CORPORATE SOLUTIONS
1H15 IN REVIEW AND IMPACT FOR INVESTOR RELATIONS

Report prepared by
Nasdaq Corporate Solutions • Advisory Services
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EXECUTIVE SUMMARY

Portfolio managers are surely returning from their summer holidays less relaxed than usual; August's market selloff is set to rank as one of the worst corrections in years, as investors continue to fret over the health of the Chinese economy. Companies exposed to a range of developed and select emerging markets or with sales weighted towards the U.S. or Europe may outperform ahead, while those with China exposure are likely to face questions from concerned investors. Increased market volatility and correlations make it more challenging for stock pickers to outperform their benchmarks. Nasdaq Corporate Solutions hopes that the compilation of the top firm, fund, and people news in this First Half of 2015 In Review, will help our IR clients be better prepared for the challenges ahead in an uncertain market climate.

We have highlighted some of the key themes that have shaped equity markets so far this year. For instance, there are new targeting opportunities for IROs looking to tap into sovereign wealth funds, many of which have announced increases in their global equity exposure. Activism is increasingly a global phenomenon that is progressively more accepted and supported by large mutual fund companies, presenting a multitude of challenges for IROs. On the governance front, a group of endowments and pension funds are set to challenge the company board nomination process. Climate change made headlines after some investors announced they would divest from coal producers while others promised heightened engagement with companies over environmental issues. We also highlight proposed, sweeping changes to Europe's capital markets with regards to the ways in which fund managers are set to pay for sell-side research. Finally, there have been high-profile portfolio managers who plan to launch new firms, such as former Waddell & Reed fund manager, Ryan Caldwell, as well as new global funds launched at Janus Capital Management and Citadel LLC.

We hope you find this 1H15 in Review both interesting and informative and that it assists you in planning for the second half of the year, as well as 2016. For more information on any of the highlighted stories from the first half of 2015 and their impact on your IR planning, please contact your Nasdaq Advisory Services analyst.

SWFS INCREASE GLOBAL EQUITY EXPOSURE

A number of sovereign wealth investors announced plans to alter their investment strategies in the first half of the year. This may represent opportunities for IROs to target new capital.

JANUARY South Korea's $85bn AUM sovereign wealth fund, Korea Investment Corporation, announced that it plans to double its allocation to alternative investments by the end of 2015. The firm's Chief Executive, Hongchul Ahn, said equity investments will focus on developed markets such as the U.S. and Europe. Ahn also said that KIC will underweight its exposure to the energy sector following the decline in the price of oil.

MARCH London-based Kuwait Investment Office announced it would reduce its overweight allocation to U.S. equities and increase its allocation to European equities in response to the ECB's bond buying program.

MAY Abu Dhabi Investment Authority has appointed John Pandtle as Head of U.S. internal equity investments, based outside of Philadelphia. Pandtle, who previously worked for Eagle Asset Management, will develop the strategy and oversee the SWF's U.S. equity portfolios.

JUNE Qatar Investment Authority set asset allocation targets for geographies and sectors for the first time, ending the arbitrary approach that marked the fund's early years as it prioritized fast growth. The review could result in tens of billions of dollars flowing into new geographies, including developed markets in Asia and North America. In April, QIA said it would open an office in New York to oversee its growing portfolio of U.S. investments.

- **IRO IMPACT:** Many sovereign wealth funds are secretive; some are starting to face criticism due to the lack of transparency into fund performance and AUM figures. Nevertheless, SWFs are generally stable investors with a long-term investment horizon and significant pools of capital to invest. Targeting those that plan to increase their equity allocation can result in a new long-term investor in a company's shareholder base.

STRATEGY SHIFT FOR M&G NORTH AMERICAN DIVIDEND FUND

APRIL M&G Investments' former M&G American Fund has been renamed the M&G North American Dividend Fund. The firm has appointed John Weavers as lead manager of the M&G North American Dividend Fund, replacing fund manager Aled Smith who had been at the helm for ten years.

- **IRO IMPACT:** Following John Weaver's takeover, the North American Dividend Fund's focus will likely be long-term dividend growth, investing in companies with a dividend yield of at least 1.1% and the potential for future DY growth. IROs of North American companies with attractive dividend yields and potential long-term DY growth should consider targeting this fund on London roadshows.

CLIMATE CHANGE TRIGGERS DIVESTMENTS FROM COAL PRODUCERS

MAY-JULY Norges Bank Investment Management will divest from companies that have revenues or energy production derived 30% or more from coal. In July, Aviva Investors Global Services announced that it would follow a similar approach. Earlier on, APG Asset Management saw a large number of signatories in Holland ask the pension advisor to divest from fossil fuels. However, CalPERS and other large SRI investors believe engagement—rather than divestment—with companies on climate change is the best way to influence positive change.

- **IRO IMPACT:** IROs should expect an ever larger number of investors engaging with them on climate change. Divestment decisions by NBIM and Aviva are expected to be made effective in early 2016.

BANKS PREPARE FOR NEW EU LAW REQUIRING FUND MANAGERS TO PAY FOR RESEARCH

JUNE The European Securities and Markets Authority (ESMA) has set out new EU rules to address concerns about potential conflicts of interest with the way investors pay for research. The rules are expected to take effect in 2017 as part of MiFID II implementation and, in the meantime, are the subject of lobbying by banks and brokerages.

ESMA's proposal will require EU-based fund managers to pay for research or set agreed research budgets with clients. EU regulators have recommended banning any research payments linked to trading volume. The European Commission is slated to 'pronounce' on this by the end of September (and maybe before) with a final version of the proposed regulations. Whilst there is still some talk in the market that parts of MiFID II may be delayed, this is still very much the projected timeline. Meanwhile, Barclays, Citigroup, Credit Suisse Group and Deutsche Bank are already working with clients to come up with pricing for research, while UBS has developed a model based on the analyst's popularity and demand for his or her area of expertise.

- **IRO IMPACT:** Many fear the changes could be detrimental for smaller companies—some of which already struggle to get satisfactory coverage, as the new regulations would disproportionately affect smaller brokers. We recommend that IROs of smaller and mid-cap European companies cultivate relationships with boutique firms that specialize in their industry well in advance of the proposed changes.

OUTFLOWS HIT ABERDEEN ASSET MANAGERS

JUNE London-based Aberdeen Asset Managers has been hit by $3.4bn of outflows in 1H15, after the firm ranked as one of Europe's worst performing investment groups in 2014. The firm's acquisition of Scottish Widows Investment Partnership last year, along with exposure to emerging markets funds, has sparked outflows and downgrades for Aberdeen's listed shares. Separately, former head of North American equities Paul Atkinson resigned from the firm's Philadelphia office and has been replaced by Ralph Bassett, who will run the firm's 13 member U.S. equity team.

- **IRO IMPACT:** Continued redemptions at Aberdeen Asset Management—the investor had already suffered more than $13bn of outflows in 2014—has reduced the firm's purchasing power and adds to the risk of selling for companies that count Aberdeen as a sizeable shareholder. Nonetheless, U.S. companies may want to meet with Ralph Bassett, who now manages $1.3bn EUM across five equity funds.

FORMER WADDELL & REED PM TO LAUNCH NEW INVESTMENT FIRM

JULY Since fund manager Ryan Caldwell left Waddell & Reed Investment Management last June, investors have pulled more than $9.5bn from the Ivy Strategy Fund, amid a rough patch for the Kansas-based firm. The well-known fund manager is now about to launch a new boutique investment firm, Chiron Asset Management, with offices in Mission Woods, Kansas and New York City. Chiron Asset Management will specialise in the same multi-asset investment approach he employed at Waddell & Reed, with the fund potentially investing in U.S. and global equities, fixed income, cash and commodities.

- **IRO IMPACT:** IROs may wish to target this new investor on upcoming autumn roadshows- their planned launch is 4Q15. Chiron Asset Management is likely to focus on metrics favoured by Caldwell historically, such as companies with strong cash flows and attractive growth prospects, favouring the technology, healthcare and consumer goods sectors, amongst others.

INVESTOR GROUP CHALLENGES ACCESS TO COMPANIES' BOARDS

AUGUST Backed by 118 pension funds and endowments that manage more than $3 trillion in assets, the Council of Institutional Investors (CII) released a checklist of proxy access best practices. At the heart of the matter, CII wants it to be possible for a group of long-term investors who, together, own at least three percent of a company's voting shares, to be able to nominate directors. The investors should have owned the stock for at least two years, thereby limiting the influence of short-term activists. Earlier in the year, CalPERS and The Canadian Coalition for Good Governance had also announced a renewed push for changes to proxy access rules independently of one another.

- **IRO IMPACT:** More and more investors are now developing partnerships in an attempt to pressure what they believe are stale proxy practices. With regards to CII, IROs should familiarize themselves with their seven best practices and be prepared to field questions from shareholders and potential activists seeking to challenge current policies.

ACTIVISTS SECRETLY ALLY WITH LARGE MUTUAL FUNDS

AUGUST Activist investors are increasingly partnering with large mutual fund companies to super-charge their campaigns and set their sights on bigger companies. These partnerships make it easier for an activist to exert influence with its holdings – sometimes less than 1% of shares – knowing that they have sizeable voting support behind them.

- **IRO IMPACT:** No company is immune to activism and activists are now, more than ever, willing and able to go anywhere and after anyone across the sector and market cap spectrum. As activists increasingly engage and partner with the likes of Franklin Templeton and the Capital Group, keeping an open line of communication with top shareholders is imperative. Additionally, proactive stress-testing of your relative valuation and corporate governance and proxy access policies is critical to preemptively diagnose susceptibility to, and to defend against, shareholder activism.

S&P INTRODUCES ACTIVIST INTEREST INDEX

AUGUST Standard & Poor's introduced the U.S. Activist Interest index, which measures the performance of U.S. domiciled companies that have been targeted by activist investors within the last two years. Each month, companies that experienced a 13D filing as a result of an activist investor position are added to the Index and remain in the Index for a maximum of 24 months.

- **IRO IMPACT:** The introduction of this index will help to serve as the pulse for the activist landscape, quantify performance, identify themes and trends, and potentially create an ownership multiplier effect vis-a-vis benchmarked funds. Visibility into the index will also help to shed light on activists' appetites for specific fundamental profiles and enable IROs to better understand the activist mindset.

Sources include: Nasdaq Advisory Services research, Nasdaq ownership data, Lipper, The Financial Times, The Wall Street Journal, IR Magazine, The ESMA, The FCA and Reuters News.

OTHER STORIES WE'RE FOLLOWING...

JANUS LAUNCHES NEW GLOBAL FUND

JUNE Denver-based Janus Capital Management LLC launched its new Adaptive Global Allocation Fund that invests across global stock and bond markets. Unveiled as part of the firm's diversification strategy, the fund is currently co-managed by Ashwin Alanka and Enrique Chang, the firm's CIO.

CITADEL LAUNCHES NEW EQUITY BUSINESS

JUNE Chicago-based hedge fund Citadel LLC is set to open a new stock-picking division based in San Francisco that will be headed by former top executive Jeff Runnfeldt. The stand-alone division will have about $1bn AUM at its launch and will eventually include analysts overseeing the consumer goods, financials, energy, healthcare, industrials, technology, media and telecommunications sectors.

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Identify the institutional shareholders and/or bondholders in your company and peers, complete with their volume of holdings. We present this information to you in reports you can immediately share with your Board and management.

INVESTOR TARGETING

Our Investor Targeting program is designed to help you attract and retain investment capital in today's dynamic marketplace. Work with our Targeting Specialists to effectively prioritize your outreach efforts and communicate your story to the right investors. We offer objective analysis of the investment community, identifying firms and funds that align with your strategy.

INVESTOR PERCEPTION

Understand how your company is perceived by the investment community:

- Understand how investors view your company's strategy and key initiatives
- Understand how your management is perceived in the marketplace
- Gauge the impact of your IR and communications efforts
- Benchmark perception of your company as an investment against your peers.

Read our top IR insights from 2Q 2015
http://business.nasdaq.com/marketinsite/2015/Our-Top-IR-Insights-in-2Q-2015.html

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