Phoenix INVESTOR RELATIONS

Our guest:
AIB Investment Managers.

AIB Investment Managers is the investment management arm of the Allied Irish Banks Group, the largest bank in Ireland. AIBIM was established in 1969 and provides discretionary investment management. The company manages $14 billion for private clients, corporations, charities, institutions and pension funds across the range of asset classes. Their investment approach is driven by fundamental considerations with stock picking based on global comparisons across industries, with more emphasis placed on sector weightings than stock weightings.

Ian Cooke is head of US equities at AIB and a member of the Investment Policy Committee. He has 27 years' experience in US equity investment. He joined AIB in 2003 from Schroder Investment Management in London. Before that he spent 22 years at Legal & General. As well as being responsible for the $2 billion US equity fund, Ian also runs a $1 billion global yield fund. (Approximately 33% of the $1 billion fund is invested in US equities).

What's changed in the 27 years you've covered the US ?

"The evolution of the hedge fund industry which is important in the way stocks trade. It is now more volatile. Also, how people evaluate companies. When I first started, price to book value and dividend cover were much more important. So financial metrics were far more key when I first started. Now it is earnings growth, change in earnings (acceleration and deceleration) and sequential growth which is vitally important."

How would you categorize your investment style ?

"I am actually a growth at a reasonable price fund manager. I probably lean more towards growth than value. But I also run a yield focused fund that is more value than growth oriented.

I view the market as a five year investment cycle. Certain styles do well in certain parts of that cycle. You get into the early cycle stocks at the bottom – three to six months before the bottom of the investment cycle (which would have been between July and September 2002 if you look back with hindsight). So you want to buy the early cycle stocks anticipating the recovery (i.e. trucking, transportation and financial companies). Then play through the various sectors. I've got a chart here which shows in the early part of the cycle, you want to be in stocks like industrials, materials and cyclicals – that's in the trough of the cycle. You want to be invested in relative value, quality and recent growth, i.e., high beta. As you get further through the cycle you buy into reasonably priced growth before you get into the late cycle which is more the momentum or recent growth rather than value. Quality and size don't do so well during this time. When you enter the downturn you revert to what we've been in more recently – quality multinationals, utilities, healthcare and staples. You disinvest in momentum stocks until you get into the later stages of the cycle. So, in terms of the way I structure the portfolio, I also think about direction of interest rates and inflation."

What's different about being a US fund manager in Dublin rather than London ?

"There is one major difference that I have found. In London there is far more intense pressure on delivery of performance which doesn't mean to say that there isn't pressure here but I found that you are more index orientated in the London market. We have more discretion in terms of the risk structure, (an appropriate allocation of risk) so there is much more flexibility in how we run our money here."

Not an index hugger then ?

"Absolutely not !" My colleague Keith Johnston has over 20 years' experience as I do in running US money. We've got top quartile Lipper performance over 1, 2, 3, 4 and 5 years for the US. It shows we have a very strong capability in being able to run US assets. We have been delivering consistently over time and do not hug the index. We invest in thematic ideas, so that we play to our teams' strengths . We identify those stocks utilizing fundamental research and our considerable experience which we believe are going to enhance our performance."

Average holding period ?

"It depends but the typical holding period would be at least 12 months. Some holdings we've had for a long time. It's very unlikely that we would buy and sell something in one quarter unless there is a fundamental reason. The sell criteria would be valuation, change in management, semi-fraudulent activity or change in market conditions. Also market conditions could determine if we would either increase or lower the beta of the portfolio."

Size constraints ?

"Typically we have a $2 billion market cap cut-off point. Occasionally we'll buy $1.5 billion companies."

Average market cap of a US holding ?

"Quite large at the current time. 65% of the portfolio is large cap – ie $20 billion plus. We don't have a tremendous amount between $2 and $5 billion. The rest of our holdings would be between $5 and $20 billion."

Average size of a position ?
"It depends how much we like the stock. We could be up to 4% over index weight if we felt very strongly committed to a company. We typically run between 55 and 70 stocks depending upon our conviction.

Current largest US holdings ?
"We have a few 2% overweight positions. **Johnson & Johnson**, **Hess Corp**, **Peabody Energy** and **Colgate-Palmolive**. We haven't got big positions (ie 4% over index weight). **Wal-Mart** and **Costco** are more than 2% holdings. **Biomarin**, **Celgene** and **Thermo-Fisher Scientific** all more than 1.5% holdings. "

Underweight sectors ?
"Technology and financials."

Overweight sectors ?
"Healthcare, energy and consumer staples."

Do you screen stocks ?
"Apart from doing all the necessary fundamental analysis of stocks we will do some screening of stocks. We might look for stocks that fit certain investment themes ie coal and **Peabody Energy**. We might have met a company on a trip and it might be the right time in terms of valuation and earnings criteria to buy. In respect to the Yield Focus Fund you also have to look at dividend cover as dividends can get cut, as we have seen recently."

Any sectors you won't invest in ?
"Unquoted."

Do you have investment constraints ?
"The constraints are that we can be 10% positive or 10% negative so that's actually quite a punchy bet which is what our investors and consultants would like to see. For example, we have been significantly underweight financials as we clearly saw where the risks lay within the market and for quite some time we've been overweight energy."

Do you see less companies in Dublin than in London ?
"Since I started here, we are seeing a lot more companies (than used to visit Dublin). There are a lot of investment companies here: Pioneer, Fideuram, Eagle Star, PI, AGF, Bank of Ireland etc. We are not generally seeing funds being indexed over here as you are in London. Companies are now much more willing to come over to Dublin. Also, we do quite a lot of trips over to the US. I typically go on three or four trips a year so companies know who we are and where we are. A lot of US companies also have very strong Irish links. Dublin is now really on the map so I would estimate we see possibly between 60 and 70 companies in Dublin a year."

You meet 60 – 70 companies in Dublin every year, how many in the US and at conferences ?
"I was in Boston and New York last week and met 34 companies. With conferences as well, I personally meet 150 companies a year."

Does meeting management make a big difference ?
"Totally but I like to see senior management. You always like to see the CEO or CFO. The COO is always good. Top notch IR is good especially if they've been in that role for a while but not if they've been in the business six months."

Who's good at IR ?
"**Apache** and **Cameron** – have good IR. I must say that over the years, corporate IR has improved significantly. Most of the energy companies have switched on IR people. It is people you can trust. This business comes down to trust. You've got to be able to look them in the eye and see that their story is actually believable."

Who's bad at IR ?
"I think a lot of the financial companies tend to be poor. They don't tell you the real story. They might say *it's difficult times* but they don't always tell you a straight story."

Who would you like to see visit Dublin ?
"The Morgan Stanleys and Goldman Sachs of this world – you don't tend to get to see them. **IBM** come over. **Intel** – I'm not sure if they do or not. **AT&T** – not sure? **Johnson & Johnson** and **Baxter** don't come over here. Also the major energy companies don't visit Dublin. The larger cap healthcare companies generally don't visit.

The one thing I noticed last week on my trip to the US is that a lot of US companies want more European shareholders. They want to diversify their shareholder base. I think they've got a good story to tell and they just find they've got too many hedge funds in the US influencing their stock price. For example **Celgene** want more European shareholders. There is definitely an opportunity for US companies to diversify their shareholder base in Europe."