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Pulse Research Partners

Monthly Independent Research Snapshot

CIRRUS RESEARCH

Cirrus Research

Small and Mid Cap Strategy

Smaller companies led in May despite the market's steep correction. Mid Caps returned -7.3% followed by Small (-7.7%), Micro (-8.0%) and Large Cap (-8.4%). Domestic bias benefited smaller firms as the markets weighed the impact of Euro-zone contagion. In a violent month when High Yield spreads widened over 220 bps before retracing 50 bps, all sectors of all sizes lost ground.

Sectors tied to the Global growth story underperformed US-centric groups. The IMEs (Industrials, Materials and Energy) declined most. Transports, Utilities, Telecom and Staples proved more resilient. Investors sought shelter in lower risk, higher quality shares.

Investment Themes for Volatile Times

Euro-Sensitivity in Small/Mid Cap Shares: Sell-side estimates suggest analysts have been slow to embed concerns for European growth in their forecasts. Smaller shares with high Euro-sensitive exposures underperformed their respective markets by roughly 600 bps in the past few weeks.

Forced on LIBOR watch, again: Euro debt concerns coupled with on-going US bank regulatory proposals may be underneath a mounting pressure in the capital markets, now spreading to banking liquidity measures. Keep an eye on High Yield and High Grade spreads.

Focus on Quality and remain Value Sensitive. Current sentiment indicators (the Cirrus Risk Score and sell-side earnings forecasts) suggest contrary buy indications are not plentiful and astute investors will need to be surgical in their hunt for value.

Reversals and Recoveries: The correction has been broad based and prices can overshoot. We look at four categories of Small and Mid Cap firms with significant weakness or strength since the 26 April peak--Decline Continues, Decline then Bounce, Rally Reverses and Momentum Continuing--and rank the stocks by our Relative Value model showing low/high expected returns and fundamental comparisons.

New Sector Research

Banks: Credit to Fuel Regionals

Banks valuations have risen but remain at long-term low levels vs. the universe. Despite lingering regulatory and global concerns, stabilizing asset bases, NCOs and delinquencies help the group. High quality bank domination peaked in 2009. Net Interest Margin expansion and valuations should drive leadership.

MSX Telecom Workbench

Telecom, unloved by many, has underperformed our MSX benchmark of Mid, Small and Micro Cap companies by

40% since March 2009. Our work suggests it may now contain a few diamonds in the rough.

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Conatix LLC

Consulting. Mindfully.

Together with its research partners, Conatix applies multiple methodologies to its coverage of the environmental and sustainability sector. This month we would like to highlight recommendations we have adopted in cooperation with Intelligent Recommendations (www.IntelligentRecommendations.de) in Hamburg. We have culled recommendations of companies active in various environmental segments from IR's self-regulating online investment recommendation system. Intelligent Recommendations harnesses the power of collective intelligence to aggregate stock recommendations from hundreds of users. These crowdsourced recommendations perform better than those of the majority of fund managers. Each month since its inception, the IR collective model stock portfolio has outperformed benchmark indices for equities and mutual funds.

IR summarizes user recommendations in a model stock portfolio that recommends stocks in different time horizons and risk classes. Users declare their preference for one of five risk classes:

1) **risk-loving** (100 percent "risky" investments, 0 percent "safe" investments)

2) **risk-tending** (75 percent "risky" investments, 25 percent "safe" investments)

3) **risk-balanced** (50 percent "risky" investments, 50 percent "safe" investments)

4) **risk-averse** (25 percent "risky" investments, 75 percent "safe" investments)

5) **risk-shunning** (0 percent "risky" investments, 100 percent "safe" investments).

Users make recommendations independently of each other, so that they cannot see the recommendations of other users. Each user only sees the collective recommendations after making his or her own individual recommendations, which are then added to the collective. This helps the system to avoid enabling speculation.

Recommendations in the collective model stock portfolio for all risk classes and for all stock indices (including mutual funds) regularly outperform comparable indices. Stocks comprising the IR collective model stock portfolio as of May 2010 outperformed comparable indices over the previous sixteen-month period by 19.1 percent.

We have selected companies from each risk class of the IR collective model stock portfolio that are active in one or more environmental/sustainability segments to highlight this month.

In the **risk-loving** risk class, 3M Company http://solutions.3m.com/wps/portal/3M/en_US/About/3M/ , which was commended by the US EPA Climate Leaders Program in 2008 for exceeding its greenhouse gas emission reductions goals, was recommended by IR users for the time horizon of 0 to 2 years. Since this stock was first adopted by IR users and included in the collective stock portfolio in February 2009, it has performed 70.8 percent, in comparison with 38.4 percent performance by the DowJones Index during the same period.

In the **risk-tending** risk class, BayWa http://www.baywa.com/ including BayWa green energy was recommended for the time horizon of 0 to 2 years. Since BayWa was adopted into the model stock portfolio in November 2009, it has made gains of 15.9 percent, vs. 8.5 percent gains by the MDAX index during the same period.

In the **risk-balanced** risk class, Roth&Rau http://www.roth-rau.de/php_en_n/, which offers products and technologies for renewable energy, was recommended for the time horizon of 3 to 6 year. Roth&Rau is considered by IR users to have attractive prospects for long run performance in spite of its poor past performance of -22.4 percent since being adopted into the collective model stock portfolio in November 2009 (compared to a better but still disappointing performance by the TecDAX index of -7.3 percent since November 2009).

In the **risk-averse** risk class, the mutual fund Meridio Green Balanced http://www.meridio.de/fileadmin/user_upload/Green_Balance/20100531_GreenBalance_engl.pdf, adopted by the IR collective model stock portfolio in April 2010 for the time horizon of 3 to 6 years has shown performance at -5 percent, better than the -10.4 percent performance of the MSCI World during the same period.

In the **risk-shunning** risk class, there was no relevant environment-oriented stock in the IR collective stock portfolio as of May 2010.

Users of the IR collective intelligence platform can also choose their own asset allocation which then becomes part of the aggregate asset allocation in the IR collective model stock portfolio. More information (in German only at present) about the collective asset allocation is available on: http://www.intelligentrecommendations.com/index.php?path=presse .

For more information and English-language summaries of the present collective asset allocation, or for a premium subscription to reports of the collective model stock portfolio, or to join the crowd on the www.IntelligentRecommendations.com platform and participate in the formation of collective wisdom about the performance of environment-related and other securities (and thereby to see all of the monthly aggregate recommendations), please contact David Lehrer, Conatix david.lehrer@conatix.com or Corvin Schmoller, Intelligent Recommendations cs@IntelligentRecommendations.de .

TRG THOMPSON RESEARCH GROUP

Thompson Research Group

Industrials/Building Materials

Building Materials – Q2'10 Wallboard Distributor Survey

We recently surveyed domestic wallboard distributors nationwide (covering an estimated ~600+ locations). Our May Wallboard Distributor Survey suggests continued acceptance of price increases and expectations of additional price increases this year. With the meltdown of the Euro and the market rolling over in early May, both EXP and USG have fallen 11% and 42%, respectively, vs. an S&P 500 decline of 8% over the same time period. We continue to recommend

EXP and USG and use the current market malaise as a buying opportunity. When we upgraded the group in mid-March, the change in opinion was predicated on not just one but multiple wallboard price increases being implemented in 2010. The industry pushed through a 20% price increase in March. Our May wallboard distributor survey reveals that essentially all of the 20% May price increase was accepted, that another price increase is coming in late summer, and confirms continued improvement in volumes.

Construction Equipment – Q2'10 Equipment Rental Survey

Survey of construction equipment rental locations. Representative of ~600 locations with geographic dispersion across North America. The domestic equipment rental market remains highly fragmented with the top 4 players only maintaining 26% market share. Rental rates and utilization drive earnings leverage for public rental companies, as well as capex outlook for construction equipment. Survey provides additional information regarding health of relative construction end markets and geographic areas. While we believe the next several data points out of this group are likely positive, we believe investors will get another shot at the names as the season slows to an end. We continue to remain cautious about what the environment for commercial construction looks like heading into 2011. We continue to receive conservative feedback out of our bonding contacts regarding the overall health of the contractor base. Continued acceleration of some stimulus projects in the non-res space could help offset some declines, but we believe there is simply too much uncertainty at present to get comfortable justifying higher valuation multiples on current numbers.

Alembic Global Advisors

Global Chemicals – The China Effect

· **Vinyls chain most at threat from Chinese supply and potential demand slowdown**

· **Acetyls and polyurethanes most insulated commodity chemical chain from any potential Chinese slowdown, we believe**

· **Western European, Japanese, Korean, and Taiwanese commodity chemical producers most vulnerable. North American producers insulated, in our view**

Summary

Our analysis of the Chinese impact on global commodity chemical product chains breaks out along four dimensions – China's contribution to global demand growth and capacity growth for that particular chain, the resulting displacement of existing global majors, and the impact on global trade flows. The commodity chemical industry faces the risk of a China-driven slowdown, given how important Chinese demand assumptions are to projections of supply/demand tightness. However, the risks vary by product lines, as industries where displacement of existing producers is the greatest – such as vinyls – face the largest risk of a China-driven slowdown.

We believe that the existing producers within the vinyls chain are most at risk from the growing importance of China as a demand destination and the leading contributor to capacity. Furthermore, changes in trade flows and ripple effects of Chinese self-sufficiency are likely to dampen supply/demand balances globally. The olefins chain is also at medium risk, in our opinion, with some producer displacement from cost-advantaged capacity in the Middle East. That said, the current crude oil-natural price disconnect penalizes the Asian and Western European olefins producers while aiding the North American industry. The acetyls and polyurethane producers stand to benefit as they are setting up local production bases in China rather than being displaced.

These considerations suggest the most negative ramifications for the Western Europe, Korea, Taiwan and Japan-centric ethylene, polyethylene, and PVC producers: Arkema, Formosa, Honam, Hanwha and Ineos. The US industry should continue to generate decent profitability, as long as the current energy price regime continues, benefiting from the pricing umbrella provided by naphtha based producers.

We believe the recent stock market correction has over penalized valuations with Overweightrated Dow Chemical, Celanese and Methanex (in that order) trading at near trough valuations.

Sifting through the rubble and finding opportunities

· **With pricing holding firm share price declines of 17% seem extreme, in our view**

· **Focus on cash generation and capacity builds at a reasonable valuation**

· **SABIC shares offer most attractive blend of earnings growth and valuation**

Summary

Global GDP driven fears wreaked havoc to the global equity and commodity markets over the last month with the average Middle Eastern chemical name down by around 17% and crude oil prices down by an equivalent amount. We believe the market may have over-penalized some names.

Despite declines in crude oil prices commodity prices in the region have held up quite well. Average April/May pricing for a basket of the main commodities produced by Middle Eastern chemical producers is actually up on average by 2% relative to Q1'10 levels. While most would contend that declines in crude oil prices should result in valuation corrections we would argue that even at USD70 per bbl certain companies – SABIC in particular – show
extremely healthy cash generation. According to our estimates at its current share price and in a USD70 per bbl crude oil price environment SABIC's 2010-2012 cumulative distributable cash flow as a percentage of its market cap is around 60% (reduced to 53% at USD60 per bbl).

Regardless of the pace of the global economy we expect SABIC's Middle Eastern asset base to operate at near full utilization owing to its low cost nature. Additionally, with our expectation for a 34% boost to its capacity base between 2010 and 2014 organic earnings growth should continue despite the ebbs and flows of the global economy. Trading at 5.6x 2012 EV to EBITDA versus peer group average of 9.3x we find SABIC shares undervalued and would build a position in the name.

LyondellBasell – Up-cycle leverage at near trough valuations

- **Near peak crude oil to natural gas price ratio coupled with improving capacity utilization bodes well for US biased commodity chemical producers**

- **Whisper 2010 EBITDA estimates of USD2.5bn seem overly pessimistic, in our view**

- **Initiating coverage of LALLF with an Overweight rating and USD25 target price**

Summary

Analyzing near term supply additions on a plant by plant basis leads us to believe that 2010 and 2011 capacity numbers may be overstated by 33% and 40% respectively. Our base case supply/demand model shows that contrary to consensus 2010/2011 will not see any material reductions in global operating rates, and 2) we could see a peak in the cycle as early as 2013/2014. Even if we were to see trough operating rates in the near term the disconnect between crude oil and natural gas prices should buoy ethylene prices with a US biased ethane based producer like LyondellBasell generating very healthy, near mid-cycle profitability, regardless of the cycle phase. With the consensus anticipating a cyclical trough in 2010 and after the recent share price correction commodity chemical valuations, in our opinion, are already reflecting this trough view. Additionally, with a rotation out of certain widely held chemical names – Monsanto and certain North American fertilizer names – due to a combination of company and sub-industry specific concerns we believe LyondellBasell could soon become the chemical sector investment vehicle of choice. LyondellBasell shares, in our opinion, offer substantial leverage to the commodity chemical up-cycle at what we consider to be a very attractive price.

We are forecasting USD2.9bn in EBITDA for 2010 versus USD2.2bn earned by the company in an economically depressed 2009. Our product margin forecast is looking for a 26% y-o-y improvement in the margins for the main products produced by LyondellBasell in 2010 despite factoring in a 22% correction between H1'10 and H2'10. We generate a USD25 per share SOTP target price based on this estimate of EBITDA and see trough valuation as being USD16 per share.

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About Our Organization…

The Pulse Research Partners is a unique alliance of securities research firms that provides buy-side investors with an extensive range of “best of breed” independent research, together with the trade execution capabilities of Pulse Trading. Note that each research providers’ services can be paid for through a variety of sources, including Pulse Trading.

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