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MiFID II Briefing

How IR Can Proactively Prepare for a New Reality

An overview of MiFID II and its impacts, what the buy side is saying, and the implications for Investor Relations teams. www.ipreo.com

Vienna, 17. October 2017 CIRA Conference



What is MiFID II?

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Following the global financial crisis, the European Commission produced plans to review the **Markets in Financial Instruments Directive (MiFID)** framework, a cornerstone for the regulation of European financial services. The second casting of the legislation, known as **MiFID II, comes into effect on 3 January 2018** and is expected to have significant impacts not only for European capital markets, but potentially the global investment landscape.

A blue L-shaped graphic element in the bottom-right corner of the text area.

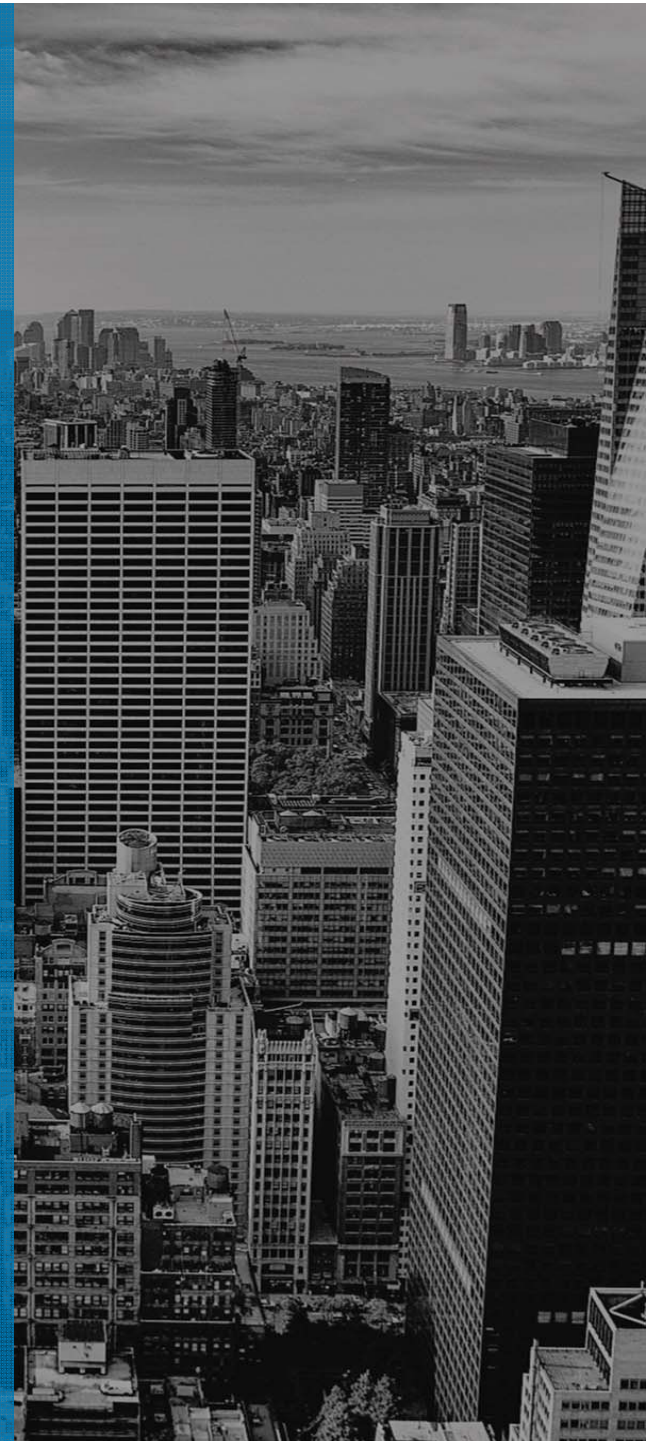
The Facts of MiFID II

MiFID II aims to **overhaul**, **strengthen**, and **extend** the existing regulatory system for financial markets in the EU by creating:

- Increased transparency of markets
- Shift in trading towards more structured marketplaces
- Lower cost market data
- Improved best execution
- Orderly trading behaviour within markets
- Explicit costs of trading and research process (trade execution, research, and management access)

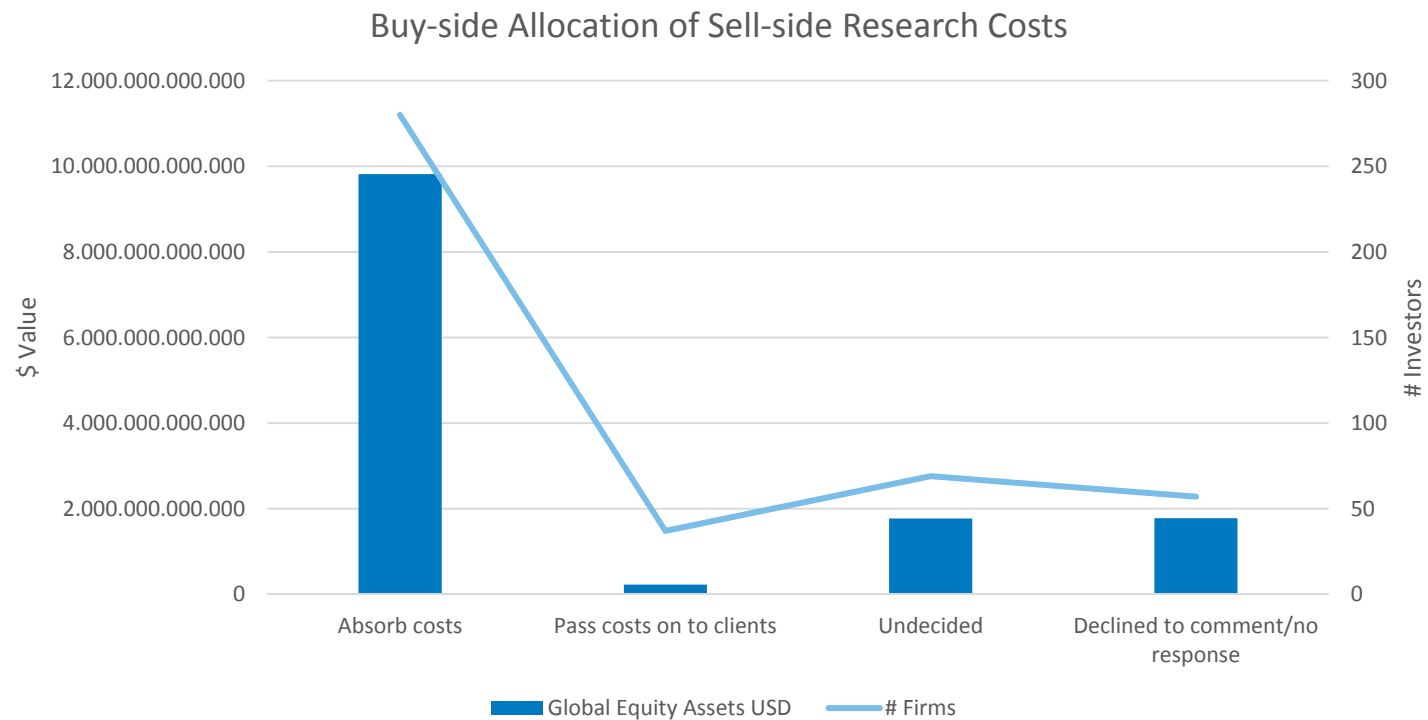


Broker Research



Impact of MiFID II on Broker Research

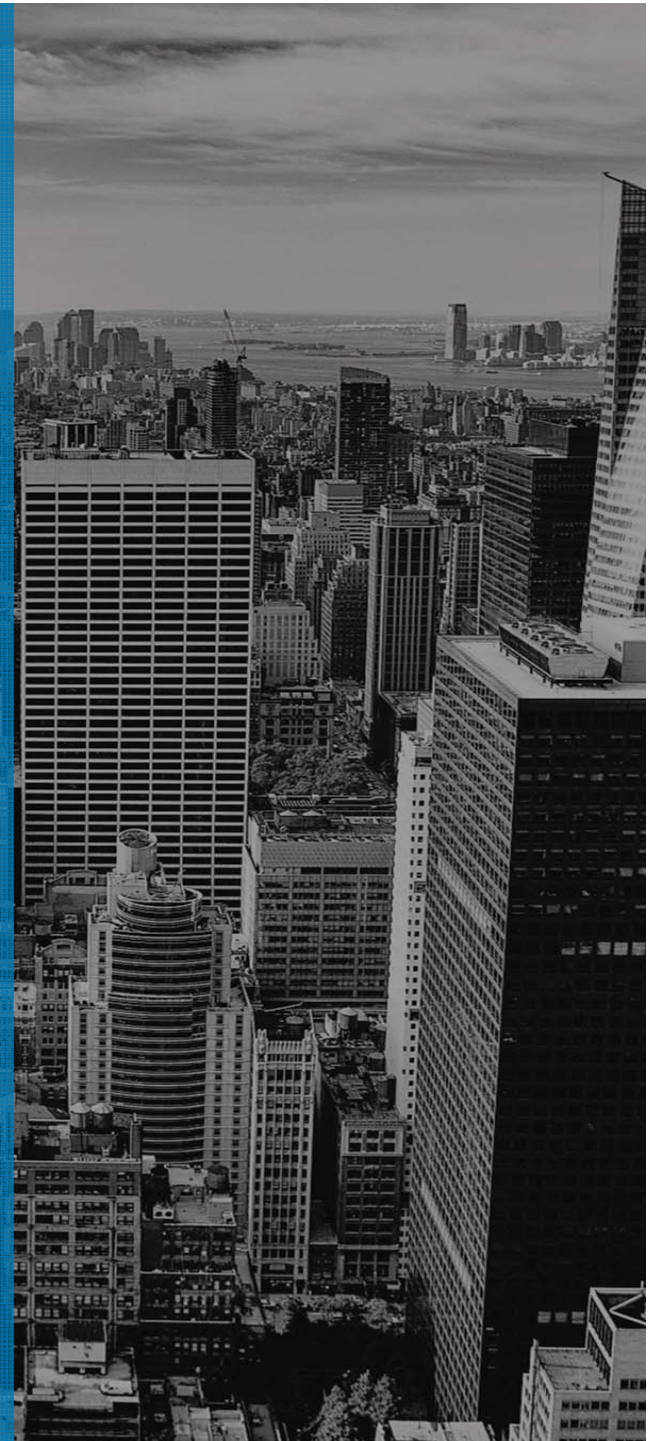
- The buy side have already started to prepare.
- By taking research costs on their own account, we anticipate greater price sensitivity for services consumed from the sell side.



Graph Source: Ipreo Data and the Financial Times

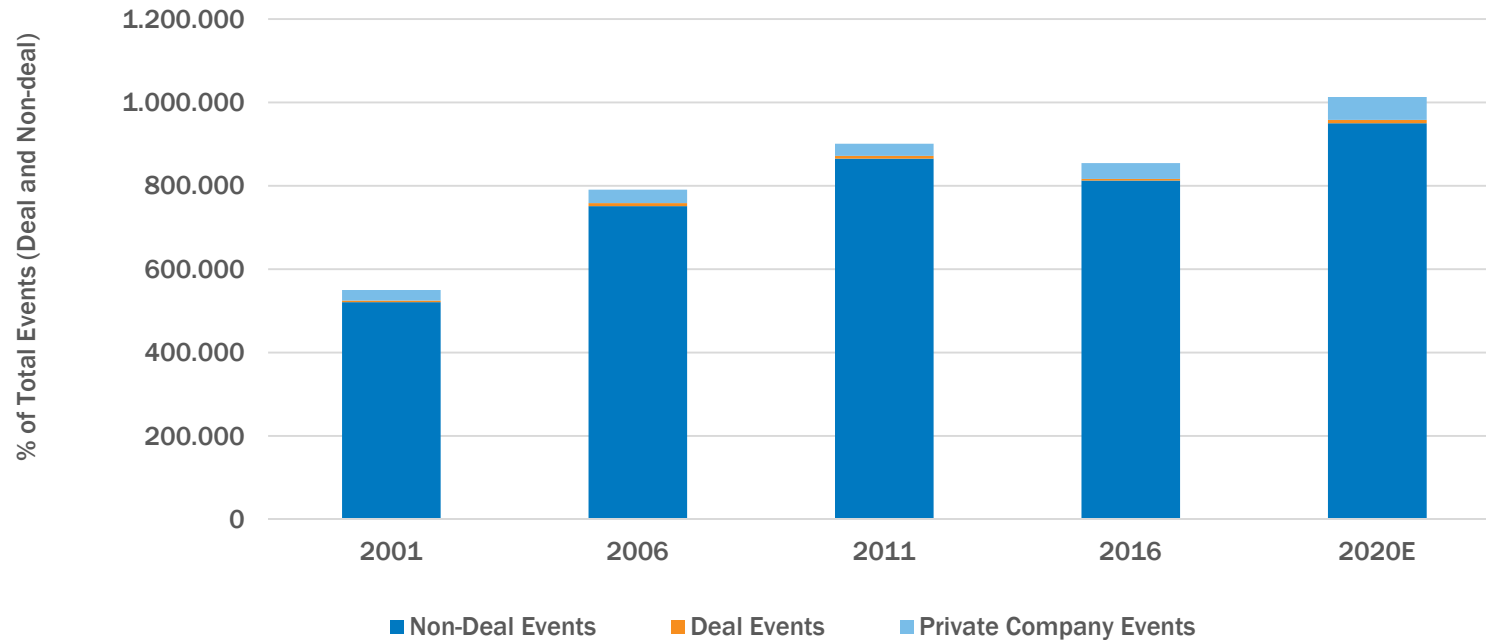


Corporate Access



Sustained Demand for Events

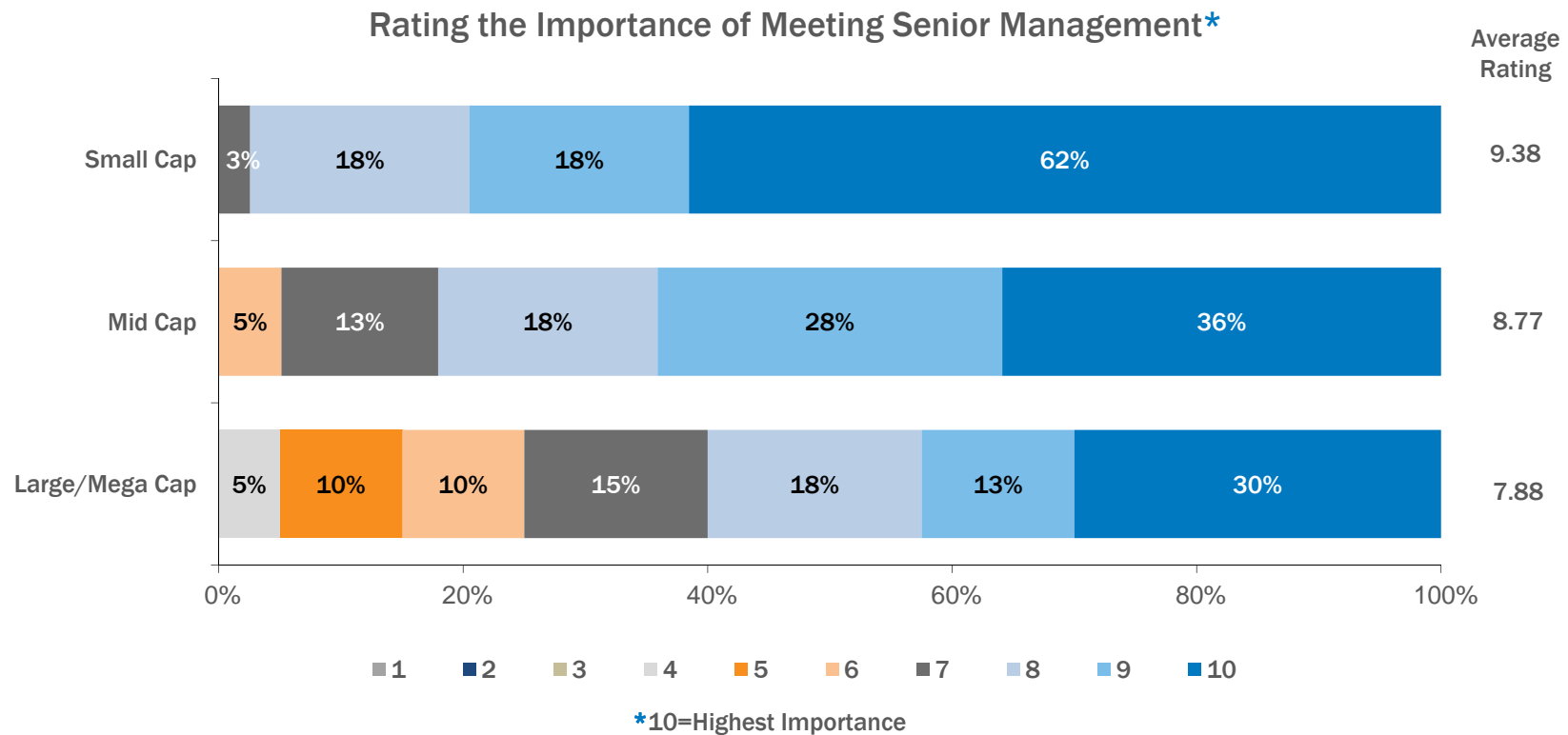
Resilient Growth in Demand for Events



Graph Source: The World Bank, Ipreo Data, and IR Magazine Data

Buy-side Prioritization of Management Access

- Senior management access remains a critical component of the buy side's due diligence processes, especially for small- and mid-cap issuers.



Graph Source: Ipreo Data (Telephone interviews with over 50 institutional investors across 13 countries and whose firms manage \$1.5T in combined equity assets.)

Buy-side Prioritization of Management Access

"The smaller the company, the more important it is to meet with senior management as there is less coverage and publicly available information."

European Mutual Fund (\$25 -50B EAUM)

"I want to get a grip of who these management teams are that I am giving money to. It does not matter how big the company is; I still need to build that trust."

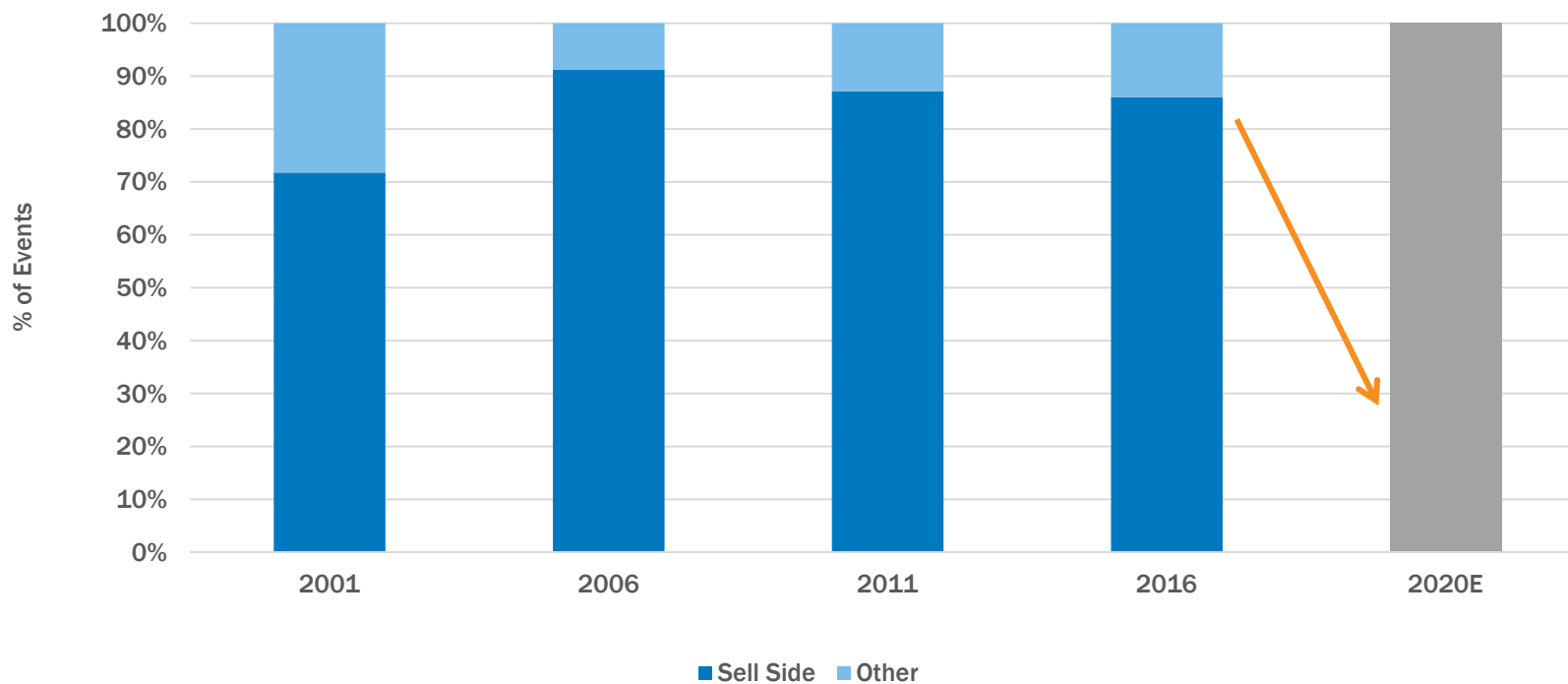
European Mutual Fund (<\$10B EAUM)

"I never invest in a company without meeting management. We meet with small-cap companies more often because there is information that we get from those meetings that we cannot get otherwise."

European Hedge Fund (<\$10B EAUM)

Impact of MiFID II on Corporate Access

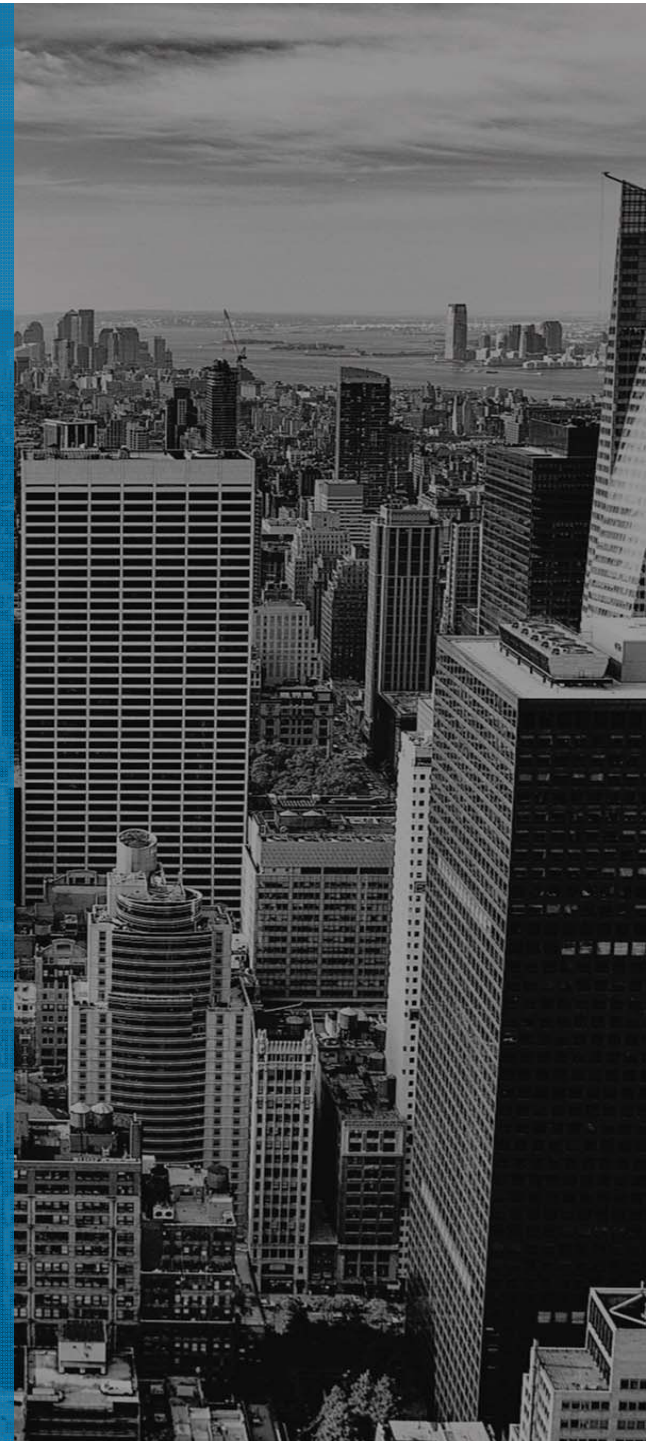
Regulation That Flips The Market



Graph Source: The World Bank, Ipreo Data, and IR Magazine Data



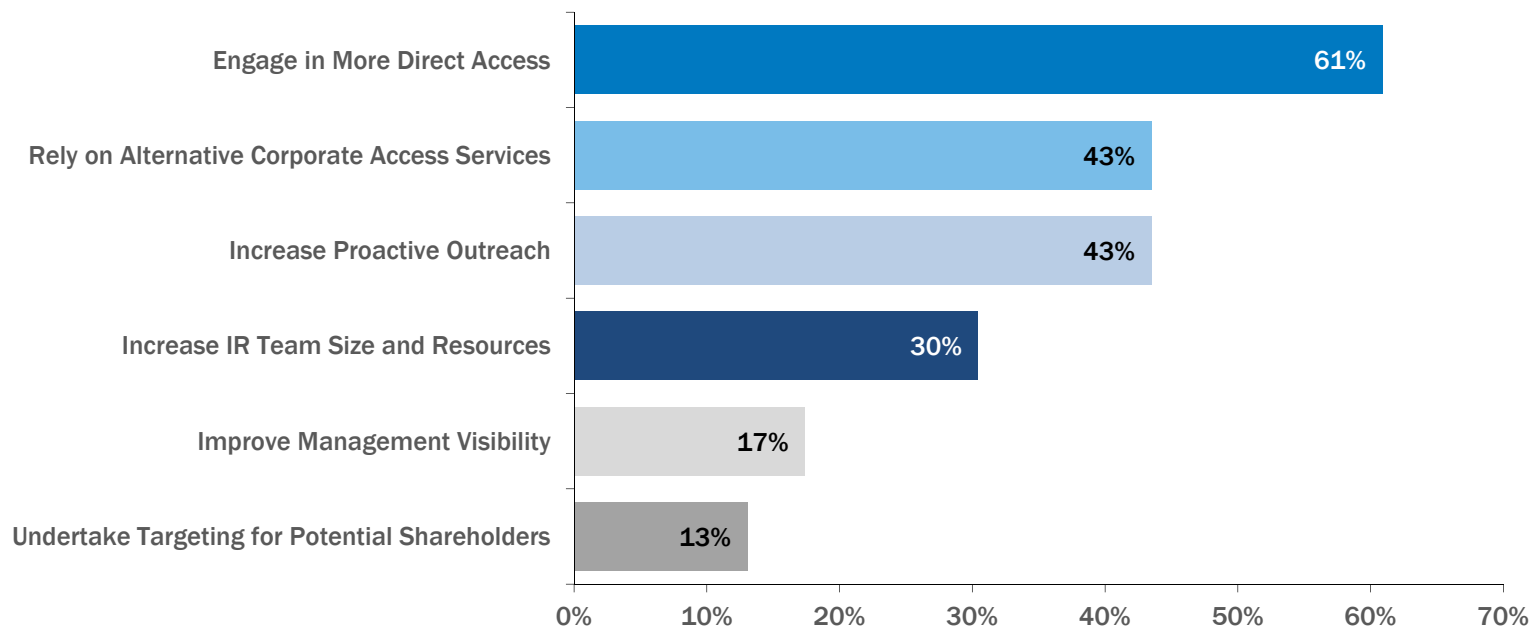
Expectations for IR



Buy-side Expectations of IR Teams

- IR teams are encouraged to undertake more direct engagement and proactive outreach efforts, while also strengthening their bench and relying on alternative corporate access services.

What are your expectations for issuers and their IR teams in a post-MiFID II environment?



Graph Source: Ipreo Data (Telephone interviews with over 50 institutional investors across 13 countries and whose firms manage \$1.5T in combined equity assets.)

Buy-side Expectations of IR Teams

"It is a new situation and a lot of work that is done by entire industries is falling back into the IR department. IR teams will be swamped with requests. It would be poor corporate governance if companies are not prepared. Companies need to expand their IR teams to deal with MiFID II."

European Mutual Fund (<\$10B EAUM)

"I hope the IR teams do not go about business in the same way. The IR team needs to make corporate access easier and more welcoming for investors."

European Mutual Fund (<\$10B EAUM)

"Adding events like additional Investor Days to generate management access could add a lot of value once MiFID goes into effect. Management teams also have to devote more time directly to the buy side following events, rather than going to a broker. Site visits and HQ visits that issuers set up without brokers will be important."

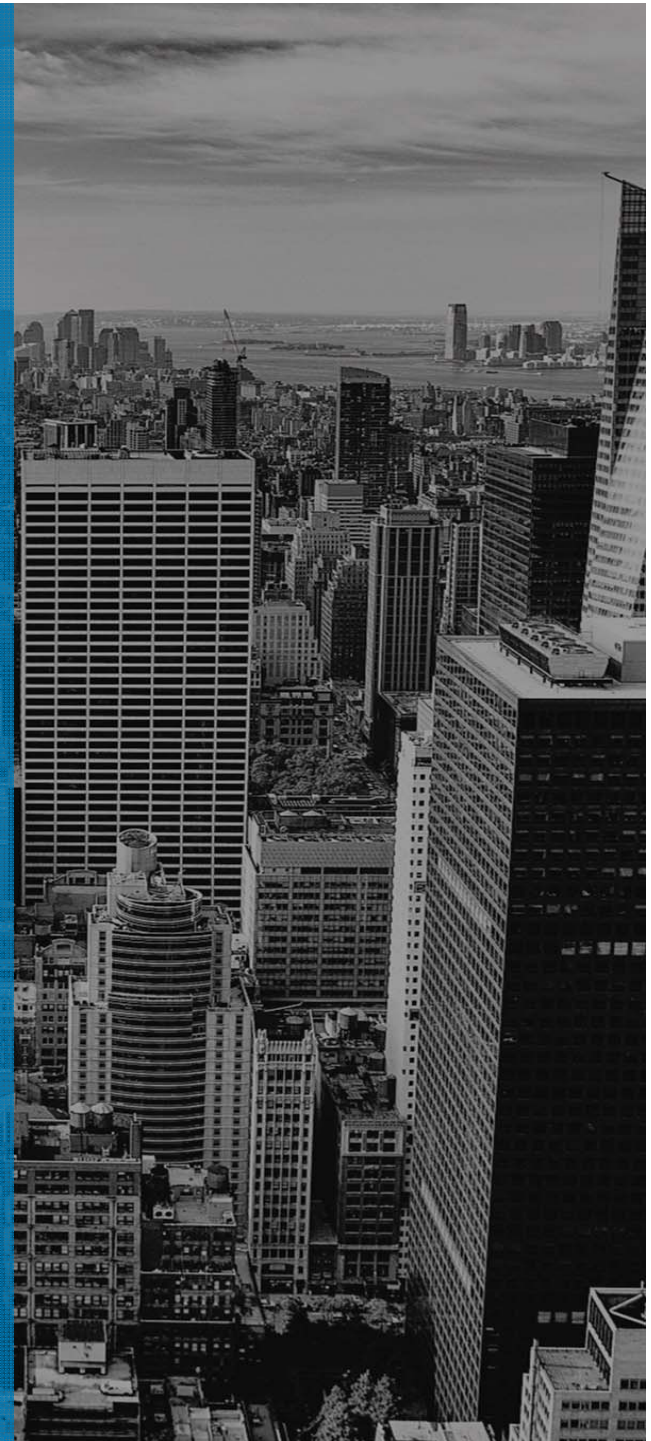
North American Pension Fund (\$5-24.9B EAUM)

Getting Management on Board

- Focus
 - Who are you trying to see?
 - How many people are you trying to see?
 - Why are you trying to see them?
 - Organise your time
 - NDR type: Ownership versus governance
- Presenting management with a clear view
 - Opportunity – threat
- Proactivity
 - Partnership
 - Independent outreach
 - “It’s still all about relationships”



Preparing for Uncertainty



Preparing for Uncertainty

BUY SIDE

Prepare to be accountable—what services are consumed, at what price, paid for via what funds, and to prove that behaviour cannot be considered an inducement.

We already see some larger and forward-thinking funds looking to use technology to source, track, and pay for services they consume.

Global investment managers will have to adopt MiFID II standards to receive research and participate in broker-sponsored engagements.

BROKERS

Prepare for price transparency and a reduction in margin; the change will not come overnight but brokers will look to focus their activities on fewer, higher value activities.

We already see effort and resources being put towards a bifurcation of client lists and the creation of service layers/levels.

Brokerage houses with global operations may implement universal practices that are MiFID II compliant.

ISSUERS

Prepare for a reduction in 'free' service provision from brokers, in some areas of the market.

There is an expectation that MiFID II will expand the gap between large- and small-cap companies as broker focus continues to favour widely held companies.

IR will need to be more self-reliant for research provision and corporate access execution in order to continue meeting the buy side's expectations.



Q&A

If you want more information on how we can support you preparing better for MiFiD II in terms of **identifying, targeting** and **accessing** existing and new **investors**, executing roadshows and prequalifying shareholders and getting detailed market sentiment please contact:

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