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Navigating the Shift of Corporate Engagement in a Post MiFID II World

The face of MiFID II as initially implemented has changed. Investors and brokers who modified their processes, technology and budgets, are now shifting their focus to Corporate Access. Asset Managers needed to determine a better way to control the costs of corporate access while also making sure that investors have the information and access necessary to validate their investment theses. Brokers, more than ever, need to continue to produce value added events, whilst at the same time Corporates need to adjust to the resource pressure the brokers are under. MiFID II is presenting a big shift for all three. This shift requires better outreach, tracking and management of investor targeting and planning.

The most immediate effect we're seeing is threefold, the introduction of internal corporate access teams on the buyside, a decrease in research coverage on the sellside and the introduction of larger Investor Relations teams for Corporates.

Asset Managers dive into the uncharted waters of centralization and origination

Asset Managers are finding that with decreased research coverage from the sellside, as well as companies looking to move to a more direct marketing model, they require a better way to communicate, track and manage Investment Professional's (IPs) interest. These managers are finding that in order to maximize corporate management's time as well as ensuring that all interested IPs are aware of the meetings taking place, centralization is essential. In-house corporate access teams will manage this coordination and therefore provide greater coverage for the c-suite and better outcomes for their marketing efforts.

Moving forward the role of technology will be a major component for asset managers. First in the coordination of regions, allowing for greater participation across a firm through the broad dissemination of information and the use of video conferencing. Second, as a means to manage corporates contacting them directly. It was first believed that the shift of corporate access for cost control would be moderate. That building internal corporate access teams would be implemented by only the largest managers with the necessary resources and established corporate relationships to be impactful.

But with the new regulations now affecting a firm's ability to compete for assets under management, the shift to P&L has become necessary, and the desire to internally source meetings more prevalent. Many smaller funds are finding that the complications of determining and justifying the cost of corporate access as well as the decrease in research coverage, supplementing broker activity with in-house teams is essential. With this in mind, we're finding that the implementation of Corporate Access Tools and technology has been broadly adopted by our clients across the AUM spectrum.

In-house teams aren't looking to cut out the brokers. IPs rely on their insight, coverage and importantly their events. These events create tremendous value for the buyside, from large scale conferences where investors are able to meet 15-20 corporates in a day to multi-day investor tours with guest speakers and the ability to learn from their peers. These events will become more valuable over time. Therefore, maintaining broker relationships, while internally sourcing access, requires a team to manage bespoke requests from IPs while also maximizing attendance of broker directed activity. Brokers will find that by having a central point of contact, invites are responded to in a more timely manner and additional participants, who did not previously indicate interest, will now be included in meetings.

Brokers are now able to shift their focus from data management to higher level engagement opportunities.

Brokers have spent the better part of the last year trying to manage data. Trying to determine investor usage and how to price that activity. As MiFID II begins to normalize that process and platform pricing has been negotiated and finalized, the focus will return to client investment priorities. Sales people will have the ability to engage their client's centralized corporate access teams to better service their needs. From experience with our clients, from small hedge funds to global asset managers, the goal remains, 'how can we best communicate with the street and make sure that we are utilizing their efforts in the most efficient manner while paying fairly for what is consumed'. They've implemented the necessary tools to manage MiFID II requirements, now they need to move forward and perform. The enhanced technology, in addition to tracking resources and providing budget data, will now also allow brokers to better manage their interactions with clients more efficiently and provide them with the necessary information to manage their requests. Brokers are now better able to market their analysts and corporate access activity to where it will be most beneficial. Brokers, originally concerned that the marketing flow, originating from their efforts, would be taken over by the buyside teams, are finding that in-house origination is focusing on corporates not currently on marketing calendars. Asset Managers are coordinating trips to visit companies, versus taking away time slots from widely marketed broker hosted events. The focus is on private companies or those that no longer have any, or limited coverage, from the sellside. Buyside Corporate Access teams will need to focus on developing relationships with under-covered and infrequently marketed companies. The drop in research coverage is most significantly felt among the small to midcap names who will now have to rely more heavily on their own efforts for marketing and outreach to investors and prospective shareholders. A recent UK IR Society survey shows that 92% of respondents reported that access to corporate management teams is essential to their investment process. Without brokers providing and facilitating these meetings, asset managers are now required to do this outreach on their own.

The Unintended Consequence of MiFID II

MiFID II isn't just changing the way the buyside and brokers approach corporate engagement. Corporate Management teams are also looking for more efficient solutions. Facing an environment of declining research coverage as well as recent FCA guidance encouraging direct contact, Investor Relations Officers (IROs) need to more heavily rely on their own outreach. Without the appropriate technology solutions, this could prove to be very costly for these companies. It's expected that companies will now host a greater percentage of their investor outreach themselves. With such a significant shift in corporate behavior taking place, investors are finding themselves more reliant on reaching out to IROs directly. IROs have been so reliant on brokers for the management of all roadshow details that companies are finding themselves in unchartered territory of having to coordinate more travel and logistics while also conducting the required investor targeting. Our recent survey shows that corporates are moving away from solely relying on broker sponsored marketing and towards other solutions. Buyside Corporate Access teams will help serve as the go-between, making sure an access opportunity is not missed.

As these trends accelerate, the centralization efforts of the buyside will be more beneficial to the corporates. Instead of meeting with IPs who have made their interests clear to their brokers, the IROs will have the ability to meet with a greater number of IPs across a firm where investor interest is a bit more opaque. Investors will be able to notify Corporates of their interests without fear or forecasting their positions or target names to external coordinators. Centralization will now provide a Corporate with the ability to reach out to an in-house team therefore removing the guesswork of which investors might have interest. In the current model, some asset managers rely on an analyst to serve as gatekeeper to the firm within a specific sector. An IRO may have a relationship with that analyst but not anyone else at the firm. In this scenario IROs must trust that marketing notifications are disseminated across the firm to any potentially interested parties not just the known analyst. By removing the reliance of one decision maker to accept or reject a Corporate’s offer of access, and by using a centralized team, firms are now enabling greater access to generalists and less effort required by IROs to spread the word.

We believe that 2018 will provide a shift to technology that has not been embraced in the past. This technology will provide greater efficiency, better tracking for MiFID II interactions and payments as well as better communication within the investment ecosystem. Investors will have the ability to maintain target lists and receive alerts from both brokers and corporates when marketing activity matches.