INVESTOR RELATIONS DIALOGUE:

Building on Strong Foundations

The business of 'investor relations' is well established – companies seek to build a compelling equity thesis that resonates with investors. This revolves around a well-defined strategy and business model that outlines the company's objectives, competitive advantage, and growth prospects. Increasingly activity extends across asset classes and covers a much wider dialogue than the historic financial conversation. By effectively communicating the strategic elements, companies seek to build investor trust and encourage long-term commitment.

The question that we set out to address in this dialogue:

> ***How can we create a seamless information ecosystem that caters to the needs of both investors and corporates, promoting transparency, trust, and informed decision-making?***

Investor Relations Dialogue Contents

Highlights of this Dialogue

INVESTOR RELATIONS

What Is the Key Principle?

Expertise plays a pivotal role in this dialogue. Effective Investor Relations requires:

- A high level of expertise in identifying and communicating key strategic elements to build investor trust and encourage long term commitment.
- Detailed knowledge of a heterogeneous investor universe, and effective strategies to engage with and build long-term relations with a wide range of investors.

What Did We Discover?

Strategic Engagement Reimagined: It is essential for companies and investors to differentiate between two very important needs:

- Engagements for information; and
- Engagements focused on value creation.

There is much to be done to establish the right people to speak to and the purpose of each engagement – whether addressing concerns or meeting reporting needs – to ensure efficient interaction.

Navigating Regulatory Complexities: Both corporates and investors are grappling with the immense challenge of keeping up with a myriad of regulatory and reporting requirements. There is a danger that compliance and reporting requirements frame conversations and crowd out dialogue centred on strategic issues.

Strategic Integration of Sustainability: The evolving sustainability landscape demands a more synchronised approach from both corporates and investors. Joint effort is needed to navigate the upcoming reporting frameworks and initiatives and to ensure a focus on decision-useful information and value creation.

What's Next?

A joint commitment by companies and investors to:

- Build clearer lines of communication to create efficient and effective information exchange and dialogue; and
- Focus on holistic narratives and integrated strategies to mitigate challenges and create lasting value.

Key Expectations of Investor Relations

Investor relations (IR) professionals are crucial bridges between the company's leadership and the investors. Investors value professional IR. Key expectations include:

Spokesperson for Leadership: IR professionals should reflect the views of the CFO and CEO effectively, and the importance of being joined up should not be underestimated.

Communication of Company Narrative: IR should effectively communicate the company's thesis, while recognising that challenges to the strategy and future focus might demand direct engagement with the CEO or CFO.

Availability for Communications: IR should ensure they are easily accessible to investors for addressing concerns or seeking clarification following an announcement.

Integration with Business Operations: IR's connection and integration with the broader business and operational aspects demonstrates to investors a comprehensive understanding and optimises communication of the company's thesis including strategic issues.

Facilitation of Meaningful Conversations: An IR's willingness to have substantive discussions is exemplified by their proactive engagement of specialists from around the business, including areas like climate, sustainability and audit to address investors questions or concerns directly.

Overview of the Current Market Landscape

The investor relations dialogue has evolved into a well-established and well-formed process, marked by strong relationship development between corporates and investors. This dialogue has reached a high level of maturity, fostering trust through consistent communication and a clear understanding of investor expectations.

Access to UK Boards is perceived as a significant advantage. Numerous investors have highlighted favourable access to Boards, and individual Non-Executive Directors (NEDs), as a major positive in comparison to most continental European markets, and US markets, where such access is deemed challenging, sometimes "almost impossible," and frequently viewed as a significant escalation.

> ***"UK companies are absolutely available to talk to."***
>
> *- Head of ESG and Stewardship, Asset Manager*

However, there is broad consensus that the remuneration discussion has become disproportionately emphasised, potentially overshadowing a myriad of other crucial discussions. It is recognised that redirecting attention to a more holistic range of topics is essential for a comprehensive understanding and effective decision-making dialogue.

Investors generally perceive well-established communication and reporting practices with investee companies, particularly the FTSE350, where they are encouraged by the quality of interactions with Investor Relations professionals and the adequacy of information received. However, smaller companies face challenges due to limited focus and resources, often resulting in reactive approaches and increased reliance on third-party assistance, such as brokers, for communication.

Despite its maturity, there are important issues to be addressed, which will help to enhance transparency and align strategies for long-term value creation. There is recognition that there has been a decline in resources dedicated to UK company analysis by investors compared to a decade ago. Large UK-based investors who previously dedicated a significant proportion of their assets to UK companies have diversified their investments globally across various asset classes and/or moved into bonds.

The interconnectedness of the UK within the global financial ecosystem and the need to effectively tackle systemic issues like climate change, means that it is imperative to consider how to operate effectively within the international architecture, especially from an ESG perspective.

Investment management firms are facing a lot of pressure and demand from their clients – asset owners – on multiple themes and it is important that they demonstrate their engagement with companies. Different clients have different expectations – whether driven by the need to meet regulatory requirements, sustainability objectives, or risk to portfolio rather than impact of portfolio.

> ***"It's not all just about investment return. There are multiple different client considerations that we try and take into account."***
>
> *- Head of Stewardship, Asset Manager*

This pressure to obtain information from companies to meet client demands combined with investors having to engage in an environment which is increasingly regulated, is leading to more focus and scrutiny on disclosure and reporting, particularly where ESG issues are relevant and has diverted some of the focus from long-term value.

There is an acknowledgment that investors and companies need to come together, listen to challenges, and work collaboratively towards solutions, to determine the most effective means of communication in this evolving environment.

Summary of market considerations to be acknowledged:

- Time constraints for both investors and companies
- Proliferation of regulation and reporting requirements for both investors and corporates
- Increasing importance of ESG to all stakeholders
- Decline in investor resources dedicated to UK company analysis
- Diverse asset manager approaches
- Increased pressure from asset owners
- Resource limitations of smaller companies

Investor Relations Myths

Before delving into key challenges, what works well and actions, it's important to 'bust' some of the myths that we uncovered specific to this dialogue to help set a clear framework for a more productive dialogue.

Myth: All Engagement Is Good Engagement

Reality: No, Strategic engagement is good engagement. Understanding the purpose behind engagement is vital – whether aimed at information gathering or transformative change. Clear objectives, well-defined agendas, and robust feedback mechanisms are essential components for impactful dialogue. Recognising that not all engagement is equal underscores the necessity for intentionality and strategic alignment in every interaction between investors and companies.

Myth: Consistently Applying the Same Approach Guarantees Success

Reality: This is misleading. Dynamic markets, different investment approaches, evolving investor expectations, and increasing stakeholder demands necessitate a shift toward redefined relationships. Rather than adhering to conventional practices, success hinges on establishing agreed-upon expectations before delving into specifics.

Myth: All Companies and Investors Are the Same

Reality: No two companies or two investors are the same. Companies vary in size, structure, industry, geography, strategy, governance and financial health, while investors have diverse objectives, approaches, risk tolerances, time horizons and investment preferences. Recognising and understanding these differences is crucial for effective communication and collaboration, ensuring tailored approaches that acknowledge the unique characteristics of each company and investor.

What Companies Think

KEY CHALLENGES

Access Within Investment Firms

While relationships between investors and companies are well established, for the most part – the general decline in resources focused on UK equities, combined with compliance regulations such as MiFID which have in practice limited interactions, is making it more challenging for corporates to establish new relationships with investors. Not all corporates have difficulties with access, but many FTSE350 companies shared challenges in accessing investors, including major shareholders, for informal discussions. Garnering interest from the buy side was becoming increasingly difficult for formal road shows and capital markets days.

> ***Access is hard. I feel ignored, even by the bigger shareholders – it's a challenge to have a chat."***
>
> *- FTSE50 Investor Relations Director*

Extending Relationships Within Institutions

There was a realisation by corporates that they need to establish relationships beyond the fund managers, with the stewardship teams, to understand how their processes work and what information they need. Common across all company participants was that in larger institutions, they often encountered difficulties reaching beyond a particular analyst or fund manager who controls access, hindering the development of broader relationships and the dissemination of their thesis. Many companies had set up governance road shows, to address these issues, which had been well received by investors.

> ***We need to establish relationships with people that vote the shares and understand what they look at, how their process works, as we know that our information and messaging might need to be a bit more nuanced compared to what we are discussing with the fund managers."***
>
> *- FTSE100 Investor Relations Director*

Building Relationships Off Season

Many corporates had attempted to contact investors off-season, only to face difficulties in establishing engagement outside of specific issues. This limited interaction frustrates companies, as it prevents relationship-building opportunities and restricts engagement to specific, often reactive, responses.

Lack of Engagement From Passive Funds

Another common theme was frustration over the passive funds' stewardship teams' lack of engagement. There is a widespread sentiment among companies that these institutions need to enhance their stewardship efforts and allocate resources for broader market interaction, given their investment in the entire market – a missed opportunity for both parties.

Obstacles Intensify for Small – Midcap Companies

Access is even more challenging for small to midcap companies, which often have minimal portfolio weightings and receive limited attention. Moreover, their engagement with entities like ISS may be less sophisticated, posing challenges around voting season.

> ***You are trying to do the right thing and reach out to these people, but nobody seems to be listening or interested."***
>
> *- FTSE250 Head of Investor Relations*

Securing Investor Feedback

It is also difficult to get feedback from investors particularly with the declining influence of corporate brokers. There is a desire for investors to be more open about giving feedback after meetings, fostering a two-way discussion instead what often feels like a one-way flow of information. Companies are receptive to investors' preferences regarding how feedback is shared but are keen to increase commitment and structure within the process.

What Companies Think

WHAT DO INVESTORS DO WELL?

- Corporate access teams within institutions were praised by companies for facilitating broader access and coordination with various parts of the organisation. Some of the bigger investors have set up corporate access desks, for both fund management and stewardship issues, which are seen to very effective and valuable.
- Forward-thinking investors are innovating by deploying internal tools that enhance information exchange and streamline coordination efforts with companies.
- Some institutions openly tell companies exactly which of their funds hold their shares and who is responsible for the position and this was cited as very helpful with targeting engagement efforts more effectively.
- Several institutions had put on 'reverse road' shows for companies, inviting them to hear more generally about their approach, structure, strategy, policies and key focus areas.
- Investment Bank industry conferences were cited as being great conduits for meeting large numbers of investors and particularly the 'fireside chats' for their CEOs to get messages out more broadly.

What Investors Think

WHAT DO COMPANIES DO WELL?

Simplifying Investor Interactions

A common desire from all investors was simplification of investor interactions. There was a sense that corporates didn't recognise the significant time constraints faced by investors amidst the overflow of information in today's landscape. Investors are inundated with a vast array of data, reports, and communication from numerous companies vying for their attention. The huge volume of information makes it challenging for many investors to allocate sufficient time to engage meaningfully with each company.

> ***"It's getting all a bit bloated and quite challenging for investors to really understand the material issues."***
>
> *- Portfolio Manager, Asset Manager*

Many investors expressed the frustration at the lack of understanding by corporates that within investor organisations, different roles necessitate diverse information tailored to specific purposes, whether to inform investment decision-making processes or to fulfil client requests, regulatory requirements or compliance requirements.

Optimising Engagement Timing

Optimising engagement timing is a multifaceted challenge for investors, as they strive to strike a delicate balance between engaging with companies only when necessary and satisfying company desires which are typically for more immediate interactions. Investors recognise the importance of engaging with companies at strategic times, such as after results, in advance of annual meetings or when significant developments occur. These engagements allow investors to gain insights into companies' performance, strategies, and governance practices, enabling informed decision-making regarding their investment portfolios. However, the challenge arises when investors face the pressure to engage more frequently.

> ***"There isn't necessarily expectation to have regular dialogue throughout the year because we respect the fact that management need to do their day jobs."***
>
> *- Head of Stewardship, Global Asset Manager*

Moreover, the challenge of optimising engagement timing is compounded by the diverse preferences and priorities of investors, within an institution and across the market. Some investors may prioritise regular updates and real-time communication, while others may prefer a more selective and strategic approach to engagement.

What Investors Think

WHAT DO COMPANIES DO WELL?

- Companies that prioritise clear communication and proactive engagement in favourable conditions build strong trust and confidence among investors, laying a robust foundation for enduring relationships.
- Streamlining reporting and communications to present a summary investment case, value drivers, and key differentiators in a clear and accessible manner at each interaction helps investors' understanding amidst the information overload.
- Investors appreciate when corporates assist in balancing short-term trading updates with the broader context of the business. Including strategy, business model insights, and historical data in quarterly presentations, often available in an appendix, enhances transparency and investor understanding.
- Companies that share their questions in advance of a meeting give investors the opportunity to reflect and discuss internally, leading to more productive and insightful discussions during engagements.

What Companies & Investors Think

SHARED CHALLENGES

Navigating the Regulatory Maze

Navigating the regulatory maze presents a huge challenge for both investors and corporates, as they adapt their strategies and engagement approaches amidst a fast-changing landscape for reporting requirements and evolving legislation, especially around ESG.

For corporates, the challenge lies in ensuring compliance with a myriad of regulations, reporting standards and disclosure requirements while focusing on what is material and relevant for their business. This requires a balance between meeting regulatory obligations, delivering business as usual and pursuing strategic initiatives that drive long-term value creation. Many corporates shared the concern that there was an overreliance and focus on ESG data from investors, which is often in a nascent stage and which puts at risk the understanding of the dynamics behind the data and a more holistic view of the business.

Similarly, investors are confronted with the task of staying abreast of regulatory changes and assessing their implications on investment decisions. They must navigate through complex regulatory frameworks and evolving legislation to make informed investment choices that align with their compliance requirements, risk tolerance and investment objectives as well as those of their clients. In addition, investors must also consider how regulatory developments may impact corporate performance, governance practices, and overall investment viability of the companies they invest in.

> ***"Don't throw a load of ESG boilerplate in the mix – it confuses everyone. It confuses your business, but it also confuses investors."***
>
> *- Fund Manager, Asset Manager*

Both investors and corporates expressed concerns about being inundated with reporting regulations. On both sides, teams tend to find a need to disproportionately focus on reporting rather than on actual operational activities.

Aligning Corporate Sustainability Journeys with Investor Expectations

Navigating the transition towards sustainability presents a significant challenge for the dialogue between investors and corporates, as both parties seek to align corporate sustainability journeys with evolving expectations while maintaining a focus on performance.

Corporates are increasingly recognising the importance of integrating sustainability principles into their business strategies as part of their long-term commitment to environmental, social, and governance factors. However, incorporating sustainability practices into corporate operations involves a complex and ongoing journey that requires significant investments in resources, infrastructure, and cultural transformation which is seen not to always be appreciated.

At the same time, investors are placing greater emphasis on sustainability factors when evaluating investment opportunities due to the demands of the market and their clients. So, increasingly they need more information about ESG performance and commitment to sustainable business strategies to help them manage their risks, compliance requirements and to meet eligibility requirements and client demands. Therefore, they expect corporates to disclose relevant ESG information to enable informed investment decisions.

Many companies, primarily those recognised as sustainability leaders, are having more demanding conversations with investors. This increased scrutiny is often because they are perceived to have a core sustainability dynamic, which is attracting attention from numerous funds and intermediaries.

> ***"The quality of engagement on ESG issues with IR Directors and companies overall is improving, but there is also an acknowledgement that everyone can't know everything about everything."***
>
> *- FTSE100 IR Director*

What Companies & Investors Think

SHARED CHALLENGES

Focusing On Materiality

Balancing corporate sustainability commitments with investor expectations poses a dual challenge for corporates – they must navigate the complexities of integrating sustainability principles into their operations while ensuring alignment with performance objectives. This requires clear strategic alignment, robust governance structures, and effective communication channels to articulate the business case for sustainability and demonstrate its impact on long-term value creation. Both companies and investors are increasingly acknowledging the importance of ESG reporting. While some companies may initially approach it as a superficial exercise, there is a growing realisation of the need for focusing on the material issues and a deeper integration of ESG practices into their overall strategy.

"*Companies should focus on what's really important and material."*

- Head of Research and Engagement, Asset Manager

On the other hand, investors must assess corporate sustainability efforts within the broader context of financial performance and risk management. They seek transparency, accountability, and consistency in corporate sustainability disclosures to evaluate the resilience and sustainability of investment portfolios.

Further complicating this dynamic is the demand for data requests, experienced by both corporates and investors alike, particularly tailored surveys demanding information that has usually already been disclosed through reporting. Companies often find expectations surrounding data, the detail and its verification to be unrealistic, sometimes surpassing those placed on financial data.

"*I think that there must be a little bit of trust with ESG, in the same way you would trust a management team to manage a business for revenue generation and profit. They will manage the business in best way in terms of ESG."*

- FTSE100 IR Director

The scrutiny on sustainability efforts, while essential, can obscure the focus on action. There's a growing concern that sustainability efforts are receiving disproportionate attention, potentially overshadowing other critical business areas. It's crucial to maintain a balanced perspective and avoid the risk of sustainability initiatives detracting from overall long-term strategy and business goals.

What Companies & Investors Think

WHAT DO COMPANIES AND INVESTORS DO WELL?

Investors

- When companies connect and synthesise their reporting and communications in a strategically driven manner, integrating the importance of sustainability issues with financial performance, it results in consistent and coherent messaging that is more easily accessible.
- When companies prioritise clarity and transparency regarding their material issues, and connect those issues to their overall strategy, rather than focus on compliance-driven reporting, it demonstrates a deep understanding and confidence in their operations.
- When companies clearly demonstrate that ESG matters are fully endorsed by the CEO and the board, it sends a strong signal to investors regarding integration into the company's strategy and operations. This integration and commitment to transparency is reinforced when linked to remuneration practices and when substantial changes in sustainability targets are treated with the same gravity as financial target adjustments.
- When companies provide access to sustainability specialists for investors, it facilitates deeper conversations that lead to a comprehensive understanding of broader business and strategic aspects. This collaborative approach helps to focus on the holistic integration of sustainability into the company's operations and strategy, enhancing understanding and trust and mutual learning between investors and companies.

Companies

- When companies sense that an investor is genuinely 'invested in the management team,' fostering constructive conversations even during challenging times, a strong sense of support and trust emerges. This supportive dynamic allows for open two-way dialogue and enables the business to make informed and long-term decisions.
- When investors act as effective 'non-executives', companies find themselves engaged in broader, more meaningful strategic dialogues. This engagement allows for a deeper understanding of each other's perspectives and long-term considerations for the company, fostering a relationship built on mutual learning and shared strategic vision.
- Clear messaging and reinforcement from shareholders that it is acceptable to prioritise three or four issues relevant to their business, rather than attempting to cater to every stakeholder's demands. This targeted focus allows companies to streamline their efforts and allocate resources more effectively, fostering a strategic alignment around the core objectives.
- When investors delve beyond the surface-level data and invest time in understanding the nuances behind the numbers, it signals a productive relationship. For instance, shifting the focus from generic metrics like 'number of women on the board' to exploring the dynamics and operations of the board reflects a commitment to understanding the intricacies of the company's governance and decision-making processes.

Actions for Companies & Investors

TOP TIPS FOR COMPANIES

Improving Effectiveness and Efficiency

- Tailor engagement strategies by identifying preferred modes of communication with your investors, such as meetings, emails, or conference calls and agreeing on the frequency and timing of engagements to ensure mutual convenience and effectiveness.
- Determine the purpose of any meeting – information gathering or investment decision-making.
- Set clear agendas for all meetings and establish clarity on the attendees and their roles/interests.
- Encourage investors to share questions or topics of interest before the meeting to maximise effectiveness and address specific concerns.
- Build in 5-10 minutes at the end of each meeting for direct feedback from investors.
- Understand the specific information needs of the investor, whether it's financial performance updates, strategic insights, sustainability issues or governance practices and investor expectations in terms of attendee.
- Tailor communications to meet the needs of your different audiences – credit, equity, ESG – as each has different interests and priorities, investment strategies, risk appetite, and long-term goals.
- Make conscious decisions how to use corporate brokers effectively.
- Take time to assess investor perceptions.
- Corporates should maintain a generic [IR@plc.com] email address to enable easier communicationss from investors.

Navigating Complexity of Regulation and Sustainability

- Be bold in crafting and owning your narrative, emphasising your unique value proposition and sustainability journey.
- Communicate with straightforwardness and authenticity in all interactions to build trust and credibility.
- Understand the materiality of issues within your company and use this understanding proactively to address regulatory requirements.
- Align reporting efforts with strategic objectives to ensure coherence and relevance.
- Avoid unnecessary complexity in reporting by providing clear summaries and linkages and present information in various formats tailored to the needs of different investors.
- Clearly articulate the reporting frameworks and standards used, explaining the rationale behind their selection.
- Be selective in responding to surveys and data requests, ensuring alignment with your narrative and strategic priorities.
- Understand the diverse needs of different investors and how they utilise data and reporting. Be aware of the pressure and influence of different asset owners mandates on asset managers.
- Tailor your communication and reporting strategies to effectively meet different needs.

Actions for Companies & Investors

TOP TIPS FOR INVESTORS

Improving Accessibility and Understanding

- Create and monitor a centralised contact@ email to enable companies to make direct contact.
- Consider setting up corporate access desks to facilitate broader access and coordination across organisation.
- Create fact sheets on investment organisation, including voting policies.
- Consider providing greater transparency to companies on which funds are invested in the company, and which are passive.
- Encourage internally joined up meetings with governance specialists and portfolio managers, and where appropriate fixed income investors, when discussing key issues.
- Instigate reverse road shows to explain structure, approach and key focus areas (e.g. leverage Stewardship reporting).
- Collaborate with other like-minded investors on key issues to amplify the collective voice and influence. By pooling resources and expertise when relevant, investors can enhance their effectiveness on some issues.

Navigating Complexity of Regulation and Sustainability

- Reinforce the acceptance of prioritising three or four issues relevant to the company's business.
- Encourage companies to streamline efforts and allocate resources effectively, aligning with core objectives and strategic focus.
- Invest time in understanding the nuances behind the numbers and metrics presented by companies.
- Provide clarity on your key issues of interest.
- Join up thinking internally between fund managers and stewardship teams.
- Ensure consistency and joined up demands on company involvement in voluntary initiatives such as Net Zero alliance.
- Provide greater clarity on how you use external rating agencies and data providers.
- Share commitments and preferences to reporting standards, metrics and frameworks.