



Nasdaq Corporate Solutions

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RECENT MARKET AND IR TRENDS

2017 Market Trends

- Market volatility hovering around 10 year low on STOXX 600
- S&P 500 intra-sector correlation is close to the lowest on record, showing that industries within the index have been trading independently of one another. †
- Market rally and improving investor optimism
 - The **S&P 500** ended 2017 with a positive return in every month - the **first time this has ever happened in the 90 years.**
 - In Europe, cyclical sectors performed the best over 2017, led by the Tech sector (+19%)
 - Basic Materials gained 15% and Industrials up 13%, supported by robust global growth.
 - Oil & Gas stocks underperformed and were down 2.2%, while Telecom was the laggard group down 4% with the latter group facing ever increasing competition from Tech companies.
- Looking ahead to 2018
 - Firms such as **BlackRock** see stable global growth with room to run. The Eurozone is enjoying its fastest economic expansion since 2011.
 - Challenge for IR: How to make your equity story stand out? Where are the stock pickers?

† <http://nordic.businessinsider.com/stock-market-news-record-low-sector-correlation-2017-12?r=US&IR=T>

Passive investors continue to gain

- Global Exchange Trade Funds (ETFs) AUMs crossed the \$4tn mark in 2017. Trend on an upward scale for last few years.
- In the U.S., active vs. passive as % of AUM is 1/3 passive & 2/3 active (38% passive vs. 62% active). In 2009, passive represented just 20% of U.S. AUM.
- **Vanguard is the world's fastest growing asset manager†**
 - Vanguard pulled in more than \$1bn in new business each day of 2017
 - Recorded inflows of around \$368bn in net inflows in 2017
- **Four out of top five investors by inflows** in 2017 were Index or Quant investors
- **Quant funds growing by over 15% per annum over last six years;** over \$1.5tn managed in quant hedge fund strategies (i.e. AQR, Arrowstreet, Renaissance Tech., DE Shaw, Two Sigma, etc.) strategies according to Morgan Stanley††
- Engagement with passive investors from a **corporate governance perspective** and understanding how they operate from an ESG perspective is increasingly important

† <https://www.ft.com/content/753e1afe-f149-11e7-ac08-07c3086a2625>

†† <https://www.ft.com/content/ff7528bc-ec16-11e7-8713-513b1d7ca85a>

Year of consolidation at active managers

- In the light of increasing importance of passive players and squeeze on fees, active managers are under pressure. Some are having to pool their costs and gain economies of scale.
- Mergers may imply a saturation risk
- **Pioneer Amundi Asset Management:** Europe's largest asset manager, over 1.4tn EUR AuM
 - The industrialization strategy CEO Perrier has explicitly pursued -- scaling up the business, controlling costs and avoiding so-called star stock pickers -- has created a template that the rest of the industry is slowly embracing. (*Bloomberg 2017*)
- **Standard Life-Aberdeen:** now Europe's second largest AM: 737bn EUR AuM
 - The merged entity continues to suffer from redemptions: £23.8bn outflows in 2017
 - Looking to expand offering into Asia
- **Janus-Henderson** with \$361bn U.S. AuM
 - Creating a more global brand
 - High turnover recently across a number of European corporates
- **Pockets of Outperformance and Stockpickers**
 - According to the Spiva report, "There has been a notable increase in the number of actively managed European equity funds outperforming the benchmark over the past year."
 - Active names with net inflows in 2017 may represent suitable IR Targets

Targeting Active Funds with Inflows

Rank	Firm Name	2017 Net Flows \$mn	EAUM \$mn	Country	Investment Style
1	Capital International, Inc.	\$9,745	\$13,372	United States	Core Growth
2	Royal London Asset Management Ltd.	\$7,121	\$32,691	United Kingdom	Deep Value
3	Invesco Management Group, Inc.	\$6,261	\$3,385	United States	GARP
4	T. Rowe Price International (UK) Ltd.	\$6,221	\$60,300	United Kingdom	GARP
5	Harris Associates L.P.	\$6,188	\$126,243	United States	Core Value
6	Harding Loevner LP	\$2,957	\$41,802	United States	Growth
7	Baillie Gifford & Co.	\$2,370	\$158,308	United Kingdom	Core Growth
8	INVESCO Asset Management Limited	\$1,950	\$71,141	United Kingdom	Core Value
9	Old Mutual Global Investors (UK) Limited	\$1,936	\$37,612	United Kingdom	Core Value
10	Comgest S.A.	\$1,757	\$21,311	France	Core Growth
11	Victory Capital Management Inc.	\$1,709	\$49,618	United States	Core Growth
12	Goldman Sachs Asset Management International	\$1,660	\$20,985	United Kingdom	Growth
13	Edgewood Management LLC	\$1,581	\$23,700	United States	GARP
14	AllianceBernstein L.P.	\$1,564	\$168,589	United States	Core Growth
15	First Trust Advisors L.P.	\$1,507	\$52,313	United States	Income Value
16	J O Hambro Capital Management Limited	\$1,422	\$31,290	United Kingdom	Core Value
17	Deka Investment GmbH	\$1,388	\$40,642	Germany	Core Growth
18	Manulife Asset Management Limited	\$1,374	\$35,269	Canada	Core Growth
19	Amundi Asset Management	\$1,369	\$98,270	France	GARP
20	BMO Asset Management U.S.	\$1,345	\$13,443	United States	Core Value

Source: Thomson Reuters Lipper

Targeting Funds with Inflows – Italy

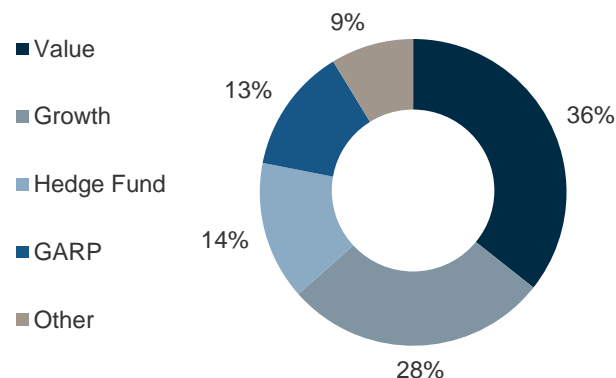
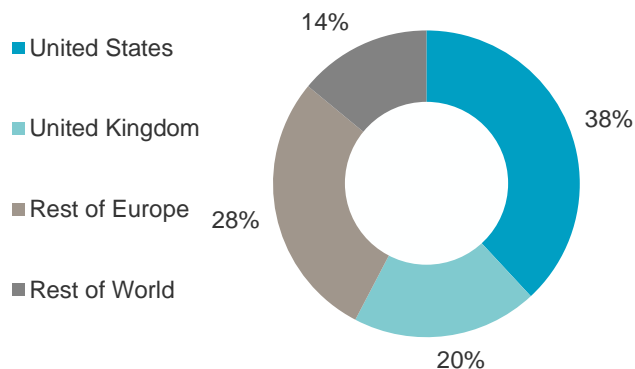
Top 10 Actively Managed Global Funds by Inflows (>5% Invested Italy)

Rank	Name	Fund Manager(s)	Investment Advisor Name	AuM (\$M)	Fund Flow (\$M)		Performance %	Italy	
					-3M (Dec)	-12M (Dec)	-12M (Dec)	Allocation %	Invested (\$M)
1	Schroder ISF EURO Equity	Martin Skanberg	Schroder Invstmt Mgmt	\$6,632	\$529	\$1,608	38%	7%	\$472
2	Investec GSF European Equity	Ken Hsia	Investec Asset Management	\$3,182	\$428	\$1,098	38%	6%	\$194
3	BGF World Financials	Vasco Moreno	BlackRock Investment Mgmt	\$929	\$362	\$503	38%	8%	\$71
4	Schroder ISF European Large Cap	Bateman/MacDonald-Brown	Schroder Investment Mgmt	\$364	\$220	\$182	30%	5%	\$20
5	AB FCP I-Eurozone Equity Portfolio	Ali/Birse	AllianceBernstein LP	\$912	\$214	\$614	39%	7%	\$66
6	AXA WF Framlington Eurozone	Guibout Gilles	AXA IM Paris SA	\$1,313	\$208	\$164	37%	10%	\$128
7	Candriam Equities L Europe Small & Mid Ca	Goenen Geoffroy	Candriam Belgium	\$207	\$186	\$191	42%	9%	\$19
8	Lazard Global Listed Infrastructure Portfolio	Team Managed	Lazard Asset Management	\$4,774	\$179	\$1,207	26%	26%	\$1,223
9	Vanguard International Explorer Fund	Team Managed	Schroder Invstmt Mgmt	\$4,220	\$175	\$463	41%	7%	\$286
10	BNP Paribas Smallcap Euroland Classic	Damien Kohler	BNP Paribas AM UK	\$1,194	\$170	\$328	44%	17%	\$202

- Martin Skanberg's *Schroder International Selection Fund - Euro Equity Fund* attracted \$529m of inflows in 4Q17 and \$1.6bn of estimated net inflows in 2017. The fund is primarily invested in Italian Financials, Aerospace and Fashion Clothing companies.
- Also in London, the *Investec GSF European Equity Fund*, managed by Ken Hsia, saw \$428m of inflows in 4Q17 and \$1.1bn in 2017. The fund is 2 percentage points overweight Italian equities compared to the MSCI Europe Index. The fund owns Italian Utilities and Automotive sector companies.

Source: Thomson Reuters Lipper, Nasdaq IR Insight

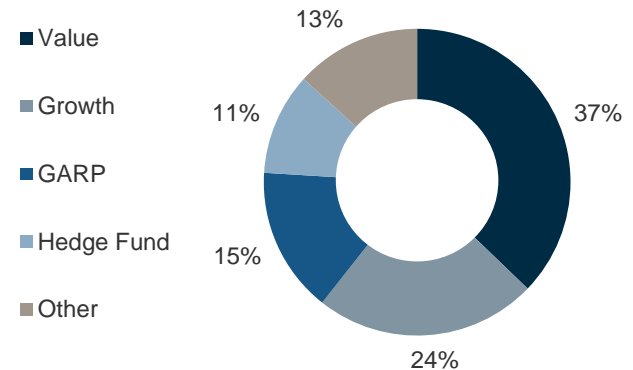
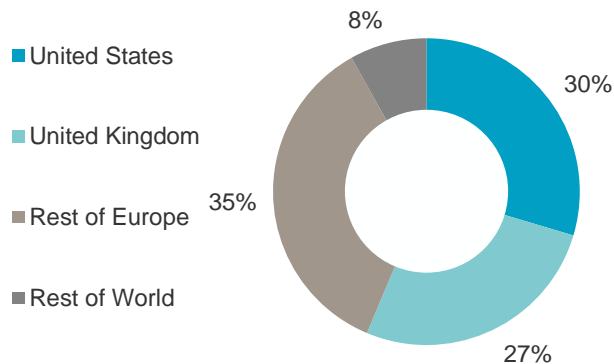
Recent Active Buyers – Italy



Name	Investment Style	City	Country
Causeway Capital Management LLC	Core Value	Los Angeles	United States
Standard Life Investments Ltd.	Core Growth	Edinburgh	United Kingdom
Artisan Partners Limited Partnership	Core Growth	Milwaukee	United States
Schroder Investment Management Ltd. (SIM)	Core Growth	London	United Kingdom
BlueMountain Capital Management, LLC	Hedge Fund	New York	United States
BlackRock Investment Management (UK) Ltd.	Core Growth	London	United Kingdom
Anima SGR S.p.A.	Core Growth	Milan	Italy
Capital World Investors	Core Value	Los Angeles	United States
Caixabank Asset Management SGIIC, S.A.U.	Core Growth	Madrid	Spain
Franklin Mutual Advisers, LLC	Deep Value	Short Hills	United States

** Recent activity is based on aggregated Nasdaq shareholder analysis data excluding Index investors over the past eleven months from across the sector.*

Recent Active Sellers – Italy



Name	Investment Style	City	Country
Dodge & Cox	Deep Value	San Francisco	United States
Marathon Asset Management LLP	Core Value	London	United Kingdom
SAFE Investment Company Limited	N/A	Central (Hong Kong)	Hong Kong
Fidelity International	Core Growth	London	United Kingdom
Generali Investments Europe S.p.A. SGR	GARP	Trieste	Italy
D. E. Shaw Investment Management, L.L.C.	Hedge Fund	New York	United States
UBS Asset Management (UK) Ltd.	Core Value	London	United Kingdom
Amundi Asset Management	GARP	Paris	France
BNP Paribas Investment Partners (France)	Core Growth	Paris	France
UBI Pramerica SGR S.p.A.	Core Growth	Milan	Italy

* Recent activity is based on aggregated Nasdaq shareholder analysis data excluding Index investors over the past eleven months from across the sector.

Sovereign Wealth Funds

Interesting year for Sovereign funds:

- **Norges:** crossing \$1tn benchmark; potentially divesting oil & gas investments; increasing equity allocation
- **Gulf uncertainty.** As Qatar had to support its domestic economy, QIA have recently been sellers across a number of European companies. More positive outlook following recovering oil price.
- **SAFE Investment** selling in European equity markets appears strongly linked to its monetary policy; repatriating assets; capital controls
- **GIC/Singapore** expansive; amongst top buyers of European equities in 2017

ENGAGING WITH PASSIVE SHAREHOLDERS

THE INCREASING IMPORTANCE OF CORPORATE GOVERNANCE

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...**”[†]*

[†] “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 IRO'S REACH OUT TO?



- **Amra Balic** is Head of **BlackRock's** EMEA Investment Stewardship team based in London for the past 8 years.
- “Engagement is an essential part of our stewardship activities.”

- **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 IRO'S 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 IRO'S 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

VIEW FROM ACTIVE BUY-SIDE

JPMorgan Asset Management



- **Rob Hardy** is responsible for engaging with companies on governance and sustainability issues at JPMorgan Asset Management in London.

- Topics discussed in governance meetings at JPMorgan AM:
 - ✓ 1. Succession Planning; “are the right people on the board?”
 - ✓ 2. Cyber Security; “brought up in every meeting this year”
 - ✓ 3. Supply Chain; “what are the potential supply chain issues and is the board and management able to address these?”

- Tip for IROs in preparing a governance roadshow:
 - ✓ 1. Know your board, their skillsets and recent topics discussed
 - ✓ 2. Prepare a list of questions to ask about JPMorgan’s approach to issues

Outlook for 2018 & Practical Tips for IR Ahead

Outlook for 2018 and Practical Tips for IR

- **Flows into passive funds** are likely to continue in 2018 on the back of a continued market rally, low volatility and correlations and positive investor optimism.
- The **active buy-side is likely to continue to face pressure** from redemptions; **understanding flows** and **key people changes** at firms will be of interest.
- **Spotlight on Governance:** Passive managers are engaging on the governance front. Index managers can no longer be thought of as purely passive investors – the focus on control/governance increasingly requires the attention of IR, senior management and the board.
- **ESG goes mainstream:** U.S. investors poured \$4.7 billion into SRI/ESG funds in 2017, the category's second-biggest annual inflow ever, with managers pointing to Trump administration policies as a reason for the move. **New in 2018** – Activists such as **Jana Partners** launching funds to target companies it thinks can act more socially responsibly.
- **Activism** likely to continue to go global in 2018; recent international high profile cases in activism included Nestle, Samsung Electronics, Clariant, AkzoNobel, BHP and others. Who's next?
- **MiFID** - biggest shakeup to European financial regulation in a decade has finally arrived! MiFID II is likely to lead to a contraction of the sell-side over time; there is evidence of MiFID II starting to globalize. **Corporate Access**—especially for mid/smaller companies – may not always be “free” or as readily available ahead. Companies are looking to be more efficient and targeted in IR planning, meeting with best opportunity investors as well as generalist PMs.
- **IPO Outlook:** Positive investor sentiment along with U.S. tax reform and deregulation, the IPO market may be set to have a good year. For listed companies today, this indicates a continued competition for capital; proactive and strategic investor outreach remains critical for IROs.
- And how could we forget....the **Italian general election on March 4th**!

DISCUSSION AND Q&A