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The Editor's Notebook

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THE EDITOR'S NOTEBOOK

Timely highlights of news, commentary, research findings and other information for the IRO…

COMPILED BY HANK BOERNER

As an editor plugged into the "global news flow," I monitor a wide range of potential news, feature and background stories for *IR Update* readers. In this new feature we'll present both information you can use now and sources for more information if you are interested. We welcome your contribution of news – and suggestions for items to be covered; send to: ***hboerner@niri.org.***

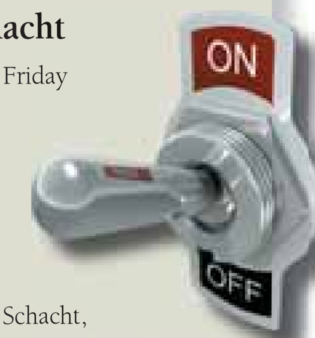
Happy investors staying put? May depend on your ethics

So institutions are happier investors when the company they invest in is "ethical?" Seems so, say researchers at Pepperdine University's Graziado School of Business and Management; they found two-thirds (67 percent) of institutional investors surveyed said they would move their investment if the company engaged in *unethical* – even if "legal" – behaviors. Good news: More than half (55 percent) of the institutions thought that boards *do* behave ethically. "Clearly, investors are now looking at more than the balance sheet and sales projections," said Dr. Linda Livingstone, the school's dean. Information at: ***http://bschool/pepperdine.edu/newsevents/releases/2007***

Of course we want SEC to be more user-friendly

"User-friendly" is fast becoming a ubiquitous byword in U.S. business, and everyone in a responsible position seems to be climbing on the bandwagon — including SEC Chair Christopher Cox. He announced a new advisory committee that will examine the U.S. financial reporting system; goals are to reduce "complexity" and make information more useful and understandable for investors. Robert Pozen, chair of MFS Investment Management (Boston, $200 billion assets) and former vice chair of Fidelity will head the committee; SEC is looking to add up to 17 members as we write this note. SEC wants to remove impediments to transparency and reduce costs of the financial reporting system. Information at: ***http://www.sec.gov/news/press/2007***

Tune in this radio show with Chuck Jaffe and Kurt Schacht



Tune in to "Your Money Radio." Each Friday morning host Chuck Jaffe presents info on hedge funds, corporate governance, securities regulation, global investment reform and other topics of interest to financial executives. His regular Friday guest is Kurt Schacht, CFA, managing director of the CFA Institute Centre for Financial Market Integrity. Segments in the show's pipeline include majority shareholder voting; exec comp; accounting rules / the future in the 21st Century; shareholder issues, and more. The show is on Boston's WBIX (AM-1060) from 6:00 am to 7:30 am, and available on podcast. For more information: ***http://www.yourmoneyradio.net***

Shift to watch: Mutual fund positions on voting proxies

Lots of lessons coming out of the 2007 proxy voting season. One is a clear signal of heightened awareness of (and interest in) corporate governance *from their own investors* by mutual fund advisory firms' managements. While the IRO may feel the pressure of the mutual fund internal or external money manager, the large fund complexes are feeling the pressure from their own investors, as well as the media and shareholder advocates. Watch for significant changes in large fund behaviors as these apply to your company. For example, this year AIM Investments ($70 billion assets) overhauled its guidelines for how it votes shares in corporate elections. More often than not, this year the fund's votes were *against* the recommendations of corporate management; of 1,000 elections, AIM says it voted "no" on management recommendations in at least one instance on 45 percent of ballots. And AIM voted against management on 15 percent of all proposals. Big issues for AIM: "say-on-pay" proposals, and corporate leaders being "overpaid" in the advisor's opinion. Something to watch as we move toward the 2008 proxy season — how much ripple effect will AIM's example have on fund complexes?

Fighting terrorism at home by divesting company shares

While IROs and senior management often hear from their public employee pension fund investors, those funds are hearing from their own critics. Case in point: A lawmaker in New York State called on the New York State pension fund ($150 billion assets) to divest shares held in 235 companies (16 percent of fund assets) with "ties to terrorist states." (Targeted companies include Chevron, Coca-Cola and Halliburton; the states involved are Syria, Sudan, Iran and North Korea.) Remember the public employee pension funds' focus on South Africa and the policies of Apartheid? Many U.S. companies suffered financial losses as they departed South Africa under pressure from pension fund investors. State Senator Jeff Klein says New York State and other public funds should target companies with ties to "outlaw" states. He called on the legislature to pass a law to mandate disclosure of the 200+ U.S. companies with ties to rogue states. This "acorn" could grow to a mighty tree if other state money managers warm to the idea of fighting terrorism through their financial holdings.

Hedge fund pressure on management: Lower credit quality, higher cost of money

While you are watching hedge funds' effects on company share price performance, don't overlook the corollary impact on the credit side. A new study from Moody's Investor Service reveals that bonds often experience an erosion of credit quality when corporate managers "cede ground" to short-term shareholder activists. "Demands by short-term activist investors are generally negative for credit quality," says study co-author Mark Watson, "especially when break-up of the company or sale of significant assets occur, with proceeds going to shareholders." The report was prepared by Moody's Corporate Governance Specialist Group. Researchers found that the most common pressure on companies included extensive media exposure and the threat of proxy campaigns. Information at: ***http://www.cfo.com/article.cfm/9326504/c_2984395/*** IRU