

2019: Market predictions for the changing investment landscape

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Nasdaq
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THIS WEBINAR WILL DISCUSS:

- Year in review: 2018 – markets, MiFID II, economic uncertainty
 - Understanding the changing investment landscape and its impact on IROs and Corporate Secretaries in the Middle East
 - Latest trends on ESG and shareholder activism
 - Best practice for IROs and Corporate Secretaries
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SPEAKERS



Sofia El Boury
Head of Investor Relations
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John Dawson
Partner
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Patrick Hughes
Director
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Robert L Ford
Executive Director
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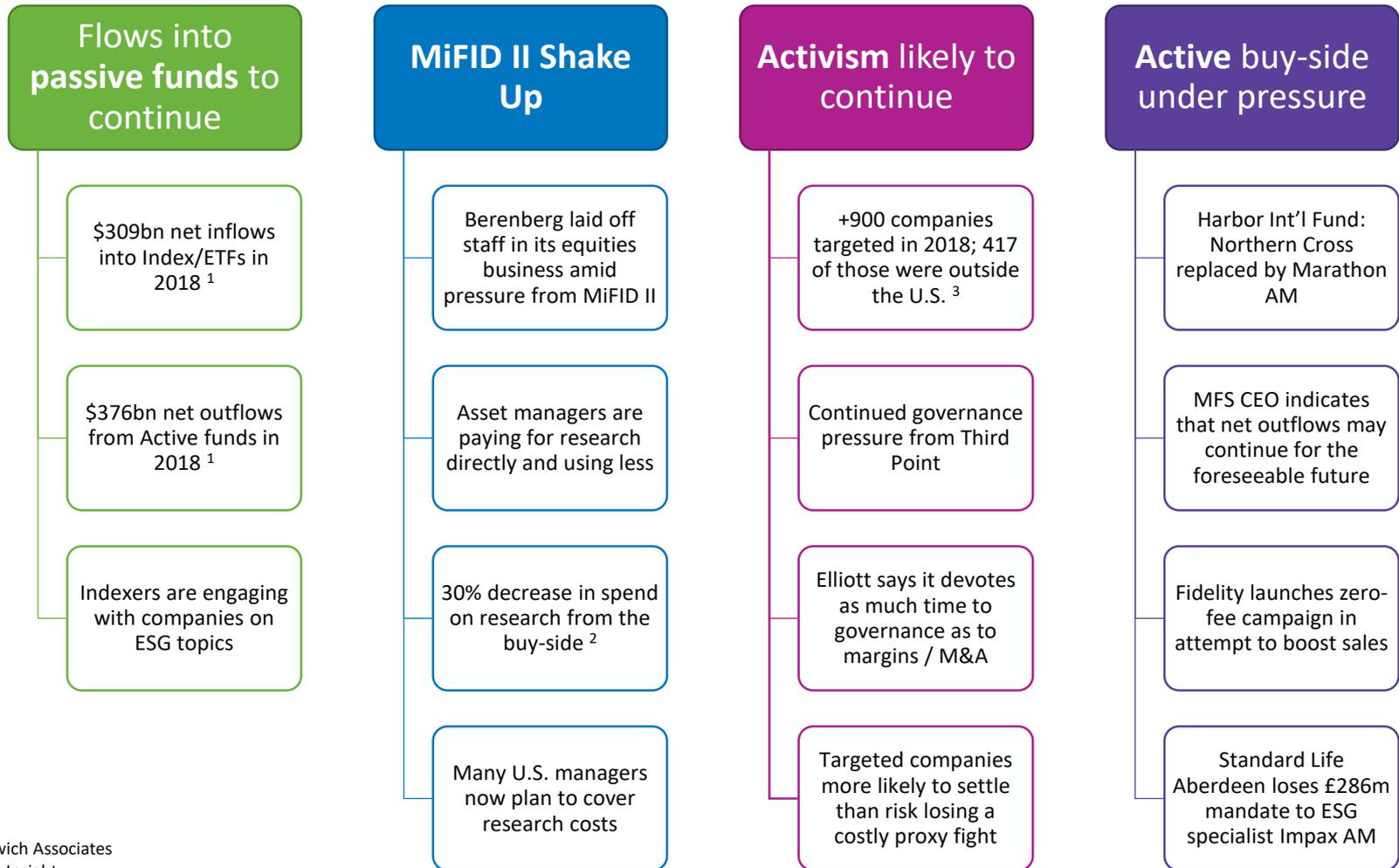


John Gollifer
General Manager
MEIRA

Moderator:

Market overview: funds flow, market structure and regulatory change

Last Year's Predictions – What Happened?



¹ Source: Lipper

² Source: Greenwich Associates

³ Source: Activist Insight

The Investment Landscape Has Changed For Good

These Market Changes & Reforms Are Significantly Affecting Companies

Regulation

- Unbundled research & trading
- Decrease in sell-side coverage
- SMID caps left to fend for themselves



Growth of Passive

- Issuers don't typically engage with these large holders
- Company strategic decisions can affect billions of index dollars
- Represent a new wave of ESG activists



BLACKROCK



Emergence of Generalist Investors

- Modern economy has broken down traditional sectors
- Passive inflows/Active outflows causing PMs to cover more sectors
- Think in themes vs. sectors requiring a different type of people level-story



Continued Growth of Activism

- Must stay up to date on news flow & sector activity
- Forces companies to scrutinize expenses & use time wisely
- Activists are now promoting equality and social benefit



Investor Relations: a view from the Middle East

Investor Relations in the international context: key trends

Items to watch for in 2019/20

In no particular order...

- Expectation management
- Investor Frustration
- Governance inaction
- Share register weakness

Expectation management

More sensitive than ever in volatile situations

- Increasing lack of tolerance to poor expectation management
- Heightened anxiety reflects uncertain economics at this time
- Build buffers proactively, even if you don't take full advantage of momentum

Investor Frustration

... and not necessarily the company's fault

- Companies will not be able to rely on good broking, informed research to keep investors informed
- Proactive, thoughtful outreach required from companies to existing and potential investors

Governance inaction

It's the perceptions that matter

- Increased focus on Board's managing management; hindsight is unforgiving
- Complex agenda to manage soft issues with investors ostensibly backing management to the hilt
- Seek independent advice to help the Board

Share register weakness

It's no longer the big things that matter most

- Registers are more complex in the detail than before; active v passive, on-loan, short positions, activists and strategic investors
- Trading activities and other items that influence the share price are not as obvious as they once were

Assure Trust | Anticipate Issues | Avoid Complacency

Hostile activism on the rise across UK and Europe

Significant growth in European activism*



Growing activist focus on large caps*



* Source: Activist Monitor

Support from traditional investors

“It is clear that there are occasions when the interests of index, active and activist investors are aligned and can create a catalyst for significant change”

The Investor Forum, Annual Review, 2017

“The time has come for a new model for shareholder engagement – one that strengthens and deepens communication between shareholders and the companies they own”

Larry Fink, Blackrock, 2017 Annual Letter

USS weighs into the debate on Akzo Nobel takeover bid

“We believe that this revised offer, with the assurances given, provides the launchpad for negotiations to commence in earnest.”

As published in IPE: Daniel Summerfield, USS

Activists making bigger moves in UK and Europe

Whitbread bows to investor pressure to spin off Costa

Whitbread has said that it will spin off its Costa Coffee business after pressure from two hedge funds, but the process will take up to two years, frustrating some investors.

Financial Times, 25 April 2018

Daniel Loeb’s Third Point Calls for More Change at Nestlé

WSJ, 22 Jan 2018

Activism by traditional investors on the rise

Collective actions on the rise: over 15% of the FTSE100 have been ‘named and shamed’ by the Investor Forum since 2015

Named companies in the Investor Forum annual reviews include leading FTSE100 companies:

- Shell
- Rio Tinto
- Reckitt Benckiser
- London Stock Exchange
- Rolls-Royce
- Unilever
- Standard Chartered
- Tate & Lyle

Around 30 companies have been reviewed over the same time frame with remuneration and governance key issues

Past performance or favourable reputations no protection if investors are unhappy

“It’s clear that the LSE’s non-execs must up their game: too focused on Mr Rolet’s successful financial performance rather than his management style, while lacking “engagement” with other LSE executives and its investors”

The Times, 25 April 2018

Reputational damage is always done to the perceptions of the Board and governance

“Participants [investors] believed that the investment thesis ... was strong, but that governance practice and oversight by the Board were impacting the company’s effectiveness.”

Investor Forum, 2017 Review

“...have either failed to engage with shareholders or misread their voting intentions – despite warnings... if they’d done it properly, Mr Dekkers would not now be promising to “consult further with our shareholders”...”

The Times, 3 May 2018

Corporate Governance in the Middle East: overview and local trends

Q & A

Thank you

Recording will be available shortly

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