

PERCEPTION SNAPSHOT

BUY-SIDE SENTIMENT - STOCK MARKET CRASH 2008

Thomson Reuters Corporate Advisory Services group recently surveyed over 70 buy-side investors across the world regarding their outlook on the markets in light of the recent sell-off. The buy-side participants, a combination of portfolio managers, security analysts, and directors of research, represent institutions that in aggregate manage upwards \$2 trillion in equity assets and represent the entire investment spectrum (i.e. income to growth). Fifty of the buy-siders interviewed are based in the U.S., 21 are based in Europe, and 3 are based in Asia. The feedback was collected between October 8, 2008 and October 15, 2008.

Key Highlights:

- In order for the market to stop its slide, credit markets need to stabilize, and confidence needs to be restored.
- Investors are keenly focused on credit spreads, liquidity, government rescue plans, and the stability of banks.
- Half of investors say they are not changing asset allocations at this time, but the other half admit holding more cash than usual, shifting more into defensive stocks, and favoring emerging markets.

WHAT WILL STOP THE STOCK MARKET SELL-OFF

When asked what catalysts were necessary to stop the market slide and what will have to happen for the market to move higher the majority of participants replied that the **credit markets have to stabilize**. There needs to be capital infused into the system and more importantly a return of liquidity. Participants stress the importance of inter-bank lending, and they also assert that credit spreads need to narrow in order for the system to start functioning again. There also has to be a sense that the “bad assets” have been worked through the system. On an encouraging note, 10% of participants volunteer that **the catalysts are in place for the market to recover**, that governments have taken the necessary measures to stabilize the markets.

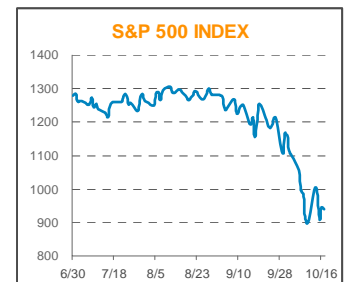
Along similar lines, one-third of participants say there needs to be a **restoration of confidence**. Within this group, most say banks need to have more confidence to lend. And they assert that in order to maintain liquidity banks must be willing to lend money. On a dire note, five respondents say people need more confidence that the banking system will survive. In addition to more confidence, 18% of investors say there needs to be a sense that the markets have hit bottom.

Additionally, before the market recovers and moves higher, 30% of buy-siders interviewed say **the economy must stabilize**. Investors need to see corporate earnings grow, housing stabilize, unemployment stay in check, and consumers spend.

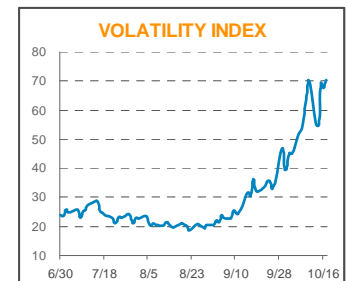
A portion of the study group, or 18%, says **more government intervention is needed** from a capital perspective and from a regulatory perspective. To a lesser extent, seeing an end to the recent wave of hedge fund redemptions is cited as another catalyst to stop the market slide.

KEY AREAS OF FOCUS

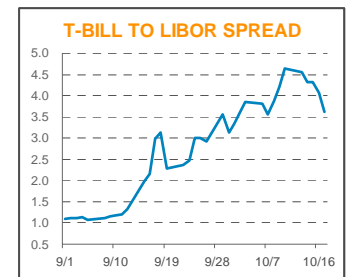
We asked investors to indicate the issues they are most focused on in the current market environment. The majority of investors queried say they are currently paying attention to two key issues: **56% say they are focused on credit spreads and liquidity and 51% say the government rescue plan and stability of banks.**



S&P 500 down 20% in a week, down 38% YTD



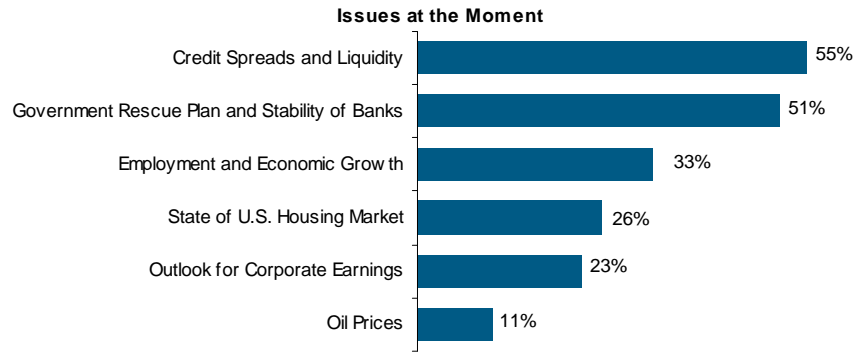
Rise in volatility = Lower investor confidence



No interbank lending = Less liquidity

The outlook for employment and economic growth, cited by one-third of contributors, is also important because without stability in the credit markets and banks, employment and economic growth will likely decline.

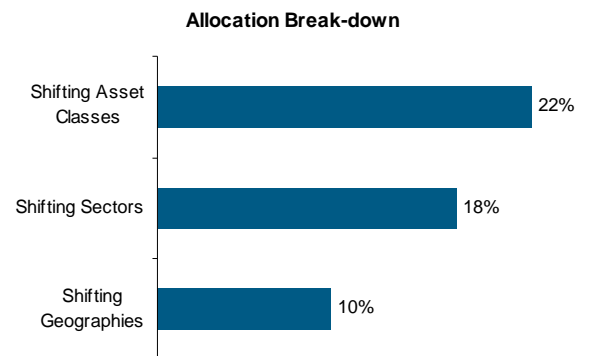
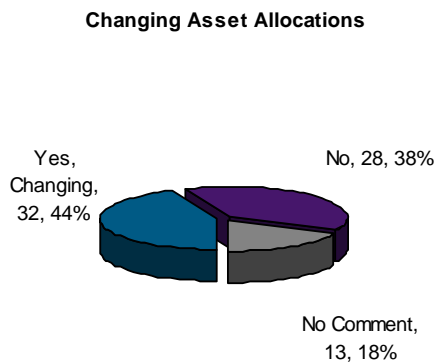
Similarly, participants surveyed say that the housing market is also important because it is "underpinning a lot of the other issues," while many within the group remain focused on the outlook for corporate earnings. Less frequently cited issues are oil prices, the U.S. Presidential election, and the strength of the U.S. dollar.



SOME INVESTORS ARE CHANGING ASSET ALLOCATIONS

Over 40% of investors confirm that they are changing asset allocations, with 21% shifting among asset classes, 16% shifting sectors, and 10% shifting geographies. Conversely, nearly 40% are not changing their asset allocations.

Drilling down, with respect to asset classes, 10% of participants (7 people) mention they **increased their cash positions** while 7% say they rotated or plan to rotate some money from equities into fixed income securities. Turning to sector exposure, some investors are continuing to **rotate into defensive stocks** such as healthcare. Additionally, others indicate eyeing technology and industrials right now. Participants state that they reduced their exposure to financials and consumer discretionary stocks. In terms of changing exposure to geographies, 8% (6 participants) are **looking overseas to emerging markets**.



SELECT QUOTES:

"It is surprising to me that a global coordinated rate cut in combination with all the other interventions and attempts at providing a stimulus to the market does not seem to be working. It all centers on the banks and capital and getting banks to lend because banks supply capital to the world economy, and without that capital, the world economy cannot grow. That is what we need. That is what the Fed is trying to do, that is what the Treasury is trying to do, and that is what other governments are trying to do, which is get banks to lend. You have to get the banks healthy and shore up their capital base so they have the capital to lend in the first place. The second part of it is the banks have to lend, and that is all about confidence. We wish we shifted asset allocations a year ago, the mistake was not doing it then. Our view then was that the market looked cheap relative to bonds, so we kept a high allocation of stocks even though we had concerns about the economy. The key was that bonds looked expensive, and stocks looked relatively cheap. Now bonds are even more expensive, and stocks are even cheaper. There has been a huge flight to quality and flight to bonds that probably is not sustainable long-term. If we made better decisions a year ago we might be in better shape, but now every asset class other than equity, and maybe even real estate to some degree, is overvalued. Bonds have become more overvalued. I would not be surprised if we started looking at high yields or corporate bonds. In terms of just bonds, cash or stocks, we are not getting paid much for holding cash and bonds seem overvalued, so the place to be is equities, but we wish we were more underweighted a year ago." – **U.S. Core Value Investor, AUM >\$10 Billion**

"It would have to be a renewal of confidence at the consumer level and loosening of credit in the financial services sector. That is first and foremost. It is a crisis of confidence in the financial services sector. There needs to be some sort of action, so to speak, for the consumer to start feeling more comfortable about what's going on in terms of sentiment in the market. There needs to be some sort of feeling that the liquidity crunch is coming to an end. Some of the moves by the Fed and what is going on with the White House today may be a signal to the end, but there needs to be a certain level of feeling that we have neared the bottom in terms of prices. We have been underweight financials for a while, and we have not gained the confidence to jump back in yet. So that is one thing. We definitely are focusing more on consumer non-discretionaries, going more defensive on the tech side, which is what I'm working on, getting away from companies with large financial services exposure on the tech side and looking more towards recurring revenue streams. Actually, we are shifting more from tech to more defensive sectors such as aerospace and defensive names, which are based more on the federal budget and are more predictable. We are massively underweight in financials. We have not gotten back in, and that is the main strategy for us. At some point it is going to bottom and then we definitely want to make sure we get back in or else we might lose some performance there, but at this point we have not regained enough confidence yet." – **U.S. Core Growth Investor, AUM <\$10 Billion**

"There are some very compelling values out there now but it is very hard to step in front of the train. There is just too much uncertainty about how bad it could really be. The 3Q08 earnings reports will provide some perspective. We need the government intervention to take hold and we need the banks to start lending. Right now, they just are not putting money out there. I do not know what it will take to change that. It is all about the sentiment now. Maybe, if we put a floor under equities and we restore some confidence in balance sheets, that will spur lending. Frankly, it is depressing to come to work every day. All the fibers in my body are saying "Buy! Buy!" but the next day, the stocks are 15% lower. Most people I talk to expect stocks to bounce back, and when they do you want to be there because they are going to rip higher, but no one is willing to call it. I have spoken to some really savvy guys who admit they are essentially frozen." – **U.S. Income Value Investor, AUM >\$50 Billion**

"That is a great question; we are trying to figure that out ourselves. It is going to take time for these things to sort of work themselves out. We have had some interest rate cuts and those did not seem to do the trick. Maybe when a lot of these hedge funds and other funds stop being forced to liquidate that will give us a little bit of a chance to bounce. Otherwise, we just need some big macro type of things to maybe get the market going. By macro I mean things like the housing market and cash



infusions by the government. More government intervention would help. There was a story about the government putting money directly into banks and getting equity ownership so maybe that will help stop the slide as well. Also, when housing stops going down, that is when we can possibly see a bottom. Finally, maybe some M&A activity - when firms say that companies that they are interested in buying are so cheap that now is the time to start buying. We are focused only on the U.S., and that is not changing. In terms of asset allocation, we are slightly more conservative, and we have more cash than we normally carry. We are overweight in consumer staples, and we are avoiding a lot of these financials. We are only holding financials that we think are going to be the survivors, like JPMorgan and Wells Fargo. – **U.S. Deep Value Investor, AUM <\$10 Billion**

“The reason the equity markets are down so much is because of the lack of credit availability, and people are assuming that it will spill over into all areas of the economy. If that eases, it will alleviate some of the pressure. We are focused only on the U.S., and that is not changing. In terms of asset allocation, we are slightly more conservative, and we have more cash than we normally carry. We are overweight in consumer staples, and we are avoiding a lot of these financials. We are only holding financials that we think are going to be the survivors, like JPMorgan and Wells Fargo.” – **U.S. Core Value Investor, AUM >\$25 Billion**

“Redemptions are driving stocks lower. Everyone is moving away from the capital markets, covering redemptions, and attempting a return of their capital.” – **U.S. GARP Investor, AUM <\$10 Billion**

“We were talking about that yesterday in our investment committee and none of us agree. We are in somewhat uncharted territory. We need to flush half a billion dollars more of hedge funds out of the market. That flushing is going to take some time, and it is going to be very painful. We need the other half of the hedge funds to wake up to the fact that eventually valuation is going to work again, and people need to step into these investments instead of running away from them. Everyone is shy about doing that, and there is money flowing out generically because of hedge fund redemptions. This is a serious crisis because the government and people outside of money management, especially quantitative money managers, do not have a clue. This hedge fund turmoil is actually causing a big chunk of the problem, and until they figure that out, it will just continue. We are chalking it all up to credit spreads, the bond markets, currencies, commodities, bubbles, and these various things. Absolutely these have triggered a huge portion of what is going on, but now there is this spiraling effect happening through hedge fund redemptions, people moving to cash, and a general flight to safety. That is a self-fulfilling prophecy.” – **U.S. Core Value Investor, AUM >\$10 Billion**

“Financing availability for companies is obviously a big issue. As long as that is subdued or just unavailable, there will be an overhang, and that needs to get resolved before we can see an uptick.” – **U.S. Core Growth Investor, AUM >\$100 Billion**

“Liquidity is the number one issue. People are waiting on the sidelines to see how the government plan will work out.” – **U.S. Core Growth Investor, AUM <\$1 Billion**

“I need to see signs that the economy is not continuing to get worse. Every metric you look at on an economic basis says that the economy is continuing to get worse. The consumer continues to get worse, corporate spending continues to get worse, and the credit market continues to get worse. We have discounted the credit crisis to a decent degree, but the degree to discount how bad the economic cycle can be and the duration of that cycle is anybody’s guess right now. Looking at the data, it is housing numbers, it is unemployment numbers, and it is spending. Those are a function of people spending money. There are two issues. There is the liquidity and credit issue, and then there is the overall health of the consumer and the overall health of corporate business right now. We basically talked ourselves into a recession. How we come out of it as we deleverage is anyone’s guess right now. Everyone is waiting for someone else to buy right now. The market is not really trading on fundamentals because no one knows where the fundamentals are going to go. I think we have discounted a recession by this point, but how deep of a recession, or if we go into something worse than a recession, is basically what the market is trying to figure out right now. In the near-term



we are going to have a bounce, but I do not think we are done testing these lows.” – U.S. Core Growth Investor, AUM <\$10 Billion

“There are three key issues. The first issue is the government rescue plan for the stability of the banks. The second most important issue is credit spreads. The third most important issue is the outlook for employment and economic growth.” – European Growth Investor, AUM <\$10 Billion

“We need visibility into the CDS market. We need to understand who has how much exposure to what and to whom. We need to understand how far the daisy chain goes or, to borrow from Warren Buffett, to reveal who will be swimming naked when the tide goes out. It is not just a coincidence that the bottom last week occurred at the same time as the settlement for the Lehman CDS was priced. Basically, we are looking at one giant margin call right now. If this proves to be the Achilles heel of the financial system, I believe that the rescue plan includes the possibility that the President of the United States will invoke the ability to sever all the swap contracts, throwing all those derivatives investors under the bus. However, given the enormous size of that market, it could be necessary. It is so big that until you resolve the problems with it, you won't be able to resolve anything else. With credit so tight, you have to ask which companies have business models that can be successful in this environment. We need to see lending resume in order to have confidence that almost any model you put together is viable. Businesses have to be able to borrow. I am focused on credit spreads and liquidity and the rescue plans. However, ultimately it is the housing question that must be addressed. We have to put in a bottom or else the banks will be forced to write down their new capital too. Following that is the employment question. This whole credit issue is a function of the ability to make payments, whether on a mortgage or a credit card or a corporate loan.” – U.S. Growth Investor, AUM <\$1 Billion

“Number one, can we save the global banking system? That is still up for some debate, and that is an incredibly dangerous thing. It is more important than just the market; it is important to the stability of the world. If that stabilizes then everything else will fall into place. Second, the fact that the financial system stabilizes, does not therefore mean that we are not going to see big increases in unemployment as well as a continued slide in property values. Those two things will be highly detrimental to the overall economy.” – U.S. Growth Investor, AUM >\$10 Billion

“The most immediate issue is the inter-bank lending market. Unemployment is also a valid indicator, but I am focusing on Q3 earnings and how those will shape up. If a lot of companies are missing numbers in a big way, especially on the bottom line, I would not be surprised to see a lot of companies react by cutting back on spending, hiring, and perhaps even firing people. That would obviously lead to a vicious cycle of high unemployment, lower wages, and greater defaults on credit and the whole shebang.” – U.S. GARP Investor, AUM <\$10 Billion

“Outside of the market, it is all about housing. Since that is where we started, people are going to want housing numbers to look better.” – U.S. Core Growth Investor, AUM >\$10 Billion

“We are pulling back more on companies that are domestic U.S. focused. Sector-wise, we are pulling back slightly more on defensive sector stock ideas along the lines of healthcare, non-cyclical, and consumer products.” – U.S. Core Value Investor, AUM <\$10 Billion

“We have already sector rotated slightly into more staples and healthcare to get more defensive. We do see the weakness as an opportunity so we are investigating technology, consumer discretionary, and maybe a return to some of the industrials and cyclical areas, but we probably will not be doing as much with energy in the meantime. As far as geographies, our mandate limits our exposure on the equity side.” – U.S. GARP Investor, AUM <\$10 Billion

“Stock prices are moving very quickly, but we are generally very defensive right now. The market is very technically driven right now, but prices are starting to look more attractive so we are definitely looking for opportunities.” – European Index Investor, AUM >\$100 Billion

“It is a credit crisis, and I believe the market has bottomed. The reality is the demand environment or the weakness of the consumer, and therefore for the next couple of years, it will be a more challenging environment. We went to artificial lows. The market is very cheap right now on any metric you look at. We need to get back to more normalized levels, 15% to 20% higher, and then from there it is a tough market.” – U.S. GARP Investors, AUM >\$100 Billion

“Right now the problem is that the investment community is losing confidence and liquidity is tightening. If the governments of several countries can help each other and resolve this, then investment sentiment will be better. That will spread out to other economies in other countries. If the U.S. economy recovers then it should help the sentiment worldwide.” – Asia Investor, AUM <\$1 Billion

“Our asset allocation is heavily focussed on Asian stocks, as we feel these are better capitalised. We are inclined to look at geographic regions to determine our investment portfolio. Our investment strategy is based upon investing in well capitalised businesses with healthy cash flows.” – European Deep Value Investor, AUM <\$10 Billion

For more information on our Perception Study service offering or how your company’s investor relations team, management team, and Board of Directors can receive formal investor feedback, please contact:

Robert K. Nagle, CFA
Senior Director, Head of Perception Team
Thomson Reuters – Corporate Advisory Services
Tel: (646) 822-6364
rob.nagle@thomsonreuters.com

About Thomson Reuters

Thomson Reuters is the world’s leading source of intelligent information for businesses and professionals. We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, scientific, healthcare and media markets, powered by the world’s most trusted news organization. With headquarters in New York and major operations in London and Eagan, Minnesota, Thomson Reuters employs more than 50,000 people in 93 countries. Thomson Reuters shares are listed on the New York Stock Exchange (NYSE: TRI); Toronto Stock Exchange (TSX: TRI); London Stock Exchange (LSE: TRIL); and Nasdaq (NASDAQ: TRIN). For more information, go to www.thomsonreuters.com.

About Corporate Services

Maximize the value of your company with our suite of corporate solutions across the Investor Relations, Corporate Communications, Treasury and Corporate Finance functions. Leveraging more than two decades of experience serving the global corporate marketplace, our solutions are designed to increase the efficiency and effectiveness of your daily workflow to help you reach business decisions quickly and with confidence. Backed by knowledgeable client service professionals dedicated to proactive outreach and training, Thomson Reuters is the partner of choice for more than 5,000 corporations worldwide.