# Investor targeting: six popular myths dispelled

***Elizabeth Judd*** offers tips to help boost your targeting strategy

Targeting appropriate investors is central to the job of an IRO: according to NIRI's most recent exploration of global investor targeting practices in June 2012, 84 percent of IROs surveyed are engaged in investor targeting. But while IROs usually have a host of notions about what makes for a strong investor targeting program, few of these notions have been rigorously tested – and some may even be wrong. Here we present six popular beliefs about targeting that don't necessarily hold water.

**Myth 1: If an investor owns the stock of one of my peers, it will want to own my stock, too.** Although IROs tend to benchmark themselves against stocks of companies comparable to their own ('comps'), simply knowing what comp a given fund manager owns is not enough to indicate he or she will have a keen appetite for your stock, too. What really matters is a fund manager's rationale for owning a given stock. 'Knowing why companies do or don't hold your comps is important,' says Kelly Weigel, managing director and head of client services at Cowen and Company.

She notes that a high-quality sell-side salesforce will generally be able to shed some light on these issues. For instance, if an institutional investor has large positions in three e-commerce stocks, it may be convinced it has spotted a trend. In this case, an IRO at an e-commerce company might want to visit that institutional investor and explain the company's story to the right fund managers.

But the institutional investor that owns your e-commerce peers might be interested exclusively in higher-beta technology stocks. In this case, whether it pays to schedule a one-on-one would depend on whether your stock meets the fund's investment thresholds. Similarly, some fund managers may own your comps as a hedge against another strategy they have in place, so they might – or might not – be worth a visit.

**Myth 2: I shouldn't worry about spending time with new investors.** Communicating regularly with your existing shareholders is extremely important. Indeed, a BNY Mellon survey finds the top priority for IROs in 2014 (68 percent of North America respondents) is to expand or enhance engagement with existing shareholders. When you come through town, you should reserve at least some time slots for meeting with them. 'You owe it to your current investors to visit,' says Weigel. 'But it's crucial to balance that with the need to meet new investors.'

Visiting new prospects is imperative as your core investor base *will* change over time. Fund managers have a variety of reasons for selling stocks that range from valuation limits to market dynamics and sector rotation. Even the best and most loyal shareholders may eventually move on. According to FactSet data analyzed by Cowen and Company, 81 percent of the top 20 shareholders at Fortune 50 companies are the same now as a year ago. This means nearly one fifth of shareholders are likely to have rotated out of even the largest, most widely held stocks in any 12-month period.

This pattern of shareholder defections becomes even more pronounced over time: Cowen found that 65 percent of the top 20 shareholders at the Fortune 50 are the same as three years ago, and 57 percent of the top 20 are the same as five years ago. For smaller firms, turnover in the shareholder roster is even more dramatic.

Because turnover is a fact of life, IROs should seek to continuously cultivate and nurture promising relationships with the buy side. The BNY Mellon survey finds 51 percent of IROs have made shareholder diversification a 2014 priority.

**Myth 3: Shareholders that bought stock in our IPO are the only ones I should focus on.** After the grueling effort of going public, it's no wonder IROs want to focus on investors that bought during the IPO. 'Investors that bought your stock in an IPO have bought into your story,' says Dan Charney, Cowen's co-head of equities. 'But you should think about broadening your base.'

According to Cowen's analysis,

92 percent of the top 20 shareholders of the 50 largest IPOs of 2013 are the same today as they were at the end of 2013. But the shareholder base for newly public companies tends to shift dramatically over time. On average, only 37 percent and 43 percent, respectively, of the top 20 shareholders of the 50 largest IPOs of 2011 and 2012 are the same today as they were at the end of those years.

**Myth 4: I should avoid hedge funds.** Hedge funds are a critical part of the investment ecosystem. They account for a significant portion of daily trading volumes and their assets under management are too large to be ignored. They have also evolved. 'Hedge funds have changed in the last 10-15 years,' says Phil Cushman, Cowen's head of institutional sales. 'In some respects, many hedge funds now look like traditional long-only managers.'

Rather than fearing hedge funds, savvy IROs view meeting them as worthwhile – perhaps even instructive. 'Meeting with hedge funds also gives a corporation an opportunity to clarify misconceptions about its stock or business model with the Street,' says Cushman. 'It is almost always better to have a dialogue with hedge funds than to ignore them. This becomes particularly important when there is negative news in the marketplace.'

Weigel is convinced many IROs are growing more open-minded when it comes to meeting hedge funds, viewing such meetings as opportunities to make a strong investment case and answer tough questions clearly.

**Myth 5: Portfolio managers love small-cap companies whose stock goes up.** A rise in price is obviously a boon but, once the fund hits its market cap limits, the stock will be held only if the mid-cap team chooses to take that position. Ditto for mid-cap stocks that grow into large-cap holdings. When your stock price is rising and the firm's capitalization is growing, that's an important moment to redouble targeting efforts.

**Myth 6: I need to go off the beaten path to find longer-term investors.** Although an enterprising IRO can research fund managers through commercially available databases, that information goes only so far and often fails to provide the subtlety needed to make informed decisions. The most valuable intelligence usually comes from those who regularly speak with fund managers.

'If you go to a seasoned salesforce and ask which funds may be interested in your stock, its personal connections and real-time information will provide you with the level of detail needed to forge long-term relationships,' says Cushman. 'A good salesperson will not only know whether a fund manager may be interested in your stock, but also views it as his or her job to make the introduction.'

Executives' time is scarce. Balancing new prospects with existing shareholders – and meeting hedge funds and other non-traditional investors – is the best way to make the time and effort invested in a roadshow truly count.