The Better IR Newsletter

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What's inside...

Investors Likely to Provide Support in a Down Market?

Upside to Meeting with Hedge Funds

In the August 2015 Ipreo special report on market volatility, a key takeaway was that hedge funds tended to step in to provide support for equities in distress. At a time when many traditional asset managers were rotating portfolios defensively, numerous hedge funds recognized the opportunity present in the market's elevated levels of risk. So if hedge funds can fulfill such a vital role in share price stabilization, how does an IRO identify the right ones? This piece will explore several methods that seek to qualify these alternative investors, including: core turnover, meeting effectiveness, and sector focus.

KEY FINDINGS

- While many hedge funds have high overall portfolio turnover, some employ a long-term investment approach for a subset of "core positions" and are worthy of you and your management team's time.

- Some hedge funds will meet with companies repeatedly without ever making an investment. IROs are more than accustomed to hedge funds running competitive analyses, channel checks, or having hedge funds using their meeting time to get an overall view of sector or macroeconomic health. There are ways to identify the hedge funds that are more inclined to invest following a face-to-face meeting.

- Sector-focused hedge funds are often the most well researched and informed, and therefore are able to make quick investment decisions when opportunities present themselves, as is the case with a broader market sell-off. This makes these types of investors worth meeting and keeping current on your story.

HEDGE FUND MEETING EFFECTIVENESS

The investor conference scene is rife with hedge funds, presenting a huge challenge for an IRO when determining which hedge funds should be given management time versus which should be crammed into the end-of-day group meeting. Portfolio turnover rate is often the first metric that IROs will utilize to form an opinion on a hedge fund. Using overall turnover rate, however, can obfuscate the more traditional long-term investment approach that many hedge funds take, albeit for a small percentage of their portfolios.

It was our goal to identify a group of IR-friendly hedge funds by emphasizing two data points:

1) Core Portfolio Holding Size Turnover
2) Propensity to make a core investment purchase following a face-to-face meeting

To determine core holding size, we calculated the turnover rate over the last 12 months for each hedge fund's top 20, 40, & 100 positions held, factored in all holdings, and observed the inflection point where portfolio turnover significantly decreased, if at all. We determined the core holding size for each hedge fund based on the point at which turnover rate decreased to a level in line with most traditional asset managers. The hedge funds were then categorized into one of three groups, which indicate a core holding size of approximately 20, 40, or 100 positions (indicated in the following chart by the green, blue, and purple backgrounds, respectively). We then factored in meeting data from Ipreo clients on an aggregate basis from the 18 months prior to the filing date (the extra 6 months were added to this range in order to account for the investment research process). Activist hedge funds were not analyzed due to the complicated (and sometimes combative) nature of their relationships with issuers. The turnover and post-meeting data was analyzed, allowing us to classify each hedge fund into a group, based on meeting effectiveness: Effective, Partially Effective, & Not Effective. This classification serves as a general measure of meeting effectiveness, and like everything else, should never be viewed in a vacuum. It is, however, a telling indicator that should help IR to effectively plan a conference meeting schedule.

CORE TURNOVER RATES

Hedge funds highlighted in light blue currently hold a core position of approximately 20 securities, while those in blue hold a core position of approximately 40 securities and dark blue denotes a core holding size of approximately 100 securities.

Investor Name	EAUM (MM)	Securities Held	Top 20 Turnover	Top 40 Turnover	Top 100 Turnover	Overall Turnover
East Side Capital Corporation	$2,583.2	24	44%	170%	170%	39%
Eagle Capital Management, LLC (NY)	$22,843.2	58	12%	220%	525%	25%
Falcon Edge Capital, L.P.	$1,411.0	17	55%	66%	66%	100%
Eton Park Capital Management, L.P. (U.S.)	$2,862.9	21	40%	64%	93%	172%
Coatue Management, LLC	$8,966.2	56	72%	126%	146%	84%
Bridger Management, LLC	$1,426.9	36	33%	72%	71%	115%
Steadfast Capital Management, LP.	$4,971.2	56	45%	87%	101%	99%
Viking Global Investors, L.P.	$26,846.6	63	44%	88%	181%	123%
JAT Capital Management, L.P.	$3,337.7	59	73%	153%	165%	132%
Partner Fund Management, L.P. (U.S.)	$3,621.9	66	52%	80%	105%	172%
Highline Capital Management, LLC	$1,817.7	28	50%	91%	91%	120%
Brookside Capital Management, LLC	$3,373.9	40	59%	71%	81%	105%
PointState Capital, L.P.	$3,236.4	81	57%	79%	183%	177%
Luxor Capital Group, L.P.	$4,054.7	63	76%	100%	1294%	95%
Roystone Capital Management, L.P.	$2,089.7	28	38%	150%	150%	101%
Axiom International Investors, LLC	$3,302.0	145	32%	42%	65%	87%
Tiger Global Management, LLC	$9,475.7	86	23%	46%	99%	94%
Water Street Capital, Inc.	$2,219.4	55	24%	49%	110%	39%
Discovery Capital Management, LLC	$9,225.1	108	51%	52%	140%	139%
Blue Ridge Capital, LLC	$8,829.2	49	21%	45%	49%	51%
Samlyn Capital, LLC	$5,333.1	77	37%	55%	89%	122%
Ascend Capital, LLC	$2,607.8	156	28%	49%	78%	217%
GMT Capital Corporation (U.S.)	$4,562.6	150	24%	31%	157%	33%
Senator Investment Group, L.P.	$8,118.6	49	35%	52%	69%	124%
Farallon Capital Management, LLC (U.S.)	$6,674.2	92	39%	57%	79%	117%
Glenview Capital Management, LLC	$19,990.3	79	34%	52%	110%	61%
Scopus Asset Management, L.P.	$2,544.5	135	20%	40%	73%	157%
Marshall Wace North America, L.P.	$8,119.1	906	27%	32%	45%	179%
Select Equity Group, L.P.	$11,508.3	124	23%	39%	66%	46%
Maverick Capital, LTD	$6,057.3	119	40%	85%	69%	124%
OZ Management, L.P.	$20,682.4	217	35%	41%	60%	107%
Millennium Management, LLC	$46,848.1	3199	16%	16%	28%	146%
Citadel Advisors, LLC	$62,041.9	3961	17%	20%	30%	135%
Adage Capital Management, L.P.	$36,117.3	710	17%	26%	31%	64%
Balyasny Asset Management, L.P. (U.S.)	$11,692.5	947	26%	36%	49%	217%

Effective	Partially Effective	Not Effective
East Side Capital Corporation	Eton Park Capital Management, L.P. (U.S.)	Steadfast Capital Management, LP.
Eagle Capital Management, LLC (NY)	Coatue Management, LLC	Viking Global Investors, L.P.
Falcon Edge Capital, L.P.	Bridger Management, LLC	JAT Capital Management, L.P.
Axiom International Investors, LLC	Discovery Capital Management, LLC	Partner Fund Management, L.P. (U.S.)
Tiger Global Management, LLC	Blue Ridge Capital, LLC	Highline Capital Management, LLC
Water Street Capital, Inc.	Samlyn Capital, LLC	Brookside Capital Management, LLC
Marshall Wace North America, L.P.	Ascend Capital, LLC	PointState Capital, L.P.
Select Equity Group, L.P.	GMT Capital Corporation (U.S.)	Luxor Capital Group, L.P.
Maverick Capital, LTD	Citadel Advisors, LLC	Roystone Capital Management, L.P.
OZ Management, L.P.	Adage Capital Management, L.P.	Senator Investment Group, L.P.
Millennium Management, LLC		Farallon Capital Management, LLC (U.S.)
		Glenview Capital Management, LLC
		Scopus Asset Management, L.P.
		Balyasny Asset Management, L.P. (U.S.)

The results demonstrated that hedge funds with the most frequent conference attendance are significantly less likely to make a concentrated enough position in an issuer to be a core holding. These hedge funds were placed into the Not Effective list above given their disposition to exhibit more of a trading mentality and use conferences as key source of competitive intelligence. The hedge funds classified as Partially Effective displayed some correlation between meetings taken and core investment, but it was not particularly high.

Conversely, hedge funds that have a more favorable meeting to investment ratio are far more likely to make a longer-term investment in an issuer after a meeting. For example, East Side Capital holds onto its top 20 positions for a bit more than two years on average, and half of the meetings it has taken with issuers are currently in that core holding. If East Side Capital requests a meeting with management, it is far more likely to be rooted in long-term interests. Though not as highly correlated as East Side, several other small hedge funds are worth meeting with, including: Eagle Capital Management, Falcon Edge Capital, Axiom International Investors, Tiger Global Management, and Water Street Capital; all of which displayed correlations above the average, and are likely to be effective meetings.

Investors with concentrated portfolios are often overlooked given the lower probability of them initiating a position; however, these investors demonstrate the most desirable traits of long-term shareholders. The time put into courting these investors can be worth it, considering they are more likely to put the same level interest into their investments. The concentrated position will be incredibly important to the success of the funds' investment strategy, which leads to stronger relationships and ties to investments

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SECTOR SPECIFIC HEDGE FUNDS

Hedge funds are often the most likely investors to provide a level of support in times of significant volatility. Most hedge funds are more risk tolerant than traditional investment managers by nature, but how does an IRO identify which hedge funds focus on which industry? While qualitative data alone can be useful in this regard, Ipreo sought to reinforce these notions by identifying those investors with significant assets invested in a sector relative to the S&P 500 weighting. The amount produced allows one to observe the excess capital (or lack thereof) allocated to each sector at a given institution. This metric was used to select several favorable sector-specific hedge funds, which are highlighted below.

Healthcare

Visium Asset Management currently allocates 58.4% of its portfolio to the Healthcare sector. Visium typically targets its portfolio to be 20% net long, but it may be as much as 10% net short. Relative to the S&P 500, the firm is overweight the sector by 43.6%, which amounts to $2.7B of additional capital flowing into the industry. The firm is known to be well-researched in the sector, and it has the excess capital to provide a bid for a stock during a market swoon.

Deerfield Management has $2.3B in equity assets under management, 96.0% of which is invested in Healthcare securities, with the remainder invested in closely related securities such as Walgreens Boots Alliance ($33M), eHealth ($33M), and Rite Aid Corporation ($20M). The New York hedge fund seeks stocks that can benefit from market trends and have long-term earnings growth potential. Deerfield frequently meets with IR and management as part of its investment research process.

▸ Financials

EJF Capital allocates 90.6% of its $1.7B portfolio to Financials. Most of its equity portfolio consists of Banking and Real Estate; it allocates 49.7% and 23.2% of its portfolio to the sectors, respectively. The firm employs a long/short approach for its flagship Opportunity family of funds. In a recent perception call with Ipreo, the firm noted that it's not terribly concerned with quarterly earnings gyrations, and that the firm values meeting with management.

▸ REITs

Long Pond Capital is a specialist in the REIT space. The firm has $2.0B EAUM and invests in U.S. & Germany-based REITs. It currently allocates 78.6% of its portfolio to Financials across 25 securities. Long Pond tends to hold 20-40 long positions and 25-45 short positions. Long positions are typically held for six months to two years, while short positions are typically held for three to eighteen months.

CONTRARIAN INSTITUTIONS & EVENT DRIVEN STRATEGIES

When a company's stock is under pressure, Value & Deep Value investors known to take on risk in a manner similar to hedge funds are also a viable option. Contrarian investors aim to add shares during a market downturn at a heavy discount, and then sell once market trends have turned around. Though these investors may not be around for the long haul, they can be instrumental in stabilizing share prices. Event driven strategies typically employ equity or credit sub-strategies to make a profit from pricing inefficiencies.

Cramer Rosenthal McGlynn manages $6.7B in equity assets spread across all sectors, with $3.6B of those assets allocated to mid-cap securities. CRM's investment philosophy seeks to identify stocks that will "look different tomorrow when compared to today." It favors companies that are going through fundamental changes, and conducts due diligence through meetings with management and sell-side analysis. During the third quarter of 2015, CRM added $63.2M of net investment to the downtrodden Electric Utilities sector. It continued to be bullish towards the sector in the fourth quarter, when it added $60.7M to its investment in Black Hills Corporation for a total holding of $72.4M. The company's shares were down -23% year-to-date by the start of the quarter.

The *Janus Contrarian Fund* managed by **Janus Capital Management's** Daniel Kozlowski has $3.2B in equity assets under management and focuses its investment strategy around picking non-consensus stocks that have gone through recent price devaluations. The portfolio is overweight Consumer Services, with 27.6% of its portfolio allocated to the sector. The all-cap portfolio favors cyclical names, holding stocks in the Airline and Retail sectors while shying away from emerging-market stocks. During the fourth quarter of 2015, the fund increased exposure to the Energy sector with a $72M initiation into Enterprise Products Partners; at the time EPP shares had lost about a third of their 2014 market value.

The *Meridian Contrarian Fund* at **Arrowpoint Asset Management** screens for companies that have reported consecutive quarters below consensus, and in turn have had their stock prices punished. The fund looks for attractive valuations in that realm of stocks, and invests in those they believe to be poised for an eventual turnaround. Compared to the Janus Contrarian Fund, the Meridian fund has a smaller amount of assets ($545M) and a majority of its portfolio is invested in mid and small cap companies. With a 29.4% allocation, the fund is overweight Technology, and during the third quarter of 2015 it initiated an $11.7M position in Qualcomm while the stock was down about -29% for the year

Given that the IR community generally understands that not all hedge funds are created equal, the above suggests a few concrete methods that are useful in the identification of hedge funds that are worth you and your management team's time. The usage of proper indicators serves to empower IR when taking a differentiated approach to understanding hedge funds, their strategies, and the benefit they can serve in certain circumstances. In a down market, a history of meetings with the right hedge funds and contrarian investors can facilitate a bid when other investors are on the sidelines.

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Norges Bank Investment Management

A primer on one of the largest investors on earth

You would think that managing assets approaching $1 trillion and owning, on average, 1.3% of every publicly listed company on earth would make one the talk of Wall Street. Yet, it is not uncommon to meet denizens of Wall Street, incredulous that an investor as big and influential, is an unknown to them. Of course, if you inhabit the investor relations world, you know Norges Bank Investment Management ("NBIM"), Norway's sovereign wealth fund. But, despite NBIM's relative transparency on several fronts, to many IR professionals, the workings of the behemoth can be a mystery. So, we thought we'd do something about that and answer some commonly asked questions.

HOW ACTIVE IS EQUITY MANAGEMENT AT NBIM? WHAT EQUITY MANAGEMENT STRATEGIES ARE EMPLOYED?

With 9,000+ stocks in its portfolio, NBIM must be mostly passive managers, right? This turns out to have a kernel of truth, but is mostly not the case.

NBIM's equity investment strategy at both the regional and sector levels are driven by market capitalization considerations. However, active management targets bigger stakes in selected sectors, regions, and individual stocks that are expected to outperform over time.

NBIM employs several broad investment strategies. A major top-down strategy is to allocate capital across markets and risk factors in order to capture broad gains. A bottom-up strategy is to conduct comprehensive and thorough analysis of company fundamentals to identify individual investment opportunities. The latter approach to investing is carried out by two separate teams:

- Sector Strategies seeks to identify investment opportunities in select companies in targeted industries. Portfolio managers are given mandates to invest in listed companies in a specific industry or market. Each manager analyzes stocks to find investments with the potential for good returns over time.

- Capital Strategies seeks to take bigger stakes in large companies with the potential for good long-term returns. Using this strategy, the fund may seek to take positions in special situations such as new share sales, changes to capital structures and in companies planning to be listed on exchanges. These investments will typically be held for several years.

SO HOW DO INTERACTIONS WITH MANAGEMENT AND IR COME INTO PLAY?

NBIM likes to interact with issuers at least once a year, but ideally 2-4 times a year. NBIM focuses on its larger holdings and the top thousand, approximately, tend to be more actively looked at.

In reality, the optimal number of meetings varies depending on individual circumstances. Company-specific factors such as management upheaval may warrant more meetings than peers. Being a part of the aforementioned select group targeted for higher stakes will garner additional attention as well.

Given the onerous task of fulfilling the target of even one meeting a year with 9,000 issuers, teleconferences, video conferences, and other virtual communication methods often supplement physical meetings.

WHAT ARE SOME IR PRACTICES NBIM LIKES?

NBIM prefers access to management at all times but understands the role IR plays, including screening investors so as to not waste management's time. But, NBIM also believes that IR's role is to be up on the financials and provide a "smart consensus." Beyond that, IR must give access to the management team and not screen or talk on behalf of them. NBIM wants to hear the message directly from the people who are driving the strategy.

SO HOW MUCH DOES IR AND COMMUNICATION REALLY MOVE THE SHAREHOLDING NEEDLE?

NBIM's ownership approach is bookended by two factors. On one end, the widespread ownership is the result of top-down regional and sector allocations. On the other, NBIM is not allowed to own more than 10% of an issuer's stock. Between these two, varying circumstances, including communication, can move the needle, sometimes by a lot. It is important to remember that given the size of many individual investments by NBIM, even a small percentage change can amount to several million dollars.

Broadly speaking, the largest thousand investments or so generally receive more qualitative attention. So, one can say that these issuers will be able to move the needle more with IR than the smaller holdings who, due to their size and the size of NBIM's investment, will garner less attention. However, specific circumstances, such as some major shake-up at the company, can alter this.

WHAT ESG FACTORS ARE IMPORTANT IN NBIM'S DECISION-MAKING?

NBIM is arguably the most transparent sovereign wealth fund in the world when it comes to describing how ESG plays a role in its decision-making process. The most influential environmental factors include climate change and water management. Children's rights are a focus on the social side, while important governance factors include minority shareholder rights and board accountability.

NBIM's role as a minority shareholder in a very large number of companies means that minority shareholder rights are a common issue. NBIM intends to vote at all general meetings and engage directly with the Board and management of companies.

NBIM does not invest in companies that have anything to do with tobacco or weapons. There are certain restrictions around human rights as well. The use of fossil fuels has been a recent focus, and in June NBIM announced that it will sell off most of its investments in the coal sector.

Just because a company makes some money from something that NBIM does not like, does not mean that they will divest. NBIM takes a more holistic view and requires more transparent communications with the issuers in these cases.

WHAT IS THE BEST WAY FOR AN ISSUER TO FIND THE RIGHT PM/PMS?

NBIM does not have an analyst pool like Fidelity, with sector analysts/PMs and generalist PMs. All PMs at NBIM are specialists within their sector. In terms of location, a PM can sit anywhere globally. So, it is not necessarily the case that all of a US issuer's relevant PMs are located in the US.

NBIM prefers direct outreach by issuers over broker outreach. Any issuer that wants to start a conversation is encouraged to write or call corporate access P: +44 207 534 9562, email: corporateaccess@nbim.no

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Environmental / Social Shareholder Proposals

A Changing Landscape

Shareholders have long used their voice at the AGM ballot box to further interests that extend well beyond the company's revenue and earnings targets. Corporate gadflies have certainly brought contentious tirades to countless shareholder meetings, championing all sorts of causes over the decades (one Evelyn Y. Davis comes to mind...). However, while their methods are different today, shareholders still have the ability to draw the company's attention toward environmental, social, or political causes that are relevant to the company's business, and in some cases garner nontrivial percentages of shareholder support.

We can broadly classify non-"contested situation" shareholder proposals into three categories around the classic "ESG" (Environmental, Social, and Governance) format – environmental / social proposals that seek to adjust the company's approach to issues that concern the general public, and governance proposals attempting to change the structure of the company in a more shareholder-friendly way, are common. It should go without saying that proxy access, in the governance category, has become the most celebrated of these from the investment community given its direct focus on shareholder rights; Ipreo previously focused on proxy access in the December 2015 issue of BetterIR.

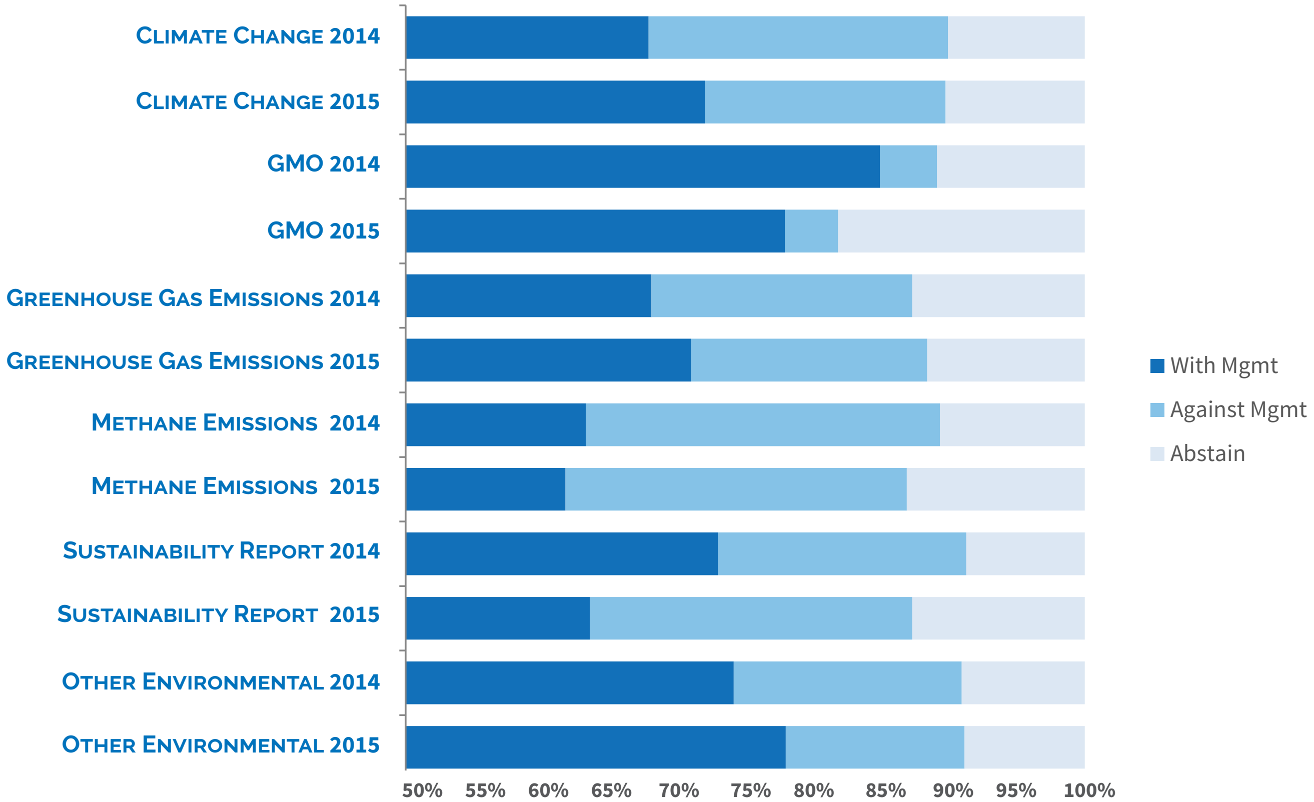
Ipreo tends to split the "social" category of ESG into a) political proposals, generally seeking to affect the way the company makes campaign donations or conducts lobbying activities, and b) social proposals, on such issues as human rights and equal opportunity. Moreover, as with the increasing polarization of the political process over the last decade and the impact of the Citizens United decision, we've seen greater interest in the political side of governance in the last few years.

Upon receipt of any shareholder proposal, environmental/social or any other, the issuer must have an understanding of how the investor base will view the proposal in aggregate, as well as how specific investors will view the proposal in the context of their investment. Publicly-posted guidelines can offer some insight, but are often weak generalizations (i.e. "we look at these issues on a case-by-case basis"). Further, major proxy advisory firms ISS and Glass Lewis will rarely make blanket recommendations on these proposal types in one way or another, as their clients will look to them to research whether the proposal is shareholder-friendly. The only way to understand an investor's penchant for voting is to look directly at its voting record, which is publicly available for most major mutual fund groups. In not so many words, watching what shareholders do is far more important than watching what they say. Furthermore, it is possible to detect the evolution of investors' viewpoints on major issues over time, to help project how shareholder votes are likely to sway in the future. In this case, Ipreo takes a look at the environmental, social, and political sub-groups of these proposals to help issuers gain some context.

ENVIRONMENTAL PROPOSALS

Over the past two years, while some proposals on topics such as animal welfare received little support from the investment community, shareholders did express significant interest in proposals on climate change disclosures, as well as a series of specific proposals on adopting greenhouse gas emission goals. Figure 1 (next page) shows the average voting percentages for each type of proposal from 2014 and 2015. Note that average shareholder support for management fell significantly year-over-year on only two proposal types – GMO-related proposals, and the more common calls for sustainability reporting from management (a total of 26 US companies saw votes on these proposals in 2015).

Figure 1 – 2014-15 Environmental Shareholder Proposals – Mean Average Voting Percentages



Source: Ipreo BD Corporate Governance

Form N-PX filings (filed by August of a calendar year for all votes entered in the prior July-to-June period) give us a closer view of what investors' actions were around many of these proposals.

Environmental policy voting is an area where investors' published guidelines can differ widely from their actual practice. A "case-by-case" voting guideline is more likely here to produce a value decidedly tilted towards either management or the shareholder. For example, Blackrock's policy for 2015 states that "sometimes we may reflect such concerns by voting for a shareholder proposal on the issue," while its voting record shows it as nearly always supporting management's position over the last two years (Figure 2).

Figure 2 – Selected Major Investors Most Supportive of Management on Environmental Shareholder Proposals

	2015 Voting				2014 Voting			
	# Proposals	% With Mgmt	Against Mgmt	% Abstain	# Proposals	% With Mgmt	Against Mgmt	% Abstain
Waddell & Reed Investment Management	27	100.0%	0.0%	0.0%	22	96.2%	3.8%	0.0%
Jennison Associates	40	99.6%	0.3%	0.1%	32	99.5%	0.0%	0.5%
Putnam Investment Management	52	99.6%	0.0%	0.4%	42	98.1%	1.9%	0.0%
Blackrock Fund Advisors	67	99.4%	0.6%	0.0%	58	100.0%	0.0%	0.0%
Mellon Capital Management	68	97.8%	2.2%	0.0%	56	96.3%	3.7%	0.0%

FIGURE 3 – SELECTED INVESTORS MOST SUPPORTIVE OF SHAREHOLDERS ON ENVIRONMENTAL SHAREHOLDER PROPOSALS

	2015 Voting				2014 Voting			
	# Proposals	% With Mgmt	% Against Mgmt	% Abstain	# Proposals	% With Mgmt	% Against Mgmt	% Abstain
Manulife Asset Management US	59	27.8%	72.2%	0.0%	24	29.0%	71.0%	0.0%
Lazard Asset Management, LLC	30	28.1%	71.9%	0.0%	16	57.9%	42.1%	0.0%
Wells Capital Management	48	32.9%	66.6%	0.5%	45	38.9%	60.5%	0.6%
Principal Global Investors	62	34.3%	65.3%	0.3%	54	38.6%	61.4%	0.0%
TD Asset Management	19	35.7%	64.3%	0.0%	15	26.3%	73.7%	0.0%

One of the most common proposals furthered by ESG-focused investors Walden Asset Management and Calvert Investments focused on requiring companies to produce an annual sustainability report. It's worth diving a bit deeper to look at investor interest here, as this proposal has tended to produce the greatest support from investors that normally would oppose shareholder proposals. T. Rowe Price and Capital Group's American Funds were strong supporters of management's views on the aggregate of shareholder environmental proposals in 2015 – but this support waned when reviewing calls for sustainability reports. T. Rowe Price supported calls for sustainability reporting at companies like Apple, Facebook, and Lowe's, with a majority of its overall votes opposing management on the topic, while American Funds supported proposals of this nature at PepsiCo and Gilead Sciences with large blocks of votes. Even Fidelity, well known for abstaining on a majority of votes in the environmental space, supported a sustainability reporting resolution on Starbucks' 2015 ballot.

Of course, investors are certainly free to change their policies, either based on the aggregated demands of the client base or the changing views of their proxy voting committees. In one prominent example, noted passive/quant investor LSV Asset Management, while subscribing to research from Glass Lewis, voted with the proponent for environmental shareholder proposals 59% of the time in 2014 (out of 39 proposals), but reversed course in 2015 and only supported similar shareholder proposals only 16% of the time on 45 proposals, despite little change in Glass Lewis' stated policy. Issuers engaged with the voting committees at managers such as LSV are likely to be able to identify these concerns from managers in advance and be able to tell their side of the story more effectively than just the opposition statement in the proxy.

SOCIAL PROPOSALS

In contrast to environmental proposals, social-focused proposals have gained less ground in the last several years, both in terms of making it onto proxy statements as well as receiving shareholder support. Ipreo tracked just 36 social-focused proposals receiving votes in 2015, with investors opposing the proposal with an average of 80.6% of votes in 2015. Figure 4 notes some investors such as Principal Global Investors moderating their support for these proposals recently, despite an overall tilt towards pressuring management.

FIGURE 4 – SELECTED INVESTORS MOST SUPPORTIVE OF SHAREHOLDERS ON SOCIAL SHAREHOLDER PROPOSALS

	2015 Voting				2014 Voting			
	# Proposals	% With Mgmt	% Against Mgmt	% Abstain	# Proposals	% With Mgmt	% Against Mgmt	% Abstain
Principal Global Investors	30	60.3%	39.7%	0.0%	29	48.7%	51.3%	0.0%
AllianceBernstein	33	63.8%	36.0%	0.2%	29	54.5%	36.9%	8.6%
Wells Capital Management	27	64.1%	34.5%	1.4%	25	49.8%	49.8%	0.4%
Lazard Asset Management, LLC	14	67.4%	32.6%	0.0%	9	60.0%	40.0%	0.0%
William Blair & Company LLC	19	63.9%	32.3%	3.8%	15	79.4%	20.6%	0.0%

However, this overall view may mask some additional interest specific investors may have in human rights-focused proposals – and we're offered a compelling example of a "like for like" shareholder vote as a case study to observe shareholder behavior. In 2014, a shareholder proposal to require Kroger Company to report on human rights impact in its supply chain received just a bare majority (50.6%) of opposition, with 32% of investors supporting the shareholder. 2015 saw a similar proposal reach shareholders, this time with 62% voting with management and a lower percentage of abstentions. While the vast majority of investors kept their votes the same, investors changing their votes to oppose management included Allianz Global Investors and its sister company NFJ Investments.

Names such as Analytic Investors and Goldman Sachs Asset Management moved their votes to supporting management's view, while the largest swing votes included State Street Global Advisors (SSGA) and TIAA-CREF, moving from an abstention in 2014 to supporting management in 2015 with over 15 million shares as of 2015's record date collectively.

POLITICAL PROPOSALS

Whatever your personal view on the intricacies of campaign finance law, all Americans can see the effects of the increase in political campaign spending in the 2016 election season, and the 2014 / 2015 proxy seasons featured a push for transparency from corporates in direct campaign contributions. Resolutions on disclosing political spending received at least 33% direct support in 2015 at eight companies, with overall political-focused proposals receiving an average of 24% support in 2015 (up from 21% in 2014). While none of these is quite at majority levels yet, investors appear to be rethinking their policies; Figure 5 highlights investors that sided more consistently with the proponents in 2015 versus the year prior. Note that two major investors (Morgan Stanley Investment Management and Robeco Investment Management) showed large swings in the opposite direction, opposing a majority of political proposals in 2015 after supporting a majority in 2014.

Figure 5 – Selected Investors Showing Increases in Support of Shareholders on Political Proposals

	2015 Voting				2014 Voting				
	# Proposals	% With Mgmt	% Against Mgmt	% Abstain	# Proposals	% With Mgmt	% Against Mgmt	% Abstain	Change in Support
Fisher Investments	13	21.4%	78.6%	0.0%	13	46.7%	53.3%	0.0%	25.2%
Parametric Portfolio Associates	41	41.0%	59.0%	0.0%	19	33.0%	44.3%	0.0%	14.7%
Manulife Asset Management US	57	12.1%	87.9%	0.0%	47	24.5%	75.5%	0.0%	12.4%
ClearBridge Investments	40	73.1%	26.9%	0.0%	47	82.8%	15.4%	1.9%	11.5%
Neuberger Berman Investment Advisers	41	58.5%	39.4%	2.1%	42	70.4%	29.6%	0.0%	9.8%

Note that the influence of proxy advisory firms is not to be ignored in the discussion either. Neuberger Berman, for example, is known to subscribe to Glass Lewis and follow its recommendations fairly closely for most of its standard investment vehicles (though it does have a set of socially-responsible portfolios that follow different policies). Year-over-year, Neuberger only changed its vote on politically-related proposals on one company, Citigroup, moving to supporting the shareholder / opposing management. It did have a heavier tilt away from management in the broader range of proposals it voted on in 2015, including opposing management with significant positions at Devon Energy, Nisource, and Western Union.

2016 OUTLOOK

While investors may be more fluid in their voting policies, companies' shareholder bases are far from static as well. If there's one trend that has persisted over the years since the 2008 financial crisis, it's been the expansion of passive investment at the expense of active investment. Of course, passive investment is a more scalable business and is far more concentrated – Vanguard, Blackrock, State Street Global, and Invesco (Powershares) make up north of 80% of the overall ETF universe, and as they accumulate new assets become even more influential from a voting perspective, with larger voting blocks that are more likely to represent deciding votes. These investors have typically sought to stay out of the fray when it comes to shareholder pressure on environmental / social issues - Vanguard abstained on about 44% of E&S votes in 2015, and Blackrock supported management almost 99% of total votes, while even the more critical State Street Global Advisors supported over 83% of votes.

But what if these investment managers themselves began to face more pressure from their asset owners? As the ETF structure has exploded, the beneficial owners of ETFs are now not just the day traders and institutional class holders of days past, but now are a broad section of individual investors as well as institutions. In February, the U.S. Public Interest Research Group began a campaign to petition Vanguard to change its voting guidelines specifically to support shareholder proposals requiring political spending disclosure (at www.uspirg.org). It's certainly possible that the clients of the investment managers, either institutional or even members of the general public as above, will be the source of the greatest change in voting tendencies in 2016 and beyond.

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Firm Snapshot

Target Firm:

Grantham Mayo Van Otterloo & Co., LLC

Targeting Profile:

Jeremy Grantham, alongside Richard Mayo and Eyk Van Otterloo, founded the firm in 1977 with the belief of 'reversion to the mean'. Since then, Grantham Mayo Van Otterloo ($56.8B EAUM) has implemented several recognized equity strategies. Grantham is known for his 'rejection of the herd' mindset, which he believes to create an advantage when looking for unreasonably undervalued securities. This thought process is incorporated throughout GMO's value-oriented strategy. Inside of the U.S. Equity Allocation section on GMO's website, the firm reports having an average beta of .82 over the past five years, which highlights its U.S. portfolio's value-orientation and resistance to move with the market.

The firm is also widely known for its quantitative investment methods in developed equity markets. 41% of this firm's portfolio is allocated to United States equities, but the majority of its small and mid-cap investments are passively managed. As of recent filings, the firm's portfolio holdings are primarily within Technology (21%), Consumer Goods (17%), and Consumer Services (15%). At the micro-industry level, GMO has been moving away from Oil and Gas (-$972M) and Vehicle Manufacturers (-$580M), while heavily buying into Pharmaceuticals (+$1.1B) and Cable Television Systems (+803M) over the period since 6/30. Over the past year, Ipreo has seen conference participation and desire to interact with issuers. This trend is an important departure from their primarily quantitative strategy and in important consideration for IRO's of large-cap value companies.

How to Approach:

The firm is headquartered in Boston, MA, but GMO also has a small number of contacts located in Berkeley, CA. Based on recent data, the majority of actively meeting analysts and portfolio managers have listed coverage in the Energy, Industrials, and Consumer Services Sectors. GMO prefers to initiate outside contact, and the firm uses a top-down methodology to select investments. In other words, GMO analyzes financial markets at a macro-level, and then digs down to find investments that it believes are not trading at appropriate valuations. Given the firm's typically passive posture, contact could imply that GMO has already completed its research and is seriously considering an investment move. Based on recent net-buying activity across major sectors, Consumer Services (+$428M), Healthcare (+$990M), and Financials ($+1.8B) are where the firm has conducted the largest net-increase in total investment.

How Not to Approach:

Companies with a market cap under $10B will likely struggle to get attention. Though 20% of the portfolio is allocated towards mid- and small-cap holdings, this part of the portfolio will largely be passively managed. GMO occasionally takes meetings, and often times will initiate contact. Typically these meetings are with large or mega-cap equities, and with an agenda that usually is focused around the company trading below normal valuations.
Over the past year, nearly all of the firm's meetings have been scheduled with contacts working out of the Boston office.

- **Forward P/E: 15.8x**
- **5 Yr Proj. Growth Rate: 11.0%**
- **EV/EBITDA: 11.1x**
- **P/Book: 3.7x**

Fund Snapshot

Target Fund:

Columbia Contrarian Core Fund

Portfolio Manager: Guy Pope

Targeting Profile:

The Columbia Contrarian Core Fund is managed by Guy Pope at the Portland, Oregon office of Columbia Management Investment Advisers. Pope is a Senior Portfolio Manager and the Head of Contrarian Strategy at Columbia; he has been managing this fund since 2005. Though Pope has a hand in managing thirteen other funds for Columbia, he is the sole portfolio manager for Contrarian Core and actively meets with management. The Contrarian Core Fund benchmarks itself against the Russell 1000 Index, and aims to provide "historically consistent results, regardless of the market environment."

With $6.4B in equity assets under management, the funds' equity investment pool is second at Columbia only to the Columbia Dividend Income Fund, with its $7.6B in EAUM. Contrarian Core currently invests its assets entirely in securities traded in the United States, 92% of which are Large or Mega-Caps. For the most part sector allocation is similar to the S&P500 index. However, the fund is currently overweight Healthcare (19.4% against the S&P's 15.2%) and underweight Industrials (6.2% against the S&P's 9.3%). During the third quarter of last year the fund increased its Healthcare holdings by $82.5M, for a total holding of $1.3B in the space. This rotation was driven by a $32M initiation into Perrigo Company plc and a $12M increase to its investment in Pfizer, Inc.

How to Approach:

The fund's investment strategy is based around identifying companies to which the market directs an "inordinate amount of pessimism." The strategy revolves around screening for securities trading in the bottom third of their 52 week price ranges, and then investing in those it believes to be well positioned for a return to form. Contrarian Core will hold onto its positions for roughly two years on average, taking profits from positions as they rebound to fair value. Key to Contrarian Core's strategy is a heavy focus on household names, which is made apparent by its current holdings. The fund's top five positions are Apple ($213M), Verizon ($202M), Berkshire Hathaway ($189M), Microsoft ($186M), and Citigroup ($182M). For an issuer facing a consensus of pessimism despite a strong long-term vision, the Columbia Contrarian Core Fund could be a solid match.

How Not to Approach:

Conversely, the strong focus on brand names has caused the fund to currently neglect industries such as Aerospace & Defense, Homebuilding, Materials & Construction, and Metals & Mining. Despite falling multiples in these stressed industries, none of the fund's capital is currently allocated to any of them. Given that the Contrarian Core fund is focused on identifying and investing in stocks that are currently out of favor in the market, odds are highly against it taking a position in a security with surging multiples. Though the fund's prospectus states that it may invest up to 20% of its net assets in foreign securities, it's currently not invested in any securities that trade outside of the NYSE or NASDAQ. It holds no positions in Small-Cap securities due to liquidity concerns, and allocates only 4.8% of its portfolio to Mid-Caps (which is largely comprised of strong brands such as Coach, Inc. and PVH Corporation).

- **Forward P/E: 17.3**
- **PEG: 1.7**
- **5 yr. Proj. Growth: 11.0%**
- **ROE: 18.1%**

Metro Area Targeting Focus

Toronto, Ontario

MONEY CENTER STATISTICS

Reported Equity Assets ($B)	$599.8
Number of Institutions:	151
Top Sector Weighting:	Financials
Financials Weighting:	30.6%
Top Country Weighting:	Canada
Canada Weighting:	41.4%
United States Weighting	36.9%
Total Net Buying ($B):	$47.4
Total Net Selling ($B):	-$46.6
Total Net Activity ($B):	$1.8

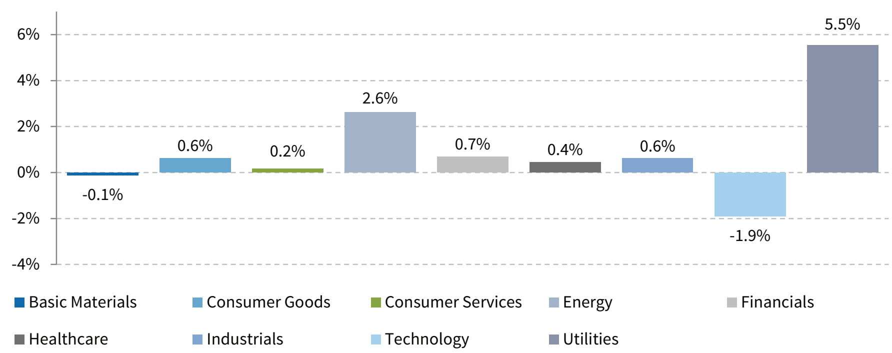
Ownership changes as of most recent public filings since 6/30/2015

SUMMARY NOTES

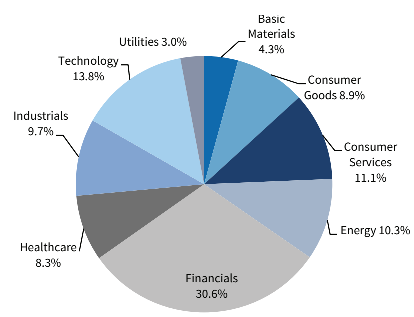
When looking at the institutional investor base of Canada, Toronto should be at the top of an IR department's list in terms of outreach opportunities. The city has $600B in actively managed equity assets, spread across 151 firms. TD Asset Management ($87B EAUM, 15% of total) and RBC Global Asset Management ($76B EAUM, 13% of total) lead the way; however, with an additional 15 firms managing at least $10B in equity assets, Toronto provides many firms worthy of outreach.

Active investors in Toronto allocate 31% of the metro's equity assets ($177B) to Financials issuers and it is important to note that its two largest institutions, TD Asset Management and RBC Global Asset Management, invest 33% and 39% of their equity assets to the sector, respectively. Value-oriented Manulife Asset Management was the top net buyer of Financials (+$1.3B) in large part due to adding $354M to its position in Royal Bank of Canada. The area also invests heavily in both the Technology and Consumer Services spaces (14% and 11%, respectively). Growth-oriented Fidelity Asset Management Canada was the top buyer in the Technology space (+$357M), adding $102M to its holding in BCE Inc., while Consumer Services buying was led by RBC Global Asset Management (+$419M). While some Toronto institutions dedicate a strong majority of their equity assets to Canadian companies, growth-oriented TD Asset Management dedicates 29% of its portfolio to U.S. securities, 18% to Europe, and 9% to Asia, making them appealing to issuers around the globe. While Canadian portfolio average dividend yields (2.9%) are currently above the U.S. broader market, this is impacted by depressed valuations across the Basic Materials and Energy sectors. Income remains a key area of focus for Canadian investors and an opportunity for global companies with strong yields. Additionally, Toronto portfolio holdings tend to favor lower growth projections and lower valuations. Given Toronto's relatively even distribution of assets across sectors, and volume of high quality investors, the area is worth a visit for a majority of IR teams

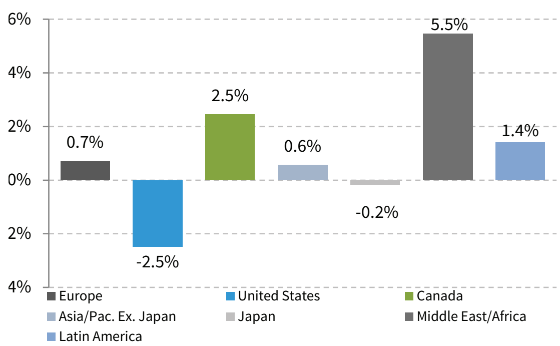
MOST RECENT SECTOR NET ACTIVITY (%)



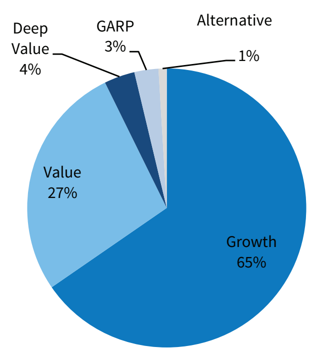
SECTOR ALLOCATION



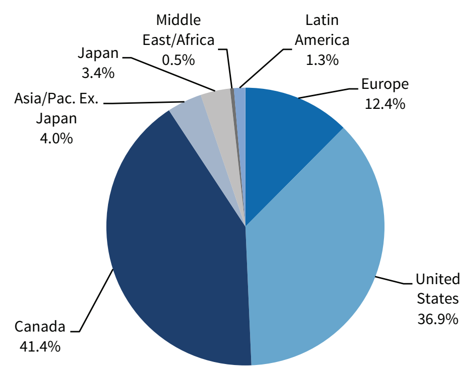
MOST RECENT REGIONAL NET ACTIVITY (%)



INVESTMENT STYLE



GEOGRAPHICAL ALLOCATION



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Ipreo is a leading global provider of financial services technology, data and analytics. We support all participants in the capital-raising process including banks, public and private companies, institutional and individual investors, as well as research, asset management and wealth management firms. Our extensive suite of investor relations services provides our corporate clients with unparalleled cross-asset class surveillance, investor targeting, buy-side perception studies, transaction analysis and predictive analytics. Additionally, Ipreo's BD Corporate IR workflow platform offers the most accurate and comprehensive database covering global institutional contacts, profiles, and ownership data. Our critical insights and flexible solutions help our clients run more effective investor relations programs. Ipreo is private-equity held by Blackstone and Goldman Sachs Merchant Banking Division, and has more than 900 employees supporting clients in every major financial hub around the world.

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