

Investor Feedback on the Effect of MiFID II and the Firms' Engagement Practices

Ipreo by IHS Markit asked select buy-side analysts, portfolio managers, and Chief Investment Officers, "Given changes in the corporate access landscape due to MiFID II, how have your firm's engagement practices changed with corporate teams? For teams looking to proactively engage with analysts and PMs at your firm, what are the best practices that you would recommend for direct outreach?"

- 85% of the respondents mentioned that there have not been any changes in engagement practices from MiFID II. The Chief Investment Officer at a \$115.5M specialty investment manager stated, "We haven't changed our practices, which is mostly due to us not having operations in Europe, and we don't deal with any European brokers either."
- Additionally, 68% of the participants noted that the best practices for direct outreach include the usual methods like phone calls and e-mails. An analyst at a \$20.0BM growth-based investment manager said, "In terms of the best ways for teams to reach out to us, I'd say to just continue with the usual methods like emails, calls, and Investor Days."
- Furthermore, all of the hedge funds noted that there was no impact in their practices following MiFID II, while 13% of the long-only firms have seen some changes, notably a reduction in the number of sell-side firms they work with.

Sector Coverage: Aerospace/Defense

Analyst at a \$383.0M (EAUM) Alternative Hedge Fund

"We haven't changed our practices following MiFID II. For the second part, timing is important when you direct outreach. You cannot develop a relationship for the first time during earnings season. Some days during earnings season, half the S&P reports. I would say timing is the most important thing and then hitting the right person. Reaching out to the founder or the PM is the wrong move. If you can hit the #2, like me, that would be more ideal, as they typically are the ones whose job it is to get in touch with the issuer. So, it is about timing and trying to get that message to the right person."

Sector Coverage: Consumer Goods

Portfolio Manager at a \$7.1B (EAUM) Value-Based Investment Manager

"First, we don't have to follow MiFID II, although we do have a few clients in Europe, which is a bit of a concern to us. Second, our view is that companies should be engaging directly with their shareholders or the investment community who are not their shareholders. With today's technology, one would expect that the company could do a lot of engagement directly with shareholders/non-shareholders to meet with them. One of the more difficult aspects of our job is dealing with all of the various brokers, all of whom want to bring the company in to see us and it just multiplies the number of brokers we have to deal with. Most IR firms do the work that the brokers do, in terms of appointment making. Obviously, that doesn't solve the research coverage problem that the companies want, so we are sensitive to that. If there was a way to have a person making appointments as opposed to having the brokers make appointments, that would make our lives a lot easier."

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Analyst at a \$491.8B (EAUM) GARP Investment Manager

“The sell-side seems to want to be paid à la carte for everything they do. For instance, a lot of times the sell side will say, ‘Hey ABC, we have XYZ management coming through your area. Would you like a meeting?’ In years past, I would say, ‘Of course.’ Now, the answer is still yes, but I am not going to pay them for it. The value for XYZ to come to our metro is really to see us. So, what I think I'd like to convey to XYZ is that the sell-side sells those meetings and makes money off of those meetings, and it's only right that the companies take some control back and ask only for the meetings that are most impactful for them. We tell the sell-side that we are not going to pay for these meetings, and if the sell-side objects, we'll go directly to the company and tell them we would like to meet.”

Sector Coverage: Energy

Analyst at a \$5.4B (EAUM) Value-Based Investment Manager

“Our firm has not changed any engagement practices. We've always done a lot of direct calling straight to companies, and we are still engaging with all the sell-side because we're U.S.-based and there's no need to change at this point. And to the second question, getting a hold of analysts is pretty easy. We talk to management teams a lot. However, doing road shows that aren't broker sponsored would be a definite positive because normally its all the sell-side guys that bring the management teams around. I think they'll have to start doing more on their own dealing with third party firms that do just management interaction services.”

Portfolio Manager at a \$123.2B (EAUM) Value-Based Investment Manager

“We haven't had that much change from the Street. From a broker commission side, they have given us a forewarning that we are going to have to consolidate the number of firms that you give votes to and do more internal research on our own. In addition, they informed us that we will have to hire a third-party research services for data. I have noticed some companies have started to reach out more directly to me, asking me about road shows. I have noticed a couple smaller companies have taken the initiative and started to schedule meetings and road trips. That's only been on the margin and incrementally though. On the second part of the question, I think it's great when they reach out and ask if they'd like a call. I find that even a call just to check up usually reveals something interesting because they have so much knowledge on the asset base. For example, one thing I did learn non-company specific is how oil is being trucked to North Dakota from Saskatchewan because its oil prices are better. Now ND differentials are blowing out because a lot of guys are probably doing the same thing. Calls like that help keep you current and fresh with the sector. I think more outreach is better, even with an e-mail saying, ‘Hey just checking in.’”

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Sector Coverage: Financials

Chief Investment Officer at a \$115.5M (EAUM) Specialty Investment Manager

"No, we haven't changed our practices, which is mostly due to us not having operations in Europe and we don't deal with any European brokers either. I do not foresee something like MiFID II occurring here in the US. We are pretty open when reaching out to issuers and so just proactively calling us or emailing us is very acceptable."

Analyst at a \$8.8B (EAUM) Alternative Hedge Fund

"Honestly, there have not been any changes within our firm related to MiFID II."

Analyst at a \$65.6B (EAUM) Growth-Based Investment Manager

"We are trying to arrange some corporate access meetings ourselves. We will reach out to firms and set up meetings if we are around, rather than rely on the outside. The other thing that we are trying to do is being more economical, reach out directly to IR teams, and have conversations over the phone."

Sector Coverage: Generalist

Chief Investment Officer at a \$100.0M (EAUM) Alternative Hedge Fund

"No, we have not changed any of our practices since the MiFID II news."

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Investor Feedback on the Effect of MiFID II and the Firms' Engagement Practices

Portfolio Manager at a \$20.8B (EAUM) Aggressive Growth-Based Investment Manager

"Yes, we have increased contact to IR departments and are using more independent third-party research. We prefer direct contact with companies, and we are really moving away from the sell-side."

Analyst at a \$218.1B (EAUM) Value-Based Investment Manager

"We do not use the sell-side very much. We encourage all companies to do NDRs on their own. I think a lot of companies are living in the past because they think all these small little hedge funds matter. It makes it much more difficult to cultivate a strong investor base. I eliminate a lot of companies from my investment purview because of the way the IR program mis-manages meetings and investors by attracting hedge funds. We can trade those stocks but we cannot own them."

Sector Coverage: Healthcare

Analyst at a \$2.4 (EAUM) Value-Based Investment Manager

"I think companies should just e-mail me directly for the best direct outreach practice. Even if I don't have a relationship with the company yet, I always answer my e-mails. An e-mail with a slide deck attached would be helpful."

Analyst at a \$3.1B (EAUM) Alternative Hedge Fund

"In terms of changes to engagement practices, they haven't changed at all from my standpoint. IR should simply reach out proactively via e-mail and make sure to stay visible ahead of any conferences they attend."

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Investor Feedback on the Effect of MiFID II and the Firms' Engagement Practices

Analyst at a \$3.2B (EAUM) GARP Investment Manager

"Our engagement practices have not changed at all since MiFID II."

Portfolio Manager at a \$3.4B (EAUM) Growth-Based Investment Manager

"I haven't noticed anything directly with respect to MiFID II. I do think the best practices would be to get on the phone and try to find out who the person is at our firm, or various firms like ours, who would be responsible for an investment in their stock and build those relationships over time. There is a lot of change over on the long-only side but there are people who try to stay there for a while as well. Find the holders you want and go get them."

Analyst at a \$3.9B (EAUM) Alternative Hedge Fund

"Our engagement practices have not changed following MiFID II. I think roadshows with banks are the best way to engage. Not always seeing the top five accounts in a given market would help their investor base."

Analyst at a \$5.0B (EAUM) Alternative Hedge Fund

"Our engagement practices haven't really changed too much."

Analyst at a \$20.0B (EAUM) Growth-Based Investment Manager

"Our engagement practices have not changed much yet. In the near future, it's going to require us to reach out to management teams more directly, as opposed to being able to go through sell-side firms, or we'll have to at least tighten the number of sell-side firms we use. This will likely limit how frequently we can likely engage with the management teams. In terms of the best ways for teams to reach out to us, I'd say to just continue with the usual methods like emails, calls, and Investor Days. If a team is doing a roadshow or a headquarter visit and they're trying to do proactive targeting to existing/prospective investors, that can go a long way. A lot of times we don't hear about visits or roadshows because the banks want to target who they want to target."

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Investor Feedback on the Effect of MiFID II and the Firms' Engagement Practices

Analyst at a \$32.1B (EAUM) Growth-Based Investment Manager

"We're completely domestic, so it hasn't changed for us around MiFID II."

Sector Coverage: Industrials

Analyst at a \$2.0B (EAUM) Alternative Hedge Fund

"Our practices haven't changed much, but we don't really do much business in Europe. Just reaching out directly to us is useful. Some companies organize things on their own, but some like to go through investment banks. If a company has a big following, with enough history and feedback, they can probably just reach out directly and get some responses."

Analyst at a \$34.6B (EAUM) Value-Based Investment Manager

"We are actually affected by corporate, because my portfolio manager is based in London, even though I'm based in New York. So, the rest of my New York colleagues are not affected by MiFID II. That being said, I've always valued relationships with management, and I like to deal with management directly anyway. So, I guess MiFID II just re-affirms our approach in that we've always known that the sell-side is a bit biased. We've always liked to talk directly with management. For best practices, it would be the ability to get on a mailing list, meet with the company, and have good communication regarding letting investors know when they're traveling through New York, or wherever they're traveling to, in order to have those meetings."

Analyst at a \$36.8B (EAUM) Growth-Based Investment Manager

"We have always strived to create independent relationships and direct access with management teams of current and/or prospective investment candidates. I would encourage management teams to reach out directly to our PMs and analysts. I would also encourage management teams to familiarize themselves with our FCF and capital allocation based approach to investing."

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Sector Coverage: Technology

Analyst at a \$3.0B (EAUM) Alternative Hedge Fund

"For our company, we have not changed due to MiFID II."

Analyst at a \$5.7B (EAUM) Alternative Hedge Fund

"No. As a hedge fund, MiFID II does not have a substantial impact."

Portfolio Manager at a \$10.5B (EAUM) Growth-Based Investment Manager

"I would rather not comment on our engagement practices regarding MiFID II. We get the e-mails that say, 'our earnings call is coming up and if you are interested in the call please let us know.' That approach is fine because if we are interested then we can respond to that. This method is not bombarding us with emails, calls, and voicemails. There are times where we have said we are not interested in the call the day after the earnings announcement, but we might reach back out later if we have specific questions. In terms of approach, once a quarter would be fine for us."

Analyst at a \$24.6B (EAUM) Aggressive Growth-Based Investment Manager

"I cannot give you a good answer with regards to MiFID II, as we are still undergoing the process with some exclusions; we are in the preliminary stage. Regarding best practices, references matter. If it is a great company but not well known and I am not interested in them, that is when the sell-side is valuable. All I need is an analyst to tell me to look, that is all it takes. The relationship would have to be built from the ground up. A firm that establishes a track record of recommendations over time and once the company and the analyst gain my trust, that is when I would go through the company as a liaison. My point is, you can substitute a sell-side analyst for a firm for outreach, but it would take time to build that relationship to gain my trust."

Analyst at a \$733.6B (EAUM) Growth-Based Investment Manager

"I have not felt any impact from MiFID II, as we have a whole team of analysts and our name/reputation usually yields a quick callback."

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