Capital IQ
A Standard & Poor's Business

# Monthly Market Observations

**High-level perspectives of public equity, credit markets, private capital, M&A, and more…**

## December 2009

# Table of Contents

## Fixed Income

### Pages 4 to 16

U.S. Investment-Grade Spreads Sector Index Review: Risk Premium Shrinks As Credit Quality Stabilizes (4-11)

By Standard & Poor's Global Fixed Income Research

S&P Composite Spreads (12)

What Does Dubai World's Restructuring Mean For Other UAE-Based Debt?(14-16)

S&P's Market, Credit and Risk Strategies Group

## Industry Perspective

### Pages 18 to 29

Perspectives on Investment Management from Duff Capital Advisors and Third Wave Investors (18-29)

Transcript of a roundtable discussion by Philip Duff (CEO and General Partner of Duff Capital Advisors) and Larry Smith (Founder and Chief Investment Officer of Third Wave Global Advisors) at the Capital IQ and Argyle Executive Forum's Investor Leadership event on October 15, 2009 in New York City

## Equities

### Pages 31 to 54

Store Proprietary Data in Capital IQ (31)

Equity Strategy – U.S. Sector Watch (32-36)

By Sam Stovall, Chief Investment Strategist, Standard & Poor's

Global Equity Strategy – International Investment Outlooks (36-40)

By Alec Young, International Equity Strategist, Standard & Poor's

Sector Snapshots (42-51):

**Consumer Discretionary**

**Consumer Staples**

**Energy**

**Financials**

**Healthcare**

**Industrials**

**Information Technology**

**Materials**

**Telecommunication Services**

**Utilities**

Introducing Capital IQ Presentation Center (52)

Schedule of Upcoming Capital IQ Training Webinars (53)

## M&A / Private Capital

### Pages 56 to 66

Aggregate Transaction Stats (56-66):

**Mergers & Acquisitions Activity by Quarter**

**M&A Valuation by Quarter (North America)**

**M&A Valuation by Quarter (Europe)**

**M&A Valuation by Sector (North America)**

**M&A Valuation by Sector (Europe)**

**M&A by Sector**

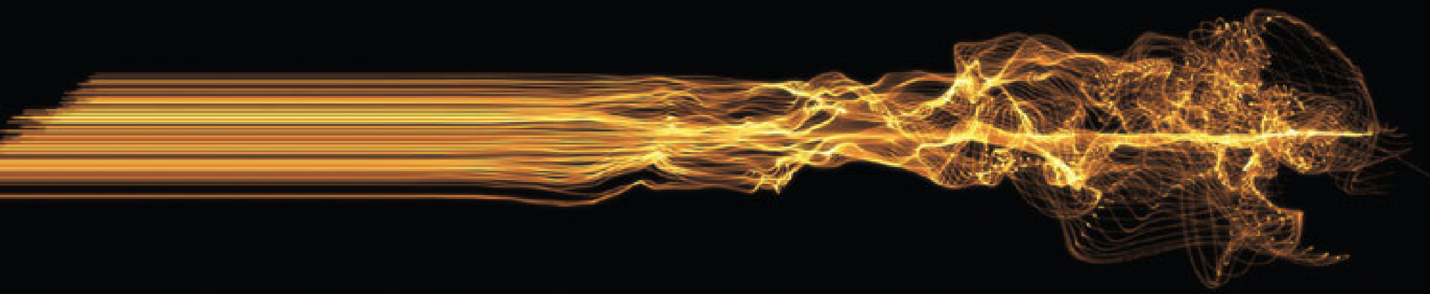
**Leveraged Buyouts by Sector**

**Strategic M&A by Sector**

**Private Equity by Sector (Non-Buyouts)**

**PIPEs by Sector**

**Venture Capital by Sector**



# U.S. Investment-Grade Spreads Sector Index Review: Risk Premium Shrinks As Credit Quality Stabilizes

Fixed Income | US

Pages 4 to 11 are an abridged version of a report produced by S&P's Global Fixed Income Research Team (GFIR) . To learn more about GFIR's capabilities, please reference the contact information below, see page 11 or visit www.standardandpoors.com/GetGFIR

**Diane Vazza, Managing Director**, New York (1) 212-438-2760
**Cameron Miller, Associate Director**, New York (1) 212-438-7617
**Jacinto Torres, Associate Director**, New York (1) 212-438-3243
**Devi Aurora, Senior Director**, Singapore +65 6239 6346
**Nick Kraemer, Associate**, New York (1) 212-438-1698
**Sudeep Kesh, Associate**, New York (1) 212-438-7982

Corporate bond investors have been on quite a ride over the past 12 months. After a steep drop in bond prices in 2008 and a second dip in March 2009, the bond market has improved steadily. Investment-grade corporate bond spreads have rallied 350 basis points (bps) from their peak in December 2008, and spreads generally compressed between March and the end of October. Even downtrodden sectors such as homebuilders/forest products and building materials and financials have rebounded, though they remain well above their prerecession levels. Overall, returns have been impressive, with investment-grade bonds posting a total return of 17% and 'BBB' rated issues returning slightly more than 25% during the first 10 months of the year.

Along with the improvement in credit conditions, the U.S. economy appears to have climbed out of recession. The U.S. posted real GDP of 2.78% in the third quarter, and recent releases, such as the Institute of Supply Management (ISM) manufacturing report are encouraging. Nevertheless, our macroeconomic team forecasts that fourth-quarter 2009 real GDP growth will slip to 1.7% and that the economy will grow only 1.9% in 2010. A sluggish rebound likely will weigh more on high yield and equity than on investment-grade bonds. The principal concern is that employment could rebound very slowly , causing more consumer loan defaults as well as declines in commercial real estate prices, all of which would affect the financial performance of banks and financial institutions that have exposure to consumer and commercial loans. The question is just how much damage to banks' loan portfolios have investors priced into bond risk premiums. Standard & Poor's maintains its negative outlook on the bank sector.

On the positive side, credit quality appears to have stabilized, at least for the nonfinancial sector. Indeed, investment-grade downgrades have declined for three consecutive quarters, falling from 90 in the first quarter to 54 in the second quarter and just 12 in the third quarter. Companies likely will report year-over-year declines in their third-quarter earnings as cost cuts might not have been enough to offset lower revenues. However, we expect that operating earnings will bounce back in 2010, with operating earnings per share for the S&P 500 forecasted to rebound 9%.

If the economy performs as per our baseline forecast (see "U.S. Economic Forecast: Is The Consumer Really Cutting Back?," published Nov. 12, 2009, on RatingDirect), we would expect investment-grade spreads to compress further. We also would expect to see slightly more spread compression between ratings levels as the risk premium between investment-grade rating classes continues to normalize. This is typical post-recession behavior, similar to the experience in 2002 and 2003. Financial spreads, which currently trade much wider than those of similarly rated industrial companies, have relatively further to tighten, but they also face greater uncertainty in the near term. Despite our tame outlook for inflation (headline Consumer Price Index, or CPI, up 1.9% and core CPI forecasted to increase 1.5% in 2010), there is a risk that long-term inflation expectation could rise, which could increase mid- to long-term bond yields. We also expect Treasury yields to begin to rise in 2010, which would negatively affect longer-duration bonds.

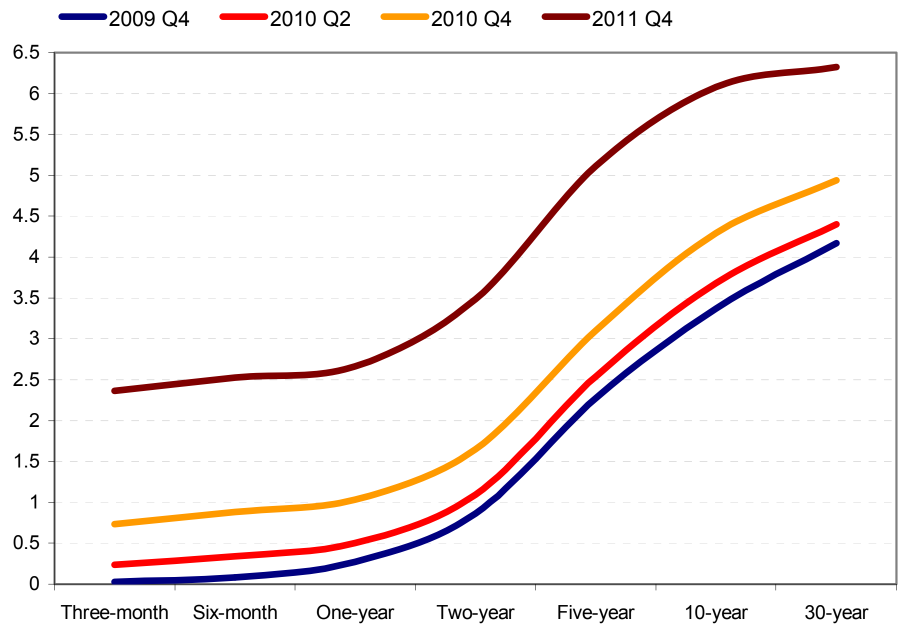
**Observations from this month's report include:**

- Investment-grade bonds have seen a strong and sustained rally since March. Standard & Poor's investment-grade bond index reached 225 bps on Nov. 4, down from 304 bps at the end of June and 523 bps at the end of 2008. However, this is still 94 bps above the 2004-2006 average. Similar to the cash market, investment-grade credit default swap spreads have declined significantly since March. Both the CDX.IG and CDX.IG.HVOL have declined as credit markets improved, with the riskier high-volatility index outperforming as the market rallied.

- Spreads have declined across all rating categories, with 'AA' tightening 194 bps to 149 bps, 'A' declining 260 bps to 188 bps, and 'BBB' tightening 374 bps to 279 bps between the end of 2008 and Nov. 4, 2009. The spread between rating classes continues to normalize. The spread between 'AA' and 'A' has compressed to 39 bps, and the spread between 'A' and 'BBB' has tightened to 91 bps. These are still 12 bps and 42 bps, respectively, above the 2003-2005 averages.

- We expect that Treasuries will increase across the curve throughout 2010 (see chart 1 below) and into 2011. Rising interest rates could hamper longer-duration investment-grade bond returns in the second half of the year.

**Chart 1: Treasury Yields are Expected to Rise**

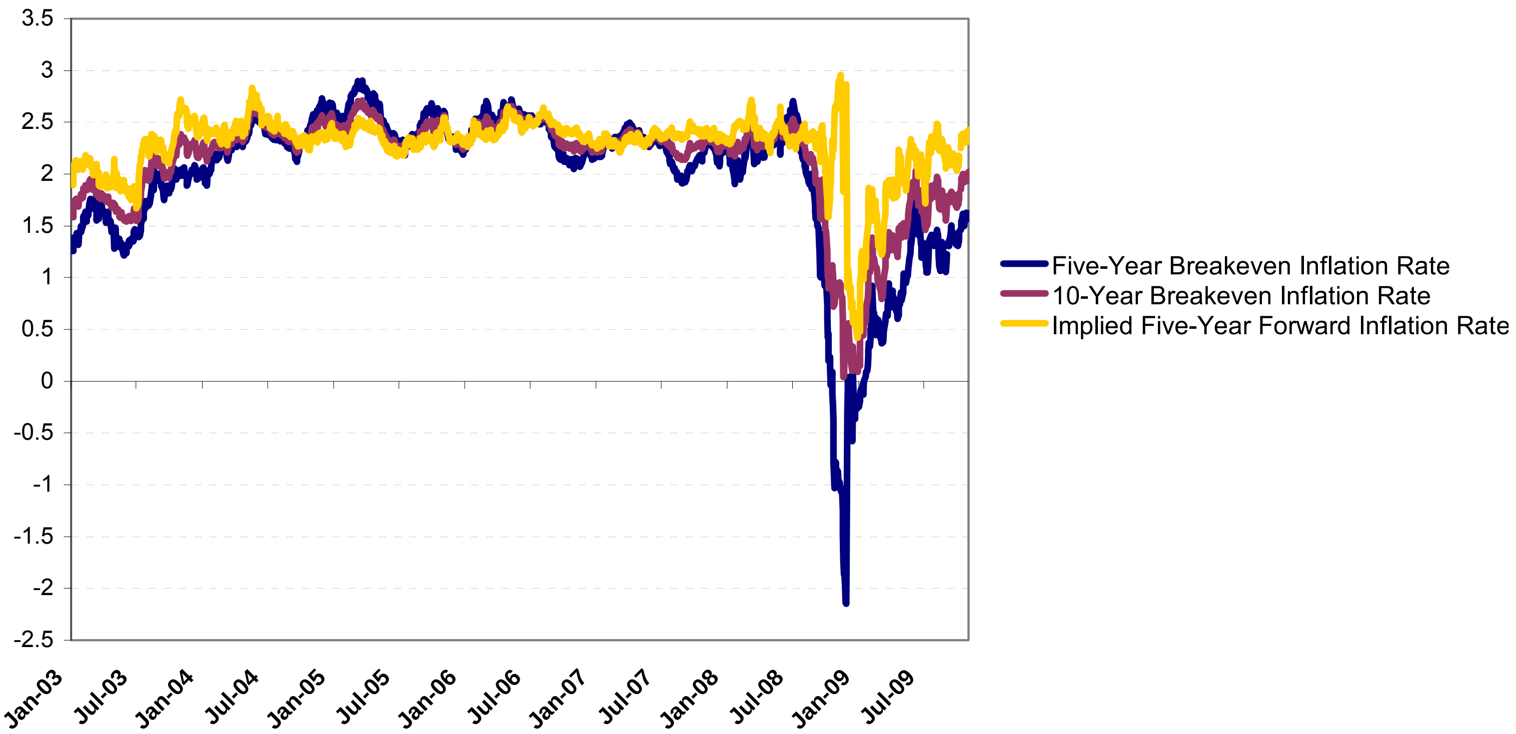


Fixed Income | US

- Money market rates have normalized with respect to the federal funds rate. The Treasury-Eurodollar spread (TED spread) has declined significantly from crises levels reached in 2008 and is currently at a more normal 39 bps. Commercial paper rates have fallen substantially after the initiation of the Commercial Paper Funding Facility in October 2008. Rates have remained low even as the Federal Reserve ended support for the commercial paper market.

- The ability of the Federal Reserve to remove the massive monetary stimulus before inflation begins to rise remains a key concern of bond investors. Indeed, the spread between TIPS and Treasuries yields has started to widen over the past month, and the implied five-year, forward inflation rate has jumped 33 bps over the past 30 days (see chart 2). However, we believe concerns might be premature as slack in the economy has kept prices and wages from rising. We expect inflation will average only 1.9% in 2010. However, there is a risk that inflation expectations could continue to rise despite tame monthly CPI readings, which would cause bond yields to increase.

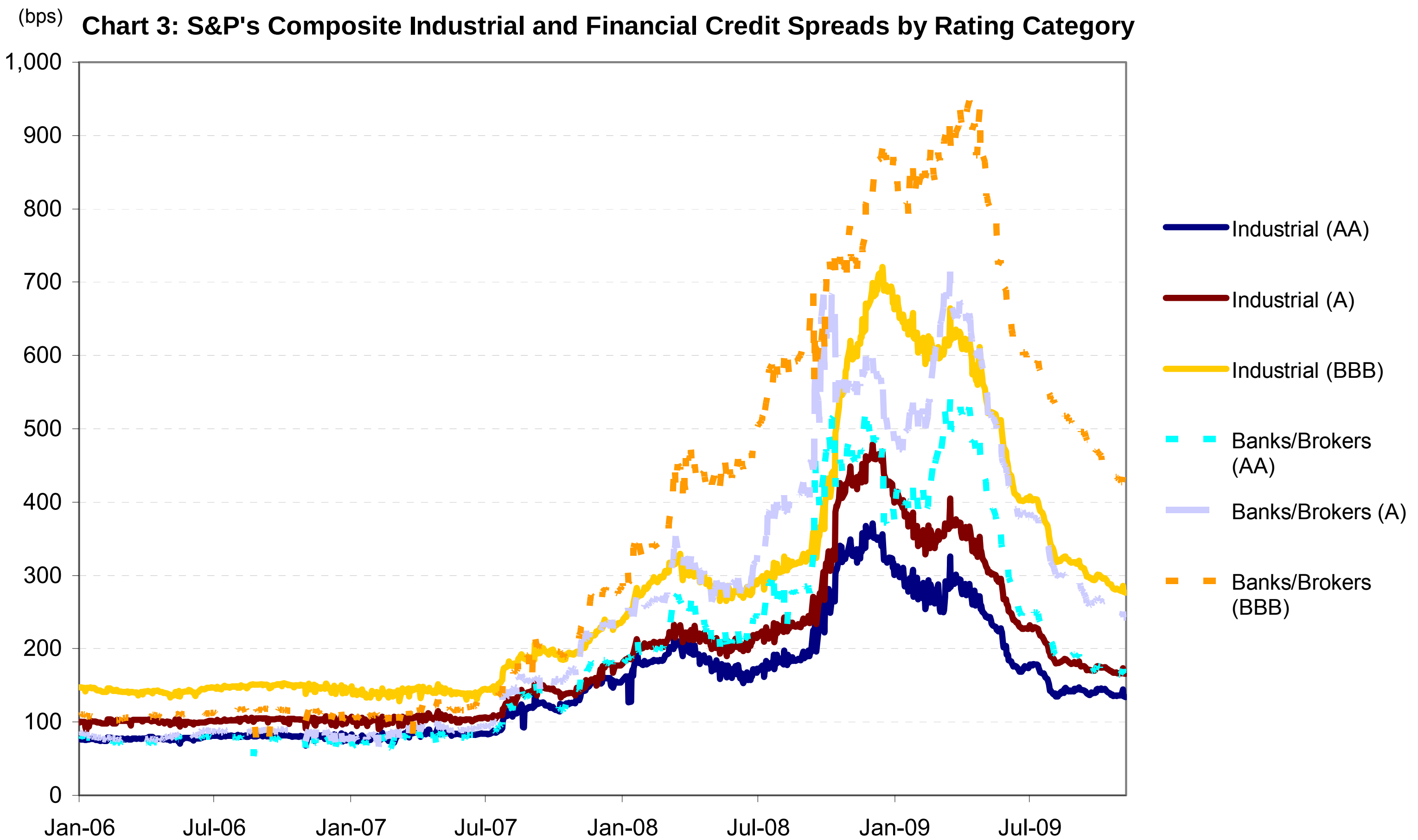
**Chart 2: Breakeven Inflation Rates Implied by Normal Treasuries and TIPS**



Fixed Income | US

- The number of downgrades has slowed over the past several months. However, negative bias, which is the proportion of companies with a negative outlook or ratings on Credit Watch negative, remains elevated at 26%, signaling the risk of more downgrades.
- Bond spreads for banks and brokers are still trading much wider than those of industrials with similar ratings (see chart 3 below). Although there is the potential for spreads to further compress between the banks and industrials, uncertainty regarding loan losses and some banks' ability to raise capital without government support might keep banks and brokers from closing the gap in 2010.

**Chart 3: S&P's Composite Industrial and Financial Credit Spreads by Rating Category**



Fixed Income | US

- Table 1 (below) displays investment-grade option-adjusted spreads by sector on a quarterly basis. Spreads are highest for homebuilders and real estate (399 bps); forest products and building materials (378 bps); insurance (327 bps); metals, mining, and steel (415 bps); and media and entertainment (294 bps). Spreads are tightest for health care (146 bps), capital goods (175 bps), retail and restaurants (176 bps), and aerospace and defense (181 bps). Since June 30, the homebuilders and real estate; consumer products; metals, mining, and steel; forest products and building materials; insurance; and media and entertainment sectors have outperformed in terms of spread tightening. Please see charts 4-9 on the following pages for the time series for spreads by sector between January 2008 and November 2009.

### Table 1: S&Ps's Investment-Grade Spreads

| (bps) | Nov-09 | 2009 Q2 | 2008 Q4 | 2007 | 2006 |
|---|---|---|---|---|---|
| Aerospace and defense | 181 | 237 | 375 | 153 | 93 |
| Bank | 257 | 387 | 524 | 208 | 79 |
| Brokerage | 274 | 404 | 539 | 213 | 74 |
| Capital Goods | 175 | 231 | 397 | 168 | 112 |
| Consumer products | 194 | 381 | 534 | 177 | 112 |
| CPEG | 263 | 270 | 463 | 201 | 138 |
| Forest products and building materials | 378 | 543 | 834 | 261 | 174 |
| Health care | 146 | 191 | 351 | 160 | 104 |
| High technology | 193 | 273 | 558 | 201 | 118 |
| Homebuilders and real estate | 399 | 595 | 663 | 245 | 112 |
| Insurance | 327 | 486 | 706 | 240 | 118 |
| Integrated oil and gas | 206 | 266 | 479 | 155 | 109 |
| Media and entertainment | 294 | 448 | 675 | 255 | 181 |
| Metals, mining and steel | 315 | 484 | 753 | 201 | 152 |
| Oil and gas exploration and production | 223 | 299 | 537 | 201 | 133 |
| Retail and restaurants | 176 | 234 | 597 | 229 | 124 |
| Telecommunications | 266 | 327 | 555 | 243 | 187 |
| Transportation | 223 | 316 | 544 | 214 | 114 |
| Utility | 196 | 272 | 486 | 207 | 117 |

*CPEG is chemicals, packaging and environmental services. Data as of Nov. 9, 2009.*

**Chart 4: Bank, Brokerage, Insurance**

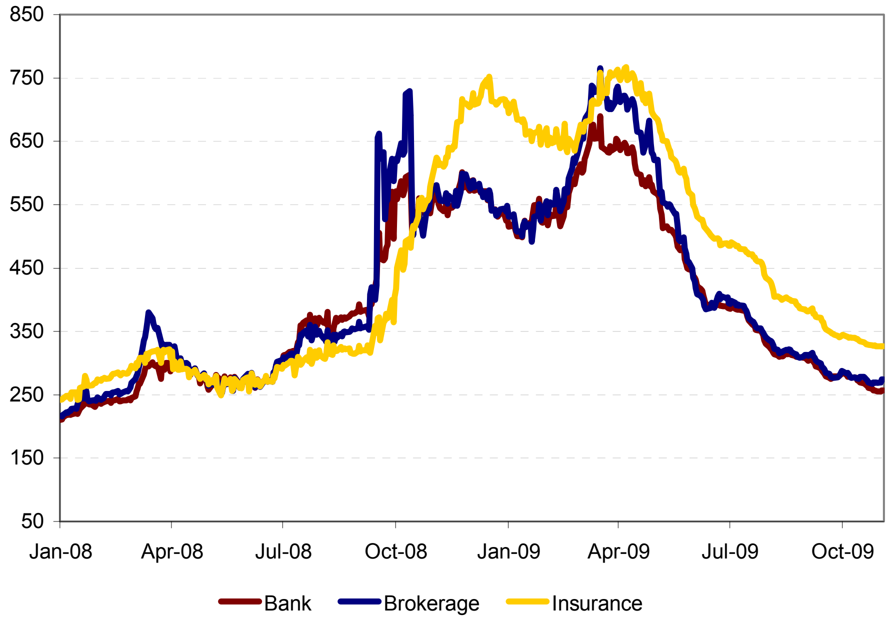



**Chart 5: Aerospace and Defense, Capital Goods, Chemicals, Packaging, and Environmental Sciences, and Metals and Mining, and Steel**

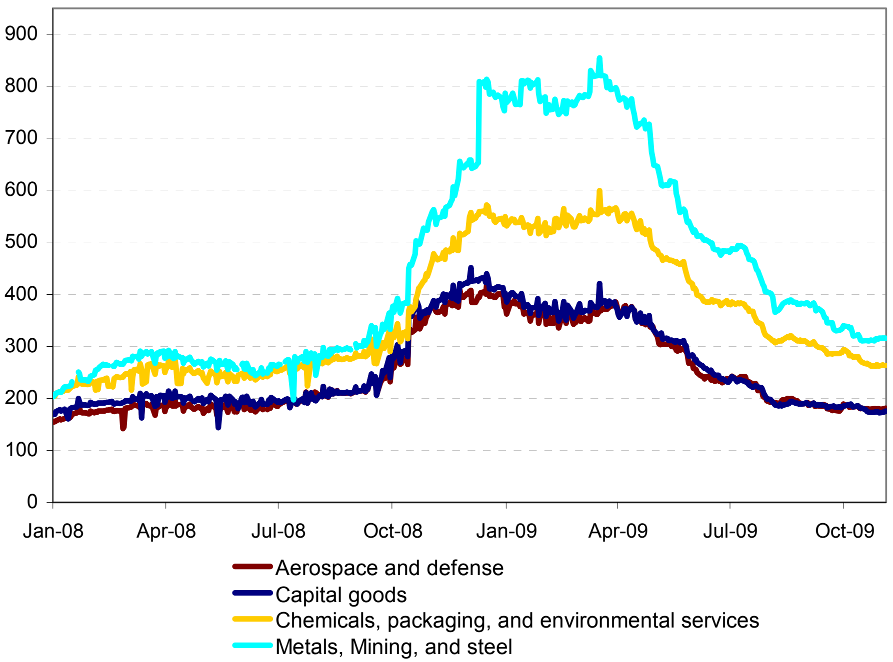


**Chart 6: Consumer Products, Media and Entertainment, and Retail and Restaurants**

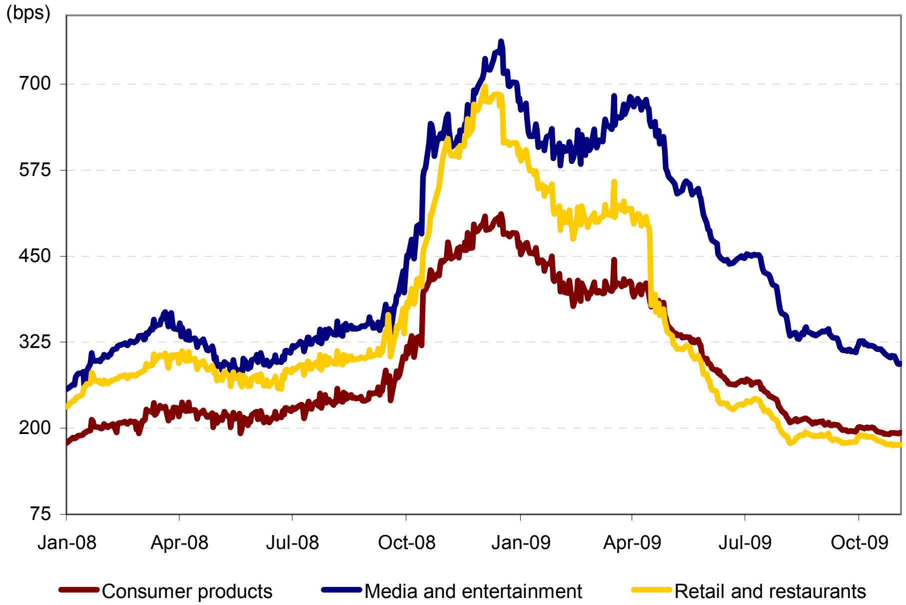



**Chart 7: Transportation, Forest Products and Building Materials, and Homebuilders and Real Estate Companies**

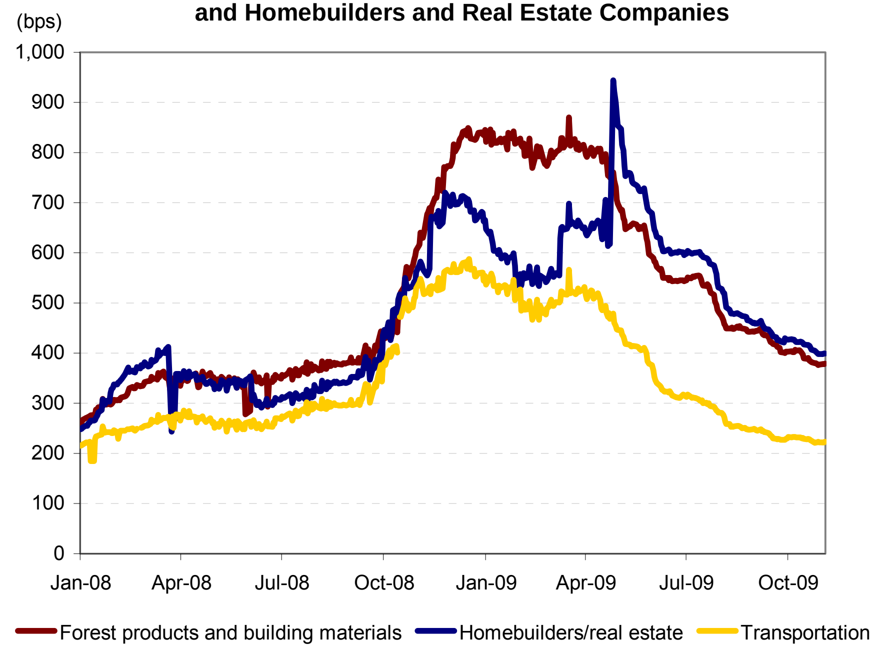


**Chart 8: Integrated Oil & Gas, Oil & Gas Exploration and Production, and Utility**

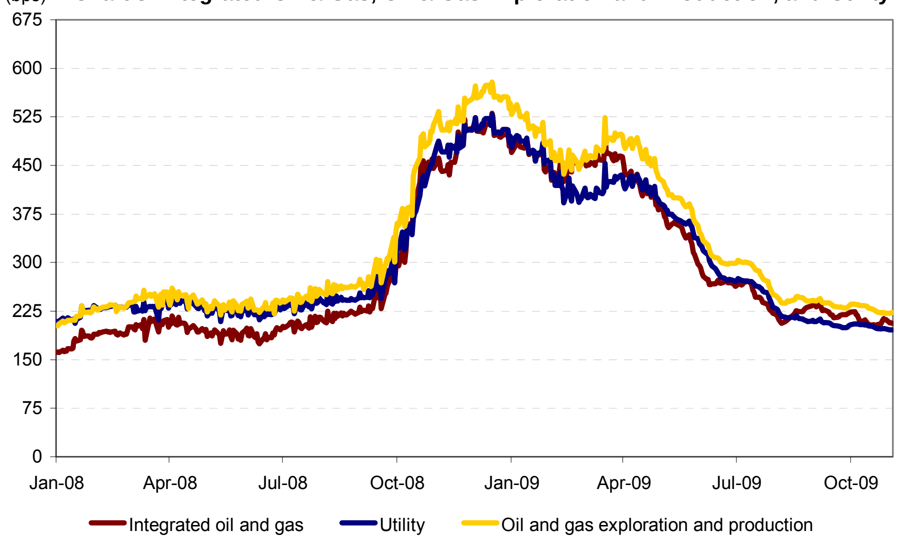
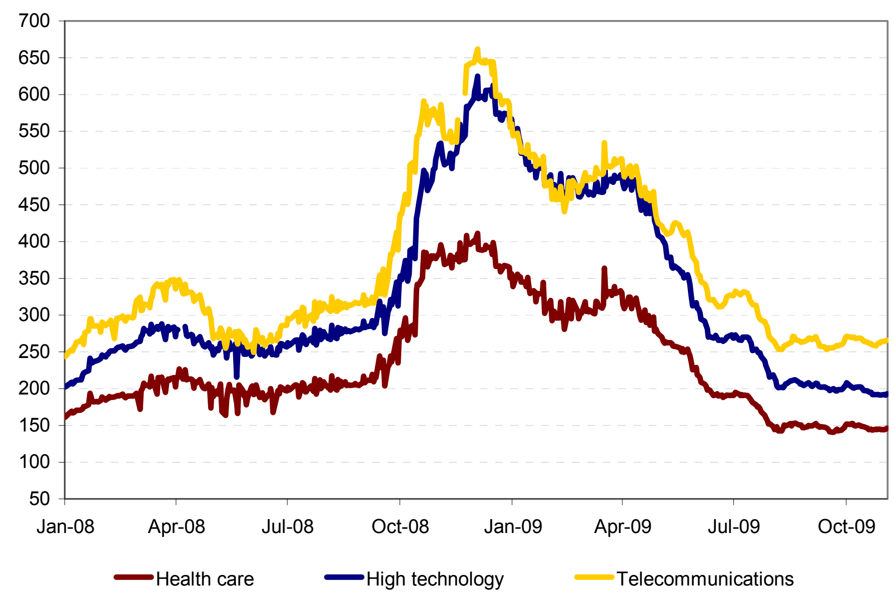


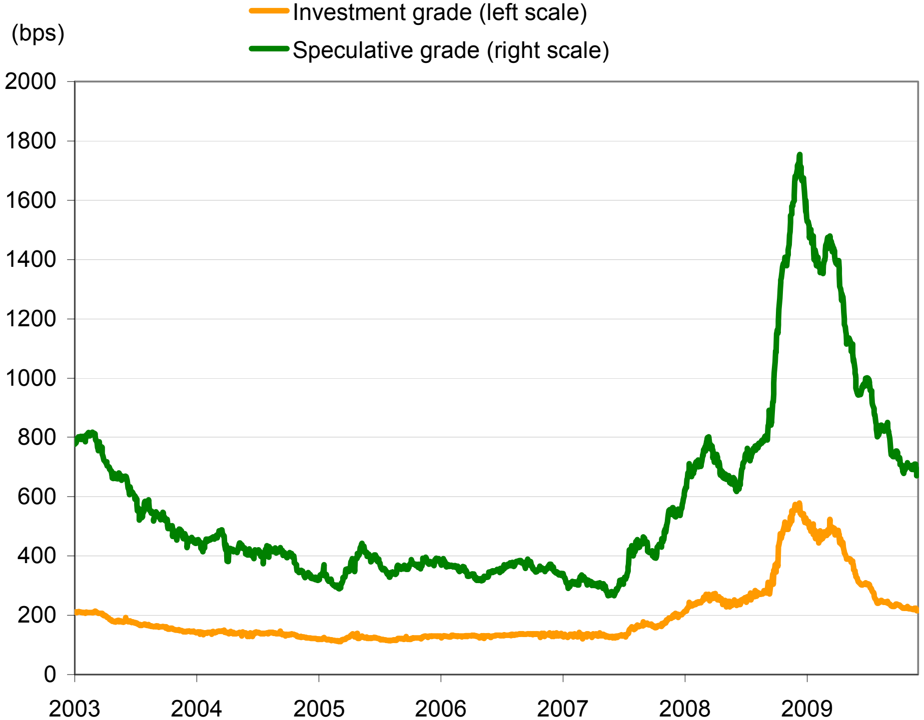

**Chart 9: Healthcare, High Technology, and Telecommunications**



# Standard & Poor's Composite Spreads

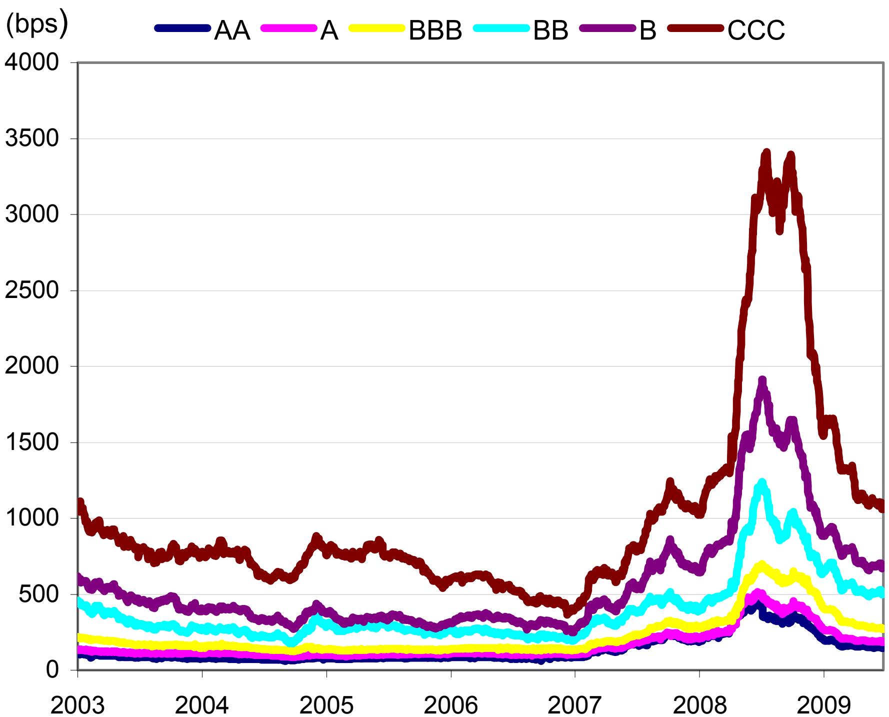
Fixed Income | US

## Spreads by Grade




*Data as of Dec. 7, 2009. Source : Standard & Poor's Global Fixed Income Research.*

## Spreads By Rating Category




*Data as of Dec. 7, 2009. Source : Standard & Poor's Global Fixed Income Research. AAA, CC, and C rating categories not displayed due to small sample size.*



Capital IQ
A Standard & Poor's Business

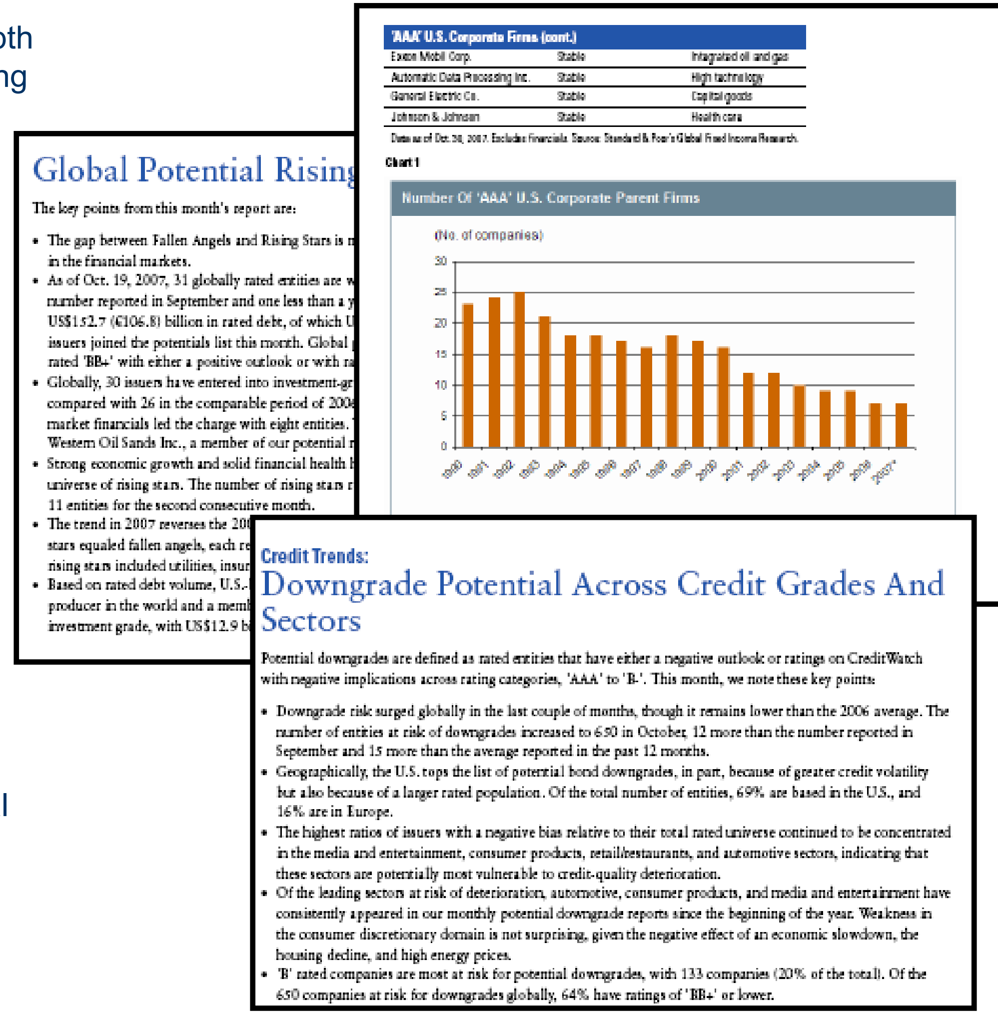
# About S&P's Global Fixed Income Research (GFIR)

### What is GFIR?

S&P's GFIR produces timely credit snapshots and in-depth analysis for U.S., Europe, and Emerging Markets including downloadable charts and tables.

GFIR's reports include:

- Global Potential Fallen Angels / Rising Stars
- Potential Bond Downgrades / Upgrades
- Distressed Debt Monitor
- Weakest Links
- U.S. / Europe Ratings Distributions
- U.S. / Europe High-Yield
- U.S. Refunding Outlook
- U.S. Commercial Paper Outlook




### How Do I Access GFIR Contents on Capital IQ?

Most of GFIR's contents are currently available to Capital IQ clients as a premium add-on feature. To learn more, please contact (212) 438-8701 or sales@capitaliq.com.




Capital IQ
A Standard & Poor's Business

# What Does Dubai World's Restructuring Mean For Other UAE-Based Debt?

Fixed Income | International

The Market, Credit, and Risk Strategies group (MCRS) is a separate and independent research team at Standard & Poor's. The objective of this group is to provide unique financial intelligence by analyzing relationships across multiple asset classes and markets.

**Michael Thompson, Managing Director**, New York (1) 212-438-3480
**Rich Peterson, Managing Director**, New York (1) 212-438-1083

Following Dubai World Corp.'s recent announcement that it plans to restructure its multibillion dollar debt obligations in light of current market conditions, MCRS looked at the recent performance of corporate debt from United Arab Emirates (UAE) issuers. We wanted to determine how news of a proposed restructuring might have affected other credits associated with the UAE.

Based on a search of the Capital IQ database, we identified corporate debentures issued since 2005 by UAE firms and tracked their performance to date in 2009. (As an aside, UAE issuer's corporate debt volume has slid from $17.4 billion in 2007 to $11.7 billion in 2008 and to $4.8 billion so far in 2009.)

A $1.5 billion 10-year issue offering a 6.25% coupon from global marine container terminal operator DP World Ltd., a subsidiary of Dubai World, has posted the largest percentage gains so far this year among UAE-issued corporate debentures, according to Capital IQ data. It was priced at $99.765 in July 2007. As of year-end 2008 that security had fallen below $60, but recently traded at $82.50, a 46.8% advance. However, prior to Dubai World's request for all of its financers to extend their maturities, or "stand still," that issue changed hands at $95.91. The issue's price has slipped 14% since the request.

A $500 million 10-year issue by the National Bank of Dubai also moved higher. It was priced at $99.87 in October 2006. As of year-end 2008 it traded at $55, but has rebounded 36.4% in 2009.

Emirates NBD PJSC's $500 million 10-year offering advanced 33.3% this year from its 2008 closing price of $57. Among the laggards of issues we profiled, Dubai property development company Nakheel LLC's $980.1 million seven-year issue, which matures in May

2010, has dropped more than 51% so far this year to $48. The bulk of that decline happened since Nov. 20 when the debt was trading at $90; it recently closed at $48.

In the aftermath of the developments in Dubai, we find that all of the year's top performing UAE corporate debentures have shed some ground. The top gainer, DP World's 10-year issue, has skidded the most among the leaders. On the other hand among the year's laggards, some issues, in particular those by Emirates Airline, have posted fractional gains since Nov. 20.

In sum, the events in Dubai are fluid and they continue to merit our attention.

# What Does Dubai World's Restructuring Mean For Other UAE-Based Debt?

Fixed Income | International

**Table 1: Leading Performers for UAE corporate debentures issued since 2005**

| Maturity Date | Offering Date | Issuer | Coupon Rate (%) | Offering Amount ($USDmm) | Price [12/31/2008] | Price [Latest] | % change 2009 (YTD) |
|---|---|---|---|---|---|---|---|
| Jul-02-2017 | Jul-02-2007 | DP World Limited | 6.25 | 1,500.00 | 56.21 | 79 | 40.50% |
| Jul-02-2037 | Jul-02-2007 | DP World Limited | 6.85 | 1,750.00 | 51.24 | 72 | 40.50% |
| Perpetual | Apr-18-2008 | Barclays Bank plc, UAE | 7.7 | 2,000.00 | 66.13 | 90.75 | 37.20% |
| Oct-31-2016 | Oct-31-2006 | National Bank of Dubai | 0.981 | 500 | 55 | 75 | 36.40% |
| Oct-27-2036 | Oct-23-2006 | Abu Dhabi National Energy Company | 6.5 | 1,500.00 | 71.26 | 96.73 | 35.70% |
| Dec-07-2016 | Dec-07-2006 | Emirates NBD PJSC | 0.914 | 500 | 57 | 76 | 33.30% |
| May-09-2016 | May-09-2006 | Abu Dhabi Commercial Bank | 0.875 | 400 | 71.52 | 92 | 28.60% |
| Jun-15-2011 | Jun-15-2006 | Emirates NBD PJSC | 1.073 | 630.9 | 73 | 93.83 | 28.50% |
| Aug-01-2018 | Jul-24-2008 | Abu Dhabi National Energy Company | 7.25 | 500 | 85.77 | 107.93 | 25.80% |
| Oct-27-2036 | Oct-27-2006 | Abu Dhabi National Energy Company | 6.5 | 1,500.00 | 72.09 | 90 | 24.80% |

# What Does Dubai World's Restructuring Mean For Other UAE-Based Debt?

Fixed Income | International

## Table 2: Lagging Performers for UAE corporate debentures issued since 2005

| Maturity Date | Offering Date | Issuer | Coupon Rate (%) | Offering Amount ($USDmm) | Price [12/31/2008] | Price [Latest] | % change 2009 (YTD) |
|---|---|---|---|---|---|---|---|
| Dec-14-2009 | Dec-14-2006 | Nakheel LLC | 3.173 | 3,520.00 | 84.5 | 55 | -34.90% |
| Jun-21-2016 | Jun-21-2006 | Emirates Airline | 4.64 | 94.3 | 108.03 | 82.63 | -23.50% |
| Jun-13-2012 | Jun-13-2007 | Dubai Sukuk Centre Ltd. | 0.675 | 1,250.00 | 64 | 55 | -14.10% |
| Feb-01-2012 | Feb-01-2007 | Dubai Holding Commercial Op. | 0.656 | 500 | 68 | 60 | -11.80% |
| Jul-14-2011 | Jul-14-2008 | Dubai Holding Commercial Op. Group | 5.25 | 245.7 | 92.25 | 81.5 | -11.70% |
| Jun-21-2011 | Jun-21-2006 | Emirates Airline | 1.848 | 125.7 | 100.68 | 93.58 | -7.00% |
| Jun-21-2011 | Jun-21-2006 | Emirates Airline | 4.28 | 31.4 | 104.67 | 98.09 | -6.30% |
| Apr-27-2011 | Apr-27-2006 | Emirates NBD PJSC | 0.8 | 50.5 | 99.05 | 93.7 | -5.40% |
| Jan-17-2012 | Feb-06-2007 | Abu Dhabi Commercial Bank | 4.18 | 38.8 | 100 | 96.54 | -3.50% |
| Jan-30-2014 | Feb-01-2007 | Dubai Holding Commercial Op. | 4.75 | 976.6 | 59 | 57 | -3.40% |

# Table of Contents

## Fixed Income

### Pages 4 to 16

U.S. Investment-Grade Spreads Sector Index Review: Risk Premium Shrinks As Credit Quality Stabilizes (4-11)

By Standard & Poor's Global Fixed Income Research

S&P Composite Spreads (12)

What Does Dubai World's Restructuring Mean For Other UAE-Based Debt?(14-16)

S&P's Market, Credit and Risk Strategies Group

## Industry Perspective

### Pages 18 to 29

Perspectives on Investment Management from Duff Capital Advisors and Third Wave Investors (18-29)

Transcript of a roundtable discussion by Philip Duff (CEO and General Partner of Duff Capital Advisors) and Larry Smith (Founder and Chief Investment Officer of Third Wave Global Advisors) at the Capital IQ and Argyle Executive Forum's Investor Leadership event on October 15, 2009 in New York City

## Equities

### Pages 31 to 54

Store Proprietary Data in Capital IQ (31)

Equity Strategy – U.S. Sector Watch (32-36)

By Sam Stovall, Chief Investment Strategist, Standard & Poor's

Global Equity Strategy – International Investment Outlooks (36-40)

By Alec Young, International Equity Strategist, Standard & Poor's

Sector Snapshots (42-51):

**Consumer Discretionary**

**Consumer Staples**

**Energy**

**Financials**

**Healthcare**

**Industrials**

**Information Technology**

**Materials**

**Telecommunication Services**

**Utilities**

Introducing Capital IQ Presentation Center (52)

Schedule of Upcoming Capital IQ Training Webinars (53)

## M&A / Private Capital

### Pages 56 to 66

Aggregate Transaction Stats (56-66):

**Mergers & Acquisitions Activity by Quarter**

**M&A Valuation by Quarter (North America)**

**M&A Valuation by Quarter (Europe)**

**M&A Valuation by Sector (North America)**

**M&A Valuation by Sector (Europe)**

**M&A by Sector**

**Leveraged Buyouts by Sector**

**Strategic M&A by Sector**

**Private Equity by Sector (Non-Buyouts)**

**PIPEs by Sector**

**Venture Capital by Sector**

# Perspectives on Investment Management from Duff Capital Advisors and Third Wave Investors

Industry Perspective| Investment Management

***The following is a transcript of a roundtable discussion by Philip Duff (CEO and General Partner of Duff Capital Advisors) and Larry Smith (Founder and Chief Investment Officer of Third Wave Global Advisors) led by Lauren Young (Personal Finance Editor at BusinessWeek) at the Capital IQ and Argyle Executive Forum's 2009 Investor Leadership Forum event on October 15, 2009 in New York City. Argyle Executive Forum is a media company that produces professional conferences for the senior operating executives and board members of private and public firms, investment professionals, as well as for policy makers. For more information about Argyle Executive Forum's events, please contact Jason Redlus at jredlus@argyleforum.com***

**[Lauren Young]:** All right, so I'm so pleased to be here today sitting with such esteemed people, Philip Duff and Larry Smith. Would you guys please just give a super quick introduction of who you are and why you are here today?

**[Philip Duff]:** Go ahead Larry.

**[Larry Smith]:** Okay, I was at J.P. Morgan for eighteen years and ended up with Fixed Income Group, created an asset allocation area then left to be the global chief investment officer for Caress Suisse for four years and then left and formed a hedge fund five years ago almost to the day called Third Wave Global. It's a quanta-mental using the, the latest in verbiage here at combining both quantitative and discretionary tools and it is global macro, investing tops down in the world's equity bond and currency markets, primarily with some involvement in commodities. It's who I am as fast as I can tell you.

**[Philip Duff]:** My background – my name is Phil Duff. My background, I spent much of my career at Morgan Stanley having run the financial institutions prior to investment banking; then it was CFO of the firm and then ran the mutual fund business after our combination with Dean Witter. Then I left and I've been in the hedge fund business since. Did a short stint with Julian Robertson in the team at Tiger Management and then started a firm called Front Point Partners which I sold a couple of years ago to my old colleagues at Morgan Stanley. And I've been embarked on, on launching a new business that's really targeted at organizations with long-tail liabilities, so that would be pension and medical benefit plans in both corporates and governments, life and P&C companies as well as endowments and sovereign wealth funds. And the proposition is to find ways to fund those liabilities in more secure, productive and cost effective means. And rather than buying you know individual products, whether they be asset management products or actuaries, custodians and the like all in a very á la carte and fragmented basis to fund those liabilities in a much more integrated holistic sort of manner.

So that's what we're working on. We're still at a fairly nascent stage. This hasn't been a terrific time to kind of launch a novel new business proposition but you know one of the things with startups, is you have to be perseverant.

**[Lauren Young]:** This is actually a perfect springboard for our conversation because we're talking about the business of investment management. Let's talk about the past year and what it's meant for this industry

## Perspectives on Investment Management from Duff Capital Advisors and Third Wave Investors



**[Philip Duff]:** Well, this past year obviously we've, we've all lived through an enormous kind of change in the financial world and I think culturally as well. You know I would think as, as I've spent time and given our biggest market is kind of the largest pension plans around the world, I would have characterized in a year ago this past summer, most pension plan chief investment officers, you know kind of had a bit of a deer in the headlights sort of perspective in the sense that while they'd had losses in their equity and credit portfolios before the real crisis hit in the fall, what was most baffling I think was whether they were doing more old school type of diversifications, stocks versus bonds, value versus growth or your domestic market versus the rest of the world or more new school like the you know Swenson Endowment model if you will or anything in between. The real problem was none of that diversification was working. Everything was correlated on the down side. And then when the financial crisis really hit its crescendo, I guess marked by the Lehman bankruptcy in mid-September that deer in the headlights perspective I think kind of shifted to kind of total intellectual resignation which was you know, I've lived through other crises in the past. Hopefully I'll live through this one too. But I don’t know what to do from here. And I think you know since that time, you know we've had enough kind of crisis fatigue if you will. I'm not sure what returning to normal ever feels like any longer. But I think there's still a lot of uncertainty as to how do I protect myself against the downside in the future? What is the appropriate sort of diversification that can get me through this sort of crisis that we had over the past twenty-four months? And I think that, that discussion is still going on very deeply and I think there's a big opportunity for managers that can not only produce risk adjusted returns but can also help their clients think through and solve that, that problem.

**[Lauren Young]:** Larry what’s, would you say is the biggest fallout of the past year? Where are we seeing the impact the most? Is it performance? Is it fees? What, what is it in your business?

**[Larry Smith]:** In terms of what, what I see related to that question, I think the biggest thing is just the sheer lack of leverage that there is out there. When you take a look at this business from many, many years it was leverage on top of leverage. So you had managers who were trying to exploit small inefficiencies and put an awful lot of leverage on it. That's gone; leveraged fixed income is not a viable business right now. You had fund-to-funds who took a look at portfolios and said, well if I put together ten different 10% risk portfolios, hedge funds that gives me a 5% risk overall so I'll just leverage it 2:1. That by and large is gone. So the amount of money that there is pursing these strategies is a whole lot less than it used to be which in turn has created a lot of opportunities from an investment standpoint going forward. I have not seen a big focus on fees. Everybody expects it. I think there will be a dilution of management fees but not of performance fees going forward. But by and large I think the bigger issue that there's just not going to be as much money around as there was in the past because of that lack of the many layers of leverage that had existed.

**[Lauren Young]:** Okay, so there's not as much money to go around, how do you get that money? What, what is it that's going to give you as an investor the edge over everybody, over everybody else here in the audience?

**[Larry Smith]:** Well, I think it gets back to basics. What are we trying to produce? What's the whole idea of an alternative investment? It's very simply to produce an uncorrelated return distribution that has a good risk return tradeoff. I think the unrealistic expectations of the 1990s are gone. I think what less leverage means is that nobody's looking at a manager to give him 30% a year anymore. I think what Bernie Madoff means is that people are going to really cross their 'ts’ and dot their 'is' and be very careful about the type of organization that they invest in and make sure that all the non-investment issues are covered as fully as they need to be covered. So the world's really changed dramatically but I think the way your win in this world is say, what you always want is to deliver on your investment proposition which is good returns and uncorrelated returns.

**[Lauren Young]:** Talk to me a little bit about that overall interchange now with the client. What has changed in the past year? What are they asking from you that they didn't ask before?

**[Philip Duff]:** Well in trying to address that Lauren and kind of expanding on, on your answer Larry, I'd submit to you that you know kind of in the past virtually all hedge funds, private equity funds, real estate funds were kind of sold in the following manner. It was kind of a three prime pitch. Here's my investment strategy; here's the pedigree of the people; don't they have very smart resumes and here's the historical record. And while nobody ever said it quite this way, you know the implication was, 'QED, you're a bleeping idiot if you don't put your money into this.' And I would submit that you know in the earlier part of this decade, prior to the financial crisis where there was arguably more demand for these types of strategies than there was supply, you could get away with that sort of approach. But I think today we're, you know the supply has arguably caught up with the demand side of the equation; simply producing you know a nice return stream is a prerequisite but it's one of those classic necessary but not sufficient conditions.

You know the world doesn't need another hedge funds. It doesn't need another private equity fund yet the clients need an enormous amount of help. The asset liability gaps in pension plans and household balance sheets have only gotten wider. They're harder to close as a result of lower return expectations, higher correlations, more accounting scrutiny on them. So I think finding ways that in addition to returning a nice time series of returns, figuring out some other value added that you can bring to that client.

**[Lauren Young]:** Such as – what is the value added? I mean is it free pens and notepads? Seriously, what is the value added that's going to make them want to be with you and not someone else?

**[Philip Duff]:** You know that can vary quite a bit. I watched how my friends at BlackRock have quite successfully used their risk management product, BlackRock Solutions for example as their initial calling card for a new client prospect where they come in and talk about how they manage risk and how their system does that. And I think that leads then to the client saying, 'Gosh, these people are that passionate about managing risk. They're probably pretty good at managing money too.' So I think you know whether it's around risk analytics; whether it's around liability analytics and hedging; whether it's around portfolio construction, asset allocation, I think figuring out some additional things like that to be able to provide the client and you may not get paid explicitly for those things. But they will be a very successful I think customer acquisition tools.

**[Lauren Young]:** Go ahead.

**[Larry Smith]:** Let me just add one other thing and that is very much on the rise which is the need for transparency. We send out our holdings to clients once a week. I think that's becoming a far more important issue than it ever was in the past and managers who refuse to do that I think are going to have a more difficult time going forward. This business is, is very simple. It's all about creating confidence; it's about future performance.

Historical track records are fine but given what happened in 2008 and the enormity of underperformance and the vastness of underperformance across so many different managers and so many different strategies, the idea that somebody has a good track record as Phil says, simply just isn't enough anymore. Clients need some tangible sense of confidence that they know what you're doing, that you're delivering what you said you were going to do. There's not style drift or anything else; they want to be able to see inside what's going on and that type of transparency is very much on the ascendancy.

**[Lauren Young]:** Do you think we'll ever be at the point and I don't know how this would possibly work where there would be a daily portfolio update?

**[Larry Smith]:** Well sure, it depends on what instruments you are investing in. If you're investing in very illiquid securities that are getting priced once a month, there really is not a whole lot of purpose to it. But if you're a futures-based fund, I see no problem in giving out daily holdings to the extent that somebody wants daily holdings.

**[Lauren Young]:** Talk to me a little bit about the talent pool that's out there right now because, because we've had such an awful year, there are a lot of resumes floating around. What are you getting deluged every day with great people?

**[Larry Smith**]: Well, we're getting a deluge everyday. Whether they're great people remains to be seen. The most difficult issue for any of us to deal with whether we're sitting here or sitting out in the audience, the single most difficult issue for anybody to deal with going forward is how to look at 2008's performance. So do you look at it and say, 2008 is, was an anomaly and therefore, I'm going to eliminate it from the analysis and see how this guy did all the years prior to 2008? Do you look at 2008 and 2009 and say, well, you know did that person bounce back and recoup the losses? It's extremely difficult given how bad 2008 was, how extreme it was, to try and put it in the context of expectations going forward, so there are a lot of very good people out there. There are a lot of very good people who did very poorly in 2008 that ultimately good judgment is going to be able to infer which of those people who did poorly in 2008 are quality goods going forward. But I think at the end of the day there are a lot of good people out there and the challenge is finding capital to support those people.

**[Lauren Young]:** And the – go ahead. You were going to say something. I was just going to say that there's not going to be a lot of new startups as a result either because the money's not there.

**[Philip Duff]:** No, I mean it's interesting how the world changes. I think when, when I started Front Point Partners in 2000, and every startup has you know kind of its version of a chicken and an egg problem that it has to get past. Ours was well what came first? If we had fifteen really high quality investment teams, we'd still have to work hard to get the capital but it would come. And likewise, if we had a couple billion dollars of capital then investment teams would have lined up around the block. But at that point it was, you know launching a new hedge fund was relatively easy. So the competition for talent was pretty high yet it was harder to kind of get money or relatively easier to get money during that era. And that's what's changed 180˚. You know talent's a lot more readily available but attracting clients is definitely more challenging. But the fact that you know talent's more readily available is you know only a very small part of the equation. I think so much of the success of these businesses is really built around the sort of culture that you create. And how do you get more out of a team of people than kind of the sum of the individuals?

**[Larry Smith]:** The other thing that I would add here that we're talking about the situation now as it exists and probably three to six to twelve months into the future. I think if you go out twenty-four months to the extent that the markets recovered to the extent that hedge funds do well, this business is going to turnaround 180˚ again. Leverage will begin to be formed again. People will look at the down cycle and say, 'Hey, my equity long-short manager was down half of what the S&P. Isn't that what I wanted him to do?'

And so with that I think there's cause for optimism, cautious optimism but optimism that has to be viewed in the three to five year time horizon as opposed to a one to two year time horizon.

**[Lauren Young]:** Looking into that same crystal ball, what's the regulatory environment going to be twenty-four months from now? I wish that we had asked a sentiment question about that because I think that's something we're all very focused on.

**[Larry Smith]:** You know from our perspective, I've never understood why people refuse to be FCC registered. I think that's a tempest in the teapot and at the end of the day I don't see FCC registration as being anything close to onerous. It does require some additional things to do but at the end of the day people should be doing those things anyway by and large with a few smaller exceptions.

So you know I would welcome it to see it happen. Now whether it does happen at this point in time is really open for discussion but I think if nothing else, people are going to be much more aware of what being a fiduciary means. And the idea that I manage money at Morgan Stanley or J.P. Morgan and therefore I'm qualified to – I worked on a trading desk and therefore, I'm qualified to be a fiduciary. Again, I think it gets back to the, the people in the audience and the investors in hedge funds to make sure that what they're investing in is quality goods and not just from the perspective of investing money but from all of the other things that are necessary supports, necessary pillars to make sure that you have a modern day investment management organization. Those things get back to I think the people in the audience in my mind more than they do the FCC.

**[Lauren Young]:** Phil is there anything you want to add about regulation?

**[Philip Duff]:** Well, I, I think the most interesting thing in regulation's going to be more around you know dealing with this, the you know the moral hazard and the too-big-to-fail banks. I think the proposition that Paul Volcker in particular has been pushing which is you know the banks that fall in the category of too-big-to-fail, that there'd be a real – rather than having a separation that we had you know from the '30s to the end of the '90s between taking deposits and making loans on the one hand and then underwriting securities on the other, is apt to be a division between being part of the core payment system of the country versus kind of principal risk taking. And that would really dramatically kind of change you know kind of the nature of those very largest financial institutions and in many respects if it did go that way, I think the hedge fund industry would be a significant beneficiary.

**[Lauren Young]:** Where else do you see changes occurring? I mean this is a very dynamic world that we're in right now. Is there anything else going forward that you think is going to be materially different than it has been in the past? We talked about fees; we talked about regulation; we talked about talent.

## Perspectives on Investment Management from Duff Capital Advisors and Third Wave Investors

Industry Perspective| Investment Management

**[Philip Duff]:** Why I think one of the biggest things despite the fact that our federal government is deficit spending like crazy, both, much of the rest of the world and including most U.S. households -- I mean one of the best things I think coming out of this financial crisis is that U.S. households may actually have a positive savings rate again. And I think that accumulation of private savings to try and fund all of these future liabilities that governments have committed to, you know they are going to have to be managed. This industry is only going to get bigger and we'll be a benefit – I mean underlying drivers of demand that are driving the asset management industry are still very, very strong and despite the you know cyclical downturn the demand for hedge funds has had in the past eighteen months I think that will be simply that, cyclical.

**[Larry Smith]:** And from my perspective just looking at the world from a macro perspective, if you take a look at what's happening right now, it's that, an enormous amount of money is aggregating in countries which have current account surpluses and that money is really cycling through the central banks. And if you take a look at what's happening with the Bank of China, the Bank of Japan, the amount of government securities that they've been investing is nothing short of extraordinary. So even though the deficit has caused government supply to mushroom, we see government interest rates at remarkably low levels because the other side of that equation is that there's so much money out there that's willing to invest in government securities. Now fast forward two to three years from now. I believe very strongly that we are out of a recession at this point in time. The recession is over; it never feels like it's over until somebody says, you know it was over six or nine or twelve months ago and that's just what we're in the process of doing. We're not going to be growing at 4% this year. But over the next three years, global growth is going to be quite strong and deficits are not going to be as large as anybody has been projecting because growth surprise on the upside. And when that happens, then you're going to see very low government interesting rates, lower than people expect despite the fact that people are concerned about inflation which will raise issues on behalf of the Bank of China, on behalf of the Bank of Japan as to how to invest their trillions of dollars of assets. And you may see a marked diversification in the way in which those central bank assets that have become so much larger than they ever were historically begin to disperse themselves around the markets.

**[Philip Duff]:** The one thing that I would expand on what you just said Larry, you know I think demographics I think drive a lot of you know trends over the long term and everybody knows that you know Japan and Italy are kind of you know two of the most aging populations. I mean they say in Italy there won't be any Italians left in about four hundred years because the birth rate is so much lower than, than the death rate. But you know what is actually the second most rapidly aging population after Japan? It's China. China today sits with about $2 trillion of, you know sovereign reserves. But that is essentially the only safety net for the country. You know that's about $1,500 per person. China's going to easily need you know over the next twenty years $10 to $20 trillion at a minimum to kind of provide that ongoing safety net as you have this you know emerging middle class and all that expectations that come with that. And again, you know that, that's just another one of the principal drivers behind you know I think the demand for our types of products.

**[Lauren Young]:** Right, but how do we get the money sitting in very, very ultra-safe accounts right now into some more risky, more interesting investments?

**[Philip Duff]:** Well, you know that's one of the real challenges which is if you're a pension plan manager and in fact that's what you know the Chinese sovereign wealth funds are, you can't sit there be earning you know ten basis points in T-bills today when your liabilities keep growing 7%, 8% a year; let alone have too many periods where you have 20% to 30% draw downs like people had in 2008.

## Perspectives on Investment Management from Duff Capital Advisors and Third Wave Investors



**[Larry Smith]:** And I think if you were a government bond manager which effectively is what they are, and you bought into the fact that you were willing to give up some return so that you won't have the downside risk and 2008 happens; you're smiling. So they're not going to change anytime soon. I think we're going to need several years of confirmation that there are strategies out there that produce good returns that are not particularly risky and given the migration that I see of strategies towards a lower risk level, I think somewhere three to five years from now you may see them start to diversify their holdings but it's not going to happen over the next twelve to twenty-four months.

**[Lauren Young]:** What about consolidation in the industry just to change the topic for a second? Do you foresee more funds merging, closing shop? What's that going to look like?

**[Philip Duff]:** I don't know. I grew up as an M&A banker at Morgan Stanley doing merges between banks and life insurance companies and so forth and I think the hedge fund industry is not going to be like the banking industry where it went from fourteen thousand to you know roughly about fifty-five hundred banks a day across the country because they're in the same dynamic where you have two-branch systems across the street and you can essentially consolidate them, eliminate 30%, 35% of the expense and hope not to lose more than about 10% of the revenue. I think you'll see what you've always seen. I mean the average life of a hedge fund still remains and has been for the past twenty-five years only about three and a half years. You know so funds will come and go. I think the trick is how do you create you know lasting businesses as opposed to the creation of funds? And I would submit the vast majority of hedge funds today are still funds. They aren't necessarily self-regenerating sort of businesses.

**[Larry Smith]:** And I would just say that a lot of it gets back to the bind behavior of people who are investing in hedge funds. At the end of the day this is a business about believing in a strategy and believing in an individual or a group of individuals in executing that strategy. Now the good thing about a small organization that it's crystal clear what you're buying. The good thing about a large organization is that somebody else is making that decision and dealing with it and diversifying your exposure to any one manager. So there's the tradeoff and at the end of the day there are always going to be people interested in the former category in knowing exactly what they're buying and exactly who's executing the strategy and consequently I think they'll always be small hedge funds; having said that very clearly following 2008, you can see an awful lot of closures. You will see some, some mergers and the business world consolidates somewhat but I think as Phil said, we're not going to see this mass migration towards, there's only going to be a few large players left and either you work for those large players or you don't have a chance to trade. I don't think we're ever going to get there.

**[Philip Duff]:** You know, I think one of the more interesting issues that I think still is unresolved about you know the buying behavior that, that Larry referred to is at least in my experience most institutional decision makers in contrast to you know retail and individuals who don't have the ability to make really well informed decisions, so brand in size and scale really make it different to them. Most institutional decision makers I'd say follow a couple of, of attributes historically. One is they've largely followed whoever the talent's gone and the talent has largely migrated from larger organizations to smaller more entrepreneurial ones where they feel like they have a seat at the table. Secondly, historically they've been actually been fairly skeptical of asset management organizations owned and operated by large financial institutions simply because there's you know at least historically less stability of the people involved in the investment process. That changed during this financial crisis. Just as people had a flight to quality in their portfolios either to cash or sovereign debt, there is kind of a flight to organizations that had been in business not just for years but for decades. At least, you know, you know sort of figuratively it's kind of like all the assets in the world are going to go to J.P. Morgan.

And I think it will you know as we get back to a little bit more normal sort of environment and, and decision making is to whether or not those institutional decision makers, which are the predominant you know part of the flow of funds going into hedge funds and have been for the past decade, whether they kind of move back towards what has been their historical behavior or whether the you know larger financial institutions will have kind of permanently captured a bigger share of assets and that will be interesting to see how that develops.

**[Lauren Young]:** Can you talk a little bit about compensation because it's really hard to keep people motivated when your performance is terrible. So what, what can you do and obviously it's gotten better but what tricks do you have to keep people engaged and employed with you?

**[Larry Smith]:** Phil mentioned a word before that I think is the key to the question: culture. What are you building your organization around? Are you building your organization around a bunch of day traders who are in it for this year's compensation and if they're not going to get compensated this year they're going to leave? Well, maybe; some people have done that and done that successfully. We've always built our organization around a mutual commitment to common long-term objectives. So when you say, why are you in this? Why do you work for Third Wave Global? It's not for 2009's performance; it's not for 2009's compensation. It's because of the sense that over the next three to five years, we're going to be a successful hedge fund that ultimately will raise significant capital and have significant compensation that will come to us. But if you don't buy into that three to five years, then there’s not a whole lot you can do at keeping somebody if you can't pay them this year save for the fact that there may not be another job available to them at this point in time; eventually there will be.

**[Philip Duff]:** You know I think one of the most interesting things is you know if remember Adam Smith's kind of rational economy man that all behavior is driven you know kind of rational, economic decisions. Those of you in the room that have managed people for a good number of years, you know I think probably would concur with me that rarely, while markets may largely resemble behavior of rational economic man, rarely does an individual ever make decisions purely on that basis. In fact I would submit to you that rarely does someone change jobs largely for money. They generally leave a company because they hate their boss. Seriously. So yes, I mean compensation is important. I think you have to balance that you know kind of more short term, eat what you kill, with you know kind of longer term incentives that drive behavior towards you know what's the good for the whole enterprise over a long period. And I think you know there'll be a lot of different schemes for trying to do that but they all come back to you know striking some balance between those two.

**[Larry Smith]:** And I think the good people know that 2008 was an extraordinary time; 2009 is a year of recovery and people shouldn't make decisions about their livelihood based on outlying years.

**[Lauren Young]:** I'm also curious just in terms of culture what do you think – who do you admire out there? And we didn't, I didn't prep this so I apologize. But who do you admire in terms of their culture and what do they do that makes them so unique, that helps keep that very cohesive culture going?

**[Philip Duff]:** Well, I – you go ahead.

**[Larry Smith]:** Say I admire Phil.

**[Philip Duff]:** You're way too kind. I mean you know every kid coming out of college today I'd say would most like to go to work for Google than anywhere else. Why is that? Obviously it's certainly helpful of having had a rising stock price the way they've had since they did their IPO. But I think it really comes back to this – when I was in business school I read most of – oh why am I blanking his name – long time business consultant. But he made a point that most every company argues that they have better people and I certainly over my years at Morgan Stanley and Tiger and elsewhere have made that argument to prospective clients. But he basically argued that once you get past about a half dozen people, the wow of large numbers starts to apply. So the real trick in business is not trying to figure out how you can have better people than everybody else in the marketplace but how do you get ordinary people to do extraordinary things. And that's this you know that's what culture I think is all about. It's how do you get a team of people to do substantially more than kind of what those some of those individuals have. And that's why I think people come together and I think that's true for for-profit business and non-profit classes, even in things like religion and when it stops working, you know, they scatter.

**[Lauren Young]:** Right.

**[Larry Smith]:** The two large organizations which come to mind of course are Goldman Sachs and J.P. Morgan. They're two firms that have, have navigated their way through these, these very choppy waters quite well and if I were a kid coming out of school given the uncertainties of the world right now, those are the two that would be ideal firms to work for in this industry because what they represent is a future whereas a lot of other firms it's not clear whether you're going to have a future. It's not clear what that future will look like. At Goldman Sachs and J.P. Morgan, I think you have a better sense of what that future will look like and they're safer ground at this point in time. Within the hedge funds world, Renaissance in the one that comes to mind. They've managed to continue to perform regardless of the market environment at least with regard to their own Medallion fund. And you know my hat’s off to them and they've as a consequence kept their people in place for a long period of time.

**[Lauren Young]:** What will things, I mean we did our own sentiment and indicators and it was the collective but, where's your sentiment for, for the year ahead? Where do you think things will be a year from now? Are you bullish, bearish?

**[Larry Smith]:** From my perspective, Armageddon is no longer on the table. I think the best case scenario here is that the focus of the markets starts to move based on a country by country analysis from the world's coming to an end to we've got to start worrying about inflation a little bit. And the central banks are all on notice here and getting ahead of it. They know that the measures that have been taken are, have been taken are nothing short of extraordinary. I can't begin to commend Bernanke enough for the actions that he took during these unprecedented times. No other central banker in history has ever done the things that he's done; that ever been as aggressive as he's been and maybe he needed to do that because you can't take short-term interest rates below zero. But I think we need to give him an extraordinary amount of credit. Now monetary policy works with a lag. As a result, you see both sides with a lag and even though they went to these extraordinary measures, we still have back-to-back approximately 6% down quarters in the fourth quarter and first quarter, fourth quarter last year and the first quarter of this year. At some point, all of the fiscal monetary stimulus is going to become inflationary and the central bank needs to get ahead of that.

So the big question around the world that we're dealing with at this point in time is, where are we in that cycle?

**[Lauren Young]:** Well as you say, when we typed in our number, what was your inflation number?

**[Larry Smith]:** My inflation number was 3% three years hence. I had a problem with the 3% to 8% category because open and honest, I would probably not sleep very well if inflation was going to 8%.

**[Lauren Young]:** What was your inflation number?

**[Philip Duff]:** I actually put 3% as well. I think one of the more interesting conundrums…

**[Lauren Young]:** I was at 4%.

**[Philip Duff]…**we're clearly in a, in a global environment where there's dramatic overcapacity and way more supply than demand right now. You have the deficit spending in at least in much of the developed world. You know everybody has the fear that that's going to lead to substantial inflation and it's really the transition going from one to the other, to me that could be very messy.

**[Lauren Young]:** What were your S&P targets?

**[Larry Smith]:** My S&P target was 1166. I figured nobody else would put in that number.

**[Philip Duff]:** Let me point out one other thing Lauren, someone was making this point to me a couple of weeks ago that, I mean I suspect like me, everybody in the room kind of remembers where they were on September 11, 2001. But do you remember where the DOW was closed the day before on September 10th, 2001? It was at 9,652 and change. And do you know where it was on September 21st, 2009, you know roughly a month ago? 9,652 and change and you know, in you know in 2001 we were just kind of coming out of a recession. You know unemployment had, had risen. They were talking about it as being this you know kind of this jobless recovery; sounds a lot like the period we're currently in. Yet today you know kind of earnings and cash, free cash flows at companies on average are about 30% higher than they were then substantially less leverage, and frankly the you know accounting standards in a post-Enron world despite the fact that FAZBY and the accounting centers get berated all the time, I think are dramatically significantly better than they were at that point in time.

So you could easily make an argument that there's a lot of equity upside here from this you know aberration or panic selling that we had you know reached the crescendo back in early March.

**[Larry Smith]:** The most important economic statistics from my perspective in trying to clarify where, what the future's going to look like here is when you take a look at the corporate sector, just take a look at productivity numbers in the fourth quarter of last year and the first quarter of this year. They were truly extraordinary. In a typical recession what happens is demand falls off a cliff which it did and by the time corporations catch up to that and shed labor, it's already pasted and you see horrible productivity numbers during recession which makes a lot of sense. We've had spectacular productivity numbers during this recession and what it tells me is that corporations are doing a better and better job at getting ahead of the cycle; that their mobility is better; their ability to move quickly and reduce costs as need be is better. And that just gives me confidence that the future is quite bright for corporations, not only in America but frankly, really around the world. People have learned how to generate earnings better than they did many, many years ago. We see that with flying colors in the emerging world. That's not going away. China because of all the things we've talked about will continue to be a growth story. Everybody who touches China will benefit from that and as I take a look over the next three to five years, again the Armageddon scenario is no longer on the table. The question is, is whether things are so good that we run into some central bank policy issues. But I think, don't think that's going to happen for the next twelve to twenty-four months. So I'm balanced; I'm positive about equities. I'm balanced; I'm quite positive about credit. I think credit's going to continue to improve here. Anything that's improved as much as credit has so far this year, you have to be a little bit careful; you could have a correction. But looking out over the next twelve to twenty-four months, I think that's a wonderful area for people to put their money in.

**[Lauren Young]:** What was your best performance asset class?

**[Larry Smith]:** Foreign exchange.

**[Lauren Young]:** What was yours?

**[Philip Duff]:** You're a pretty optimistic guy Larry.

**[Larry Smith]:** On the margin I am. I am; that's right.

**[Lauren Young]:** What was your best performing asset class?

**[Philip Duff]:** Well it's hard not to have some of your best performance in commodities given not only the move in the market but the volatility in those markets.

**[Lauren Young]:** We only have a couple of minutes left. Is there anything we did not cover that you are dying to tell this audience? We covered a lot.

**[Philip Duff]:** Well I think the one thing I'd conclude with is, is maybe what I touched on at the outset is I would think long and hard about you know each of your firm's business you know proposition and what is it of value that you're really performing? What's your target customer and what problems are they trying to solve? And how can you expand in addition to just producing returns, expand your value proposition to them? That I think is going to be the key to success of building ones business.

**[Larry Smith]:** I would just comment that the key to success from my perspective in this business has always been judgment and imparting good judgment and to me there's no bigger issue than how to put 2008's performance in the perspective of a longer term track record. And what I think people are going to find is that more and more eliminating 2008 because it was so sensational on the down side it's probably not a bad idea in terms of how you go about analyzing managers.

**[Lauren Young]:** Larry, Phil, thank you so much. I think that this has been an amazing way to set the tone for today and I hope that everyone enjoys the rest of the conference. Thank you so much.

**[Speaker]:** We've got, we have time for one question. Is there a question?

**[Lauren Young]:** A really, really good question. Okay and we're going to bring a microphone over so hold that question for one second.

**[Question]:** I guess I have to stand up.

**[Lauren Young]:** Do you mind introducing yourself as well please?

**[Question]:** My name is David Lloyd and I'm with Carlson Capital. My question is for Mr. Duff. Do you get to the level of granularity with your LPs such that you look at their liability streams and you try to create basically [inaudible] portfolios that match those?

**[Philip Duff]:** Yeah, I think the objective is I mean it's -- think about you know most CIOs that run pension plans; you know, they're investment people. They're not necessarily you know actuaries and you know the three main risks on the liability side of a pension plan are interest rates, inflation and mortality. And often you know a CIO will take the output from an actuary and kind of treat that as, 'That's a fixed known given number that I've got to solve to.' But the reality is even though you don't see it, you know, you know ticking on your screen there's arguably as much variability and risk and volatility in the liability side of these pension plans as there is on the asset side. I mean for example, if there's a – you know most actuaries, their tables that take into account that the life expectancy is getting older at an increasingly rapid rate but what they don't take into account is that risk. If for example, if there's a broad cure for a broad spectrum of cancers in a very relatively short number of years, you'd have a fairly significant increase in life expectancy. That would be a great thing for mankind but it's you know a horror story for someone with long-tail liabilities based upon longevity. And so, you know as we say you not only have to know what you own you also have to know what you owe. You've got to manage your assets very much in concert of what if, what are those assets funding.

**[Lauren Young]:** All right. We're good? All right, thank you very much everybody.

**[End of Transcription]**

# Table of Contents


## Fixed Income

### Pages 4 to 16

U.S. Investment-Grade Spreads Sector Index Review: Risk Premium Shrinks As Credit Quality Stabilizes (4-11)

By Standard & Poor's Global Fixed Income Research

S&P Composite Spreads (12)

What Does Dubai World's Restructuring Mean For Other UAE-Based Debt?(14-16)

S&P's Market, Credit and Risk Strategies Group

## Industry Perspective

### Pages 18 to 29

Perspectives on Investment Management from Duff Capital Advisors and Third Wave Investors (18-29)

Transcript of a roundtable discussion by Philip Duff (CEO and General Partner of Duff Capital Advisors) and Larry Smith (Founder and Chief Investment Officer of Third Wave Global Advisors) at the Capital IQ and Argyle Executive Forum's Investor Leadership event on October 15, 2009 in New York City

## Equities

### Pages 31 to 54

Store Proprietary Data in Capital IQ (31)

Equity Strategy – U.S. Sector Watch (32-36)

By Sam Stovall, Chief Investment Strategist, Standard & Poor's

Global Equity Strategy – International Investment Outlooks (36-40)

By Alec Young, International Equity Strategist, Standard & Poor's

Sector Snapshots (42-51):

Consumer Discretionary

Consumer Staples

Energy

Financials

Healthcare

Industrials

Information Technology

Materials

Telecommunication Services

Utilities

Introducing Capital IQ Presentation Center (52)

Schedule of Upcoming Capital IQ Training Webinars (53)

## M&A / Private Capital

### Pages 56 to 66

Aggregate Transaction Stats (56-66):

Mergers & Acquisitions Activity by Quarter

M&A Valuation by Quarter (North America)

M&A Valuation by Quarter (Europe)

M&A Valuation by Sector (North America)

M&A Valuation by Sector (Europe)

M&A by Sector

Leveraged Buyouts by Sector

Strategic M&A by Sector

Private Equity by Sector (Non-Buyouts)

PIPEs by Sector

Venture Capital by Sector

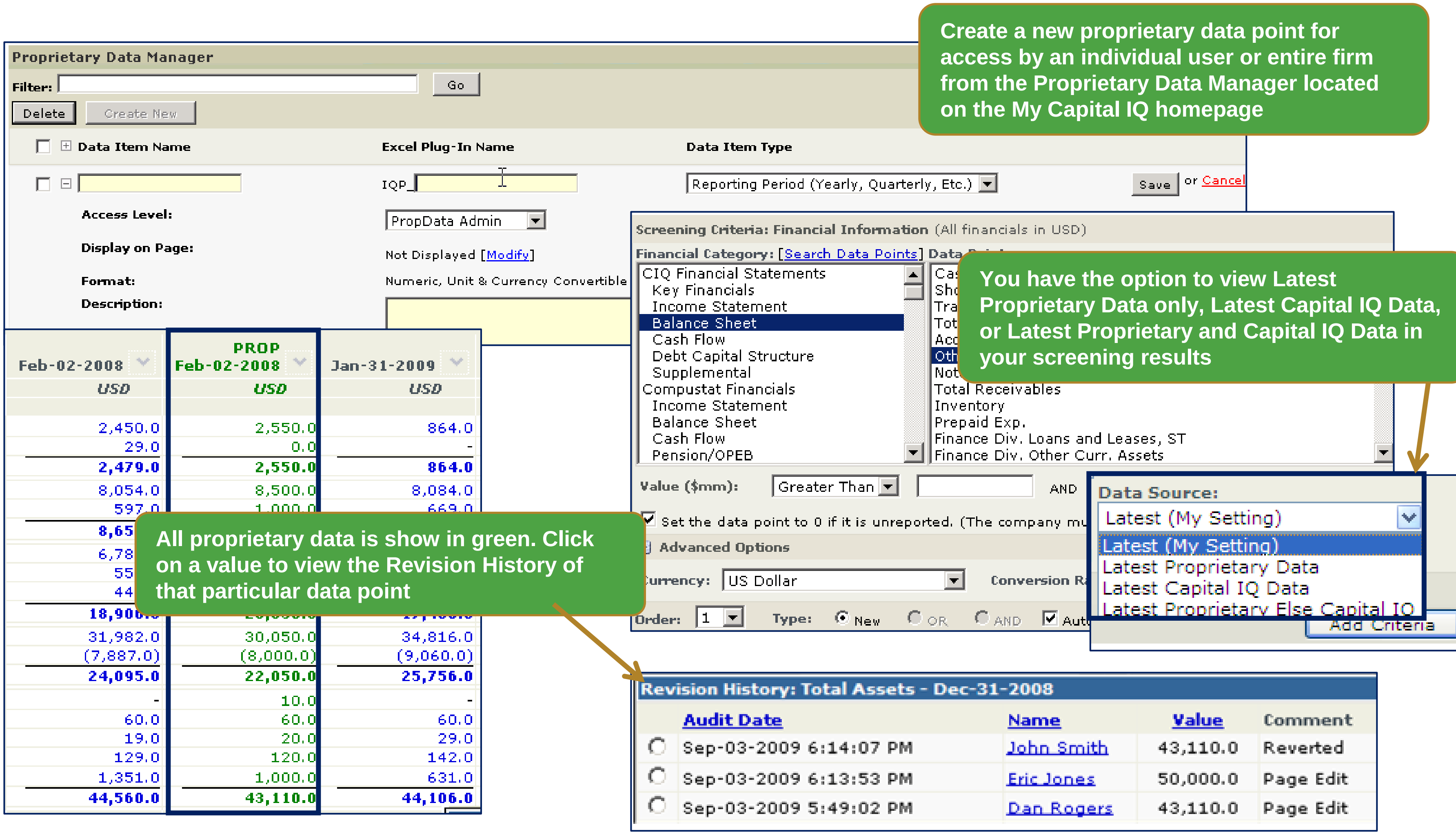



Capital IQ
A Standard & Poor's Business

# Store Proprietary Data in Capital IQ

Capital IQ Tip of the Month

Now you can store proprietary financials, ratios, rankings, metrics, recommendations, and more for companies in Capital IQ. Input complete financial statements for a company at any period or filing date. All proprietary data will then be accessible throughout Capital IQ, in the company tearsheet, Excel Plug-In, and Screening.






Capital IQ
A Standard & Poor's Business

# Equity Strategy – U.S. Sector Watch

Equities | US

**By Sam Stovall, Chief Investment Strategist, Standard & Poor's**
**(212) 438-9549 | ✉ sam_stovall@standardandpoors.com**

December is upon us. How might the equity markets fare during the final month of a dismal decade? Needless to say, the resurfacing of credit worries is not encouraging. It is too early to tell if Dubai World's request for a delay in interest payments will end up triggering a near-term correction in equity prices. As of yet, however, we don't believe it signals the end of this nine-month bull market. Defaults, bankruptcies and foreclosures have typically peaked well after the economy has begun to recover and the stock market has entered into a new bull phase. This time is probably no different. However, the magnitude of potential global commercial real estate defaults, combined with still-climbing unemployment rates here in the U.S. and the massive amount of stimulus already pumped into fragile global economies, it's no wonder investors feel vulnerable to a repeat of the credit and equity market debacle of 2008.

History indicates (but does not guarantee) that December 2009 should be a good month. Maybe not as strong as April (when the S&P 500 rose 9.4%), March (+8.5%), July (+7.4%) or November (+5.3% through the 27th), but a good one all the same. One reason is that the S&P 500's average monthly performance has been strongest in December whether you look back to 1990, 1970, or 1945, outpacing the average price gains for all months by a near 3:1 margin; it ranked #2 just behind July since 1929. Within 12 months of bear market bottoms, however, the S&P 500's return in December has been even better, rising 3.1% since 1932, while posting a 71% frequency of advance.

**Asset Class Performances (% Total Returns) 12/31/29-11/27/09**

| | Stocks | | | L.T. Gov't. |
|---|---|---|---|---|
| Decade | Large U.S. | Small U.S. | Int'l. | Bonds |
| 1930s | 10 | 50 | -- | 53 |
| 1940s | 138 | 360 | -- | 28 |
| 1950s | 482 | 476 | -- | 12 |
| 1960s | 112 | 251 | -- | 26 |
| 1970s | 77 | 143 | 162 | 63 |
| 1980s | 402 | 359 | 678 | 236 |
| 1990s | 433 | 257 | 103 | 129 |
| 2000s | (11) | 70 | 15 | 120 |

Source: S&P Financial Communications. Past performance is no guarantee o future results. U.S. Large Cap: S&P 500; U.S. Small Cap: CRSP 6th-10th deciles 1930-1993, S&P Small-Cap 600 1994-2009. Int'l: MSCI-EAFE Gross Return Index; Bonds: L.T. U.S. Treasury Bonds. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index.

# Equity Strategy – U.S. Sector Watch

Equities | US

No matter how well the S&P 500 performs this month, it will not be enough to erase the black mark on the annals of equity market returns. On a price-only basis, the S&P 500 fell nearly 26% from December 31, 1999 through November 27, 2009. And even when you include dividends, the 2000s have the inauspicious distinction of being the only decade in the past 90 years to post a decline; even in the 1930s the S&P 500 was able to eke out a cumulative advance of 10%. Of course, back then the dividend yield of more than 5%, compounded annually, went a long was to make up for the short-coming in prices. Today, however, the S&P 500's dividend yield hovers near 2%. One positive thing to say about this dismal decade is that the worst is likely behind us. Indeed, even on a price-only basis, the S&P 500 has never declined in two successive decades since 1900.

The 2000s (are they called "the aughts"?) have certainly been tough on equity investors. The S&P 500, despite declining a cumulative 26% in price, fell 11% if you add back dividends. Small cap U.S. equities, as well as the MSCI-EAFE (a recognized proxy for developed international equities), posted double-digit total returns of 70% and 15%, respectively. The best performers, however, were long-term Treasury bonds with a 120% cumulative total return. So when incorporating all four asset classes, the greater one's exposure was to large-cap U.S. equities, the deeper their portfolio's pain. Of course, there's no guarantee we won't be complaining about the dismal performances of long-term Treasuries at the end of next decade.

### Sector Leaders and Laggards

In the five decades ended in 1999, the S&P 500 recorded 10-year cumulative price advances ranging from 17% in the 1970s to 316% in the 1990s. It saw increases of more than 200% in both the 1980s and 1950s. In the 1990s, while the S&P 500 rose more than 300% in price and surpassed six of its 10 component sectors, it was left in the dust by Information Technology's 1148% surge. The Consumer Discretionary, Financial, and Health Care sectors also outpaced the overall market, but not by much.

Only one sector saw an average cumulative loss in a 10-year period over the last five decades of the 20th century, and that was the 13% slip in the 1970s for the sub-industries within the S&P 500 Information Technology group. All other sectors eked out advances in these 50 years. Granted, the 1970s were the toughest on the market and its sectors, as Health Care and Consumer Staples rose only 1% and 5%, respectively, while Energy (+295%) and Materials (+78%) recorded the best results.

It's interesting that the best performing sectors in the 1970s are also among the top three this decade. Since the end of 1999, on a price-only basis, the S&P 500 fell 26% and five of its 10 sectors posted declines, ranging from 66% and 57% for Telecom Services and Information Technology, respectively, to a 40% falloff for Financials and a 24% cut-back in Consumer Discretionary. Yet the S&P 500 Energy group advanced 104%, Consumer Staples rose 33% and Materials gained 22%.

# Equity Strategy – U.S. Sector Watch

Equities | US

**Cumumative S&P 500 Sector % Price Changes By Decade 12/31/49-11/27/09**

| | Cumulative % Changes (excl. Dividends) | | | | | |
|---|---|---|---|---|---|---|
| | **2000s** | **1990s** | **1980s** | **1970s** | **1960s** | **1950s** |
| **S&P 500** | **(26)** | **316** | **227** | **17** | **54** | **257** |
| Consumer Discretionary | (24) | 320 | 414 | 24 | 106 | 209 |
| Consumer Staples | 33 | 234 | 491 | 5 | 140 | 83 |
| Energy | 104 | 132 | 135 | 295 | 107 | 272 |
| Financial | (40) | 323 | 169 | 19 | 80 | 228 |
| Health Care | 9 | 350 | 355 | 1 | 165 | 339 |
| Industrials | (12) | 264 | 297 | 39 | 53 | 301 |
| Information Technology | (57) | 1148 | 171 | (13) | 368 | 1019 |
| Materials | 22 | 105 | 243 | 78 | 13 | 355 |
| Telecom. Services | (66) | 223 | -- | -- | -- | -- |
| Utilities | 5 | 37 | 137 | 43 | 30 | 120 |

Source: Standard & Poor's Equity Research. Past performance is no guarantee of future results.
From 1949-1989, sector % changes were simple averages of month-average % changes for underlying sub-industry indexes. Month-ending % changes for S&P 500 sector Indices were used thereafter.

These results are also understandable. In the past 10 years, we have seen an explosion of growth in emerging markets and a resulting up-swell in demand for energy and commodities. It's no wonder these groups were among the best performers. In addition, investors suffered through two mega-meltdowns, or bear markets of more than 40% in the past decade. Only in the 1930s did we endure such an equity market beating. Is it therefore any wonder that the defensive groups of Consumer Staples, Health Care and Utilities posted positive results?

One interesting observation is that leaders in one decade usually don't repeat in the following decade. This statement is clearer when viewed from the sub-industry level. In the 1990s, five of the 10 top cumulative price returns came from the Information Technology group. Yet in the following decade, not only did the entire sector sharply underperform the overall market, but all five IT sub-industries that lead the pack in the 1990s underperformed the market in the 2000s, falling from 43% for Systems Software to 87% for Communications Equipment. Conversely, nine of the bottom 10 in the 1990s went on to beat the S&P 500 in the 2000s. Not surprisingly, the one that didn't was also a Tech group

# Equity Strategy – U.S. Sector Watch

Equities | US

**S&P 500 Sub-Industry Leaders and Laggards by Decade**

| 2000s (S&P GICS Sub-Industries) | | 1990s (S&P GICS Sub-Industries) | | 1980s (Old S&P 500 Sub-Industries) | | 1970s (Old S&P 500 Sub-Industries) | |
|---|---|---|---|---|---|---|---|
| **Sub-Industries** | **% Chg.** | **Sub-Industries** | **% Chg.** | **Sub-Industries** | **% Chg.** | **Sub-Industries** | **% Chg.** |
| Diversified Metals & Mining | 424 | Home Improvement Retail | 2,751 | Waste Management | 1,103 | Oil & Gas (Drilling & Equipment) | 615 |
| Oil & Gas Exploration & Production | 304 | Semiconductors | 2,305 | Broadcasting (TV, Radio & Cable) | 935 | Gold & Precious Metals Mining | 560 |
| Tobacco | 288 | Systems Software | 2,042 | Tobacco | 810 | Oil (Domestic Integrated) | 198 |
| Railroads | 232 | Communications Equipment | 1,515 | Beverages (Alcoholic) | 776 | Aerospace/Defense | 157 |
| Footwear | 193 | IT Consulting & Other Services | 1,067 | Foods | 702 | Entertainment | 145 |
| Managed Health Care | 192 | Electronic Equipment & Instruments | 789 | Retail (Food Chains) | 626 | Restaurants | 124 |
| Industrial Gases | 185 | Biotechnology | 705 | Entertainment | 625 | Natural Gas | 117 |
| Agricultural Products | 177 | General Merchandise Stores | 671 | Retail (Department Stores) | 622 | Tobacco | 110 |
| Construction & Farm Machinery & Hea | 134 | Industrial Conglomerates | 553 | Restaurants | 617 | Truckers | 104 |
| Construction & Engineering | 130 | Consumer Finance | 548 | Beverages (Non-Alcoholic) | 609 | Machinery (Diversified) | 88 |
| **S&P 500** | **(26)** | **S&P 500** | **316** | **S&P 500** | **227** | **S&P 500** | **17** |
| Computer Storage & Peripherals | (70) | Application Software | 11 | Electronics (Instrumentation) | 125 | Containers (Metal & Glass) | (23) |
| Electronic Equipment & Instruments | (72) | Health Care Facilities | 9 | Electronics (Semiconductors) | 124 | Lodging-Hotels | (24) |
| Office Electronics | (73) | Apparel, Accessories & Luxury Goods | 3 | Machinery (Diversified) | 93 | Automobiles | (26) |
| IT Consulting & Other Services | (81) | Home Furnishings | (3) | Savings & Loans | 77 | Electric Companies | (31) |
| Automobile Manufacturers | (81) | Commercial Printing | (12) | Trucks & Parts | 50 | Airlines | (31) |
| Multi-Utilities | (82) | Construction & Engineering | (14) | Computers (Hardware) | 43 | Consumer Finance | (32) |
| Multi-line Insurance | (86) | Specialty Stores | (24) | Homebuilding | 43 | Textiles (Apparel) | (34) |
| Wireless Telecommunication Services | (86) | Gold | (45) | Iron & Steel | 26 | Trucks & Parts | (38) |
| Communications Equipment | (87) | Environmental & Facilities Services | (58) | Oil & Gas (Drilling & Equipment) | 16 | Personal Care | (42) |
| Photographic Products | (94) | Oil & Gas Exploration & Production | (62) | Banks (Major Regionals) | 11 | Beverages (Alcoholic) | (59) |

# Global Equity Strategy – International Investment Outlooks

Equities | International

**By Alec Young, International Equity Strategist, Standard & Poor's**
**☎(212) 438-2000 | ✉ alexander_young@standardandpoors.com**

After a shaky start, both developed and emerging international markets have rebounded sharply in 2009, as unprecedented worldwide fiscal and monetary stimulus has jolted the global economy back to life, by our analysis. In addition, we believe ample government-injected liquidity has encouraged risk taking, leading to broad U.S. dollar weakness versus both developed and emerging market (EM) currencies. This has boosted dollar-denominated international equity returns, resulting in foreign stocks broadly outperforming the S&P 500 (see table 1).

Looking ahead to 2010, S&P Equity Strategy sees the international equity rally continuing, albeit at a more modest pace. Positive drivers we see include ongoing unprecedented global fiscal and monetary policy stimulus, easy first-half EPS and revenue comparisons, a cyclical sector tilt, reasonable forward valuations and the likelihood of continued dollar weakness. However, on the negative side, we believe an increasing number of investors will continue to question whether private sector end demand will be strong enough to sustain growth as G7 stimulus begins to fade heading into 2011. Given the forward-looking nature of markets, we expect this to fuel more frequent bouts of profit taking and less aggressive multiple expansion than was the case in 2009.

**Table 1: What a Difference a Year Makes**

| Asset Class/Country | YTD (USD) | Rally Off Lows | 5 Yr. | Weight * | 2010E P/E | Div. Yld. |
|---|---|---|---|---|---|---|
| **Dev. Int'l.** | 26.0% | 71.1% | 1.4% | 47.5% | 13.6X | 3.2% |
| ***Canada*** | 48.4% | 85.7% | 8.6% | 4.2% | 14.4X | 2.6% |
| ***U.K.*** | 33.9% | 75.8% | -1.3% | 8.3% | 12.4X | 3.9% |
| ***France*** | 24.9% | 73.4% | 2.4% | 4.2% | 12.2X | 5.0% |
| ***Germany*** | 19.9% | 74.0% | 4.8% | 3.2% | 12.5X | 3.5% |
| ***Switzerland*** | 21.0% | 68.5% | 5.4% | 3.4% | 12.9X | 2.4% |
| ***Japan*** | 3.7% | 37.8% | -1.4% | 8.7% | 16.7X | 1.9% |
| ***Australia*** | 66.1% | 115.4% | 8.1% | 3.4% | 13.9X | 4.0% |
| **Em. Mkts.** | 68.1% | 109.8% | 13.0% | 11.5% | 12.8X | 2.2% |
| ***China*** | 58.1% | 137.2% | 20.2% | 2.2% | 15.0X | 1.8% |
| ***Taiwan*** | 61.4% | 72.5% | 2.3% | 1.7% | 16.2X | 2.6% |
| ***India*** | 93.8% | 121.4% | 20.1% | 1.1% | 16.3X | 1.0% |
| ***Russia*** | 94.0% | 128.4% | 9.1% | 0.9% | 8.7X | 1.0% |
| ***Brazil*** | 118.6% | 169.0% | 30.2% | 2.1% | 13.1X | 3.3% |
| ***Mexico*** | 50.1% | 90.9% | 14.9% | 0.5% | 14.2X | 1.4% |
| ***Turkey*** | 60.5% | 127.5% | 10.3% | 0.2% | 9.0X | 2.3% |
| ***So. Africa*** | 46.2% | 117.0% | 8.8% | 0.9% | 12.3X | 2.7% |
| **S&P 500** | 21.3% | 61.9% | -1.4% | 41.0% | 14.5X | 2.0% |

** as a % of free float adjusted global equity market capitalization*

***Source: S&P Index Services, S&P Equity Research, Thomson One Analytics, MSCI (through 11/30)***

# Global Equity Strategy – International Investment Outlooks

Equities | International

S&P Economics sees emerging Asia driving a broader global 2010 economic recovery, as G7 GDP growth is likely to remain below trend (see chart 1 - right). Given our view of the relative fragility of the recovery, we expect G7 monetary policy stimulus (see chart 2 - right) to be withdrawn only gradually. Similarly, overseas fiscal stimulus should continue to flow throughout the first half of 2010.

Both developed and emerging overseas stock benchmarks have much greater exposure to the Financials and Materials sectors than does the S&P 500 (see table 2 on following page). These two sectors are among the strongest year-to-date performers globally, as they have disproportionately benefited from the flood of government liquidity that has thawed credit markets and boosted commodity prices, in our view. Hence, larger weightings in these areas have given foreign markets more cyclical leverage to the liquidity-induced global recovery, by our analysis. In addition, foreign benchmarks' lower weightings to underperforming, counter-cyclical, defensive sectors such as Consumer Staples and Health Care have further boosted the asset class' cyclical leverage.

Looking to 2010, international EPS growth is expected to rebound sharply, according to consensus estimates, fueled by easy first-half comparisons and hopes that aggressive cost cutting will enhance corporate operating leverage even if revenues rebound at a historically slow pace. At the sector level, given that we are in the first year of a global economic expansion, analysts predictably forecast cyclical areas will fuel the majority of the projected 2010 international profit recovery in both developed and emerging overseas markets (see chart 3 on following page).

**Chart 1: EM Asia to Lead Below Trend Global Recovery**

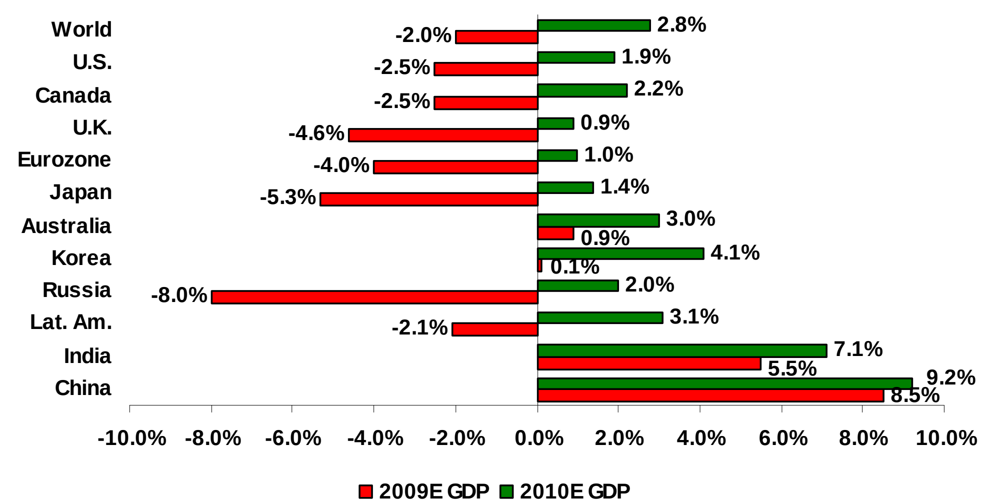
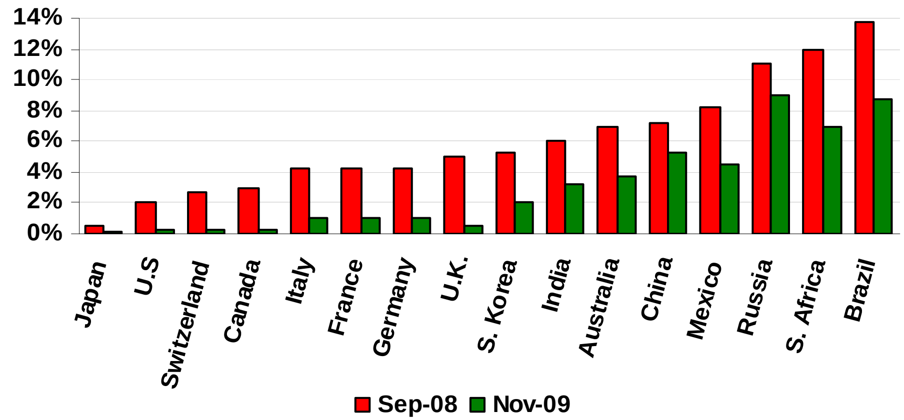



**Chart 2: Will Private End Demand Pick Up the Slack As Stimulus Fades? (Central Bank Rates)**



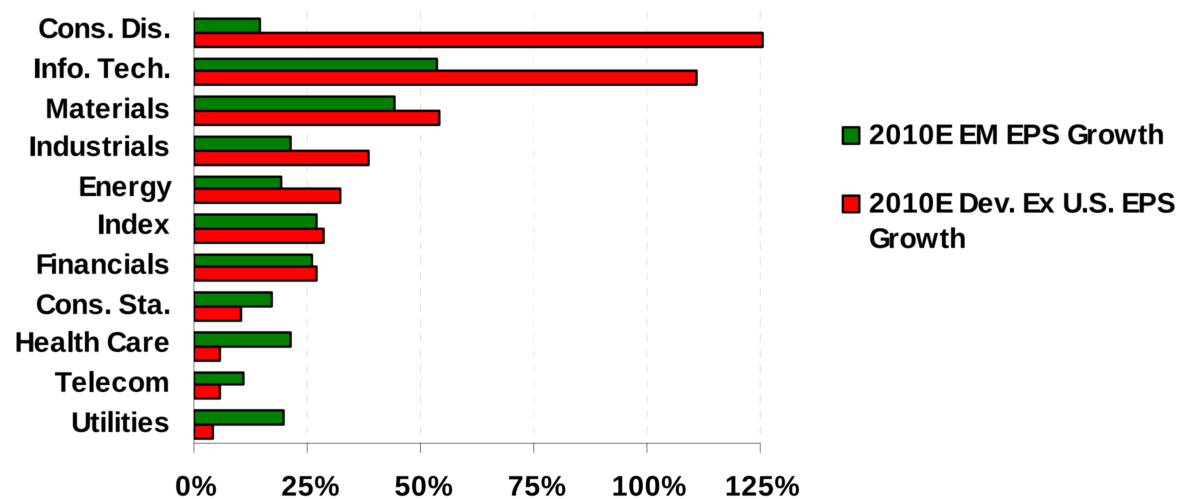
# Global Equity Strategy – International Investment Outlooks



**Table 2: Cheap Money Benefits Int'l Equities Most**

| | Global Sector Weights & Performance | | | | | |
|---|---|---|---|---|---|---|
| | S&P 500 | YTD | S&P BMI Dev. Ex. U.S. | YTD | S&P Emerging BMI | YTD |
| Energy | 12.0% | 12.4% | 9.6% | 33.3% | 15.3% | 82.1% |
| Materials | 3.6% | 43.2% | 10.9% | 60.7% | 14.6% | 97.1% |
| Industrials | 10.4% | 16.0% | 12.5% | 29.4% | 7.4% | 69.5% |
| Cons Disc | 9.4% | 33.0% | 9.8% | 36.6% | 6.1% | 101.7% |
| Cons Staples | 11.7% | 11.9% | 8.7% | 25.4% | 6.0% | 70.4% |
| Health Care | 12.8% | 14.9% | 7.5% | 14.4% | 2.8% | 46.9% |
| Financials | 14.5% | 16.7% | 25.3% | 37.4% | 23.4% | 75.6% |
| Info Tech | 18.9% | 51.5% | 5.9% | 32.1% | 12.2% | 94.9% |
| Telecom | 3.1% | -1.9% | 4.8% | 12.0% | 8.3% | 23.0% |
| Utilities | 3.6% | 1.5% | 5.0% | -0.3% | 3.9% | 52.7% |
| Index | 100% | **21.3%** | 100% | **30.7%** | 100% | **73.6%** |

**Chart 3: Cyclicals Expected to Largely Fuel Int'l. EPS Recovery**



# Global Equity Strategy – International Investment Outlooks

Equities | International

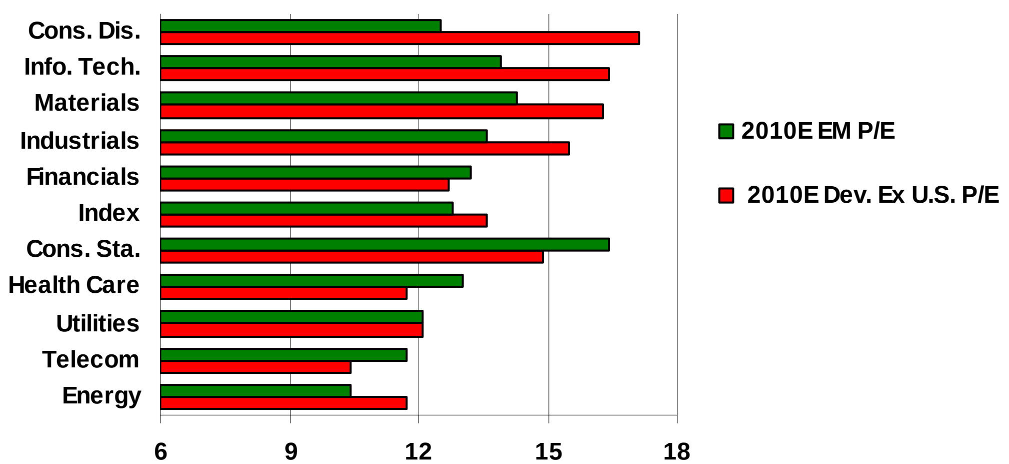
Specifically, the consensus currently expects 28.8% 2010 EPS gains for developed overseas equities, led by Consumer Discretionary, I.T. and Materials. Similarly, consensus 2010 EPS growth forecasts for the EM now stand at 27.3% led by I.T., Materials and Financials.

With liquidity expected to remain ample early in this recovery we look for cyclical sector outperformance to persist in 2010 as a double dip is likely avoided. That said, persistent growth fears surrounding the inevitable removal of worldwide stimulus should reduce cyclical sector alpha relative to 2009's heady levels. We think greater cyclical sector representation in overseas markets also implies continued modest international outperformance over the S&P 500.

As for valuations, we believe reasonable forward multiples leave room for continued modest P/E expansion in 2010. Developed overseas stocks recently traded at 13.6X 2010 consensus EPS estimates, while EM equities recently fetched 12.8X. At the sector level, while cyclical sectors generally command a valuation premium to defensives (see chart 4 below) we view this as justified by their greater leverage to a global recovery as evidenced by stronger 2010 profit forecasts. Still, we think continued jitters about global growth prospects in the face of fading government largesse will likely temper cyclical P/E expansion relative to what has been seen year to date.

On the currency front, dollar weakness has boosted U.S. investor returns in both developed and emerging overseas stocks year to date. A weak dollar adds to U.S. investors' dollar-denominated returns in foreign stocks while a stronger greenback detracts from U.S. investor's overseas stock performance (see chart 5 on following page). In 2010, with our belief that the U.S. fed funds rate will likely remain near zero for much of the year, we think ample liquidity should continue to fuel risk taking, leading to further pressure on the greenback. However, as markets begin to focus more on the timing of the eventual removal of liquidity, the dollar is likely to benefit from safe haven buying, in our view. We think this should lead to a more modest currency tailwind than has been enjoyed so far in 2009.

**Chart 4: Reasonable Valuations Leave Room For Modest P/E Expansion**







Capital IQ
A Standard & Poor's Business

# Global Equity Strategy – International Investment Outlooks

Equities | International

Amid the worldwide stock market rally, historically elevated global equity correlations have remained high as markets have converged aggressively to the upside (see table 3). This is not surprising to us given the global nature of the liquidity tailwinds boosting equities from New York to Shanghai. While high correlations undermine portfolio diversification, the silver lining, in our view, is that the synchronized global rally has helped investors recover more quickly from 2008's brutal losses.

Specifically, the MSCI EAFE Index, a leading developed international equity benchmark, is now moving in unison with the S&P 500 Index 89% of the time. Similarly, the MSCI Emerging Markets Index's correlation to the 500 is 82%. Lower capitalization foreign stocks are also in sync with the U.S. as the MSCI World ex U.S. Small & MidCap Index's recent correlation to the 500 is 87%. We believe only the more exotic MSCI Frontier Market Index still has the ability to "zig" when the S&P 500 "zags," as it registers a comparatively low correlation of only 56%. Unfortunately, this offers little overall portfolio diversification benefit as most U.S. investors understandably allocate very little to this inherently higher risk area.

**Chart 5: Weak Dollar Pads USD Denominated Int'l. Returns**

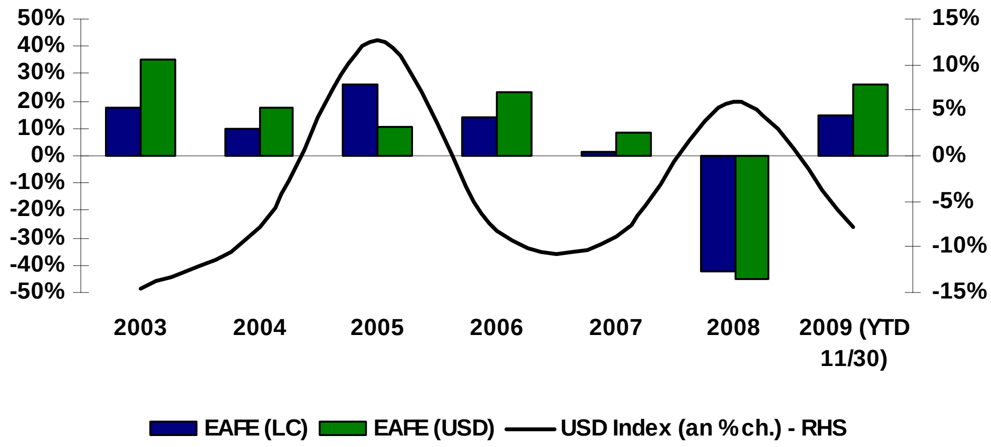



**Table 3: High Global Equity Correlation Implies Continued Return Synchronization**
(60-Month Correlations)

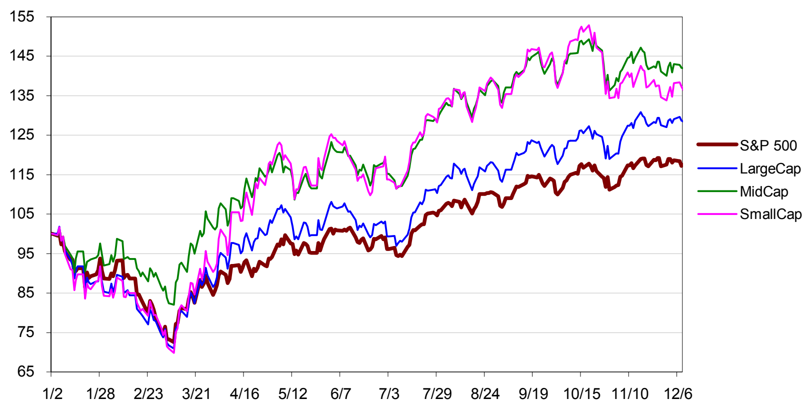
| | S&P 500 | MC 400 | SC 600 | EAFE | EM | Frontier | Int'l. SC + MC |
|---|---|---|---|---|---|---|---|
| S&P 500 | 1.00 | 0.95 | 0.90 | 0.89 | 0.82 | 0.56 | 0.87 |
| MC 400 | 0.95 | 1.00 | 0.94 | 0.88 | 0.82 | 0.62 | 0.85 |
| SC 600 | 0.90 | 0.94 | 1.00 | 0.80 | 0.71 | 0.46 | 0.76 |
| EAFE | 0.89 | 0.88 | 0.80 | 1.00 | 0.92 | 0.61 | 0.94 |
| EM | 0.82 | 0.82 | 0.71 | 0.92 | 1.00 | 0.60 | 0.92 |
| Frontier | 0.56 | 0.62 | 0.46 | 0.61 | 0.60 | 1.00 | 0.80 |
| Int'l. SC + MC | 0.87 | 0.85 | 0.76 | 0.94 | 0.92 | 0.80 | 1.00 |

*Source: S&P Equity Research, S&P Index Services, MSCI (through 11/30)*

# Consumer Discretionary Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Consumer Discretionary




## LTM Transaction Activities: Consumer Discretionary

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| Deal Type | # | $ (mil) | # | $ (mil) | # | $ (mil) | # | $ (mil) |
| All M&A | 2,546 | $217,779 | 2,814 | $266,026 | 2,152 | $52,733 | 1,624 | $67,017 |
| LBO | 440 | $121,286 | 568 | $140,995 | 409 | $15,056 | 273 | $5,975 |
| Strategic M&A | 2,106 | $96,493 | 2,246 | $125,031 | 1,743 | $37,677 | 1,351 | $61,042 |
| Non-LBO PE | 31 | $809 | 50 | $2,156 | 33 | $514 | 118 | $2,093 |
| PIPEs | 275 | $3,647 | 294 | $8,794 | 216 | $5,669 | 193 | $25,031 |
| Venture Capital | 246 | $2,406 | 295 | $3,311 | 294 | $2,804 | 308 | $1,672 |

| (M&A only) | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| Median Deal Multiples | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M |
| TEV/EBITDA | 9.9x | 11.4x | 9.4x | 12.1x | 11.4x | 10.0x | 5.9x | 11.5x |
| Equity/LTM NI | 17.6x | 28.3x | 17.2x | 26.4x | 11.7x | 22.3x | 7.5x | 22.7x |

## Distribution of Stocks by YTD % Returns and Industry: Consumer Discretionary

| | 2009 Stock Price Performance | | | | | | | | | | Total ($ mil) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Industry | <-80% | <-60% | <-40% | <-20% | < 0 | <20% | <40% | <60% | <80% | 80%+ | Count | MarCap | Earnings | P/E |
| Advertising | - | - | - | - | - | - | 1 | 4 | 3 | 2 | 10 | $25,433 | -$3,299 | N/M |
| Apparel Retail | - | - | - | 2 | - | 2 | 5 | 9 | 5 | 13 | 36 | $82,806 | $2,920 | 28.4x |
| Apparel, Accessories and Luxury Goods | - | - | - | - | - | 5 | 1 | 4 | 3 | 10 | 23 | $49,460 | $310 | 159.6x |
| Auto Parts and Equipment | - | - | - | - | - | 2 | 1 | 5 | 1 | 11 | 20 | $43,021 | -$5,902 | N/M |
| Automobile Manufacturers | - | - | - | - | - | - | - | - | 1 | 2 | 3 | $31,047 | -$4,120 | N/M |
| Automotive Retail | - | - | - | - | - | 2 | 2 | - | 1 | 7 | 12 | $28,881 | $205 | 140.6x |
| Broadcasting | - | - | - | - | - | 2 | - | 1 | 1 | 3 | 7 | $34,840 | $49 | 717.0x |
| Cable and Satellite | - | - | - | 1 | - | 3 | 1 | 3 | - | 5 | 13 | $158,561 | -$5,959 | N/M |
| Casinos and Gaming | - | - | - | 1 | 2 | - | 3 | 4 | 2 | 3 | 15 | $41,721 | -$3,413 | N/M |
| Computer and Electronics Retail | - | - | - | - | 1 | 1 | - | 3 | - | 1 | 6 | $26,579 | $1,755 | 15.1x |
| Department Stores | - | - | - | - | - | - | - | 4 | - | 4 | 8 | $48,480 | -$3,726 | N/M |
| Education Services | - | - | - | 1 | 6 | 2 | 3 | 2 | - | 1 | 15 | $29,824 | $1,577 | 18.9x |
| Footwear | - | - | - | 1 | 1 | 1 | 3 | 1 | 1 | 2 | 10 | $38,198 | $1,732 | 22.1x |
| General Merchandise Stores | - | - | - | - | 1 | 4 | 1 | - | - | 1 | 7 | $54,287 | $3,212 | 16.9x |
| Home Improvement Retail | - | - | - | - | - | 2 | 1 | - | - | 1 | 4 | $88,165 | $4,504 | 19.6x |
| Homebuilding | - | - | - | - | 4 | 1 | 2 | 2 | - | 2 | 11 | $19,857 | -$6,034 | N/M |
| Hotels, Resorts and Cruise Lines | - | - | - | - | 2 | 3 | 2 | - | 2 | 5 | 14 | $66,296 | $692 | 95.9x |
| Internet Retail | - | - | - | - | 1 | - | 1 | 1 | 1 | 8 | 12 | $82,241 | -$2,565 | N/M |
| Movies and Entertainment | - | - | - | - | - | 3 | 4 | 4 | 3 | 2 | 16 | $161,757 | -$13,030 | N/M |
| Publishing | - | - | - | 1 | - | 3 | 3 | 2 | 2 | 5 | 16 | $30,006 | -$3,968 | N/M |
| Restaurants | - | - | - | 1 | 6 | 3 | 8 | 1 | 4 | 6 | 29 | $128,918 | $7,087 | 18.2x |
| Specialized Consumer Services | - | - | - | - | 3 | 3 | 2 | 2 | 1 | 1 | 12 | $18,924 | $1,059 | 17.9x |
| Specialty Stores | - | - | - | - | - | 1 | 5 | 2 | 2 | 5 | 15 | $39,713 | -$995 | N/M |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

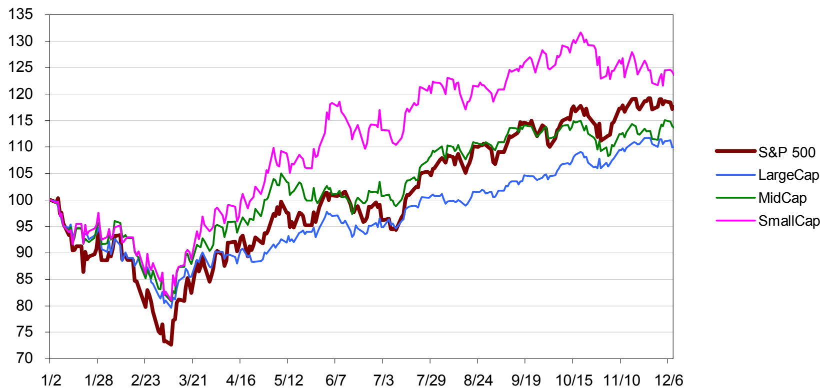
Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggreate industry market capitalization divided by LTM net income.

# Consumer Staples Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Consumer Staples




## LTM Transaction Activities: Consumer Staples

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| **Deal Type** | **#** | **$ (mil)** | **#** | **$ (mil)** | **#** | **$ (mil)** | **#** | **$ (mil)** |
| All M&A | 425 | $50,044 | 480 | $49,028 | 371 | $116,259 | 308 | $30,954 |
| LBO | 67 | $1,396 | 103 | $14,416 | 52 | $1,841 | 48 | $237 |
| Strategic M&A | 358 | $48,648 | 377 | $34,612 | 319 | $114,418 | 260 | $30,717 |
| | | | | | | | | |
| Non-LBO PE | 9 | $99 | 10 | $65 | 6 | $87 | 33 | $492 |
| PIPEs | 75 | $819 | 109 | $3,271 | 74 | $930 | 66 | $922 |
| Venture Capital | 29 | $191 | 53 | $257 | 44 | $599 | 68 | $242 |

| (M&A only) | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| **Median Deal Multiples** | **Deal < $500M** | **Deal > $500M** | **Deal < $500M** | **Deal > $500M** | **Deal < $500M** | **Deal > $500M** | **Deal < $500M** | **Deal > $500M** |
| TEV/EBITDA | 8.5x | 13.1x | 10.5x | 11.6x | 7.7x | 10.8x | 11.1x | 9.2x |
| Equity/LTM NI | 20.3x | 24.0x | 19.9x | 31.8x | 7.9x | 23.7x | 42.4x | 17.5x |

## Distribution of Stocks by YTD % Returns and Industry: Consumer Staples

| | 2009 Stock Price Performance | | | | | | | | | | Total ($ mil) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Industry** | **<-80%** | **<-60%** | **<-40%** | **<-20%** | **< 0** | **<20%** | **<40%** | **<60%** | **<80%** | **80%+** | **Count** | **MarCap** | **Earnings** | **P/E** |
| Agricultural Products | - | - | - | - | 2 | 1 | 2 | - | - | 1 | 6 | $32,606 | $1,415 | 23.0x |
| Brewers | - | - | - | - | 1 | - | - | 1 | - | 1 | 3 | $68,774 | $2,790 | 24.7x |
| Distillers and Vintners | - | - | - | - | - | 2 | - | 1 | - | - | 3 | $13,224 | $366 | 36.1x |
| Drug Retail | - | - | - | - | - | 1 | - | 2 | - | 1 | 4 | $81,614 | $2,866 | 28.5x |
| Food Distributors | - | - | - | 2 | - | - | 1 | 1 | 1 | - | 5 | $19,481 | $1,243 | 15.7x |
| Food Retail | - | - | - | 4 | 5 | 1 | 1 | - | - | 2 | 13 | $34,382 | -$481 | N/M |
| Household Products | - | - | - | - | - | 6 | 1 | - | 1 | - | 8 | $266,642 | $16,141 | 16.5x |
| Hypermarkets and Super Centers | - | - | - | - | 3 | 1 | - | - | - | - | 4 | $235,323 | $14,775 | 15.9x |
| Packaged Foods and Meats | - | - | - | 1 | 8 | 12 | 8 | 8 | 1 | 2 | 40 | $187,738 | $9,681 | 19.4x |
| Personal Products | - | - | - | 2 | 2 | 3 | 1 | 3 | 1 | 7 | 19 | $48,476 | $2,009 | 24.1x |
| Soft Drinks | - | - | - | - | 1 | 3 | 3 | 2 | 3 | - | 12 | $278,751 | $11,359 | 24.5x |
| Tobacco | - | - | - | - | - | 2 | 3 | 1 | 1 | - | 7 | $163,567 | $11,674 | 14.0x |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggreate industry market capitalization divided by LTM net income.

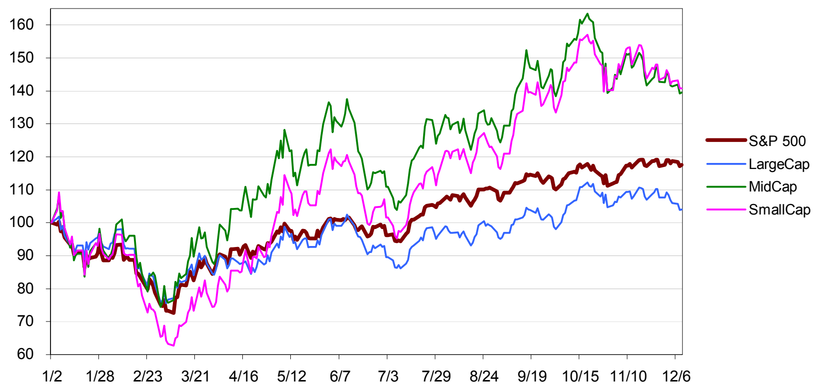


Capital IQ
A Standard & Poor's Business

# Energy Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Energy




## LTM Transaction Activities: Energy

Last Twelve Months Ending November 30th of:

| Deal Type | 2006 # | 2006 $ (mil) | 2007 # | 2007 $ (mil) | 2008 # | 2008 $ (mil) | 2009 # | 2009 $ (mil) |
|---|---|---|---|---|---|---|---|---|
| All M&A | 888 | $204,090 | 889 | $140,969 | 747 | $89,429 | 812 | $82,610 |
| LBO | 37 | $39,395 | 60 | $10,892 | 41 | $11,498 | 25 | $2,077 |
| Strategic M&A | 851 | $164,695 | 829 | $130,076 | 706 | $77,931 | 787 | $80,534 |
| Non-LBO PE | 23 | $1,480 | 22 | $2,320 | 14 | $760 | 36 | $1,696 |
| PIPEs | 837 | $11,527 | 801 | $20,968 | 538 | $8,623 | 510 | $5,871 |
| Venture Capital | 118 | $4,432 | 111 | $3,366 | 108 | $5,696 | 61 | $1,300 |

| (M&A only) Median Deal Multiples | 2006 Deal < $500M | 2006 Deal > $500M | 2007 Deal < $500M | 2007 Deal > $500M | 2008 Deal < $500M | 2008 Deal > $500M | 2009 Deal < $500M | 2009 Deal > $500M |
|---|---|---|---|---|---|---|---|---|
| TEV/EBITDA | 7.9x | 9.7x | 6.4x | 10.7x | 6.5x | 10.8x | 5.3x | 6.7x |
| Equity/LTM NI | 21.0x | 19.8x | 16.6x | 21.8x | 16.2x | 26.7x | 11.3x | 13.3x |

## Distribution of Stocks by YTD % Returns and Industry: Energy

| Industry | <-80% | <-60% | <-40% | <-20% | < 0 | <20% | <40% | <60% | <80% | 80%+ | Count | MarCap | Earnings | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 Stock Price Performance | | | | | | | | | | Total ($ mil) | | | |
| Coal and Consumable Fuels | - | - | - | - | 1 | 1 | 2 | 4 | 2 | 3 | 13 | $35,180 | $1,948 | 18.1x |
| Integrated Oil and Gas | - | - | - | - | 2 | 3 | 2 | 1 | 1 | 2 | 11 | $692,949 | $9,778 | 70.9x |
| Oil and Gas Drilling | - | - | - | - | 1 | 1 | 2 | 4 | 5 | 2 | 15 | $80,228 | $7,444 | 10.8x |
| Oil and Gas Equipment and Services | - | - | 1 | 1 | 2 | 7 | 6 | 8 | 7 | 9 | 41 | $197,238 | $7,905 | 25.0x |
| Oil and Gas Exploration and Production | - | - | 2 | 9 | 7 | 6 | 16 | 9 | 7 | 19 | 75 | $287,011 | -$37,936 | N/M |
| Oil and Gas Refining and Marketing | - | - | 1 | 3 | 2 | 1 | 3 | 1 | - | 5 | 16 | $25,031 | -$3,540 | N/M |
| Oil and Gas Storage and Transportation | - | - | - | 2 | 5 | 1 | 11 | 7 | 7 | 18 | 51 | $160,715 | $3,146 | 51.1x |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

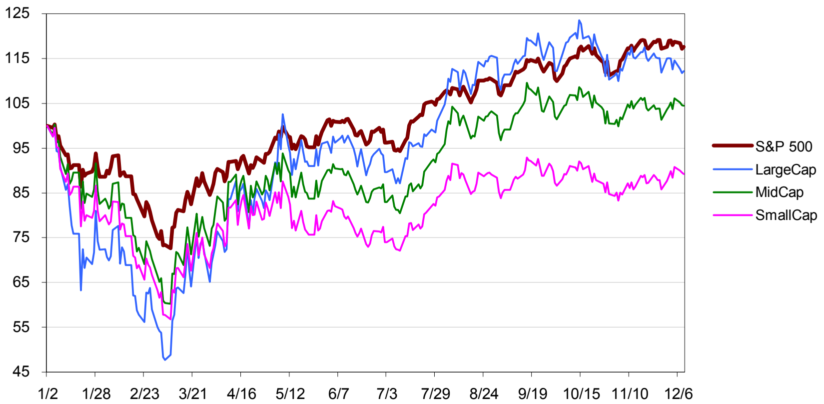
Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggreate industry market capitalization divided by LTM net income.

# Financials Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Financials




## LTM Transaction Activities: Financials

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| Deal Type | # | $ (mil) | # | $ (mil) | # | $ (mil) | # | $ (mil) |
| All M&A | 1,420 | $308,871 | 1,611 | $289,275 | 1,726 | $191,111 | 2,146 | $92,798 |
| LBO | 97 | $68,288 | 144 | $69,537 | 144 | $9,193 | 252 | $17,820 |
| Strategic M&A | 1,323 | $240,583 | 1,467 | $219,738 | 1,582 | $181,918 | 1,894 | $74,978 |
| | | | | | | | | |
| Non-LBO PE | 33 | $1,279 | 72 | $8,165 | 34 | $3,515 | 434 | $25,945 |
| PIPEs | 278 | $13,052 | 312 | $35,917 | 286 | $344,989 | 632 | $119,263 |
| Venture Capital | 98 | $4,806 | 130 | $3,043 | 95 | $7,762 | 141 | $2,041 |

| (M&A only) | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| Median Deal Multiples | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M |
| TEV/EBITDA | N/M | N/M | N/M | N/M | N/M | N/M | N/M | N/M |
| Equity/LTM NI | 22.0x | 25.5x | 23.2x | 23.9x | 19.6x | 23.5x | 25.1x | 10.4x |

## Distribution of Stocks by YTD % Returns and Industry: Financials

| | 2009 Stock Price Performance | | | | | | | | | | Total ($ mil) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Industry | <-80% | <-60% | <-40% | <-20% | < 0 | <20% | <40% | <60% | <80% | 80%+ | Count | MarCap | Earnings | P/E |
| Asset Management and Custody Banks | - | - | - | 2 | 7 | 13 | 9 | 5 | 5 | 6 | 47 | $198,099 | -$6,683 | N/M |
| Consumer Finance | - | - | - | - | - | 6 | 1 | 2 | - | 6 | 15 | $86,502 | $1,677 | 51.6x |
| Diversified Banks | - | - | - | - | 3 | - | 1 | 1 | - | 1 | 6 | $177,269 | $6,466 | 27.4x |
| Diversified Real Estate Activities | - | - | - | - | - | 2 | - | 1 | - | - | 3 | $8,799 | $619 | 14.2x |
| Diversified REITs | - | - | 1 | - | 2 | 3 | 2 | - | - | - | 8 | $21,385 | $126 | 170.1x |
| Industrial REITs | - | - | - | 1 | 2 | 2 | 1 | - | - | 1 | 7 | $13,405 | -$835 | N/M |
| Insurance Brokers | - | - | - | - | 4 | 2 | - | - | - | 2 | 8 | $32,677 | $1,168 | 28.0x |
| Investment Banking and Brokerage | - | - | 1 | 1 | 2 | 7 | 5 | 2 | 1 | 7 | 26 | $182,967 | $3,938 | 46.5x |
| Life and Health Insurance | - | - | - | 2 | 5 | 8 | 2 | 1 | - | - | 18 | $104,924 | $115 | 910.7x |
| Mortgage REITs | - | - | - | 1 | 5 | 4 | 4 | - | 1 | 1 | 16 | $24,106 | -$695 | N/M |
| Multi-line Insurance | - | - | - | - | 3 | 1 | 3 | 2 | - | 1 | 10 | $47,578 | -$67,996 | N/M |
| Multi-Sector Holdings | - | - | - | - | - | 3 | 1 | - | - | - | 4 | $7,031 | -$2,181 | N/M |
| Office REITs | - | - | - | - | 3 | 6 | 5 | 1 | 1 | 1 | 17 | $38,421 | -$76 | N/M |
| Other Diversified Financial Services | - | - | 1 | - | - | 1 | 1 | - | - | - | 3 | $391,871 | -$17,333 | N/M |
| Property and Casualty Insurance | - | - | 2 | 6 | 23 | 12 | 5 | - | 1 | 1 | 50 | $317,727 | $13,493 | 23.5x |
| Real Estate Services | - | - | - | - | 1 | - | - | - | - | 4 | 5 | $9,559 | -$998 | N/M |
| Regional Banks | - | 8 | 17 | 27 | 25 | 13 | 4 | 3 | - | 1 | 98 | $167,899 | -$19,337 | N/M |
| Reinsurance | - | - | - | - | 1 | 8 | 4 | - | 1 | 1 | 15 | $38,577 | $5,804 | 6.6x |
| Residential REITs | - | - | - | - | 1 | 6 | 7 | - | - | - | 14 | $32,887 | -$180 | N/M |
| Retail REITs | - | - | - | 3 | 5 | 7 | 1 | 4 | 1 | 1 | 22 | $55,402 | $471 | 117.6x |
| Specialized Finance | - | - | 1 | 1 | 2 | 2 | 3 | 1 | 1 | 2 | 13 | $52,557 | $444 | 118.4x |
| Specialized REITs | - | - | - | - | 4 | 7 | 8 | 2 | 2 | 2 | 25 | $74,263 | $2,294 | 32.4x |
| Thrifts and Mortgage Finance | - | - | - | 8 | 13 | 3 | 2 | 2 | 1 | - | 29 | $41,140 | -$124,971 | N/M |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggregate industry market capitalization divided by LTM net income.

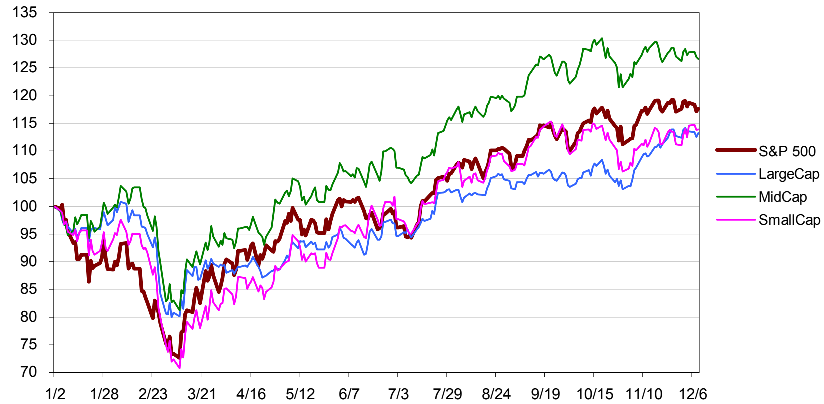


Capital IQ
A Standard & Poor's Business

# Healthcare Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Healthcare




## LTM Transaction Activities: Healthcare

Last Twelve Months Ending November 30th of:

| Deal Type | 2006 # | 2006 $ (mil) | 2007 # | 2007 $ (mil) | 2008 # | 2008 $ (mil) | 2009 # | 2009 $ (mil) |
|---|---|---|---|---|---|---|---|---|
| All M&A | 1,079 | $178,585 | 1,160 | $149,043 | 1,039 | $139,713 | 836 | $182,927 |
| LBO | 101 | $44,681 | 134 | $41,555 | 103 | $8,716 | 56 | $6,832 |
| Strategic M&A | 978 | $133,904 | 1,026 | $107,489 | 936 | $130,997 | 780 | $176,095 |
| Non-LBO PE | 55 | $705 | 76 | $2,351 | 93 | $1,533 | 267 | $2,752 |
| PIPEs | 564 | $24,820 | 607 | $12,832 | 456 | $6,339 | 517 | $4,450 |
| Venture Capital | 679 | $8,405 | 718 | $9,012 | 708 | $7,892 | 760 | $6,495 |

| (M&A only) Median Deal Multiples | 2006 Deal < $500M | 2006 Deal > $500M | 2007 Deal < $500M | 2007 Deal > $500M | 2008 Deal < $500M | 2008 Deal > $500M | 2009 Deal < $500M | 2009 Deal > $500M |
|---|---|---|---|---|---|---|---|---|
| TEV/EBITDA | 14.6x | 17.8x | 13.6x | 16.6x | 16.6x | 16.1x | 7.7x | 9.9x |
| Equity/LTM NI | 33.4x | 31.8x | 20.0x | 41.4x | 24.4x | 37.2x | 16.1x | 18.4x |

## Distribution of Stocks by YTD % Returns and Industry: Healthcare

| Industry | 2009 Stock Price Performance <-80% | <-60% | <-40% | <-20% | < 0 | <20% | <40% | <60% | <80% | 80%+ | Total ($ mil) Count | MarCap | Earnings | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Biotechnology | - | - | 4 | 6 | 13 | 12 | 7 | 5 | 3 | 19 | 69 | $220,037 | $6,049 | 36.4x |
| Health Care Technology | - | - | - | - | 2 | 2 | 3 | 1 | - | 5 | 13 | $22,094 | $643 | 34.3x |
| Healthcare Distributors | - | - | - | - | 2 | 2 | 3 | 2 | - | - | 9 | $46,448 | $2,995 | 15.5x |
| Healthcare Equipment | - | - | 1 | 2 | 9 | 15 | 12 | 8 | 3 | 10 | 60 | $274,026 | $7,215 | 38.0x |
| Healthcare Facilities | - | - | - | 2 | 5 | 4 | 1 | 1 | 2 | 4 | 19 | $23,829 | $1,407 | 16.9x |
| Healthcare Services | - | - | - | 2 | 9 | 6 | 3 | 7 | 1 | 5 | 33 | $104,193 | $4,507 | 23.1x |
| Healthcare Supplies | - | - | - | 1 | 5 | 3 | 1 | 2 | - | 4 | 16 | $68,318 | $2,731 | 25.0x |
| Life Sciences Tools and Services | - | 1 | - | 2 | 3 | 4 | 6 | 5 | 1 | 3 | 25 | $76,836 | $1,830 | 42.0x |
| Managed Healthcare | - | - | - | 1 | 3 | 4 | 3 | 1 | - | 3 | 15 | $101,175 | $9,949 | 10.2x |
| Pharmaceuticals | - | - | 3 | 3 | 3 | 8 | 8 | 4 | 3 | 6 | 38 | $722,630 | $40,600 | 17.8x |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

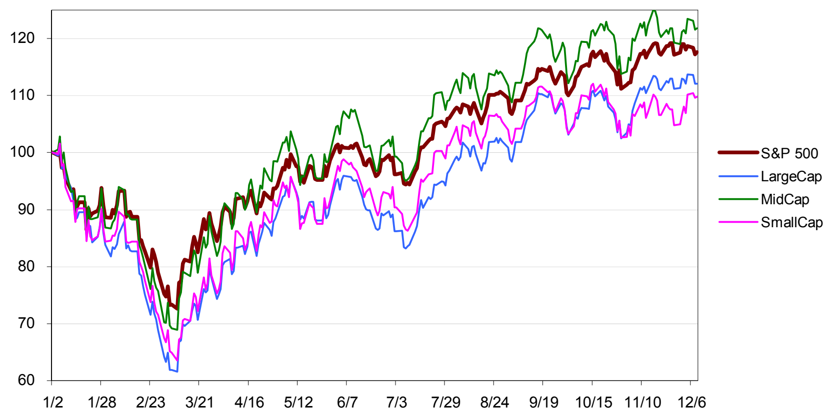
Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggreate industry market capitalization divided by LTM net income.

# Industrials Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Industrials




## LTM Transaction Activities: Industrials

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| Deal Type | # | $ (mil) | # | $ (mil) | # | $ (mil) | # | $ (mil) |
| All M&A | 2,032 | $95,258 | 2,318 | $116,466 | 2,037 | $92,979 | 1,394 | $57,757 |
| LBO | 308 | $36,795 | 394 | $32,833 | 259 | $8,501 | 162 | $38,486 |
| Strategic M&A | 1,724 | $58,463 | 1,924 | $83,633 | 1,778 | $84,478 | 1,232 | $19,270 |
| | | | | | | | | |
| Non-LBO PE | 36 | $954 | 48 | $1,000 | 49 | $1,393 | 115 | $1,680 |
| PIPEs | 359 | $4,717 | 374 | $4,273 | 280 | $5,559 | 240 | $3,790 |
| Venture Capital | 185 | $2,674 | 219 | $2,865 | 261 | $3,281 | 250 | $1,786 |

| (M&A only) | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| Median Deal Multiples | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M |
| TEV/EBITDA | 7.1x | 9.3x | 7.9x | 12.0x | 9.1x | 11.7x | 7.0x | 10.6x |
| Equity/LTM NI | 11.9x | 22.2x | 16.3x | 25.7x | 11.9x | 21.0x | 11.1x | 18.9x |

## Distribution of Stocks by YTD % Returns and Industry: Industrials

| | 2009 Stock Price Performance | | | | | | | | | | Total ($ mil) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Industry | <-80% | <-60% | <-40% | <-20% | < 0 | <20% | <40% | <60% | <80% | 80%+ | Count | MarCap | Earnings | P/E |
| Aerospace and Defense | - | - | - | 4 | 7 | 12 | 7 | 2 | 2 | 5 | 39 | $310,248 | $17,771 | 17.5x |
| Air Freight and Logistics | - | - | - | - | 2 | 4 | - | 1 | - | 1 | 8 | $106,067 | $2,284 | 46.4x |
| Airlines | - | - | 1 | 2 | 6 | 4 | - | - | 1 | - | 14 | $30,345 | -$6,649 | N/M |
| Airport Services | - | - | - | - | - | - | 1 | - | - | 1 | 2 | $1,973 | -$223 | N/M |
| Building Products | - | - | - | - | 3 | 3 | 4 | 2 | 2 | 1 | 15 | $19,281 | -$909 | N/M |
| Commercial Printing | - | - | - | - | 1 | 1 | 1 | 2 | - | 2 | 7 | $7,272 | -$866 | N/M |
| Construction and Engineering | - | - | - | 5 | 3 | 10 | 2 | 2 | 2 | 2 | 26 | $44,653 | $3,195 | 14.0x |
| Construction and Farm Machinery | - | - | - | 2 | 3 | 6 | 5 | 2 | 2 | 4 | 24 | $114,388 | $62 | 1852.8x |
| Diversified Support Services | - | - | - | 1 | 1 | 4 | 4 | - | 1 | 1 | 12 | $18,900 | $425 | 44.5x |
| Electrical Components and Equipment | - | - | 2 | 1 | 4 | 6 | 5 | 12 | 3 | 11 | 44 | $107,128 | $3,561 | 30.1x |
| Environmental and Facilities Services | - | - | - | 2 | 2 | 7 | 1 | 1 | - | 1 | 14 | $46,010 | $1,987 | 23.1x |
| Heavy Electrical Equipment | - | - | - | - | - | - | - | 2 | - | 2 | 4 | $2,023 | -$30 | N/M |
| Human Resource and Employment Serv | - | - | - | - | 2 | 1 | 3 | 3 | 1 | 4 | 14 | $18,068 | -$448 | N/M |
| Industrial Conglomerates | - | - | - | - | 2 | 2 | 2 | 3 | - | 1 | 10 | $241,076 | $14,577 | 16.5x |
| Industrial Machinery | - | - | 1 | - | 10 | 11 | 17 | 5 | 7 | 6 | 57 | $151,188 | $883 | 171.2x |
| Marine | - | - | 1 | 1 | 1 | 2 | 3 | 1 | - | 2 | 11 | $9,621 | -$705 | N/M |
| Marine Ports and Services | - | - | - | - | - | - | - | 1 | - | - | 1 | $1,099 | $48 | 22.9x |
| Office Services and Supplies | - | - | - | - | 3 | 4 | 2 | - | 3 | 3 | 15 | $17,693 | -$547 | N/M |
| Railroads | - | - | - | - | 1 | 2 | 2 | 2 | - | - | 7 | $107,982 | $6,193 | 17.4x |
| Research and Consulting Services | - | - | 1 | - | 7 | 5 | 4 | - | - | 1 | 18 | $25,347 | $1,137 | 22.3x |
| Security and Alarm Services | - | - | - | - | 1 | 2 | - | 1 | - | - | 4 | $5,362 | $364 | 14.7x |
| Trading Companies and Distributors | - | - | - | - | 3 | 4 | 7 | 3 | - | 2 | 19 | $27,340 | $615 | 44.5x |
| Trucking | - | - | - | - | 4 | 5 | 3 | 1 | - | 3 | 16 | $24,589 | -$1,157 | N/M |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggregate industry market capitalization divided by LTM net income.

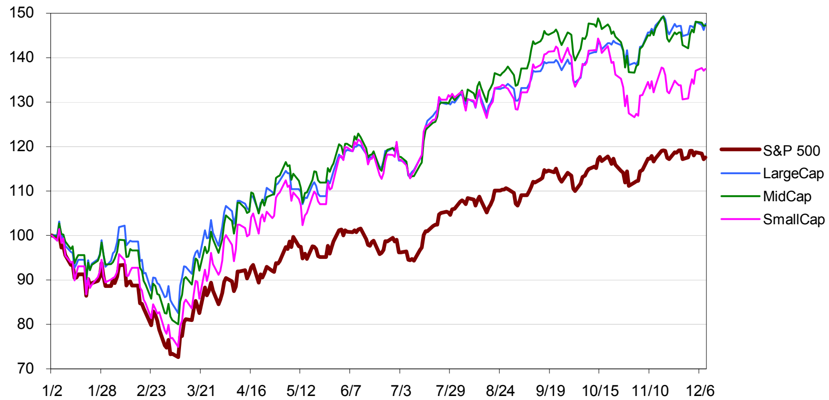


Capital IQ
A Standard & Poor's Business

# Information Technology Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Information Technology




## LTM Transaction Activities: Information Technology

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| Deal Type | # | $ (mil) | # | $ (mil) | # | $ (mil) | # | $ (mil) |
| All M&A | 2,236 | $137,878 | 2,357 | $182,965 | 2,024 | $84,894 | 1,524 | $68,594 |
| LBO | 167 | $35,468 | 165 | $61,074 | 163 | $12,026 | 114 | $3,599 |
| Strategic M&A | 2,069 | $102,410 | 2,192 | $121,891 | 1,861 | $72,868 | 1,410 | $64,995 |
| Non-LBO PE | 102 | $1,545 | 132 | $3,669 | 161 | $2,640 | 384 | $3,385 |
| PIPEs | 610 | $12,890 | 590 | $19,739 | 388 | $7,886 | 339 | $4,754 |
| Venture Capital | 1,525 | $12,041 | 1,633 | $13,104 | 1,543 | $10,752 | 1,443 | $6,317 |

| (M&A only) | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| Median Deal Multiples | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M |
| TEV/EBITDA | 11.8x | 15.5x | 15.5x | 15.0x | 14.2x | 15.3x | 11.3x | 13.6x |
| Equity/LTM NI | 23.2x | 37.8x | 21.3x | 33.3x | 19.9x | 25.2x | 15.3x | 33.4x |

## Distribution of Stocks by YTD % Returns and Industry: Information Technology

| | 2009 Stock Price Performance | | | | | | | | | | Total ($ mil) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Industry | <-80% | <-60% | <-40% | <-20% | < 0 | <20% | <40% | <60% | <80% | 80%+ | Count | MarCap | Earnings | P/E |
| Application Software | - | - | - | 1 | 1 | 6 | 9 | 8 | 11 | 18 | 54 | $106,506 | $690 | 154.4x |
| Communications Equipment | - | - | - | 1 | 1 | 9 | 10 | 5 | 3 | 20 | 49 | $301,441 | -$945 | N/M |
| Computer Hardware | - | - | - | 1 | 1 | 1 | 2 | 3 | 1 | 3 | 12 | $495,161 | $27,446 | 18.0x |
| Computer Storage and Peripherals | - | - | - | 2 | 3 | 1 | 2 | 3 | 1 | 10 | 22 | $81,331 | -$3,314 | N/M |
| Data Processing and Outsourced Servic | - | - | - | 1 | 1 | 5 | 7 | 7 | 6 | 9 | 36 | $208,600 | $9,592 | 21.7x |
| Electronic Components | - | - | - | - | - | 1 | 2 | 1 | 2 | 3 | 9 | $46,178 | $1,342 | 34.4x |
| Electronic Equipment and Instruments | - | - | - | 1 | 4 | 5 | 2 | 4 | 1 | 4 | 21 | $44,018 | -$2,474 | N/M |
| Electronic Manufacturing Services | - | - | - | - | - | 1 | 5 | 2 | 3 | 7 | 18 | $33,139 | -$11,389 | N/M |
| Home Entertainment Software | - | - | - | 1 | 1 | 4 | 2 | 1 | 1 | 1 | 11 | $32,422 | -$627 | N/M |
| Internet Software and Services | - | - | - | - | 6 | 8 | 9 | 7 | 6 | 15 | 51 | $305,864 | $7,666 | 39.9x |
| IT Consulting and Other Services | - | - | - | - | 4 | 3 | 2 | 3 | 2 | 4 | 18 | $66,234 | $3,545 | 18.7x |
| Office Electronics | - | - | - | - | 1 | - | 1 | - | - | - | 2 | $8,407 | $218 | 38.5x |
| Semiconductor Equipment | - | - | - | - | 2 | 4 | 7 | - | 2 | 12 | 27 | $51,567 | -$3,708 | N/M |
| Semiconductors | - | - | - | 1 | 1 | 8 | 8 | 7 | 5 | 28 | 58 | $288,800 | -$6,512 | N/M |
| Systems Software | - | - | - | - | 1 | 6 | 3 | 3 | 4 | 8 | 25 | $459,064 | $14,887 | 30.8x |
| Technology Distributors | - | - | - | - | 1 | - | 2 | 4 | 1 | 2 | 10 | $17,137 | -$2,552 | N/M |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggreate industry market capitalization divided by LTM net income.

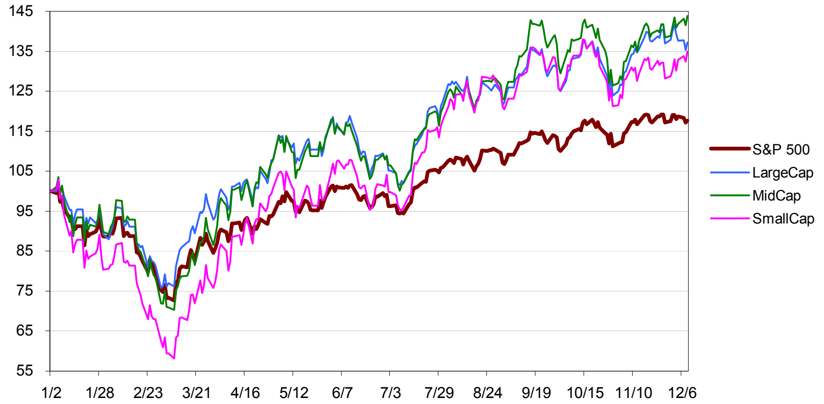


Capital IQ
A Standard & Poor's Business

# Materials Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Materials




## LTM Transaction Activities: Materials

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| Deal Type | # | $ (mil) | # | $ (mil) | # | $ (mil) | # | $ (mil) |
| All M&A | 1,063 | $144,620 | 1,315 | $186,212 | 997 | $82,732 | 1,001 | $32,896 |
| LBO | 118 | $16,403 | 108 | $7,448 | 113 | $5,529 | 62 | $2,303 |
| Strategic M&A | 945 | $128,217 | 1,207 | $178,764 | 884 | $77,204 | 939 | $30,593 |
| | | | | | | | | |
| Non-LBO PE | 22 | $419 | 35 | $758 | 38 | $452 | 57 | $1,325 |
| PIPEs | 1,904 | $7,003 | 1,883 | $12,026 | 1,417 | $11,093 | 1,806 | $12,669 |
| Venture Capital | 84 | $617 | 140 | $791 | 113 | $768 | 94 | $498 |

| (M&A only) | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| Median Deal Multiples | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M | Deal < $500M | Deal > $500M |
| TEV/EBITDA | 6.7x | 9.8x | 9.5x | 8.4x | 11.0x | 9.5x | 7.1x | 6.7x |
| Equity/LTM NI | 17.0x | 18.8x | 14.6x | 15.1x | 9.7x | 24.3x | 10.5x | 11.7x |

## Distribution of Stocks by YTD % Returns and Industry: Materials

| | 2009 Stock Price Performance | | | | | | | | | | Total ($ mil) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Industry | <-80% | <-60% | <-40% | <-20% | < 0 | <20% | <40% | <60% | <80% | 80%+ | Count | MarCap | Earnings | P/E |
| Aluminum | - | - | - | - | - | 2 | - | - | 1 | - | 3 | $14,303 | -$2,579 | N/M |
| Commodity Chemicals | - | - | 2 | - | 2 | - | 2 | 1 | - | 2 | 9 | $9,961 | $211 | 47.3x |
| Construction Materials | - | - | - | 2 | 2 | - | 1 | 1 | - | - | 6 | $22,650 | -$862 | N/M |
| Diversified Chemicals | - | - | - | - | 1 | - | 3 | 1 | 2 | 5 | 12 | $88,640 | $2,186 | 40.5x |
| Diversified Metals and Mining | - | - | - | - | - | 2 | 3 | 1 | - | 4 | 10 | $70,372 | -$11,415 | N/M |
| Fertilizers and Agricultural Chemicals | - | - | - | - | - | 2 | 1 | 2 | 3 | 4 | 12 | $132,957 | $6,490 | 20.5x |
| Forest Products | - | - | - | - | 1 | - | 1 | - | - | 1 | 3 | $10,098 | -$1,956 | N/M |
| Gold | - | - | - | - | - | 4 | 3 | 1 | - | 4 | 12 | $122,536 | -$4,132 | N/M |
| Industrial Gases | - | - | - | - | - | 1 | 1 | - | 1 | - | 3 | $45,774 | $1,983 | 23.1x |
| Metal and Glass Containers | - | - | - | - | 1 | 4 | 2 | - | 1 | 2 | 10 | $25,695 | $1,337 | 19.2x |
| Paper Packaging | - | - | - | - | - | - | 2 | 2 | 1 | 3 | 8 | $17,601 | $1,192 | 14.8x |
| Paper Products | - | - | - | - | 1 | - | 1 | - | - | 7 | 9 | $21,843 | -$1,087 | N/M |
| Precious Metals and Minerals | - | - | - | - | - | - | - | - | 1 | 3 | 4 | $12,833 | $166 | 77.4x |
| Specialty Chemicals | - | - | - | - | 4 | 3 | 8 | 4 | 1 | 7 | 27 | $54,156 | $5 | 11539.7x |
| Steel | - | - | - | - | 1 | 4 | 5 | 3 | 1 | 4 | 18 | $62,236 | -$3,704 | N/M |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggreate industry market capitalization divided by LTM net income.

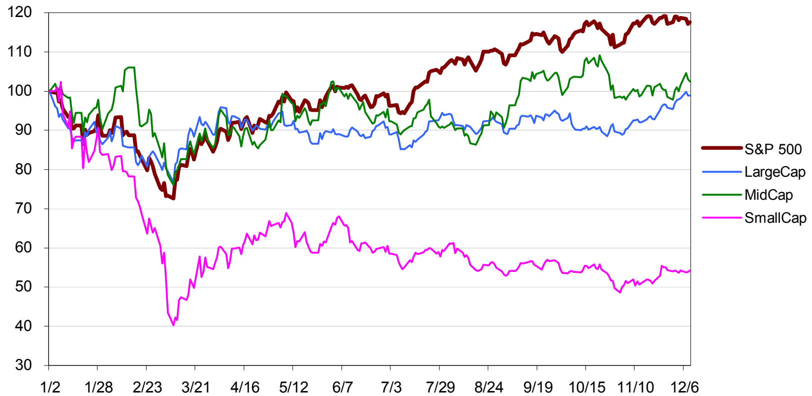


Capital IQ
A Standard & Poor's Business

# Telecommunication Services Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Telecommunication Services




## LTM Transaction Activities: Telecommunication Services

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| **Deal Type** | **#** | **$ (mil)** | **#** | **$ (mil)** | **#** | **$ (mil)** | **#** | **$ (mil)** |
| All M&A | 162 | $121,610 | 189 | $46,839 | 126 | $45,856 | 102 | $10,990 |
| LBO | 11 | $446 | 18 | $32,614 | 9 | $6 | 5 | $1,534 |
| Strategic M&A | 151 | $121,164 | 171 | $14,224 | 117 | $45,849 | 97 | $9,456 |
| Non-LBO PE | 8 | $575 | 0 | $0 | 3 | $403 | 15 | $195 |
| PIPEs | 71 | $1,156 | 67 | $2,047 | 39 | $5,267 | 31 | $2,458 |
| Venture Capital | 61 | $942 | 56 | $1,082 | 34 | $362 | 33 | $421 |

| **(M&A only)** | **2006** | | **2007** | | **2008** | | **2009** | |
|---|---|---|---|---|---|---|---|---|
| **Median Deal Multiples** | **Deal < $500M** | **Deal > $500M** | **Deal < $500M** | **Deal > $500M** | **Deal < $500M** | **Deal > $500M** | **Deal < $500M** | **Deal > $500M** |
| TEV/EBITDA | 9.1x | 10.8x | 8.2x | 11.6x | 8.0x | 6.6x | 7.2x | 7.5x |
| Equity/LTM NI | 21.4x | 10.3x | 14.6x | 26.7x | N/A | 7.5x | 17.1x | 28.5x |

## Distribution of Stocks by YTD % Returns and Industry: Telecommunication Services

| | 2009 Stock Price Performance | | | | | | | | | | Total ($ mil) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Industry** | **<-80%** | **<-60%** | **<-40%** | **<-20%** | **< 0** | **<20%** | **<40%** | **<60%** | **<80%** | **80%+** | **Count** | **MarCap** | **Earnings** | **P/E** |
| Alternative Carriers | - | - | - | 1 | 1 | 1 | 1 | 2 | - | 5 | 11 | $10,839 | -$456 | N/M |
| Integrated Telecommunication Services | - | - | - | 1 | 5 | 3 | 2 | 1 | 1 | 3 | 16 | $315,139 | $19,797 | 15.9x |
| Wireless Telecommunication Services | - | - | 2 | 2 | 1 | 3 | 1 | 1 | 3 | 3 | 16 | $101,811 | $491 | 207.5x |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

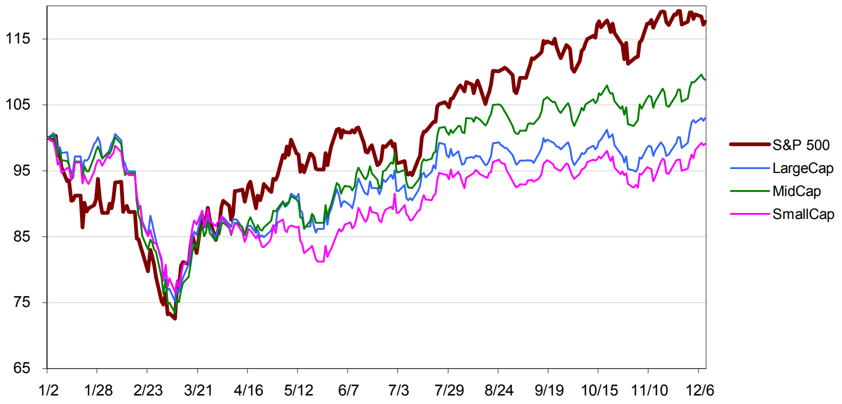
Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggreate industry market capitalization divided by LTM net income.

# Utilities Sector Snapshot

Equities | US

## YTD Relative % Performance vs. S&P 500: Utilities




## LTM Transaction Activities: Utilities

Last Twelve Months Ending November 30th of:

| Deal Type | 2006 # | 2006 $ (mil) | 2007 # | 2007 $ (mil) | 2008 # | 2008 $ (mil) | 2009 # | 2009 $ (mil) |
|---|---|---|---|---|---|---|---|---|
| All M&A | 197 | $35,107 | 216 | $87,580 | 160 | $18,961 | 173 | $16,981 |
| LBO | 23 | $5,582 | 25 | $59,239 | 10 | $3,580 | 10 | $376 |
| Strategic M&A | 174 | $29,525 | 191 | $28,342 | 150 | $15,381 | 163 | $16,605 |
| Non-LBO PE | 1 | $6 | 8 | $1,741 | 9 | $1,805 | 16 | $1,192 |
| PIPEs | 42 | $592 | 47 | $939 | 36 | $1,420 | 42 | $3,155 |
| Venture Capital | 18 | $446 | 43 | $684 | 39 | $1,585 | 46 | $272 |

| (M&A only) Median Deal Multiples | 2006 Deal < $500M | 2006 Deal > $500M | 2007 Deal < $500M | 2007 Deal > $500M | 2008 Deal < $500M | 2008 Deal > $500M | 2009 Deal < $500M | 2009 Deal > $500M |
|---|---|---|---|---|---|---|---|---|
| TEV/EBITDA | 6.0x | 10.4x | 20.2x | 9.4x | 8.0x | 18.4x | 8.1x | 16.8x |
| Equity/LTM NI | 16.5x | 18.3x | 50.1x | 18.1x | 10.5x | 30.6x | 62.8x | 1.3x |

## Distribution of Stocks by YTD % Returns and Industry: Utilities

| Industry | 2009 Stock Price Performance <-80% | <-60% | <-40% | <-20% | < 0 | <20% | <40% | <60% | <80% | 80%+ | Total ($ mil) Count | MarCap | Earnings | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Electric Utilities | - | - | - | 1 | 8 | 19 | 3 | - | - | - | 31 | $227,005 | $15,403 | 14.7x |
| Gas Utilities | - | - | - | 2 | 4 | 6 | 5 | 5 | - | - | 22 | $50,487 | $3,150 | 16.0x |
| Independent Power Producers and Traders | - | - | - | 1 | 1 | 2 | 2 | 2 | - | - | 8 | $33,535 | -$235 | N/M |
| Multi-Utilities | - | - | - | - | 6 | 13 | 4 | 1 | - | - | 24 | $153,536 | $10,538 | 14.6x |
| Water Utilities | - | - | - | 1 | 2 | 2 | - | - | - | - | 5 | $7,919 | -$43 | N/M |

**Notes**

YTD relative performance chart is based on S&P equity indices as of 12/8/09.

Transaction activities data is as of 11/30/09 and include both US and Canadian targets.

Distribution of stocks by industry includes only US-exchange traded equities above $250MM in market cap as of 12/8/09.

Definition of 'Earnings' is aggregate LTM net income to common excluding extra items. 'P/E' equals total aggreate industry market capitalization divided by LTM net income.

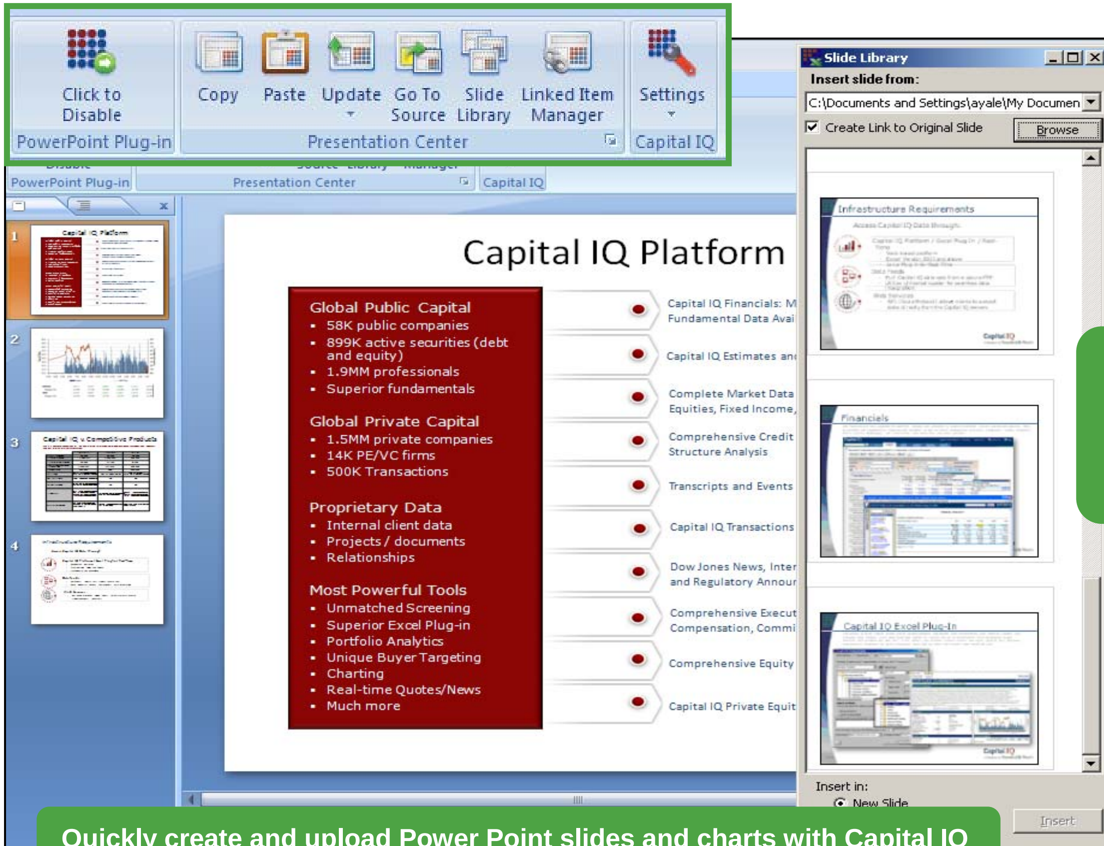
# Introducing Capital IQ Presentation Center

Capital IQ Tip of the Month

- Allows users to update and maintain PowerPoint Presentations
- Create links to files such as an Excel data range or a PowerPoint slide
- Access the Slide Library to view previously created presentations or Linked Items Manager to update active presentation links

**Learn More**

**Contact your Account Manager or call (888) 806-5541 or +44 (0)20 7176 1234**




Access the Slide Library from the Capital IQ Presentation Center plug in. From here you can browse your library, and insert saved slides into new presentations

Quickly create and upload Power Point slides and charts with Capital IQ Presentation Center




Capital IQ
A Standard & Poor's Business

# Upcoming Capital IQ Training Webinars

Capital IQ Tip of the Month

**Are you using all of the features that Capital IQ has to offer?**
**Wish you knew more about data and functionality available in our products?**

## Sign Up for Capital IQ Training Webinars

Capital IQ is offering weekly training webinars to help you use our functionality more effectively.
*Each session runs between 15 – 45 minutes.*

**December 16th: *General Capital IQ Overview***
A quick overview will cover the basics of navigating a tearsheet, screening, creating reports, and how to get started with the Capital IQ Excel Plug-in.

**January 6th: *Evaluating Earnings***
Use Capital IQ to locate and research the best performing and worst performing companies and sectors. Find out who beat and failed to beat earnings. Locate and research the largest forward estimate and growth rate changes.

## How to Register

Please send an email to globaltraining@capitaliq.com and indicate which webinar you are interested in signing up for.

## Questions?

Please contact Client Support at
(888) 806-5541 or
+44 (0)20 7176 1234 or
clientsupport@capitaliq.com.

# Free Capital IQ Access For Clients in Between Jobs

Capital IQ Tip of the Month

**We are committed to helping former Capital IQ clients who are currently in between jobs. Use Capital IQ free of charge for up to 60 days to research opportunities and prepare for interviews.**

## How It Works:

1. Go to http://microsite.standardandpoors.com/content/helpinghand
2. Fill out the form
3. If we can verify your information with our records, we will contact you




Capital IQ
A Standard & Poor's Business

# Table of Contents

## Fixed Income

### Pages 4 to 16

**U.S. Investment-Grade Spreads Sector Index Review: Risk Premium Shrinks As Credit Quality Stabilizes (4-11)**

By Standard & Poor's Global Fixed Income Research

**S&P Composite Spreads (12)**

**What Does Dubai World's Restructuring Mean For Other UAE-Based Debt?(14-16)**

S&P's Market, Credit and Risk Strategies Group

## Industry Perspective

### Pages 18 to 29

**Perspectives on Investment Management from Duff Capital Advisors and Third Wave Investors (18-29)**

Transcript of a roundtable discussion by Philip Duff (CEO and General Partner of Duff Capital Advisors) and Larry Smith (Founder and Chief Investment Officer of Third Wave Global Advisors) at the Capital IQ and Argyle Executive Forum's Investor Leadership event on October 15, 2009 in New York City

## Equities

### Pages 31 to 54

**Store Proprietary Data in Capital IQ (31)**

**Equity Strategy – U.S. Sector Watch (32-36)**

By Sam Stovall, Chief Investment Strategist, Standard & Poor's

**Global Equity Strategy – International Investment Outlooks (36-40)**

By Alec Young, International Equity Strategist, Standard & Poor's

**Sector Snapshots (42-51):**

**Consumer Discretionary**

**Consumer Staples**

**Energy**

**Financials**

**Healthcare**

**Industrials**

**Information Technology**

**Materials**

**Telecommunication Services**

**Utilities**

**Introducing Capital IQ Presentation Center (52)**

**Schedule of Upcoming Capital IQ Training Webinars (53)**

## M&A / Private Capital

### Pages 56 to 66

**Aggregate Transaction Stats (56-66):**

**Mergers & Acquisitions Activity by Quarter**

**M&A Valuation by Quarter (North America)**

**M&A Valuation by Quarter (Europe)**

**M&A Valuation by Sector (North America)**

**M&A Valuation by Sector (Europe)**

**M&A by Sector**

**Leveraged Buyouts by Sector**

**Strategic M&A by Sector**

**Private Equity by Sector (Non-Buyouts)**

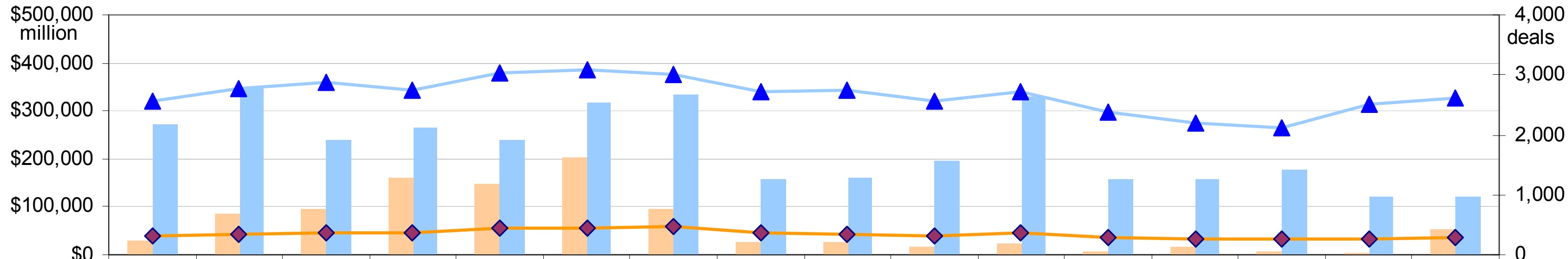
**PIPEs by Sector**

**Venture Capital by Sector**

# Mergers & Acquisitions Activity by Quarter

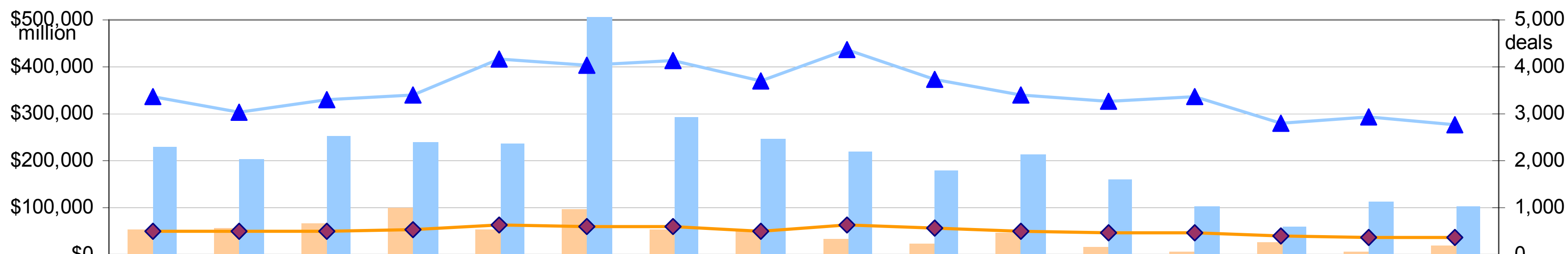
Transactions | North America and Europe

### Strategic vs. Financial Buyer M&A (North American Targets)




| | Dec'05-Feb'06 | Mar'06-May'06 | Jun'06-Aug'06 | Sep'06-Nov'06 | Dec'06-Feb'07 | Mar'07-May'07 | Jun'07-Aug'07 | Sep'07-Nov'07 | Dec'07-Feb'08 | Mar'08-May'08 | Jun'08-Aug'08 | Sep'08-Nov'08 | Dec'08-Feb'09 | Mar'09-May'09 | Jun'09-Aug'09 | Sep'09-Nov'09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LBO $ | $29,457 | $85,293 | $95,513 | $159,879 | $147,257 | $202,462 | $95,941 | $26,104 | $27,653 | $17,721 | $23,600 | $7,217 | $17,859 | $5,423 | $3,554 | $52,507 |
| Strategic $ | $271,270 | $350,422 | $239,310 | $264,320 | $238,354 | $317,692 | $334,234 | $156,800 | $158,613 | $195,981 | $329,843 | $157,002 | $155,651 | $176,846 | $122,288 | $119,461 |
| LBO # | 317 | 337 | 362 | 356 | 444 | 453 | 465 | 370 | 345 | 322 | 370 | 293 | 257 | 254 | 268 | 282 |
| Strategic # | 2,553 | 2,760 | 2,878 | 2,737 | 3,041 | 3,091 | 3,005 | 2,726 | 2,737 | 2,566 | 2,711 | 2,387 | 2,192 | 2,111 | 2,520 | 2,610 |

### Strategic vs. Financial Buyer M&A (European Targets)



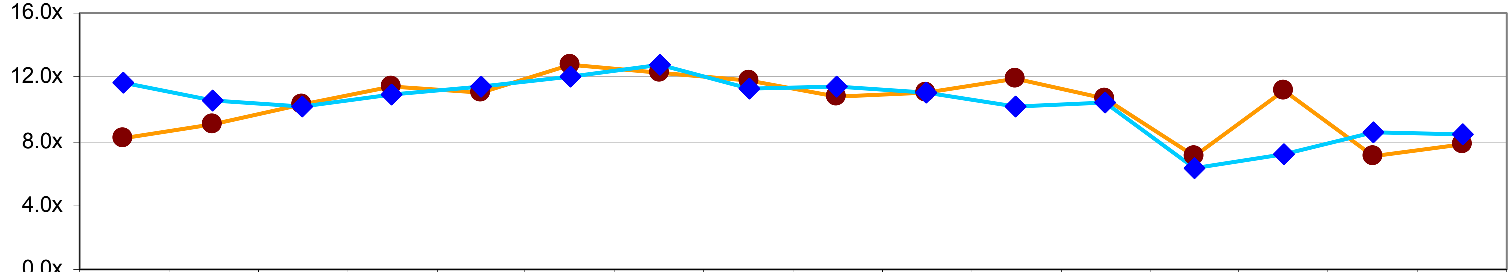

| | Dec'05-Feb'06 | Mar'06-May'06 | Jun'06-Aug'06 | Sep'06-Nov'06 | Dec'06-Feb'07 | Mar'07-May'07 | Jun'07-Aug'07 | Sep'07-Nov'07 | Dec'07-Feb'08 | Mar'08-May'08 | Jun'08-Aug'08 | Sep'08-Nov'08 | Dec'08-Feb'09 | Mar'09-May'09 | Jun'09-Aug'09 | Sep'09-Nov'09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LBO $ | $54,307 | $58,124 | $66,396 | $99,445 | $51,706 | $97,188 | $52,970 | $50,193 | $34,540 | $23,515 | $46,606 | $17,701 | $6,326 | $27,247 | $8,034 | $18,512 |
| Strategic $ | $228,800 | $202,175 | $253,927 | $240,953 | $238,326 | $512,886 | $292,696 | $248,282 | $221,630 | $180,678 | $212,685 | $158,724 | $102,862 | $60,652 | $114,991 | $104,845 |
| LBO # | 501 | 499 | 507 | 528 | 618 | 607 | 604 | 494 | 629 | 557 | 514 | 461 | 469 | 391 | 376 | 374 |
| Strategic # | 3,356 | 3,018 | 3,293 | 3,387 | 4,178 | 4,042 | 4,118 | 3,699 | 4,355 | 3,744 | 3,415 | 3,262 | 3,355 | 2,796 | 2,931 | 2,770 |

**Notes**: Figures are based announce dates and on Trailing Three Months basis through November 30, 2009. Includes both closed and pending transactions as well as those without transaction values.

# Mergers & Acquisitions Valuation by Quarter (North America)

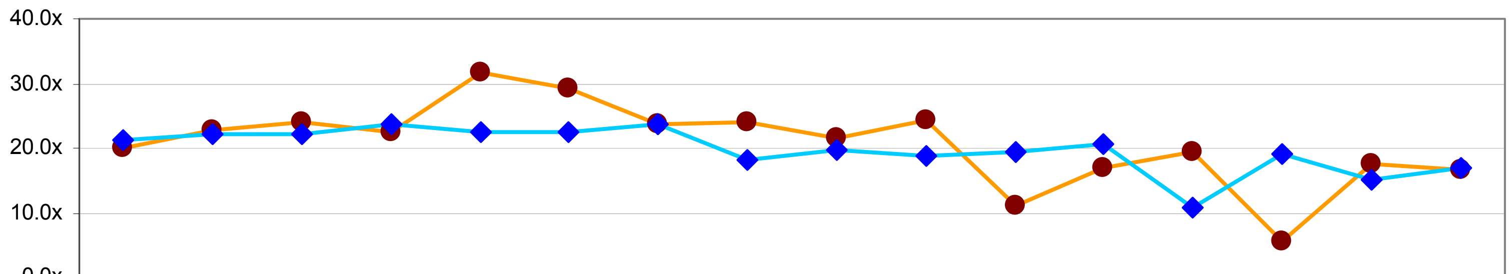
Transactions | North America

### Median Enterprise Value / EBITDA




| | Dec'05-Feb'06 | Mar'06-May'06 | Jun'06-Aug'06 | Sep'06-Nov'06 | Dec'06-Feb'07 | Mar'07-May'07 | Jun'07-Aug'07 | Sep'07-Nov'07 | Dec'07-Feb'08 | Mar'08-May'08 | Jun'08-Aug'08 | Sep'08-Nov'08 | Dec'08-Feb'09 | Mar'09-May'09 | Jun'09-Aug'09 | Sep'09-Nov'09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LBO | 8.1x | 9.1x | 10.3x | 11.4x | 11.1x | 12.8x | 12.2x | 11.8x | 10.8x | 11.0x | 11.9x | 10.6x | 7.1x | 11.2x | 7.0x | 7.8x |
| Strategic | 11.7x | 10.5x | 10.1x | 10.9x | 11.4x | 12.0x | 12.7x | 11.3x | 11.5x | 11.1x | 10.2x | 10.4x | 6.3x | 7.1x | 8.6x | 8.5x |

### Median Equity Value / LTM Net Income



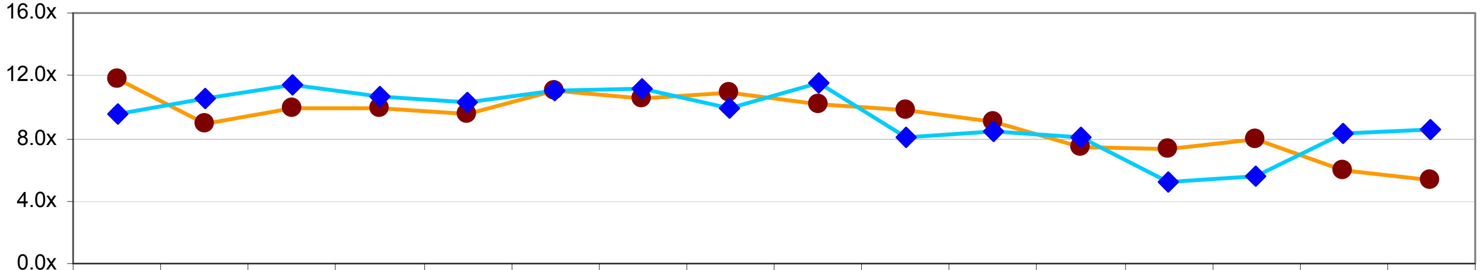

| | Dec'05-Feb'06 | Mar'06-May'06 | Jun'06-Aug'06 | Sep'06-Nov'06 | Dec'06-Feb'07 | Mar'07-May'07 | Jun'07-Aug'07 | Sep'07-Nov'07 | Dec'07-Feb'08 | Mar'08-May'08 | Jun'08-Aug'08 | Sep'08-Nov'08 | Dec'08-Feb'09 | Mar'09-May'09 | Jun'09-Aug'09 | Sep'09-Nov'09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LBO | 19.9x | 22.7x | 24.1x | 22.5x | 31.7x | 29.1x | 23.8x | 24.0x | 21.6x | 24.4x | 11.1x | 16.9x | 19.5x | 5.6x | 17.6x | 16.7x |
| Strategic | 21.3x | 22.1x | 22.2x | 23.8x | 22.4x | 22.3x | 23.8x | 18.0x | 19.7x | 18.9x | 19.4x | 20.5x | 10.9x | 19.0x | 15.2x | 16.9x |

**Notes:** Includes M&A transactions involving US and Canadian targets where relevant financials were available to calculate EBITDA and Net Income valuation multiples. Figures are based announce dates on Trailing Three Months basis through November 30, 2009. Includes both closed and pending transactions.

# Mergers & Acquisitions Valuation by Quarter (Europe)

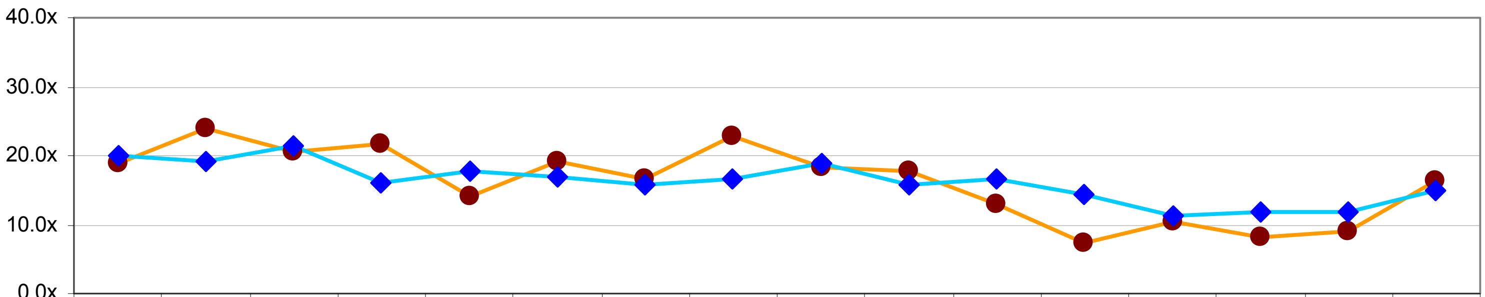
Transactions | Europe

### Median Enterprise Value / EBITDA




| | Dec'05-Feb'06 | Mar'06-May'06 | Jun'06-Aug'06 | Sep'06-Nov'06 | Dec'06-Feb'07 | Mar'07-May'07 | Jun'07-Aug'07 | Sep'07-Nov'07 | Dec'07-Feb'08 | Mar'08-May'08 | Jun'08-Aug'08 | Sep'08-Nov'08 | Dec'08-Feb'09 | Mar'09-May'09 | Jun'09-Aug'09 | Sep'09-Nov'09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LBO | 11.8x | 9.0x | 9.9x | 9.9x | 9.6x | 11.0x | 10.5x | 10.9x | 10.2x | 9.8x | 9.0x | 7.4x | 7.3x | 8.0x | 5.9x | 5.4x |
| Strategic | 9.5x | 10.5x | 11.4x | 10.7x | 10.4x | 11.0x | 11.2x | 9.9x | 11.6x | 8.1x | 8.4x | 8.0x | 5.2x | 5.5x | 8.3x | 8.6x |

### Median Equity Value / LTM Net Income




| | Dec'05-Feb'06 | Mar'06-May'06 | Jun'06-Aug'06 | Sep'06-Nov'06 | Dec'06-Feb'07 | Mar'07-May'07 | Jun'07-Aug'07 | Sep'07-Nov'07 | Dec'07-Feb'08 | Mar'08-May'08 | Jun'08-Aug'08 | Sep'08-Nov'08 | Dec'08-Feb'09 | Mar'09-May'09 | Jun'09-Aug'09 | Sep'09-Nov'09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LBO | 18.9x | 23.9x | 20.4x | 21.8x | 14.2x | 19.3x | 16.6x | 22.9x | 18.3x | 17.6x | 12.8x | 7.5x | 10.5x | 8.1x | 9.0x | 16.3x |
| Strategic | 19.9x | 19.1x | 21.5x | 16.1x | 17.9x | 16.9x | 15.9x | 16.5x | 18.8x | 15.8x | 16.7x | 14.4x | 11.4x | 11.7x | 12.0x | 14.8x |

**Notes**: Includes M&A transactions involving European targets where relevant financials were available to calculate EBITDA and Net Income valuation multiples. Figures are based on announce dates on Trailing Three Months basis through November 30, 2009. Includes both closed and pending transactions.

# Mergers & Acquisitions Valuation by Sector and Deal Size

Transactions | North America

## Median Implied Enterprise Value / EBITDA (North American Targets)

*(As of 11/30/09)* — Last Twelve Months Ending November 30th of:

| Target's Sector | 2006 Less Than $500M | 2006 Greater Than $500M | 2007 Less Than $500M | 2007 Greater Than $500M | 2008 Less Than $500M | 2008 Greater Than $500M | 2009 Less Than $500M | 2009 Greater Than $500M |
|---|---|---|---|---|---|---|---|---|
| Consumer Discretionary | 9.9x | 11.4x | 9.4x | 12.1x | 11.4x | 10.0x | 5.9x | 11.5x |
| Consumer Staples | 8.5x | 13.1x | 10.5x | 11.6x | 7.7x | 10.8x | 11.1x | 9.2x |
| Energy | 7.9x | 9.7x | 6.4x | 10.7x | 6.5x | 10.8x | 5.3x | 6.7x |
| Financials | N/M | N/M | N/M | N/M | N/M | N/M | N/M | N/M |
| Healthcare | 14.6x | 17.8x | 13.6x | 16.6x | 16.6x | 16.1x | 7.7x | 9.9x |
| Industrials | 7.1x | 9.3x | 7.9x | 12.0x | 9.1x | 11.7x | 7.0x | 10.6x |
| Information Technology | 11.8x | 15.5x | 15.5x | 15.0x | 14.2x | 15.3x | 11.3x | 13.6x |
| Materials | 6.7x | 9.8x | 9.5x | 8.4x | 11.0x | 9.5x | 7.1x | 6.7x |
| Telecommunication Services | 9.1x | 10.8x | 8.2x | 11.6x | 8.0x | 6.6x | 7.2x | 7.5x |
| Utilities | 6.0x | 10.4x | 20.2x | 9.4x | 8.0x | 18.4x | 8.1x | 16.8x |

## Median Implied Equity Value / LTM Net Income (North American Targets)

*(As of 11/30/09)* — Last Twelve Months Ending November 30th of:

| Target's Sector | 2006 Less Than $500M | 2006 Greater Than $500M | 2007 Less Than $500M | 2007 Greater Than $500M | 2008 Less Than $500M | 2008 Greater Than $500M | 2009 Less Than $500M | 2009 Greater Than $500M |
|---|---|---|---|---|---|---|---|---|
| Consumer Discretionary | 17.6x | 28.3x | 17.2x | 26.4x | 11.7x | 22.3x | 7.5x | 22.7x |
| Consumer Staples | 20.3x | 24.0x | 19.9x | 31.8x | 7.9x | 23.7x | 42.4x | 17.5x |
| Energy | 21.0x | 19.8x | 16.6x | 21.8x | 16.2x | 26.7x | 11.3x | 13.3x |
| Financials | 22.0x | 25.5x | 23.2x | 23.9x | 19.6x | 23.5x | 25.1x | 10.4x |
| Healthcare | 33.4x | 31.8x | 20.0x | 41.4x | 24.4x | 37.2x | 16.1x | 18.4x |
| Industrials | 11.9x | 22.2x | 16.3x | 25.7x | 11.9x | 21.0x | 11.1x | 18.9x |
| Information Technology | 23.2x | 37.8x | 21.3x | 33.3x | 19.9x | 25.2x | 15.3x | 33.4x |
| Materials | 17.0x | 18.8x | 14.6x | 15.1x | 9.7x | 24.3x | 10.5x | 11.7x |
| Telecommunication Services | 21.4x | 10.3x | 14.6x | 26.7x | N/A | 7.5x | 17.1x | 28.5x |
| Utilities | 16.5x | 18.3x | 50.1x | 18.1x | 10.5x | 30.6x | 62.8x | 1.3x |

**Notes:** Figures are based on transaction announce dates. Includes both closed and pending transactions. N/A = Not available. N/M = Not made.

# Mergers & Acquisitions Valuation by Sector and Deal Size

Transactions | Europe

## Median Implied Enterprise Value / EBITDA (European Targets)

*(As of 11/30/09)*

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| **Target's Sector** | **Less Than $500M** | **Greater Than $500M** | **Less Than $500M** | **Greater Than $500M** | **Less Than $500M** | **Greater Than $500M** | **Less Than $500M** | **Greater Than $500M** |
| Consumer Discretionary | 8.8x | 11.6x | 10.0x | 11.0x | 10.2x | 15.1x | 6.7x | 10.2x |
| Consumer Staples | 7.6x | 9.1x | 9.6x | 13.2x | 9.8x | 11.4x | 8.5x | 14.9x |
| Energy | 7.8x | 11.2x | 7.3x | 11.9x | 9.2x | 14.5x | 4.3x | 7.6x |
| Financials | N/M | N/M | N/M | N/M | N/M | N/M | N/M | N/M |
| Healthcare | 11.7x | 13.4x | 11.9x | 14.6x | 10.7x | 16.9x | 7.8x | 18.6x |
| Industrials | 8.7x | 14.9x | 8.5x | 10.9x | 6.8x | 12.3x | 7.3x | 7.6x |
| Information Technology | 12.6x | 12.2x | 10.7x | 16.0x | 9.4x | 15.6x | 6.2x | 13.0x |
| Materials | 6.9x | 8.1x | 7.2x | 8.6x | 6.4x | 7.3x | 6.5x | 4.7x |
| Telecommunication Services | 7.3x | 10.5x | 7.3x | 13.7x | 8.0x | 11.0x | 6.4x | 5.4x |
| Utilities | 10.7x | 10.1x | 9.0x | 12.0x | 9.0x | 10.9x | 13.2x | 7.1x |

## Median Implied Equity Value / LTM Net Income (European Targets)

*(As of 11/30/09)*

| | Last Twelve Months Ending November 30th of: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2009 | |
| **Target's Sector** | **Less Than $500M** | **Greater Than $500M** | **Less Than $500M** | **Greater Than $500M** | **Less Than $500M** | **Greater Than $500M** | **Less Than $500M** | **Greater Than $500M** |
| Consumer Discretionary | 17.3x | 26.5x | 15.7x | 16.2x | 14.8x | 25.3x | 14.2x | 23.0x |
| Consumer Staples | 15.2x | 21.0x | 17.0x | 25.1x | 9.1x | 37.2x | 17.5x | 27.9x |
| Energy | 17.3x | 24.0x | 23.5x | 13.9x | 30.6x | 38.1x | 9.3x | 17.4x |
| Financials | 24.6x | 17.4x | 17.9x | 18.6x | 12.8x | 22.8x | 11.8x | 9.5x |
| Healthcare | 20.4x | 28.5x | 15.1x | 30.1x | 21.4x | 46.6x | 14.0x | N/A |
| Industrials | 13.0x | 26.7x | 14.6x | 24.7x | 12.1x | 21.5x | 7.1x | 9.8x |
| Information Technology | 26.7x | 20.7x | 19.0x | 31.0x | 16.3x | 34.8x | 10.3x | 36.6x |
| Materials | 8.3x | 21.9x | 16.6x | 19.9x | 12.3x | 24.4x | 8.4x | 9.5x |
| Telecommunication Services | 14.1x | 28.8x | 12.4x | 21.0x | 12.7x | 29.6x | 75.2x | 15.5x |
| Utilities | 37.3x | 21.4x | 22.8x | 17.9x | 19.0x | 18.9x | 3.1x | 10.8x |

**Notes:** Figures are based on transaction announce dates. Includes both closed and pending transactions. N/A = Not available. N/M = Not made.



Capital IQ
A Standard & Poor's Business

# Mergers & Acquisitions by Sector

Transactions | North America & Europe

## North American Target M&A

*(As of 11/30/09)*

| | Last Twelve Months Ending November 30th of | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
| **Sector** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** |
| Consumer Discretionary | 2,103 | $ 177,156 | 2,546 | $ 217,779 | 2,814 | $ 266,026 | 2,152 | $ 52,733 | 1,624 | $ 67,017 |
| Consumer Staples | 346 | 70,623 | 425 | 50,044 | 480 | 49,028 | 371 | 116,259 | 308 | 30,954 |
| Energy | 757 | 103,961 | 888 | 204,090 | 889 | 140,969 | 747 | 89,429 | 812 | 82,610 |
| Financials | 1,183 | 193,286 | 1,420 | 308,871 | 1,611 | 289,275 | 1,726 | 191,111 | 2,146 | 92,798 |
| Healthcare | 942 | 96,085 | 1,079 | 178,585 | 1,160 | 149,043 | 1,039 | 139,713 | 836 | 182,927 |
| Industrials | 1,678 | 78,423 | 2,032 | 95,258 | 2,318 | 116,466 | 2,037 | 92,979 | 1,394 | 57,757 |
| Information Technology | 2,107 | 110,483 | 2,236 | 137,878 | 2,357 | 182,965 | 2,024 | 84,894 | 1,524 | 68,594 |
| Materials | 762 | 91,913 | 1,063 | 144,620 | 1,315 | 186,212 | 997 | 82,732 | 1,001 | 32,896 |
| Telecommunication Services | 191 | 111,647 | 162 | 121,610 | 189 | 46,839 | 126 | 45,856 | 102 | 10,990 |
| Utilities | 158 | 56,501 | 197 | 35,107 | 216 | 87,580 | 160 | 18,961 | 173 | 16,981 |
| Grand Total | 10,227 | $ 1,090,077 | 12,048 | $ 1,493,842 | 13,349 | $ 1,514,403 | 11,379 | $ 914,667 | 9,920 | $ 643,524 |

## European Target M&A

*(As of 11/30/09)*

| | Last Twelve Months Ending November 30th of | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
| **Sector** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** |
| Consumer Discretionary | 1,790 | $ 146,051 | 3,288 | $ 153,518 | 4,082 | $ 207,743 | 3,567 | $ 134,189 | 2,691 | $ 32,103 |
| Consumer Staples | 479 | 49,594 | 1,002 | 34,483 | 1,277 | 122,995 | 1,065 | 42,766 | 775 | 32,670 |
| Energy | 204 | 48,859 | 364 | 50,796 | 450 | 96,116 | 330 | 51,633 | 299 | 34,840 |
| Financials | 1,158 | 253,664 | 1,918 | 343,396 | 2,037 | 422,611 | 1,958 | 234,923 | 2,365 | 112,075 |
| Healthcare | 417 | 26,626 | 637 | 122,099 | 807 | 94,138 | 757 | 35,996 | 564 | 20,374 |
| Industrials | 1,691 | 122,846 | 3,092 | 187,200 | 4,133 | 137,588 | 3,932 | 150,210 | 2,477 | 70,216 |
| Information Technology | 1,296 | 60,803 | 1,893 | 52,185 | 2,243 | 53,791 | 2,022 | 42,488 | 1,362 | 20,885 |
| Materials | 576 | 63,977 | 1,041 | 117,351 | 1,316 | 96,683 | 1,071 | 52,690 | 704 | 12,289 |
| Telecommunication Services | 180 | 121,701 | 278 | 42,723 | 273 | 57,600 | 228 | 51,368 | 174 | 11,575 |
| Utilities | 174 | 59,104 | 337 | 89,985 | 451 | 205,667 | 480 | 79,749 | 425 | 85,212 |
| Grand Total | 7,965 | $ 953,225 | 13,850 | $ 1,193,736 | 17,069 | $ 1,494,932 | 15,410 | $ 876,013 | 11,836 | $ 432,239 |

**Notes:** Figures are based on transaction announce dates. Includes both closed and pending transactions as well as those without transaction values.

# Leveraged Buyouts by Sector

Transactions | North America & Europe

## North American Target Leveraged Buyouts

*(As of 11/30/09)*

Last Twelve Months Ending November 30th of

| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sector** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** |
| Consumer Discretionary | 306 | 49,007 | 440 | 121,286 | 568 | 140,995 | 409 | 15,056 | 273 | 5,975 |
| Consumer Staples | 49 | 1,939 | 67 | 1,396 | 103 | 14,416 | 52 | 1,841 | 48 | 237 |
| Energy | 21 | 1,554 | 37 | 39,395 | 60 | 10,892 | 41 | 11,498 | 25 | 2,077 |
| Financials | 80 | 14,792 | 97 | 68,288 | 144 | 69,537 | 144 | 9,193 | 252 | 17,820 |
| Healthcare | 87 | 9,641 | 101 | 44,681 | 134 | 41,555 | 103 | 8,716 | 56 | 6,832 |
| Industrials | 227 | 20,932 | 308 | 36,795 | 394 | 32,833 | 259 | 8,501 | 162 | 38,486 |
| Information Technology | 144 | 19,531 | 167 | 35,468 | 165 | 61,074 | 163 | 12,026 | 114 | 3,599 |
| Materials | 94 | 13,854 | 118 | 16,403 | 108 | 7,448 | 113 | 5,529 | 62 | 2,303 |
| Telecommunication Services | 12 | 992 | 11 | 446 | 18 | 32,614 | 9 | 6 | 5 | 1,534 |
| Utilities | 18 | 6,549 | 23 | 5,582 | 25 | 59,239 | 10 | 3,580 | 10 | 376 |
| Grand Total | 1,038 | $ 138,793 | 1,369 | $ 369,739 | 1,719 | $ 470,604 | 1,303 | $ 75,945 | 1,007 | $ 79,238 |

## European Target Leveraged Buyouts

*(As of 11/30/09)*

Last Twelve Months Ending November 30th of

| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sector** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** | **# of Deals** | **Value ($mil)** |
| Consumer Discretionary | 355 | $ 42,754 | 626 | $ 67,044 | 765 | $ 73,267 | 656 | $ 24,970 | 516 | $ 3,488 |
| Consumer Staples | 85 | 13,706 | 141 | 6,156 | 158 | 8,901 | 145 | 4,070 | 110 | 3,772 |
| Energy | 9 | 1,441 | 20 | 1,542 | 18 | 1,594 | 19 | 9,543 | 10 | 1,811 |
| Financials | 97 | 18,340 | 159 | 20,229 | 158 | 24,294 | 166 | 14,568 | 196 | 9,290 |
| Healthcare | 72 | 6,119 | 84 | 22,166 | 110 | 45,701 | 84 | 4,383 | 55 | 2,033 |
| Industrials | 317 | 29,034 | 490 | 74,774 | 601 | 45,080 | 600 | 48,178 | 315 | 28,280 |
| Information Technology | 136 | 10,422 | 205 | 19,358 | 203 | 5,225 | 202 | 6,296 | 134 | 4,035 |
| Materials | 94 | 18,709 | 178 | 23,759 | 177 | 11,890 | 154 | 7,949 | 99 | 2,310 |
| Telecommunication Services | 15 | 34,252 | 30 | 10,494 | 17 | 9,370 | 16 | 67 | 14 | 1,957 |
| Utilities | 11 | 3,438 | 15 | 32,027 | 28 | 26,217 | 18 | 498 | 20 | 1,407 |
| Grand Total | 1,191 | $ 178,215 | 1,948 | $ 277,550 | 2,235 | $ 251,537 | 2,060 | $ 120,522 | 1,469 | $ 58,383 |

**Notes:** Figures are based on transaction announce dates. Includes both closed and pending transactions as well as those without transaction values.

# Strategic Mergers & Acquisitions by Sector

Transactions | North America & Europe

## North American Target Strategic M&A

*(As of 11/30/09)*

| | Last Twelve Months Ending November 30th of | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
| Sector | # of Deals | Value ($mil) | # of Deals | Value ($mil) | # of Deals | Value ($mil) | # of Deals | Value ($mil) | # of Deals | Value ($mil) |
| Consumer Discretionary | 1,797 | $ 128,149 | 2,106 | $ 96,493 | 2,246 | $ 125,031 | 1,743 | $ 37,677 | 1,351 | $ 61,042 |
| Consumer Staples | 297 | 68,684 | 358 | 48,648 | 377 | 34,612 | 319 | 114,418 | 260 | 30,717 |
| Energy | 736 | 102,406 | 851 | 164,695 | 829 | 130,076 | 706 | 77,931 | 787 | 80,534 |
| Financials | 1,103 | 178,494 | 1,323 | 240,583 | 1,467 | 219,738 | 1,582 | 181,918 | 1,894 | 74,978 |
| Healthcare | 855 | 86,445 | 978 | 133,904 | 1,026 | 107,489 | 936 | 130,997 | 780 | 176,095 |
| Industrials | 1,451 | 57,491 | 1,724 | 58,463 | 1,924 | 83,633 | 1,778 | 84,478 | 1,232 | 19,270 |
| Information Technology | 1,963 | 90,951 | 2,069 | 102,410 | 2,192 | 121,891 | 1,861 | 72,868 | 1,410 | 64,995 |
| Materials | 668 | 78,058 | 945 | 128,217 | 1,207 | 178,764 | 884 | 77,204 | 939 | 30,593 |
| Telecommunication Services | 179 | 110,654 | 151 | 121,164 | 171 | 14,224 | 117 | 45,849 | 97 | 9,456 |
| Utilities | 140 | 49,952 | 174 | 29,525 | 191 | 28,342 | 150 | 15,381 | 163 | 16,605 |
| Grand Total | 9,189 | $ 951,284 | 10,679 | $ 1,124,103 | 11,630 | $ 1,043,799 | 10,076 | $ 838,722 | 8,913 | $ 564,286 |

## European Target Strategic M&A

*(As of 11/30/09)*

| | Last Twelve Months Ending November 30th of | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
| Sector | # of Deals | Value ($mil) | # of Deals | Value ($mil) | # of Deals | Value ($mil) | # of Deals | Value ($mil) | # of Deals | Value ($mil) |
| Consumer Discretionary | 1,435 | $ 103,296 | 2,662 | $ 86,474 | 3,317 | $ 134,477 | 2,911 | $ 109,218 | 2,175 | $ 28,615 |
| Consumer Staples | 394 | 35,888 | 861 | 28,327 | 1,119 | 114,094 | 920 | 38,696 | 665 | 28,898 |
| Energy | 195 | 47,418 | 344 | 49,254 | 432 | 94,521 | 311 | 42,090 | 289 | 33,029 |
| Financials | 1,061 | 235,324 | 1,759 | 323,167 | 1,879 | 398,317 | 1,792 | 220,354 | 2,169 | 102,786 |
| Healthcare | 345 | 20,507 | 553 | 99,933 | 697 | 48,437 | 673 | 31,614 | 509 | 18,340 |
| Industrials | 1,374 | 93,812 | 2,602 | 112,426 | 3,532 | 92,508 | 3,332 | 102,032 | 2,162 | 41,936 |
| Information Technology | 1,160 | 50,382 | 1,688 | 32,827 | 2,040 | 48,566 | 1,820 | 36,192 | 1,228 | 16,850 |
| Materials | 482 | 45,268 | 863 | 93,592 | 1,139 | 84,793 | 917 | 44,741 | 605 | 9,980 |
| Telecommunication Services | 165 | 87,449 | 248 | 32,229 | 256 | 48,231 | 212 | 51,302 | 160 | 9,618 |
| Utilities | 163 | 55,666 | 322 | 57,958 | 423 | 179,450 | 462 | 79,251 | 405 | 83,804 |
| Grand Total | 6,774 | $ 775,010 | 11,902 | $ 916,186 | 14,834 | $ 1,243,394 | 13,350 | $ 755,491 | 10,367 | $ 373,856 |

**Notes:** Figures are based on transaction announce dates. Includes both closed and pending transactions as well as those without transaction values.

# Private Equity Investments by Sector (Non-Buyouts)

Transactions | North America & Europe

## North American Target Private Equity Investments

*(As of 11/30/09)* Last Twelve Months Ending November 30th of

| Sector | 2005 # of Deals | 2005 Value ($mil) | 2006 # of Deals | 2006 Value ($mil) | 2007 # of Deals | 2007 Value ($mil) | 2008 # of Deals | 2008 Value ($mil) | 2009 # of Deals | 2009 Value ($mil) |
|---|---|---|---|---|---|---|---|---|---|---|
| Consumer Discretionary | 44 | $ 1,023 | 31 | $ 809 | 50 | $ 2,156 | 33 | $ 514 | 118 | $ 2,093 |
| Consumer Staples | 8 | 93 | 9 | 99 | 10 | 65 | 6 | 87 | 33 | 492 |
| Energy | 21 | 1,983 | 23 | 1,480 | 22 | 2,320 | 14 | 760 | 36 | 1,696 |
| Financials | 19 | 1,011 | 33 | 1,279 | 72 | 8,165 | 34 | 3,515 | 434 | 25,945 |
| Healthcare | 65 | 1,036 | 55 | 705 | 76 | 2,351 | 93 | 1,533 | 267 | 2,752 |
| Industrials | 35 | 305 | 36 | 954 | 48 | 1,000 | 49 | 1,393 | 115 | 1,680 |
| Information Technology | 112 | 1,003 | 102 | 1,545 | 132 | 3,669 | 161 | 2,640 | 384 | 3,385 |
| Materials | 10 | 72 | 22 | 419 | 35 | 758 | 38 | 452 | 57 | 1,325 |
| Telecommunication Services | 8 | 1,557 | 8 | 575 | - | - | 3 | 403 | 15 | 195 |
| Utilities | 1 | 4 | 1 | 6 | 8 | 1,741 | 9 | 1,805 | 16 | 1,192 |
| Grand Total | 323 | $ 8,087 | 320 | $ 7,871 | 453 | $ 22,226 | 440 | $ 13,102 | 1,475 | $ 40,755 |

## European Target Private Equity Investments

*(As of 11/30/09)* Last Twelve Months Ending November 30th of

| Sector | 2005 # of Deals | 2005 Value ($mil) | 2006 # of Deals | 2006 Value ($mil) | 2007 # of Deals | 2007 Value ($mil) | 2008 # of Deals | 2008 Value ($mil) | 2009 # of Deals | 2009 Value ($mil) |
|---|---|---|---|---|---|---|---|---|---|---|
| Consumer Discretionary | 54 | $ 2,327 | 80 | $ 1,365 | 88 | $ 15,225 | 91 | $ 1,461 | 156 | $ 3,110 |
| Consumer Staples | 18 | 249 | 27 | 332 | 28 | 934 | 31 | 1,035 | 31 | 509 |
| Energy | 24 | 495 | 18 | 487 | 22 | 1,516 | 15 | 697 | 5 | 106 |
| Financials | 20 | 737 | 42 | 3,460 | 82 | 10,465 | 92 | 42,668 | 92 | 49,048 |
| Healthcare | 42 | 336 | 42 | 806 | 47 | 706 | 41 | 969 | 82 | 882 |
| Industrials | 48 | 537 | 82 | 1,093 | 78 | 3,259 | 81 | 2,463 | 126 | 7,232 |
| Information Technology | 90 | 500 | 82 | 735 | 89 | 716 | 86 | 673 | 118 | 666 |
| Materials | 26 | 230 | 36 | 673 | 25 | 225 | 18 | 708 | 35 | 464 |
| Telecommunication Services | 9 | 1,375 | 9 | 91 | 7 | 215 | 8 | 1,774 | 13 | 735 |
| Utilities | 7 | 263 | 6 | 124 | 11 | 1,070 | 15 | 1,982 | 13 | 249 |
| Grand Total | 338 | $ 7,049 | 424 | $ 9,165 | 477 | $ 34,332 | 478 | $ 54,428 | 671 | $ 63,001 |

**Notes:** Figures are based on transaction announce dates. Includes both closed and pending transactions as well as those without transaction values.

# Private Investments in Public Entities by Sector

Transactions | North America & Europe

## North American Target PIPEs

*(As of 11/30/09)*

Last Twelve Months Ending November 30th of

| Sector | 2005 # of Deals | 2005 Value ($mil) | 2006 # of Deals | 2006 Value ($mil) | 2007 # of Deals | 2007 Value ($mil) | 2008 # of Deals | 2008 Value ($mil) | 2009 # of Deals | 2009 Value ($mil) |
|---|---|---|---|---|---|---|---|---|---|---|
| Consumer Discretionary | 294 | $ 3,224 | 275 | $ 3,647 | 294 | $ 8,794 | 216 | $ 5,669 | 193 | $ 25,031 |
| Consumer Staples | 63 | 1,050 | 75 | 819 | 109 | 3,271 | 74 | 930 | 66 | 922 |
| Energy | 890 | 12,221 | 837 | 11,527 | 801 | 20,968 | 538 | 8,623 | 510 | 5,871 |
| Financials | 283 | 19,936 | 278 | 13,052 | 312 | 35,917 | 286 | 344,989 | 632 | 119,263 |
| Healthcare | 510 | 8,844 | 564 | 24,820 | 607 | 12,832 | 456 | 6,339 | 517 | 4,450 |
| Industrials | 299 | 4,847 | 359 | 4,717 | 374 | 4,273 | 280 | 5,559 | 240 | 3,790 |
| Information Technology | 591 | 6,319 | 610 | 12,890 | 590 | 19,739 | 388 | 7,886 | 339 | 4,754 |
| Materials | 1,579 | 3,404 | 1,904 | 7,003 | 1,883 | 12,026 | 1,417 | 11,093 | 1,806 | 12,669 |
| Telecommunication Services | 64 | 2,313 | 71 | 1,156 | 67 | 2,047 | 39 | 5,267 | 31 | 2,458 |
| Utilities | 44 | 2,696 | 42 | 592 | 47 | 939 | 36 | 1,420 | 42 | 3,155 |
| Grand Total | 4,617 | $ 64,855 | 5,015 | $ 80,225 | 5,084 | $ 120,806 | 3,730 | $ 397,774 | 4,376 | $ 182,363 |

## European Target PIPEs

*(As of 11/30/09)*

Last Twelve Months Ending November 30th of

| Sector | 2005 # of Deals | 2005 Value ($mil) | 2006 # of Deals | 2006 Value ($mil) | 2007 # of Deals | 2007 Value ($mil) | 2008 # of Deals | 2008 Value ($mil) | 2009 # of Deals | 2009 Value ($mil) |
|---|---|---|---|---|---|---|---|---|---|---|
| Consumer Discretionary | 39 | $ 8,351 | 71 | $ 2,583 | 87 | $ 3,086 | 121 | $ 1,539 | 123 | $ 8,078 |
| Consumer Staples | 8 | 766 | 13 | 1,580 | 27 | 340 | 21 | 466 | 28 | 1,735 |
| Energy | 31 | 1,813 | 65 | 3,350 | 74 | 3,405 | 78 | 2,686 | 122 | 4,428 |
| Financials | 32 | 4,000 | 62 | 15,549 | 74 | 11,602 | 120 | 108,573 | 139 | 68,041 |
| Healthcare | 42 | 675 | 66 | 2,956 | 80 | 3,696 | 78 | 1,374 | 124 | 3,440 |
| Industrials | 31 | 1,494 | 67 | 1,978 | 107 | 5,828 | 118 | 4,257 | 119 | 7,507 |
| Information Technology | 46 | 693 | 108 | 2,077 | 94 | 1,490 | 125 | 1,188 | 132 | 4,366 |
| Materials | 35 | 965 | 74 | 2,146 | 84 | 4,597 | 129 | 6,661 | 167 | 7,650 |
| Telecommunication Services | 8 | 1,178 | 13 | 519 | 15 | 304 | 8 | 48 | 13 | 511 |
| Utilities | 5 | 661 | 13 | 767 | 21 | 10,021 | 10 | 815 | 19 | 3,777 |
| Grand Total | 277 | $ 20,595 | 552 | $ 33,506 | 663 | $ 44,369 | 808 | $ 127,608 | 986 | $ 109,534 |

**Notes:** Figures are based on transaction announce dates. Includes both closed and pending transactions as well as those without transaction values.

# Venture Capital Investments by Sector

Transactions | North America & Europe

## North American Target Venture Capital

*(As of 11/30/09)* — Last Twelve Months Ending November 30th of

| Sector | 2005 # of Deals | 2005 Value ($mil) | 2006 # of Deals | 2006 Value ($mil) | 2007 # of Deals | 2007 Value ($mil) | 2008 # of Deals | 2008 Value ($mil) | 2009 # of Deals | 2009 Value ($mil) |
|---|---|---|---|---|---|---|---|---|---|---|
| Consumer Discretionary | 140 | $ 2,101 | 246 | $ 2,406 | 295 | $ 3,311 | 294 | $ 2,804 | 308 | $ 1,672 |
| Consumer Staples | 30 | 116 | 29 | 191 | 53 | 257 | 44 | 599 | 68 | 242 |
| Energy | 61 | 2,082 | 118 | 4,432 | 111 | 3,366 | 108 | 5,696 | 61 | 1,300 |
| Financials | 66 | 2,690 | 98 | 4,806 | 130 | 3,043 | 95 | 7,762 | 141 | 2,041 |
| Healthcare | 535 | 6,759 | 679 | 8,405 | 718 | 9,012 | 708 | 7,892 | 760 | 6,495 |
| Industrials | 138 | 1,752 | 185 | 2,674 | 219 | 2,865 | 261 | 3,281 | 250 | 1,786 |
| Information Technology | 1,216 | 9,692 | 1,525 | 12,041 | 1,633 | 13,104 | 1,543 | 10,752 | 1,443 | 6,317 |
| Materials | 55 | 270 | 84 | 617 | 140 | 791 | 113 | 768 | 94 | 498 |
| Telecommunication Services | 46 | 1,273 | 61 | 942 | 56 | 1,082 | 34 | 362 | 33 | 421 |
| Utilities | 12 | 225 | 18 | 446 | 43 | 684 | 39 | 1,585 | 46 | 272 |
| Grand Total | 2,299 | $ 26,961 | 3,043 | $ 36,960 | 3,398 | $ 37,514 | 3,239 | $ 41,501 | 3,204 | $ 21,045 |

## European Target Venture Capital

*(As of 11/30/09)* — Last Twelve Months Ending November 30th of

| Sector | 2005 # of Deals | 2005 Value ($mil) | 2006 # of Deals | 2006 Value ($mil) | 2007 # of Deals | 2007 Value ($mil) | 2008 # of Deals | 2008 Value ($mil) | 2009 # of Deals | 2009 Value ($mil) |
|---|---|---|---|---|---|---|---|---|---|---|
| Consumer Discretionary | 109 | $ 499 | 180 | $ 1,144 | 271 | $ 1,243 | 258 | $ 1,414 | 199 | $ 784 |
| Consumer Staples | 23 | 143 | 50 | 568 | 45 | 493 | 53 | 392 | 30 | 408 |
| Energy | 13 | 429 | 33 | 871 | 29 | 719 | 30 | 962 | 13 | 190 |
| Financials | 26 | 2,219 | 95 | 5,736 | 89 | 2,015 | 92 | 4,184 | 54 | 12,704 |
| Healthcare | 228 | 1,664 | 287 | 1,895 | 339 | 2,129 | 354 | 1,881 | 229 | 981 |
| Industrials | 93 | 503 | 181 | 1,176 | 232 | 1,318 | 259 | 2,681 | 167 | 986 |
| Information Technology | 394 | 1,331 | 534 | 1,998 | 812 | 2,672 | 790 | 2,662 | 578 | 1,264 |
| Materials | 21 | 51 | 60 | 279 | 75 | 683 | 73 | 574 | 57 | 471 |
| Telecommunication Services | 21 | 231 | 34 | 332 | 24 | 170 | 30 | 170 | 13 | 131 |
| Utilities | 5 | 1,265 | 27 | 1,092 | 35 | 176 | 35 | 461 | 32 | 320 |
| Grand Total | 933 | $ 8,335 | 1,481 | $ 15,091 | 1,951 | $ 11,619 | 1,974 | $ 15,381 | 1,372 | $ 18,240 |

**Notes:** Figures are based on transaction announce dates. Includes both closed and pending transactions as well as those without transaction values.

# Contact Us

## About Capital IQ Market Observations

Market Observations is a monthly compilation of high-level perspectives on M&A, public equity, private capital, and the capital markets. Market Observations is based primarily on contents available in Capital IQ's information platform and select third-party contributions. If you are a current user of Capital IQ and have questions about various platform features, please contact our client support team at **(888) 806-5541**. To learn more about Capital IQ, please call **(212) 438-8701**, e-mail sales@capitaliq.com, or visit www.capitaliq.com.

## How to Subscribe to Market Observations

Market Observations is published for Capital IQ clients, journalists, and select financial professionals. To receive a copy of Market Observations each month, please send an e-mail to risharma@capitaliq.com to request inclusion in our distribution list.

## Submit Suggestions or Feedback

Please contact Rishi Sharma at rishi.sharma@capitaliq.com with feedback and editorial suggestions.

## Media Inquiries

Please contact Rosally Sapla at (917) 969-7483 or rsapla@pohconsulting.com

# Additional Important Disclosures and Disclaimers



Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

For All Regions:

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"); in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC, which is regulated by the Hong Kong Securities Futures Commission; in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"); in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM"), which is regulated by the Securities Commission; in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS"), which is regulated by the Australian Securities & Investments Commission; and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, and SPIS are each conducted separately from any other analytical activity of Standard & Poor's.

Standard & Poor's or an affiliate may license certain intellectual property or provide pricing or other services to, or otherwise have a financial interest in, certain issuers of securities, including exchange-traded investments whose investment objective is to substantially replicate the returns of a proprietary Standard & Poor's index, such as the S&P 500. In cases where Standard & Poor's or an affiliate is paid fees that are tied to the amount of assets that are invested in the fund or the volume of trading activity in the fund, investment in the fund will generally result in Standard & Poor's or an affiliate earning compensation in addition to the subscription fees or other compensation for services rendered by Standard & Poor's. A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

For a list of companies mentioned in this report with whom Standard & Poor's and/or one of its affiliates has had business relationships within the past year, please go to: http://www2.standardandpoors.com/portal/site/sp/en/us/page.article/2,5,1,0,1145719622102.html

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. –this report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.