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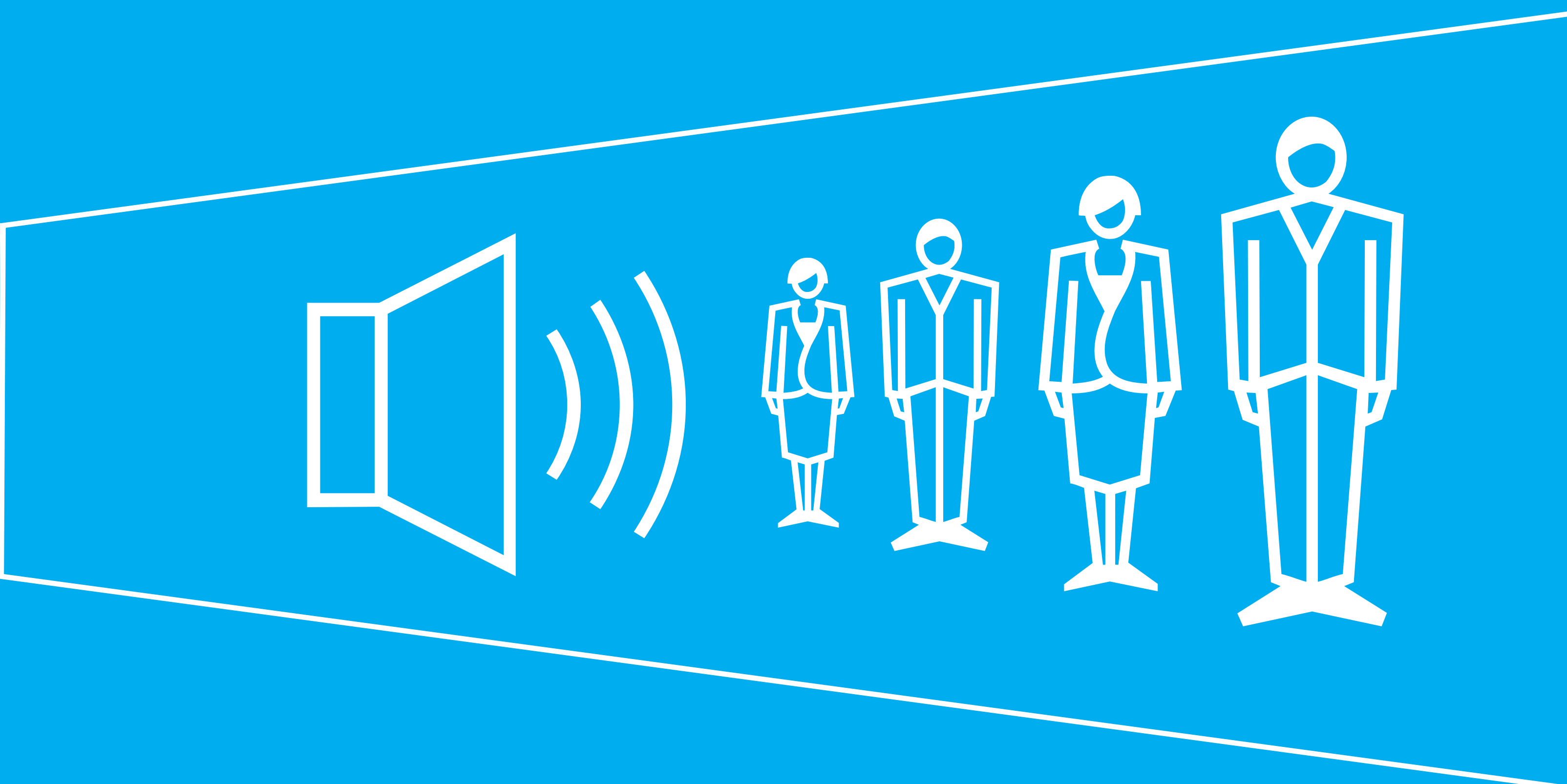

Investor relations

A PRACTICAL GUIDE

Buchanan
communications

London
STOCK EXCHANGE

London Stock Exchange plc is one of the world's leading equity exchanges offering companies from all sectors access to one of the deepest pools of liquidity.

A powerful investor relations programme is essential for any on-market or pre-market company and the Exchange encourages companies to be pro-active in this arena, providing dedicated services to encourage robust and effective investor relations.

To find out more about how the Exchange can help you to improve your investor relations activities, contact your relationship manager via the information on the inside back cover of this practical guide.

Introduction

When a company comes to the stock market, it may feel like the end of a long journey. But any such idea is rapidly dispelled by the experience of life as a quoted company. Rather than being the culmination of a business's development, its flotation marks the start of a new and even more challenging phase – one which is immeasurably more complex than its previous existence as a private company.

By floating on a public market, you have not only gained access to finance, but you have also made a commitment to take on the responsibilities and duties which a quotation brings. Some of these are regulatory requirements, but alongside these are the requirements and expectations imposed by the mechanisms of the market itself – the analysts, investors and media who watch your company and judge how it is performing. Communicating with these people is now encapsulated by the term 'Investor Relations' ('IR').

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Buchanan Communications is proud to have been involved in the formulation, development and delivery of this updated Practical Guide to Investor Relations. We see our role as key in helping companies to gain a better understanding and to reap the benefits of a good IR strategy. Smaller companies in particular can suffer from illiquid registers, lower valuations and a fight for media and investor attention. Buchanan Communications is focused on supporting companies of all sizes and sectors in order to gain the recognition they deserve.

Investor relations

A PRACTICAL GUIDE

The purpose of this publication

This publication is designed to be a valuable resource to companies looking to maximise the effectiveness of their IR efforts - which by definition should mean every quoted company and every company seeking a quotation. Our aim is to combine an accessible, factual and down to earth approach with practical insight into "best practice" in IR, giving companies the benefit of our contributors' many decades of collective experience across the whole range of IR issues. We are not looking to set out hard and fast rules, but rather to encapsulate the latest thinking in this rapidly evolving and at times most complex of fields, and to give all parties a greater sense of what makes the others tick.

To that end, the Exchange is enormously grateful to the following for their time, input and help in the formulation of this publication:-

Buchanan Communications – Claire Fargeot

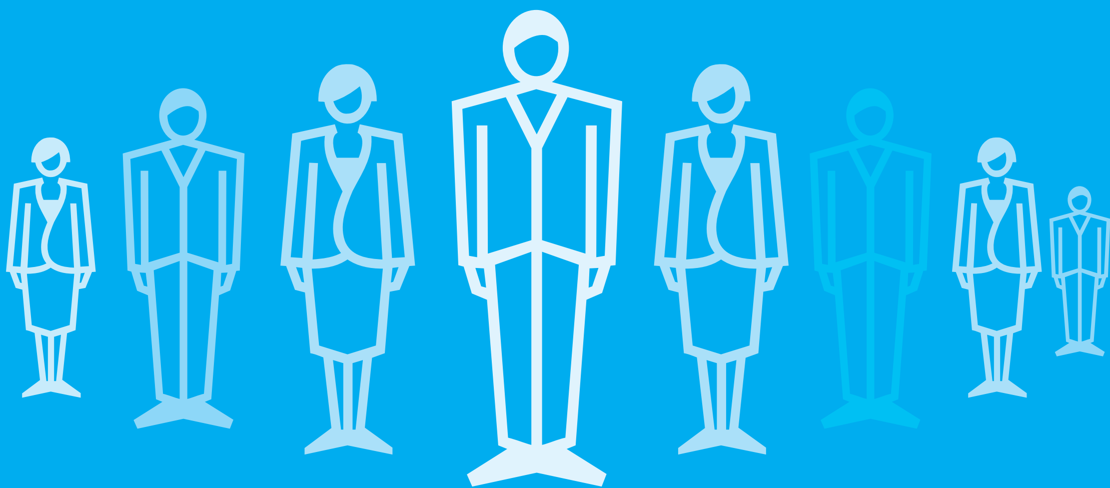
The Investor Relations Society – Natalie Evans

Hermes Focus Asset Management Ltd – Paul Harrison, Tim Bush

HBOS – David Roach, Robert Moorhouse

and thanks to Richard Carpenter

London Stock Exchange plc October 2003



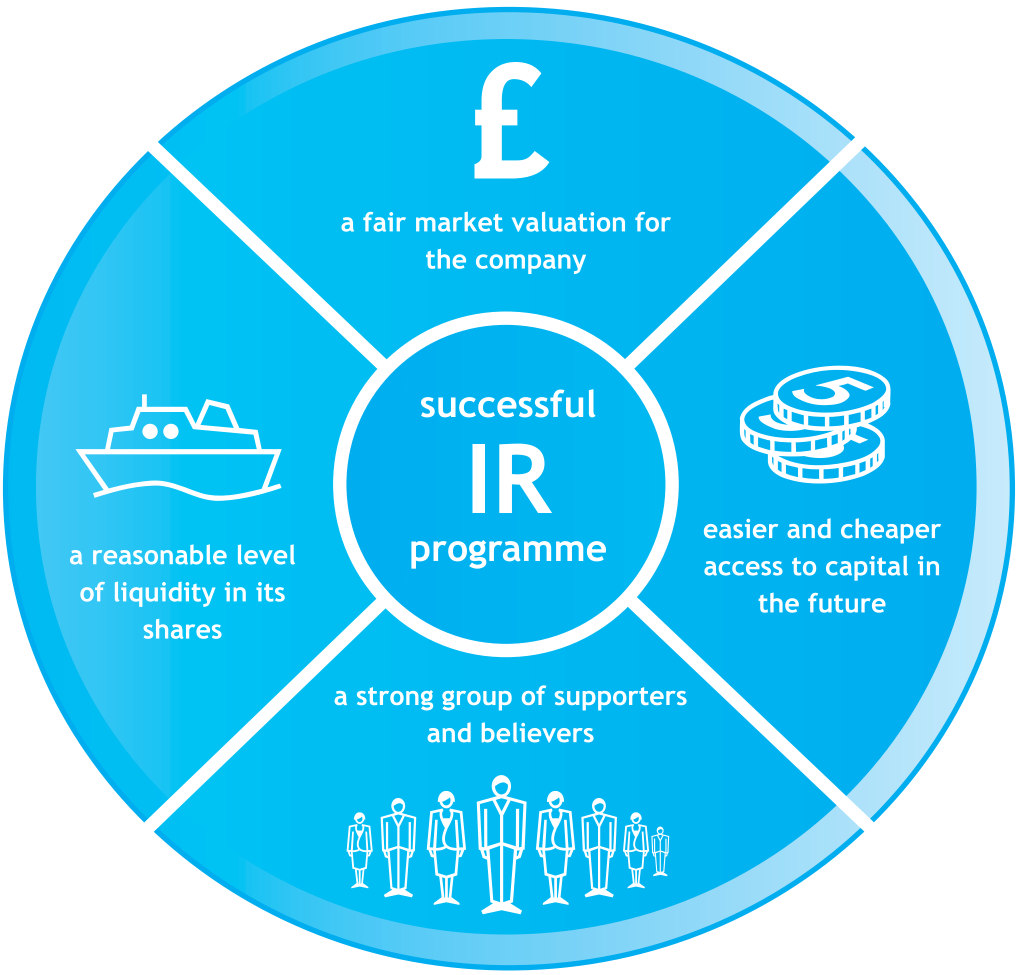
What is investor relations?

Investor relations (IR) encompasses the broad range of activities through which a quoted company communicates with its current and potential investors.

The clearest single element of an IR programme should be keeping the market informed of developments and events that may influence the share price – otherwise known as price-sensitive information. But IR should not just be a one-way communication from the company to the market. It should also provide for feedback from the financial community to the company.

The wider aim of an IR programme should be to provide investors and other audiences with a clear, honest and accurate picture of the company's past performance and prospects for the future. This latter point is key: investors are interested in strategic and operational information that will help them predict how the company might perform going forward. Feedback from the market, particularly investors, should also help the company to formulate its own strategy and facilitate its delivery.

A successful IR programme should be designed to achieve:



Why the stress upon a ‘fair market valuation’ rather than ‘best’ valuation? Some companies new to the market make the mistake of thinking that the aim of their IR function should be to push their share price as high as possible. Unfortunately, if a company fails to live up to the high expectations it has put out into the market then its stock tends to be punished severely. The result is a depleted share price and a struggle to rebuild trust with investors.

On the other hand, too low a rating due to misunderstood or poor fundamentals, or even a lack of information provided to the market, can lead to difficulties in raising finance in the future or increased vulnerability to takeovers. It is better to aim for a ‘fair’ market valuation that correctly reflects the company’s circumstances and its longer-term value.

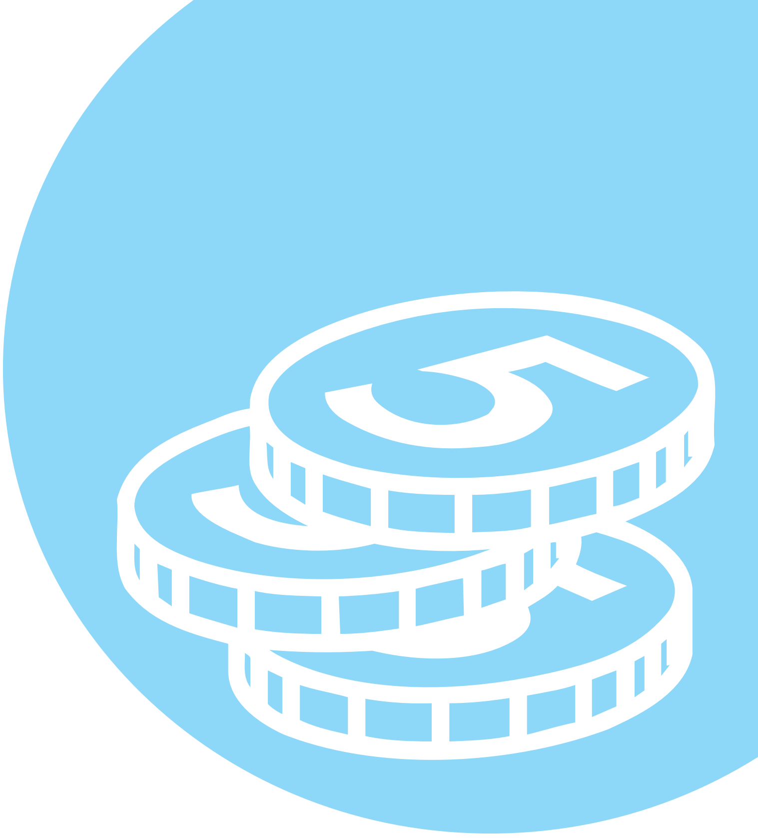
A range of factors will determine the valuation of a company by the market. These can be broadly divided into three areas:

- the current value of the business
- the value attached to the company’s prospects
- the capital costs of the business.

It is important that you know your stakeholders and the importance they attach to each area. For example, active fund trackers will look closely at all three, whereas passive trackers are likely to only consider the current value.

“Investors can't value what they can't see - a successful IR programme requires transparency, the ability to bring business performance to life and clarity in communication. It must be underpinned by the highest standards of corporate behaviour.”

Winner - Grand Prix for Best Overall Investor Relations, IR Magazine UK Awards 2003



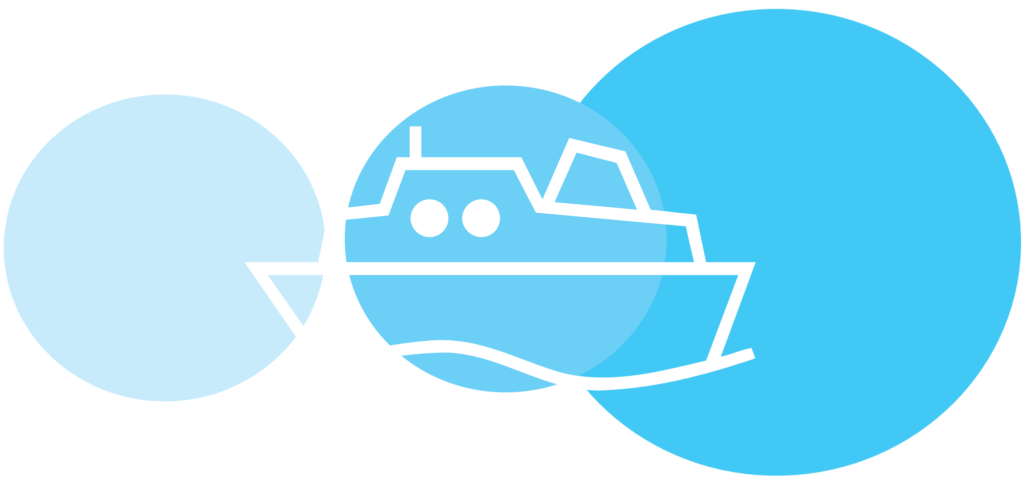
Other factors not to be overlooked would include the 'uniqueness' of the company's offering, the wider economy, the management team's track record, and the relative attraction of other investments.

A good IR officer (IRO) will have a sound knowledge base of their company's activities and be able to convey that information to the market through a range of channels. Leading IROs recognise that the job encompasses a range of disciplines. You need a good understanding of regulatory and financial issues combined with a willingness to use new technology and, perhaps most importantly, an ability to develop relationships inside and outside the company.

Not surprisingly, in these budget conscious times, many companies attempt to measure the success of their IR programmes. Ways of measuring IR success include:

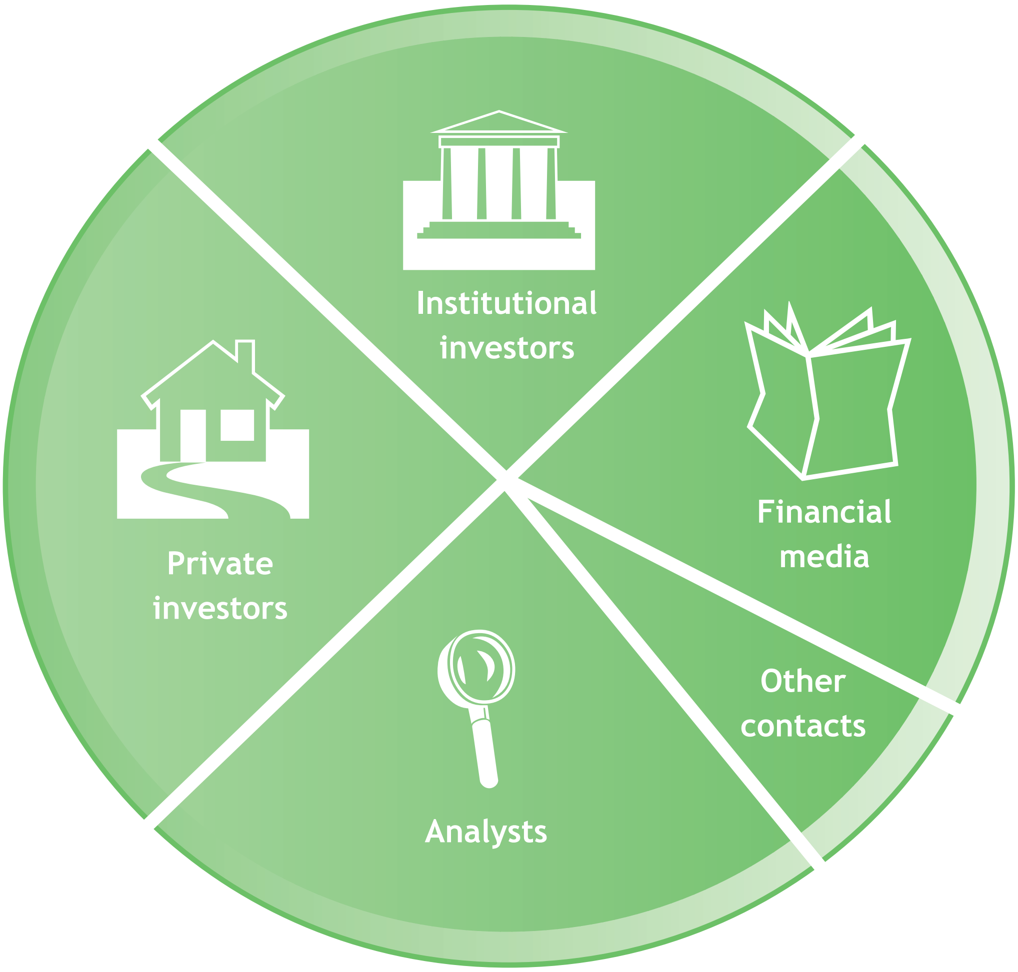
- keeping a check on the way in which the shareholder register changes over time;
- assessing any improvement in understanding of the company's story within the financial community; and
- analysing the ease with which capital is raised – some refer to this as the 'litmus test' for IR success.

The true success of an IR programme can never be precisely quantified since valuations and investor interest depend on such a wide range of factors, many of which will be outside the influence of the company. It may be best to set reasonable, yet specific, objectives by which the IR programme can be measured. These may include measurements such as the number of nominations for IR industry awards, the number of analysts and investing institutions visited in a year, and informed commentary and feedback from the various capital markets audiences. Take care however that these targets are framed so that they point your programme towards quality rather than just quantity.



Audiences and contacts

A company's IR programme has traditionally focused on four main external audiences:



The recent trend toward socially responsible investing and the growing importance of corporate social responsibility (CSR) issues has seen an expansion in the role of many IROs. In some instances, they are now expected to maintain regular contact with a wider group of stakeholders, such as lobby groups, local communities and environmental activists.

Each company has to make its own choices as to how it splits the communication roles and deals with its internal and external audiences. Some companies, for example, believe it makes sense for the IRO to also hold responsibility for communication with employees. Certainly, they are a crucial audience who may also have significant shareholdings in the company and there needs to be careful planning as to how they receive information. However the roles are split or shared, there is a growing trend towards the IR function sitting somewhere within or close to the finance department to enable a better understanding of the financial aspects of the story which is being told to investors.

Main external audiences

Institutional investors

The institutional investor audience, (also referred to as the buy-side), will be made up of a range of professional investors from various types of financial institution. They will include life assurance companies, insurance companies, pension funds, unit trusts, investment trusts, and other investment management groups.

These institutions may manage money on their own behalf or on behalf of another fund. For example, it is fairly common for the trustees of company pension funds to appoint a fund management institution to look after the day-to-day investment of the fund rather than run it themselves.

Large institutional investors are likely to want direct contact with the companies in which they invest, through presentations and one-on-one meetings. The IRO should ensure that there is a regular information flow to leading investors and that senior management make themselves available at key times to answer their questions.

Recent years have seen a growth in 'hedge funds', a type of professional investor who tends to use different investment strategies than those used by traditional institutions. Hedge funds often bet against market movements as a means of making money, making it difficult to assess how they might move into or out of your stock. Despite these difficulties, they should be provided with the same information as other investors.

The growth in foreign institutional ownership should also be taken into account. The globalisation of the fund management industry means that IROs may well find that overseas investors have taken a position in their stock or are interested in doing so. Market information should be made available to a global audience via the web or other electronic dissemination and, if your shareholder base becomes increasingly international, steps should be taken to ensure that overseas investors are included in presentations and visits.

Each institution has its own style and method of tracking funds and it is important that you understand how each of your institutional shareholders operates – whether they are active or passive trackers of funds, so that you can offer them the information they need and ensure that you retain a strong profile with them.

Private investors

The number of active private investors in the UK has declined slightly from the highs of the late 1990s when privatisations and demutualisations boosted numbers to around 15 million. Despite this drop, they still represent an important audience, and can be particularly significant for smaller quoted companies struggling to attract institutions into their stock. ProShare™, the UK-based organisation that promotes wider share ownership, estimates that in 2002 there were 11 million private investors in the UK.

Private investors can be a very loyal group of shareholders - most do not trade that often and do not have an ongoing relationship with a bank or broker. The majority rely on press comment and direct communication from companies for their information on the stocks that they hold.

Other private investors will rely upon advice from their bank, broker or other representative. Private client stockbrokers are critical to IR for many smaller companies and tend to be less City-focused than the large institutions. Some quoted companies focus on links with private client brokers in their local area to develop a strong private investor following within their region.

A small percentage of private investors will be extremely active investors who make their own investment decisions and trade through a broker on an execution-only basis. These tend to be more difficult to target but can still be reached through broker information packs and direct communications.

Many quoted companies also run schemes that encourage their employees to become shareholders, a factor that the IR function has to take into account when preparing information for the market.

Analysts

The analyst community can be split into two groups: sell-side and buy-side. Although their roles are broadly similar, their information needs are different.

Sell-side analysts work alongside brokers and tend to have an expert knowledge of a specific sector. Their job is to publish research on a company with a view to generating trades in that stock, in other words to 'sell' the stock to investors. They are usually the analysts who are quoted in the financial media.

Sell-side research is used by institutional investors – and some private investors – to help make investment decisions. This means that sell-side analysts retain a special place as a target audience for IR practitioners since their opinion can have a significant impact on the buying and selling of your stock. In turn, analysts will want regular access to senior management at the companies that they follow.

Despite this special relationship, sell-side analysts must not be granted any information advantage over other audiences. They must not be given price-sensitive information that has not been disseminated to the wider market: talking to a sell-side analyst is not the equivalent of publishing information to the market.

IROs can use sell-side analyst coverage to encourage interest in their stock and liquidity in their shares. Larger companies may well have 30 or so sell-side analysts covering their stock, but smaller companies may struggle to find even one sell-side analyst who will focus on their story.

Buy-side analysts work for large institutional investors, such as pension funds or life assurers. They have been growing in numbers in recent years as institutions have sought to produce their own research rather than rely on research from the sell-side. Fears related to conflicts of interest have contributed to the buy-side's reluctance to rely so heavily upon sell-side research.

Buy-side analysts may be less sector-focused than their sell-side colleagues, are likely to have less time to devote to one stock, and their research will also only be used by colleagues within their own institution. They are increasingly requesting meetings with IROs or senior management at companies. The IRO has to balance the need to respond to such requests with the need to provide all investors with the same information at the same time.

IROs tend to deal with these fears of selective disclosure by sending out releases to cover any price-sensitive information and then talking around the information in those releases in meetings with analysts and investors.

Financial media

The financial media is an important way of ensuring that new or updated corporate information is disseminated to as wide an audience as possible. Good relationships with financial journalists are crucial to ensuring that your story is covered in leading press, broadcast and online media.

Gaining good media coverage can have a significant impact on support for your stock as both institutional and private investors can be swayed by the stories they read, see or hear. Becoming a quoted company does move you into a new domain of public interest but it will not guarantee media coverage - there are many other companies vying for attention from the same journalists.

Many quoted companies turn to financial PR advisors as a means of developing those relationships and for strategic advice on how to gain coverage for their story. The financial PR firm should help you develop relationships with sell-side analysts which, in turn, can be key to positive media coverage. A good financial PR firm will advise you on innovative ways of ensuring that your story is covered and act as a sounding board as to how opinion stands among analysts and journalists.

Quoted companies should treat the financial media in the same way as they treat any other audience and be careful to ensure that they do not leak price-sensitive information to 'friendly' journalists in a bid to gain media coverage.

"Clear and consistent communication is crucial in maintaining strong relationships with core audiences."

Winner - Best Communications to the Financial Media,

IR Magazine UK Awards 2003

Other contacts

IROs can expect to encounter a wide range of contacts from outside these main external audiences as their role develops. Some of the principal groups of professionals and organisations that you are likely to come into contact with are covered below.

Corporate finance advisors – these advisors, corporate finance boutiques or investment banks (traditionally referred to as 'merchant' banks within the City), advise companies on sources of finance and strategic opportunities, such as mergers and acquisitions (M&A). It is now common for an investment banking operation to be part of a 'universal' bank that may also encompass securities trading, research and investment management. These structures have led to some of the conflicts of interest charges.

Broking houses – a broker's role falls into various categories but from a company's point of view its main tasks will be firstly, to provide ongoing market intelligence and advice on compliance with the regulations. Secondly, the broker aims to increase the volume of shares traded in your stock so will invite their investor clients to presentations and IROs should expect them to generate analyst research to that end. While brokers may help companies to contact investors they may not always be the best means of targeting new investors since they may focus on their existing client base only. Many companies use the services of more than one broker, develop their own investor database in-house, or use the services of an IR consultancy to help build upon the introductions offered by their house broker. Once again, it is worth noting that the distinction between broker and investment bank is becoming blurred with the development of integrated houses.

IR consultants – agencies which help companies to target and maintain relationships with investors as well as the logistics of an IR programme. They may also advise on strategic positioning, shareholder register analysis and targeting, development of technology related to IR, and other activities such as IR during M&A or crisis management. While common in the US, pure IR consultancies have been slower to develop in the UK due to the traditional advisory role of brokers.

Registrars – appointed by a company to keep a register of its shareholders, send out dividends, count votes at Annual General Meetings, and other tasks related to the logistical management of the shareholder register. A good registrar can help the IRO by providing regular updates from the register which can then be analysed in conjunction with the corporate broker or IR consultant.

Financial designers and printers – most IROs are charged with looking after the design and printing of their financial literature and so need to develop good working relationships with professionals in these fields. The annual report is likely to be the largest single project in each calendar year and a design agency should be chosen that can offer experienced input and consultancy in the field. Confidentiality is key when choosing both designers and printers. IROs should check that the providers have systems in place to remind their employees of their responsibilities with regard to price-sensitive information.

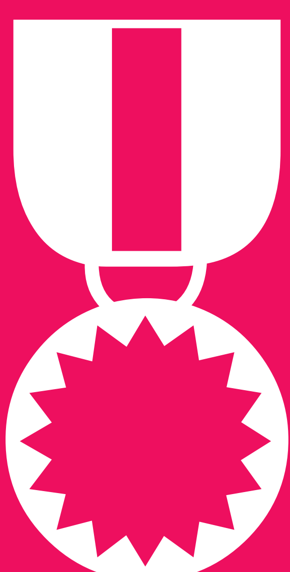
Auditors – few IROs will have to work closely with their company's auditors on a regular basis but they should at least develop a relationship with them and be aware of any issues that may concern investors. Recent scandals in the US have put auditors and the role of audit committees much higher up the investor agenda so IROs will be required to have a knowledge of relevant issues in their dealings with the financial community.

Legal advisors – there will be various instances where IROs are required to translate complicated legal information into more easily understandable language without adding any new legal risks. IR practitioners may also have to work closely with their legal advisors when announcing material events or during intensive periods of corporate activity, such as mergers or acquisitions.

Primary Information Providers (PIPs) – the deregulation of the Regulatory News Service in 2002 meant that all UK-traded companies were required to choose a Primary Information Provider to release their price-sensitive information to the market. There are a number of FSA-approved service providers whose role is to take your announcement and send it out through Secondary Information Providers (SIPs), such as Reuters and Bloomberg, to the market.

A more complete set of other contacts can be seen in the diagram below:

Best practice IR and the IR toolkit



IROs will be involved in the planning, staging and presentation of key financial calendar events for their companies. They will also be expected to arrange ad hoc meetings and events as needed.

All meetings and events should be well structured and use audiovisual and technological aids as necessary. Many companies now choose to make larger meetings and presentations available via an audio or video web cast on their IR web site in order to avoid any charges of selective disclosure.

The main meetings and events will include:

Quarterly, interim and preliminary results – the 'prelims' have taken on greater significance in recent years as the market looks for its first concrete information on the last reporting period and some pointers as to the next quarter or half year. Prelim results will normally be announced through a Primary Information Provider (PIP) at 7.00 a.m. and then followed up with a range of presentations and meetings during the day and a road show where appropriate.

Although the chief executive or finance director will normally be expected to lead the results presentation, the IRO will be closely involved in staging the meetings, inviting relevant audiences, and crafting the material for analysts, investors and journalists. IROs will also be involved in fielding the follow-up calls that are generated by results presentations.

Annual General Meetings (AGM) – the AGM is a statutory requirement and should offer shareholders the chance to quiz management, to review activities and deal with any issues of concern. The company should also view it as an opportunity to gain feedback from shareholders.

For many smaller companies, AGMs can be a bit of a non-event with few shareholders turning up and a simple need to run through the legal requirements. That could change in the future, however, as institutional investors are being encouraged to take a more active role in the meetings and to use their votes to focus management in the direction they desire.

IROs should ensure that they are aware of any potential investor concerns prior to the meeting and help management to develop the necessary responses well in advance. If any price-sensitive information is released at an AGM - either as a planned event or inadvertently in an answer - then it should be sent out as a public announcement through a PIP.

"A regular reporting cycle provides companies with the opportunity to demonstrate their strengths to the market and renew their relationships with key stakeholders. It also serves to reduce some of the volatility around the share price."

Winner - Best Results Meetings & Analyst Briefings,

IR Magazine UK Awards 2003

Institutional investor and analyst meetings – most companies arrange meetings with leading institutional investors and sell-side and buy-side analysts. There remains a tendency to keep the investor and analyst communities separate due to their differing information needs. Whatever approach is taken, companies should ensure that no meeting leads to selective disclosure to one particular institution or group.

In these meetings it is vital that your key messages are made clear e.g. what your company's core competency is and what your competitive strengths are. A general discussion of your business will make little impact, but by focussing on your key strengths you will market your business far more effectively. Also, you need to explain the value your board members are delivering to shareholders and their subsequent remuneration. As corporate governance worries continue to grow, you should always be prepared to be fully accountable on this matter.

The timing and location of your meetings can be key in attracting attendance. Lunch meetings are no longer as popular since they take up too much time and can be less productive than a focused one-on-one meeting. City-based results presentations are the norm rather than expecting investors and analysts to travel to your headquarters.

Buy-side and sell-side analysts will expect to have one-on-one meetings with senior management after major results announcements or during investor road shows by the company. IROs should ensure that no price-sensitive information is inadvertently leaked during such meetings and announce information to the wider market if the discussion moves into these areas.

Many companies arrange site visits for their investors and analysts to provide greater insight into their operations. They can also be used to introduce other members of the management team or demonstrate new products and processes. Most companies veer away from using site visits to give detailed financial presentations.

A word or two of warning: do not randomly send out invitations to the financial community or initiate contact with investors and analysts when you do not have the means to provide information to them over a longer period. Active targeting is crucial as a way of focusing the resources available for your IR programme and gaining the greatest impact from your meetings with the financial community.

Remember the importance of feedback. IROs should view all of their meetings with the financial community as an opportunity to gather the thoughts of the market on their company's performance and snippets of information about their competitors.

Media briefings – journalists will expect companies to write press releases for stories of note. Sending out a release via a PIP is the accepted way of disseminating information to the market. Many companies also choose to send their releases directly to leading journalists, investors, and analysts. Best practice dictates making such releases available on your corporate web site at the same time as they are released through a PIP.

Most quoted companies hold press briefings for financial journalists on the same day as releasing their results to the financial community. The briefings tend to be similar to those arranged for analysts but are likely to have less technical focus. Journalists may also want to concentrate on a particular angle that they believe will appeal to their readers so IROs should be aware of topics that might attract attention and brief their management team accordingly.

Obtaining coverage from journalists will also require expert targeting. Financial PR consultants should know which journalists are most likely to be interested in your story and help in setting up interviews and briefings.

Regional shareholder meetings – companies with large numbers of private shareholders or a concentrated group in one region may find it useful to stage local shareholder meetings. The meetings should provide private shareholders with the opportunity to question senior management after a formal presentation or company-led discussion.

Relatively few UK-traded companies stage regional shareholder meetings but there is nothing to stop smaller companies intent on building a private investor following from devoting more resources to this area. Some companies find it useful to combine such meetings with customers, suppliers, employees and other stakeholders with a view to updating a wider group on company performance and outlook.

Road shows – there are a number of specific areas where smaller companies can find that a proactive attitude reaps particular rewards. A drive to attract private investors, perhaps by cultivating regional private-client brokers and their customers via a series of road shows around the country, can help broaden the shareholder base and improve liquidity. Such an initiative is also likely to be good for the company's profile in the regional press – and while it is mostly larger privatised utilities which have made use of this idea so far, smaller companies are catching on to its potential.

Aside from the main events and meetings dictated by the financial calendar, IROs should keep in regular contact with the market to manage expectations and gain feedback. Companies are also required to provide information through mandatory communications tools, such as the annual and interim report. Best practice dictates that companies also keep their investor audiences up to date with a corporate IR web site. Some of these tools are explained in more detail below.

Annual reports – the printed annual report has evolved from the dry, purely financial and legal document it once was, into a more informative publication aimed at a wider group of stakeholders. Most traded companies now use the front of their report to update investors and other readers on business lines, strategic thinking, key financial ratios and issues such as corporate governance and corporate social responsibility. The back of the books remain focused on the financials and explanatory notes.

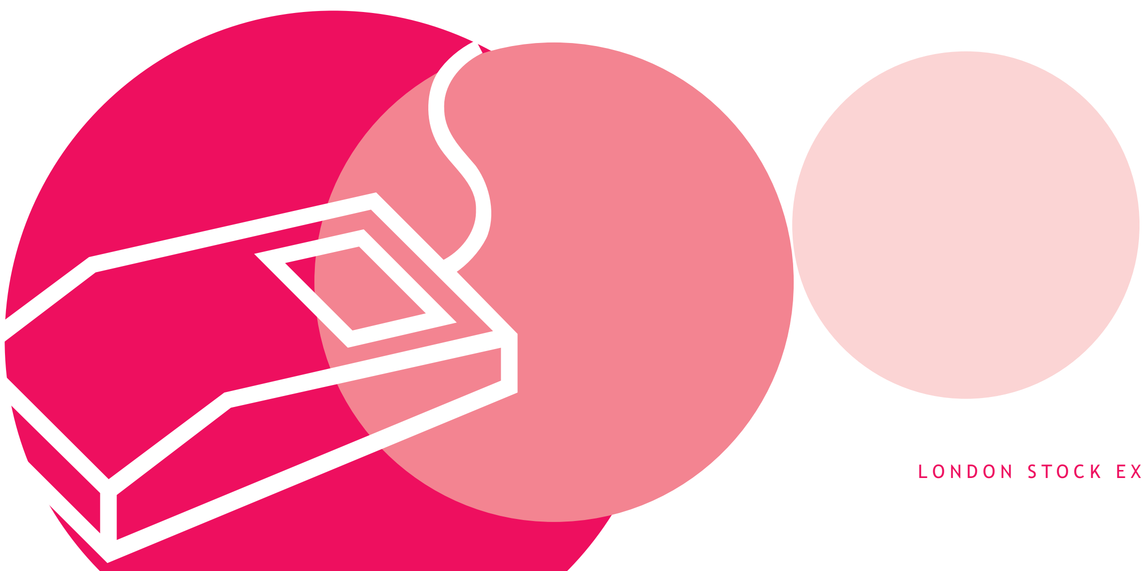
Companies with large numbers of private shareholders often opt to produce a summary report that is smaller in scope and cheaper to produce and distribute. All recipients of such a summary report are given the option of receiving the full report and accounts should they so wish.

IR web sites and electronic communications – in the mid-1990s, very few traded companies had developed their own IR web sites. Today, very few traded companies can exist without one. The web has become a key tool of investor relations due to its ability to provide easily updated information to a global audience, 24 hours a day.

Good IR web sites act as an electronic library of corporate information, a briefing tool for those new to the company, and an ongoing information alert system to help in the distribution of price-sensitive news. It should be noted that the FSA's regulations do not recognise publication of a press release on a company's own site as being sufficient distribution of price-sensitive information to the wider market – companies have to send releases out through one of the approved PIP services.

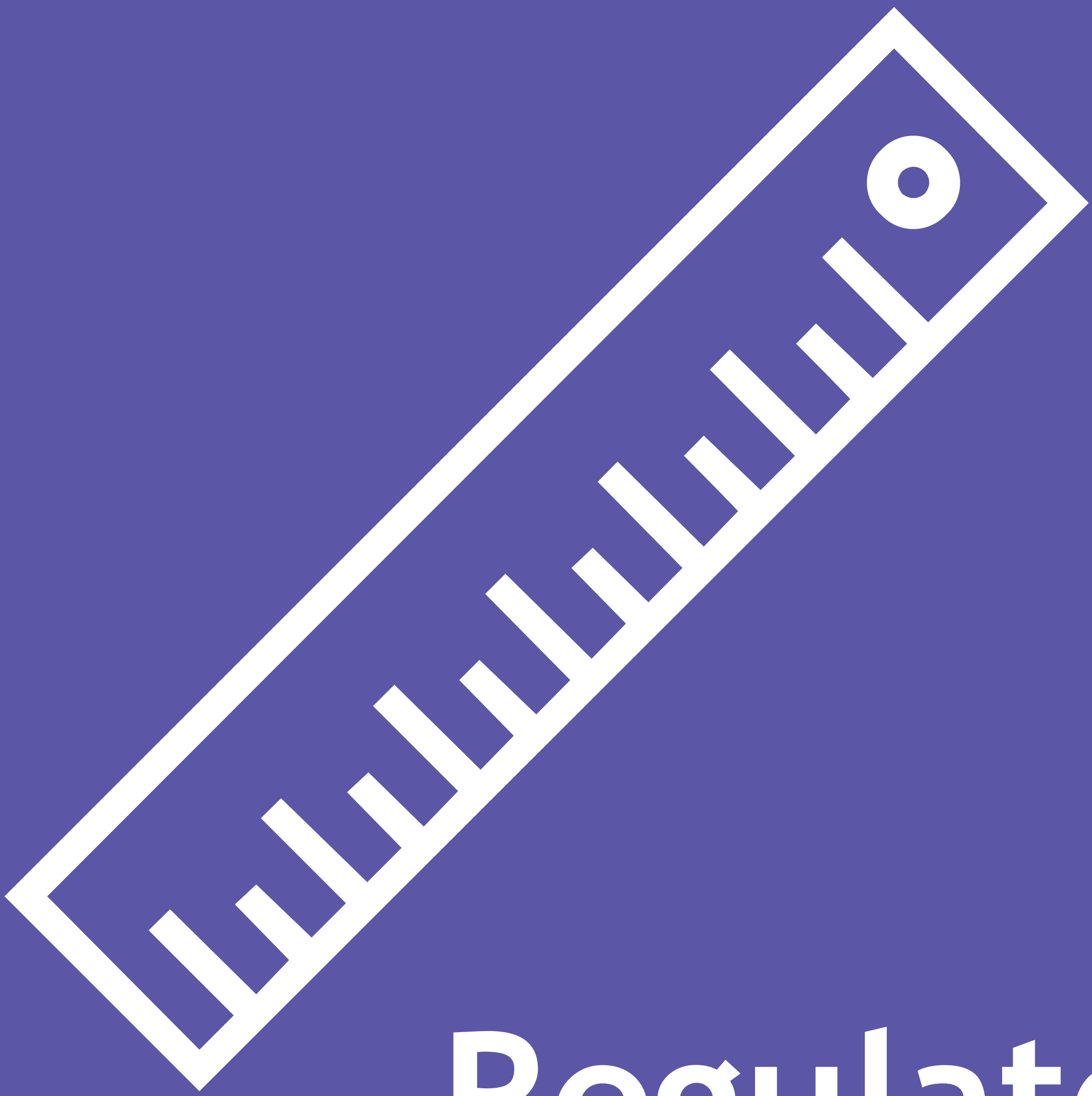
Some traded companies have begun to use their sites to web cast their investor meetings in a bid to ensure that private investors gain the same information at the same time. Financial regulators have encouraged these moves towards web-based communications because it enables companies to level the information playing field between private and institutional investors. It means that all audiences can now gain access to price-sensitive information as soon as it is released, whereas in the past professional investors tended to have an information edge.

Web casts and conference calls – a major part of the IR armoury. Conference calls allow investors and analysts located across the globe to listen to presentations and ask questions even if they cannot make it to a presentation in person. Many companies are now linking their results announcement conference calls with web casts through their IR web site in order to open up the presentations to a wider audience. The professional investment community still has the advantage of being able to ask questions over a limited access conference call but all investors can listen to the presentation as it takes place or can access the presentation in an online archive after the event.



A best practice example of an IR timetable

Board decision	INVESTORS Buy-Side		ANALYSTS Sell-Side	EMPLOYEES	OTHER STAKEHOLDERS
Preparation of year end results and materials Perception study		Jan	Perception study		
Sign off of results and distribution of materials	1:1 meetings with top 20 investors	Feb	Analyst results meetings	Newsletter and internal conference Intranet alert for results	
"Laying the foundations"	Shareholder analysis – identifying new target investors	Mar	1:1 Analyst meetings	Employee satisfaction survey – intranet based	Product exhibition
"Laying the foundations" "Building an understanding"	1:1 meetings with target investors	Apr			
Q1 Results preparation sign off and release trading statement AGM	Post release email alerts and calls	May	Post release email alerts and calls	Newsletter and intranet alert	
"Building an understanding"	Investor Day for new and existing investors	Jun	Analyst site visit		Customer satisfaction survey
Preparation of materials and Interim Results	Perception update	Jul	Perception update		Supplier satisfaction survey
Interim Results sign off and distribution of materials	Post release email alerts and calls	Aug	Post release email alerts and calls	Newsletter and intranet alert	
"Proving the pudding"	1:1 meetings with top 20 investors	Sep	Analyst results meetings		Interview with CSR lobbyist group
"Proving the pudding"	1:1 meetings with other investors	Oct	1:1 Analyst meetings		
Q3 results preparation sign off and release trading statement	Post release email alerts and calls	Nov	Post release email alerts and calls	Newsletter and intranet alert	
"Enhancing the profile"	Website overhaul investor relations pages	Dec	Website overhaul investor relations pages		Corporate entertainment



Regulatory and best practice developments

IR best practice can change rapidly. Five years ago it was still considered best practice to invite analysts along to a closed results presentation and pay little regard to the information advantage that this gave the professional investment community over private investors. Today, such an approach is likely to be viewed as selective disclosure and companies are encouraged to relay their presentations live over the web.

Keeping up with changing regulations and best practice can be challenging when you are also trying to manage the ongoing expectations of your shareholder base. Unfortunately, that is no excuse for failing to take note of new regulations or the changing information needs of investors.

There are a range of statutory and other regulations that IROs should be familiar with while ensuring that they keep up to date with new initiatives. In the UK, some of the main legislation and regulations to consider are the various Companies Acts, the Financial Services and Markets Act (FSMA), the Takeover Code, AIM™ Rules, the UK Listing Rules, and the Combined Code. There are also a number of European directives that have significant impact upon IR best practice and developments in the US market are often mirrored within the UK.

IROs are also advised to keep abreast of guidance and regulatory announcements from the Department of Trade and Industry (DTI) and the FSA. In the wake of the collapse of Enron in the US, corporate governance initiatives are at the top of the regulatory agenda and there are a number of ongoing debates relating to issues such as the independence of directors and auditor independence. The Combined Code on corporate governance was revised in July 2003, to take into account the Higgs Report on non-executive directors and the Smith Report on audit committees. In addition, the European Commission is currently consulting on a company law and corporate governance action plan. The very latest developments can be gleaned from the useful web site links at the end of this section.

Some recent regulatory and best practice developments of note are covered below. IROs are reminded that these are only brief introductions to sometimes complicated rules and regulations. If in any doubt, please consult your legal counsel.

Regulation Fair Disclosure (Reg FD) – introduced by the US Securities and Exchange Commission (SEC) in October 2000, Reg FD has had a significant impact on IR practice across the globe, although it only technically applies to US-listed companies. The regulation is an attempt to clamp down on so-called 'selective disclosure' through which companies gave advance or closed briefings to institutional investors and analysts. US-listed companies are now required to widely disseminate price-sensitive information before embarking on such briefings with the financial community.

Reg FD does not go any further than the UK market's long-standing requirements on disclosure but it does underline the expectations of regulators and has led the move towards further disclosure over the internet. It is now common for traded companies to web cast their results presentations so that all investors can gain access to the same information at the same time.

Financial Services and Markets Act (FSMA) – a major piece of UK legislation that came into effect in December 2001. The FSMA laid down new rules on market abuse and updated the Price-Sensitive Information (PSI) Guide. Both have an impact upon the 'selective disclosure' of information and are therefore crucial to IR practice.

Market abuse – the FSMA increased the likelihood of prosecution for market abuse by introducing a new civil offence to supplement the existing criminal offences of insider dealing. This means that the Financial Services Authority now only has to show that 'the balance of probability' points to an offence having been committed rather than proving it 'beyond reasonable doubt' for a criminal prosecution. The new civil offences for market abuse are:

- misuse of information – broadly equivalent to the old insider dealing offence.
- creating a false or misleading impression – relating to market information.
- market distortion – whereby your behaviour may distort the market.

Anyone looking for further information on the market abuse regime should consult the FSA's Code of Market Conduct.

Price-Sensitive Information (PSI) Guide – the updated PSI Guide from the UK Listing Authority defines price-sensitive information as 'information that may or would be likely to lead to a substantial movement in the price of a company's shares.' Companies and their legal advisers must determine themselves exactly what this covers.

The guide does clarify relationships with certain groups and, in line with Reg FD in the US, it steers companies away from the dangers of selective disclosure. Some highlights are:

- briefings to analysts should be opened up to the public.
- analysts should not be given any preferential treatment in the release of price-sensitive information.
- companies should review their procedures for meetings with analysts to ensure that no price-sensitive information is revealed.
- companies are encouraged to publish information over the internet but should not view putting it up on their website as the equivalent of wide dissemination to the market. Price-sensitive information has to be sent to the market via an approved regulatory news service (one of the approved PIPs).

Sarbanes-Oxley Act of 2002 – introduced in the US in 2002 in response to the corporate scandals of Enron, WorldCom and the like.

The legislation applies to all companies listed in the US, although non-US companies listed in the States have been granted some exemptions by the SEC. The ramifications of the legislation have been much wider, however, with market regulators the world over introducing similar rules.

The Act deals with a range of corporate governance and disclosure issues and is designed to tighten up procedures for listed companies and prevent them from failing to release pertinent information to investors. The areas it covers include:

- auditor and audit committee independence;
- improved disclosure of price-sensitive events;
- insider accountability and disclosure obligations.

The Sarbanes-Oxley Act also makes reference to analyst conflicts of interest, leading to the so-called Global Settlement between Wall Street firms and a range of US regulatory authorities.

IROs should also be aware of the following ongoing issues:

Corporate governance – the Higgs report, which considers the role and effectiveness of non-executive directors, has resulted in changes to the Combined Code. Its aim was to bring about "greater transparency and accountability in the board room, formal performance appraisal and closer relationships between non-executive directors and shareholders." Among the key proposals are that:

- the roles of chairman and chief executive should be separated;
- a chief executive should not become chairman of the same company and at the time of appointment should meet the test for an independent director; and
- an audit committee should be established and at least three of its members should be independent non-executive directors.

Following lobbying from industry bodies, the proposals were relaxed for smaller quoted companies in certain areas. For example, companies outside the FTSE 350 need not have at least half their board composed of non-executive directors if they have at least least two non-executives.

European legislation – there are various directives passing through Europe that aim to harmonise the European financial services sector. By 2005 all companies will need to use International Accounting Standards entailing conformity of financial statements with strict instructions on how these are to be interpreted.

Additional legislation includes:-

a) Market Transparency Directive, which ensures transparency of information about issuers whose securities are admitted to trading on a regulated market. Issuers will need:

- to produce an annual financial report within three months of the end of the financial year;
- a detailed semi-annual financial report; and
- quarterly financial information for the first and third quarters of a financial year.

b) Prospectus Directive, which ensures that a prospectus once approved by the home country authority of the issuer then has to be accepted throughout the EU for public offer and/or admission to trading on regulated markets.

c) Investment Services Directive, which is being upgraded as part of the Financial Services Action Plan.

Shareholder activism – part of the value derived by shareholders lies in their ability to put forward their case for company change. Shareholders often focus on a company's environmental record and its policy on executive compensation. IROs should ensure that they are aware of the agendas of any activist shareholders and advise management teams how to respond.

Corporate social responsibility (CSR) – CSR has become increasingly important to companies in the last couple of years as they endeavour to manage the ways in which their various audiences view their activities. CSR has a range of definitions but is probably best described as the way in which a company manages its impacts upon society and the environment.

Companies have become concerned that unless they are seen to be acting in a responsible fashion (managing the risks associated with poor environmental, ethical or social performance), their consumers and investors may well take their money elsewhere. Communicating this activity - and its effects - to investors and other stakeholders has become an accepted part of a well-developed CSR function. In many instances, the responsibility for this role falls within the remit of the IRO.

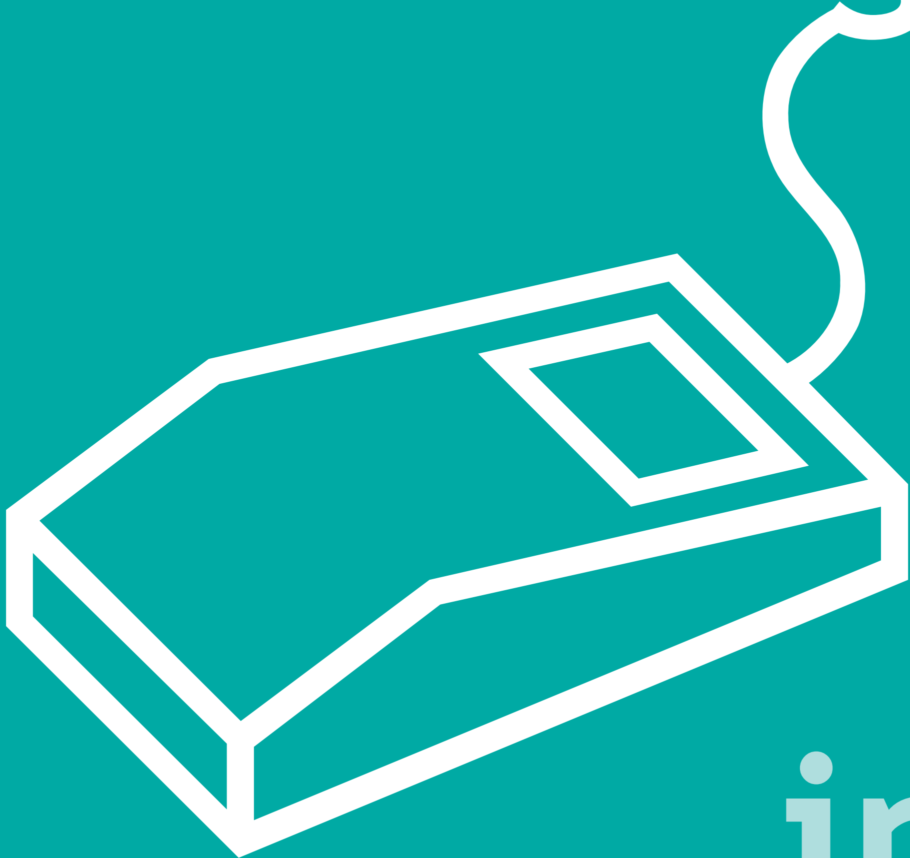
Accounting standards – IROs should have a broad understanding of accounting standards and keep up to date with some of the relevant issues at a domestic and international level. The last few years have seen a big debate as to how to account for retirement benefits, such as pensions. The UK accounting standard - FRS 17 - requires pension plan gains and losses to be recognised on the corporate balance sheet.

"Companies seeking to maintain IR best practice have to keep apace with an increasingly tough regulatory framework."

Winner - Best Disclosure Practice by a non-FTSE 100 Company,

IR Magazine UK Awards 2003

Putting IR



into practice

Each company's IR strategy should be determined by careful consultation between senior management and the IRO. The strategy should evolve in line with feedback from various audiences and as the company's understanding of the market develops.

IROs are responsible for putting the IR strategy into practice and should be aware of some of the major areas where things can go wrong. Listed below are key elements of a typical IR programme together with a number of hints as to how to avoid some of the pitfalls that they may represent.

Financial calendar, administration and logistics – the most common mistake in terms of planning the financial calendar is failing to be organised and plan far enough ahead. It sounds obvious, but if you are working late on the annual report every night for a week the last thing you want to do is take time out to book a venue for a results presentation six months down the line. Unfortunately, you may then find that your options are squeezed as every other traded company is trying to book the same venue at the same time. Best practice dictates planning ahead. Be strict with all the external agents and advisers that you use and make sure that they adhere to any deadlines that you give them.

Annual reports – once again, planning ahead is crucial. You know the annual report has to be published by a set date so work back twelve months and design a calendar with target dates accordingly. Thinking about next year's report when you have just sent the current one to press is unlikely to be an attractive proposition but that is exactly what you should be doing. Call designers, printers and other agencies well in advance and make sure everyone can work together as a team.

Annual report distribution can be a major headache. Ensure that your registrar is as up to date as possible so that your mailing list is correct. You can reduce distribution costs by putting a PDF copy of your annual report on your IR web site and directing students and other researchers to the site.

Your annual report should follow best practice in reporting - see the check list included in the pocket at the back of this guide. Also remember to seek feedback from shareholders and other stakeholders to make sure that you are dealing with the information needs of all of your audiences.

Company presentations and meetings – there is nothing worse than a flawless presentation to the wrong audience. Make sure that your contact database is up to date and that you know the information needs of the audience to whom you are going to present.

Larger traded companies tend to slightly tailor their presentations according to the information or cultural needs of shareholders in different markets. There is nothing to stop smaller companies from taking the same tack on a domestic basis - as long as they abide by the rules for the release of price-sensitive information.

Prepare in advance for all presentations and persuade those giving the presentations that they need to set time aside for a rehearsal. IROs should assess the ability of their senior management to convey corporate messages to the financial community. Frequent presentation training is a crucial part of any IR programme, regardless of the seniority of those making the presentation. It ensures that presenters are up to date with current issues, on their toes, and helps them avoid falling into the same traps time after time.

It may be that training advice is best delivered by a senior external adviser. Rehearsing with external advisors can be a useful way of highlighting potential presentation or Q&A problems and tactfully preparing senior management for some of the challenges that may arise during a presentation. For example, during rehearsals, never shy away from asking the most difficult searching questions that might arise. Answers should be honest, transparent and stick to the relevant facts. The rehearsal is also an opportunity to smooth out any technological glitches. If you are not capable of producing high quality electronic presentations in-house then outsource the presentation well in advance.

Regulatory considerations should be paramount throughout a presentation. Think carefully about what best practice requires at every stage of developing a presentation and carefully monitor the event as it goes live. Make sure that anything that is said complies with current regulations and, if necessary, send out a release to announce further price-sensitive information to the market. If the presentation is well planned in advance and the senior management team know the relevant responses then there should be no need for corrective action after the event.

After a presentation the IRO should solicit feedback from the audience and offer further access to senior management if needed.

Company statements/financial news releases – think ahead. Try and predict some of the likely questions from analysts and investors and answer them up front within the release. Be as factual as possible and avoid putting too much gloss or spin upon an announcement. If it is bad news, be honest about the situation. Releases should strike a fine balance between being as transparent as possible about your business and not giving away valuable competitive information. Where doubts remain IR advisors can be used to give input to materials prior to release.

Remember that investors, analysts, journalists and other key audiences often receive hundreds of releases each week. Do not bombard your contacts with unnecessary releases because they will then tend to ignore important information. At the same time, never shy away from sending out price-sensitive information in line with the regulations.

IR web sites – the most common problem with web sites is that they fail to take into account the needs of the user. Your web site might have far more corporate information than any of your competitors but it will be useless unless users can navigate easily around the site.

Make sure that your IR home page offers easy links to the most frequently accessed information. You should maintain a regular check on which pages are being accessed the most and then bring those pages to the fore when redesigning the site or via button links from the home page. A good search engine facility on your site can help users locate the information they need. The most advanced IR web sites are now allowing visitors to 'pull' the information they want from the site by defining their own virtual home page.

The IR web site is the easiest and most cost-effective way of keeping your audiences up to date with corporate initiatives but it should not be seen as a replacement for sending out releases to the market via the PIP system. Use the web as an added channel of information to grant access to your investor presentations, analyst meetings, and site tours. E-mail alerts are easy to set up so that interested visitors can register for up-to-date news but, as with the warning on company statements, do not abuse the system by sending out too much information. Your audiences will soon lose interest in your alerts.

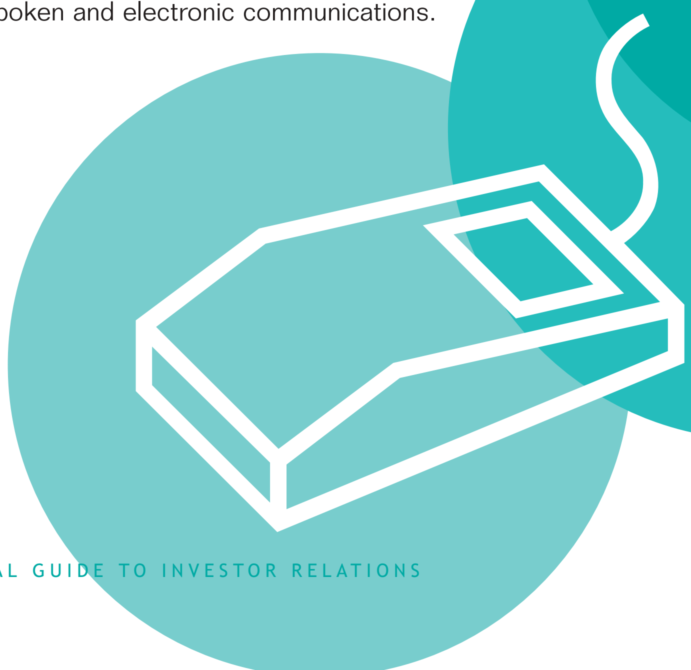
Traded companies are advised to monitor internet chat rooms but to steer clear of responding directly to chat or rumour within the chat rooms themselves. You should invite feedback via your official IR web site and develop a consistent rule for responding to rumours that operates across written, spoken and electronic communications.

Crisis management – some traded companies make the mistake of thinking that you cannot plan for a crisis. You may not know exactly what a crisis may bring but you should at least have put in place a structured means of responding to an emergency situation.

A good crisis management plan should nominate a team of internal and external personnel to deal with such a situation and keep that team informed as to any changes. Regular practice is one of the best ways of ensuring that a team knows its role and how to respond to various situations. A plan of action is probably best developed in tandem with expert advisors and should be carefully constructed to allow for changing circumstances.

"The most successful IR strategy will be executed within a context of total awareness of your own shareholders' views together with preparation for every eventuality."

Winner - Best Investor Relations During a Takeover by a FTSE 100 Company, IR Magazine UK Awards 2003



Managing the shareholder register

Publicly quoted companies cannot determine who buys or sells their shares, but they can have a significant impact upon the construction of their shareholder register through their IR programme.

Each type of shareholder will have their own investment characteristics. For example, private investors may be more loyal and hold the stock longer than institutions. Yet private investors are likely to have relatively little individual impact on your stock whereas one institutional buy or sell decision can have a major effect. Hedge funds, on the other hand, may introduce an element of volatility into your stock by buying and selling large tranches of shares in a relatively short period.

It is in the interests of an IRO to try and identify which types of investors have holdings in the company. Your broker, registrar and IR consultant should be able to help you in that process. Armed with that knowledge, you are in a better position to know how your stock might react to certain corporate news. You can also begin targeting particular types of investor to slowly change the make-up of your shareholder register should it be desired.

There is no recommended or ideal balance between institutional and retail shareholders. Each IRO will have to come to their own decision based on their own feedback, the current state of their shareholder register, and the resources available to them to target new investors. IROs should consider their own resources before undertaking a programme to change the make-up of their shareholder register. While some investors will inevitably drop off your register as you target new contacts, you should always ensure that you have the ability to maintain the information flow to those on your register.

There is little point in targeting thousands of private investors if you do not have the time or money to support their information needs over the longer term. Private investors can be higher maintenance and more time-consuming than their institutional counterparts, particularly as it may take several thousand to match the buying power of one institution. Each private investor has just as much right to information from the company as an institutional shareholder and that can be a serious drain on IR time if it is badly managed. IROs should use the web as much as possible to support and update their private investors, leaving more time to hold the hands of the bigger institutions.

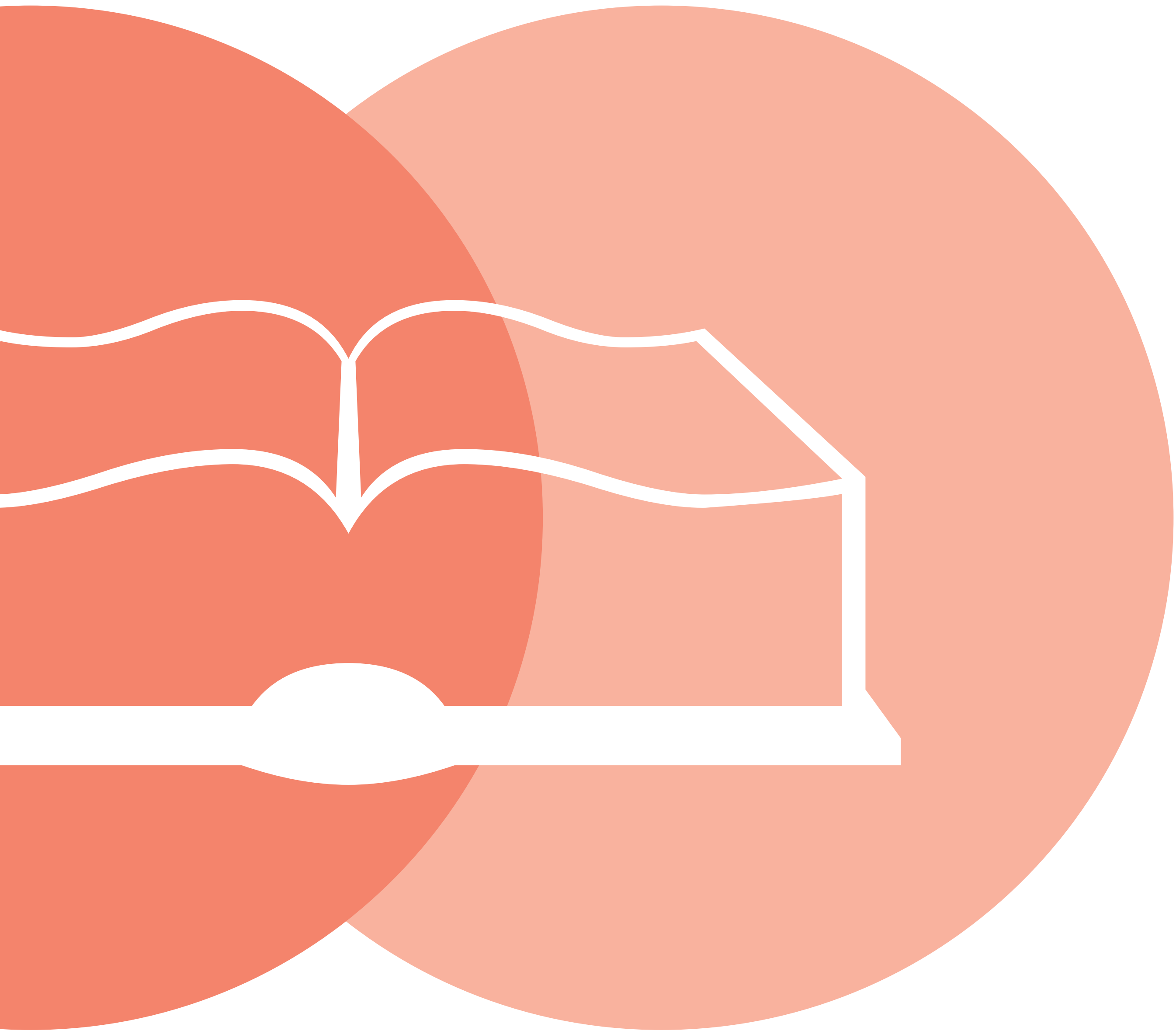
One issue to bear in mind is that too high a proportion of private shareholders can lead to very costly administrative charges and AGMs. On a more positive note, however, a large retail investor base could be an asset as it promotes an investor friendly corporate profile.

Illiquid share registers are a problem for smaller quoted companies in general since there is such high competition for attention from institutions. The consolidation of the fund management industry has not helped in that regard. Still, there is nothing inevitable about such a situation. Liquidity and volatility can be helped by an active IR programme that continually feeds the institutional market with information about the stock. The programme should focus on conveying an attractive investment case combined with proactive marketing to investors who support the long-term strategic aims of the company.

Many smaller quoted companies make the mistake of relying too heavily on their house broker to market their stock. Your broker will help but will also be faced by the reality that you are a small client offering little financial reward for a dedicated marketing campaign. Even larger companies come unstuck by relying too heavily on one broker – each broking house will tend to focus on a particular group of investment clients and these may not necessarily be the best fit with your own investment profile.

A proactive IRO will try to persuade other analysts to research your company, although your success will probably be limited by your market capitalisation and whether your sector is currently in vogue. The smallest quoted companies will probably struggle just to persuade their house broker to generate research (see 'Small company concerns' on page 32 for helpful hints). Most advisors suggest that there is nothing wrong in paying for independent research from a good analyst – your financial PR advisor should be able to advise you on that issue.

Another alternative is to hire the services of a dedicated IR consultant to introduce you to new institutions and help you target those that fit your investment story. They can also advise you on how your investment proposition is viewed by the market and help you gain feedback on your IR programme. You should also build up new contacts in-house and have some annual objectives for making contacts or holding meetings with new investors.



Small company concerns

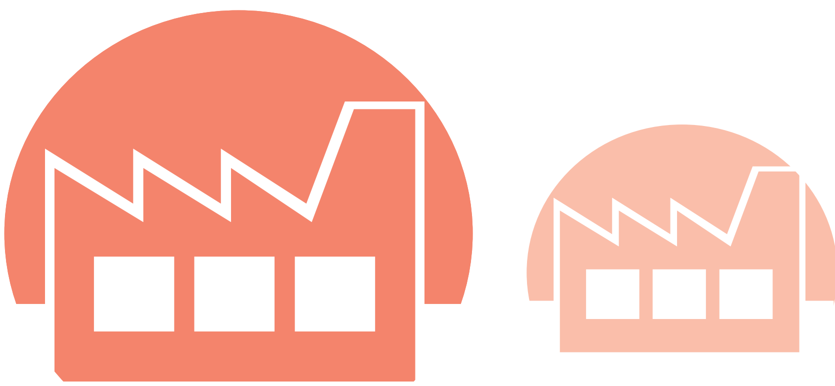
Throughout this guide we have touched upon some of the difficulties faced by smaller quoted companies in their dealings with the market.

Recent years have seen fund managers focus more of their attention on larger quoted companies. There are a range of factors behind this trend, including a move toward more international investment, the introduction of the Euro, and the consolidation of the securities and fund management industry. Unfortunately, brokers and analysts have followed these moves in a bid to retain the business of their investor clients, making it doubly difficult for smaller quoted companies to attract attention in the market.

Institutions have also shied away from smaller companies due to liquidity or governance concerns. Many smaller quoted companies still have significant founding family shareholdings and the limited free float can make it hard for an institution to take a large enough stake in the company. At the same time, large family shareholdings can be seen as a barrier to progress or good governance – both of which are guaranteed to scare off institutional investors.

From a corporate viewpoint, share price valuations are lower than desired and access to initial or continuing funding is often severely restricted. From an institutional viewpoint, P/Es of smaller cap stocks stand at a discount to that of larger stocks as a form of negative compensation for the extra difficulty in dealing in the shares, whether it be low daily trading volumes or difficulty of entry or exit to the share register.

So how should you go about attracting the attention of the professional investment community?



Most fund managers want to look at smaller companies from a growth perspective. They will only invest if they believe that your company has a real opportunity to grow over the coming years. Smaller quoted companies which manage to position themselves as growth stories will tend to be those that benefit the most from institutional interest.

Sell-side analysts cite three possible reasons to follow a smaller quoted company if their firm is not the corporate broker. The first is similar to the type of story most likely to attract institutional interest: believing the company is a growth stock. Being known as an expert on a significant growth stock can help the analyst attract investor attention that, in turn, might lead to institutions dealing through his or her organisation.

Next comes the so-called 'conflict of interest' argument that has been mentioned earlier in this guide. Analysts cover companies because it helps their firm to pick up corporate broking or transaction business – the analyst acts as a loss leader.

Finally, if an analyst already covers other companies in the sector then it may be relatively little extra work to add on coverage of another stock. That extra effort can also help put other research into a wider perspective.

There is some positive news to report, as the shift between balanced and specialist fund management continues. This shift in focus brings the prospect of increased demand for smaller company shares from a breed of fund managers who possess both commitment and expertise. Admittedly it will take a while to impact however it is nonetheless a positive development.

"Smaller companies must recognise that those who invest in active IR programmes will benefit the most from increased investor interest."

Winner - Grand Prix for Best Smaller Company Investor Relations, IR Magazine UK Awards 2003

Glossary

Glossary courtesy of the Investor Relations Society, Europe's leading professional body for those in investor relations.

AGMs

The AGM is a statutory requirement. The usefulness of the AGM has arguably diminished in recent years as they have progressively become opportunities for private shareholders, pressure groups and environmental lobbyists to generate publicity. Efforts are underway to encourage more meaningful AGM engagement with institutional shareholders. Practical matters to consider include coinciding AGM with company visits by analysts and institutions to encourage their attendance.

AIM

Set up in 1995 and designed to provide a global market for smaller and growing companies. The benefits are lower costs and simpler rules, though once admitted, companies have certain ongoing disclosure requirements. While AIM companies do not fall within the strict definition of 'listed' companies, their shares may be described as being quoted or traded on the market.

www.londonstockexchange.com/aim/default.asp

Annual reports & interim statements

A key requirement of the directors is to report at the end of each financial year to the shareholders as to the financial performance during the year and the financial position of the company at the year-end. Annual report and accounts have to be filed with the Registrar of Companies at Companies House where they are available for the general public, as well as being sent to individual shareholders.

Auditors

All traded companies are required to have their accounts independently audited before publication in their annual report and accounts and Companies House filing. Restrictions are currently being considered on the extent to which audit firms can offer additional services, and some audit firms have already spun off for instance their consulting arms.

Banks

Commercial banks deal with taking deposits and lending money to individuals and companies.

Retail banking involves high street branches dealing with the public, shops, and small businesses.

Wholesale banking involves dealing with other banks, the central bank, listed and private companies, and investment institutions.

Investment banks can mean many things. They can be any or all of a stockbroker, a merchant bank, market maker and commercial bank. They deal with helping companies to find money and will give advice on the best source of finance. If the choice is bonds or equities, they will help the issuer to price them, assist in selling and underwrite the issue. Merchant bank is a UK term and the equivalent in the USA is investment bank. A merchant bank in the USA has a narrower definition, being applied to taking an active part with the bank's own capital in takeover/merger activities.

Activities of an investment bank include:

- Accepting
  - Accepting bills of exchange
- Corporate finance (primary market activity)
  - New issues – bonds/equities
  - Rights issues
  - Mergers and acquisitions
  - Research
- Securities trading (secondary market activity)
- Investment management
  - For companies, pension funds, high net worth individuals
  - Analyst separated between sell-side and buy-side
- Syndicated loans
- Foreign exchange

Central banks typically have the following activities that may differ in each country:

- supervision of banking system
- advising the government on monetary policy
- issue of banknotes
- banker to the government
- banker to other banks
- lender of last resort
- control of currency reserves
- raising funds for the government
- international liaison.

Corporate brokers

Corporate brokers are virtually only found in the United Kingdom. Having one used to be a requirement by the London Stock Exchange plc. Having a sponsor is still a requirements of the Listing Rules.

The role of the corporate broker in IR has developed in recent years. Typically the corporate broker will organise road shows for large companies for institutional investors. The aim is to increase the volume of shares traded in these companies; such services are generally provided free by the broker for large companies although smaller companies may have to pay a fee.

- Corporate broker
  - company's main interface with market
  - provides market with information on company
  - feedback to company of market's view of its stock
  - manages contact with institutional investors
  - compliance with listing rules.

Corporate governance

In the UK the principles of good governance and code of best practice are outlined in the combined code. Compliance with this code is part of the FSA's Listing Rules. The new Combined Code incorporating the recommendations of the Higgs Report will apply for reporting years beginning on or after 1 November 2003.

http://www.fsa.gov.uk/ukla/2_listinginfo.html

Corporate social responsibility and socially responsible

Corporate social responsibility involves companies taking into account the social and environmental impact of their actions – locally, regionally, nationally and internationally.

www.societyandbusiness.gov.uk
The Government's CSR website

Investment

Socially Responsible Investment (SRI) is investment where social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investment, and the responsible use of rights (such as voting rights) in relation to investment. SRI combines investors' financial objectives with a commitment to social concerns

www.bitc.org.uk
Business in the Community's website
www.uksif.org
UK Social Investment Forum's website

Directors

Directors are appointed by the shareholders to run the business on their behalf. Shareholders can exert their voting rights to appoint or dismiss directors, or vote on major operational issues.

Executive directors

Management of the day-to-day operation of the business

Non-executive directors

Role is advisory and supervisory independent of executive directors. The role of NEDS has been the subject of a review by Derek Higgs.

http://www.dti.gov.uk/cld/non_exec_review/condoc.pdf

The Government's consultation paper on the effectiveness of non-executive directors

Financial calendar

As a result of the regulatory requirements of the London Stock Exchange plc and Companies Acts in the UK (and the equivalent in other countries) there are a number of events and obligations for companies in the financial calendar, which can be used as opportunities for IR.

These are:

- Annual reports
- Prelim and interims statements
- Annual general meeting
- Listing obligations.

Financial markets

Financial markets are all about the raising of capital.

They are there to match those who want money (borrowers) with those who have money (lenders).

In order for a mechanism to exist to enable those who want money to find the lenders, there must be intermediaries to organise this flow of money. Financial markets provide the intermediaries.

Financial Services Action Plan

The key aims of the EU's Financial Services Action Plan are:

- to create a single EU capital market by modernising the EU's legislative framework, including a wholesale review of the Investment Services Directive and legislation on prospectuses and accounting;
- to develop open and secure retail markets, for example by agreeing on the "distance selling" of financial services, providing information on mortgages, and preparing an EU-wide e-commerce policy for financial services;
- to revisit prudential supervision, for example by amending the directives governing the capital framework for banks, investment and insurance firms, and by creating a consistent and coherent European regime for financial conglomerates.

The heads of state of the EU have called for implementation of the Action Plan by 2005, and the European Commission is currently presenting many of its formal proposals that will give effect to the legislative initiatives which the Action Plan entails.

http://europa.eu.int/comm/internal_market/en/finances/general/actionen.pdf

FSA

The Financial Services Authority (FSA) is the independent body that regulates the financial services industry in the UK. The FSA has 4 main aims:

- maintaining confidence in the UK financial system by supervising exchanges, settlement houses and other market infrastructure providers; conducting market surveillance; and transaction monitoring.
- promoting public understanding of the financial system by helping people gain the knowledge, aptitude and skills they need to become informed consumers, so that they can manage their financial affairs more effectively.
- securing the right degree of protection for consumers by vetting at entry aims to allow only those firms and individuals satisfying the necessary criteria (including honesty, competence and financial soundness) to engage in regulated activity.
- helping to reduce financial crime by focussing on three main types of financial crime: money laundering; fraud and dishonesty; and criminal market misconduct such as insider dealing.

www.fsa.gov.uk

FTSE

The official indices tracking the London Stock Exchange plc equity and bond markets are managed by FTSE, which is owned by London Stock Exchange plc and the Financial Times and is a company specialising in index calculation.

FTSE changed in June 2001 from calculating indices on the basis of market capitalisation to using a free float basis (i.e. shares available for trading).

www.ftse.com

Hedge funds

The term hedge fund first came to use in the 1950s to describe any investment fund that used incentive fees, short-selling or leverage. Usually hedge funds:

- are organised as private investment partnerships or offshore investment corporation
- use a wide variety of trading strategies involving position taking in a range of markets
- employ an assortment of trading techniques and instruments, often including short selling, derivatives and leverage;
- have an investor base comprising wealthy individuals and institutions and a relatively high minimum investment limit (set at $100,000 or higher for most funds)

Institutional investors

Institutional investors manage pooled funds (other people's money) often totalling billions of pounds. Institutions often maintain a core holding but deal small amounts of a company's stock on a regular basis. Pension funds and insurance companies are examples of institutional investors.

IPOs

IPOs are the first sale of stock by a private company to the public. They may be smaller, younger companies seeking to expand their business or they may be larger companies where the owners want to sell out.

London Stock Exchange plc

The London Stock Exchange plc is one the world's leading stock exchanges. It is the most international of all stock exchanges, with over 1,600 UK and nearly 450 overseas companies from over 60 countries admitted to trading on our markets. The London Stock Exchange plc provides the markets and means of raising capital for UK and international companies through equity, debt and depositary receipt issues. It also gives investors of all types the opportunity to buy and sell shares in the companies of their choice.

www.londonstockexchange.com

Market abuse

The term market abuse covers three broad types of behaviour:

- misuse of information;
- creating a false or misleading impression; and
- distorting the market.

The FSA has published a detailed code of guidance on market abuse called the Code of Market Conduct. You can access information at: http://www.fsa.gov.uk/consumer/pdfs/market_abuse.pdf

OFEX

OFEX is operated by OFEX plc and is a prescribed market under Section 118 of the Financial Services and Markets Act 2000.

OFEX started with 45 securities, and since then has seen a progression of companies who have used it as a springboard to AIM and the Official List, whilst retaining a constant core of companies who have chosen to remain on OFEX.

www.ofex.com

Price sensitive information

Price sensitive information is information that would affect the value of a company's share if it were made public.

In its capacity as the UK Listing Authority, the Financial Services Authority publishes a Guide to Price Sensitive Information which can be accessed on their website: www.fsa.gov.uk

PIPS (Primary Information Providers)

In the Regulatory Information Service (RIS), Primary Information Providers (PIPs) are the organisations who receive information from the company and pass it out to the Secondary Information Providers (SIPs) who disseminate it.

Regulation Fair Disclosure (Reg FD)

Reg FD was introduced in 2000 by the Securities and Exchange Commission (SEC) in an effort to prevent selective disclosure by public companies to market professionals and certain shareholders. In the past, many companies released important information in meetings and conference calls where shareholders and the general public were excluded. The goal of this rule is to even the playing field between individual investors and institutional investors.

The Reg FD rule reads as follows: 'Whenever an issuer, or any person acting on its behalf, discloses any material non-public information regarding that issuer or its securities to [certain enumerated persons], the issuer shall make public disclosure of that information... simultaneously, in the case of an intentional disclosure; and... promptly, in the case of a non-intentional disclosure'

www.sec.gov

Road shows

The road show is a presentation by the management of a company that is issuing securities or doing an Initial Public Offering (IPO) to potential buyers, analysts and fund managers. The road show usually travels around a country or number of countries.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act was passed in July 2002 in the USA, following a series of corporate scandals. The Act contains some of the most far-reaching changes in the law governing how public companies do business. Among the measures in the Act include, the creation of a new and independent oversight board to regulate the accounting profession, a new requirement that CEOs and CFOs certify that quarterly and annual reports are complete and correct and the accelerated disclosure of all director and executive stock dealings.

www.sec.gov

Shareholder activism

'Shareholder activism' is a broad term that encompasses the many ways in which investors have engaged corporate management on a broad array of issues. Socially concerned investors have used a range of tactics to lobby for greater corporate social responsibility, dialogue with management, letter writing campaigns, attending annual corporate board meetings, and filing shareholder proposals, which are voted upon by all of a corporation's shareholders.

Short selling

Short selling is the selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short sellers assume the risk that they will be able to buy the stock at a lower amount than the price at which they sold short.

Useful websites

London Stock Exchange plc – www.londonstockexchange.com

Buchanan Communications – www.buchanan.uk.com

Investor Relations Society – www.ir-soc.org

UK Listing Authority – www.fsa.gov.uk/officiallist

ProShare (UK) Ltd – www.proshare.org.uk

FSA – www.fsa.gov.uk

IASB – www.iasb.org.uk

NAPF – www.napf.co.uk

ABI – www.abi.org.uk

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