

Corporate Collaboration using Big Data and Technology

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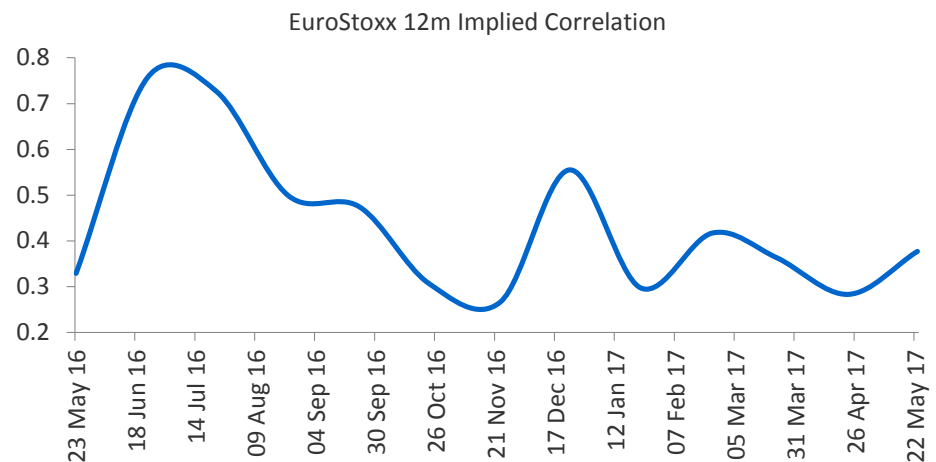
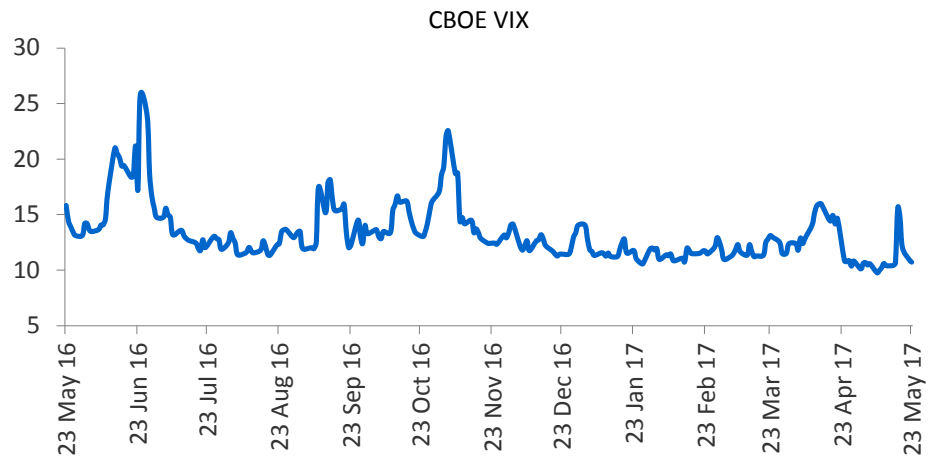
Agenda

- Recent market trends
 - European equity market performance YTD
- What types of Funds are attracting new money?
- Engaging with Passive Shareholders
 - Increasing importance of Corporate Governance
 - Who can IROs reach out to?
- Largest Investors across Nasdaq's Corporate Solutions' German clients
- Key Takeaways and Impact for Investor Relations
- Are you Prepared? All Change Ahead
- Use of Board and Leadership Time
- How Technology can help IROs Navigate a shifting landscape
- Q&A

Recent Market Trends: Stock Volatility and Correlations

Renewed Focus on Stock Fundamentals

- The CBOE Volatility Index “VIX” has **dropped to lows not seen since December 2006**.
- This indicates **few expected shocks** or sharp movements, **rising equity prices** and **narrowing bond spreads**.
- Correlations remain low, meaning that **company fundamentals and performance are of great importance to stock pickers**, which is a positive for IROs.

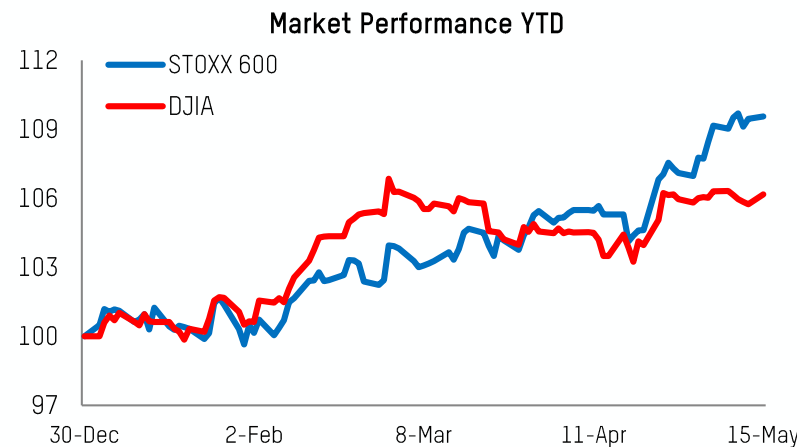
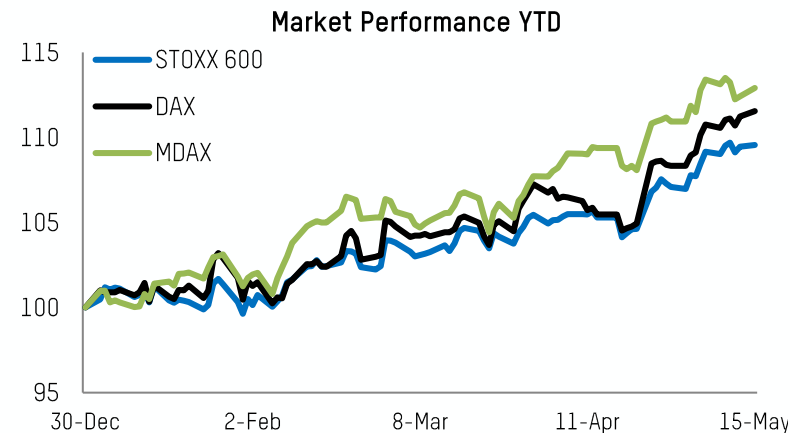


Source: Datastream

YTD Market Performance

European Equities Outperform U.S. – so far...

- European stocks outperform U.S. stocks YTD
- DAX 30 Index has risen by 8.8% YTD while the MDAX Index is up by 12.2% YTD
- Improving stock fundamentals, consumer confidence and diminishing political risk in the Eurozone has resulted in money flowing back into European equities.
- For IROs, this suggests **continued strong interest from U.S. investors** for corporate access.



Source: Datastream

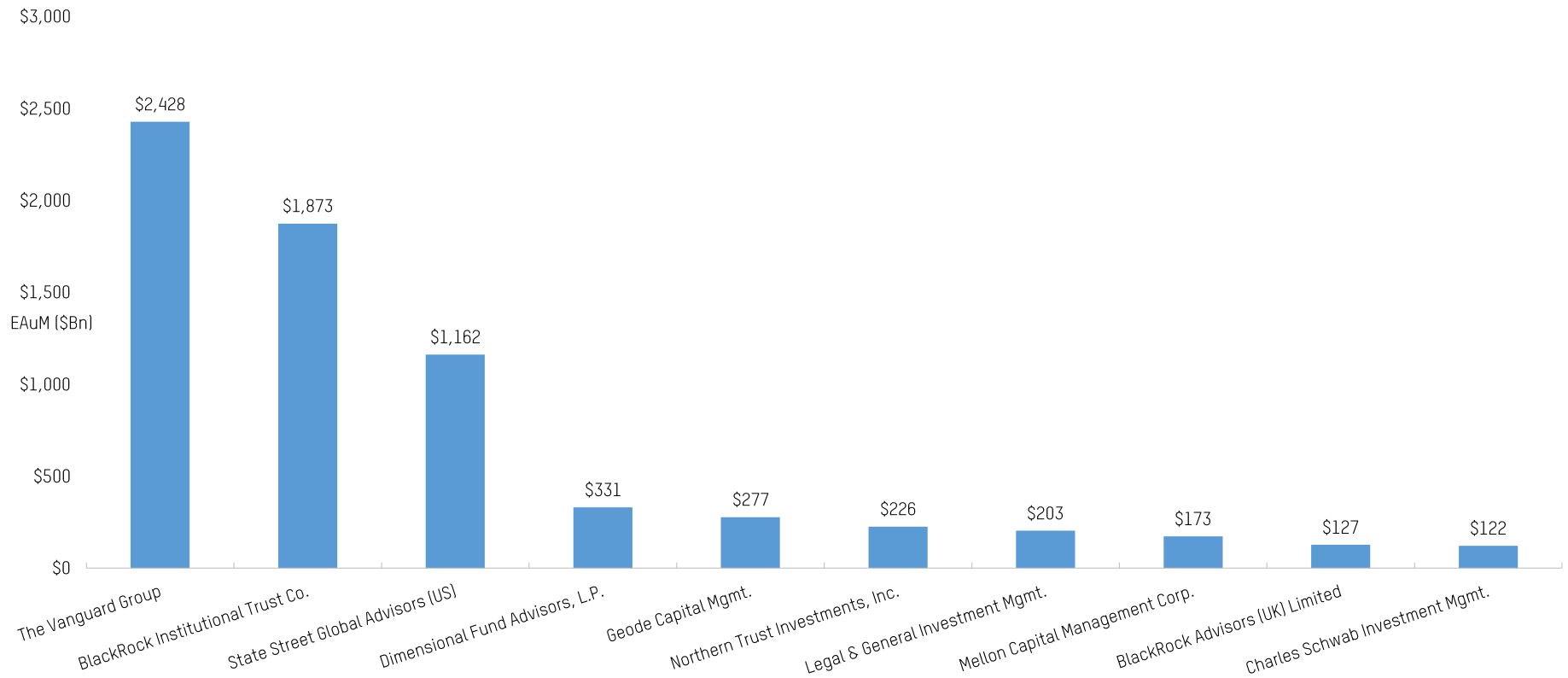
Growth in Passive Vehicles Continues Squeeze on Active Fund Managers

- **Growth in low cost ETFs over last few years**; ETF AuM surpassed \$4tn mark in April 2017
 - **Vanguard** saw \$132bn in inflows over the past year; more than any other investor.
 - **The top 5 investors by inflows in 2016 are all Index or Quantitative Investors**
- **High profile Active managers suffering redemptions**
 - **Fidelity Management & Research Company** – recorded redemptions of \$89.8bn over the past 12 months
 - Other significant investors saw net outflows of more than \$10bn including **T. Rowe Price Associates, Capital World Investors** and **Wellington Mgmt.**
- **Pockets of Outperformance and Stock pickers**
 - Some well-known names e.g. **TIAA Global Asset Management (+\$5.5bn)**, **Nordea Funds Oy (+\$3.3bn)**, **Royal London Asset Management Ltd. (+3.0bn)** and **Harding Loevner LP (+\$2.7bn)**

Engaging with Passive Investors

Understanding the Opportunity

Top Ten Passive Investors by Equity Assets



Engaging with Passive Investors

Increasing Importance of Corporate Governance

- Growth of index money has resulted in a new pattern of investing that focuses **less on management** and **more on control**.
- IROs increasingly have to address this multifaceted layer of additional complexity.

*“Because passive investors are unwilling to divest their positions in poorly performing stocks....they may place **an even greater weight than active fund managers on ensuring effective governance in the firms they own...**”*

⁵ “Passive, but Powerful – How Index Funds Exercise Their Clout.” Knowledge @ Wharton Magazine. April 23, 2015.
<http://knowledge.wharton.upenn.edu/article/passive-but-powerful-how-index-funds-exercise-their-clout/>

Engaging with Passive Investors

Who can IROs reach out to?



- **Michelle Edkins** is BlackRock's Global Head Investment Stewardship team of 22 specialists based in five key regions internationally.

- **Rakhi Kumar** is head of corporate governance at **State Street Global Advisors**. "While we may have passive strategies, we're active owners," says Kumar.



¹ Brunswick Review – Spotlight on Shareholder Activism, 2015: <https://www.brunswickgroup.com/media/608659/Brunswick-Review-spotlight-on-shareholder-activism.pdf>

² IR Magazine: <https://www.irmagazine.com/articles/corporate-governance/21284/whos-who-governance-rakhi-kumar-state-street-global-advisors/>

Engaging with Passive Investors

Who can IROs reach out to?



- **Rob Main** leads Vanguard's Corporate Governance team that is responsible for company engagement, proxy research and voting, and ESG integration.
- Vanguard is most likely to engage when it is:
 - ✓ Preparing to vote at the shareholder meeting
 - ✓ An event has occurred at the company that could affect stock value
 - ✓ Its research has uncovered a specific governance concern that is not on the ballot

Source: The Vanguard Group, Inc., <https://about.vanguard.com/vanguard-proxy-voting/update-on-voting/index.html>

¹Source: The Vanguard Group, For the 12 months ended June 30, 2016

Engaging with Passive Investors

Who can IROs reach out to?

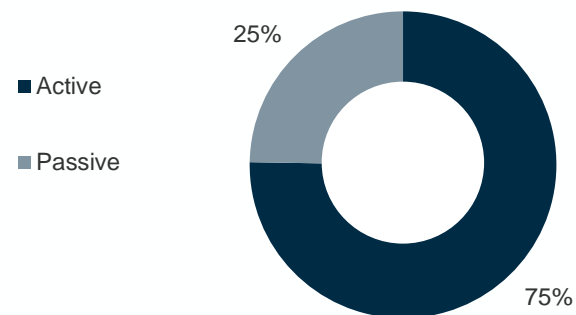
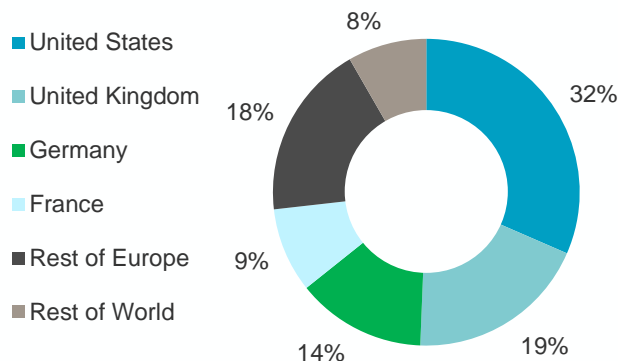


- **Sasha Sadan** is Director of Corporate Governance at Legal & General Investment Management.
- Top themes discussed in governance meetings at Legal & General:
 - ✓ 1. Board composition, e.g. diversity, board refreshment, quality, skills
 - ✓ 2. Remuneration
 - ✓ 3. Strategy
 - ✓ 4. Nomination and succession
 - ✓ 5. Climate change

Source: Legal & General Investment Management, http://www.lgim.com/library/capabilities/CG_Annual_Report_2016-summary.pdf

Largest Investors across Germany

Half of the Top Ten Shareholders are Passive



Name	Investment Style	City	Country
Norges Bank Investment Management (NBIM)	Active	Oslo	Norway
BlackRock Institutional Trust Company, N.A.	Passive	San Francisco	United States
The Vanguard Group, Inc.	Passive	Malvern	United States
SAFE Investment Company Limited	Active	Central (Hong Kong)	Hong Kong
Deutsche Asset Management Investment GmbH	Active	Frankfurt	Germany
State Street Global Advisors (UK) Ltd.	Passive	London	United Kingdom
Allianz Global Investors GmbH	Active	Frankfurt	Germany
Amundi Asset Management	Active	Paris	France
BlackRock Asset Management Deutschland AG	Passive	Munich	Germany
BlackRock Advisors (UK) Limited	Passive	London	United Kingdom

** Recent activity is based on aggregated Nasdaq shareholder analysis data for Passive and Active investors over the past six months from across Nasdaq's German client base.*

Key Takeaways

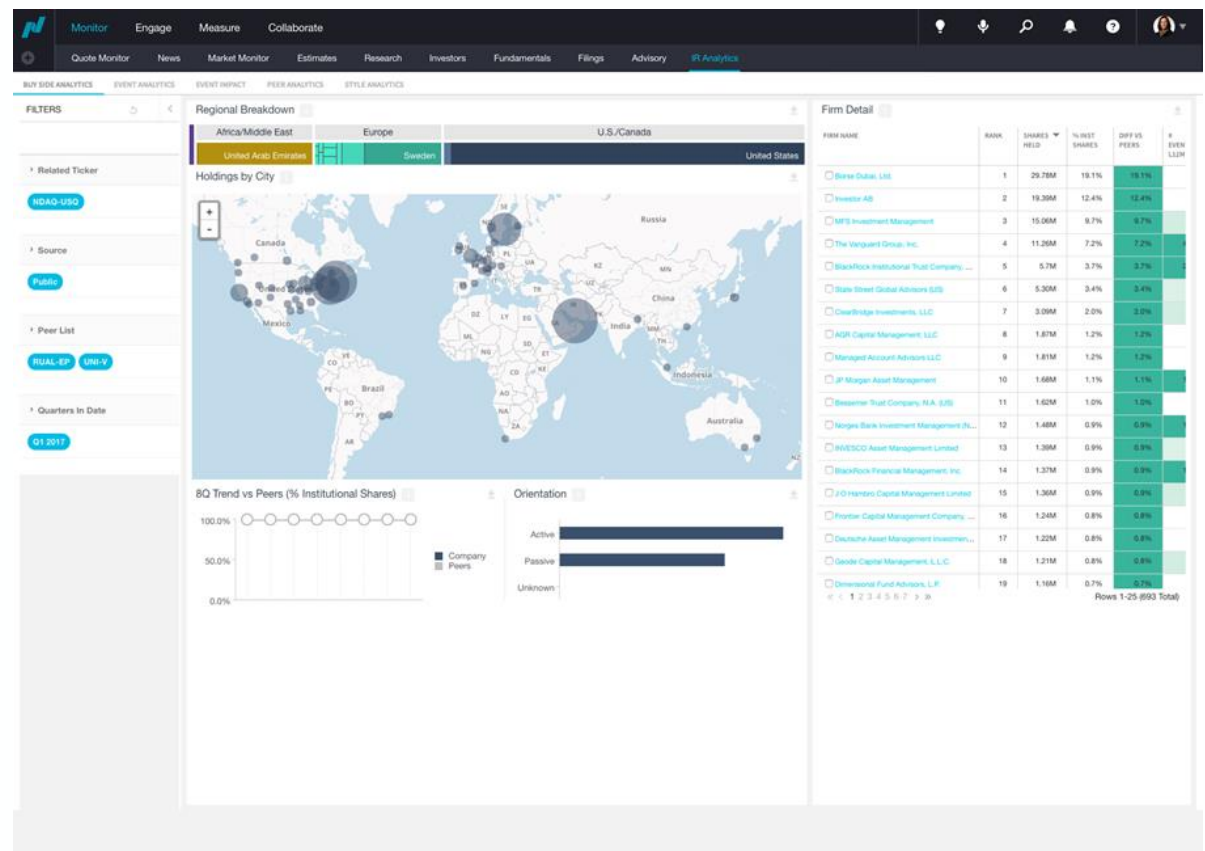
- Volatility and correlations remain low; **stock pickers will focus on company fundamentals** in order to outperform.
- But...**flows into passive funds** are likely to continue and put pressure on active buy-side.
- **Companies are having to be more efficient and targeted in their dealings with investors – both active and passive.**
- Imminent **introduction of MiFID II will put pressure on IR teams** to think differently, be more efficient, consider new technologies and take control for distributing and communicating the company's story.
- This shifting investment landscape makes it important for IROs to **monitor trends in your shareholder base and sector, understand recent fund flows and prioritize investor opportunities and risks.**
- IROs increasingly have to address a **multifaceted layer of additional complexity, both internally and externally**

All Change Ahead

- From January 3, 2018, EU-based **asset managers will be required to pay for “substantive” research** and advisory services they receive from the sell-side under MiFID II.
 - Asset managers can pay for investment research from their own P&L from a separate Research Payment Account (RPA), which must be made public or receive direct payments from their client
- **Competition in sell-side research and corporate access services is likely to rise**; asset managers will be more selective for the research they buy. Research shows:
 - Over 1/3 of IM's are preparing to scale back their use of investment bank research ahead of the MiFID II go-live
 - Under 20% of IM's expect to continue paying for research from “all leading investment banks”
 - 72% of the IM's that responded expect to use research from less than five banks
 - 68% of the IM's surveyed expect their research budgets to stay flat or increase in the next two years (shifting away from investment banks)
 - 86% of US funds anticipate the MiFID II rules on research unbundling to impact them with 38% of IM's surveyed considering expanding their internal research teams

Impact on IR

- The changing investment landscape and imminent **introduction of MiFID II** will put pressure on IR teams to think differently, be more efficient, consider new technologies and take control for distributing and communicating the company's story. All this makes it important for IROs to monitor trends in their shareholder base and sector, understand recent fund flows and **prioritize investor opportunities and risks themselves**



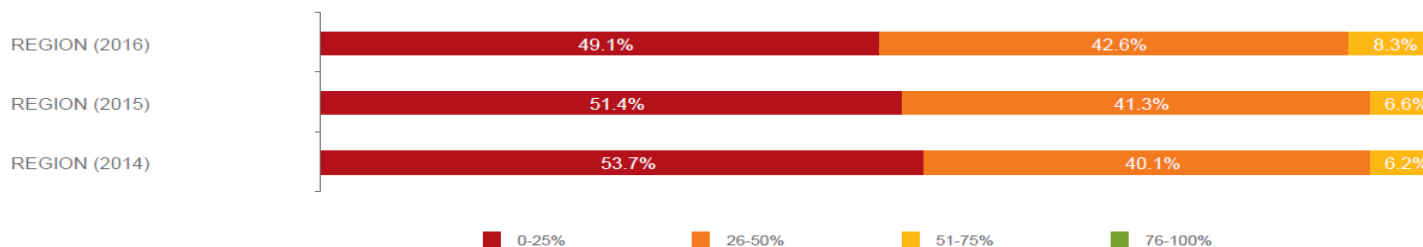
Use of Board & Leadership time

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ALLOCATION OF MANAGEMENT TIME

OTHER INSTITUTIONAL INVESTORS

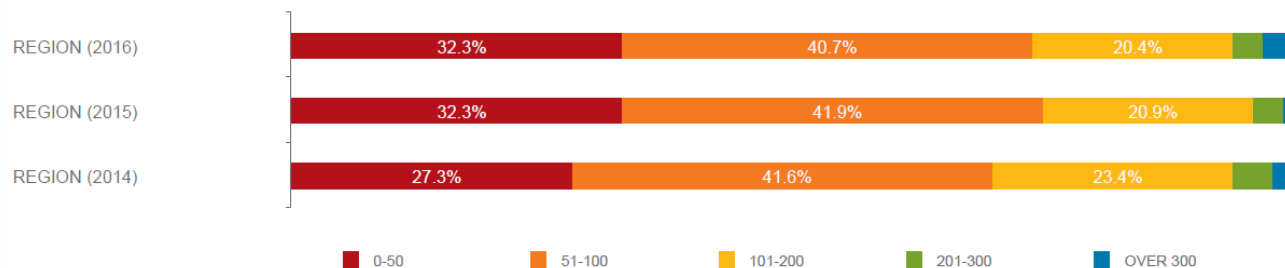


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MEETINGS WITH INVESTORS

CEO/CFO ONE-ON-ONES



Thank you and
Q&A