

EXECUTIVE SUMMARY

Since the onset of the sub-prime crisis in mid 2007, the investment industry and increasingly business and commerce in general, has been swept by a series of shocks – Bear Stearns, Fannie Mae and Freddie Mac, AIG, Lehman Brothers, the spiralling credit crunch and economic recession. Regulators and governments worldwide have responded to these events, more and more dramatically, but with no real signs of success. And, despite the often unprecedented global co-ordination of central banks and monetary authorities, to date without the sureness of touch and breadth of vision to reignite market confidence.

Confidence – or the lack of it – is at the very heart of the matter. Both for this report, and in Extel Surveys continual discussions with, and feedback from, the market, investors express no conviction and deep uncertainty. Many asset managers, and most certainly not only the hedge fund community, are battling with a steep decline in asset values, greatly reduced returns and powerful redemption calls from ultimate asset holders. Many of the buy-side we speak to genuinely see real value in the markets, but little or no belief to support that potential.

This is the scenario that investor relations professionals face, and even the most optimistic pundits do not foresee any real upside until late 2009 at the earliest. It is a scenario that puts even more of a premium on coherent, intelligent investor relations. Reaching out to investors, telling ‘your story’ in the context of change and uncertainty, and providing a bedrock of transparent guidance and support, has never been as critical as it is now.

The Extel Surveys Pan-European Investor Relations Review 2008 brings together what all three sides of the investment community want from investor relations, identifying best practice and the outstanding performers, as well as documenting how the three sides interact, just what is happening in IR, and where IR teams should focus their energies.

The value of investor relations

We have met with over 200 IR teams operating in Europe in the last 12 months, and not one of them is paid based on short-term stock price. Just as well for most, given the conditions prevalent in 2008! Instead, companies measure the value of IR through investor and analyst feedback.

For 64% of Pan-European companies, this is a critical metric in evaluating the worth of IR. However, good IR, whatever that is, must end up positioning a company to compete more effectively for investment dollars, and contribute significantly to peer group relative stock performance in the longer run.

Our exclusive Extel Surveys analysis – with by far the most comprehensive data on how IR is perceived by brokers and the buy-side, demonstrates vividly that companies whose IR is most appreciated – that is, the feedback for them is very positive – will outperform

their peers. There are 39 European companies consistently highly rated in the Extel Survey for investor relations each year 2004–2008. Taken as a model portfolio, these 39 stocks show a significant outperformance.

The buy-side and investor relations

Fund managers want direct access to companies, and individual one-on-one interaction. Over 90% of asset managers tell us this is the most important way they can interface with companies. The commentary in this report, for which we are most appreciative, from some leading buy-side firms, endorses this. For many fund managers, the one-on-one is embedded in their investment process, and fundamental to how they identify value.

As one-on-ones grow in value and intensity, however, it becomes more important for companies to be consistent, to generate trust with investors, and to properly engage with the market. Preparation, attention to detail, a proper knowledge of individual investors, and a genuine willingness to talk about the business environment that a company faces, are quite simply essential. In doing this, intelligent exposure of CEO/CFO is vital, although it needs to be measured to avoid the concern of ‘so who is running the business?’.

Knowledge of your investor base is integral to shareholder identification and targeting. This report shows who are the most respected fund managers, on aggregate, by sector and as companies see them, in their interaction with companies. While, of course, premier institutions such as Fidelity, Capital, Alliance Bernstein, Schroders, JPMorgan AM, GLG, Lansdowne, Allianz GI and UBS Global AM, all rate well on many criteria, the depth of ratings and data available, provides a wealth of opportunity for investor relations teams.

The sell-side and investor relations

Companies care more about fund managers than they do about brokers – and the relative decline of broker influence in the past five years, has only served to increase that differential – with one by-product of this, of course, being the growing influence of IR teams themselves.

However, the role and power of brokers should not at all be dismissed. The multi-faceted web of interaction brokers have with the buy-side is part of the reason for this, and very clearly, fund managers place a deep regard on those analysts who have earned a solid reputation for trust, knowledge and diligence.

One particular aspect of brokerage services that has become more influential is corporate access. This itself is a part of the asset manager feeling that there is increasing value in meeting with companies. Brokers that can facilitate this are undeniably important for the fund manager. Alongside analysis of how corporate access happens, and what works best, we include in this report an exclusive Extel Surveys rating of broker conferences – perhaps the most visible and highly-used aspect of corporate access services. Presented

both in aggregate and sector-by-sector, you can see the conferences that investors see as the most worthwhile, and then what your fellow companies value.

The investor relations team

This report makes many references to the growing professionalism of IR, and the growing demands on IR. However, and we feel the current tough economic climate will accentuate this, there is a dichotomy between those demands and the level of resources IR teams have.

The average team is slightly under two per firm across Europe, and only touching four people per firm for Europe's largest 100 companies.

Budgets remain constrained likewise, with 17% of companies spending in excess of €1m annually on IR, essentially the same percentage as in 2006. With the average median salary for IR directors of €142,500, it is not a poorly-paid profession, but relatively it is behind other similar professions and arguably not generally at the level to entice the brightest and the best in the future.

For companies, one-on-ones are just as vital for them as for the other sides of the investment community, and companies are continually refining the scope, intensity and quality of those meetings.

In 2008, reflecting the pivotal role of CEO/CFO for professional IR, Extel Surveys included rankings of CEO/CFO in the Pan-European Survey. That data, along with other IR rankings, and a complete geographic breakout of buy-side, sell-side and IR teams is presented in the appendices.

All the work we do at Extel Surveys is dependent on measured, intelligent contributions from the investment community. We are always cognisant of this fact, and appreciative of the outstanding support we receive. From the massive array of data and feedback we collect, our driving ambition is to collate it carefully, and present it properly. The 2007 Extel Surveys IR Review is wholly based on these principles, and of delivering value to you.