The Better IR Newsletter

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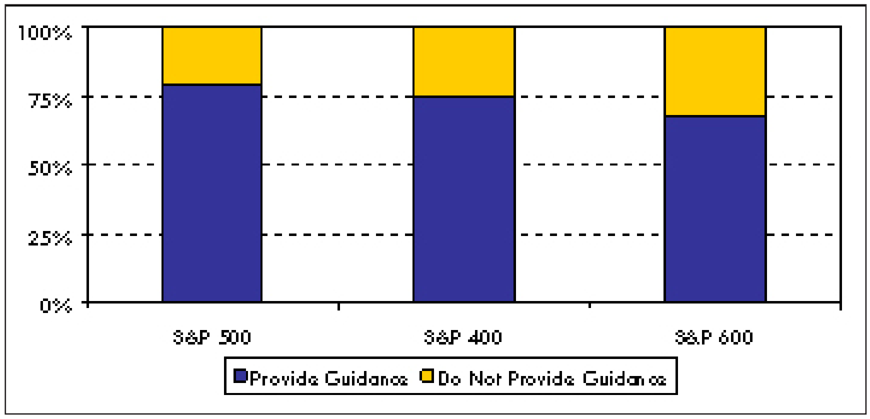
Changes to Guidance Policies - What to Do If You Can't See Through the Fog

Guidance is probably the paramount topic on the minds of investor relations staff when interfacing with management internally, but it's also extremely difficult to measure the effects of, simply because different types and frequencies of guidance updates make sense for different types of issuers. Investors will always have a demand for forward-looking information to help bias their decisions, so the IRO and management will always have some level of tension between communicating more and communicating less, and IROs making decisions about guidance will always have imperfect information as to the positive or negative effects of guidance changes.

Companies providing Guidance (by Index)



Data from Bloomberg LP

In one of the worst periods for economic visibility in recent times, if not in history, corporate executives and IR teams are faced with an extremely challenging environment for determining and providing earnings guidance. Companies risk having inflexible estimates written off as impossible, or wide ranges regarded as unhelpful. Faced with this catch-22, some companies are shifting away from providing formal guidance and toward "softer" guidance that they believe is better suited to their line of business. As with all guidance issues, investor opinions are mixed. An article in the Economist, published Feb.26th, 2009, warned "firms that shy away from forecasting should attract extra scrutiny from shareholders. It may indicate that managers are underprepared, or that they are trying to use the turmoil as an excuse to avoid setting goals for which they could be held accountable." It's a given that any company abandoning formal guidance will be expected to provide as much color as possible on their outlook to the investment community. For those companies that are simply not comfortable providing hard numbers or a traditional range in this environment, and want to change their current guidance in favor of something less specific, what are the best practices?

In addition to a "big picture" of guidance effects on estimates and volatility across the market cap range, Ipreo research identified a sampling of companies that have changed their policies with respect to formal earnings guidance so far in 2009, examining the types of changes being made and how they have been received. As part of this analysis, Ipreo also used data from Bloomberg.

What will changing my guidance policies do for me?

The most oft-cited argument for switching to "soft" guidance is that it gives executives the opportunity to focus on managing their business for future growth rather than fixating on beating a number every quarter, which some argue is counter-productive and can encourage a short term outlook at best, cooking the books at worst. In NIRI's 2008 Guidance Practices & Preferences survey, 74% of respondents cited "Focus on Long Term Company Performance" as their reason for not providing quarterly guidance. The investment community as a whole tends to favor hard guidance and encourages as much specificity as possible. Each issuer should carefully weigh the benefits before changing their approach.

What items should I continue to give, and what can I remove?

This is obviously different for each issuer, and each situation, but it is possible to look at changes across the group to determine what investors may be expecting from companies that are withdrawing formal guidance.

General Electric is probably the highest profile company to suspend traditional earnings guidance. The company announced the change in mid-December 2008, along with what it called a "framework", including a full-year revenue figure of flat to down 5%; some revenue estimates were included for different business segments. The company excluded some traditional macro factors like foreign exchange rates, citing the volatile world economic environment. GE has stuck to its guns; on the Q4 2008 earnings call, CFO Keith Sherin responded to a request for a vague EPS estimate with "we've given you the framework for '09. People just have to build their own model." Deere & Co., another large cap, recently eliminated quarterly earnings guidance in favor of a FY09 forecast. The company included a detailed outlook for each business line over the year, but avoided short-term estimates. Discount retailer Costco (COST) eliminated earnings guidance for 2009 altogether, citing uncertainties around consumer behavior. Limiting information this way may be a luxury of large caps, where analyst coverage will remain strong and investor interest high regardless.

Some smaller companies have been limiting their long-term outlook while providing more traditional numbers in the near term. Mid-cap data provider Equifax (EFX) in early February suspended guidance for 2009, citing poor visibility. However, the company did provide a traditional EPS guidance range for the first quarter. This approach has also been taken by ubiquitous U.S. mid cap manufacturer/retailer Gap Inc. (GPS) and small-cap clothing manufacturer Volcom (VLCM), which did not feel comfortable making any long-term predictions, but maintained earnings guidance for Q1 2009.

Of course, any changes to guidance practices, especially when moving toward "soft" guidance, should be made with careful consideration to your industry. For example, retailers may be expected to shed light on expected comparable store sales figures; large diversified companies may need to give more detail on individual business units than they would if there was a hard earnings estimate for the organization. Executives and IROs should carefully craft any guidance changes to ensure that what they provide makes the most sense for their industry and its outlook.

Will analysts drop coverage because they can't get visibility?

If you're a large cap with a relatively liquid issue, in this environment it doesn't appear very likely coverage will be dropped. Out of the set of 27 companies that Ipreo analyzed that made changes to guidance policies so far in 2009, none saw analysts drop coverage following their decision to change guidance practices, though reactions were mixed in some cases.

Conventional wisdom suggests that sell-side analysts oppose any weakening of company guidance, but this is not always the case. GE's plan to abandon quarterly guidance involved an overhaul of its method of business forecasting to focus on individual business lines. The company reassured investors that they would receive the same details and transparency on quarterly business unit performance that they had in the past. Following the announcement, Credit Suisse analyst Nicole Parent wrote in a Dec. 16th research note that the "move away from quarterly guidance has been a long time coming and should be liberating for business . . . this move should allow ops teams to run their business rather than worry about making quarterly targets." Merrill Lynch analysts John Inch and Elana Wood also responded positively to the move in a Dec. 17th note, saying they were "pleased that GE has shifted away from a macro/top-down approach that would appear to hold greater margin for error."

When Equifax announced the suspension of guidance, J.P. Morgan analysts said in a research note that "we view the lack of baseline from EFX as a negative--in our opinion, a wide range is better than no range." Morgan Stanley discontinued coverage of Equifax just before their suspension of guidance, but according to the firm, this was due only to the analyst leaving.

It's possible there's some additional risk for smaller companies, where analysts could have trouble building models without significant forward-looking information from the company. Equity research groups also may be looking for excuses to shed coverage as brokers decrease funding and cut head-counts. Regardless of size, it seems unlikely that analysts will drop coverage based solely on a "softening" of guidance.

Will consensus ranges increase?

Not surprisingly, issuers eliminating guidance can expect the range of sell side earnings estimates to increase, and the accuracy of those estimates to decrease. The median relative standard deviation of 2009 Consensus EPS estimates in the S&P 500, 400, and 600 indices more than doubles for companies not providing guidance. In more plain terms, companies that decide to stop sharing detailed estimates with the sell side cannot expect analysts' estimates to be similar or as accurate as they have been in the past.

Companies providing Guidance (by Index)

Index	Provide Guidance	Do Not Provide Guidance
S&P 500	5.7%	14.0%
S&P 400	6.9%	16.4%
S&P 600	8.0%	15.7%

Data from Bloomberg LP

Will price volatility increase?

Less detailed guidance could correlate with a rise in your stock's price volatility. The S&P 500 has 394 companies, spanning all sectors, that give some form of guidance, according to Bloomberg's database of company-issued guidance. This group of guidance-issuing companies has a median beta of 1.02 relative to the parent index, while the companies not issuing guidance have a median beta of 1.24. The S&P 400 Mid Cap Index and Small Cap Index constituents show similar results; with betas of 1.06 vs. 1.20 and 1.10 vs. 1.17 for guidance-providers and non-guidance providers, respectively. While the numbers are not extreme, companies not providing guidance see a beta that is 13% higher on average.

Companies providing Guidance (by Index)

Index	Provide Guidance	Do Not Provide Guidance
S&P 500	1.02	1.24
S&P 400	1.06	1.20
S&P 600	1.10	1.17

Data from Bloomberg LP

So there's really no one perfect solution?

If it's any consolation, economists aren't any clearer about the outlook for the near future than issuer management teams are. Even something as simple as a GDP growth estimate has become much more difficult to make, and is requiring financial modelers everywhere to add in additional cases to the inputs of their models. If your company is considering a move toward "softer" guidance, consider that expectations will remain high even if you are not issuing a "hard" number. While the goal is to avoid a negative earnings surprise, clear communication with the investment community can avoid this regardless of the form in which guidance is given. That being said, data speaks clearly to the fact that less guidance may mean higher price volatility, and a wider range of EPS estimates from the sell side. Despite these consequences, companies facing an extremely uncertain future may be well served by keeping their guidance options flexible and open.

Authors: Carl Aldrich & Brian C. Matt, CFA

Carl Aldrich is an Analyst in Ipreo's Corporate Analytics group. Brian C. Matt, CFA, is a Director in the Data Strategy & Analytics Group at Ipreo.

Dividend Cuts - Measuring Investor Risk

Issuers appear to be heeding the calls from both internal and external sources to start building up the top of the balance sheet. Nearly every management team through the fourth-quarter earnings season had to make decisions that would help boost cash positions to help ride out an uncertain macro environment, and as part of this process an increasing number of companies are choosing to either suspend or sharply limit their dividend payments to investors as one source of maintaining or building cash.

IROs that truly have a “seat at the table” with senior management regarding the dividend payment decision should be able to express to management the potential short-term and long-term effects of a dividend suspension on stakeholders. Unlike the usual process of determining a dividend policy, however, in this environment the decision is often less “discretionary” and is sometimes seen internally as a requirement for company survival, and some investors may see it that way as well.

Obviously very few equity investors would prefer to see the end of dividend payments, especially those that look to the company for a source of current income. However, each investor may behave differently depending on its investment strategy and current income needs. A serious evaluation of the shareholder base is in order at the point of a dividend cut, discretionary or not, from two perspectives: one, to measure the level of risk in the current shareholder base, and two, to identify investors that may see the dividend cut as a positive long-term signal (a sign that management is focusing on the long-term health of the company).

The wave of dividend cuts seen so far in 2009 occurred after the latest complete ownership disclosure period in the U.S.; therefore, to get a feel for shareholder behavior around a dividend cut in a rough macro environment, we can look at the dividend cuts taking place during 4Q08. As a limited example, we take a look at a few notable buyers and sellers, both at the institutional and mutual fund level, of the 31 S&P 1500 / FTSE 350 / DAX companies that either completely suspended dividend payments during the fourth quarter of 2008, or cut them to a nominal level (i.e. $0.01/share).* While this set of companies is headlined by financials (including Citigroup and ING), it also represents companies in a wide range of other industries.

Sellers

Investors with large current income needs tend to be the first to sell out of dividend cutters; however, some investors treat the dividend cut as a near-term negative signal and, especially in the case of investors such as Van Kampen below, tend to cut holdings out of shorter-term portfolios.

Top Institutional Sellers of Dividend Cut Securities 4Q08

Investor Name	Style	$ Chg in Group	# Div Cut Held	# Div Cut Buys	# Div Cut Sells	Equities $M	Country
Capital World Investors (U.S.)	Value	($1,059.6)	9	1	5	322,245.7	United States
Capital Research Global Investors (U.S.)	GARP	($1,048.7)	8	0	9	248,990.0	United States
UBS Global Asset Management (Americas)	Value	($403.8)	23	9	15	41,175.8	United States
T. Rowe Price Associates, Inc.	Growth	($308.5)	23	11	13	169,648.9	United States
Van Kampen Asset Management	GARP	($265.1)	21	3	16	39,556.8	United States

Capital World Investors sold 5 of its 9 holdings in the set of dividend cutting companies, in line with its overall portfolio’s money flows; the lone dividend cutter buy for Capital World was gold miner Freeport McMoran, a countercyclical play. Van Kampen was one of the more prolific sellers of dividend cutters, selling 16 of its 21 holdings in the group. The largest of these sells was a near-liquidation in the firm’s holding of Citigroup.

Top Mutual Fund Sellers of Dividend Cut Securities 4Q08

Fund Name	Parent Name	Style	$ Chg in Group	Equities $M	Country
American Funds Growth Fund of America	Capital World Investors (U.S.)	GARP	($2,348.4)	92,871.6	United States
American Funds Capital World G & I	Capital Research Global Investors	Yield	($1,418.4)	53,729.5	United States
American Funds New Perspective	Capital World Investors (U.S.)	Value	($690.3)	29,383.8	United States
American Funds Income Fund of America	Capital World Investors (U.S.)	Yield	($562.0)	33,212.9	United States
Fidelity Value Fund	Fidelity Management & Research	Value	($482.8)	7,710.3	United States

Capital Group's American Funds obviously dominate the list, based on their size and high current income needs. Growth Fund of America was a net buyer of financials during the period, but was an aggressive seller of Citigroup and other financials dividend cutters. Capital World Growth & Income, with a more global perspective, liquidated large stakes in Commerzbank and Citi as well.

Buyers

While obviously companies suspending dividends don't represent as strong a play for the shorter-term investor, some investors may see the dividend cut as a positive long-term signal, or in some cases use the liquidity event that usually results from a dividend cut to enter a position cheaply.

Selected Institutional Buyers of Dividend Cut Securities 4Q08

Investor Name	Style	$ Chg in Group	# Div Cut Held	# Div Cut Buys	# Div Cut Sells	Equities $M	Country
Fidelity Management & Research	Growth	$466.2	21	7	17	92,871.6	United States
Lord Abbett & Company, LLC	Value	$263.5	8	3	4	53,729.5	United States
AllianceBernstein, L.P. (U.S.)	Value	$202.3	28	19	5	29,383.8	United States
Federated Investment Management	Growth	$177.1	13	9	6	33,212.9	United States
RiverSource Investments, LLC	Value	$136.1	28	9	16	7,710.3	United States

Despite selling 17 of our dividend cutting securities and only buying 7, Fidelity was a net buyer over the quarter. Among the largest fund buyers under this institution were Fidelity Balanced Fund, Fidelity Capital Appreciation Fund, and Fidelity Overseas Fund, all of which appeared to be making countercyclical plays. Lord Abbett's dividend cutter buys were $41 million in DSG International, $90 million in Lonmin, and $187 million in ING Groep NV.

Selected Mutual Fund Buyers of Dividend Cut Securities 4Q08

Fund Name	Parent Name	Style	$ Chg in Group	Equities $M	Country
American Funds EuroPacific Growth	Capital World Investors (U.S.)	Value	$69.1	58,617.0	United States
Artisan Mid Cap Value Fund	Artisan Partners, L.P.	GARP	$29.8	2,467.4	United States
Janus Orion Fund	Janus Capital Management, LLC	Growth	$24.7	2,180.5	United States
Fidelity Growth & Income Portfolio	Fidelity Management & Research	GARP	$24.3	5,593.2	United States
Fidelity Contrafund	Fidelity Management & Research	Growth	$21.9	41,923.2	United States

American Funds Euro Pacific Growth bucked the trend of its parent company, and was a net buyer over the fourth quarter. The fund's largest buy was an $81.5 million buy-in to ING Groep. Fidelity Growth & Income Portfolio made a contrarian play into Citi, though it did liquidate a holding in dividend-cutting homebuilder Centex.

Whether the investment manager's decision is discretionary or not, dividend policies have a significant impact on the construction of a company's shareholder base; dividends are often seen as the connection between a long-term investor and an issuer, and any change to the policy may have the potential of changing or severing this bond. For any management decisions to change dividend policy, investor relations should offer a careful analysis of the investor base: no matter what the outcome, IR can prepare management for the effects of the cut as well as help in communicating the company's outlook to the investors that may be most likely to change their views based on changes to dividend yields.

*S&P 1500 / DAX / FTSE 350 issuers cutting dividends to zero or nominal levels in 4Q08 (tickers): FITB, PGR, FCX, LUK, C, PHM, CCL, DDR, CTX, ACXM, CEM, CNB, FTBK, OMX, LIZ, WNC, DIN, HVT, SNI, NFP, CHUX, ABCW, WGO, DSGI, MAB, LMI, BYG, DEB, TPK, INGA, CBK.

Authors: Alfredo Fernandez-Concha & Brian C. Matt, CFA
Alfredo Fernandez-Concha is an analyst in Ipreo's Capital Markets Group. Brian C. Matt, CFA is director of Data Strategy & Analytics at Ipreo.

The Interconnected Universe of Multi-Manager Funds

A common question that plagues investor relations professionals is who is responsible for the buy and sell decisions on their securities at any particular firm. The question of who is responsible for making investment decisions is difficult to pinpoint on the institutional level, as many times a position is held in a pension account in which no mutual fund can be identified. Some believe they can pinpoint the motivation behind an investment decision if they can identify a specific mutual fund, however many questions still remain, such as:

"Was it the analyst, portfolio manager, or overall investment committee that is bullish on my stock and prompted the buy?"

In the case of portfolios that are managed by several portfolio managers, one has to develop a deeper understanding to uncover how an IRO can impact portfolio decisions. Knowledge of how multi-manager funds operate can directly impact the communications strategy in two ways. First, IRO's should consider the appropriate portion of assets managed in multi-manager funds as part of the assets of an overall manager, and adjust the time spent with each manager appropriately. Second, investors that change managers in multi-manager portfolios often can produce a level of risk in the shareholder base, but may also provide a new opportunity to attract new capital after a manager change.

By analyzing some of the largest fund families of multi-manager funds such as the Vanguard Funds, SEI Funds, Masters' Select Funds and American Beacon Funds we aim to provide some clarity as to how these decisions are made.

How is a multi-manager fund structured?
Most multi-manager funds are part of a mutual fund family which produces a segregated mandate that outlines the specific requirements of each portfolio manager. An important goal of multi-manager funds is to increase portfolio diversification by creating a syndicate of specialists. Further diversity is achieved by tapping specialists at outside firms to hopefully spur new investment ideas. Funds have segregated mandates to assign guidelines that enable the separate managers to come together with positions to form a complete portfolio. Certain funds, such as the Masters' Select family of mutual funds, try to produce outsized returns by selecting "all-star" stock pickers from different managers and having each of them manage concentrated portfolios. Such strategies try to enhance fund returns, even at the expense of higher volatility over the short term. Other multi-manager funds emphasize lowering risk through diversification of strategies, rather than increasing returns.

That is pretty much where the similarities end, because within funds the decision making process and allocation of assets amongst managers can vary greatly. Some funds use a team approach, relying on several people to run the same fund, while others divvy up parts of a fund or fund family and give each manager an area of responsibility. The splits and assets managed are often not equal and represent the interest of the managing portfolio manager.

A set of major fund families running multi-manager funds and their primary managers is listed below:

Prominent Fund Affiliations			
Vanguard Funds	**SEI Funds**	**American Beacon**	**Masters' Select Funds**
Vanguard	Goldman Sachs	Barrow Hanley	Harris Associates
AllianceBernstein	Montag & Caldwell	Lazard	Marsico
William Blair	BlackRock	Templeton Investment Counsel	Mastholm
Barrow Hanley	Delaware Investments	Boston Company	Northern Cross
Hotchkis and Wiley	Janus	Causeway	Turner
Lazard	Transamerica	Brandywine	Thornburg
Jennison Associates	Mazama	Hotchkis and Wiley	Davis Advisers
Frontier Capital Management	Peregrine	Metropolitan West	Friess Associates
Wellington	Wellington	Dreman	Sands Capital Management
Schroder	Lee Munder	State Street	Southeastern

A main benefit that multi-manager funds have, in theory at least, is the ability to be more diversified than single manager funds by bringing in outside ideas from other institutional investors. For this reason the mandate of a particular manager very often has a style bias, sector focus, geographic specialty or other focus that would enhance the portfolio. This enables an institution that is weak in a particular sector to seek the counsel of another institution that has a particular specialty.

By analyzing the strengths and focus of each manager, an IRO can sometimes determine which specific portfolio manager influenced a buy or sell decision. In many cases contacting each portfolio manager is really the only way to try and draw more insights; however this may not always yield results and is time consuming. To complicate matters, active funds can have portions allocated to index or quantitative mangers to diversify holdings. No matter what the situation may be, it is crucial to have accurate information on the portfolio manager to potentially pinpoint how the decision was made.

As one example, Capital Group's American Funds use a multi-manager approach internally, often with a sector focus from each portfolio manager contributing to the overall portfolio:

The typical structure of Capital Group's American Funds multi-manager funds:

A system of multiple managers (termed portfolio counselors) manages mutual fund assets. Under this approach, the portfolio of a fund is divided into segments managed by individual counselors who decide how their respective segments will be invested.

Each fund's assets are divided into smaller, more manageable portions and assigned to:

Individual portfolio managers - Portfolio counselors manage their portions independently and create a team of investment professionals with complementary skills, different investment styles, backgrounds and industry experience.

A research portfolio - A group of investment analysts collectively manages one portion of a fund. These analysts invest in the areas and industries they follow.
Each fund has a coordinating portfolio manager who reviews investments for consistency with the fund's goals and objectives, monitors performance and oversees the assignment of new assets to managers.

In the case of Capital Group's American Funds portfolio managers or analysts can drive a decision based on the structure of the fund. Additionally regardless of the structure, analysts are tasked with driving much of the research to the portfolio manager, including much of the interactions with IROs.

What happens when the advisor decides to change managers?

One of the key benefits of multi-manager funds is the ability to implement succession policies. With several managers involved in a portfolio, it's often easier for the fund's board to make changes to one or several managers than it would be for a single-manager fund, often leading to more common manager changes (Vanguard Funds are known for making periodic changes to their fund subadvisors based on performance and cost). Generally the act of replacing managers is less tumultuous for the entire portfolio, as the other managers can manage the fund while changes are being made. The team approach allows for more consistency as the remaining managers can continue the philosophy according to the fund mandate. SEI Investments, as noted below, will replace managers for a number of different reasons.

SEI's manager replacement guidelines:

A change in organizational structure: The firm is acquired by another manager, or suffers a major internal reorganization, which changes the basic way the business is being run.

Loss of people: A key member of the investment team leaves. A star portfolio manager, or even the entire team, walks away.

Allocation of resources: The portfolio manager starts spending more time on, say, marketing the product, and less time on actually running the money.

A change in process or style: For example, a successful small-cap manager suddenly has a lot of money under management – and starts to buy larger cap stocks – outside his area of competence.

Execution: Performance and or risk do not come in line with expectations.

In a fund managed by a single manager, very often the new management team is seeking to rapidly distance itself from the prior management team in terms of performance attribution – heavy turnover in the portfolio is seen often. Ipreo's GMI and shareholder identification efforts very often see large liquidations within the first several weeks after a portfolio's change in management, no matter the fund structure, and this can produce an opportunity for an active IR program to pursue new pools of capital. However, in multi-manager funds, it's often more difficult for the IRO to identify whether a position is at risk, and whether there may be an opportunity for outreach following the change. With some due diligence, an IRO can identify each large multi-manager portfolio that holds a significant current stake, and pinpoint the exact decision-makers involved; and, given a change to one of the managers, identify the risk of sale and opportunity for new purchases based on communication with the new manager.

Authors: Erica Joubert & Justin Vieira

Erica Joubert is an analyst in the Global Market Intelligence Group at Ipreo. Justin Vieira is the Director of Corporate Analytics at Ipreo.

BetterIR - Firm Snapshot

Targeted Firm: Thornburg Investment Management, Inc ($39,259.0mm)

Targeting Profile:
Thornburg Investment Management is a New Mexico-based global value and growth investor. The firm takes pride in its "distinctive location," believing the Santa Fe office buffers the firm from "the ancillary noise of the crowd." In general, Thornburg avoids hot stocks and hyped sectors— preferring instead poorly covered stocks or out-of-favor industries. Accordingly, Thornburg regards itself as a value investor, but the firm will often buy at higher valuations if they're particularly convinced of a firm's enduring growth prospects. Thornburg is globally diversified, holding 47% in European equities, 35% in North America, and 12% in Asia as of Q4 filings. If you are a strong international issuer, distraught by US investors' diminished appetite for foreign or emerging markets, Thornburg should rank highly on your target list.

In the fourth quarter, Thornburg recorded a variety of non-traditional top buys. The firm's largest purchase for Q4 was wind turbine maker Vestas Wind, adding $144mm to a $275mm stake. The firm was also bullish on tech and telecoms with high barriers to entry or strong competitive positioning. In this vein, the firm bought German software giant SAP AG (up $131mm), Apple (up $67mm), and Crown Castle International (up $38mm). Thornburg was also active in more defensive non-discretionary stocks, but took the clever angle of investing in the sector's international players. Better values were likely found in Reckitt Benckiser Group (up $29mm), Groupe Danone (up $28mm), and Wal-Mart de Mexico SAB (up $50mm), when compared against US peers.

How to Approach:
Firms possessing depressed-to-fair valuations should have the best chances of attracting investment. Higher multiples were tolerated in buys across the Pharmaceutical sector during the fourth quarter with Novartis AG (up $96mm), Genetech (up $82mm), and Eli Lilly (up $22mm). Thornburg portfolio managers noted that growth outlook, combined with less correlation to the broader market made healthcare an attractive sector from a risk-reward perspective. Amongst the firm's out-of-favor or poorly-covered plays, Dish Network tops the list, with a $106mm new position for Q4. Thornburg may take a chance on the unpopular if—like Dish— high barriers to entry and clear recovery plans are in place. Best-of-breed value plays were also apparent in Q4 as Thornburg added to positions in Goldman Sachs (up $60mm) and JP Morgan ($24mm) amidst broad turmoil in the financial sector.

How Not to Approach:
If you have a dominant perception on Wall Street or a frequent cheerleader in Jim Cramer, Thornburg may be less likely to initiate a position. The firm believes in getting ahead of opportunities and shies from biases encountered amongst the herd. In positive territory for all of 2008, Thornburg reduced exposure to McDonalds (down $26mm) in Q4 — perhaps taking profits while popular perception pigeon-holed the stock as a "safe haven." While Thornburg frequently targets value and deep value, the firm will not ignore macro headwinds against a given sector. Despite Carnival Plc's steep barriers to entry in the luxury cruise business, Thornburg managers sold $36mm in Q4 as conditions weakened for high-end discretionary. If your firm faces macro challenges or your cyclical recovery is expected later in queue, be sure to articulate a clear understanding of the environment, and any relative advantages you may retain against peers.

Largest Funds Managed:
- Thornburg International Value Fund ($10,037.9mm) - William Fries, Wendy Trevisani, Lei Wang
- Thornburg Value Fund ($2,364.7mm) - Connor Browne, William Fries, Edward Maran
- Thornburg Investment Income Builder Fund ($1,703.0mm) - Jason Brady, Brian McMahon
- Masters Select International Fund ($1,283.2mm) - William Fries

Investment Potential:
- Mega: $114.3mm
- Large: $130.4mm
- Mid: $70.4mm
- Small: $34.4mm
- Micro: $8.5mm

Average Equity Holding Period: 2.1 years

BetterIR - Fund Snapshot

Targeted Fund: T. Rowe Price Growth Stock Fund ($13,738.8mm)

Portfolio Managers:
P. Robert Bartolo, CFA (Rob); (410) 345-3426; rob_bartolo@troweprice.com

Targeting Profile:
The Growth Stock Fund is T. Rowe Price's largest and oldest fund. Opened in 1950, fund objectives have changed little over time: target firms that deliver earnings growth in excess of inflation and gains in the broader market. The fund demonstrates clear use of sector rotation, alongside best-of-breed picks in less-favored industries. Fund literature appears to downplay any requirements for specific fundamental criteria, but cash flow and dividend increases are known to be of appeal. For a growth fund, turnover is low at 31%, and position sizes are relatively concentrated— averaging $131mm across roughly 100 positions. The fund is skewed heavily toward larger-cap issues, recording 54% large caps, 30% mega cap, and 14% mid cap as of most-recent filings.

In the fourth quarter, selling narrowly outweighed buying across the fund. Behind $1.7B in buying during the period, T. Rowe swung for AMZN (up $189mm), RIMM (up $131mm), AAPL (up $127mm), and UPS (up $109mm) as headline buys. These picks display a blend of strategies and stock-picking rationales: AMZN demonstrates a willingness to pay handsomely for growth, RIMM and AAPL demonstrate an interest in relative value and turnaround capacity, and UPS might hint at some macro-level thinking within the fund (UPS and its transportation peers are believed to be leading economic indicators). Selling during the quarter removed $1.8B from the fund— focused across Agricultural Chemicals ($172mm), Precious Metals ($153mm), and Health Care Plans ($134mm).

How to Approach:
The manager's Q4 2008 commentary openly stated that the fund is looking for opportunities in software, communications, and IT services industries. Buying in the above tech plays, as well as in Qualcomm (up $44mm), MetroPCS (up $62mm), and Fiserv (up $96mm) suggest a clear commitment to this strategy in the near-term. Again, as evidenced by the fourth quarter AMZN pickup, the Growth Stock Fund will pay for growth, but only if it believes the buy is justified over the long-term. Selling in high-priced Google (down $70mm), for instance, may have been motivated by uncertainties in the firm's long-term growth strategy, and the sustainability of its competitive advantages. If your company is well-positioned to grow market share in a difficult retail environment, this may be a good fund to approach. The Growth Stock Fund recorded fourth quarter buying in Nike (up $23mm) and CVS/Caremark (up $25mm), as the two firms continue to outperform peers and the broader market.

How not to Approach:
IROs can expect skepticism if coming from a down industry, or one with doubtful future prospects; companies without an outperforming growth story are likely better off elsewhere. Micro-caps also need not apply as the fund is heavily skewed towards large and mega cap stocks. In the health insurance industry group, the fund recently cut investments in Aetna, Humana, and Cigna by a combined $209mm. Abrupt selling in the sector could reflect concern over the future of the health care industry given the potential for large-scale government intervention. In recent commentary, Bartolo noted that the fund is not a believer in the long-term growth prospects for consumer staples (despite the industry's impressive numbers against the market last year). The comment further emphasizes the fund's focus on company and industry outlook over recent market performance.

Investment Potential:
- Mega: $255.0mm
- Large: $158.1mm
- Mid: $106.9mm
- Small: $34.3mm
- Micro: $0.0mm

Average Equity Holding Period: 2.4 years