

Thoughts on Recent Developments in Corporate Access

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The Core of the Issue: Defining “Research”

- Research can be billed to the customer brokerage (paid for by dealing commission) and is not an operating expense of the asset manager (paid for by fees)
- FCA* defines “Substantive Research” (CP 13/17, pg.13) as:
 - Capable of adding value to the investment or trading decisions by providing new insights
 - Represents original thought, in the critical and careful consideration of new and existing facts, does not merely repeat what has been presented before
 - Has intellectual rigor and does not merely state what is commonplace or self-evident
 - Involves analysis or manipulation of data to reach meaningful conclusions
- **Research can be paid for with commission charged to the customer, only if these *cumulative* criteria are met**

*FCA = Financial Conduct Authority, UK regulator. CP 13/17 published 25.11.2013 at <http://www.fca.org.uk/news/cp13-17-use-of-dealing-commission>

The Corporate Access Issues

- Corporate Access in today's set-up works, but its efficiency suffers from being based on commissions:
 - Hidden costs are born by fund investors.
 - Brokers have to manage a conflict between their client list and the meeting expectations of corporates. This does not always result in mutual benefit.
 - Investors may not generate enough commissions to be offered prime service by brokers, yet they may be hugely attractive to corporates.
 - „We always see the same people.“
- Brokers have unique insight into current market demand for Corporate Access for a certain firm – but IRs may pick to see the „usual suspects“, and the potential new drivers for demand may end up being neglected/underserved.
- Today's IR Activities bear high opportunity costs, as CEO/CFO time is a scarce resource

Corporate Access is not Research: but it is regarded as an Indispensable Activity to the Investment Process

- **Funds will have to show the cost of CA to their investors or digest it**
- **3 options for future CA or blends thereof may evolve:**
 - **Nothing changes.** Banks just don't charge for Corporate Access.
 - Investment Banks need to make up lost revenue: Equity research operations may see further cuts
 - May apply for High-liquidity Index Corporates, not for small/mid-caps
 - May not apply to all CA activities, certain regions may be excepted
 - **Disintermediation.**
 - Someone else organizes Corporate Access. This could be a third party, investors organizing their own access, or the corporates themselves.
 - **Market mechanism/ Full price transparency.**
 - „Pay your fee, get your see“
 - Enables access for low frequency traders and „buy –and-Hold“ investors

Changing the way Corporate Access gets priced: the IR opportunity

Disintermediation:

- Necessitates closer contact to the sell side (Analysts AND Sales) for IRs to better gauge demand
- Improves IR understanding of meeting demand or lack thereof
- Allows meeting schedules independent of broker client lists
- More control over the schedule for IR

Market mechanism:

- Clear expectations on meetings
- Price becomes a good indicator of demand/quality of meetings
- Democratized access for investors

What now? To Do List for IR

- **Engage and stay in touch**
- **Take targeting more serious:**
 - it's not just the WHO, it is also the WHY
 - Watch out: the WHY response can actually change during the cycle
 - use a CRM solution to track notes on investors and the requested frequency of meetings
- Check corporate access quality
- **Try new ways** to access investors:
 - they may now actually pick up the phone when you call them
 - get to know their booking desks
 - try an intermediary
- Enjoy independence by paying your own way
- **Leverage analyst** intimacy with your client, make sure they get the votes

WACKER: Issuer, Contact and Additional Information

Issuer and Contact

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Financial Calendar

- 03/18/14 – FY Results 2013 – 4pm CET**
- 05/05/14 – Q1 Results 2014
- 05/15/14 – Annual Shareholders' Meeting
- 07/31/14 – Q2 Results 2014
- 10/30/14 – Q3 Results 2014

Additional Information

ISIN:	DE000WCH8881
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Ticker Reuters:	CHE/WCHG.DE
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