

Perception Analysis

Shareholder Activists: Views from the Other Investors

July 2007



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Methodology

The Ipreo Perception Team recently spoke with members from the buy-side community in order to gather perspectives and opinions on shareholder activism. Given the recent proxy season's focus on issues of shareholder rights and corporate governance combined with the increase in activist situations, this was a topic we thought was timely and would be beneficial as a strategically informative piece. Below is an explanation of our methodology.

Who We Contact

We spoke with a wide sampling of buy-side firms, some of which included current institutional shareholders of companies that had been recently involved in an activist situation.

How We Conduct The Analysis

Our team of analysts are well versed in the markets to allow for a deeper, more comprehensive dialogue. Ahead of conducting the analysis, our analysts were diligent in learning about the relevant themes and trends specific to the study.

The list of questions/topics covered during the study was determined by extensively researching trends in shareholder activism, gathering current and historical information on activist situations and activist investors. The goal was to keep the questions open-ended to allow the participants to freely discuss what they perceive are key issues of concern. All the parties involved in the analysis were asked to address the same topics.

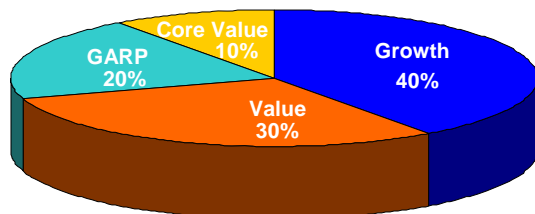
Topics/Issues Covered

The questions we asked covered four major themes:

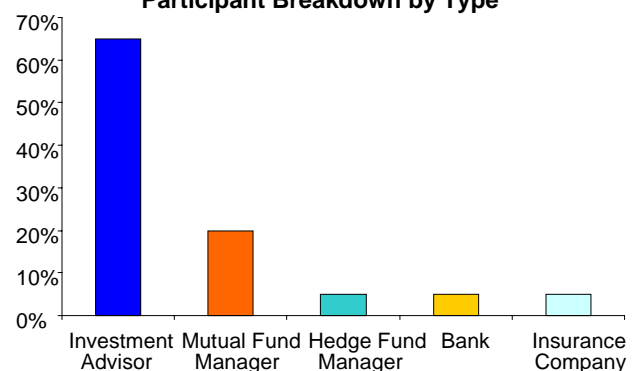
- Unlocking Value Through Activism
- Board of Director Representation
- Investment Decisions
- Hedge Funds
- Types of Activists
- Reacting to Activism
- Future of Activism
- Proxy Issues

Participants by Investment Features

Participant Breakdown by Investment Style



Participant Breakdown by Type



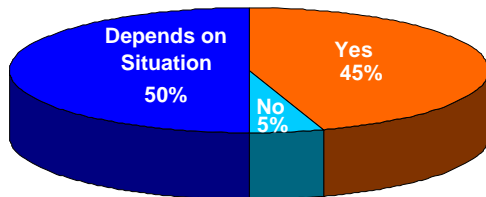
Executive Summary/Key Findings

Below are highlights and key findings from our conversations with the study participants. The main theme that we saw in our study is that most members of the buy-side are not opposed to shareholder activism. Many believe that activism can be a useful tool in the right situation and do not view it as wholly negative. Another theme that we uncovered is that, although most investors do not consider a company's shareholder base before making an investment, they do take notice when a new shareholder enters one of their portfolio companies and react accordingly. Lastly, the majority of the buy-side believes that the future of activism will continue to increase from both traditional and alternative investor types.

Unlocking Value Through Activism

➤ The investors we spoke to usually analyze the impact of shareholder activism on a case-by-case basis. When asked if activism was helpful in unlocking value in a company, half of our respondents said it depended on the situation. However, 45% of the respondents see activism in a positive light, claiming that it does help in unlocking value. Most frequently mentioned were cases where the company was forced to take action that they would probably have taken without the pressure, including changing corporate governance and pushing for a sale or spin-off of a company.

Is activism helpful in unlocking shareholder value?

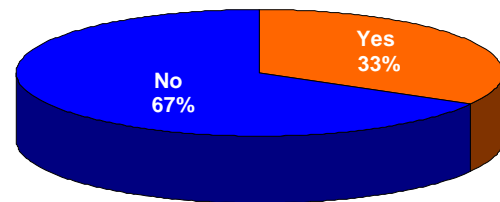


The majority of investors said activism was helpful depending on the situation.

"Every situation is different. In some cases there are truly useful circumstances where shareholder activism can unlock better value for the company. In others it is just a nuisance."

➤ The majority of respondents do not see activism as the only factor necessary for dynamic change to occur in a company. *"I don't [think its necessary for change]. I think it runs a full game. Every company is different...In some cases management can be stubborn or management has invested interest, so in that case activism can be a good thing. In other cases it can just be annoying".*

Is activism necessary for dynamic change to occur?



Most of the respondents said that activism is not necessary for change to occur within a company.

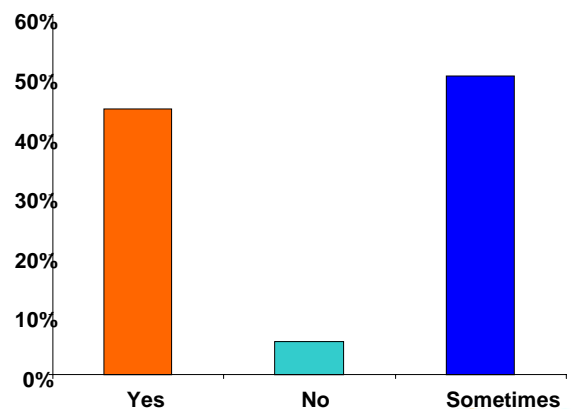
"In some cases. I think it depends on the situation. I think the Nardelli situation in Home Depot would be an example of sometimes the board and executives getting fat and lazy and needing to have their cages rattled to realize who actually owns the firm."

Board of Director Representation

➤ According to our respondents, the benefits of board of director representation is determined on a case-by-case basis. However, only a small percentage, 6%, said that it would not be beneficial for them to sit on the board, suggesting that most investors do not see it as a worthless outcome.

"I think it is sometimes beneficial, sometimes it is not. A large shareholder can sometimes be acting on his own and not necessarily taking the opinion of overall shareholders."

Is it beneficial for an activist shareholder to have a seat on the board of directors?

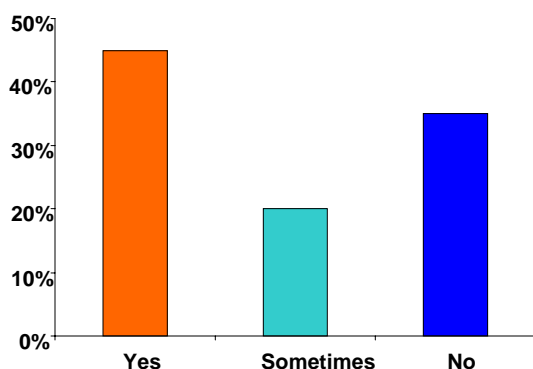


Executive Summary/Key Findings

Investment Decisions

- The majority of respondents monitor the shareholder base of the securities they hold. While the actions taken may vary depending on the firm and their investment strategy, the investors we spoke with said that the arrival of an activist shareholder would have an impact on their future investment decisions.

Does the arrival of an activist in a security impact your investment decisions?

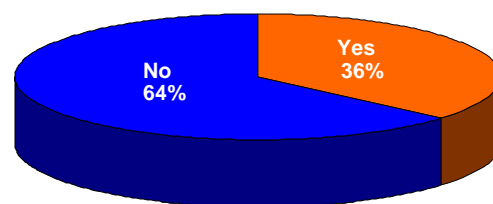


According to most of our respondents, an activist investor will affect how they think about their investments.

"I am more inclined [to invest] given that we are more value oriented and look for situations where things have been undervalued, and the activist might be demonstrating a sign that there is value that is likely to be unlocked over a reasonable horizon."

- While most of the investors take notice as to who buys into a security they already own, the majority do not consider a security's shareholder base before making an initial investment. Most investors cited that they conduct their own due diligence and make investments based on the company, not its holders.

Do you consider other investor types already present in a shareholder base before making an investment decision?



64% of the respondents said they do not consider other investors when making an investment decision.

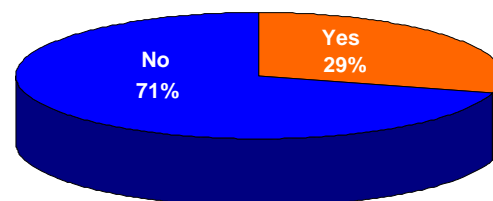
"We have a really strict discipline and if it doesn't meet our criteria we don't really care what others are doing. We may look at other holders, but it is one of the last things we do, if at all."

Hedge Funds

- Shareholder activism has come to the forefront of the investment community, due in large part to some vocal activists, mostly from the hedge fund community, but the majority of our respondents agreed that not all activists are hedge funds. Recently, mutual fund manager T. Rowe Price has joined the ranks of non-hedge fund activists like investment advisor Relational Advisors.

"I think certainly the headlines are more generated by the bigger guys. I think there is probably much more activism that goes on behind the scenes that even those that pay close attention to the markets aren't able to see."

Do you equate activism with hedge funds?



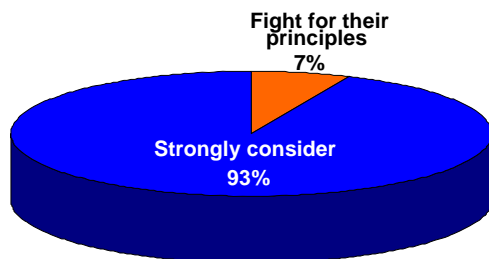
71% of the respondents said that they do not necessarily equate activism with hedge funds.

Executive Summary/Key Findings

Reacting to Activism

- While many investors state that they prefer management to deal with activist demands on a case-by-case basis, the majority of respondents preferred that management at least consider these demands. However, buy-side investors are concerned that activists stir up issues in companies in order to make quick money rather than consider the long-term outcome of their activism.

How do you prefer management address the demands proposed by an activist?

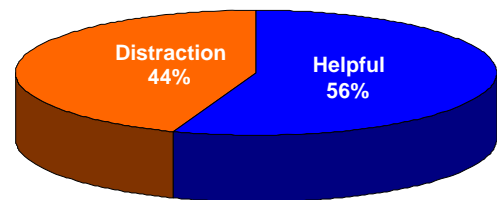


93% of the respondents preferred that management address activist demands.

"Management should have adequate protection mechanisms in place so that the strategic plans to enhance shareholder value aren't sabotaged by those actions...if it is activism that determines some long-term change then it has to be addressed within the context of what is the appropriate strategy to maximize shareholder value. It deserves the relevant attention to determine if this is a valid factor or not."

- Most respondents stated that they determine the effectiveness of proxy battles on a case-by-case basis. The slight majority of investors noted that proxy battles can be beneficial to the company if activists are seeking to add long-term value.

Are proxy battles helpful or are they a waste of time that distracts management's attention?

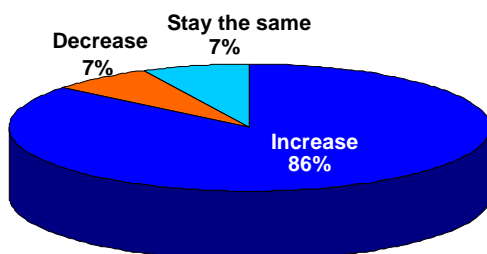


56% of the respondents said that proxy battles are helpful.

"I think they should take a hard look at whatever they are proposing and come up with a detailed response to it. I just think in some cases its maybe not the best course of action but I think they have a job to take a good strong look at it and respond to it."

Future of Activism

Where do you see activism going in the future?



"I noticed that a more recent trend is institutions, like large mutual funds, becoming more vocal and more active. I see that growing more and more in the near future. Will this trend continue? Who knows."

- The majority of respondents see an increase in activism for the future. The investors noted that they foresee more traditional investors, like mutual funds and pension funds, becoming increasingly vocal in stocks they hold in their portfolio.
- Recently CalPERS, the largest state pension fund in the U.S., announced it would more than double the money it puts into activist funds that push for corporate and management changes, while mutual fund manager T. Rowe Price has been vocal in voting against leveraged buy-outs by private equity firms. In a recent article in the Financial Times, Brian Rogers, the portfolio manager of T. Rowe Price's Equity Income fund since 1985 and CIO of the firm, said he believes that bringing a company back to the market in an IPO following an LBO benefits the private equity firms and management but does not reward investors.

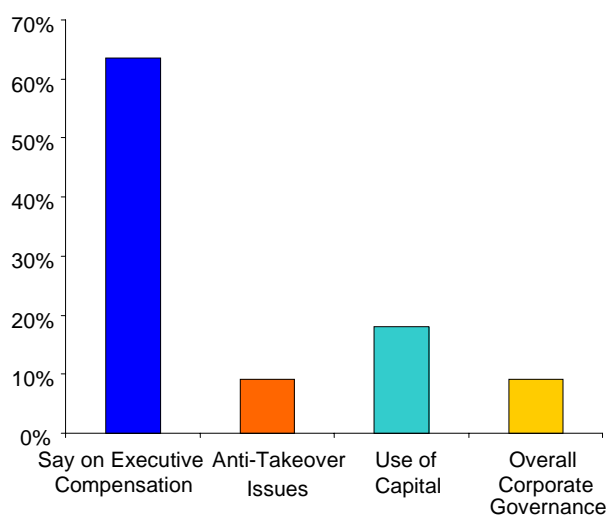
Executive Summary/Key Findings

Issues of this Past Proxy Season

➤ Board of Directors issues, executive compensation and anti-takeover defense issues were commonly brought up over the course of this years proxy season. 67% of respondents believed that these were important issues while many respondents stated that executive compensation was something that needed be readily addressed.

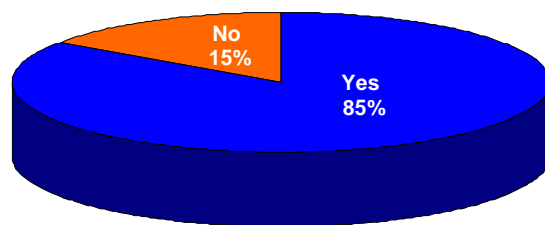
➤ Today CEO's are receiving what some may consider as inflated pay packages that are not necessarily tied to their respective company's performance. The overwhelming majority of investors stated that they believed shareholders should have a say on executive compensation – especially in the case of underperforming companies.

What specifically do you think was the most important issue raised in this past proxy season?



"If the board and or the senior management of the company is not executing on their business then change needs to be effected. So if that's the subject of the proxy that's what supports it [proxy issues]... Those are the issues that should be on the proxy. It's not about all this pay nonsense. It's a populous issue. It simply doesn't drive shareholder value, so I find it nonsensical and I don't spend much time on it. As a shareholder it doesn't help my valuation of a company."

Should investors have a say on executive compensation?



85% of respondents believe that investors should have a say on executive compensation.

"I certainly feel that if someone is being indiscriminately compensated for a poor job, that's not right. And I think to say that just because someone is getting paid a lot of money, that it's wrong [to be paid a lot of money]. I don't agree with that statement. For me it's all about what kind of value they can provide over time. If they are adding value greater than the economic cost of paying them, that's great. I don't think the dollar amount matters. I think there are probably bigger issues, pension liability issues that need to take care of; I think there are long-term structural problems with companies that need to be taken care of, and those should be more of the focus of the board than necessarily comping someone the right way."