The Better IR Newsletter

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Corporate Spinoffs: – Best Practices from an IR Perspective

A spinoff is one of the more complicated corporate actions on which management teams can embark. A critical part of the endeavor is the investor relations efforts around it, as the messages conveyed to the Street throughout the process will have an impact on sentiment. Accordingly, we interviewed several IROs who have been through the process to leverage their experience and expertise. As such, we came away with several key themes regarding best practices from the investor relations perspective:

- Corporate spinoffs require an immense amount of prep work from the investor relations team. The more work that is put into the process in advance, the more successful the spin will likely be for the company.
- Targeting and Risk analyses are critical for RemainCo and SpinCo, before and after the official spinoff.
- SpinCo's management team will need a few trial sessions before hitting the road. Get them prepared!
- SpinCo's investor relations team needs to know the intricacies of the new business and its peer group. Success has been seen from IROs who are new to investor relations but are veterans of the business, and vice versa.
- Questions directed towards the investor relations team will come in batches, internally and externally.
- The investor relations team for the parent company should be prepared for double duty through the completion of the spinoff.

Section I – Best Practices Ahead of Spin

The timeline for a spinoff can vastly differ depending on the company's strategy, its financial structure, and the availability of a transitional management team. Generally speaking, it can take anywhere from six months to two years from the beginning of preparation to the actual spinoff. In one instance of heavy preparation, a company spent 2 years on deciding to spin off its assets and another 20 months to prepare for the spinoff. During this period of preparation, the life of an IRO can be hectic and full of unanticipated challenges, but IROs often describe this process as rewarding.

The transition of the new IR team is a process that takes place before and around the announcement. This phase also depends on many factors, including the company's decision to find members internally or to outsource an IR team. Accordingly, the relative experience of the new IRO can vary. In many instances, the IRO of RemainCo accepts responsibilities for both RemainCo and SpinCo all the way up to the actual spinoff.

> “In our situation, an important success factor for both the parent and SpinCo was the strategy to maintain strong, proactive support from the parent company IR team for all deliverables required by the SpinCo. While the IR team for spin-co was working hard behind the scenes to set-up the IR processes and services for the new company, the parent company retained accountability for creation, execution and delivery of all investor relations' communications, including for the SpinCo, to the outside world. During this time the SpinCo IR team absolutely was involved in the creation and execution of the SpinCo specific deliverables; however, keeping the parent company ‘accountable' helped to keep a critical measure of incremental IR support focused on the SpinCo. Approximately one quarter prior to the spin, this accountability switched. SpinCo began conducting IR events solo from the parent and naturally took on the full accountability.”
>
> Clay Bilby, Director of Investor Relations at Keysight Technologies

When we announced the separation, for all intents and purposes, we were still RemainCo, so I was the main IRO for both companies up to the spinoff, when the SpinCo IR person essentially took over. Although the new IRO was already informally taking over behind the scenes, it was still on my watch. I had responsibility all the way up to the last day.” - Anonymous IRO at a Mid-Cap Technology Company

One of the participants had been with the parent company for many years but transitioned into the IR role throughout the spinoff, with the learning process revolving around shadowing the IR of the parent company:

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"For the two earnings closes leading up to the spinoff, I immersed myself in the parent company earnings process. During both earnings seasons I traveled to the parent company corporate headquarters and sat next to the parent IR team for the two weeks around the close. During this time at HQ, my sole priority was to shadow the parent IR team, capturing in minute detail all of the processes, linkages and timing for the complete earnings process. I documented a complete step by step cook book style recipe for how to get through the earnings process. It is important to also add that the new admin assistant for SpinCo did exactly the same thing. He had a desk next to the parent company admin and created his own complete set of process documents. The SpinCo IR strategy was to clone and go the earnings process for our first few quarters and then start to make adjustments as needed. The other aspect of being prepared for the spin had to do with getting all of the vendors identified and fully engaged. There was a lot of work on the part of both the SpinCo and these new vendors to be ready for the day-one go live. Naturally we needed to have an IR web site up and running. The web site was the most time consuming project. I started the project and then delegated the follow-through to another person. It would have been extremely difficult to complete the web site and do everything else required. A high priority vendor to consider, regardless of your company size, is a provider who can help you understand what is going on with your stock and help deliver critical analytics to the management as you go through the spin and ongoing post spin. To recap, in those six months leading up to our spin, my priority was focused on two things, getting all of the vendors in place and having a bullet-proof earning process. This enabled our company to successfully complete our first earnings call and be ready to execute all of the core IR functions."

Clay Bilby, Director of Investor Relations at Keysight Technologies

The Initial Announcement

Preparation for the spinoff begins as early as the inception of the idea, but the first significant step is the initial announcement of the spinoff. Some participants cited lack of preparation as being detrimental to effectively communicating the story to the Street. Consequently, many participants mentioned that IR should be aware that the Street may reach out to the company following the news, often involving an overwhelming amount of phone calls.

In one instance, a company preferred to make the announcement very early in order to drive a longer timeframe around which both the employees of the company as well as the Street could prepare for the spin. "We announced the spinoff very early. A lot of companies do a lot of prep work before making the announcement, whereas we wanted to make sure that our employees were fully aligned very early. This also made for a longer timeframe." -Anonymous IRO at a Large-Cap Resources Company

The announcement is followed by heightened engagement with investors, and the IRO is tasked with providing the necessary information to properly communicate the story to the Street:

"When the SpinCo was a segment of the parent company, it only had limited financial data available. We had to make incremental historical financial data available so that the analysts who wanted to cover the SpinCo would have historical data to model from."

Sam Levenson, CEO at Arbor Advisory Group

"During the first three months, a lot of questions were about what the two businesses would look like. So, we gave color in terms of some of the macros between the two businesses and some of the directional revenue growth in margins. It was high level at that time because we had to find numbers to speak of, but the Street was definitely excited to start valuing the sum of the parts of the two different companies." -Anonymous IRO at a Mid-Cap Technology Company.

"Initially, the real issue was about the Street trying to determine what Marriott International would look like without its timeshare assets, more so than it was about what Marriott Vacations would look like on its own. The Street did not really focus on Marriott Vacations until later, but that was also because the timeshare business is very different and complex. It was new, and there was not another similar company in existence, so we were very different in that respect from other spinoffs."

Jeff Hansen, VP, Investor Relations at Marriott Vacations Worldwide

Targeting/Risk Analysis

Many participants used investor targeting and spinoff analysis in order to prioritize management's time with investors and to gain insight into expected changes to the shareholder composition. Most would say these tools were critically important in their IR efforts around the spinoff:

“Our first step was to do a risk analysis of the existing shareholders of the parent company. The analysis helped us understand the probability that the shareholders will hold on to the RemainCo and the probability that they would hold on to SpinCo. The analysis determined that 85% probably would not hold on to SpinCo, so we knew from the start that it was absolutely critical to do targeting and marketing. We did targeting for both SpinCo and RemainCo based upon new peer sets, and we laid out a marketing strategy for both SpinCo and RemainCo ahead of the spin, so as to create demand ahead of the availability of shares that would be supplied in the market.”

Sam Levenson, CEO at Arbor Advisory Group

“I analyzed the investor base to determine what the best base is for RemainCo. We ran an analysis to find out what the best investor base for the new spinoff company would look like. We have seen changes in the RemainCo investor base that are consistent with our original analysis. My recommendation would be to spend the time to do investor-based analysis early. Just because you are calling on a potential investor does not mean that they are actually going to invest in your company. So, to the extent that you can get more input into whom to target, that would be beneficial.” - Anonymous IRO at a Large-Cap Resources Company

Preparing Management

One of IR’s tasks prior to spinoff is to prepare the management team to engage with the Street. Some participants prepped new management through Q&A practice sessions and presentations. Other participants worked with experienced management teams, but still had to prepare them for an increased level of interaction with analysts and investors after the announcement and prior to the spinoff.

“For the Investor Day, road show, sell-side conferences, and the one-on-one meetings, we put our new management team for SpinCo through multiple rehearsals. We had multiple mock one-on-one sessions and presentations, and we would persistently ask the same questions five different ways that they did not want to answer and helped them figure out how to respond. They were very well-conditioned ahead of actually facing the real audience. At the end of the day, the question gets answered the same way regardless of your audience. You cannot give a different answer to a hedge fund that you gave to someone else at the conference. It is about being very consistent and clear with the answers.” - Anonymous IRO at a Large-Cap Resources Company.

“The advice I would give is that an IRO should make sure the management team, even though they may have met with investors and did Analyst Days in the past as cameo roles, understand that it is very different when they are on a spotlight. So, that level of training needs to take place. One thing I did is I had them present at lower-profile investment conferences. In other words, I had them attend easier conferences at the start. So, rather than going to one of the larger industry conferences, we started with a mid-sized event. For one-on-one meetings, I coached the new management team, telling them ‘By the way, this PM will challenge you, while this guy is more receptive to initial answers, etc.’ You want to prepare your executives up front so that they are prepared to respond appropriately.”
-Anonymous IRO at a Mid-Cap Technology Company

Analyst/Investor Days

For the participants, having an Analyst Day prior to the spinoff offered the benefit of providing the Street with the information that they needed before investing or initiating coverage. An Analyst Day also serves the purpose of introducing the new management team and the metrics most relevant to valuing the spinoff company. Moreover, participants mentioned that an Analyst Day was a good marketing opportunity to garner the attention of potential sell-side analysts and long-term investors:

“Before the spin, we held an Analyst Day in which RemainCo presented in the morning and SpinCo presented in the afternoon. There were multiple benefits. First, all the sell-side analysts who were covering RemainCo would be able to hear the story of SpinCo and RemainCo post-spin, increasing the likelihood of them picking up coverage on SpinCo. Second, holders of RemainCo would be in attendance. While I might be a large-cap manager at Fidelity, and I held stakes in RemainCo, if I am impressed by what I hear at the Analyst Day, then I might persuade the small-cap fund managers at Fidelity to take shares off of my hands, and I do not have to sell my shares out in the marketplace. Having an Investor Day pre-spin was a critical part of the marketing strategy. In addition to the Analyst Day, we also arranged for conference presentations at major sell-side conferences prior to the spin. So, this is an opportunity for us to capture an audience and tell both the RemainCo and SpinCo stories pre-spin to help alleviate the pressure of sales of SpinCo shares and to give the management team of SpinCo their first real opportunity to get out and talk to the Street in a controlled environment. SpinCo’s new executives were not public company executives previously, so the public company role was new to them.” Sam Levenson, CEO at Arbor Advisory Group

"The reality is that we had to do a large education of the Street prior to the spin, so we planned an Analyst Day for the month before the spin in order to unveil Marriott Vacations and let the Street know how the valuations are going to work." - Jeff Hansen, VP, Investor Relations at Marriott Vacations Worldwide

Roadshows

For many participants, roadshows following the Analyst Day were a means to target new investors more aggressively. Participants also mentioned that the roadshows helped prepare the management team for their new roles of communicating with the Street:

"We worked with the underwriters that were hired by the parent company to put together a domestic roadshow as though it was an IPO. Unsurprisingly, we utilized targeting reports to drive where we wanted to go on the roadshow and who we met with. The Investor Day was basically to entice current holders to find room for SpinCo shares, while the roadshow was mostly to find new investors. However, we did go out and have one-on-ones with top holders. We were trying to cover as much territory as possible. So the roadshow was a strategically targeted approach that encompassed not only the holders, but the targeted investors for the SpinCo." - Sam Levenson, CEO at Arbor Advisory Group

"The roadshow provided an opportunity to train the management team to meet with investors. It was also an opportunity for the new IR team to join me on the road to show them what they can expect when dealing with the sell side and the buy side from the mechanics of investor relations." Anonymous IRO at a Mid-Cap Technology Company

Section II – Best Practices Post Spin

It may seem that a majority of the work would be done in the time leading up to SpinCo trading as a separate public entity, but in many cases the work had just begun. We spoke with different investor relations managers that had various roles once the spin was complete. One of the managers maintained his position as IRO of RemainCo, while the other managers were veterans of the industry, but new to investor relations. The most consistent challenges that SpinCo IROs faced are the adjustment from event-driven shareholder bases to ones that are full of long-term shareholders, and how to best use management's time to attract the proper shareholder base for the long term.

Generally, the aforementioned theme was geared towards the IR team of SpinCo, but the manager who stayed with RemainCo said one of his challenges following the spin was also experiencing questions regarding SpinCo's performance:

"The most challenging part for me, post-spin, is that I still get questions about SpinCo. I can't respond because I am reading about those strategic decisions just like the people that are asking. I can only talk to what our strategy was with the spin and how that is now different from the reality that people are seeing in the marketplace." - Anonymous IRO at a Large-Cap Resources Company

Once the spin is complete, the stock price of SpinCo is typically volatile as short-term and long-term investors work to establish a trading range for the stock:

"The first three months are extremely volatile, but then it starts to level out. In the beginning, every hedge fund in the world calls in twice a day and plays the volatility. This is something that everybody should expect off a spinoff. If you are the IRO of a spinoff, just have three phones and six ears." - Jeff Hansen, VP, Investor Relations at Marriott Vacations

"You basically lose market cap and liquidity because now it's potentially a smaller company. However, if the company does it right, it really shouldn't matter because if you have an underlying good story, the investors just want to invest in a stock that goes up. They don't really care, within reason, about market cap, and they will figure out a way to own this particular stock. If a separation is done right and made strategic sense, it shouldn't upset the shareholder base other than the reshuffling." - Anonymous IRO at a Mid-Cap Technology Company

Utilizing your time and management's time is key to continuing to educate the Street and investors on the performance of SpinCo:

"There are so many event-driven investors that get involved in spinoffs that you have to prioritize how you spend your time. You can spend all your time with hedge funds that are just trying to figure out if they can make a buck on the volatility." - Anonymous IRO at a Large-Cap Resources Company

"There were plenty of event-driven guys hovering around the stock, but we prioritized management's time. We were also fairly assertive in managing who management speaks with at conferences and managing corporate access. Sometimes that is the benefit of having a third-party IR advisor, as we can be the bad guys in regards to corporate access." - Sam Levenson, CEO at Arbor Advisory Group

Communication in investor relations, internally and externally, is of utmost importance. Surrounding a spinoff situation, it is likely the most central aspect of the role. Ahead of the spinoff, IROs are expected to communicate the ongoing process of the spin to its employees. In the public eye, the IRO is expected to educate the buy side and sell side as to why the spinoff is the best decision for the current parent company and for the business unit being spun out. Most inquiries are ahead of the official spinoff, but communication remains a primary focus for the investor relations team following the spinoff too.

"If there is one thing that I can tell an IRO regarding a spinoff, it would be that you need to get your story together. At the outset, we did not know exactly which triggers and which metrics were going to resonate with the Street. Our goal is to grow these certain metrics and explain why that is important, so we spent a lot of time figuring out what those are going to be in the first year. Which metrics should you be talking about and which metrics should you be educating and highlighting? It is really about getting that story straight from the beginning." - Jeff Hansen, VP, Investor Relations at Marriott Vacations Worldwide

Conclusion

Through our discussions, we uncovered numerous important factors that go into a spinoff from the investor relations perspective, including investor targeting and marketing, management preparation, communication, and perhaps most importantly, time management. If you and your team are not prepared, the process can be quite overwhelming.

"People can have the tendency to say 'we are just going to spin off and become a public company; no big deal.' It is a big deal, and the more work that you put into it in advance, the more successful the spin is going to be." Sam Levenson, CEO at Arbor Advisory Group
"It's important to understand that you are going from one company to two companies, and the two companies are each going to have different characteristics than the former parent. They are each going to have new peer sets, new growth rates, and new shareholders. So, when you are creating two new companies, it's as though you are doing two IPOs." - Sam Levenson, CEO at Arbor Advisory Group

From start to finish, the entire process can be best described as a "rollercoaster" as you will experience the highest of highs and lowest of lows of the investor relations world. But, with an internal strategy that can be well executed with your team and a communication plan for management that has been well rehearsed for the Street, the process can be fairly seamless.

"It's going to be a lot of work both on the high level all the way down to the nitty-gritty level, but it's also very rewarding. So, you are going to come out saying, 'Wow, I am one of the few people that have actually been through this.'" - Anonymous IRO at a Mid-Cap Technology Company

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Participants

Clay Bibly:
Clay has been the Director of Investor Relations of Keysight Technologies, an electronic measurement company and the spinoff of Agilent, since March 2014. Keysight is the original part of HP started in the Silicon Valley garage in 1939. Mr. Bilby's professional life included ten years with Hewlett Packard, fifteen years with Agilent Technologies (spinoff from HP), and one year with Keysight Technologies. His roles have included individual or management roles in Marketing, Global Sourcing, Corporate Development (M&A), and Finance. Clay was also the controller for a new division in Agilent. Mr. Bilby holds a Bachelor of Science in Electrical Engineering from University of Michigan, Ann Arbor, a Masters of Business Administration from California State University, Sonoma, and a Degree in Respiratory Therapy from Northwestern University, Chicago.

Jeff Hansen:
Jeff serves as vice president, investor relations for Marriott Vacations Worldwide Corporation. Mr. Hansen began his career as an officer in the United States Air Force with financial responsibility for downrange Logistics and Operations squadrons in Europe and Africa. His career then took him to Cape Canaveral, Fla. where he served in a joint service capacity with NASA as the financial services officer for Patrick Air Force Base and Cape Canaveral Air Station. In 2001, Mr. Hansen transitioned to the private sector providing financial analysis and management for the Southeast Region of Lincoln Property Company. Mr. Hansen joined Marriott's timeshare division in 2003 where he continued his financial analysis work focusing on new and existing Marriott Vacation Club and Ritz-Carlton Destination Club projects in the Resort Finance group. At the end of 2005, he left the company to join Resort Condominium s International (RCI) as product director for The Registry Collection, RCI's luxury exchange division. In 2007, Mr. Hansen returned to Marriott as a regional asset manager for The Ritz-Carlton Destination Club where his primary focus was managing partner and third party relationships. Mr. Hansen holds a Bachelor of Science degree in management from the United States Air Force Academy and a Master of Business Administration from the University of Maryland (College Park, Md.).

Sam Levenson:
Sam has served as a trusted advisor to CEOs, CFOs and Boards of Directors for over 25 years in the Investor Relations, Corporate Communications, Public Affairs and Global Security functions. His extensive experience includes designing and implementing strategic communications plans, crisis management, mergers and acquisitions as well as other strategic and financial transactions for global companies including Sony Corporation, Cendant Corporation and Staples, Inc. Mr. Levenson has served on the National Investor Relations Institute (NIRI) Board of Directors, as chair of its external affairs committee, as chair of its Senior Roundtable, as co-chair of its Annual Conference and as an officer and director of its Boston and CT Chapters. For the Investor Relations Association, he served in each of the officer roles, including president, and subsequently as a director. In addition, Mr. Levenson co-chaired the CFAI/NIRI Joint Task force on Issuer and Analyst Relations which published Best Practice Guidelines subsequently endorsed by both the NYSE and NASDAQ. Mr. Levenson has been appointed by the Financial Accounting Foundation as the sole member of the Financial Accounting Standards Advisory Council (FASAC) to represent the investor relations community. The FASAC is responsible for advising the Financial Accounting Standards Board (FASB) on technical issues, project priorities and other matters that affect standard setting. Mr. Levenson holds a BS, Accounting degree from Boston University.

Proxy Access and Investor Voting Tendencies – Preparing for 2016

Politics is Prologue

In a bit of ironic hindsight not lost on a tiny segment of the corporate legal profession, in September 2013, former NY Governor and Attorney General Eliot Spitzer lost to his opponent, Manhattan borough president Scott Stringer, in a tight contest for the Democratic party's nomination for New York City Comptroller. The final tally was 52% to 48%, with just 22,000 votes separating the candidates. Both had spoken openly during their campaign about their responsibilities as the face of the city's vast pension plan assets and their goals for using this voice, and companies across the country might have been forgiven for exhaling a bit after hearing the results. With Spitzer headed back to the media world, companies might not have to worry about the former "Sherriff of Wall Street's" next move. If only that was the way it worked out.

Instead, during late 2014 as part of the "Boardroom Accountability Project" (BAP), newly-elected Comptroller Stringer worked with a range of shareholder proponents, including other state and local pension plans as well as individual investors, to present proxy access proposals to a set of 75 companies. The proponents were open about the company selection process. Issuers were chosen not necessarily based on poor performance, but on three criteria: climate change (33 carbon-intensive companies selected), board diversity (24 companies selected), and CEO pay (25 companies with high prior say-on-pay vote opposition).

Proxy access has a long and contentious history, and while these proposals weren't the only proxy access proposals filed during the 2015 fiscal year, this effort, combined with the SEC's decision mid-proxy season to stop issuing no action letters regarding exclusion of these proposals, led to one of the most controversial proxy seasons in a decade for over 100 companies. And, it's expected to lead to even more attention for proxy access in 2016, and demands the attention of both companies that have received proposals and those that haven't, to decide where they'll stand on the issue.

The Response and the Strategy

Irrespective of whether a company's board supports the concept of proxy access, boards that received these shareholder proposals in 2015 had to devise the right strategy for their company, and potentially without public visibility into how each of their major shareholders would view the proposal. Major names such as Vanguard, Blackrock, TIAA-CREF, and Fidelity publicly announced their views, but since only a few select proxy access proposals had been filed previously, it became incumbent on the company's investor relations and legal teams to gauge the possible response levels.

As part of the new BD Corporate Governance product's research process, Ipreo has conducted active research into proposals filed by both management and shareholders around proxy access. Using the source documents from proposals, the election result details, and major mutual funds' voting disclosures, we can show the impact each of the strategies companies followed around proxy access had on the overall voting result, as well as how specific investors voted.Most important to note in advance is that every company's shareholder base is different – and the strategy followed by company A (with large shareholders D, E, and F) may be inappropriate in total for company B (with large shareholders X, Y, and Z). Knowing how each shareholder views proxy access, both previously and for the 2016 proxy season, is the first step to defining the right strategy for each company.

Ipreo gathered information on a total of 93 proxy access proposals voted on at 85 companies between September 2014 and June 2015, the period covered by the latest round of mutual funds' N-PX voting disclosure filings that overlaps with the relevant timeframe of the proxy access proposals spearheaded by the NYC Comptroller. Upon receipt of these proposals, companies appear to have selected one of four general strategies:

- **Strategy #1-** Allow the proposal and counter with a separate management proposal (8 companies).
- **Strategy #2-** Allow the proposal, and either act or state intention to act separately on proxy access (9 companies).
- **Strategy #3**- Present a management proposal, or express support for the shareholder proposal (4 companies).
- **Strategy #4**- Allow the proposal on the proxy and present opposition (58 companies with proposals identical to NYC Comptroller proposal, 10 with different proposals).

Analyzing the N-PX filings showing investor support for each of these company decisions may give the best clues as to how investors will vote on such proposals later in 2015 or in 2016. Most importantly, our findings suggest that the specific terms of the proposals presented to investors did not appear to generate a significant variation in investors' voting records – most of the proposals centered closely around the "3% / 3 yrs / 25% of board / group aggregation allowed" terms. However, of those companies publishing their own proposals (strategies #1 / #3), proposals with higher ownership thresholds fared poorly (average 37% support) while those that presented a lower threshold of director voting (less than the 25% of board in the comptroller proposal) received higher average support (55%).

Overall Investor Support

Of the N-PX filings Ipreo had processed prior to the end of September 2015, mutual fund investors showed a very diverse range of support for management. Heavy supporters of management included passive names Vanguard Group and State Street Global Advisors, as well as Fidelity and Wellington on the active side (Figure 1).

Figure 1 – Proxy Access: Select Top Investors with >80% Overall Management Support in 2015 Proxy Season

		Portfolio		Proxy Access	
Investor Name	Proxy Advisory	EAUM $M	# Secs Held	% Mgmt Support	# Votes
The Vanguard Group, Inc.	ISS/GL	1,828,999.3	10,813	83.7%	90
State Street Global Advisors (SSgA)	ISS	991,159.1	11,162	91.3%	67
Fidelity Management & Research Company	ISS	844,456.8	5,503	91.1%	61
Wellington Management Company, LLP	ISS	429,449.0	5,761	85.8%	51
J.P. Morgan Investment Management, Inc.	ISS	257,958.0	3,969	95.2%	21
Goldman Sachs Asset Management, L.P. (U.S.)	ISS	115,693.0	5,704	100.0%	9
Primecap Management Company	Glass Lewis	101,098.5	262	100.0%	14
Janus Capital Management, LLC	ISS	87,465.9	1,658	100.0%	8
GE Asset Management, Inc. (U.S.)	ISS	47,243.3	441	100.0%	14
Putnam Investment Management, LLC	Glass Lewis	55,601.9	2,455	90.2%	41

Source: Ipreo Research

The general opposition to management on proxy access includes Blackrock (generally voted in line between all of the various Blackrock entities) and Northern Trust, as well as more diverse opposition from Invesco Advisers, T. Rowe, and even non-US investors such as Schroder Investments.

Figure 2 – Proxy Access: Select Top Investors with <25% Overall Management Support in 2015 Proxy Season

		Portfolio		Proxy Access	
Investor Name	Proxy Advisory	EAUM $M	# Secs Held	% Mgmt Support	# Votes
BlackRock Fund Advisors	ISS/GL	1,317,495.4	10,928	15.7%	90
T. Rowe Price Associates, Inc.	ISS/GL	522,155.3	3,245	9.4%	66
Northern Trust Investments, Inc.	ISS	296,889.9	9,906	11.3%	69
MFS Investment Management	ISS	254,401.3	1,749	7.7%	26
Mellon Capital Management Corporation	ISS	205,629.4	8,194	13.6%	79
Invesco Advisers, Inc.	ISS/GL	186,820.8	4,153	21.6%	59
OppenheimerFunds, Inc	ISS	147,781.3	1,605	10.0%	40
Schroder Investment Management, LTD	ISS	122,557.0	4,328	13.3%	30
American Century Investment Management, Inc.	ISS/GL	98,731.8	2,149	19.0%	21
Invesco PowerShares Capital Management, LLC	Glass Lewis	79,710.8	7,309	12.1%	57

Source: Ipreo Research

However, among the most interesting investors are those without a clear bias towards or against management in their proxy access decisions. While an ISS subscriber, Capital Group's American Funds have split, notably opposing management on 70% of the "unresponded non-comptroller" proxy access proposals while supporting just a slight majority (54%) of "responded comptroller" proposals. Even within firms, there were cases where specific mutual funds recorded divergent votes. As one example, while it overall tended to oppose management for most companies, T. Rowe Price's Global Allocation Fund entered a vote supporting management of AES Corp on a proxy access resolution, while the rest of the firm's portfolios entered opposing votes.
Let's look at each of the strategies and how specific investors responded to them.

Strategy #1 – Allow the Proposal and Offer a Separate Management Proposal

In total, seven companies took the approach of offering their own proxy access resolution on the proxy alongside the shareholder proposal, with terms that differed materially from the original proponent. Against the backdrop of a 3% / 3yrs / 25% of the board resolution, most companies didn't appear to get drastically different support levels for their own view of proxy access relative to shareholders.

Figure 3 – Competing Management Proposals and Results, 2015 Proxy Season

	Management Prop			Shareholder Prop			Management Proposal Terms			
Company	For Mgmt	Against Mgmt	Abstain	For Mgmt	Against Mgmt	Abstain	% O/S	Years	Group Size	% of Board
Expeditors International of Washington, Inc.	69.1%	29.2%	1.7%	63.8%	34.4%	1.7%	3	3	20	20
Cloud Peak Energy, Inc.	25.9%	74.0%	0.1%	28.8%	70.8%	0.4%	5	3	1	10
SBA Communications Corporation	51.6%	48.3%	0.2%	53.4%	46.0%	0.5%	5	3	10	20
Chipotle Mexican Grill, Inc.	34.4%	64.8%	0.7%	49.8%	49.5%	0.8%	5	3	20	20
Exelon Corporation	52.1%	47.0%	1.0%	55.8%	43.2%	1.0%	5	3	20	20
AES Corporation	36.1%	63.6%	0.3%	33.5%	66.1%	0.4%	5	3	any	20
Visteon Corporation	20.7%	77.3%	1.9%	23.9%	74.2%	2.0%	5	3	"reasonable"	NA

Source: Ipreo Research

As one could easily infer from the above results, very few institutions split their support for management regarding the two competing proposals. SBA Communications saw split votes from T. Rowe Price, American Century, and Wells Capital – American Century and Wells each supported both the shareholder and management proposals, while T. Rowe split its votes between funds. In reality, it didn't appear shareholders showed much distinction between proposals, a lesson likely to carry over to the 2016 proxy season.

Strategy #2 – Allow the Proposal and Enact Proxy Access Separately

Depending on their legal structures, many companies are able to make material changes to their bylaws without receiving majority shareholder approval. Companies such as Arch Coal, Cabot Oil & Gas, and HCP acted on their own separately from the proposals and prior the AGM date to enact their own proxy access rules (each of these three used a 5% O/S threshold in this case). Other companies responded in their proxies that they intend to implement proxy access, though may be determining the appropriate structure, such as Coca-Cola and eBay. The level of support for proposals in which an already-implemented bylaw either existed or was stated as intended by the board averaged 52% for the proponents / against management. Of the companies that acted separately, voting ranged from 35% dissident support (Arch Coal) to a 67% majority of dissident support (Nabors Industries).

There's a limited sample size of these companies available of course, but there are a few notable cases where investors, especially those following ISS recommendations, took a dimmer view of supporting management. Mellon / Dreyfus Funds, OppenheimerFunds, and Northern Trust showed some limited support for other resolutions, but voted 100% against management and in favor of shareholder proposals for companies following this strategy; conversely, investors with a heavier base management bias such as Fidelity and Putnam voted with management recommendations on 100% of at least 5 votes.

Strategy #3 – Present a Management Proxy Access Proposal in Place of Shareholder Proposal / Endorse Shareholder Proposal

The most vehement opponents of proxy access might consider this a "co-opting" strategy for a corporate, but whatever stance the board takes on proxy access, this type of action is the clear litmus test for an investor's proxy voting committee – any investor voting to oppose management making its own independent proxy access proposal is likely to oppose proxy access in any form. From the set of major investors, only three names: Fidelity Management, J.P. Morgan Investment Management, and ClearBridge filed votes against adopting proxy access. Citigroup was notably the only management team to directly endorse an outside shareholder proposal on proxy access in its proxy statement, and hence the resolution received over 90% support. However, one large investor, Jennison Associates, voted against both management and the shareholder in this case. This may have been an expression of overall disapproval with Citigroup – Jennison also entered a "no" vote on Citi's say-on-pay resolution in 2015 as well.

Strategy #4 – Allow the Proposal and Present Opposition

Comptroller Stringer might be pleased with the end results of the proposals in this group – average support for these outside proposals barring any other competing proposals/actions was 53.5%. However, it's possible to watch the magnitude that the proxy access conversation changed simply by looking at timing. FedEx Corp, Microsoft, Cisco Systems all published outside shareholder proposals for AGMs between September 2014 and November 2014, largely prior to the BAP proposals. Each of these "non-BAP" proposals received overwhelming opposition, with only an average of 6% supporting the proponent.

However, after the comptroller's proposals took shape, and ISS, Glass Lewis and most major investors efreshed their voting guidelines for the 2015 proxy season, even the proxy access proposals not published as part of the Boardroom Accountability Project were now receiving far higher support (45% on average). One could argue the SEC's contribution to this process as well (ceasing to offer no action letters as of January 2015 after reversing its decision on Whole Foods' proxy access), but no matter what this large a swing in votes around proposals with similar terms is a clear signal that the conversation has changed, and won't be disappearing any time soon.

As to the investor side, the voting records help pinpoint exactly in which proxy voting committees that "conversation change" occurred Figure 4 highlights the shift in strategy in favor of management with a few firms such as Putnam Investments and Capital Group.

Figure 4 – Investors Showing Increased Management Support for BAP Proposals vs. Non-BAP Proposals

		Non-BAP Proposals		BAP Proposals		Change in Support
Investor Name	Proxy Advisory	% Mgmt Support	# of votes	% Mgmt Support	# of votes	Non-BAP to BAP
Capital World Investors (U.S.)	ISS	29.3%	6	54.0%	26	24.7%
Putnam Investment Management, LLC	Glass Lewis	66.7%	6	92.0%	25	25.3%
Winslow Capital Management, LLC	ISS	50.0%	2	100.0%	4	50.0%
Fidelity Management & Research Company	ISS	94.7%	8	97.4%	39	2.8%
Boston Common Asset Management, LLC	ISS	0.0%	2	25.0%	4	25.0%

Source: Ipreo Research

However, as you'd guess, the pendulum swung in favor of opposition to management in most cases. Figure 5 highlights the different cases where the voting committees may have changed their views. Vanguard, Wellington, and SSGA still generally support management across the board, but will now occasionally throw support to a shareholder proponent, all else equal. MFS supported the proponent / opposed management on every resolution filed by the BAP without management action, and in particular a few names such as American Century, TD Asset, and Eaton Vance may have supported management on major proposals deep into 2014, but now solidly oppose management.

Figure 5 – Investors Showing Decreased Management Support for BAP Proposals vs. Non-BAP Proposals

		Non-BAP Proposals		BAP Proposals		Change in Support
Investor Name	Proxy Advisory	% Mgmt Support	# of votes	% Mgmt Support	# of votes	Non-BAP to BAP
Lean Management / Occasionally Oppose						
The Vanguard Group, Inc.	ISS/GL	100.0%	8	81.0%	58	(19.0)%
State Street Global Advisors (SSgA)	ISS	100.0%	6	95.6%	46	(4.4)%
Wellington Management Company, LLP	ISS	100.0%	7	84.4%	32	(15.6)%
Increased Management Opposition						
BlackRock Fund Advisors	ISS/GL	25.0%	8	7.0%	57	(18.0)%
T. Rowe Price Associates, Inc.	ISS/GL	18.1%	7	2.4%	42	(15.7)%
Northern Trust Investments, Inc.	ISS	33.3%	6	2.1%	47	(31.2)%
MFS Investment Management	ISS	20.0%	5	0.0%	18	(20.0)%
Mellon Capital Management Corporation	ISS	37.5%	8	3.9%	51	(33.6)%
Changed View						
Harris Associates, L.P.	ISS	100.0%	3	25.0%	4	(75.0)%
William Blair & Company, LLC (Investment Management)	ISS	100.0%	4	71.4%	14	(28.5)%
American Century Investment Management, Inc.	ISS/GL	66.7%	3	6.7%	15	(60.0)%
TD Asset Management, Inc.	ISS	60.0%	5	9.1%	11	(50.9)%
Invesco PowerShares Capital Management, LLC	Glass Lewis	50.0%	6	7.1%	42	(42.9)%
Eaton Vance Management	ISS	66.7%	3	0.0%	13	(66.7)%

Source: Ipreo Research

Where Do We Go From Here?

The numbers quoted above in terms of investor support should be a stark reminder that this issue won't be going away in the future. Companies that received majority support for a resolution last year are in some cases required to conduct the due diligence necessary to respond, and there's plenty of research out there for companies to cite. The CFA Institute and Council of Institutional Investors have published research generally in support of the value proxy access generates for investors, and the groups that opposed the original SEC proposal in 2011 (including the Business Roundtable) are publishing position papers questioning the value of proxy access. However, none of this research has changed much in the last year – what's really changed is investor demand. Enough investors acting in support of a resolution means the proxy advisory firms will provide deeper research and better-formulated recommendations in favor of similar resolutions, whether or not there's a broad consensus.

However, in one sense, proxy access may be the best high-profile opportunity in many years to tell the company's side of the story to investors. For years corporates have bemoaned the tendency of investors to blindly follow proxy advisor recommendations. Note that ISS recommended "for" a large number of proxy access resolutions this year – while investors such as Fidelity consistently ignored ISS' recommendations and followed their own policy. With a finite number of resolutions, the heightened awareness of the topic, and the reality that the investor may be voting for a resolution that gives them a new right and privilege, investors are far more likely to do their own research and make their own decisions. Of course, this is where the investor relations function has always excelled – as with the investment decision, finding the individuals that make the voting decision, telling them your story, and providing the supporting data, is what IROs do every day. It's possible that the impact to the company may be even greater when telling the voting story than it would be in a standard investor relations meeting – IROs that can pivot to both sides of the investor are the ones best able to create value in an environment when every company may face a proxy access resolution.

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Shining a Light on Confidential Filings

In 1934, Congress passed Section 13(f) of the Securities Exchange Act to increase the public availability of information regarding institutional investor holdings. As most readers of this publication know, institutional investment managers that use the United States mail (in other words, investors that use any means of United States interstate commerce in the course of their business) and manage investment assets of $100 million or more in Section 13(f) securities (as defined by the SEC) must file Form 13F; through this form, the investment manager lists details of its security holdings as of the last day of the reporting period which include names of the issuers, class, number of shares, etc., all of which shall be available to the public.

However, in some cases the SEC will allow investors to submit an application to confidentially file some or all of its assets under management. Investors may want confidential treatment if it believes that increased transparency could reveal proprietary information that allows competitors to take advantage, or “free-ride” on a fund manager’s efforts to identify gainful investment and trading strategies. Additionally, some fund managers may be wary that increased transparency will allow other “front-runner” investors to trade against them while they are in the process of accumulating or reducing a position. Historically, this strategy has been popular among hedge-fund entities as well as investors that have very concentrated portfolios (as investors can more easily determine strategies of managers with concentrated portfolios if the latter makes any changes to its’ positions), particularly with high-profile activists who may not want immediate market reactions to initiations or changes or in exposures.

There are several situations in which the SEC will allow investors to confidentially file part of their assets. Typically, the SEC states that it will not disclose Form 13F information that “identifies securities held by a natural person, an estate, or a personal trust (excluding business trusts or investment companies.” This type of confidential treatment is normally known as the personal holdings exemption. In addition to the personal holdings exemption, Section 13(f)(4) also states that the SEC may prevent or delay public disclosure of Form 13F information “for public interest reasons or the protection of investors,” specifically with relation to the fourth exemption of the Freedom of Information Act (“FOIA”) which protects “trade secrets and commercial or financial information obtained from a person and is privileged or confidential.”

When an investor wishes to obtain confidential treatment for a portion of their filings that is normally required to be reported on Form 13F, the investment manager must first file Form 13F disclosure that omits the material that the manager wishes to keep confidential; however, the manager must indicate on the form that the confidential portion has been so omitted from the public Form 13F and filed separately with the SEC (Commission). This statement normally appears as follows:
“Confidential information has been omitted from the public Form 13F report and filed separately with the U.S. Securities and Exchange Commission.”

Additionally, four copies of the confidential portion must be submitted to the Commission in paper format as well as a written objection to public disclosure request. This request should address all pertinent factors including:

- Details about the specific investment program being followed with respect to the relevant securities holdings, including the extent of any acquisition (buy) or disposition (sell) program and its objectives
- Explanation of how the disclosure would reveal to the public the manager’s investment strategy with respect to the specific reporting requirements of Form 13F
- Information that the program is ongoing, that the manager was engaged in the program both at the end of the quarter and at the time of filing, and that revealing the program would be premature given the investment strategy
- Demonstration of the potential harm to the manager’s competitive position if confidential treatment is not granted, how competitors could make use of the information and how harm to the manager could follow
- The period of time for which confidential treatment is requested
- Additional information regarding the specific requirements and guidelines to be included in the Confidential Treatment Request can be found on the SEC website. (www.sec.gov)

If the Commission grants a request for confidential treatment, it may (as stated on Form 13F instructions) “delete details which would identify the manager and use the information in tabulations required by Section 13(f)(4) absent a separate showing that such use of information could be harmful”; which vaguely suggests that the Commission may still indicate the position of securities under management where necessary but will not reveal the identity of the manager that maintains the position. If the Commission denies a confidential treatment request, the manager is required to electronically submit a Form 13F update or amendment within six business days of the Commission’s notification. The manager must designate the amendment as one that adds new holdings, and must include at the top of the Form 13F Cover Page a legend that says:

> *“THIS FILING LISTS SECURITIES HOLDINGS REPORTED ON THE FORM 13F FILED ON (DATE) PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT AND FOR WHICH (THAT REQUEST WAS DENIED/CONFIDENTIAL TREATMENT EXPIRED) ON (DATE).”*

As previously mentioned, hedge funds and investors with concentrated portfolios have historically been those that have most often requested confidential treatment. One example of this is the activist hedge fund Bulldog Investors, LLC, which has recently filed its Form 13F for the quarter end 6/30/2015. In the Form 13F Summary Page section following Bulldog's Form 13F Cover Page, Bulldog indicates that it has filed $288M EAUM across 21 securities. Below this indication is a short, specific verbiage (as noted above) which indicates that confidential information has been omitted from the public Form 13F report. According to the SEC website, Bulldog maintains confidential treatment for part of its portfolio every quarter since 1Q 2013 filings. As of its filing history with the SEC, Bulldog has submitted four 13F amendments (all in July and August 2015) as a result of expiration of several confidential treatment requests (totaling almost 300 equity, convertible bonds, and options positions), some of which were made in early 2013. Bulldog is an example of one of the more frequent types of investors that maintain confidential filing status. It should be noted that Bulldog's founder/CEO Phillip Goldstein has historically been critical of both the SEC and the concept of 13F filings, and has often vocally pushed for anonymity with regards his ownership positions. Additionally, the investor frequently engages in shareholder activism and maintains a very concentrated portfolio of 48 publicly disclosed securities across $351M reported EAUM as of 2Q 2015 13F filings. Given the firm's typical activist strategy and the likelihood of strategy exposure following any position change within its concentrated portfolio, the SEC has determined that full disclosure of Bulldog's assets would likely negatively impact the hedge fund's competitive strategy and/or the public interest. Other typical activist hedge funds that employ this strategy include Greenlight Capital, Starboard Value, Relational Investors, etc.

Sometimes, some non-activist high-turnover hedge funds are also known to request confidential treatment when filing for positions. Alyeska Investment Group, L.P. is one of these hedge funds; as of historical SEC records, Alyeska has requested confidential treatment for some of its filings every quarter since 2Q 2012. Unlike Bulldog, whose confidential treatment periods can last up to two years, Alyeska's confidential treatment periods last for about 2 quarters on average, as the hedge fund has filed 13F amendments every quarter stating that confidential treatment has expired. Most recently, Alyeska filed an original 13F Form on 8/14/2015 for the quarter ended on 6/30/2015 stating that it has filed positions for 466 securities that equal $8.4B EAUM, and has omitted information to be requested for confidential treatment. For the next two business days, Alyeska released five 13F amendments, one of which is a restatement of original filings, and the other four "add new holdings entries" in that they each disclose expired confidential filings from separate quarter-end dates. Other high-turnover hedge funds that have been known to frequently request confidential treatment include Citadel Advisors, UBS O'Connor, Pine River Capital Management, HBK Investments, etc.

However, there are also many investors that have been known to follow unique strategies when requesting confidential treatment that are not typical of other investment strategies. One of these investors is Berkshire Hathaway, Warren Buffet's investment firm, which have on two occasions between 2013 and 2015 (3Q 2014 and 2Q 2013 specifically) filed for confidential treatment of 3-4 securities for just one quarter. As a low-turnover investor that does not engage in any activist strategy, it is safe to assume that Berkshire Hathaway understands that any positions it takes will be closely followed by the market, and that investors will likely react to any moves the firm makes. Norges Bank is another investor with a unique confidential filing strategy; the firm is the sovereign wealth fund of Norway which has requested confidential treatment for almost every quarter. Norges has historically been known to make large movements in stocks; given the firm's history of actively engaging management on governance-related issues, Norges may be requesting confidential filing status to prevent large market reactions.

The tables below lists the top 30 investors that most frequently filed and received confidential treatment in the last two years (from 8/26/2013 to 8/26/2015), one of which lists hedge fund and activist investors, while the other one lists non hedge funds and activists. While some of the investors that most frequently file confidential treatment are high-turnover hedge funds (such as Magnetar, UBS O'Connor, and Alyeska) that regularly submit CT filings for single or relatively few positions, others (such as Norges, Relational, and Bulldog) submit fewer CT filings but for a longer period and covering many more positions.

Hedge Funds/Activists

Firm Name	# of CT filings
Magnetar Financial LLC	32
UBS Oconnonr LLC	29
Pine River Capital Management LP	22
Oxford Asset Management	20
Alyeska Investment Group LP	20
Citadel Advisors LLC*	13
HBK Investments LP	10
Relational Investors LLC*	9
Starboard Value LP*	4
Bulldog Investors LLC*	4
Greenlight Capital Inc*	2
Jana Partners LLC*	2
MSD Capital LP*	1

Non-Hedge Funds

Firm Name	# of CT filings
Norges Bank	20
Leonard Green Partners LP	13
Berkley W R Corp	10
KLP Enterprises LLC	9
Brookfield Asset Management Inc	8
Conyers Investments LLC	8
Provida Pension Fund Administrator	7
1922 Investment Co LLC	6
Berkshire Hathaway Inc	3
Fiduciary Counselling Inc	3
Full Value Advisors LLC	2
CVentures Inc	2
Westchester Capital Management LLC	2
Regal Investment Advisors LLC	1

As of 8/26/2013 to 8/26/2015
*Indicates history of shareholder activism

Among these investors that most frequently file confidential positions, the majority of investors typically hold confidential status for most of their positions for just 1-2 quarters, thereby gaining the first mover advantage without the market reacting and thereby impeding the firm's investment strategy. Most investors, notably the hedge funds including Magnetar, Alyeska, and Citadel, will request shorter (one-quarter) confidential treatment more frequently than for longer periods. Some investors will make multiple requests for confidential treatment for different securities that span equally for one, two, or even three quarters, largely depending on the investor's specific investment program. Very few investors frequently make requests for confidential treatment lasting one year or longer, and will only do so for 1-2 securities at a time. Norges is an exception here; in 2015, expiration of Norges' confidential positions indicated that every confidential investment revealed in 2015 had remained confidential for one year. Bulldog is another exception; as stated previously, the firm maintains confidential status almost every quarter. In the four 13F amendments released in 2015 that released confidential positions, 68 positions expired after one year of confidential treatment and 200 companies expired after two years of confidential treatment. The table below lists the average number of days that several frequent and high-profile investors maintain confidential treatment based on confidential positions that expired in 2015, as well as the maximum number of days these same investors have ever held confidential status for any of its positions. Many of these investors have an average confidential filing period between 90 and 180 days (1-2 quarters), but several investors (like the ones described above) tend to hold confidential status for a longer period.

Length of Confidential Filing Status

Firm Name	Average # of days	Max. # of days
Magnetar Financial LLC	163	365
UBS Oconnonr LLC	211	365
Pine River Capital Management LP	181	409
Oxford Asset Management	119	272
Alyeska Investment Group LP	163	365
Norges Bank	365	365
Citadel Advisors LLC	144	274
Leonard Green Partners LP	237	375
HBK Investments LP	318	410
Berkley W R Corp	139	274
Bulldog Investors LLC	637	724

*As of confidential positions that expired in 2015

Many of the investors that that are approved for confidential filings are highly regarded on The Street (which contributes to why the SEC grants them confidential status). As such, other investors will likely take note of any holdings that show up in these firm's portfolios once the confidential treatment of the positions expires. This will particularly hold true for positions that expire after one (even two) quarters, when investors will likely react to positions that confidential filers have taken in the prior quarter(s) (though this will not significantly impact confidential positions that have been held for a longer period, as the investor is less likely to keep the same position after such as long time horizon). Because of this, it may be a good idea for IR departments to have an understanding of who these investors with confidential status are, especially if it's clear that the investor has done significant work on the company already. If other investors (be they mutual/pension fund managers, or hedge funds and activists) were to see an issuer's stock appear in a portfolio with historical confidential status, this will likely impact how the buy side will treat the stock going forward. Additionally, it's a good practice for IR departments to keep track of the relationships between the confidential filers they speak to and the sell-side analysts and corporate access teams, as it may be possible to see the results of the investor's entry in large trading movements conducted by the brokers that are servicing them. As always, staying in close touch with any market surveillance teams will help IR departments keep ahead of confidential filers; even if a position is confidential, the shares are still held in the same custodian bankers and brokers, and surveillance teams such as Ipreo's Global Markets Intelligence can monitor those purchases or sales in the same way as other filers.

Authors: David Shi
David is a Senior Analyst with the Corporate Analytics team

BetterIR - Firm Snapshot

Target Firm: AllianceBernstein, L.P. (U.S.)

Targeting Profile:

AllianceBernstein was founded fifteen years ago by means of a merger, after Alliance Capital acquired Bernstein. Alliance Capital was originally founded in 1971 from the product of another merger, and Bernstein was founded in 1967 by Sanford C. Bernstein. The institution is an independent subsidiary of French firm AXA, which currently owns over 60% of Alliance Bernstein. Peter Kraus has been the CEO and Chairman of the Board of Alliance Bernstein since 2008. Alliance and Bernstein complemented each other in ways that the company now markets to potential clients. Alliance promoted its growth seeking capabilities while Bernstein added a value-oriented approach to investing.

These growth and value teams now work as distinct entities, but the majority of Alliance Bernstein's investments are value-oriented. The firm invests in a wide variety of asset classes that include fixed income, equity, and alternative strategies. Alliance Bernstein is a large ($142B in reported equity assets) investment firm with a multitude of funds managed around the globe. The institutions headquarters are fittingly located inside of The Alliance Capital Building, in New York, NY. Outside of New York, Alliance Bernstein has U.S. offices located in Boston, Chicago, Miami, San Francisco, and Tampa as well. Banks and Pharmaceuticals each account for over 5% of the firm's portfolio. The top holdings from these industries include Wells Fargo ($1.8B), Pfizer ($1.3B), Johnson and Johnson ($1.1B), and Allergan ($785M).

How to Approach:

Due to the firm's large usage of fundamental information in its approach to evaluating investments, knowing which portfolio managers are involved with certain funds is important to engaging in successful meetings, with a majority of its interactions occurring out of the New York office. Alliance Bernstein manages a variety of fund types, but its largest funds, and the majority of its funds, are value-oriented. After screening these value-oriented investments, the firm prefers to meet with management, customers, competitors, and suppliers. In terms of sector coverage, Alliance Bernstein evenly balances its investments based on its fundamental approach. The firm's largest holdings are in the Finance ($27.6B), Technology ($25.5B), Consumer Services ($23.1B), and Healthcare ($20B) sectors.

How Not to Approach:

The U.S. branch of Alliance Bernstein allocates 82% of its equity assets to U.S. securities, with just 6% dedicated to Small-Cap issuers. The Basic Materials and Utilities sectors make up the smallest portions of the firm's portfolio, with the two collectively accounting for < 5%. In its United Nations Principles for Responsible Investment Transparency Report, Alliance Bernstein stated that it negatively screens for things such as controversial weapons. The firm also integrates ESG strategies into its investment decisions, and will ignore attractive valuations if there are corporate governance, social, and environmental issues.

Portfolio Fundamentals:

- Forward P/E: 18.8x
- 5 Yr Proj. Growth Rate: 13.4%
- EV/EBITDA: 12.4x
- P/Book: 4.4x

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BetterIR - Fund Snapshot

Targeted Fund: Principal Funds- Largecap Value Fund

Portfolio Manager: Arild Holm
Jeffrey A. Schwarte

Targeting Profile:

The Principal Funds- Largecap Value Fund is managed through **Principal Global Investors, LLC** out of Des Moines, Iowa. The fund has equity assets of $2.4B and is the seventh largest fund managed by the firm. The fund disclosed a position in 65 securities in its most recent filing. Over 80% of the fund's holdings are in large or mega-cap stocks.

Outside of the Financials industry, in which it allocates nearly 1/3 of its equity assets, the fund maintains a relatively well-balanced portfolio. The top three sectors: Financials, Healthcare and Energy, make up 59% of EAUM. *The Largecap Value Fund* increased energy holdings by $8M in value, bringing its total position in the sector to $323.9M.

Based on share count, the three largest energy buys this quarter include Apache Corporation ($54.4M in value), Cameron International Corporation ($22.9M in value) and SM Energy Company ($7.9M in value.) Portfolio Manager Arild Holm specializes in the energy industry with a focus in the oil, gas and coal mid-industry, while Jeffrey Schwarte is an industry generalist.

How to Approach:

The Largecap Value Fund employs an in-house designed research system that is based primarily on sector and industry specialization from the research analyst to portfolio manager levels. Arild Holm manages the fund through his industry specialization with a value-based investment approach. The fund typically makes investment decisions based on fundamentals and forward looking investor sentiment. These factors are compared to regional, sector and industry peers.

How Not to Approach:

The Largecap Value Fund sets an objective "to be early-but not alone" when buying into a company; meaning the fund is less likely to invest early in a downward trending stock, but rather focus on opportunities that have turned the corner and shown signs of a rebound in value.

Basic materials and utilities investments are limited, with both sectors making up only 7.5% of the fund portfolio. The fund also maintains a focus on capital intensive companies and manages only 16 securities below the large cap level, one of which is small cap. These securities making up only 13.6% of securities held.

Portfolio Fundamentals:

- P/E: 16.0
- PEG: 1.8x
- 5 yr. Proj. Growth: 9.3%
- ROE: 15.3%

Metro Area Targeting Focus- Milwaukee, Wisconson

Money Center Statistics

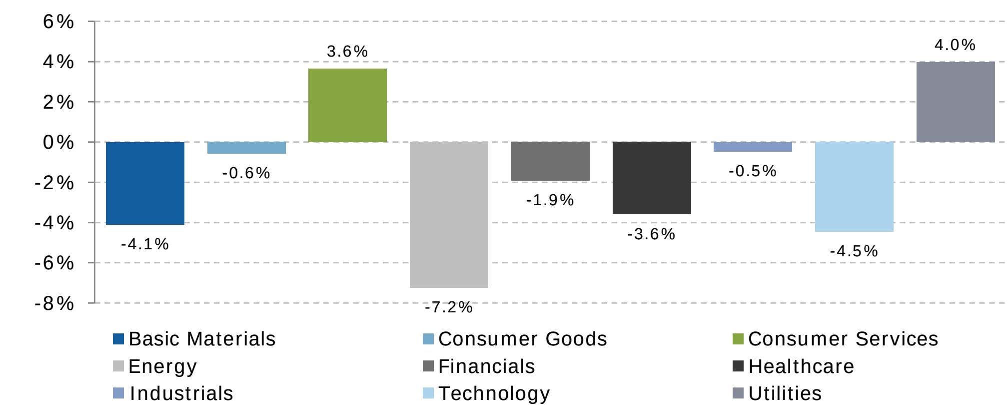
Reported Equity Assets ($B):	$263.0
Number of Institutions:	49
Top Sector Weighting:	Technology
Technology Weighting:	18.1%
Top Region Weighting:	North America
North America Weighting:	77.8%
United States Weighting	75.2%
Total Net Buying ($B):	$20.1
Total Net Selling ($B):	-$24.1
Total Net Activity ($B):	-$4.0
Ownership changes since 3/31/2015	

Summary Notes

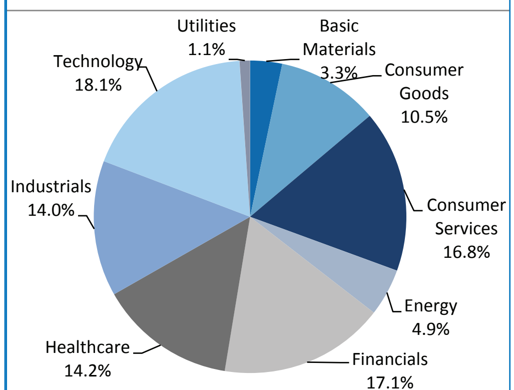
When looking at the investment landscape of the Midwest, Milwaukee stands out as a financial hub that is worthy of a visit when in the region. 49 active institutions operate within the metro area, with four firms standing out above the rest in terms of equity assets under management: Artisan Partners ($85B EAUM), Wells Capital Management ($63B EAUM), State of Wisconsin Investment Board ($30B EAUM), and Fiduciary Management ($21B EAUM). Including the $198B in equity assets managed by these four firms, the metro is home to $263B in actively managed equity assets, and can be considered a top financial center in the Midwest.

Sector allocation in Milwaukee as of Q2 2015 exhibits the Technology, Financials, and Consumer Services spaces as the largest invested industries (18%, 17%, and 17%, respectively). Net buying in Consumer Services increased by $1.5B over Q2 with Fiduciary Management (+ $845M) and Artisan Partners (+ $404M) leading buying activity within the sector. Growth-oriented firms control 60% of the total assets under management in Milwaukee ($157B). One such firm is Nicholas Company which was particularly bullish in the Healthcare space (+$153M) as it added significantly to its holdings in Jazz Pharmaceuticals and Abbvie by $59M and $29M, respectively. Wells Capital Management pared its holdings in the majority of macro sectors, but did increase its holdings by $93M in Consumer Services and $32M in Utilities. State of Wisconsin Investment Board was also particularly bearish on the market over the period (- $184M net spending) but found the Technology industry appealing as it added $120M to its investment in Google and +$45M in net buying in the space. IR teams for companies with high growth prospects compared to peers, or within the Technology, Financials, Consumer Services and Utilities industries should consider increasing their outreach within the Milwaukee area.

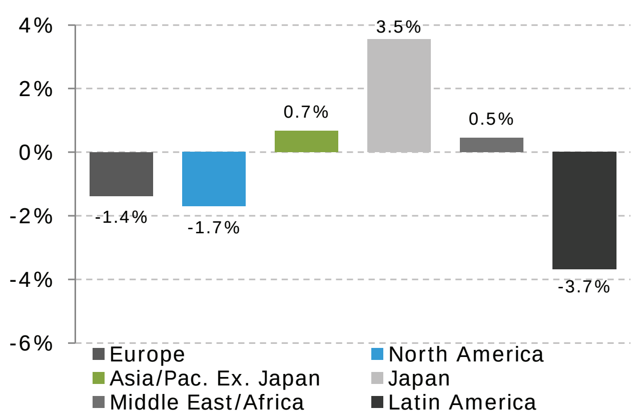
Most Recent Sector Net Activity (%)



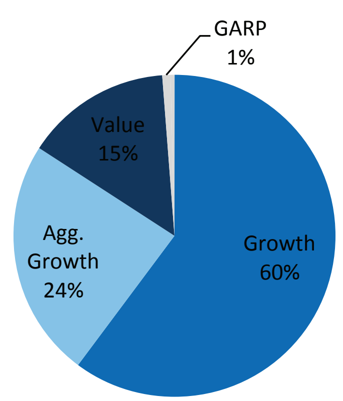
Sector Allocation



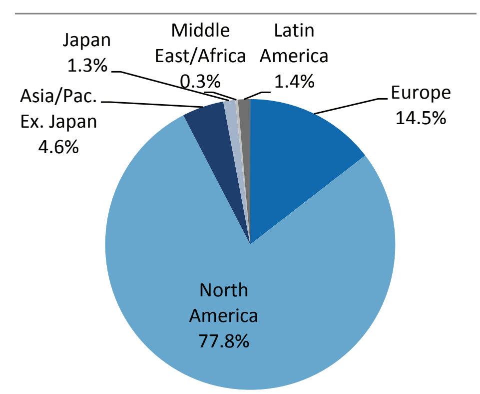
Most Recent Regional Net Activity (%)



Investment Style



Geographic Allocation



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