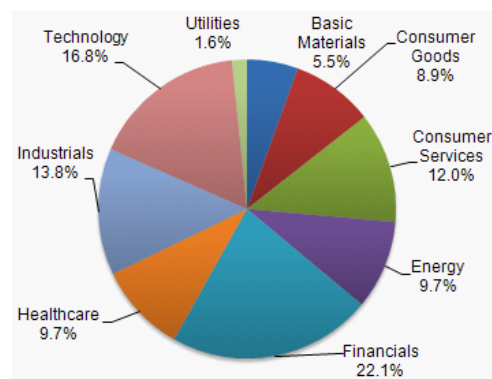
Metro Area Targeting Focus - Chicago, Illinois

Money Center Statistics	Summary Notes
<p>Reported Equity Assets (\$B): \$480.6</p> <p>Number of Institutions: 171</p> <p>World Rank: 7/174</p> <p>Top Sector Weighting: Financials</p> <p><i>Financials Weighting:</i> 22.1%</p> <p>Top Region Weighting: N. America</p> <p><i>N. America Weighting:</i> 81.8%</p> <p>Total Net Buying (\$B): \$64.8</p> <p>Total Net Selling (\$B): -\$67.8</p> <p>Total Net Activity (\$B): \$-3.0</p>	<p>Home of the United States' largest options exchange and a significant derivatives and futures exchange, Chicago is one of the largest financial centers in the U.S. Based on both equity assets managed and number of institutions, Chicago is the 4th largest investment center in North America, behind only New York, Boston, and San Francisco. As a whole, Chicago investments are fairly well diversified with the top three sectors being Financials (22.1%), Technology (16.8%), and Industrials (13.8%). According to the most recent filings, Chicago investors were most bearish toward the Consumer Services and Energy sectors, reducing portfolio exposure by 6.3% and 3.2%, respectively. Selling within Consumer Services was led by Harris Associates, decreasing by roughly \$912.5mm in the sector, while Energy selling was most abundant from UBS Global Asset Management, which sold a total of \$459mm. Buying activity was greatest in Consumer Goods and Financials, as portfolio exposure for Chicago investors increased by 2.1% in both sectors. Bullish sentiment was shown by Harris Associates, as the firm injected over \$1Bn into Financials, including large moves such as Wells Fargo (+\$208mm) and MasterCard (+\$131mm), while Columbia Wanger Asset Management led net buying activity with an increase of \$304mm in the Consumer space.</p> <p>In addition to a well diversified group of investors, Chicago also offers a unique concentration of REIT investors that remain interested in the growing sub-industry. Investors such as Heitman Real Estate Securities, Security Capital Research and Management, RREEF America, and Duff & Phelps Investment Management each allocates a significant portion of its portfolio to the Real Estate space and should not be ignored by REIT issuers.</p>

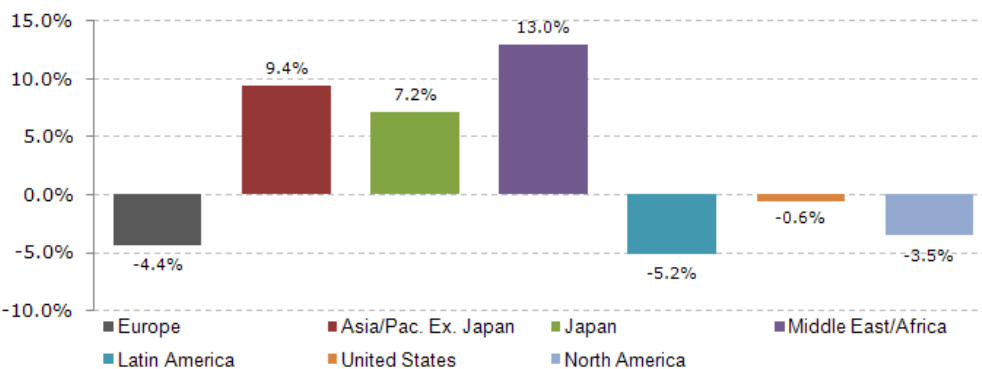
Sector New Activity (% Change)



Sector Allocation



Regional Net Activity (% Change)



Geographic Allocation

