Column

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BUY-SIDE ENGAGEMENT EVOLVES

Times are changing for investor relations professionals for the good of the industry and markets.

The rules have changed for investor relations. In January 2018, the MiFID II regulations came into effect, forcing global companies to adopt a new approach to investor relations. Aside from MiFID II, a confluence of factors, including the rise of passive investment and less support arranging investor meetings from traditional sources, is impacting buy-side engagement.

Against this backdrop, IR teams are eager to understand the best way to arrange quality investor meetings. This shift in the engagement dynamics is the most substantial I have seen since I started working in investor relations in the mid-1990s in the US.

Thanks to MiFID II, sell-side broking houses are now required to set a price, and charge accordingly, for facilitating engagement between the buy-side and corporates. But there has been little early appetite to pay for access.

A recent survey of fund managers by Capital Access Group found 95 per cent of respondents were either unlikely or not at all likely to pay a broker to arrange a meeting with a company since MiFID II. This means direct engagement between corporates and the buy side is the new norm.

Numbers game

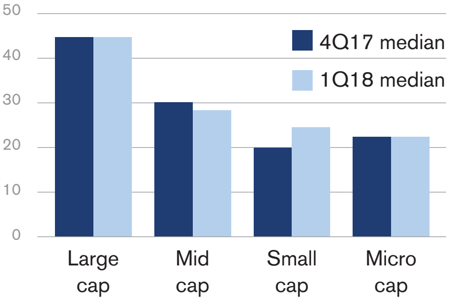
Looking at this new archetype, Nasdaq IR Intelligence examined how frequently investor meetings took place in the fourth quarter of 2017 versus the first quarter of 2018. Results show meeting activity in 2018 has not slowed. Large cap corporates were most actively engaged, recording an average of 44 meetings in each quarter.

Small caps achieved the best result with a 20 per cent increase in meetings. Mid caps were the only group to see a slight decline in the number of meetings. Micro caps showed no change, averaging 22 meetings in each quarter.

Meeting benchmark by region

At a regional level, Europe/UK-based corporates were the most active of all businesses. They averaged 59 meetings in the first quarter of this year, up from an

Average number of meetings by market cap



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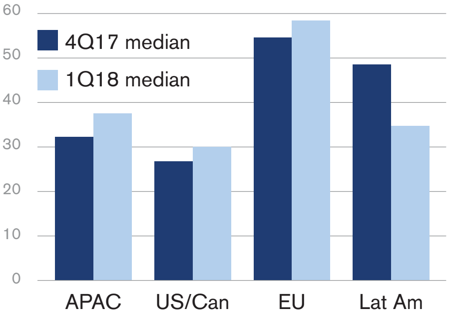

average of 55 meetings in the fourth quarter of last year. Latin America was the only region to experience a decline, with meetings falling by 30 per cent in the first quarter of this year. US/Canada saw an uptick in meetings, but the most notable increase was recorded in Asia Pacific, which averaged 38 meetings in the first quarter of this year, up 15 per cent from the prior quarter.

A review by sector reveals energy industry corporates are the most active of all companies, recording a 39 per cent increase in meetings, followed by basic materials with a 21 per cent rise and healthcare, which enjoyed a 19 per cent rise. Consumer cyclicals averaged 35 meetings in the first quarter of this year, up from 34 meetings in the previous quarter. Lastly, financials were the only group to see a decline, averaging 24 meetings in the first quarter of this year, down from 26 in the last quarter of 2017.

Capital flows

The proliferation of passive investment vehicles and their desire to become more 'active' in the corporate governance space is also affecting IR. According to US financial services firm Lipper Fund's data, index funds and ETFs continued to attract new client money in the first quarter of 2018, albeit at a much slower pace, attracting US$48.2 billion compared to the previous quarter's figure of US$105.6 billion. No other investment classification recorded inflows in either the first quarter or the trailing twelve-months.

With a renewed corporate governance mindset, major index and ETF investors are building their own internal corporate access teams from scratch. BlackRock joins the likes of Fidelity International, Schroders, and Norges Bank Investment Management – the world's largest sovereign wealth fund – in creating internal teams. For passive investors, the focus is on ESG-centric engagement, while for active investors it's about streamlining ESG and investment discretion engagement to comply with MiFID II.

Unwillingness to pay for corporate access is a trend that could accelerate the continued rise in direct engagement between companies and investors. Businesses are being more strategic about identifying the best investors to meet now they have to spend more time cultivating high-quality meetings. Despite these significant shifts, what has not changed since the mid 1990s is the need for IR professionals to put their C-Suite in front of investors most readily able to invest. It's what it's all about.