Targeting Your Future Investors

“Filtering, Screening and Qualifying”

What we do.

CMi2i specialises in the provision of

- Capital Markets Intelligence (CMI)
- Investor Relations (IR) Services
- Proxy Solicitation and Corporate Governance Services

Commissioned by both Equity Issuers and their Advisors

- Our CMI analysis is applied extensively to both **corporate transactions** and "**financial calendar" Investor Relations**
- Our Proxy Solicitation team has extensive experience gained from managing numerous high profile **Corporate Transactions** and **AGM/EGM's**
- Our industry expertise provides our clients with the basis from which to build **successful IR** and **Proxy Solicitation Programmes**, and the tools to conduct effective **corporate transactions**

The Evolution of Targeting

- Matching the Issuers “investment story” to funds “investment modelling”

- Matching the Corporate Governance Policies of the Issuers and the Investors

- Looking beyond the larger institutions to get a better fit for the investment proposition?

- Factors likely to affect the Equity Capital Markets and your shareholder base

Looking into the future - A Complex Challenge

- The objective is to maximize demand for the shares and this is achieved through Strategic Targeting – This cannot be achieved if it is left to the market to determine who will be buying your shares
- The challenge is to find investors whose investment profile matches your future investment proposition
- How do you evaluate your targets?
- Measurement. How do you know if it was successful?

Questions for consideration.

- Do you want more passive or active investors?
- Are you looking for liquidity or stability?
- Are you looking to diversify the shareholder base?
- Which shareholders are likely to rotate out and when?
- Which current investors could buy more shares?
- Who is not investing yet but could be?
- Is there a transaction anticipated?
- Who will support the company in the transaction?
- Who holds the voting power? Who is influencing the vote?

- Where are the strengths and weaknesses in the shareholder base?

Investor Targeting – Where are you now?

A company's specific position within the Equity Capital Market requires an holistic approach to investor targeting;

- A detailed analysis of the current shareholder structure to include historic data and trends;
- What is likely to happen to the existing shareholder base? Who is holding and why? Who is likely to sell and when?
- A thorough review of the current ECM proposition and the market's (buy and sell side) reaction to it;
- The development of the ECM valuation case to identify the key sensitivities and metrics relevant to the broader investment audience.

Successful investor targeting requires accurate mapping of the company's proposition to investors, with the investors' own requirements and expectations

Determining the Peer group

- Peer group is constructed on the basis of investment comparison;
- Traditional “peer group” analysis of underweight or non-invested increasingly not relevant
- Based on sell-side sector coverage construction and is aligned to buy-side stock selection.
- Critical to asses the issuer on the basis of its investment proposition and where this “fits” within the investment behaviour of the fund(s)

We have recently completed a study for a global steel producer. This highlighted that there is limited commonality within the sector and, interestingly, that our client had more in common with other companies, in other industries than with its supposed “peer group”. For example, our client was more likely to be attractive to investors who had recently invested in cement and automotive issuers than to its competitors;

The convergence of IR and Corporate Governance and the impact on Targeting

- There has been an increasing need for companies to communicate with their shareholders ("owners") simultaneously at both the Portfolio Manager and the Corporate Governance level.

- This is being driven by Institutions becoming increasingly active (and even "activist") in their investment approach.

- This means that there needs to be better coordination between the IR Function and The Secretary of the Board to ensure that the investment proposition includes the Corporate Governance policies, as investors are increasingly including this as part of their investment decision making process.

- Increasingly it is as important to understand how they will behave as a shareholder as it is to understand why the shareholder has invested.

The Stewardship Code

Code

Corporate Governance

FRC Financial Reporting Council

September 2012

The UK Stewardship Code

The Principles of the Code

So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. monitor their investee companies.
4. establish clear guidelines on when and how they will escalate their stewardship activities.
5. be willing to act collectively with other investors where appropriate.
6. have a clear policy on voting and disclosure of voting activity.
7. report periodically on their stewardship and voting activities.

And in practice?

- “In a recent Aberdeen Asset Management study conducted among 300 global financial decision-makers, governance was found to be an integral factor when selecting and analysing investments. Almost 90 per cent of respondents considered effective governance to be a critical driver of investment performance”.
- “Asset managers have a unique role as responsible stewards in the companies in which they invest. Some 85 per cent of those we surveyed said asset managers should engage with the companies in which they invest client funds, both at the pre-investment due diligence phase and at regular intervals subsequently”.
- “At Aberdeen, our global approach to investment is to think of ourselves as long-term owners of the business rather than short-term tenants of the shares. We resist the temptation to focus on “market noise” and focus on each investment as if we were buying the entire company, making a long-term commitment to it. Our time horizon is aligned with those of the companies in which we invest, not with market trends. Good governance and stewardship are essential to our approach”.

The impact of Corporate Governance to Targeting.

- There has been significant increase in the assessment of how well a company is run to the investment decision making process.
- More and more funds are bringing Corporate Governance monitoring “in-house”
- 94% of Investors stated that they have been approached by other investors to discuss Corporate Governance related issues in the lead up to a shareholder meeting
- It is vital to understand the Target Institution/funds voting policies on Corporate Governance issues

- Are you inviting the foxes into the hen-house?

The emergence of the Corporate Governance Roadshow

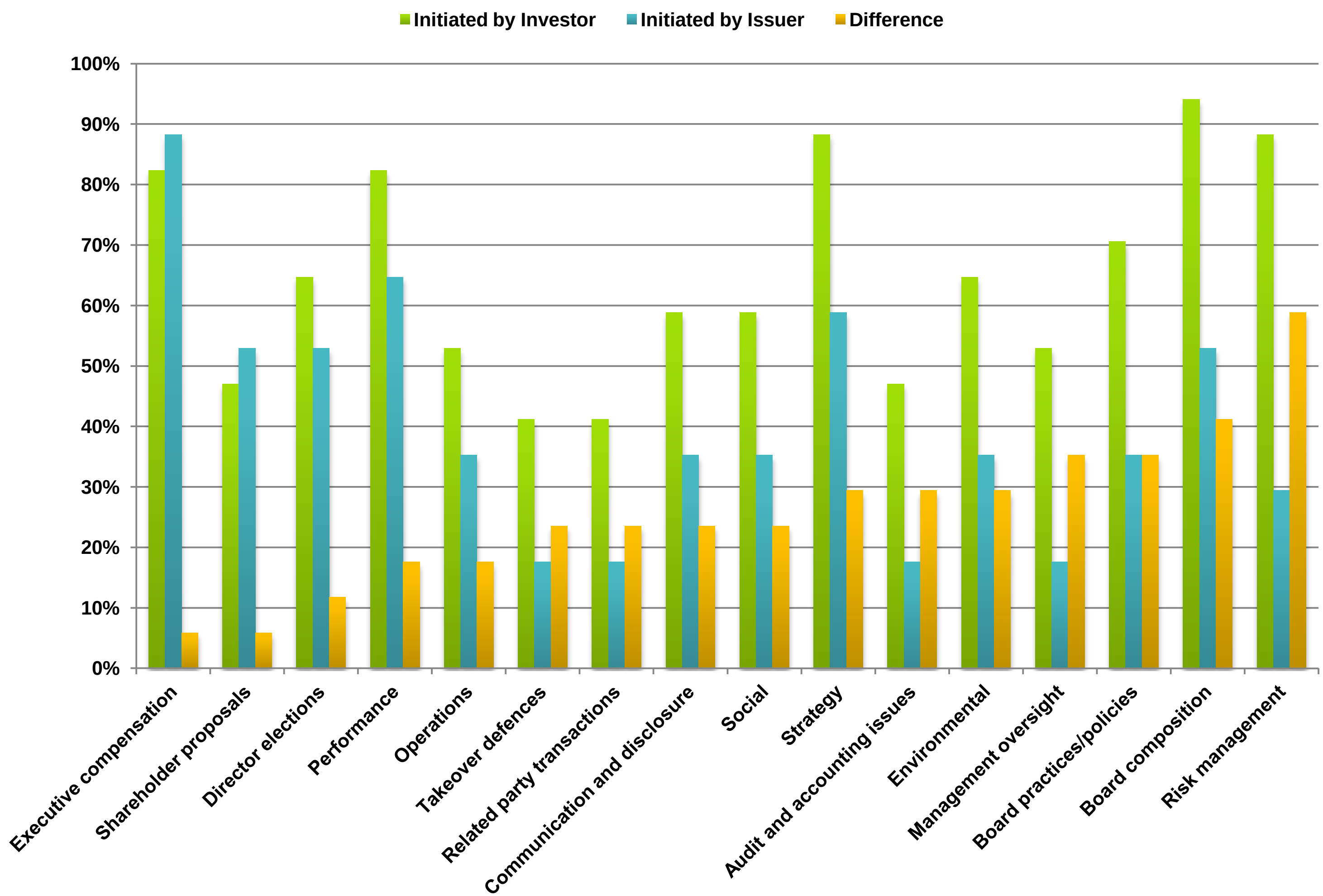
- If you can see that there is going to be little support from existing shareholders AND/OR target investors to your corporate governance policies and resolutions, you have to meet and explain your strategy.

- There is a clear disconnect between what the companies think the investors want to hear and what they actually want to discuss.

- Its is not always about Remuneration!

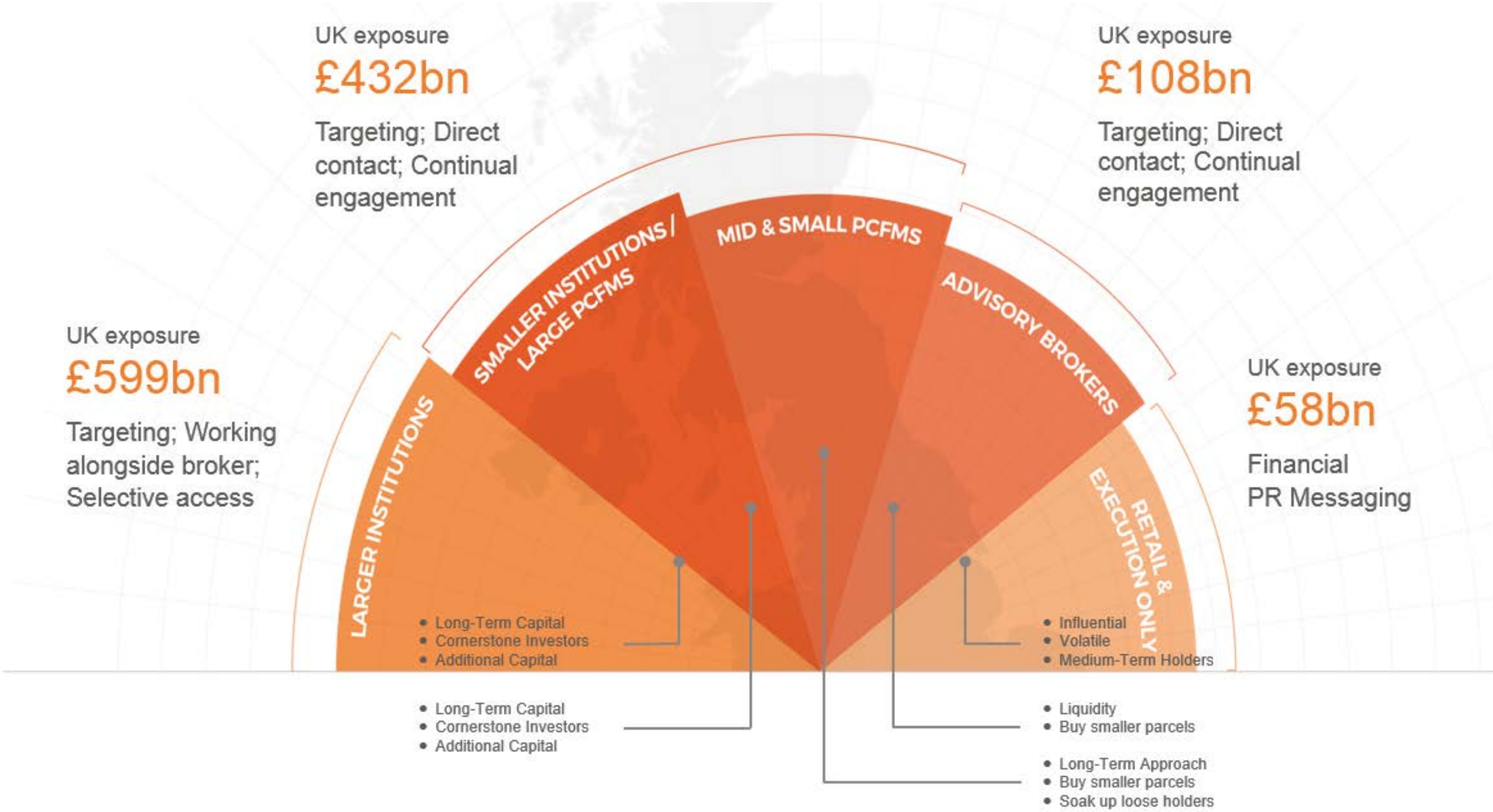
  - Your Corporate Strategy and how you manage risk is equally as important.

The communication gap!



Who else could be interested in our company?

- **Looking beyond the larger institutions to get a better fit for the investment proposition (Statistics supplied by Capital Access Group)**



Evolving Equity Markets

- The institutional investment landscape has undergone significant change since the financial crisis. A round of regulatory changes, aimed at preserving capital adequacy and reducing risk, have resulted in a reduction in the equity appetite of many traditional investors;

- Solvency II – now in the final stages of compliance – has reduced equity asset allocation for European insurance funds from almost 40% in 2005 to less than 20% today. While this process is largely complete, further regulation within pension funds (particularly in the UK and the Netherlands) could replicate this trend within the largest source of investment in the current equity market (pensions);

Future drivers: Solvency II

- **General Insurance, Life & Pension sector**
  - Up to a quarter of direct European equity investment
  - Almost a third of investment within hedge and alternative investment funds
- **Asset Allocation**
  - Potential to reduce the asset allocation to equities in favour of fixed interest, direct real estate and alternative asset classes
- **Equity investment**
  - Equity investment may become more short term as medium/long term liabilities backed by alternative asset classes (asset backed, fixed interest)
  - Greater risk taking, benefitting innovation, disruptive industries and challenger brands
- **Implementation by January 2016**
  - Solvency II has the potential to alter the nature of Insurance, Pension and Assurance investment in equities

Future drivers:
Changes to the Pension Fund Industry

- **Falling out of favour**
  - Successive UK Budgets (2014 and 2015) completely changed basis of pensions
  - Pension freedom has halved demand for annuities
  - Higher rate tax relief under consultation and may go
  - Pensions likely to be replaced by shorter term savings plans
  - Defined Benefit (final salary) funds likely to be de-risked/bought out
- **Implications**
  - Combined with Solvency II, reductions in asset allocations to equities could be experienced
  - Shorter term vehicles (ISAs) may lead to more investment outside main indices looking for alpha/relative growth
- **Growth of alternatives**
  - Political will to create residential real estate asset class which could replace asset based equity investments in the UK

Targeting – A Capital Markets Engagement Plan

In conclusion

Step 1 - A “stock take” of where the company is at the moment

- Global Shareholder Audit
- Full survey of the Institutional Investment Community's perceptions
- Are the Corporate Governance policies aligned?

Step 2 – Setting the Objectives

- Determining the preferred types of Institutional investors
- Matching the process to future Corporate Governance issues
- Structured Institutional and Retail Investor Targeting Programme

Step 3 – Positioning the company

- Message Development
- Resolution setting

Step 4 – Capital Market Engagement

- Corporate IR and Governance Roadshows, Capital Markets Days, Investor Conferences
- Post Event Analysis, Quantitative, Qualitative

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