

IPOs — a Powerful Asset Class

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IPOs are a Unique Class of Unseasoned Equities

Unlike seasoned equities, newly public companies are unseasoned stocks, which collectively have unique attributes that distinguish them from established asset-classes. These characteristics include:

- Limited research coverage
- Lack of historical trading patterns
- Untested corporate governance
- Changing shareholder base
- Trading volatility

Consider that the average IPO starts its public life with a tradable float of only about 30% relative to its total market cap. However, after two years, the average IPO begins to look like other seasoned equities as a result of additional share releases pursuant to IPO lock-up expirations and subsequent share offerings, which push its tradable float closer to 65%. This distinctive asset class, when structured in a specialized float-weighted index, has demonstrated superior risk-adjusted performance and generated unique returns while also contributing to portfolio diversification.



New Industries appear first in the IPO Market

Entrepreneurial companies and established private entities make their debut in the IPO market, disclosing their operations for the first time. These companies can emerge as trendy small cap stocks, such as retail chain Aeropostale, or well-known large cap enterprises, such as Google and Visa. Moreover, new industries, such as solar power and ondemand software, frequently establish their sectors initially through the IPO market. These exciting new firms and industries are underrepresented in established indices.








Major Equity Indices are Missing the IPO Piece...

An analysis of the S&P 1500 shows that no more than three IPOs are typically included in that index each year. As a result, investors could miss out on as much as 1.7% of the overall market (defined as the S&P 1500 plus the IPO Index) by investing in the S&P 1500 alone.

In addition, it can take up to 120 days before an IPO is added to the Russell 3000, which at times failed to include as much as 33% of the total float cap of the IPO Index.

...which means Missing out on IPO Returns

A well-structured IPO Index captures the initial performance of IPOs due to its early IPO inclusion policy. This means that investors in the S&P 1500 and Russell 3000 missed out on significant initial returns generated by important IPOs, such as Google, Mastercard and Visa.

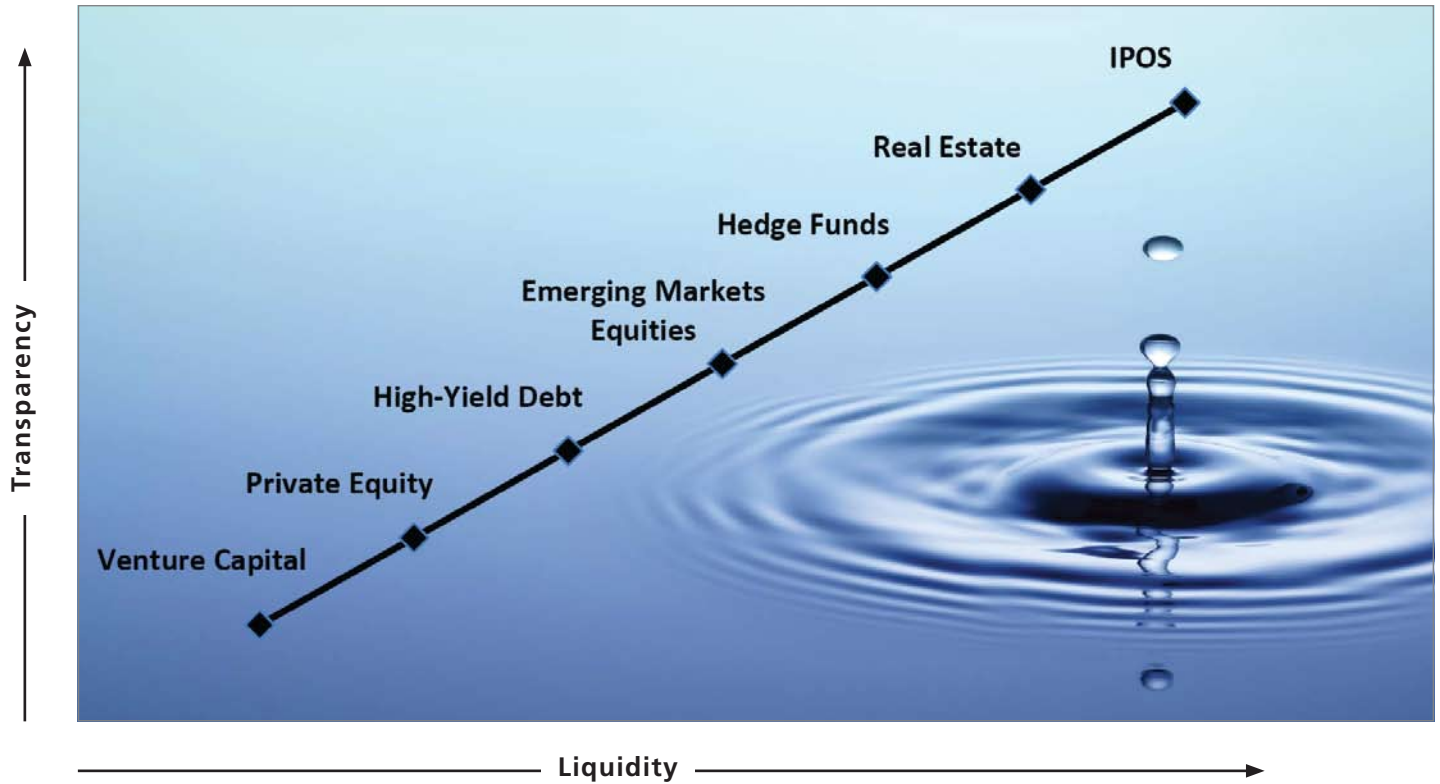
	gained	29%	before it entered the Russell 3000
		288%	before it entered the S&P 1500
	gained	3%	before it entered the Russell 3000
		511%	before it entered the S&P 1500
	gained	43%	before it entered the Russell 3000
		—	is still not included in the S&P 1500

A study recently conducted by Renaissance Capital found that even a small 5% allocation to the IPO Index from a portfolio of S&P 500, Russell 2000 or Russell 3000 stocks would add significant basis points to overall returns.

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IPOs are a Liquid and Transparent Alternative Asset Class

Unlike traditional alternative asset classes, IPOs are liquid and transparent despite their unseasoned nature. Valuations of newly public companies are determined by the market place, trading volume can be tracked and the IPO prospectus discloses valuable information about a firm's historical financial performance and business objectives.



A Structured IPO Index Tames the Risk of IPOs...

Renaissance Capital has developed an index that tames the risk of IPOs by including only those IPOs that are institutionally investable, by tracking free-float changes as they occur, by emphasizing those stocks with the highest unfolding liquidity and strongest performance, and by consistently assessing constituents' trading volume and size.

This Index is maintained by IPO experts who have been studying IPOs on a fundamental basis for over 17 years, who understand the unique attributes of IPOs and know what it takes to transform this exciting asset class into an investable product.



...while Capturing the Essence of the IPO Market

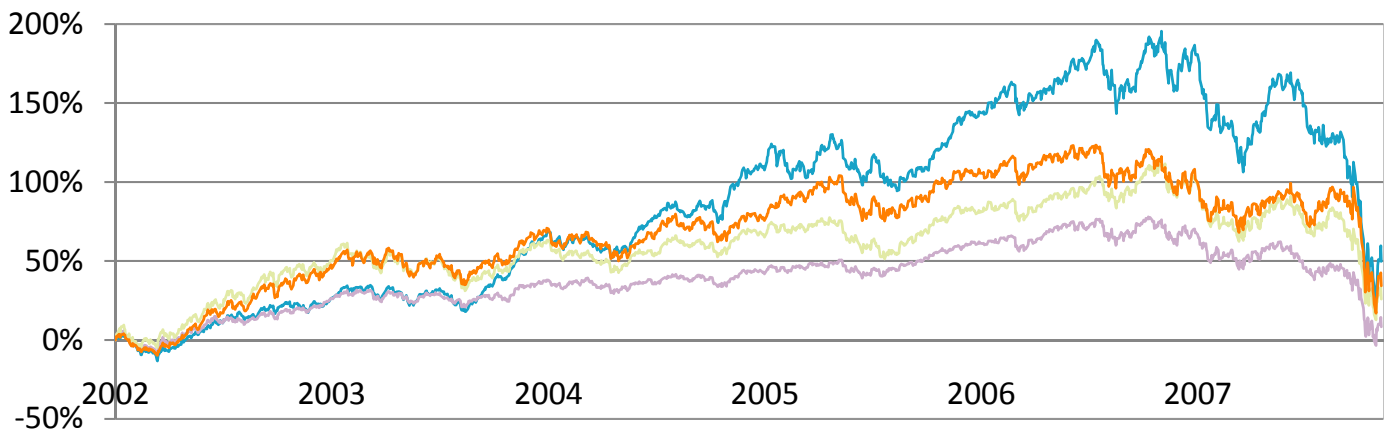
The IPO Index captures the essence of the IPO market because of its early IPO inclusion policy, dynamic two-year holding period, elimination of IPOs when they become seasoned and attention to new industries that manifest themselves first in the IPO market. IPOs are added to the Index at the end of their first trading day, when trading volume is at its highest, and removed from the Index on their second anniversary or when a corporate action triggers early elimination. In addition, the Index captures new industries in a timely manner and represents the true investability of this unique asset class by keeping track of float share changes as they occur.

The result is a highly dynamic and comprehensive benchmark index that includes all institutionally-investable US-listed IPOs, capturing over 95% of the total market value of the IPO Universe.

The IPO Index Provides Superior Risk Adjusted Returns

IPOs are well known for their volatility but are unappreciated for their ability to outperform seasoned equities on a risk-adjusted basis. As measured by Sharpe, the IPO Index generated superior returns for the 36 months ending September 30, 2008 compared to the S&P 500, the NASDAQ and the Russell 2000. The returns are attributable to the stronger weighting of IPOs with greater unfolding liquidity and better performance.

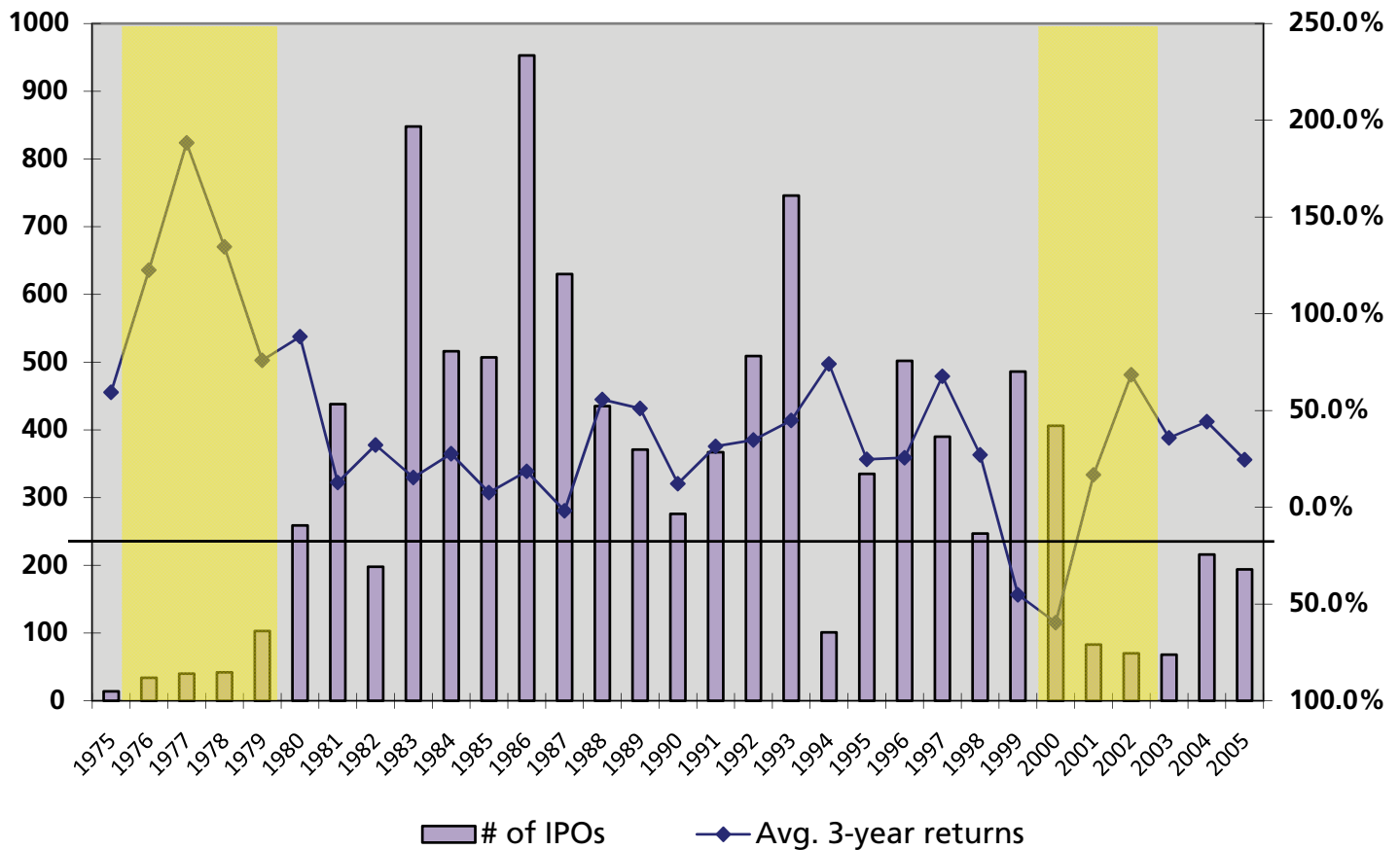
Moreover, the IPO Index generated strong unique returns, as measured by alpha, over its equity index peers. These unique returns are attributable to the under-representation of IPOs in other indices, the inclusion of new industries in a timely manner and the elimination of IPOs after two years when they no longer carry the characteristics of an unseasoned newly public company.



September 2008	IPOs	S&P 500	NASDAQ	Russell 2000
Sharpe Ratio	-0.05	-0.44	-0.23	-0.15
Alpha	--	7.0%	3.3%	1.5%

Strong Returns can be Achieved in Slow IPO Markets

The IPO market has corrected along with the broader market, and IPO issuance volume has hit its lowest levels since the 1970's. However, there currently are over 180 companies in the pipeline waiting to make their market debut. During times of economic hardship, only the most fundamentally-solid companies with the strongest track records or counter-cyclical businesses are able to tap the market and, as the graph below shows, some of the best returns are generated during times of low IPO issuance volume.



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