



Frère pares back Iberdrola stake

Albert Frère has begun selling his stake in Iberdrola, six months after announcing he had built a 5 per cent holding in Spain's largest electricity group. Groupe Bruxelles Lambert, Mr Frère's main investment vehicle announced that it and CNP, another holding group, had agreed the sale of a joint 2.2 per cent of Iberdrola. GBL's stake, of 1.32 per cent, fetched EUR752m giving a "consolidated capital gain" of EUR122m. The



sale puts an end to speculation that Mr Frère was building a strategic position in the company with a view to brokering a tie-up with other European

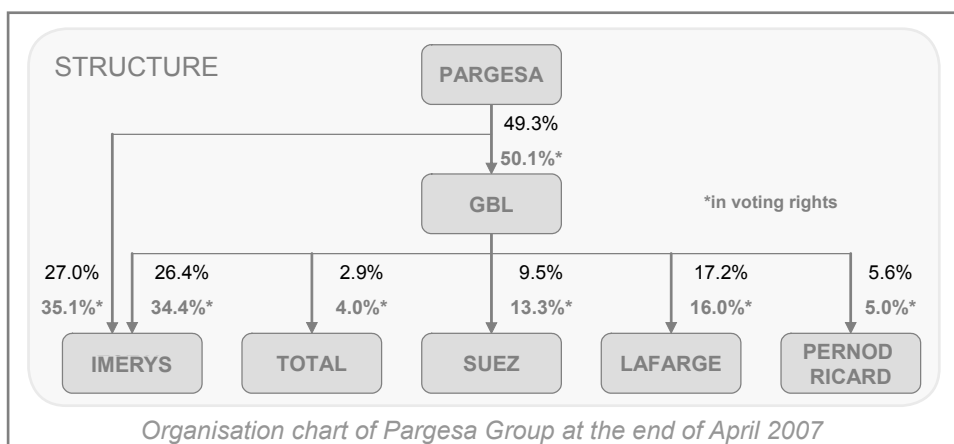
energy groups. He is widely expected to continue selling down his stake. Officials at Iberdrola consistently reported cordial relations with the Belgian investor, whose initial investment fuelled an immediate rally in the Spanish company's shares.

With respect to its other core holdings, Groupe Bruxelles Lambert might raise its holding in Lafarge SA to as much as 30 percent, board member Paul Desmarais Jr. said.

Buffett's hand to Ackman

In our November letter, we focused on Bill Ackman's short positions on monoline bond insurers. This month, MBIA and Ambac, the two largest bond insurers, continued to fall after billionaire investor Warren Buffett announced he planned to start a rival company that would guarantee municipal debt. MBIA fell as much as 49 % in December while Ambac dropped 5.4%. (see Bill Ackman's interview on page 2). Buffett is challenging the bond insurers as they struggle to retain the AAA credit ratings which allow them to guarantee \$1.2 trillion of municipal bonds. The rating of MBIA, Ambac and other so-called monolines are under scrutiny amid concern they don't have enough capital relative to the debt they insure. Investors might feel more comfortable investing in bonds insured by Berkshire than those backed by an insurer with the legacy of the credit crisis hanging over them.

Buffett has profited in the past from turmoil in the insurance business. Berkshire's Class A stock have surged 28.7 percent last year. The current market cap of the holding company is over USD 200 billion.



Buffet solves his cash crisis

Warren Buffett, who mentioned in October that he was looking to put Berkshire Hathaway's USD 45 bn cash pile to use, is to pay USD 4.5 bn for 60% of Marmon, the industrial conglomerate controlled by the Pritzker family. Marmon would account for about 10 per cent of Berkshire's non-insurance revenues and increase employee numbers by 10 per cent. Over the past few months, the Sage of Omaha has complained at the dearth of takeover opportunities, saying he was willing to consider deals of up to USD 50 bn. Analysts had expected him to become more active as the credit squeeze and the US economic slowdown made it more difficult for companies to raise funds. The choice of an industrial company is a surprise since speculation on Mr Buffett's next move had focused on the troubled financial services sector, but Buffett adds "This is our kind of company, it's in some very basic businesses but good businesses. The test will not be whether the stock market likes it today or tomorrow, the test will be where it is in 10 years".



Bill Ackman Interview

In an exclusive interview with Geneva Partners, Bill Ackman gives his rationale for shorting MBIA.



Can you give us a broad overview of the issues facing bond guarantors such as MBIA and Ambac?

The bond insurers are highly leveraged buyers and long term holders of credit risk. While in their early years, they principally guaranteed low-risk municipal obligations, in the last 10 years they have dramatically expanded their exposure to structured finance obligations including CDOs, asset backed securities, and credit default swaps. Their credit guarantees are about 150 times their capital base so they have no margin of safety in the event they incur losses.

We are principally short the holding companies of the bond insurers, not the bond insurers themselves.

How and when did you start looking at these particular companies/business models?

I began looking at the bond insurers in 2002 when another investment manager suggested I look at MBIA, the largest insurer, as a potential stock to buy.

What do you believe are the most fundamental flaws in the model?

The combination of high leverage, low reserves, and risky credit exposure.

Why are MBIA and Ambac's operating businesses both owned through holding companies?

Principally for regulatory reasons and also so that additional leverage at the holding company level can be applied to the business.

What would be the impact of the AAA loss for one of the bond insurers?

It would cause a downgrade of most of the bonds that they have insured. It would also cause the bond insurer to lose the ability to write new business which would materially reduce the company's cash flow, further reducing its creditworthiness.

Knowing that, would rating companies be willing to take such action? Can the authorities let that happen? If not, what is their likely course of action?

According to a compact that the ratings agencies reached with securities regulators around the world shortly after their failures with Enron, the rating agencies are required to promptly update their ratings without regard to the consequences to the issuer, the markets, or otherwise. They have not, however, made good on this promise with respect to CDO ratings and that of the bond insurers. This has caused a significant deterioration in

the market's confidence in the ratings agencies. What is beginning to motivate the rating agencies to update their ratings is the fact that their own franchises are now at risk. If anything, the authorities are looking into the accuracy of the ratings

issued by the rating agencies.

The authorities should attempt to save the bond insurers, but doing so will only cause further deterioration in the creditworthiness of the holding companies that we are short. The holding companies have taken large amounts of capital out of their insurance subsidiaries which has been used to buy back stock and pay dividends to shareholders. These actions have caused the bond insurers to have insufficient capital to meet their obligations to policy holders. Regulators have the power to stop dividends to the holding companies and get back funds that were

taken from these subsidiaries in violation of law.

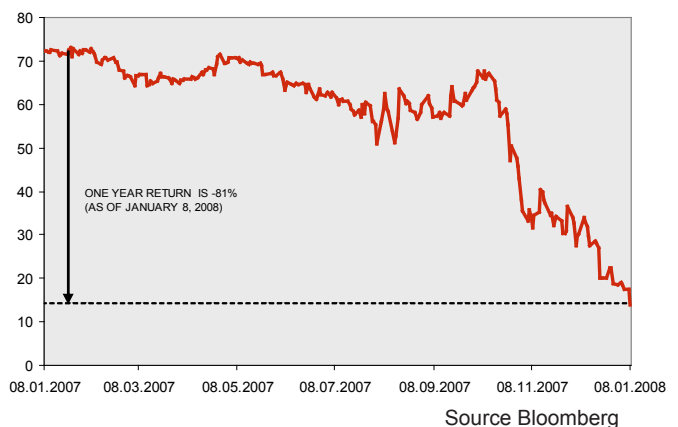
Can you share your thoughts on the recent capital injection made by Warburg Pincus into MBIA? Why would anyone inject capital into a flawed model?

We were puzzled by the Warburg announcement. According to a filing they made on December 13th, they spent approximately 10 days from receipt of confidential info to the signing of the transaction. We do not believe they did adequate due diligence on this investment and have made a significant investment error.

Can you give us an indication of how much Pershing Square would benefit in case MBIA were to go bust?

It will be a very good day for Pershing investors...

Bond Insurer MBIA share price





The Swedish face of activism

CHRIS GARDEL, THE ACTIVIST INVESTOR WHO HEADS CEVIAN CAPITAL IS PUTTING PRESSURE ON THE COUNTRY'S CASH-RICH, CONSERVATIVE MANAGEMENT TEAMS.

As an activist investor, Christer Gardell is a rare creature in Sweden's conservative business community. He founded Cevian Capital in 2002 with Lars Förberg. Cevian invests mainly in Sweden but is expanding into other economies such as Germany and Finland. The fund generally takes a significant minority stake in a target company and then lobbies management to implement changes it believes will enhance shareholder value.

Mr. Gardell keeps a concentrated portfolio with five companies typically making up around 80 per cent of his exposure. Cevian was in the news this month after taking a minority stake in Germany's Munich Re.

Before this foray into Germany, Cevian was renowned in Sweden for taking a stake in Volvo, the truckmaker, and demanding it either use its surplus cash or return it to shareholders and for supporting a foreign takeover of Skandia, the Swedish insurer, by Old Mutual of South Africa. Mr. Gardell believes shareholder activism is peculiarly Swedish:

| Balance Sheet vs P&L | Vocal vs quiet | Concentration | Size of target companies | Geographical focus |
|----------------------|----------------|---------------|--------------------------|--------------------|
| ↑ BS | ↑ VOCAL | ↑ HIGH | ↑ LARGE | |
| | | | | EUROPE |
| | | | | |
| | | | | |
| | | | | |
| ↓ P&L | ↓ QUIET | ↓ LOW | ↓ SMALL | |

CEVIAN CAPITAL Style Box

“We have a tradition of active ownership that was developed by the creation of the investment companies that came out of the depression of the 1930s”. In spite of his reputation, Mr

Gardell's shareholder activism is not about placing undue pressure on companies for short-term profits but ensuring shareholders are treated with respect - and profiting from this. The

average term of one of Cevian's investments is between three and five years - much longer than most event traders. Cevian likes to engage in dialogue with management rather than to seek new headlines. This philosophy has attracted a range of investors. With around €3bn (\$4.3bn) under management Cevian is backed by Carl Icahn, the US activist who has invested more than €130m. But it is also supported by API, Sweden's main government pension fund, indicating that activism is a strategy that appeals to corporate raiders as well as pension funds.

Loews to spin off its tobacco unit

Loews Corp., the holding company run by New York's Tisch family, said it will spin off its Lorillard tobacco unit. Loews plans to redeem all of its Carolina Group tracking stock in exchange for shares in Greensboro, North Carolina-based Lorillard. Loews expects the spin-off to be complete by the middle of next year, and said Lorillard will likely list its shares on the New York Stock Exchange. Loews plans to spin off the unit as tobacco shares outpace the broader

stock market. The Standard & Poor's 500 Tobacco Index has gained 18 percent in the past year, compared with a 3 percent gain in the S&P 500 Index. The acquisitions of

Gallaher Group Plc and Altadis SA this year have cut the number of major, publicly-traded international tobacco companies to four from six. Founded in New York City in 1760

by Pierre Lorillard, the unit is the oldest continuously running cigarette maker in the U.S. as well as being the country's third-largest tobacco company, Loews said.

This move could help the conglomerate narrow the gap between its share price and the value of its assets.

| Company | Recent Price \$ | Shares Owned By Loews (mil) | Value (bil \$) | Value Per Loews Share (\$) |
|---------------------------------|-----------------|-----------------------------|----------------|----------------------------|
| CNA Financial | 33.0 | 241.5 | 8.0 | 15.1 |
| Diamond Offshore | 142.0 | 70.1 | 10.0 | 18.9 |
| Carolina Group | 86.0 | 66.0 | 5.7 | 10.8 |
| Boardwalk Pipeline | 31.0 | 86.0 | 2.7 | 5.1 |
| TOTAL : Public Companies | | | | |
| Non-Public Business, Cash | | | 7.4 | 14.0 |
| TOTAL VALUE (Estimated) | | | | |
| CNA Financial | | | | 49.0 |
| Current Share Price | | | | |

Source : Company reports



Cadbury investors back Peltz

Cadbury-Schweppes investors have backed Nelson Peltz's aggressive demands for more changes at the confectionery company, including fresh faces on the group's board. Mr Peltz, who runs Trian Fund Management, the hedge fund, and who has a 4.5 per cent stake in Cadbury, sent a letter to the company on the December 18th, demanding that it improve its financial performance significantly next year. Mr Peltz threatened to consider "alternatives" if profit margins did not improve quickly. Analysts say this could include either a proxy battle for board seats or a takeover bid.

13D filings activity of the month

13 D filing is an SEC rule requiring disclosure by anyone acquiring a beneficial ownership of 5% or more of any equity security registered with the SEC.

13D Initiation

| Date | Filer/ Purchaser | Target Company | % of Shares Outstanding |
|--------|---------------------------|-----------------------------|-------------------------|
| 5-Dec | West Creek Capital | Capital Senior Living Corp. | 6.71 |
| 7-Dec | Fairview Capital | Mac-Gray Corp | 5.10 |
| 13-Dec | Pentagone Capital | Rentech Inc. | 5.78 |
| 17-Dec | Shamrock Activist Value | Panera Bread Co. | 5.46 |
| 19-Dec | Childrens Investment Fund | CSX Corp | 8.30 |
| 19-Dec | DellaCamera Capital | Enzon Pharmaceuticals | 5.20 |
| 20-Dec | Blue Harbour Group | ChoicePoint Inc. | 5.50 |

13D Position Increase

| Date | Filer/ Purchaser | Target Company | % of Shares Outstanding |
|--------|-------------------|---------------------------|-------------------------|
| 6-Dec | Barington Capital | Pep Boys Moe & Jack | 11.52 |
| 7-Dec | JMB Capital | Maguire Properties Inc. | 6.30 |
| 9-Dec | Lion Fund | Steak & Shake Co. | 9.60 |
| 12-Dec | Chapman Capital | Building Materials Corp. | 7.50 |
| 19-Dec | Highland Capital | PDL BioPharma Inc. | 8.10 |
| 20-Dec | Riley Inv. Mgmt | Transmeta Corp. | 7.00 |
| 21-Dec | D.E Shaw | Endo Pharmaceuticals Inc. | 9.60 |

13D Position Decrease

| Date | Filer/ Purchaser | Target Company | % of Shares Outstanding |
|--------|-------------------------|---------------------------|-------------------------|
| 1-Dec | FL Group hf | AMR Corp. | 1.10 |
| 1-Dec | Third Point | Atmel Corp. | 4.90 |
| 4-Dec | Hilltop Holdings | Downey Financial Corp. | 4.90 |
| 6-Dec | Vardon Capital | 13G Conversion | 7.30 |
| 9-Dec | Chapman Capital | Nabi Biopharmaceutical | 3.20 |
| 24-Dec | Octavian Management | Midwest Air Group Inc. | 5.20 |
| 28-Dec | Shamrock Activist Value | eResearch Technology Inc. | 4.88 |
| 28-Dec | Elliott Associates | Pier 1 Import Inc. | 0.90 |

Disclaimer

The Global Activist Letter has been prepared by Geneva Partners from information believed to be reliable, taken from various sources including Financial Times, Bloomberg, 13D Monitor.com, Street Insider.com... Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. This document is provided for information purposes only. Nothing in this document should be considered to constitute investment, legal, accounting or taxation advice and you are advised to contact independent advisors in order to evaluate this report. It is not intended, and should not be considered, as an offer, invitation, solicitation or recommendation to buy, subscribe for or sell any of the financial instruments described herein, nor is it intended to form the basis for any credit, advice, recommendation or other evaluation with respect to such financial instruments and is intended for use only by those professional investors to whom it is made available by Geneva Partners.