SCURA PALEY
AND COMPANY

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Capital Markets Overview

Scura Paley & Company Market Intelligence

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Disclosure: Please refer to the last page of this report for important disclosures.

New Capital Weekly Update

Dividend Paying Stock Growth Persists Even in Volatile Times

- **Private equity players show interest in Europe and Asia's Emerging markets even as global trends remain weak**. The 13-week moving average for private equity suggests that PE investments appear to be bottoming and we expect to see an increase in private equity investments in the coming months. The declining trend was experienced across all geographies; however, Europe has seen the most noticeable improvement in PE activity over the past several weeks, representing 33% of global PE investments year-to-date in 2012. Asia's Emerging economies have also seen an increase in investments as investors feel Emerging economies will benefit the most as the global economy gradually recovers.
- **Secondaries and private placements recover even though they are at much lower levels as compared to last year.** Secondaries and private placements recorded growth as compared to previous months in terms of value even though transaction volume declined. We see the environment as one that is open to the larger better capitalized players, but still tight for smaller players. The 13 week moving average suggests that the secondaries and private placements have stagnated and we expect these markets to recover, whereas the weak IPO market continues with its declining trend on a 13-week moving average, which we believe is a reflection of the market being highly value conscious. Private placements have significantly increased in the U.S. market. The recovery in secondaries markets was also driven by the U.S. along with growing markets in Asia's Emerging region.
- **Investor confidence increases as companies, especially in the U.S., announce significant buybacks.** As U.S. corporates' cash balances reach record levels, companies have decided to return excess capital by announcing significant buybacks. This has been a cross-sector trend as New Finance, New Media and New Electronics companies have announced multi-billion dollar buybacks. Apple (AAPL) and JPMorgan (JPM) collectively announced $25Bn in share buy-backs.
- **Companies rush to tap the U.S. bond market to raise cheap capital.** With a weak equity market, companies are finding it easy to raise capital through the issuing of bonds. Bond markets are expected to raise >$100Bn through issuing corporate bonds in March.
- **Weekly Trend Update: Over the years, the stock of companies that initiate and consistently increase their dividend payouts have outperformed the broader market.** US Corporations have more cash as a percentage of total corporate assets than at any time in history and free cash flow generation is at record levels – US non-financial corporate cash holdings rose to $1.24 trillion at year-end 2011. We believe that these high cash balances, coupled with the prevailing volatility in the financial markets, make the environment conducive for dividend payouts and buy-backs. We find that markets react most favorably towards recurring payouts as compared with one-time payouts. On Monday, Apple (AAPL) announced a stock dividend of $2.65 a share & a $10Bn share buyback. We anticipate that more companies will engage in shareholder-friendly utilization of cash balances in 2012. Apart from the five cash kings – Apple (AAPL), Microsoft (MSFT), Cisco (CSCO), Google (GOOG) and Pfizer(PFE) – other stocks that we suspect could return capital include 3M (MMM), Deere (DE), Johnson & Johnson (JNJ), AFLAC (AFL), & Chevron Corp. (CVX).

Weekly Trend Update

Back to Basics: Dividend Paying Stock Growth Persists Even in Volatile Times

- **Over the years, the stock of companies that initiate and consistently increase their dividend payout have outperformed the broader market, and have significantly outperformed stocks that cut or don't pay dividends.** Recent stock market volatility, coupled with general anxiety about the economy, has sent many equity investors into a state of vulnerability. However, we believe that the practice of paying dividends is an excellent measure of a company's underlying quality and an intelligent form of corporate governance. Therefore, including dividend-paying companies in an equity portfolio potentially offers both an effective cushion against market volatility and a strong component of an investment's total return, especially during lower-return periods. In the decade that ended Dec. 31, 2010, the Standard & Poor's 500 dropped 4.7%; yet if dividends are included, the stock index returned a positive 15%. Further, the strategy is useful not only for large cap stocks, but also for small cap stocks, as shown by the relative performance of dividend paying vs. non-dividend paying stocks over the past two decades.

Chart 1. S&P 500 – Dividend Paying vs. Non-Paying Stocks

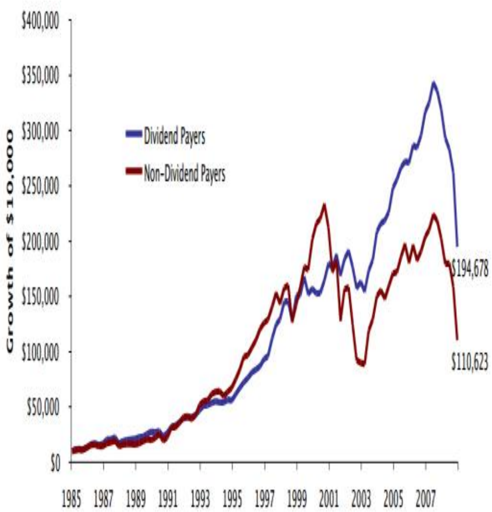

Chart 2. Russell 2000 – Dividend Paying vs. Non-Paying Stocks

Year	Dividend Payers	Non-Dividend Payers	Russell2000
2011	**1.0%**	-7.0%	-4.2%
2010	25.0	28.9	26.9
2009	13.0	41.3	27.2
2008	**-24.5**	-41.3	-33.8
2007	-8.0	2.8	-1.6
2006	**20.1**	17.1	18.4
2005	3.8	5.8	4.6
2004	**23.0**	16.3	18.3
2003	36.6	56.6	47.3
2002	**-0.2**	-33.3	-20.5
2001	**13.2**	-5.9	2.5
2000	**23.6**	-24.6	-3.0
1999	-5.9	48.3	21.3
1998	-2.8	1.7	-2.5
1997	**32.3**	13.5	22.4
1996	**22.2**	11.1	16.5
1995	24.0	32.5	28.5
1994	**-1.3**	-3.2	-1.8
1993	**18.8**	17.8	18.9
Average Annual Total Returns	**10.1%**	**6.2%**	**8.0%**

Source: Scura Paley & Company, Chart Source, S&P's Financial Communications, Compustat

- **While there are multiple cash payout methods, we believe that markets react most favorably towards recurring payouts as compared with one-time payouts.** Corporate worldwide currently adopt one of the four cash payout methods – regular dividend increases, special dividends (one-time payouts), tender-offer repurchases and open market repurchases. We believe that more undervalued firms are inclined to repurchase their shares on a self-tender basis, while less undervalued firms will favor open market repurchases. On the other hand, firms with growth opportunities will prefer disbursing special dividends, while firms likely to overinvest (those with low Q and large cash flows) will be more inclined to increase regular dividends. However, as per an empirical study conducted by Komlan Sedzro, University of Quebec at Montreal, clearly shows that the average relative response to the increase in regular dividends is significantly stronger than the responses to special dividends and both repurchases categories, whereas the difference between the latter two is not significant. This result is consistent with Jensen's (1986) free cash flow theory, which suggests that the recurring payouts are more effective than one-time payouts.

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Chart 3. Comparing Cumulative Three-Day Residuals Centered on Payout Announcement Day

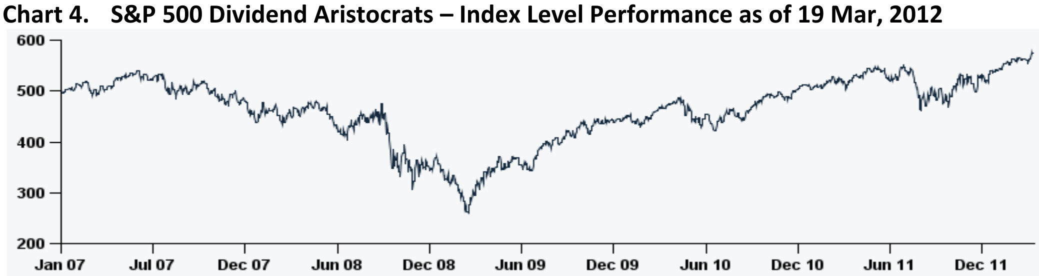
	Standard residuals (CAR %)	Relative residuals (RR)	Discounted relative residuals (DRR)
Increases in regular dividends	1.28 (14.19***)	10.67 (7.80***)	0.51 (7.80***)
Special dividends	1.86 (6.67***)	0.95 (2.08**)	0.63 (1.98**)
Tender offer repurchases	8.62 (7.78***)	0.0065 (7.25***)	0.0065 (7.25***)
Open market repurchases	1.71 (5.26***)	0.0003 (0.17)	0.0003 (0.17)
Panel B: Differences of means			
Regular dividends vs. Special dividends	-0.58 (-1.98)	9.72 (6.74**)	-0.12 (-0.29)
Regular dividends vs. Tender offer repurchases	-7.34 (-6.61**)	10.66 (7.79**)	0.50 (1.45)
Regular dividends vs. open market repurchases	-0.43 (-1.31)	10.67 (7.80**)	0.51 (1.55)
Special dividends vs. Tender offer repurchases	-6.76 (-5.92**)	0.94 (2.07)	0.62 (1.54)
Special dividends vs. open market repurchases	0.15 (2.40)	0.95 (2.09)	0.63 (1.55)
Tender offer vs. open market repurchases	6.91 (7.78**)	0.006 (1.40)	0.006 (1.40)

*The relative residuals result from dividing the residuals by the observed increase in yield. Similarly, the discounted relative residuals result from a division by the total discounted yield achievable through the increase in payout, using quarterly discount rates for increases in regular dividends and annual rate for the comparisons involving repeated special dividends. Scheffé's procedure is used to test for differences in means in Panel B. It has a critical F value of 2.608 at the 5% significance level. F-statistics are given in parentheses in panel B with double asterisk (**) for the significant differences at the 5% level. In panel A, t-statistics are given in parentheses. *** and ** indicate significance at the 1 and 5 percent levels respectively. (NB: The samples involve NYSE and AMEX firms of the 1988-2003 period which witnessed 1304 increases in regular dividends, 249 special dividends, 63 self-tender offer repurchases and 547 open market repurchase).*

Source: Scura Paley & Company, "A Unifying Approach for Comparing Onetime Payouts And Recurring Dividends – SSRN

- **US Corporations have more cash as a percentage of total corporate assets than at any time in history and free cash flow generation is at record levels**, which will add to the sizable cash hoards. As per Moody's, US non-financial corporate cash holdings rose to $1.24Tn at the end of 2011, and the five cash kings – Apple (AAPL), Microsoft (MSFT), Cisco (CSCO), Google (GOOG) and Pfizer(PFE) – hold $276Bn or 22% of these balances. However, the important aspect to note is that companies are increasingly returning cash to shareholders in the form of dividend increases, share repurchases, and accretive acquisitions. The percentage of S&P 500 companies that pay dividends jumped from 71% in 2009 to 79% by year end 2011. Moreover, the rate of dividend increases has accelerated with the average company in the S&P 500 raising its dividend 16% in 2011, more than 3x the average rate of the previous 25 years. For example, Macy's (M) used its cash and free cash flow over the past two years to reduce its debt by a third, quadruple the dividend, and initiate a repurchase program. Further, on Monday, market leader Apple (AAPL) announced that it would pay a stock dividend of $2.65 a share in the fourth quarter and its board authorized a $10Bn share buyback, two moves that will use up some of its cash hoard of ~$100Bn to reward investors. These buybacks have been value-added for shareholders as companies executing repurchase programs have outperformed those that do not by 240bps annually over the past 25 years, and we anticipate that more companies will engage in shareholder-friendly utilization of cash balances. Apart from the five cash kings, the other companies to watch out for, including names from the S&P dividend aristocrats list (cos. that have increased their dividend payout every year for the last 25 years) are 3M (MMM), Deere (DE), Johnson & Johnson (JNJ), AFLAC (AFL), & Chevron Corp. (CVX).

Chart 4. S&P 500 Dividend Aristocrats – Index Level Performance as of 19 Mar, 2012



Source: Scura Paley & Company, S&P

Capital Market Activity

Private Equity Markets

Chart 5. Major Activity Across the Capital Markets

Date	Deal Size ($Mn)	Region	Comments
			Private Equity
24-Feb-12	8,187	United Kingdom	Investor group led by Apollo Global Management, LLC (APO) invest in El Paso Energy
29-Feb-12	2,404	United States	CVC Capital Partners Ltd. buys stake from Cinven in Ahlsell AB
			Secondaries
7-Mar-12	6,000	United States	American International Group, Inc. (AIG) announced $6Bn follow on equity offering
			Buybacks
13-Mar-12	15,000	United States	JPMorgan Chase & Co. (JPM)
19-Mar-12	10,000	United States	Apple Inc. (AAPL)
6-Mar-12	3,489	United States	QUALCOMM Incorporated (QCOM)
6-Mar-12	3,000	United States	American International Group, Inc. (AIG)
5-Mar-12	3,000	United States	Applied Materials Inc. (AMAT)

Source: Scura Paley & Company, Capital IQ

- **Private Equity regains momentum on the back of large New Energy deals and numerous New Media deals.** Last month 209 deals were announced totaling $30Bn, up +48% M/M, however aggregate private equity investment of $58Bn is down -18% YTD, and volume of deals down -24% YTD. The U.S. accounted for ~53% of PE investments by value/43% of global transaction volumes, followed by Europe where 65 announced deals totaled $8.2Bn, 27% of total PE investments. New Energy remained the favorite investment opportunity with $12Bn, 40% of total investment, being invested through 14 deals. New Media saw the most number of deals as 107 deals in New Media accounted for >50% of global deals announced. New Energy in the U.S. was the most sought after investment with 9 deals being announced totaling $10.8Bn. In the largest deal, a group of investors led by Apollo Global Management (APO) announced plans to acquire EP Energy Corporation for $8.2Bn followed by an acquisition of Ahlsell AB by CVC Capital Partners from Cinven Ltd for $2.4Bn.

Chart 6. PE Investments by Industry (YTD)

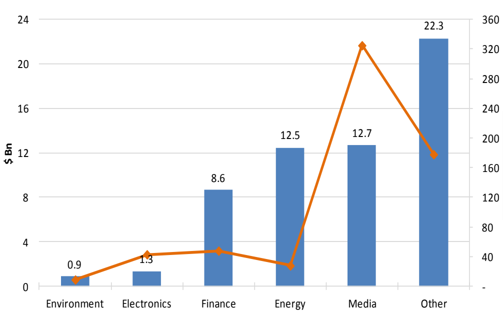


Chart 7. PE Investments by Geography (YTD)

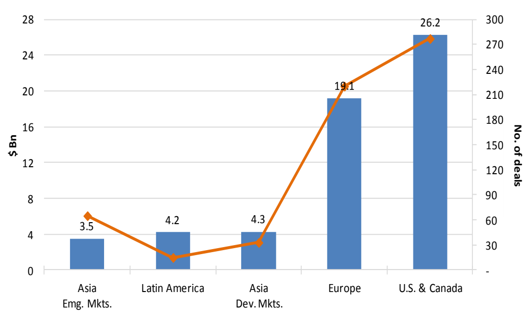


Chart 8. PE Investments by Nature (YTD)

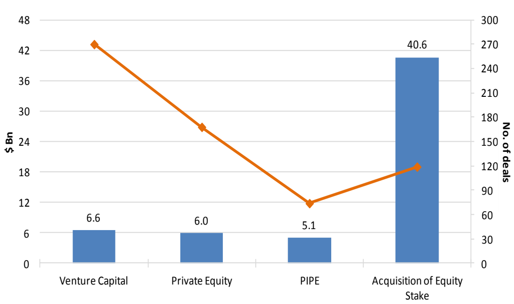
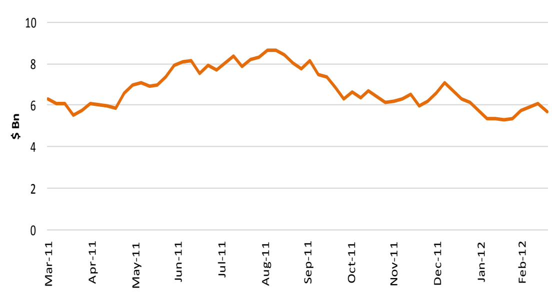


Chart 9. PE Investment – 13 Week Mov. Avg.



Source: Scura Paley & Company, Capital IQ

Public Equity (Creation)

- **Secondaries and Private Placement markets grow despite a slow recovery in the IPO market**. New Finance continues to dominate the public equity creation market from the secondaries and private placement markets, even as the global outlook for IPOs remains weak.

  - **Initial Public Offering (IPOs).** There were 70 IPO deals announced last month, as against 75 deals in the previous month, raising $6Bn. However due to the absence of large IPO's the aggregate deal value was down -52% M/M and down -46% YTD, as 179 deals on YTD basis aggregated $22Bn. Overall Europe remained the hottest IPO market with New Media and New Electronics in Europe accounting for 16% and 17% of global deal value. The largest IPO was announced by Banco BTG Pactual S.A. of Brazil raising $1.7Bn accounting for ~19% of the global deal value last month.

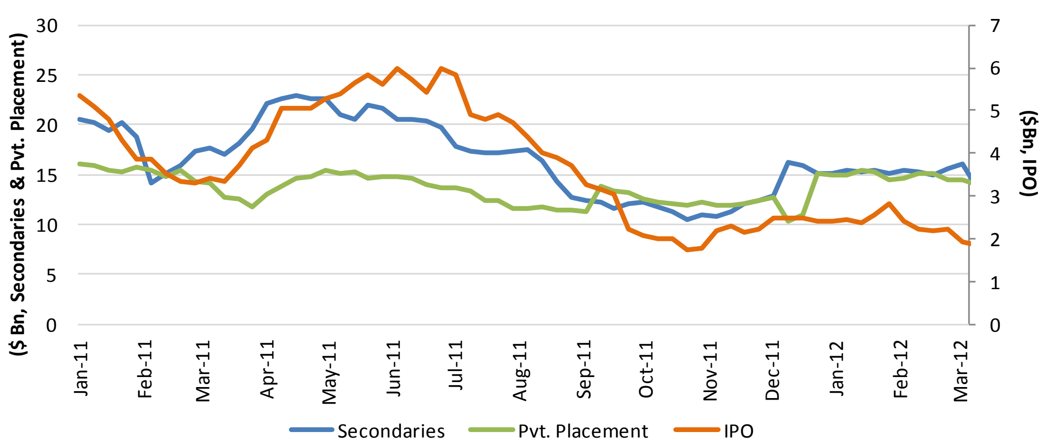
  - **Secondaries.** The secondaries market picked up this month, as 355 secondary offerings for an aggregate value of $67Bn were up +6% M/M. They were however down -23% YTD by deal volume and down -30% YTD by dollar value. Driven by New Finance deals, the U.S. and Canada saw most of the activity as 129 secondary deals aggregating $38Bn accounted for ~56% of deal value. New Finance secondary offering in the U.S. and Canada accounted for 29% of global deal value as it aggregated ~$20Bn through 40 deals last month. In the largest deal American International Group, Inc. (AIG) of the U.S. collected $6Bn followed by FCT Red & Black - Guaranteed Home Loans which raised $2Bn from the secondary market.

  - **Private Placements.** There were 1,412 private placements worth $41Bn announced this month, up+26% M/M; however, this was down -34% YTD. Asia Emerging, driven by New Finance, saw the most activity with 106 deals worth $15Bn. The U.S. was the second largest market with 826 deals aggregating $12Bn. New Media also appeared to be a favorite sector as 398 deals, accounted for ~28% of deal value, even though the share by value was only 9% due to small deal values. The largest deal was announced by Industrial Bank Co., Ltd. (SHSE:601166) of China for $4.2Bn followed by Cheniere Energy Partners LP. (CQP), an American company for raising $2Bn.

New Finance companies continue to raise money from secondary markets.

IPO and private placement market grow weaker.

Chart 10. Public Equity Trend - 13 Week Moving Avg.



Source: Scura Paley & Company, Capital IQ

Public Equity (Elimination)

- **Buybacks continue in the American market even as M&A activity continues to remain weak.** In a market where IPOs have remained weak, cash rich companies, especially in the U.S. are continuously announcing significant buyback deals. The M&A market remains weak; however Europe appears to be the exception. Europe's share of M&A deals has increased to 37% on YTD basis as compared to 27% for the same period last year.
    - **Buy-Backs.** Last month 85 buyback deals were announced to return $55Bn to investors, up +35% M/M and up +6% M/M by volume, however the YTD value of $102Bn was still down 11% and volume down -41% on YTD basis. U.S. companies announced the most buybacks, with 49 buyback deals aggregating to an announced value of ~$50Bn, accounting for 91% of global deal value. New Finance and New Electronics accounted for 46% and 33% of total buybacks announced. JPMorgan Chase & Co. (JPM) and Apple Inc. (AAPL) announced the largest buyback deals to return $15Bn and $10Bn respectively (both this week).
    - **Mergers & Acquisitions (M&A).** Last month 1,223 deals were announced which was -22% M/M and down -16% YTD. The aggregate dollar value was $429Bn down -24%YTD. The U.S. market saw most of the deals last month as companies announced 398 deals aggregating $57.5Bn, led by $17Bn New Energy deals and $16Bn worth New Media deals. Globally, New Finance saw most of the deals as 344 New Finance deals totaled $39Bn accounting for 25% of global deal value last month. Some of the largest deals were the acquisition of Sterlite Industries (BSE:500900) by Sesa Goa (BSE:500295) for $14.7Bn and AIA Group Limited (SEHK:1299) for $6Bn.
    - **Bankruptcy.** Last month 71 US companies filed for bankruptcy against 66 filings in the previous month. Most of the companies that filed for bankruptcy belonged to the real estate and healthcare facilities.

Buybacks pick up in the U.S. market led by the New Finance and New Electronics companies announcing major buybacks

Chart 11. Announced Buy-Backs - 13 Week MA

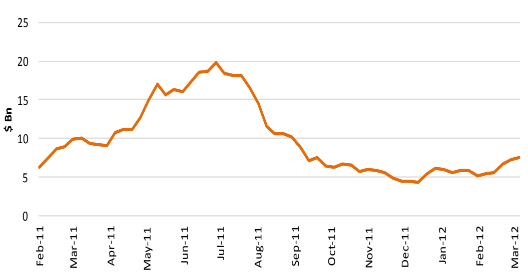


Chart 12. Completed Buy-Backs – 13 Week MA

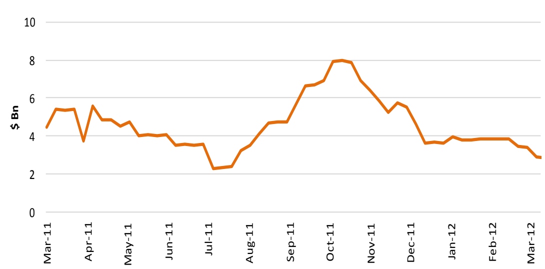


Chart 13. M&A Activity – 13 Week MA

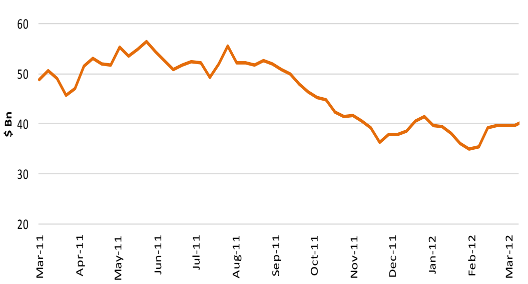
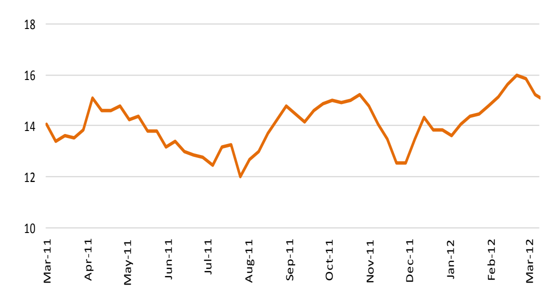


Chart 14. Bankruptcies – 13 Week MA



Source: Scura Paley & Company, Capital IQ

Fixed Income

- **New Finance dominates the European bond market, whereas both New Finance and New Energy lead in the US.** Last month 1,230 bonds were issued totaling $475Bn down -4% M/M. The volumes were down -24% M/M and down -23% YTD, whereas aggregate value of bond issues was down -4% on YTD basis to $1.3Tn. Europe continued to be the dominant market as it accounted for 52% of deal value last month with 563 deals totaling $245Bn. New Finance led the bond market where >$300Bn were collected through 791 bonds, accounting for ~63% of bond market by value and volume. In Europe New Finance companies issued 461 bonds to aggregate ~$200Bn, whereas in the U.S. $27Bn were raised by New Finance companies through 166 deals. The U.S. has become a more preferred destination for the bond market as it accounted for 20% of bond value on YTD basis in 2012 as against 14% in 2011. European Financial Stability Facility S.A., created to maintain the stability of Euro Zone area, raised $46Bn in the largest deal of last month followed by Banco Financiero y de Ahorros S.A. raising ~$16Bn.

Activity in the U.S. bond market picks up, even though Europe remains the largest bond market

Phillips 66 raised $5.8Bn through corporate bond

- **Bond market activity in the U.S. hit the highest level for 2012, as companies across all sectors flood the market with bond issues to raise capital.** Companies floated bonds worth $24.7Bn on Monday (19th March 2012), in the U.S. which is the highest single day record for this year. Companies are taking advantage of the fact that investors are showing preference for bonds even though the yields are low, as a result companies from various industries including banks, industrials and utilities have raised capital by issuing bonds. The market is expected to float bonds worth ~$100Bn in Marchwhich would exceed) the $99Bn worth of bond issues in February. In Europe, ECB's initiative to inject liquidity into the market received tremendous response as companies subscribed to a total of €530Bn. Morgan Stanley (MS), Bank of America (BOA), Direct TV, TD Bank, Philips, United Health are some of the key players to have tapped the bond market in the last month.

Chart 15. Fixed Income by Industry (YTD)

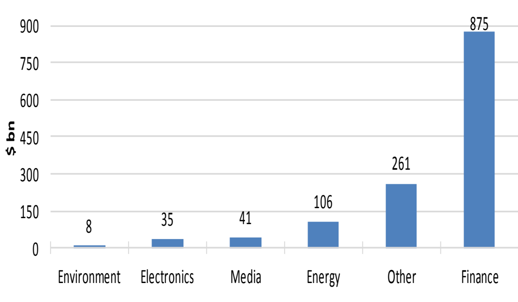


Chart 16. Fixed Income by Geography (YTD)

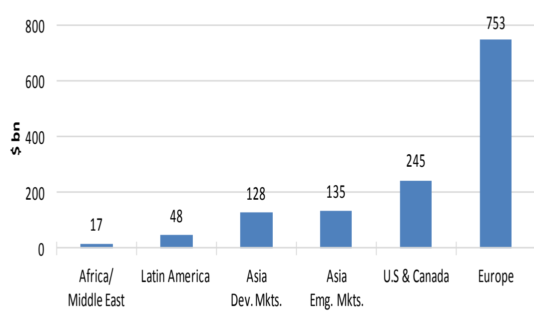


Chart 17. S&P 500 – Net Debt & Gearing

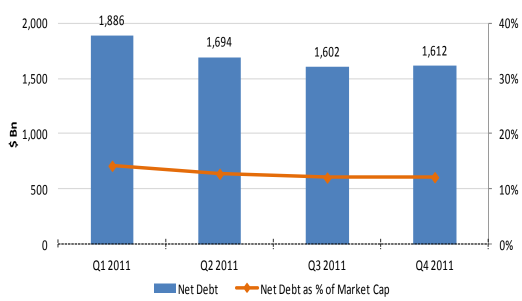
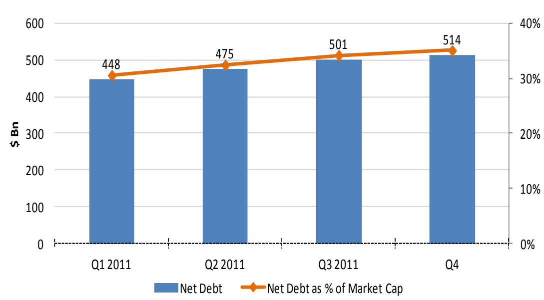


Chart 18. Russell 2000 – Net Debt & Gearing



Large companies (i.e. the S&P 500) are deleveraging while smaller companies are building leverage taking advantage of cheap debt.

Source: Scura Paley & Company, Capital IQ

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