

THE

Better IIIR

NEWSLETTER

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The Pursuit of Stability: The Impact of Paying a Dividend

The Impact of Paying a Dividend on Shareholder Base Stability

As the Bush dividend income tax breaks likely come to an end, IR professionals are contemplating how to think about dividends going forward and how they will be viewed by investors. One important consideration is that many investors such as pension funds and 401k investors are tax exempt, and therefore largely unaffected. In many cases these investors require stable investments and seek income payouts as an important consideration for investment. Thankfully, in the quest for income generating investments, these types of investors and IR tend to have similar objectives; namely the pursuit of stability.

It is commonly known that large cap stocks tend to have less shareholder base volatility than small cap stocks. The reason behind this is fairly intuitive, as large established businesses generally have more consistent revenue streams, a highly sought out characteristic during uncertain market environments. That is an excellent trait and advantage of large cap stocks, but how is a smaller company to convey those same benefits to shareholders and work towards the goal of shareholder stability?

To address this challenge, Ipreo analyzed the investor base churn, expressed as the percentage of institutional shares traded annually on average for the S&P100, 500, 400, and 600 indices. The sample set was chosen as a comprehensive proxy of mega cap (S&P 100) to small cap (S&P 600) companies. We then further segmented each category by the current S&P 500 dividend yield of 2.1%.

Shareholder Base Churn Equation:

$$\frac{\text{[Average (All Institutional Buys + Absolute Value of all Sells)]}}{\text{Initial Total Institutional Shares Held}}$$

Note: This calculation was done for each index constituent, totaled over an 8 quarter period, and then divided by 2 to make a annual figure. A lower Churn suggests a more stable shareholder base

The results in the table to the right are fairly conclusive. For each respective index, components that have yields above the market average tend to achieve higher levels of shareholder base stability. A high dividend paying small cap, or S&P 600 stock, can achieve a more stable shareholder base than a non-dividend paying S&P 400, or mid cap company. The exact same trend can be seen in S&P 400 vs. 500 and S&P 500 vs. 100 comparisons. In certain cases, paying a dividend is a way for companies to benefit from some of the traits of large cap stocks and work towards the goal of shareholder base stability. Committing to a steady dividend payout provides the level of investor confidence that is sought out by long-term minded shareholders.

| Cap Size/Shareholder Base Churn | | | | |
|---------------------------------|---------|---------|---------|---------|
| | S&P 100 | S&P 500 | S&P 400 | S&P 600 |
| Yield Above S&P 500 | 73.3% | 90.1% | 96.7% | 98.3% |
| Yield Below S&P 500 | 87.6% | 112.4% | 116.3% | 114.9% |
| Total Average | 80.5% | 104.1% | 110.5% | 111.6% |
| Source: Ipreo | | | | |

| Companies with Less Shareholder Churn Since Dividend Initiation | | | | |
|---|--------|-------|--------------------|--------------------------|
| Name | Ticker | Index | Dividend Yield (%) | Churn Reduction (% Pts.) |
| Oracle Corporation | ORCL | 500 | 0.7% | 7.1 |
| Coach, Inc. | COH | 500 | 1.4% | 11.5 |
| AK Steel Holding Corporation | AKS | 500 | 1.4% | 18.1 |
| Solera Holdings, Inc. | SLH | 400 | 0.7% | 9.5 |
| Scholastic Corporation | SCHL | 400 | 1.2% | 2.3 |
| PetMed Express, Inc. | PETS | 600 | 2.9% | 25.1 |

Source: Ipreo

The above table is a sampling of companies that have initiated dividends over the past 2 years and the impact on shareholder base churn. Over a fairly short period of time these companies have all experienced an improvement in shareholder stability. While some of the reaction may be attributed to an improvement in company or industry expectations, it is notable that this tendency exists, even during a volatile market environment. That being said, there are a few important points to be made as it relates to these dividend initiations:

1. These companies all have dividend yields below the 2.1% benchmark mentioned previously, which is expected as companies often do not initiate at a full dividend level.
2. Over time the shareholder base will likely become more stable as the company achieves a track record of solid performance while paying a dividend.

Dividends For Everyone?

Now it must be said that paying a high dividend is not the right use of cash for every company, nor is that the optimal payout for every company. However, for companies considering a dividend, the potential reduction in shareholder base churn lends a benefit that might have been otherwise overlooked. These conclusions only hold true for companies that can confidently afford a dividend payout without adversely affecting or limiting normal business operations. Naturally, if a company is at risk of cutting a dividend, or overstressing themselves, there will likely not be an increase in shareholder base stability.

Authors: Justin Vieira

Justin Vieira is the Director of Corporate Analytics at Ipreo

Built to Code: De-constructing Quant Ownership

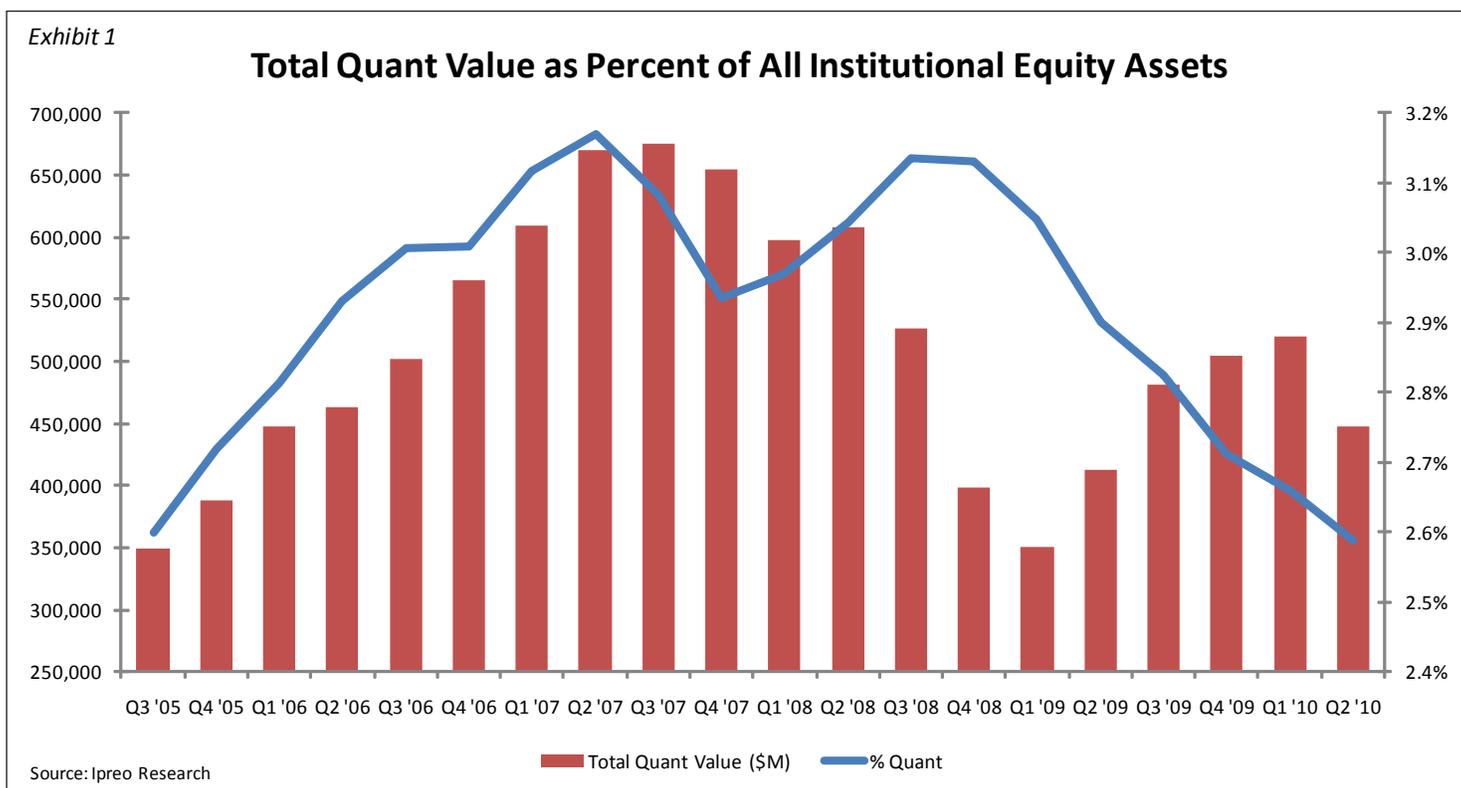
Quantitative investment strategies have long played a vital role in the decision-making process of many institutional investors, enabling portfolio managers to quickly narrow down an expansive universe of securities to a more concentrated basket of qualifying companies. Nearly every investor has the set of tools to screen and identify ideal investments based on modeling, but the investors that allow the technology *to be the driver* of investment decision-making with minimal human input are the ones that claim to be able to offer competitive returns at lower costs, and traditionally have been the investors that attract larger mandates.

Although a look at the top 50 strictly quant firms, including investors such as *Dimensional Fund Advisors*, *Grantham Mayo Van Otterloo & Co*, and *INTECH Investment Management*, reveals that these institutions account for only approximately 3% of total institutional equity assets across the globe, their impact is still quite meaningful. Some hedge fund managers follow strictly quantitative methods as well; *Renaissance Technology Partners*, the hedge fund founded by James Simons, follows a largely quantitative approach that has been successful enough to allow the fund to eschew the usual “2-and-20” manager compensation standard and charge far higher fees.

However, while such computer-driven quant models claim to provide numerous benefits while reducing costs, several high-profile client losses may portend tough times ahead for quants.

Boom (and Bust?)

The overall value managed by quant investors throughout recent years has varied rather broadly along with the ebb and flow of the global economy. In Q3 '07, the top 50 quant firms reached a maximum value of \$674Bn in equity assets under management, which represented a



93% increase from two years prior in Q3 '05. Compared to a 63% increase in the value of all institutional investment managers, these quant shops were made flush with new capital, rapidly outpacing broad industry expansion. Nevertheless, as boom-time growth waned, quant shops were hit equally hard by the recession, as the same top 50 funds lost 48% of their value, nearly equal in magnitude to the overall decline in institutional equity assets. Interestingly, throughout the same period, the value of all securities managed by the same quant funds actually increased as a percentage of all institutional equity assets. Assets managed by this set of investors currently stand at about 2.6% of institutional equities, down significantly from the 2007 peak.

Hacking the Black Box

The specific algorithms designed and implemented by quant managers have long been shrouded by intense secrecy, due to the highly competitive nature of the industry, where even small model tweaks can mean the difference between millions of dollars in profit or loss. As such, it remains rather difficult to determine the precise metrics used in the screening process in addition to the qualifying thresholds for inclusion or exclusion in each portfolio. While such guarded decision making is the norm among quant managers, due to recent backlash against automated trading and black-box computer modeling, a trend toward improved disclosure has begun to take rise. For example, WestPeak ActiveBeta Equity Fund, newly launched in July, is seeking to differentiate itself by plainly disclosing its precise screening process to the public at large. Whereas several quant funds generally considered to be fairly “transparent” may issue vague guidance alluding to benchmark indices or valuation metrics used in the screening process, WestPeak is among a growing class of quants offering full disclosure, even including guidelines for monthly portfolio re-weightings¹. Whether such candor will help to generate significant investment capital or whether this strategy may ultimately cannibalize the firm’s profits by inspiring copycat funds is yet to be proven; however, such disclosure certainly begins to demystify the quant shop aura and settle the uneasy minds of investors burned by quants during the recession.

While it is widely understood that many quant shops tend to base investment decisions on a combination of valuation metrics paired with momentum indicators like price performance, due to these investors’ aforementioned extreme privacy, the extent to which these factors influence actual buying and selling activity remains unknown. As such, Ipreo has examined historical ownership for the top 50 quant investors in order to determine any correlation between valuation and quant ownership over time. By examining a select number of the most widely held mid-industries by these top 50 quant investors, Ipreo was able to detect a significant value bias among these firms.

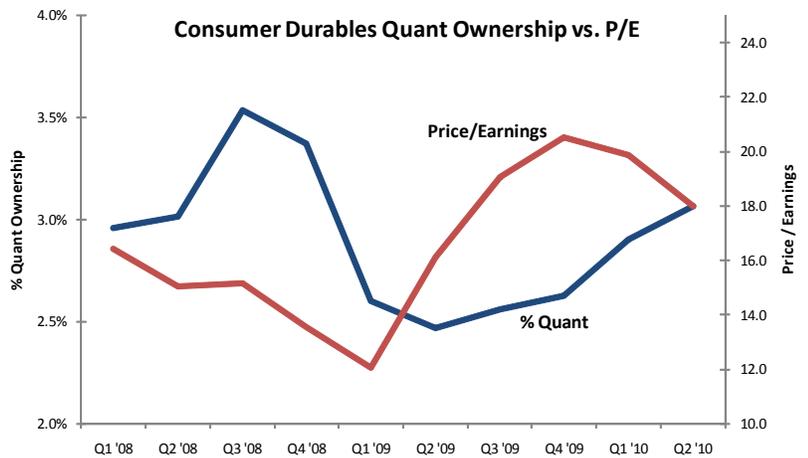
Sector Bias

From a sector level, quantitative investors often tend to take outsized positions in cheap sectors that have experienced a noticeable decline in valuation multiples. As clearly evidenced by Exhibit 2, Consumer Durables Quant Ownership vs. P/E, from Q1 '08 to Q3 '08, quant models seized upon temporary price weakness among this basket of consumer durables companies and steadily increased their portfolio holdings as a percent of total institutional shares held. This trend reversed sharply in Q1 '09 as the global economy began to recover from recessionary lows, raising industry wide valuations. As follows, quant funds began to pare back holdings, lowering this group’s aggregate percentage of total ownership. Because these funds rely upon rigorous computer-driven decision making processes, given past behavior, it is not surprising that the most recent decline in P/E multiples starting in Q4 '09 has led to another visible uptick in quant ownership. Exhibit 3, Personal Services Quant Ownership vs. P/E, illustrates quant buying activity among another sector, the Personal Services mid-industry, indicating that quant ownership is similarly correlated with depressed valuation metrics. Just as the Personal Services industry’s average P/E bottomed out in Q1 '09, ownership by the top 50 quant funds reached a peak of nearly 5% of total institutional shares held. Once again, as valuations recovered throughout 2009, quant ownership fell off at a similarly steep pace.

Value Bias

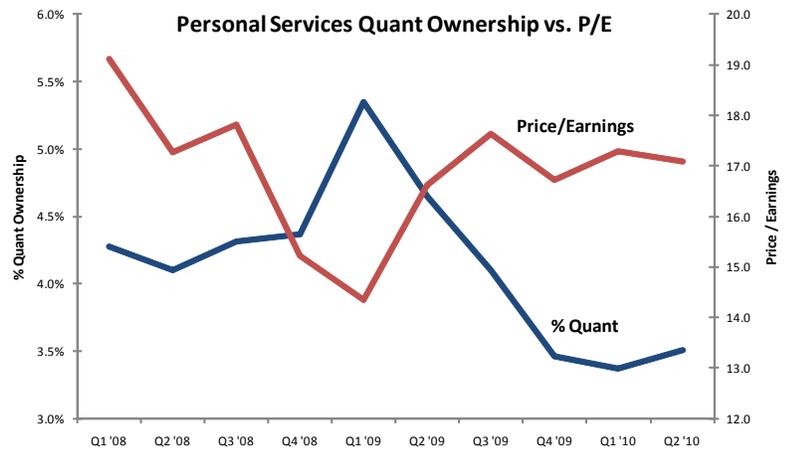
While such a trend is plainly on display at the mid-industry level, the correlation between buys and sells relative to valuation becomes even more pronounced on an individual company basis. Within the Personal Services industry, mid-cap private education provider, Apollo Group, has experienced widely fluctuating levels

Exhibit 2



Source: Ipreo Research

Exhibit 3



Source: Ipreo Research

Exhibit 4

Largest Quant Ownership by Market Cap

| Security Name | % Quant | Mkt. Cap (\$M) | Security Name | % Quant | Mkt. Cap (\$M) | Security Name | % Quant | Mkt. Cap (\$M) |
|---------------------|---------|----------------|------------------------|---------|----------------|-----------------------|---------|----------------|
| ConocoPhillips | 4.1% | 82,875.5 | Northrop Grumman | 8.0% | 16,923.6 | Lexmark International | 21.2% | 2,899.9 |
| Pfizer, Inc. | 3.4% | 130,782.8 | Lorillard, Inc. | 7.9% | 11,509.5 | Lubrizol Corporation | 17.7% | 6,374.8 |
| Chevron Corporation | 3.4% | 156,363.9 | Cardinal Health, Inc. | 6.7% | 11,347.3 | Del Monte Foods | 17.6% | 2,560.6 |
| Amgen, Inc. | 3.3% | 51,714.5 | CenturyTel, Inc. | 5.9% | 10,909.3 | SUPERVALU, Inc. | 16.5% | 2,348.5 |
| AT&T, Inc. | 2.9% | 159,365.7 | Archer Daniels Midland | 5.6% | 19,793.1 | Tyson Foods, Inc | 16.0% | 4,971.2 |

Source: Ipreo Research

of quant ownership. The company reached a maximum of 13.9% ownership by quant funds in Q1 '08, which was preceded by a precipitous decrease in P/E, falling from 24.6x in Q2 '07 to 18.2x in Q1 '08. By year-end 2008, however, quant ownership had fallen to a more reasonable 5.4% as Apollo's P/E reversed course and showed increases in valuation.

Viewed across a wide range of companies, the increased focus on lower valuation appears across all securities as well. Within industries, higher concentrations of quantitative managers appear across many of the lowest-valued issues in each cap range. Leading mega cap companies in quant ownership is Conoco Phillips, with 4.1% of institutional shares held by quant funds. Among mid-caps, Northrop Grumman rises to the front of the pack with 8.0% quant ownership. While the company's valuation multiples are inherently low by its classification within the Industrials sector, Northrop Grumman's price/book of 1.3x and price/earnings of 8.6x are unusually low even among industry peers. Lastly, Del Monte Foods, at 17.6% quant ownership, confirms such a value bias, as the company is currently trading at 10.9x earnings, significantly lower than its comparable peers.

The Future

Over the last several years, investment managers looking to compete on costs as well as returns have often relied more heavily upon quantitative strategies in order to minimize the array of fees inherent to actively managed portfolios. While quant strategies offer the promise of outsized returns with minimal effort, they are certainly not without risks. Case in point is the saga of AXA Rosenberg, which thrust the quant universe into a glaring spotlight earlier this year.

AXA Rosenberg, prior to April 2010, was one of the top three largest strictly quant investment managers, winning portfolio mandates for some of the largest and most well-respected firms in the world, including Vanguard and Charles Schwab. However, sometime in late June 2009, AXA Rosenberg discovered an error in its computer modeling program, which was quietly fixed between September and November of the same year. While the extent to which this error impacted client portfolios was never revealed, according to Morningstar, "more than 90% of AXA Rosenberg's separate accounts in Morningstar's database with five-year records trailed most of their peers in that time as of midyear [2010]."² In a letter dated April 15, 2010, 10 months after the error was first discovered, AXA Rosenberg finally revealed its blunder to the public, acknowledging that the error had something to do with under-representing certain types of risk factors in the portfolio construction process.

Such an admission and subsequent failure to inform stakeholders in a timely manner seriously damaged AXA Rosenberg's reputation among quant managers. As a result, after deliberation, Vanguard ultimately fired the firm as subadvisor to three of its most prominent portfolios, the Vanguard Explorer Fund, Vanguard US Value Fund, and Market Neutral Fund, taking the portfolio management duties for AXA Rosenberg's portion of these portfolios in-house. Unfortunately for AXA Rosenberg, this did not remain an isolated incident, as a slew of additional investment managers followed suit, firing the firm as well. As a result, AXA Rosenberg's assets under management plummeted from \$67Bn in March 2010 to nearly half that size, \$36Bn by July 31.

Although this may appear to be an isolated incident, due to AXA Rosenberg's large size and previously untarnished reputation, the fallout has had far reaching implications across the entire quant industry. In order to negate this negative perception, many quant funds have begun to consider opening up their models to additional factors outside of solely stock specific circumstances. By attempting to align computer models more closely with their human counterparts, quant managers are seeking greater responsiveness to macro-level information. In addition, greater disclosure is thought to benefit these funds and negate some of the negative associations resulting from the AXA Rosenberg debacle.

IR Perspective

From the IRO's seat, the presence of a large number of quantitative managers near the top of the shareholder base often means that the company has faced valuation weakness, technical weakness, or other short-to-medium-term problems. A quantitative manager often won't much care about a perceived weakness in management, a negative view from the Street about an acquisition made, or a significant legal problem (note that issuers with legal liabilities, such as tobacco company Lorillard Inc., noted above, often see some of the highest concentrations of quant ownership). Also, issuers that exhibit strengthening valuation and strong price performance may see quantitative investors dispassionately booking profits; in sufficient size, this could lead to underperformance even following strong results announcements as quants sell at their valuation triggers.

However, that doesn't mean you won't ever have any direct contact with a quantitative-only manager. A number of Ipreo clients have had limited communications with some primarily quantitative managers, including Jacobs Levy, AXA Rosenberg, and Analytic Investors; often these conversations seem to focus around helping the investor assemble an effective model. Don't automatically assume that no individual at a quantitative investor has spent any time looking at your company. The distinguishing characteristic of a true quantitative investor is whether the investment decision is made without human input, but especially in the cases of companies with more complex accounting, it is possible there may be some human contact farther down in the decision-making chain. Also, managers that have a quantitative focus may also have active portfolios managed with human input elsewhere in their organization; make sure to ask enough questions from the manager to use your time wisely.

As long as there is competition between managers based on costs, quantitative managers will have a place in the asset allocation decisions of major institutions. Despite recent struggles, be assured that quantitative managers will have a place in your shareholder base for the foreseeable future, and knowledge of their processes and tendencies will help you understand their impact on your trading.

Authors: Adam Johnson & Brian C. Matt, CFA

Adam Johnson is an Analyst in Ipreo's Corporate Analytics Group. Brian C. Matt, CFA, is a Director in Ipreo's Data Strategy & Analytics Group.

1) Eleanor Laise, "Bruised Quant Funds Seek a Human Touch," *Wall Street Journal*, Sept. 2, 2010 (<http://online.wsj.com/article/SB10001424052748703649004575437290148983902.html>).

2) Dan Culloton, "Fund Times: Vanguard Gives AXA Rosenberg the Ax," *Yahoo Finance*, Aug. 12, 2010 (<http://finance.yahoo.com/news/Fund-Times-Vanguard-Gives-AXA-ms-1868828691.html?x=0&v=2>).

Hedge Funds & High Turnover: What Lies Behind a Headline Turnover Statistic?

It's often tempting to judge a hedge fund by its turnover statistic. On average, the US-based hedge fund community reports a turnover figure of 156%, implying that the average fund buys and sells through its entire portfolio within only two quarters. This number compares to 65% (1.5 years) within the active, US institutional community, and declines further to 44% (2.2 years) when we consider only the set of "Tier 1" US institutions with over \$20B in reported equity assets under management.

In general, the elevated turnover observed within the hedge fund community produces negative effects for corporate issuers. From an IR resources standpoint, time spent servicing a short-term oriented investor reduces time allocated to existing shareholder upkeep and ongoing investor targeting efforts. From a financial perspective, active short-term buying and selling by high-turnover managers can induce volatility; potentially complicating both valuation and trade execution efforts by the traditional long-only community. Barring instances of weak liquidity or significant underperformance, it generally remains in the best interests of the issuer to limit share churn, and deemphasize outreach to investors typically known for high turnover. Thus, the case for frequent hedge fund interaction remains weak, yet we hear pitches like the following hypothetical all too often:

Good Afternoon IRO at XYZ Co,

I cover consumer goods at Deciduous Tree Capital Management. We are a \$1.5B fund and hold a large portion of our investments long-term. I would love to set up a time to speak with you and your management team if available.

Best,

Joe Analyst

What to do, what to do? A quick search in BD Corporate might reveal a turnover statistic for Deciduous Tree of 155%— which doesn't sound very long-term. But what if we give Joe Analyst some credit and focus on the bolded phrase "portion of our investments" in the above imaginary email? In the following analysis, Ipreo attempts to answer the following questions:

- How do turnover statistics change when we focus the metric on the top-ranked "core" portfolio holdings?
- Is there a universe of hedge funds that exhibit markedly lower turnover within a "core" portion of their portfolio?

Defining the "Core Portfolio"

Portfolio construction varies widely across managers— ranging from Will Danoff's \$58B ContraFund with over 433 individual stocks, to Ron Sachs' \$8B *Janus Twenty Fund* with just 20 focused positions. While portfolio sizes and concentration schemes vary, most portfolios tend to exhibit a subset of larger positions which, often by the nature of their size alone, are less efficient to move and less susceptible to turnover. It is this set of securities which we aim to classify as "core" and aim to "find" within a given fund. In the following analysis, we use a holding's rank in portfolio to isolate hedge funds' top 15 positions going back four quarters.

Measuring Turnover within the Core Portfolio

To calculate turnover, Ipreo takes the absolute value of each position Value Change over a given quarter of disclosed activity. Summing absolute value changes across the full portfolio yields the numerator for the turnover metric. In the denominator, we add the current period Market Value to the prior period Market Value. The quotient, multiplied by 100, yields a one-quarter Percent Turnover statistic. The full year statistic is created by adding four quarter individual statistics. To examine turnover across a hedge fund's "core portfolio," Ipreo substituted the Value Change and Market Value inputs across the full portfolio, with figures across only the top 15 positions within a given portfolio.

Findings in the Core

Restricting the turnover calculation to a hedge fund's top 15 reduces turnover markedly. Across the full study universe of US hedge funds (230), average turnover declined to **84%** from the original **155%**.

In general, smaller funds and funds registering high turnover from the outset experienced the largest declines in turnover. As anticipated, we also observed Arbitrage shops and Activists investors seeing notable declines. Arb shops will often record lower churn within their top 15 as they find and sit-on open deals. Activist campaign positions also often rank highly within the portfolio, and tend to be maintained longer-than-average in the event of prolonged battles with management or proxy wars.

To better filter the results set and avoid Activists and Arbitrage investors, we imposed the following filter to ferret out worthwhile funds from an investor targeting perspective:

- Hedge Fund Equity Assets > \$500M
- Activist Flag = FALSE
- Style ≠ Arbitrage
- All Portfolio Turnover > 100%
- Core Top 15 Portfolio < 100%
- Average position size in Top 15 > \$10M

Using the above quantitative screen, and vetting each resulting hedge fund's qualitative background, Ipreo came up with the following list of "low core turnover hedge funds" which we believe offer better-than-average targeting potential within the hedge fund universe. We sort the below list on Average Position Size within the Top 15, which we take as a proxy for general purchasing power.

Quality Hedge Fund Screen: Sub-100% Core Turnover with Strong Purchasing Power

| Hedge Fund | EAUM (\$M) | All Port. % T/O | Core Port. % T/O | Abs. Diff All / Core | Ave. Pos Size Top 15 (\$M) | # Holdings |
|---|------------|-----------------|------------------|----------------------|----------------------------|------------|
| 1 Lone Pine Capital, LLC (U.S.) | 11,115.9 | 123 | 56 | 67 | 632.5 | 65 |
| 2 Viking Global Investors, L.P. | 8,792.9 | 160 | 94 | 66 | 507.3 | 63 |
| 3 Maverick Capital, LTD | 7,816.9 | 160 | 88 | 71 | 391.4 | 64 |
| 4 Brookside Capital Management, LLC | 6,290.7 | 131 | 69 | 62 | 383.4 | 91 |
| 5 Eton Park Capital Management, L.P. (U.S.) | 7,966.9 | 121 | 95 | 26 | 342.0 | 88 |
| 6 Glenview Capital Management, LLC | 5,063.8 | 108 | 49 | 59 | 282.3 | 68 |
| 7 Tiger Global Management, LLC | 3,717.2 | 104 | 77 | 27 | 266.2 | 64 |
| 8 Level Global Investors, L.P. | 2,597.6 | 194 | 95 | 99 | 194.7 | 58 |
| 9 Highbridge Capital Management, LLC | 7,244.3 | 210 | 86 | 125 | 171.4 | 1385 |
| 10 UBS O'Connor, LLC | 3,738.0 | 189 | 88 | 101 | 108.6 | 569 |
| 11 Samlyn Capital, LLC | 2,528.3 | 173 | 85 | 89 | 98.7 | 118 |
| 12 Kleinheinz Capital Partners, Inc. | 1,603.0 | 107 | 51 | 56 | 94.1 | 127 |
| 13 Alydar Capital, LLC | 1,690.8 | 169 | 74 | 95 | 93.6 | 92 |
| 14 Bridger Management, LLC | 1,650.1 | 151 | 75 | 76 | 89.4 | 64 |
| 15 Cobalt Capital Management, Inc. | 1,423.6 | 146 | 60 | 86 | 82.6 | 70 |
| 16 Impala Asset Management, LLC | 998.0 | 134 | 58 | 76 | 81.3 | 83 |
| 17 Elliott Management Corporation | 761.5 | 112 | 59 | 54 | 76.2 | 59 |
| 18 Glenhill Advisors, LLC | 876.2 | 118 | 70 | 49 | 72.7 | 102 |
| 19 FrontPoint Partners, LLC | 2,211.3 | 186 | 95 | 90 | 70.5 | 344 |
| 20 Zweig-DiMenna Associates, LLC | 1,350.8 | 179 | 80 | 99 | 68.4 | 130 |
| 21 Chesapeake Partners Management Company, Inc. | 1,132.4 | 112 | 65 | 47 | 61.0 | 76 |
| 22 Valinor Management, LLC | 1,402.9 | 123 | 90 | 32 | 59.4 | 51 |
| 23 Luxor Capital Group, L.P. | 961.3 | 139 | 91 | 48 | 58.7 | 57 |
| 24 Peconic Partners, LLC | 580.1 | 162 | 68 | 94 | 57.6 | 60 |
| 25 Scopus Asset Management, LLC | 1,231.9 | 191 | 96 | 95 | 50.8 | 106 |

The above names are not without their faults. **Lone Pine**, and **Tiger Global**, for example, are well-known shops that often catch flak from issuers for quick entry, quick exit, and steep IR time demands in-between. Additionally, the majority of the above are long/short oriented, and could just as soon sell your shares short as they accumulate shares for a core position. Faults aside, we profile some highlights below:

Lone Pine (123% to 56%): Tiger Cub Stephen Mandel's global long-short fund sees 56% turnover within its top 15. Fund managers take a fundamental, bottom-up approach and prefer to meet with management before initiating. Within the core portfolio, a large-cap tech bias is observable with Apple, HP, and QUALCOMM taking top spots.

Viking Global (160% to 94%): Founded by former Tiger Global employees, the firm places heavy emphasis on management and generally targets a ~50 stock portfolio. Invesco, Oracle, and JP Morgan have held top spots in the portfolio over recent quarters.

Maverick Capital (160% to 88%): Another Tiger Cub, Lee Ainslie's large cap long/short fund looks for value and growth plays and generally shorts about 40% of the portfolio. Maverick works bottom up to find investments and also places heavy emphasis on interaction with management. The firm has a marked group of core investments, including QUALCOMM, Pfizer, Apple, Corning, and Stanley Black & Decker.

Brookside Capital Management (130% to 69%): Firm takes more of a deep value approach, targeting "transition investments" and out of favor issuers. Given the intangibles of a good turnaround play, Brookside likes to meet with management before investing. Target, Bank of America, and CVS/Caremark stand out as core positions.

UBS O'Connor (189% to 88%) & Highbridge Capital (210% to 86%): Both firms stick out with their very large portfolio sizes (1,385 and 569 positions, respectively). Portfolio breadth, however, might implicitly allow for more inertia in the core. UBS O'Connor holds a defensive Top 15 lineup via staple names like Wal-Mart, Pepsi, Coca-Cola, Kroger, and Energizer. Highbridge's core lineup exhibits less of a unifying theme, but is equally inert with large positions in American Express, Dish Network, Bank of America, and Mosaic.

Kleinheinz Capital Partners (107% to 50%): Long/Short fund invests primarily in the Tech sector and takes a global perspective. Core names include Apple, Research in Motion, Baidu, and China Mobile.

Takeaway Thoughts

Our analysis suggests that the basic turnover statistic can often give an incomplete picture of a hedge fund's turnover. While not all funds see meaningful improvement in interaction potential as we isolate certain areas of the portfolio, some funds boost their appeal markedly. Findings restate a core Ipreo belief that deciding who to meet with takes time and research to make informed decisions.

Author: John Demler

John Demler is a Senior Analyst with Ipreo's Capital Markets Analytics Team

BetterIR - Firm Snapshot

Targeted Firm: Westfield Capital Management Company (\$9.97 Bn)

Targeting Profile:

Based in Boston, Westfield Capital Management Company is a subsidiary of Boston Private Financial Holdings, Inc. that manages equity mutual funds and hedge funds for individuals and institutions. The firm has approximately \$9.97 billion in equity assets under management split between 280 holdings. Although the firm does invest globally, the majority of investments are in companies based in North America (89.9%) and Europe (7.0%). Westfield Capital maintains an Aggressive Growth/Growth focused approach that invests in all sectors ranging from Small- to Mega-Cap stocks. The firm utilizes fundamental and bottom-up approach to find stocks that have growth prospects they believe to be unrealized by the market. The Small-Cap strategy focuses on securities with market caps from \$300mm to \$1.5Bn and annual earnings growth of 20% or greater, while the Mid/Large-Cap strategy seeks securities over \$1.5Bn in market cap and annual earnings growth of 15% or greater.

During 2Q, Westfield Capital was a net buyer of equities, increasing total positions by \$1.86Bn, including buying into 61 new positions. Many of these new positions have been Tech stocks, as Technology is the core of the portfolio, accounting for nearly 30% of the total. Additionally, holdings can be fairly concentrated, as five of the top ten holdings are Technology stocks and account for nearly 10% of the total portfolio (Apple, Google, Cisco, Oracle, and IBM). 2Q shows the firm has significantly increased its exposure to Financials (+28.2%) and Energy (+15.4%), while decreasing its positions in the Consumer Services industry (-22.8%). Recent buys in these sectors are highlighted by new positions in Peabody Energy Corporation (+\$132.3mm) and Greenhill & Co., Inc. (+\$31.5mm). Notable sells include CVS (-\$123.1mm) and Discovery Communications (-\$52.1mm).

How to Approach:

High Growth companies, especially within the Technology industry should see Westfield as a definite target, as it is the core of the firm's portfolio and three of the largest funds the firm independently manages hold no lower than 20% in Tech stocks. However, the current interest in Energy and Financials creates an opportunity for high growth companies in those industries as well. Additionally, 20% of the portfolio is allocated

to Healthcare and the firm has been increasing exposure to certain areas within the sector. For example, Westfield has made significant buys in Alcon, Inc. (+\$99.3mm) and Hill-Rom Holdings, Inc. (+\$51.0mm). High growth companies that specialize in the medical space may have a receptive welcome by Westfield.

How not to Approach:

Westfield, like many other Aggressive Growth oriented investors, has a fairly high turnover as a firm in general (70%) and even higher in the case of some of the firm's funds. The average equity holding period is roughly 1.43 years. Currently, Consumer services accounts for roughly 11.75% of the total portfolio; however, 2Q data indicates there could be a re-balancing, as Westfield recorded selling nearly \$270mm in the Consumer Service space. Stocks in low growth industries like Utilities or those that return a large portion of cash flows to shareholders through dividends will have a more challenging time. Companies with lower growth expectations relative to their peers also are not likely to attract significant attention from Westfield.

Largest Funds Managed:

- Consulting Group Large Cap Growth Investments (\$1,314.9mm); Bruce Jacobs
- Consulting Group Small Cap Growth Investments (\$422.2mm); Scott Emerman
- Harbor Small Cap Growth Fund (\$373.9mm); Scott Emerman

Portfolio Fundamentals:

- TTM Price/Earnings: 21.3x
- Avg. 3 Yr. Revenue Growth: 12.8%
- Dividend Yield: 0.9%
- Price/Book: 3.6x

Average Equity Holding Period: 1.43 Years

BetterIR - Fund Snapshot

Targeted Fund: Franklin Mutual Global Discovery Fund (\$13,071.22mm)

Portfolio Manager:

- Peter A. Langerman – (973) 912-2048
plangerman@msfi.com
- Phillippe Brugère-Trélat – (973) 912-2027
pbrugere@msfi.com

Targeting Profile:

The Franklin Mutual Global Discovery Fund, the largest fund in the Mutual Series family of funds, is a value-style open-ended mutual fund with reported equity assets of \$13.1Bn. It takes positions in securities of all market caps, but primarily invests in mid- to mega-cap stocks, with its heaviest weighting (46%) residing in large caps. The fund's portfolio is most heavily concentrated in European securities (53%) with the majority of the remainder (38%) in North American issues. However, many of the securities in which the Discovery Fund invests have multinational operations. The Discovery Fund's portfolio has a unique industry distribution, given its heavy emphasis on the Consumer Goods industry (29.5%). This highly overweight position relative to the market average can, in large part, be attributed to the fund's top four holdings, which are all in the food, beverage, and tobacco sector, and account for over 10% of its total portfolio. Its second largest weighting (21%) is in Financials, while no other macro industries exceed 10% of the portfolio.

In Q210, the Discovery Fund had positive net activity of over \$1.5Bn, as it continued to add to its most heavily-weighted sectors, Financials and Consumer Goods. The most significant industry buys came in Healthcare and Utilities, in which the value of the fund's holdings increased by 161% and 70%, respectively. The fund made considerable purchases of two pharmaceutical companies, Eli Lilly & Company (\$192mm) and Pfizer, Inc. (a \$157mm buy-in), and in the Utilities industry, the fund purchased RWE AG (\$111mm) and NRG Energy, Inc. (a \$91mm buy-in). The only macro industry which saw negative net activity was the Energy industry, in which the fund liquidated its \$228mm position in ExxonMobil Corporation.

How to Approach:

Dividend-paying companies with strong cash flows, which are under-valued and trade at low P/E multiples relative to the market, are model investments for the Discovery Fund.

The fund invests most of its portfolio (76%) in firms with over \$10Bn in market cap, making large- and mega-cap securities attractive investments. Firms between \$2Bn and \$10Bn in market cap should also feel confident meeting with the fund, since mid-cap stocks account for 17% of its portfolio. European and U.S. companies are most likely to command the attention of the fund's Portfolio Managers, given the fund's heavy portfolio weightings in European and U.S. issues (53% and 33%, respectively). At the industry level, Consumer Goods and Financials may continue to capture the attention of the fund's PMs, while its recent purchases in the Healthcare sector make pharmaceutical and biotech companies increasingly attractive investments. The fund's dividend yield (2.9%) relative to the S&P 500 (2.1%) indicates that high-dividend paying securities, such as Utility stocks, are strong fits for its portfolio.

How not to Approach:

As a value investor, the Discovery Fund is not likely to invest in companies which it feels are over-priced and trade at high multiples. Given the fund's affinity for yield-paying stocks, it is less likely that it would find predominately growth-focused securities to be highly attractive investments. While the fund was a net buyer in nearly every macro industry, it was only a net seller of Energy stocks, possibly making energy securities lower priority investments. However, this sale could conceivably have been due to regulatory uncertainties following the BP oil spill. The fund's lack of exposure to small- and micro-cap stocks (4% total) could make it difficult for companies under \$2Bn in market cap to garner significant interest. Also, the fund's portfolio is comprised of 91% of securities domiciled in the U.S. and Europe, making it difficult for companies domiciled elsewhere to penetrate the portfolio.

Portfolio Fundamentals:

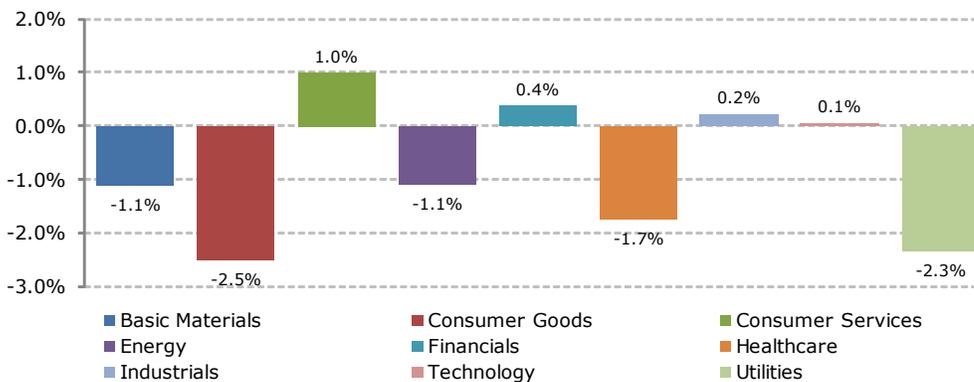
- TTM Price/Earnings: 14.6x
- Avg. 3 Yr. Revenue Growth: 7.8%
- Dividend Yield: 2.9%
- Price/Book: 2.6x

Average Equity Holding Period: 1.82 years

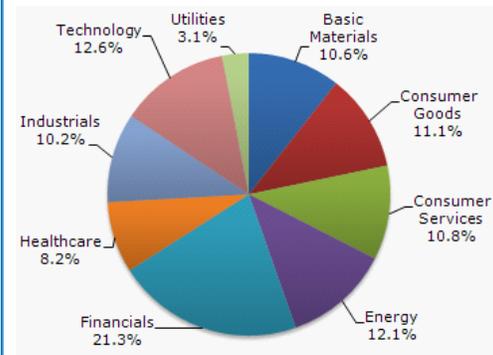
Metro Area Targeting Focus - London, United Kingdom

| Money Center Statistics | Summary Notes |
|---|---|
| <p>Reported Equity Assets (\$B): \$1,516.9</p> <p>Number of Institutions: 550</p> <p>World Rank: 3/183</p> <p>Top Sector Weighting: Financials</p> <p>Technology Weighting: 21.3%</p> <p>Top Region Weighting: Europe</p> <p>Europe Weighting: 64.2%</p> <p>Total Net Buying (\$B): \$114.5</p> <p>Total Net Selling (\$B): <u>-\$122.9</u></p> <p>Total Net Activity (\$B): -\$8.3</p> | <p>Londoners were light net sellers over the second quarter, down -\$8.3B. Given sovereign debt concerns out of Southern Europe, and government austerity rollouts across the UK and Western Europe, it was not surprising to observe strong net home-region outflows. London investors yanked a total of -\$16B from European investments over the quarter, -\$10.6B of which came from the UK-domiciled positions. Investors booking particular distaste for European equities included BlackRock UK, Insight Investment Management, and HSBC Global. London investors were more apt to redeploy capital in North America (up 2.3%), and across Asia (including Japan) which saw \$1.2B in net inflow. Invesco UK and Morgan Stanley UK led North American buying, while Fidelity UK and Pictet UK sought growth and value opportunities in Asia. On a sector basis, London investors bucked an aggregate global sell trend to purchase \$1.6B in the Consumer Services space. Buying activity in the sector was led by Children's Investment Fund, Fidelity International Limited (FIL) and Newton Investment Management. London investors were less interested in the Healthcare space, however, reducing a net -\$2.2B over the period. HSBC Global's large sells in Pfizer, Amgen, and Abbott Labs helped the firm lead selling in the Pharmaceuticals industry.</p> |

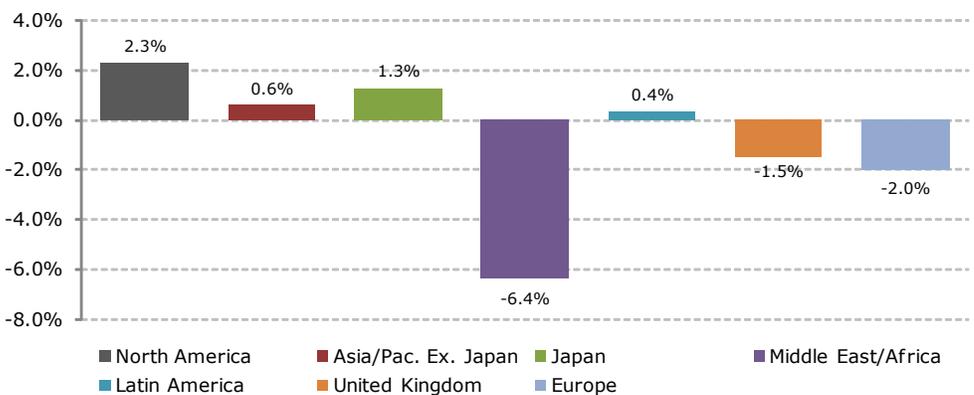
Sector New Activity (% Change)



Sector Allocation



Regional Net Activity (% Change)



Geographic Allocation

