AUSTRALASIAN
INVESTOR RELATIONS
ASSOCIATION

THE FUTURE OF INVESTOR RELATIONS:

CHALLENGES INTO 2020 AND BEYOND

AIRA White Paper - 14th November 2019

CONTENTS

GLOSSARY

AIRA Benchmarking Survey 2019
A detailed survey of investor relations practices, preferences and trends of ASX 200 and NZX 50 listed entities representing all industry sectors, conducted every two years.

Beneficial shareholder
An individual or group of individuals who, either directly or indirectly, has the power to vote or influence the transaction decisions regarding a specific security, such as shares in a company.

C-suite
C-suite refers to the executive-level managers within a company. Common c-suite executives include chief executive officer (CEO), chief financial officer (CFO), chief operating officer (COO), and chief information officer (CIO).

ESG
Environment, Social and Governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

Funds
Activist
An individual or group that purchase large numbers of a public company's shares and/or tries to obtain seats on the company's board to effect a significant change within the company.

Index
A type of mutual fund with a portfolio constructed to match or track the components of a financial market index, such as the Standard & Poor's 500 Index (S&P 500).

Passive
Investors who follow an index or the proxy advisor's recommendation and who put little priority on developing a relationship with management.

MiFID II
European Union's Markets in Financial Instruments Directive II is legislation for investment firms that provides certain services linked to "financial instruments" (e.g. shares, bonds, derivatives). Its aim is to improve the functioning of financial markets and strengthen investor protection.

In Australia the key impact has been to separate the sell-side's research and broking functions.

In December 2016, the Australian Federal Government released a proposals paper entitled "Design and Distribution Obligations and Product Intervention Power" this picks up much of the content of MiFID II's Product Governance topic. In July 2018 the Government released for public consultation a revised exposure draft of the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018 ('the Bill') and explanatory materials.

Quantamental
Funds, which combine a quantitative and a fundamental approach to stock selection.

EXECUTIVE SUMMARY

With the changing face of the sell-side, and the ways in which Investor Relations (IR) now engages with the market, IR must navigate the buy-side landscape more independently and explore new ways to engage investors.

IROs are seeing an increased number of investors and analysts asking questions about the ESG standards of listed entities. With more than 70% of respondents to the AIRA Benchmarking Survey reporting that the entity's ESG record could, or did, influence investment decisions, an increased understanding of ESG reporting and future developments in this area has become a priority for IROs. Ongoing development to expand ESG knowledge, reporting, and communication with the C-Suite, Board and stakeholders, will have a high impact over the medium term and is gaining importance to the IR role.

Active funds and IR have had strong connections in the past but engagement with investors is changing with different requirements for passive, index and activist investors. The requirement of the latter of the shareholder groups is somewhat different to conventional engagement, placing greater onus on IR to manage these changing relationships.

Industry funds - as major beneficial shareholders – are an increasingly important group. IROs must engage proactively with this audience, communicating with internal portfolio managers on company results and disclosures, and on ESG issues with those who have stewardship for ESG.

Investor use of technologies is becoming more common and the range of technologies is becoming more diverse - the market's use of blockchain and AI to interpret results announcements and financial information, for example, is growing. IROs must focus on any technologies that investors are using to understand how they may affect investment decisions. In addition, it is important that IROs continue to review technology and how it can improve processes surrounding IR practice.

FOREWORD

The Australasian Investor Relations Association (AIRA) is pleased to launch its second white paper on the future of investor relations (IR) in Australasia.

It is a decade since our inaugural paper, Telling the Corporate Story: A White Paper on The Future of Investor Relations in Australasia, was released and, given the changes taking place in the corporate landscape and global markets, it is an opportune time to revisit the evolution of the investor relations function within Australasian listed entities.

Observations and trends cited in this paper are drawn from four sources:

1. a series of roundtables held in Sydney, Melbourne and Auckland involving leading investor relations practitioners working across some of the largest listed entities in the Australian and New Zealand markets,
2. a series of one-on-one interviews with senior IR practitioners who could not attend the roundtables,
3. an online survey that was distributed to CFOs across the ASX200 and heads of equities from the top 20 asset managers and owners in Australia, and
4. consideration issues raised in the US National Investor Relations Institute's (NIRI's) recent publication, The Disruption Opportunity, a report by NIRI's think tank on the future of investor relations.

Thank you to our Research and Insights Partner Computershare, and to Michael Hufton at ingage for their contribution to this paper.

The aim of this research, and the subsequent preparation of this paper, is to explore how the practice of investor relations is evolving, and to examine some of the trends shaping its future.

New regulations such as the European Union's Markets in Financial Instruments Directive II (MiFID II), as well as the rise of index funds, passive investment and industry superannuation funds are all having a bearing on the practice of investor relations.

Additionally, while IR practitioners are keeping a watching brief on new technologies, innovations such as artificial intelligence, machine learning and blockchain are yet to have a real influence on IR. The insights gleaned from big data are, however, starting to permeate the thinking of IR teams and markets more broadly.

Against this backdrop, AIRA's role in guiding the development of the investor relations discipline continues to grow. IR is increasingly the conduit between listed entities and the investment community and it is playing an increasingly important role in a market that is becoming more complex, fragmented and opaque, having more influence on the corporate landscape. As a result, it has never been more important for IR to be represented by a professional body such as AIRA with the ability to improve IR practice and the capital markets in which listed entities operate. To further the role and status of the IR function, the AIRA board is introducing a Certification process as the next step above the Industry Diploma to recognise the experience and role of senior practitioners.

AIRA would like to extend its sincere thanks to everyone who gave valuable time to contribute to this paper, which we hope will help to inform the future practice of investor relations for Australasian listed entities.

Yours sincerely,

Ian Matheson,
CEO, AIRA

AIRA
AUSTRALASIAN INVESTOR RELATIONS ASSOCIATION

RESEARCH AND INSIGHTS PARTNER

Computershare and AIRA have a long-standing relationship, built on a common premise of industry excellence. We are delighted to be the AIRA Research & Insights Partner & Sponsor for 2019/2021 – a seamless extension of our commitment to relevant and insightful thought leadership.

The future of Investor Relations is here. Changing regulations and broader market forces are having a substantial impact on the already extensive role of the IR professional. With ESG at the forefront of investor decision-making, IROs are now making increased understanding of these important topics a priority to build investor trust and achieve successful outcomes.

Technology is also an important factor in driving change in the world of IR professionals, with the likes of blockchain and AI playing an important part in the market's ability to interpret information.

With investor engagement requirements constantly evolving, greater onus is placed on IR professionals to manage these relationships effectively, through open communication and transparency, particularly when it comes to topics related to ESG.

This whitepaper provides a unique insight into some of the key challenges that IR professionals may face in the coming years.

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INTRODUCTION

Investor relations is becoming an increasingly important function as fundamental changes occur in the capital markets and within listed entities. The rise of passive and index funds, as well as the growth of industry superannuation funds as both asset owners and asset managers that internalise a growing percentage of the investment management of the fund is changing the role of investor relations, its constituency and the functions it performs within listed entities and investment markets.

Once IR may have been considered an extension of, or adjunct to, the finance team. Now, however, its responsibilities have become progressively broader, encompassing certain aspects of treasury, sustainability reporting and environmental, social and governance communication. This is in addition to the traditional IR functions, including managing half and full-year results reporting, preparation of other corporate documentation, shareholder and analyst engagement and, the annual general meeting.

The role of investor relations is also being intensified by new regulations such as MiFID II, which has effectively separated the sell-side's research and broking functions, and has had significant impact on reshaping traditional interactions between brokers and fund managers. This has required IR teams to take over more of the work engaging with the buy-side, increasing the IR function's workload.

Moreover, the Royal Commission into Banking and Financial Services in Australia and the general increased focus on ESG has implications for IR, in particular the need for heightened focus on corporate governance. This is making the investor relations role even more important, emphasising the need for greater transparency from listed entities to communicate fully and frankly with shareholders and, increasingly, other stakeholders as well.

However, the practice of investor relations continues to vary greatly depending on the size of the listed entity.

One buy-side head of equities who participated in the online survey commented that the key to IR communication remains unchanged: "…The onus is on listed entities not to provide selective information to various parties. As institutional investors, we obviously have better access to Board & management and we must trust in those teams to not disseminate price sensitive information, and we must have internal controls to avoid trading in a stock where we feel we have come across such price sensitive information."

IR's role as the key communicator of investor information remains unchanged, with those who contributed to this paper stressing that its central role is to communicate without spin and be the source of truth for the market. As one participant said, "investors shadow shop (they look for what is hidden) – so IR has to ensure there is a constant flow of information into the market, via appropriate channels."

THE FUTURE OF THE IR ROLE

In response to the legislative and global strategic challenges, the IR role is changing:

- The IR role is considered valuable from the Chair of the Board through the C-suite and to the management level. More time is spent with the Chair and in larger listed entities IR's relationship with the Board is becoming closer through direct and regular communications. In addition, the increased interface with investors means that IROs hear direct views from shareholders to pass through to the executive and board.

- Access to the senior leadership team and C-suite is considered important for access and influence. There's a sense that IR needs to be flexible and its main role is becoming a trusted adviser to management and a conduit of views from stakeholders – though sometimes views can be filtered through the CEO/CFO.

Reporting lines are determined by the company's size and the emphasis they place on the importance of the IR role:

1. larger company reporting lines tend to be directly into the CFO, with less than 7% indicating they report to an ''other executive";
2. smaller companies often don't have a pure IR resource and those who do, in most cases, assume additional business responsibilities, such as marketing or strategy. While most of these roles report into a CFO there is a higher percentage who report to an ''other executive" than larger companies; and
3. in the majority of small and micro-cap companies, the CEO and / or CFO undertakes the IR role.

- IR's closer involvement in strategy and a wider remit than simply being an adjunct to the finance team, means that IR increasingly takes a leadership role across the business.

- There is now also more of a two-way flow of information between the IR function and the business, so IROs can integrate this feedback into their communication with the market. One IRO provides a daily IR report to the business at management level so that the market's perspective is understood. This approach can be useful for companies with legacy, and also current practices that are the subject of public debate, for example environment, social and governance criteria such as climate change and modern slavery standards.

- Resourcing the IR role is increasingly a challenge. The 'more hats' being taken on by IRO's, such as the demand for more investor meetings or briefings, and taking on more of the sell-side function from brokers, is causing a wider remit and the need to increase team size.

With the IR role being viewed as more important, it follows that the recruitment process is becoming more extensive, involving layers of the business, including human resources, the CFO, marketing, the incumbent and the CEO. Occasionally the Chair of the Board interviews candidates as part of the final decision.

SHIFTING MARKET FORCES' IMPACT ON IR

Regulations, such as MiFID II which requires a separation from sell-side brokers and research is causing IROs to engage directly with investors and play more of a role educating the investment community. This is especially important to ensure the information analysts are using in their research is correct. Challenges arising from changing market forces include:

- Limited IR resources and the changes prompted by MiFID II mean IROs now emphasise engaging directly with long-term investors. The greater propensity for IR teams to be in direct contact with investors goes all the way down to email communication, where the responsibility for answering emailed questions from investors would previously have been that of their broker.

- The 'juniorisation of research' as a result of MiFID II and the subsequent reduction in sell-side brokers, is causing the IR function to become "almost a sales desk in a broking firm". The importance of ensuring that investors hear the view of the company not just the analysts' point of view - prompts IROs to go directly to investors.

- The 'juniorisation' of sell-side analysts is contributing to buy-side validation to invest in their own research and thus limit their reliance on broker research.

A related issue is managing analyst forecasts that are well away from consensus, especially those that are too high or too low. Managing this is especially challenging given the risk of selective disclosure. In the 2019 AIRA Benchmarking survey results indicated:

- Approximately half of respondents indicated they exclude outliers in consensus estimates or lists of broker forecasts.

- Almost all companies derived and maintained their own version of consensus and used it for internal purposes only, more than half updated it on an ongoing basis.

- Out of date forecasts, analysts leaving and incorrect methodology were the main basis for excluding outliers.

- Respondents indicated concern regarding the quality of consensus on technology platforms.

The MiFID II has led to a number of changes to the IRO's role, including:

1. a shift of responsibilities from broking teams back to IR teams, causing some companies to recruit a dedicated IR co-ordinator to perform some of the tasks previously undertaken by brokers' sales desks.
2. the onus now on IR teams to organise roadshows, whereas in the past, brokers would have been more involved. While IR teams will now be much more closely involved in arranging investor meetings, there still needs to be a balance in the work that the IR team does and the work performed by brokers, with the latter still performing an important role, such as organising overseas roadshows, albeit a reduced one.
3. the increase in responsibilities being placed on IROs. CFOs consider that MiFID II means more work for IR in marketing the company to investors and to "assess the best return on investment in terms of executive time on roadshows and investor engagement given change in market/broker dynamics over the medium term."

4. IROs need to consider the opportunity presented in attending equities markets conferences and, what benefit it can provide by way of management's time and greater access to a larger number of investors,
5. The 'scope creep' currently taking place where the time spent on sustainability reporting, investor engagement regarding ESG, governance and, "getting resolutions passed" is growing exponentially.

With the changing face of the sell-side, and the changing ways in which IR now engages with the market, IR must navigate the buy-side landscape more independently and explore new ways to engage.

FROM SHAREHOLDER TO STAKEHOLDER ENGAGEMENT, ESG BECOMES MAINSTREAM

An increasingly difficult discussion involves shareholder primacy. Directors have a fiduciary duty to act in shareholders' interests but there's a view that this is becoming less palatable to a community with diverse interests and stakeholders. A counter argument is that anything a listed company does that's not in the interest of non-financial stakeholders will ultimately not be in shareholders' favour either.

Shareholder primacy notwithstanding, ESG is front and centre for listed entities in light of the Financial Services Royal Commission, as well as heightened community and investor focus on corporate responsibility. The key ESG challenges facing IROs include:

- An opportunity to play a role educating CEOs and the business with regard to ESG's increasing importance to the investment community. Focus on creating and explaining value on the ESG side "deeper engagement with industry funds and substantial investors in terms of their ESG focus areas".

- An increased focus on non-financial performance in remuneration committees, otherwise regulators and shareholders will be drawing this to their attention.

- Sustainability reporting and the annual report functions are converging and it is important that narratives in both are not seen to be competing. To this end, however, investors and other stakeholders increasingly require verifiable sustainability data and analytics. Reporting mechanisms, such as the Taskforce on Climate-related Financial Disclosures (TCFD) and the UN's Sustainable Development Goals (SDG), are being widely accepted by investors as standard measures and methodologies that listed entities should adopt when reporting ESG data.

- Metrics that reflect performance. Investors seek information that obviously meets regulatory requirements and key areas of ESG endeavours, rather than great tomes of largely irrelevant data.

- The large number of ESG surveys that have become the IR team's responsibility to complete, putting a strain on resources. IRO's need to be judicious about which surveys to complete. Even though the typical multi-disciplinary approach, with IR, marketing, corporate affairs, finance and other operational parts of the business is required to collaborate and prepare the information for these reports, it helps all involved to learn more about the investor perspective. It is argued that it's more valuable to do the work than report on it.

- Providing generic responses to the many different surveys is not an option and it is considered that the onus should be on getting the basics right when it comes to ESG reporting – but some conjecture about what constitutes the basics. Companies need to identify which ESG risks affect their particular business and what they are doing to manage these risks. For example, while reporting greenhouse gas emissions may be material information to report for a business with coal-fired energy assets, deciding what the basics are is more difficult for companies that ostensibly have less impact on that particular ESG risk.

- ESG reporting is an opportunity to showcase the company but whether it is investment-positive is debated. IROs relate that:
    - mainstream portfolio managers are increasingly using ESG metrics as a risk management tool, and
    - European debt investors tend not to invest unless these surveys are completed. One Scandinavian fund would only invest after gaining an understanding of how much revenue the business generates from non-renewable resources.
    - This shows while ESG factors are immaterial for some investors, for others they are a chief concern, and IR teams will increasingly need to understand investors' approach to ESG to be able to appropriately target them in the future.
- Little consistency in the way investors think about ESG and sustainability. It is argued that, even though a business may expend enormous energy providing ESG information, "when you're perceived to do the wrong thing, none of that matters."
- The concept of a business's social license to operate often evolves from an ESG discussion as shareholders want to understand the business is contributing in a positive way.

IROs are seeing an increased number of investors and analysts asking questions about ESG. With more than 70% of respondents to the AIRA Benchmarking survey reporting that the entity's ESG record could, or did, influence investment decisions. An increased understanding of ESG reporting and future developments in this area has become a priority for IROs. Ongoing development to expand ESG knowledge, reporting, and communication, with the C-Suite, Board and stakeholders, will have a high impact over the medium term.

ENGAGING WITH OTHER INVESTORS

A relevant challenge is engaging with passive investors, the majority of whom place limited value on building relationships with the management teams if listed entities, given most only invest according to the benchmark they follow. One participant noted that when passive investors do engage, they prefer to talk to the Chair of the Board. Other investor challenges facing IRO's include:

- The difficulty for listed entities outside the ASX 50 to engage with passive investors although one roundtable participant noted exchange-traded fund (ETF) house, BlackRock, is the exception. It is proving more difficult for IR teams to build relationships with other ETF providers.
- The power of index / passive investors to influence votes on shareholder resolutions. They may form a view without having had the opportunity to gain an understanding of the business's perspective on particular issues, or only vote in line with proxy advisers.
- One approach to address this is to attempt to engage with these investors, as well as significant overseas investors, such as US pension funds CalPERS and CalSTRS, outside traditional reporting periods. Involving the Chair of the Board in meetings with these funds provides them with a sense of importance and can assist in engaging them.
- Independent research houses, as well as short sellers and quantitative funds – as well as the emerging class of 'quantamental' funds, which combine a quantitative and a fundamental approach to stock selection – can also prove elusive. This is proving problematic in instances where independent research houses produce research containing factual errors and investors and short sellers trade stocks on this basis. Stocks with high price-to-earnings ratios are especially exposed in this scenario, and risk substantial share price falls.
- Activist funds, a growing framework of investors, are a new shareholder base. There is an opportunity for companies to understand activism and the point of view of hedge funds. It is also important to note not all activist funds are alike. Some call themselves different names and some may be subtle about being activist.

Active funds and IR have had strong connections in the past but engagement with investors is changing with different requirements for passive, index and activist investors being placed on listed entities. The requirement of the latter of the shareholder groups is somewhat different to conventional engagement placing greater onus on IR to manage these changing relationships.

THE RISE OF INDUSTRY SUPERANNUATION FUNDS

A significant shift in the Australian market is the more active approach to investing and company research being taken by industry funds, such as AustralianSuper. Industry funds increasingly want to be included in investor days, site visits and roadshows, which is a shift that IROs are taking into account. Key points to note include:

- Industry funds' more active approach to owning assets may affect their value proposition, given the cost associated with their executives travelling to visit the assets they own and the subsequent impact this may have on their low fees – which is one of the main reasons their returns are high and accounts for their ensuing attraction to retail shareholders.

- The point of contact can be less clear within industry funds, although a point of contact may be the Australian Council of Superannuation Investors (ACSI). The benefit of engaging with an industry body such as ACSI is that it gives listed entities a single point of contact for industry funds, which will be especially useful for smaller companies with limited resources.

- Industry funds' propensity to engage is related to the size of the business and the seriousness of the issue.

- Industry funds typically want to meet with the Board and Chair. This can be problematic in terms of selective disclosure, if side conversations happen between this group of investors and the Directors, without IR being represented at meetings. One solution to address selective disclosure is to ensure meetings are formally structured.

- With the exception of governance roadshows, it's particularly problematic if major beneficial owners such as industry funds see Directors as their agents. "If IR is not part of these discussions, there's a risk the IR function will be marginalised, so the meetings need to be structured and key messages scripted so as not to disclose different information to different investors."

Industry funds, as major beneficial shareholders, are increasingly a group that IROs must engage proactively. They need to communicate both with internal portfolio managers on company results and other disclosures, and on ESG issues with the heads of ESG.

THE ROLE OF TECHNOLOGY

There are mixed views about the future role of technology in investor relations; many felt IR technology is still in its early days. However, there are visions for its future application to assist in streamlining back office functions in particular. For instance, blockchain-based voting solutions that connect names on a share register with end investors or beneficial owners would help alleviate the administrative burden on IR teams. Blockchain-based voting technologies that connect votes to shareholders would also assist an IR team's work. Indeed, IROs have a wish list of technologies that would assist them, such as:

- tools that help to streamline sustainability reporting and merge disparate systems, and
- technology to integrate ESG and financial information into dashboards, so this data could be benchmarked.

Big data may also hold promise for IR teams, but there's yet to be any real progress on its practical application for the function. Notwithstanding IROs need to monitor any new technology investors may be using. Examples of new technology include:

- UBS's Evidence Lab is an early iteration of the use of big data in investment markets. For example, it is able to use insights gleaned from data such as how many ships are leaving a port or how many cars are in a car park at a shopping centre to deliver insights for investors.
- Prattle, a Liquidnet company and, a natural language processing and machine learning specialist, uses a text analysis algorithm to analyse research reports and corporate communications on around 3,000 companies and 15 central banks to measure sentiment and generate investor insights.
- The ANZ Truckometer in New Zealand, combines two data sets. It's based on the notion traffic flows are a proxy for economic activity. It combines the ANZ Heavy Traffic Index, which is correlated to GDP and the ANZ Light Traffic Index, which is a leading indicator for GDP. Investors take this into account when allocating capital.

As these examples show, big data's value is perhaps less about the data and more about the story it tells. The message for companies is that they need to come to grips with which data sets are relevant for investors. IROs need to be across innovations in technologies to ensure they understand trends in the market. This is especially important given efficient allocation of capital relies on information transparency.

Technology is also important in reaching retail investors, with web and audiocasts useful in enhancing engagement with this hard-to-reach group.

With retail investors IROs need to better understand their drivers for buying, selling and holding listed companies' shares and which issues are important. Knowing how much of the register uses information from brokers versus the website can help to determine resourcing, such as the right balance between providing information through online versus offline channels.

While there is little evidence that IRO's are using a wide range of technology for the everyday running of investor relations, there is a growing need to understand what investors are using. The market's use of blockchain and AI to interpret results announcements and financial information more quickly, is growing. Therefore, IROs should focus on any technology's investors are using to understand how they work and how they may affect investment decisions. In addition, it is important that IROs continue to review technology and how it can improve processes surrounding IR practice.

THE FUTURE OF IR PROFESSIONAL DEVELOPMENT

AIRA is exploring a range of avenues for continuing professional development, with the association currently examining different certification models, including certification to hold certain senior roles, or the requirement for a certain cohort of ASX companies – those in the ASX 100, for instance – to have at least one certified IR practitioner. It's worth noting other national IR bodies such as NIRI are exploring a similar path and developing certification modelled on the one developed by the Chartered Financial Analysts' Institute.

In Australasia, certification may involve passing an examination and having a number of years' experience in an IR role, with a requirement for ongoing professional development in the way accountants are required to fulfil this requirement to maintain their professional certification.

Another idea is including certification in listing rules, although this might discourage small companies from listing. Ultimately, companies should be encouraged to think about IR in a more professional way because investor and community expectations are changing and IR needs to move in step.

Given the varied pathways into an IR career, there is a need for a body of knowledge including a deep understanding of listing rules. IR teams must remain abreast of trends, with a commensurate requirement to undertake ongoing professional development to provide best practice investor relations and cement IR's future as an important corporate discipline.

CONCLUSION

The core of the IR role is to support clear communication to, and engagement with, listed entities and the market to ensure fair value of the company's securities.

IRs role as a key adviser to the executive is likely to continue to grow, which will underscore a need for a more formal certification system and ongoing CPD.

Technology may drive change in IR into the future, and it is important for IROs to know what investors are using and how it affects their investment decisions. Although technology will present plenty of opportunity for IROs in support of their roles - it will require investment, and will not replace meeting face-to-face and valuable human insight.

If recent trends persist, the investor base might become more fragmented and corporate governance will remain a focus.

Changes around the growth of ESG investment and reporting is set to have a major impact on the demands of IR teams. It will be essential for IROs and listed entities to understand the changing ESG requirements of the fragmented market. Ongoing discussion, education and structure will be required to keep up to speed.

With even more funds coming into financial markets thanks to Australia's and New Zealand's superannuation schemes, there will likely be an even greater need for IR to assist listed companies to clearly communicate to investors in the coming years, which indicates continuing demand for talented individuals in IR roles and a bright future for those in and considering a career in investor relations.

APPENDIX

1. The Future Role of Technology in Investor Relations

Technology is a constant evolution, but about once a decade an innovation comes along which truly changes the game.

When I started working in the City for Cazenove & Co in 1995 my first job was collating paper offerings from the analysts for the morning fax – a 20-page document sent out every day to all our institutional contacts from a dedicated fax room of 12 people. Email completely revolutionised how the City worked.

The noughties brought the internet and the BlackBerry – the advent of IR websites and Email on the move. In the current decade, the big shift has been Cloud infrastructure. It used to be that only very large corporations could afford the tens of millions of $ investment required to build international platforms: today small tech companies can meet Enterprise procurement standards and deliver a world class product, globally, via Microsoft Azure or Amazon AWS Platform-as-a-Service (PaaS). This shift inherently reduces barriers and shortens the innovation cycle further still.

Meanwhile, several bright ideas have come and gone. Corporate IR teams no longer aspire to having their own IR Apps in the App Store. Video conferencing fills a critical niche, but IR remains a game of shoe leather. As the volume of information and speed of delivery explode and interaction is increasingly electronic, meeting face-to-face and looking them in the whites of their eyes becomes even more important.

I believe the capabilities and adoption of technology in IR and more broadly in wholesale financial services will accelerate still further in the years ahead. Part of this is the pace of innovation. Another important part is the starting point: most other industries underwent tech revolutions decades ago, whereas in wholesale financial services many practices remain unchanged in a generation. Relentless pressure on costs and fees provides a further, powerful imperative and new regulatory requirements are bringing it all to a head to force change.

So, looking forward, what happens from here?

Seven predictions:

- **IR CRM will become a must have, not a nice to have:** From evidencing to regulators who was met, when and what was discussed; to surfacing the key info you need on the move; to a growing need for sophisticated feedback and targeting tools as more is done in house; to granular, real-time reporting and analytics for the Exec and the Board – specialist CRM is at the heart of it all. You cannot know what you could be doing until you can analyse what you are doing – and this requires systemisation.

- **Pressure on cost and transparency are here to stay:** Intermediaries aren't going anywhere but the nature of the role will change. Expect growth in intermediaries as trusted advisors, and decline in their role as connectors, where software can do the heavy lifting much more cost effectively and in real time.

- **Feedback will increasingly move to a direct, tech driven model:** The old system is no longer fit for purpose and works for nobody. Buy-side, sell-side and IR all need a new solution.

- **Enterprise procurement will form a new barrier to entry:** People are increasingly aware of the potential risks of data loss. In Enterprise IT, it doesn't matter if you're small, you need to adhere to the standard. This means meeting formidable requirements.

- **Globalisation of solutions:** Cloud platforms inherently make it more likely that solutions will be replicated globally – another reason the world is shrinking for IR. AI needs refinement to take off in IR: A head of IR at a large FTSE 100 company recently mentioned the Artificial Intelligence targeting engine being presented to him confidently declared his top target should be BlackRock. But typically, millions of inputs go in to AI engines: it's not usually possible to obtain an explanation how the targets were arrived at. This doesn't work: an IRO is unlikely to put their CEO in front of an investor unless s/he can explain how the target was generated. AI in IR feels just a bit premature. Systemisation and analysis of their own, real data will give IROs valuable insight. At this point what they need is proprietary, not artificial, intelligence.

- **Requires budget:** People often look at tech in IR with rose tinted spectacles. They are used to consumer products like Facebook & Google providing service "for free" – funded by advertising. In Enterprise tech there is no advertising, and meeting the bar is expensive. The consequence of IROs having to do more in house is securing more resource, and more budget, to do it well.

In conclusion, tech has already had a profound impact on IR wholesale financial markets in recent decades. This trend is very likely to continue and to accelerate further in the years ahead. This will present plenty of opportunity - but also requires investment.

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