

# Practical IR Conference: Proactive Investor Engagement



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**QUALITY  
COMES AS STANDARD**

Part of **Link Group** | Corporate Markets



# Agenda

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- Introduction to Shareholder Analysis
- Shareholder Rights Directive II (SRD II)
- Perception studies
- Targeting
- Conclusions

# Introduction to Shareholder identification



# Understand your audience to have greater impact

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- **Back to basics**

- Regular analysis core part of IR toolkit
- Make sure it is accurate and reliable
- Track your engagement



Share register analysis and CRM remain core components of IR programmes



More companies seeking wider pool of accessible intelligence to track and target investors



Although use of investor targeting well established, 38% want more qualitative results

***Greater clarity of your investor base benefits all stakeholders!***

# Global Shareholder Analysis – Why?

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## The fundamental priority of any listed company is to build and manage solid investor relationships to achieve a fair market value

- Knowing who owns a listed company shares is a fundamental part of building an effective investor relations programme.
- The value of a stock market listing cannot be realised without this intelligence.
- Strong investor relationships can only be built knowing the company investors.

## Shareholder identifications allow a listed company to find out who its shareholders are at both a beneficial owner and investment manager level.

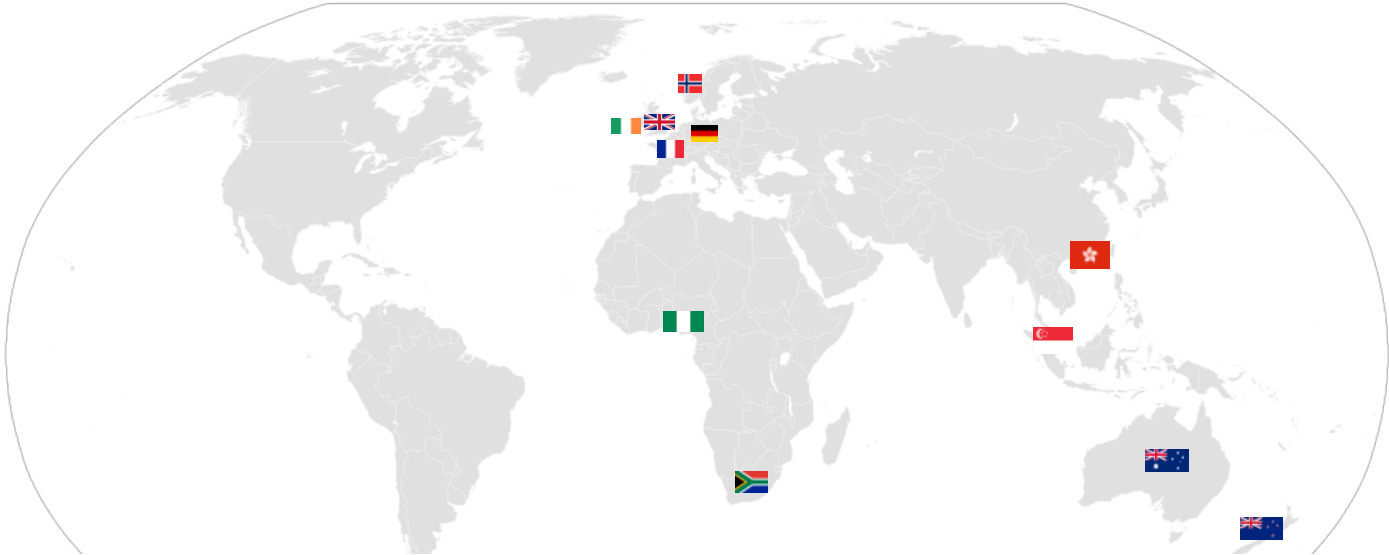
# Different reasons to conduct shareholder IDs

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Depending on market, size of the Investor Relations team and its KPIs, shareholder identifications is used in many possible ways:

- Communicate with shareholders based on investment strategies (growth, yield, value, etc.)
- Roadshow planning
- Identifying and Targeting investors (looking for large funds holding small amounts)
- Geographical targeting, planning of roadshows
- Targeting larger holders (top 25-50)
- Monitor ESG-focused investors and specialised funds
- Evaluating a company's shareholder structure
- Parent company reviews; identify location of key decision makers within large global assets managers
- Measuring IR performance by monitoring concentration of top holders
- Reporting to board and top management
- Proxy solicitation campaigns
- Compliance with US regulations (i.e. Tier 1/2, Rule 802, etc) during cross-border M&As

# Disclosing or non-disclosing markets?



## What is shareholder analysis?

- Share Register Analysis (SRA) & Shareholder Identification (SHID) are differing methodologies employed to assist companies in identifying their shareholders.

## Share Register Analysis (SRA)

- Analysis using a share register and obtaining disclosure using relevant legislation.

## Shareholder Identification (SHID)

- Method of identifying a shareholder base using multiple sources without access to legislation

# Shareholder ID in non-disclosing markets

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Shareholders can be identified through a variety of sources:

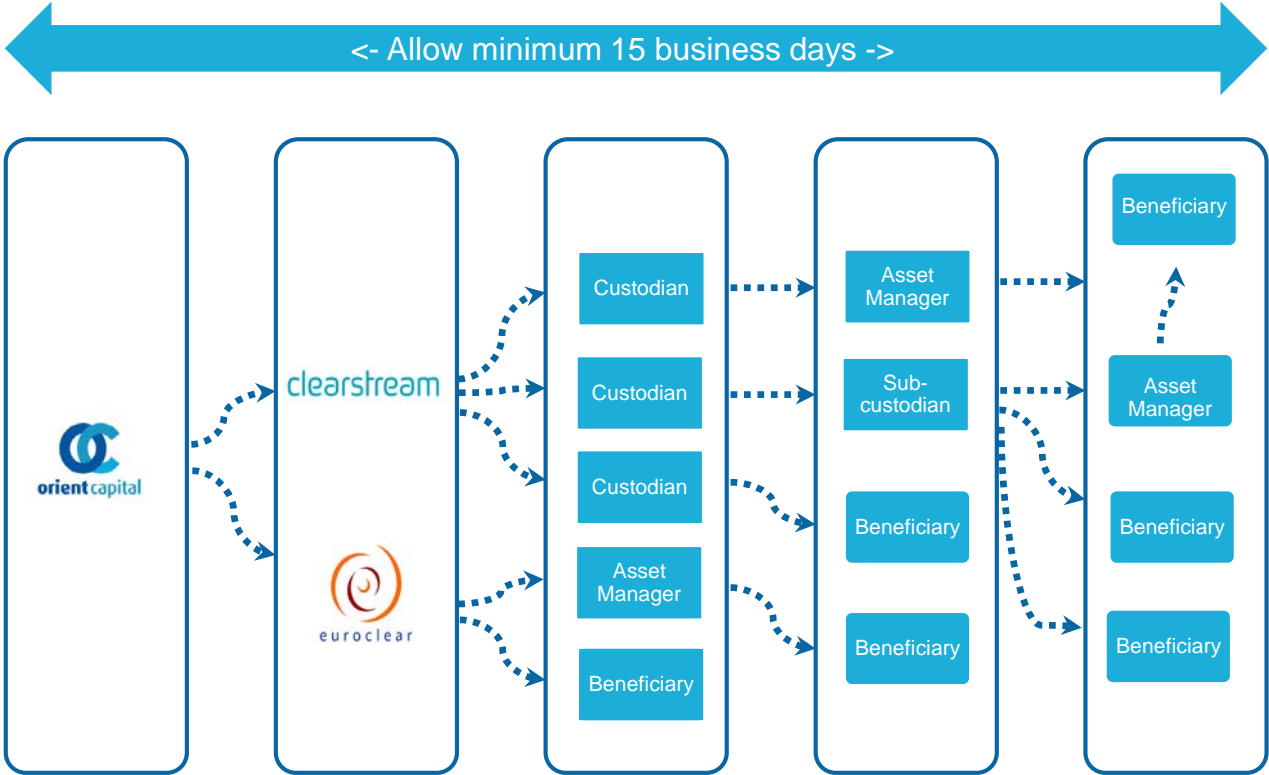


Through the course of the years, Orient Capital and DF King have established long lasting contacts with investors and custodial banks. These provide us with a regular flow of information and disclosures (confidential or mandatory)

- Ability to get information and get them on time is KEY!
- Analyse and interpretation of custodial disclosures is important
- Ability to look for details, spot trends and possible investor's actions is part of the job. The analyst needs to be able to make assumptions and estimates in non-disclosing markets.
- Public data complement normal banks and updates (Bloomberg, Factset and Morningstar)
- Other sources of data include Share registers, DTC and NOBO lists (for GDR/ADRs)



# Illustrative Custody and Information Flow



# Allocating investors' positions – Example

Name	Shares	Updates	NT custodian 31/Jan/2015	Caceis France custodian 12/Feb/2016	Public Filings						Public	Public Date	NOBO	REGISTER 12 Jan 2016
					Bloomberg	Bloomberg Date	Morningstar	Morningstar Date	Public	Public Date				
Acadian Asset Management LLC	352,164	352,164	0							95,476	31/01/2016			
Managed Fund	112,193												306,617	
Oyster - Emerging Opportunities	31,275		0		31,915	24/11/2015				31,275	30/11/2015			
Acadian Global Leveraged Market Neutral	31,333		0	31,333			30,674	31/12/2015						
Acadian ACW ex-U.S. Equity Composite	28,700		0				28,700	31/12/2015						
Advisors Inner Circle - Acadian Emerging Markets	27,318		57,899		27,318	15/02/2016								
Acadian Core International Equity Fund	18,536		0							18,536	31/12/2015			
Acadian Non-U.S. All-Cap Equity Composite	13,787		0				13,787	31/12/2015						
Acadian Emerging Markets Equity Composite	10,816		10,816				10,801	31/12/2015						
CFS Wholesale Acadian Global Equity Fund	10,374			10,374	10,374	24/11/2015								
Acadian Emerging Markets Small-Cap Composite	29,773		0				29,773	31/12/2015						
Acadian Global All County Equity	9,903		0				9,903	31/12/2015						
Fidelity Strategic Advisers Emerging Markets Fund	8,428			8,428	8,428	24/11/2015								
Acadian Glo Market Neutral Eq (Tax Sens)	7,860		0				7,860	31/12/2015						
State Of Nebraska Department Of Administrative	4,114		4,114		4,114	24/11/2015								
WM Pool Equities Trust No 2	4,416		3,416		4,416	24/11/2015								
Commonwealth Global Share Fund 28	3,338		3,338		3,338	24/11/2015								
Russell Inv. Co. Plc - Acadian Emerging Markets	0		0		21,943	29/02/2016				21,943	30/09/2015			

239,971

Shares trade on a daily basis, a shareholder ID will never be 100% accurate!

# What does the final analysis look like?

## What does a report comprise of?

- List of investors
- List of parents
- Beneficial owners
- Overview of ownership structure
- Geographic dispersion
- Sovereign Wealth analysis
- Investment style breakdown
- Investor type breakdown
- Peer comparisons
- Benchmark comparisons



# Shareholder Rights Directive II (SRD II)



# Shareholder Rights Directive II - Summary

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SRD II is a EU directive, aiming to strengthen the position of shareholders and to reduce short termism and excessive risk taking by companies.

- It amends SRD I (July 2007) and requires transposition into each Member State's national law by 3<sup>rd</sup> Sept. 2020.

SRD II establishes requirements in relation to the exercise of certain shareholder rights attached to voting shares of companies. This applies to companies having their registered office in the EU and their shares listed on an EU regulated market.

It also establishes specific requirements to encourage shareholder engagement:

- The identification of shareholders;
- The transmission of information to shareholders;
- The facilitation of exercise of shareholders rights;
- Transparency of institutional investors;
- Asset managers and proxy advisors;

The minimum level of mandatory disclosure requirement, depending on how the Member's state will transpose SRD II into local law, will be 0.5% of ISC holdings

# Perception Study



# What is a perception study?

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The main objective of the study is to provide a clear overview of current market perceptions, based upon a series of key themes to be explored.

- All interviews are recorded and conducted anonymously
- Results are summarised by topic, in graphic and written format, incl. verbatim
- Common themes and outcomes of a perception study:
  - Clarify strategy, highlight areas of misperceptions
  - Understand perceived Strengths and Weaknesses, enabling to rectify communication of these
  - Comprehend investment horizon & target price (Triggers to invest/divest)
  - Clarify preferred capital deployment policies
  - Highlight closest peers according to capital markets
  - Redesign IR activities (incl. organization of thematic conferences, site visits, etc.)
  - Improve skills of IR team around specific topics
  - Key issues surrounding your stock as an investment

# Drafting of questionnaire

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## General

- What is your general level of understanding of company?
- What do you believe is the most critical issue(s) the company is currently facing?
- How do you assess the sector Company XYZ operates?

## Strategy

- How would you describe the company's strategy? Do you agree with it? What are your concerns, if any?
- The company announced a new strategy for 2020. What do you perceive to be the pros and cons of this new strategy?
- How do you assess the current revenue streams level?
- SWOT analysis

## Valuation

- Company XYZ trades at 0.9 times book value (below industry average), why?
- What do you believe could improve the company's valuation?
- What metrics do you use to value the company?

## Peers

- Who do you believe are the company's closest peers (domestic & global)?
- How is the company valued compared to peers?



# Drafting of questionnaire

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## Capital allocation

- Do you think the current leverage and capital allocation are optimal?
- What should the company do with its free cashflow?

## Management

- What are your views of Senior Management (CEO, CFO) in terms of Management ability, Communication skills, Access to investors

## Communication & Disclosure

- What are your views of Company XYZ's communication
- Is there anything the company should put more emphasis, or less emphasis, in its communication?
- How do you rate the company's disclosure/transparency/reporting (Ranking 1-5)
- In what peers are better? How could it be improved?
- What additional information would you like to receive regarding the Company?

## Investment Triggers

- Which factors led to the initial investment decision?
- What would trigger an increase/decrease in your investment?

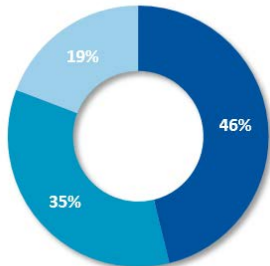
# Perception Study (Case study)



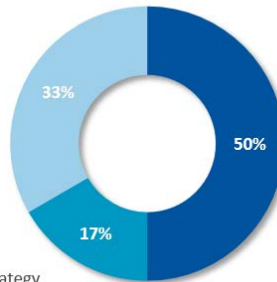
# Assessment of strategy



Sentiment towards strategy  
(Total)



Sentiment towards strategy  
(sell-side)



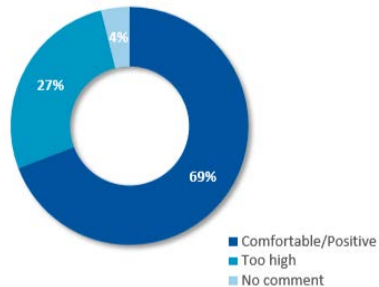
■ Agree with strategy  
■ Neutral  
■ Disagree

## Key highlights

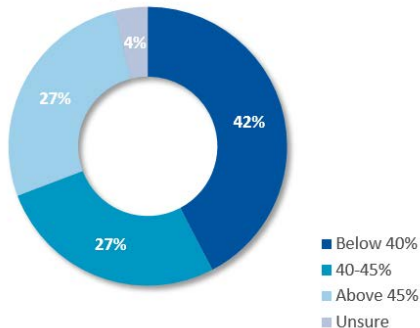
- “Trying to upgrade their portfolio and have buildings in the right locations.”
- “Selling some assets and reinvesting this cash into their development pipeline.”
- “Are they selling the worst assets, or simply selling to cover the dividend?”
- Other critics included:
  - earnings dilution
  - lack of portfolio diversification
  - over-exposure to the Northern district
  - the large size of the offices
  - inability to cut dividend

# Assessment of LTV

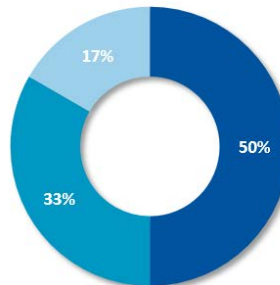
Sentiment towards LTV  
(Total)



Ideal LTV  
(Total)



Ideal LTV  
(Sell-side)

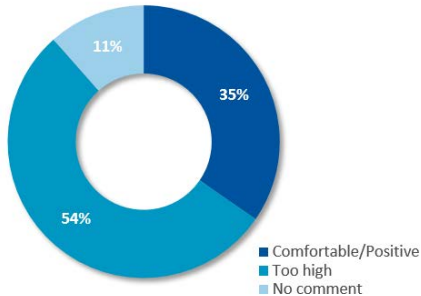


## Key highlights

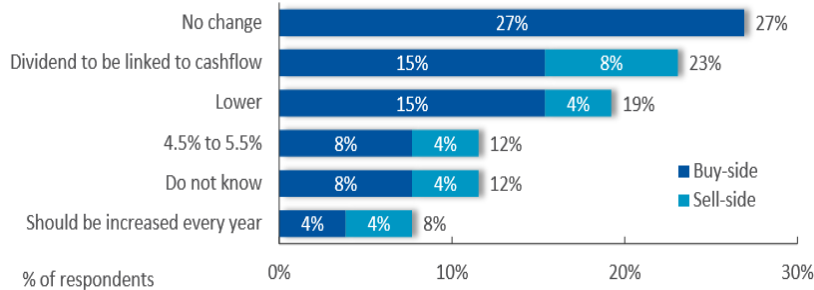
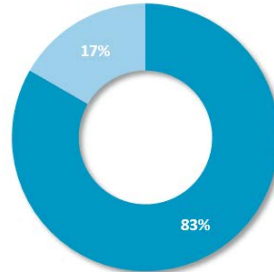
- "It is conservative compared to peers, but I think it is good to keep it at this level."
- "I like to think that the company needs to be incentivised, so if they lower their LTV to below 40% then it will be good."
- "Leverage is not an issue, some companies shine at 50%. The better the company, the higher the LTV. The worst companies stick around 40%, which I see as a magic threshold for bad companies."

# Views on Dividend

Sentiment towards Dividend  
(Total)



Sentiment towards Dividend  
(Sell-side)



## Key highlights

- "7% is very attractive but too high and not sustained by their cashflow."
- "They are overpaying, and they cannot support it."
- "They need to lower the dividend and make it more sustainable, it cannot be higher than earnings."
- "The consistency of the dividend year after year is what keeps me invested."
- "There is a lot of investors that are probably invested just for the dividend."

# European REIT – Summary case study

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Company's XYZ equity story is well understood by the financial market. The company is a pure-play office REIT focused on City ABC.

While 40% invested in the stock solely for the attractive dividend, investors are more and more looking at the stock from a total return perspective and are critical about the lack of NAV growth, also impacting liquidity.

Growth of NAV appears to be more important than Dividend.

The majority of respondents see the asset rotation strategy positively but are concerned about the high Capex/Development costs. In this respect, 54% of total respondents (and 5 out of 6 sell-side) would like to see a reduction of dividend, to be more aligned to earnings.

There were very mixed views around the City ABC office space sector, the majority sees it average to unattractive. Only a handful of respondents were aware of growth in rentals >> Better communication needed on this.

Communication praised as among the best in the sector.

# Final output samples

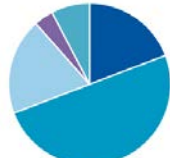
## Management

Investors' views on management remained positive, with an average of 3.88 out of 5.00, slightly lower than the score of 4.00 in 2018. Overall, those surveyed think that no management team across the peer group stands out above the rest ("No Russian steel companies stand out.") and Company\_XYZ is in line to peers in respect to the quality of the management.

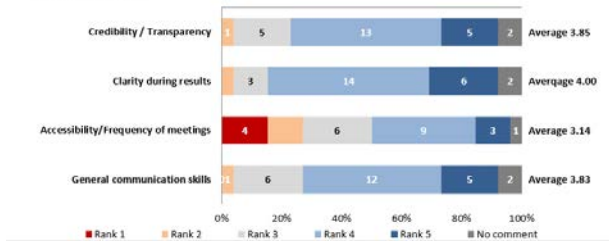
Compared to 2018 survey, contributors seemed more inclined to point out to areas where Company\_XYZ is behind peers and where they could improve. In discussing communication, for example, it was stated that management team should be able to "better explain" their activities, or "clarify its dividend policy".

Some had different views on transparency. For example, one equity investor stated that "Peer 1 and Peer 2 are more aggressive and better in terms of frequency of updates. On the transparency I would put Company\_XYZ better." On the other hand, another equity investor ranked transparency as 3 out of 5, stating: "I think that in this respect only transparency is worse (3) because last year there were a number of issues and they were unable to clarify them."

Overall sentiment - Average 3.88



Rank 5 Rank 4 Rank 3 Rank 2 No comment



## Growth drivers

Keeping costs of production low and maintaining operations efficiency becomes the most important driver of Company\_XYZ's future growth, as indicated by 35% of those questioned. "Going up in the value chain and being more cost effective," stated one. In acknowledging Company\_XYZ's competitiveness, another said that "Company\_XYZ needs to invest in their infrastructure to keep their assets at low cost and be competitive in the market. More cost cutting can be achieved through automation." Another contributor suggested that keeping costs low, together with deleveraging, would ultimately lead to a "growth in free cashflow."

Linked to production cost is production growth which was mentioned in 19% of responses and placed third as a growth driver. One participant hoped for increase in steel and coal production, something that could be triggered via the Company\_XYZ's subsidiary. "Better exploitation of their assets is their growth driver," stated another.



## Quotes

### Above peers

- "More aggressive vs peers, but equally more vulnerable. In general, there's lots of focus on deleveraging." (Equity E)
- "Strategy compares well to peers. They have a nice blend of products which distinguishes them from steel producers. They also happen to have certain assets such as Vanadium which others do not have. Overall they are capitalised quite well." (Equity K)
- "Primarily focused on commodity products, leading connections to the sea ports for exports, they have a unique clientele against the European and US steel sector, greater exposure to spot prices compared to peers, greater cyclicality compared to peers. Unique vertical integration which ensures they have competitive pricing." (Self-side B)
- "Strategy is reasonable and conservative in terms of expansion. The strategy is better than peers. In steel they have been focusing on increasing the shares of value added products, moving away from semi-finished products to more downstream products where they can increase margins." (Self-side I)
- "They are a top player in the mining business and they have executed well so far. I do not know their strategy other than being efficient on costs. A lot is to do with low cost energy. They have been good at penetrating the US using their competitive advantage in energy costs and they have done best then all peers." (Fixed Income A)
- "Heavily focused on deleveraging, with net average leverage gone down from 4 times (BITDA) to almost 1-time threshold. Operationally they compare well against peers as a low-cost producer having more operations abroad, with focus on coking coal and iron ore." (Fixed Income F)
- "They do a very good job vs. peers. The clarity in terms of usage of cash vs. debt level is useful. They communicate very well what the strategy is." (Fixed Income G)



### In line to peers

- "I do not see any strategy and it is difficult to describe something you cannot see. They seem broadly in line to peers." (Fixed Income C)
- "Strategy is to maximise the benefits of all shareholders. They do not have dramatic differences vs peers." (Equity G)
- "As far as the company concern is that they have in steel their main operations. They do a little bit of Vanadium to differentiate. Their strategy is to focus on North America, which is a good point, given the current sanctions situation. In line to peers." (Equity A)
- "Strategy is not expand capacity and focus on improving product and vertical integration. Also I think they are now

# Investor Targeting





# Why do you need to do it?

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*“A key principle is that there should be a regular and consistent process of engagement, over time, between a company and its key investors, in order to establish, develop and maintain relationships’*

*The purpose of Investor Relations is to attract the shareholders you never want to lose.”*

***UK IR Society Best Practice Guidelines***

# What is a targeting report?

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The main objective of a targeting report is to provide a list of potential investors in a stock, looking at a predetermined set of peers

- Process starts from the creation of a list of circa 100 institutional names holding peers.
  - Focus is on quantity
- Followed by direct outreach to confirm real level of interest, relevant PM, etc. 15/20 names are shortlisted.
  - Focus is on quality

# Objectives

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## Marketing your equity to new and underweighted investors

- Enhance and improve the database of individuals with confirmed & current interest in meeting

## Vital part of IR process

- Standard investor interface model does not provide full value
- Adequate distribution of investment proposition
- Monitor efforts against IR programme to maximise the best results

## Key to success

- Understanding investors & markets size & quality
- Fund management strategies
- Fund management firms' internal structures and funds managed

## Targeting must be strategic

- ... but investor retention is equally important

# The context

## *Feedback & future analysis*

- Post meeting feedback
- Has targeting had an impact on your shareholder base?
- How often are you monitoring it?

## *Roadshow planning & logistics*

- Roadshow arranged with target investors
- Briefing pack on targets
- Can be outside results



## *What should you see?*

- Identified Holders
- Types & Styles of Investor
- Geographic Positions

## *Targeting Intelligence & matching investors*

- Peer group analysis & weightings
- Long list = Short list
- Interaction with banks / brokers

# Quantitative

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## Combines Share Register Analysis / Peer Group / Weightings Analysis

- Underweight and sector investing non-holders

## Investment portfolio data

- to formulate a comprehensive view of available levels of investment

## Quantitative rankings

- Equities Under Management
- Investment Style
- Market Value of Holdings in the issuer
- Market Value of Holdings in Peers
- Number of European, North American & Rest of World Peers Held
- Adjusted Average Weighting versus Global Peers

## Region, City or investor type

- parameters can be applied depending on what needs to be targeted

**“Long List” of circa 100 target investors which manage funds theoretically relevant for your stock**

**Building the long list!**

# Qualitative

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## Culling your long list to:

- Identify the universe of relevant contacts
- Introduce your company investment proposition
- Assess the appetite in them considering your stock

## Based on assessment of strategy and position

- What sort of stock you are: growth / value / yield / deep value
- Institutional or PCB / Retail
- Active or Passive style and approach
- Domestic or overseas investors
- Regional outreach? If overseas, which cities?
- Prioritisation necessary to gain most efficient use of resource
- Tier your targets accordingly
- Check your investor meeting notes
- Qualify level of cognition / perception of stock

**“Short List” of 15/20 carefully selected targets appropriate for clients to get to know better**

**Defining the short list!**

# What does the final analysis look like?

## What does a report comprise of?

- Breakdown of key institutions by region, split by priority
- Table showing
  - Equity under management
  - Investment style
  - Weighting by value
  - Investment in company
  - Investment in peers
  - Turnover
  - Weighting score
- Key institutional decision makers details
  - Role
  - email
  - Direct line

3.7 Top 25 European institutions contact information

Institution	Name	Title	Telephone & email
Henderson Global Investors	Robert Schramm-Fuchs	Buy Side Analyst	+44 20 7818 5713 robert.schramm-fuchs@henderson.com
	Simon D. Rowe	Portfolio Mgr	+44 20 7818 1818 simon.rowe@henderson.com
JPMorgan Asset Mgt (UK)	Christopher M. Llewelyn	Portfolio Mgr	+44 20 7742 9995 chris.m.llewelyn@jpmorgan.com
BlackRock Inv Mgt (UK)	Amy Dey	Portfolio Mgr	+44 20 7743 3000 amy.henderson@blackrock.com
Deutsche Asset & Wealth Mgt Investments	Andre Kottner	Portfolio Mgr	+49 69 910 12371 andre.koettner@db.com
UBS Global Asset Mgt (UK)	Andreas Josef Johannes Koester	Portfolio Mgr	+44 20 7901 5000 andreas.koester@ubs.com
Credit Suisse AG	Urs Hiller	Portfolio Mgr	+41 44 333 11 11 urs.hiller@credit-suisse.com
HSBC Global Asset Mgt (UK)	Ana da Maia	Portfolio Mgr	+44 20 7991 8888 ana.da.maia@hsbc.com
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FIL Investments International	Matt S. Siddle	Portfolio Mgr	+44 20 7283 9911 matthew.siddle@fil.com
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Threadneedle Asset Mgt	Stephen Thornber	Portfolio Mgr	+44 20 7464 5000 stephen.thornber@threadneedle.com
Aberdeen Asset Managers (SWIP)	Anne Richards	CIO	+44 131 528 4000 anne.richards@aberndeen-asset.com
Standard Life Investments	Ross Mathison	Buy Side Analyst	+44 131 245 8623 ross_mathison@standardlife.com
Artemis Investment Mgt	Laurent P. Millet	Portfolio Mgr	+44 20 7399 6077 Laurent.millet@artemisfunds.com

Conclusion:  
Practical considerations





# Practical considerations

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## Allocate more time to strategic targeting

- Know your shareholder base and diversify it

## Get feedback

- Understand and identify action points from feedback

## How do you know its working?

- Reflect on feedback, register changes and sense of sentiment

## Update if needed

- Change the targeting periodically to ensure it remains relevant
- But not so often if becomes difficult to track results

Any questions?

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