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INFORMED

THE VOICE OF INVESTOR RELATIONS IN THE UK

ISSUE 75 SUMMER 2012

THE DIAMOND ISSUE

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THE COMPETITION FOR CAPITAL

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PROMOTING EXCELLENCE IN INVESTOR RELATIONS

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A FULL REPORT
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THE COMPETITION FOR CAPITAL

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CHAIRMAN'S LETTER

The Society's full agenda

In my first article for *Informed* as chairman of the IR Society last summer, I set out what I believed to be a positive strategy and programme of events for the forthcoming few years. It is fair to say that in June last year we also expected a more positive economic environment to slowly emerge from the embers of the banking inferno. Despite the storms around European financing, fires in England and the stop-start economic recovery, your Society has successfully steered a positive course in the last year and has secured some good outcomes.

As many will know, I have strong views on the value that professional IR can bring companies and investors. One of my key ambitions as chairman is to build on the success of many in the profession and to demonstrate this value to members of the boardroom and other senior professionals, whether they be lawyers, accountants, financiers or journalists. It is the boardroom advocacy and support that will elevate the profession from 'gifted amateur bag carriers' to 'value-added members of the executive management' in the eyes of our key audience – investors themselves. The challenge for many IROs is that our mission is to make our CEOs and CFOs look good, with much of the credit for different initiatives as a result failing to find its true target. It's a challenging issue.

In the last 12 months we have continued the hard work started by previous society chairmen, putting in place the foundations on which we can build in the years ahead. For example, our new IR Forum, catalysed by Richard Davies, has started the debate between IROs and fund managers on topics of mutual importance.

Our engagement on policy issues, through independent consultation responses or working with others – for example the 100 Group of Finance Directors – continues to add value to the debate on other matters. We have responded to a number of official consultations, including from the Financial Services Authority, the Kay Review and the European Union. Last month, we sat down with Professor John Kay to discuss our views on the relevant issues around short-termism in capital markets and the dangers of prescriptive approaches to solving the perceived problem.

At our next board meeting in July we'll be discussing how we can build momentum and energy behind this mission. We have a full agenda for the next two or three years, with ideas for a high profile training course for career IROs looking to operate effectively at the highest levels and a wider and more effective examination of the real value IROs bring at the centre of some of our more colourful public deals.

We will also relaunch and invigorate our Best Practice awards this year with some new categories to recognise real individual and corporate achievements. These will be voted awards, supported by the judging panel, and all our members and key stakeholders will be able to express their views – vital to securing the right outcome.

All of this needs to be about you, our members, being engaged and committed to the society and its activities. ■

JOHN DAWSON

New IR Best Practice awards categories

The IR Society is introducing five new awards in its annual IR Best Practice awards event to be held on 20 November.

In addition to the seven regular awards categories, the new awards will honour achievement in IR by companies and individuals, as recognised by their peers in the industry.

The new awards will be given for:

- best communication of investment proposition (company);
- most improved IR (company);
- best newcomer to IR (individual);
- best investor relations officer (individual); and
- best overall company IR (company).

Now in their 11th year, the IR Society Best Practice awards encourage and reward best practice in investor communications, both online and in print.

Nominees for these new awards have been submitted by IR Society members and the winners will be selected by a voting process involving members, brokers and investors. The final (as voted) short-listed companies and individuals will be published at the end of September and the winners will be announced at the awards dinner on 20 November.

Entries for the main company awards can still be submitted until Friday 20 July – don't delay, get your entries in today!

See www.irs.org.uk for full details. ■

The 2011 awards dinner

Informed magazine reaches a diamond milestone

When is a jubilee 'diamond'? The answer is 60 years when you are the monarch. For lesser mortals the dictionary or 'tea towel' definition seems to be 75. In any event we are pleased to celebrate the 75th issue of *Informed* magazine, our quarterly journal.

(Observant readers may have noticed that we also celebrated our 60th issue as a diamond occasion!)

This quarter's issue finds the Society in excellent health as shown by the following:

- membership is approaching the highest level ever at 648;
- we have had over 500 successful candidates taking the CIR examination and we have an active professional development programme;
- feedback from this year's conference (full report later in this issue) has been overwhelmingly positive; and
- through the policy committee we are actively representing the views of members to government and regulators and the events committee arranges meetings and seminars on a wide range of issues for members at all levels of experience.

Investor relations has changed dramatically since our first issue. Not only has the number of full time professional IROs increased but the profession has grown in stature and influence. And where do we expect to be by the time of our 100th issue? More IROs in senior management positions certainly; more members of the IR Society hopefully; and an end to the recession – possibly! ■

Society poll says IROs meet top investors regularly

Readers might have seen a recent article in *FTfm* (the *Financial Times* supplement for fund managers) – 'Fund managers cannot be stewards' – which raised the issue of 'ownerless corporations' and reported that there had been 'no increase in meaningful engagement following the introduction of the UK's Stewardship Code in 2010'.

The article also stated that 'only one in 10 companies had met all their top 10 shareholders in the past 12 months and that a third of companies had met fewer than three (13% met none).'

Some of the findings in the article, including those above, seemed to be quite surprising, so with investor engagement and stewardship very topical issues the Society asked its in-house members about their practices and thoughts. The results have been highly revealing and serve to show in particular that the question of fund manager stewardship is a live one! Our findings:

- the somewhat gloomy picture was not confirmed by IR Society members as 85% of respondees meet with their top 10 investors more than once a year. This may be due to the fact that IR Society members are already committed to an active IR programme and that companies with an IRO do the job better!;
- 68% of respondees stated that more than 80% of their top 10 investors are 'actively engaged', while 27% say 50-80% of their investors are actively engaged, with only 5% saying fewer than 50% of their top 10 investors are actively engaged. This shows the high degree of input from shareholders in stocks they own - and the vital role of IR in acting as a conduit between investor and company management;
- 45% think that individual non-specialist fund managers can be 'stewards' of companies they hold stock in while 43% think they cannot be (the remaining 12% gave varying views). So as with fund managers themselves, investor relations officers are divided over this issue! There is much debate before consensus is reached - if at all.

These findings provide much to think about. Thank you to everyone who took part in this mini-poll. ■

NEW IR SOCIETY MEMBERS

The IR Society welcomes the following new members to June 2012:

Andrea Abbate – EMR
Shariq Arif – SES
Robert Bailhache – Direct Line Group
Vladimir Baklanov – Federal Grid Company of Unified Energy System
Kerry Billman – S&P Capital IQ
Sarah Bines – J.P. Morgan Cazenove
Chris Birks – IRFocus Limited
Annie Bissett – MerchantCantos
Andrew Bloxham – Catlin Group
Sophie Brand – Brunswick Group LLP
Lauren Burns – Hays Plc
Erik Castenskiold
Marina Chirpalov
Faith Conley – Taylor Bennett
Sarah Crawshaw – Taylor Bennett
Jonathan Duckett – Bumi Armada Berhad
Alexander Duzhinov – Federal Grid Company of Unified Energy System
Kimberley Gunthorp – Smith + Nephew
Matthew Hickman – Interserve Plc
Tim Huddart – h2glenfern Limited
James Johnson – Santander UK
Suzanne Johnson-Walsh – GTH Media Relations
Rachel Leek – Provident Financial plc
Steven Lemka – J.P. Morgan Cazenove
Chris Lowe – Independent Corporate Access
Claudia Mair – Taylor Bennett
Dominic Manley – Ruspetro Plc
Nikolay Mashchenko – MRSK Center
Eva McCann – global3digital
Clare McFie – h2glenfern Limited
Jim McGlone – Taylor Bennett
Leona Minellas – Bread PR
Tatiana Miroshnichenko – MRSK Center
Lindiwe Montshiwage – Royal Bafokeng Platinum Limited
Helen Newell – Serco
Louise Nicolson – Bread PR
Lee O'Sullivan – J.P. Morgan Cazenove
Adrian Parker – SAS
Lorraine Rees – Standard Life
Arnaud Robin – IR.soft
Michael Roper – J.P. Morgan Cazenove
Dafne Sanar – Balfour Beatty plc
Vanessa Shaw – Tata Global Beverages
Duncan Shearer – J.P. Morgan Cazenove
Morten Singleton – Colt
Ian Smart – Deutsche Bank
Lysette Stephens – J.P. Morgan Cazenove
Nadezhda Sukhova – Federal Grid Company of Unified Energy System
Kelly Taylor – J.P. Morgan Cazenove
Egor Toropov – Federal Grid Company of Unified Energy System
Rosanna Warr – J.P. Morgan Cazenove
Kelly Watson – British Land
Tiffany Willis – global3digital

For information on membership benefits and to join the IR Society please contact Richard Knight: richard.knight@irs.org.uk or visit www.irs.org.uk

Conference – 'the best yet'

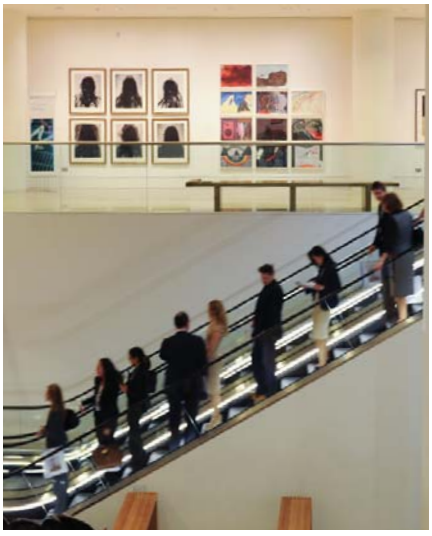
The IR Society's 26th annual conference 'The competition for capital' took place on 22 May in the elegant surroundings of Kings Place, London, attended by over 300 IR professionals and others.

The keynote speakers were Danny Alexander, the UK treasury secretary, Rich Ricci, co-chief executive of corporate and investment banking, Barclays, and the entrepreneur, former Channel 4 TV chairman and columnist Luke Johnson.

A wide range of sessions featured many expert speakers discussing key topics including corporate debt, equity and communication skills.

Feedback from attendees was very positive – many declared the conference to be the best yet. The conference sponsor, Barclays, also hosted a successful post-conference drinks party.

For a full report on the conference, including session notes and photographs, see pages 13 to 43. ■



Conference attendees at Kings Place

Members expect to discuss pay

The rising number of full or partial pay revolts by investors in recent weeks appears to indicate a developing trend in which perceived discrepancies between performance and executive pay are coming under enhanced scrutiny.

In a recent IR Society poll of in-house members, 77% felt that they expected to be involved in discussions with investors regarding executive remuneration.

Meanwhile, in the consultation response to BIS on 'Executive Pay: Shareholder Voting Rights', the Society stated its position that "we support the idea in principle of a binding vote on future remuneration policy as a way of building openness and commitment into the remuneration framework, while raising a number of caveats..." ■

Society submits its Kay response

The IR Society has submitted a response to the Kay review's further call for evidence.

The Society says that, while it seems clear from the interim report that the review will likely recommend bringing to an end mandatory quarterly reporting for UK listed companies, discussions with Society members have shown that nearly all are likely to continue with four to six earnings announcements per year because the market has come to expect it.

This should not be seen as presenting the case for retaining mandatory quarterly reporting. Indeed, the Society feels that scrapping this obligation would allow greater flexibility for companies with regard to their reporting schedule.

However the Society points out that even if, as the interim report appears to favour, quarterly reporting is made non-obligatory, companies may well decide to continue reporting at least four times a year, or as the market requires.

The Society's response can be viewed on the website – please visit www.irs.org.uk. ■

CIR now passed by over 500 candidates

Over 500 candidates have successfully passed the Certificate in Investor Relations (CIR), the IR Society's professional qualification for the IR community.

Beginning in 2003, the CIR was intended to help achieve best practice investor relations for current and prospective IR practitioners – and this remains its objective today.

From small origins the CIR has now 'gone global' and there is a long list of countries that have produced successful candidates in addition to the Society's international partnerships, with organisations delivering the CIR to groups of candidates in Russia, Egypt, Malaysia, Hong Kong and Singapore.

"We want to take this opportunity to congratulate all 519 successful candidates for achieving a qualification that requires a great deal of hard work and understanding of investor relations," the IR Society said.

If you would like to add the UK's only IR qualification to your CV then take a look at the Society's website www.irs.org.uk or contact laura.hayter@irs.org.uk.

In the words of one former candidate: "One part finance, one part compliance, one part communications... the CIR is a great grounding across all the different aspects of IR for everyone practicing in the field." ■

CERTIFICATE IN INVESTOR RELATIONS – PASSES

The IR Society congratulates the following candidates who passed the Certificate in Investor Relations (CIR) to June 2012:

Archana Achuthan – HSBC
Aida Amanova – JSC Alliance Bank
Seda Ambartsumian – Tulchan Communications
Klavdiya Badieva – Shared Value
Agnes Chan – Independent
Wilson Chan – Ruger Consulting
Zhang Chen – Kunlun Energy
Marina Chirpalov – Independent
Christina Clark – Tulchan Communications
Rosie Coulling – Broker Profile
Simona D'Agostino – Lottomatica Group
Lauren Fitzgerald – Scott Harris
Ulli Gafert – Logica
Anastasia Georgadidis – Circle Group
Helen Greenwood – Temple Bar Advisory
Marlies Henry – BNY Mellon Depositary Receipts
Kenit Hoi – Johnson Electric
Randy Hung – China Fiber Optic Network System Group
Katherine Jones – The Phoenix Group
Julia Kalcheva – ENRC
Janice Liu – ERA Mining Machinery
Jeffrey Liu – Johnson Electric
Eva Lui – Independent
Li Gui Miao – Eddingpharm
Susana Morgado Gomez – Hong Kong Investor Relations
Giang Nguyen – Independent
Krista Ostapovich – Independent
Andrey Rudkov – Akcia Holding Company
Minzhi Si – China Everbright
Adam Strachan – Independent
Pankaj Tiwari – Perfect Relations
Elvira Tukhbatullina – Shared Value
Zaure Turekhanova – JSC Alliance Bank
Verena Ulrich – Independent
Derek Wong – Chan Tang & Kwok
Tang Cheuk Yan – Independent
Vicky Yu – Global Bi-chem Technology Group

About the Certificate in Investor Relations

The CIR is the UK's foundation-level professional qualification for IR practitioners and has been updated to include the recent changes to the Companies Act, as well as details on the Alternative Investment Market (AIM) rules. For further information, please contact Laura Hayter – laura.hayter@irs.org.uk

BOARD CHANGES: THREE DIRECTORS RETIRE, THREE JOIN

At a well-attended AGM held on 19 June, three members of the board retired and Society members approved three new appointments. We would like to thank the retiring board members for their contributions to the Society:

- **Lisa Williams** has served on the board since 2009 and, as chairman of the membership committee, has overseen a growth in our membership to close to our highest level;
- **Mark Hynes** has served on the board since 2005 and as the founding chair of the policy committee has developed our technical advocacy capabilities which now play such an important part of our activities. Mark has also given invaluable service on our training courses and we are pleased to say that he will be continuing to assist us with this going forward; and
- **Richard Davies** has been on the board for 10 years and during that time he has served as chair of the events, membership and nominations committees and has sat on almost all the other committees at some time, as well as being deputy chairman and finally chairman of the Society. Through his enthusiasm and entrepreneurial flair he led us through the difficult period of the post 2008 financial collapse and has unfailingly lent his support for our activities. Luckily he will continue to be an active presenter on courses and events and will sit on our committees.

We welcome to the board **Sallie Cooke-Pilot** of Black Sun, **Danielle Poulain** of Banco Espirito Santo and **David Lloyd-Seed** of Dixons Retail, bringing some very relevant and different perspectives and recognising their long standing contributions to the Society. All have served on committees for a number of years and we are delighted that they have agreed to contribute their expertise.

Our thanks go to Citi Depositary Receipt Services for hosting the AGM again this year. ■

Will 'spring' turn into summer?

Michael Mitchell highlights the issues facing IROs on both sides of the Atlantic.

Michael Mitchell is general manager of The Investor Relations Society. michael.mitchell@irs.org.uk

At the recent conferences of the US and Canadian IR societies it was interesting to note that many of the issues that are occupying the minds of UK IROs are also concerning professionals on the other side of the Atlantic.

So corporate governance, the 'shareholder spring', say on pay and proxy voting are very much on the agenda. It was also interesting to note that most IROs are still not convinced that social media has a role to play as a mainstream tool in communication with investors. Concern about the eurozone is also very much an issue in North America, although one feels that the outlook for the Canadian economy, as they sit on vast amounts of natural resources, is rather more positive than for the UK.

It is perhaps indicative of the confidence in their economy that within the last month Canadian companies have bid for two UK plcs. Canadian fund managers are looking for diversification in their investments, making a trip to Toronto or Montreal a good stop for UK issuers especially given Canadian's friendly predisposition to the old country.

Don't drop it!

At the beginning of the year I wrote somewhat optimistically about the outlook for corporate UK in the hope that the euro issue would be sorted out. Unbelievably, the same problems rumble on and, if anything, resolution now looks further away. Worryingly, after the positive moves in 2008 by the world's largest economies which avoided a 1930s style recession, European leaders seem to have cast aside the lessons of the Great Depression to snatch defeat from the jaws of victory. Uncertainty reigns and confidence is as rare as the summer sun.

Not all companies are impacted in the same way, so for IROs this means that messaging remains paramount. It is vital to give insight into how the macro economic conditions are affecting your sector.

Difficult times provide opportunities and those companies that maintain good contacts with the markets will benefit. I am always sorry when I hear that companies have cut back on their investor relations activities. Short term gain may result in long term pain. Investors are demanding more information and are being encouraged to take a more active role in the governance of investee companies. Binding votes on remuneration will soon be on the statute book.

These are great opportunities for IROs as your skills will be all the more important to management, but it is up to you to make sure that the 'shareholder spring' turns into the 'IR summer'. ■

Cable seeks three-year binding votes on pay

Vince Cable, the business secretary, has announced revised plans on shareholder approval of executive pay following the recent consultation that the IR Society took part in.

Annual binding votes on executive remuneration will now not take place. However there will be instead:

- binding votes on executive pay every three years if a company chooses to leave its remuneration policy unchanged – however, this becomes a binding annual vote if the policy changes. If the binding vote does not pass, the company will retain the existing remuneration policy until shareholders agree a revised one. Once a new policy is agreed, any further changes require further shareholder approval;
- companies will then have to stick to their pay plans for the next three years or have another shareholder vote;
- the publishing of a single figure every year showing how much executives have been paid; and
- the publishing of exit payments – saying how much directors will be paid if they are sacked or resign.

Cable's department, Business, Innovation and Skills, has taken on board representations through consultation, including some of the Society's. The binding vote will require a simple majority of more than 50% for a policy to pass, which the Society supports.

EU to push for binding votes

Meanwhile, the *Financial Times* reports that Michel Barnier, the EU commissioner responsible for internal market and services, has expressed his preference for a binding vote by shareholders on executive pay, echoing BIS's consultation on the subject.

Barnier commented: "I like that expression – the shareholder spring – or even a regulation spring, a rule-making spring. I'm very attentive to this movement which I see as very positive. It corresponds with what I've been doing for the last two years. We need to put responsibility and transparency everywhere."

There is no decision yet as to whether votes on executive pay packages would require a simple majority or higher. As it stands this remains Barnier's personal preference although he will now develop a European commission proposal.

UK'S PLUS MARKET TO TRADE DERIVATIVES?

The UK's small and micro cap market has been sold to broker ICAP for £500,000 after initially failing to find a buyer.

In a statement on June 14, the broker said: "ICAP is fully committed to continue supporting and expanding the equities listings venue which provides growth capital for smaller companies as well as exploring other possibilities. As an extremely experienced market operator, ICAP is also well positioned to leverage PLUS' exchange status to offer new products and solutions for its customers including, in time, listed derivatives."

Industry news briefing
Selected key issues for IROs

... and to act on governance

The European Parliament reports that Ugo Bassi, the EU Commission's internal market and services directorate-general has confirmed that the commission will table an 'action plan' on corporate governance later this year designed to improve the 'accountability and responsibility' of financial institutions.

Following the Commission's Green paper on corporate governance in financial institutions the EU in general is looking at ways to strengthen corporate governance across member states.

FSA fines for listing breaches

Exillon Energy plc has been fined £292,950 by the Financial Services Authority for failing to identify around £930,000 of payments to its former chairman and beneficiary of the major shareholder as related party transactions, and failing to disclose them to the FSA in a timely manner.

This contravenes Listing Rule Principle 2 which is intended to ensure that listed companies have adequate procedures, systems and controls to enable them to comply with their obligations under the listing rules and disclosure rules and transparency rules.

Boards are increasing diversity

A new report from Deloitte has shown that, while over three quarters of companies are actively trying to increase diversity of their

board and almost 30% of FTSE 350 non-executive board appointments in the past year were women – more than double the overall proportion of women on boards - still only one in 10 executive board appointments were filled by a woman.

Carol Arrowsmith, partner in the executive compensation team at Deloitte, said: "It is extremely encouraging that since Lord Davies published his report on women on boards, almost a third of non-executive appointments in FTSE 350 companies have been women. However, we also need to look hard at the number of female executive appointments. This is where many of the non-executive directors of the future are likely to emerge from and we are still seeing only one in 10 recent executive director appointments filled by a woman.

This is an improvement on the overall number of executive positions held by women, which stands at around one in every 20, but it is not enough."

HFT 'is progress, not piracy'

Bloomberg reports that "high-frequency traders, the current bad boys of the financial markets" are in fact perfectly respectable. It says that "criticisms of HFT are overblown, and regulating potential abuses isn't as hard as many believe. In fact, more regulation – unless wisely applied – is likely to do more harm than good". The article quotes a study from Credit Suisse Group AG that regarding HFTs "at a minimum, markets are not worse for their presence" because high-frequency trading provides vital liquidity to capital markets.

FRC reform to go ahead

The Financial Reporting Council (FRC) has welcomed the government's intention to bring forward proposals to provide it with a reformed set of statutory powers following the joint consultation on FRC reform. This will reduce its seven divisions – Accountancy Actuarial Disciplinary Board (AADB), Audit Inspection Unit (AIU), Financial Reporting Review Panel (FRRP), Board for Actuarial Standards (BAS), Professional Oversight Board (POB), Auditing Practices Board (APB), and Accounting Standards Board (ASB) – to two, Codes and Standards and Conduct Division.

Codes and Standards succeeds the ASB, APB and the BAS, supported by three councils that will advise on accounting, audit and assurance and actuarial matters. The new Conduct Division of the FRC covers supervisory and disciplinary matters and takes over from FRRP, POB, AIU and AADB.

The government will bring forward proposals for secondary legislation that will delegate most statutory powers to the FRC board, not the operating bodies. These should enter into force by 2 July 2012.

IS INVESTOR RELATIONS VALUE RELEVANT?

A new paper by Richard J Taffler (Warwick Business School), Vineet Agarwal (Cranfield School of Management), Angel Bellotti (Middlesex Business School) and Elly A Nash (Independent) concludes that effective IR activity might enhance the 'visibility' of a stock, leading to positive short-term abnormal returns and permanent upward revaluation, greater analyst coverage, improved liquidity and higher market valuation multiples.

In addition, since smaller firms are more likely to be 'neglected', investor relations should have a greater impact in such cases.

For more, see www.irs.org.uk/news/is-investor-relations-value-relevant

Leader perceptions boost shares

IROs will testify to the significance of market perception of senior management. A new research paper from Deloitte has shown how market perceptions of leaders move share prices, with effective management leading to an average premium of 15.7% and an average discount of 19.8% for poor leaders.

This means the potential gap between the value of a company with good leadership and that of a company with weak leadership is 35.5%.

Deloitte report that stock market analysts from the UK, US, China, India, Japan and Brazil awarded significant premiums for effective leadership – with sizeable discounts for its opposite.

While this might seem self-evident it is the numerical finding that makes this a significant report.

Remuneration committees

The High Pay Centre has reported that 46% of people on remuneration committees are current or former CEOs.

Other findings include:

- 9% of FTSE 100 companies have a current FTSE 100 lead executive on their remuneration committee;
- 33% of FTSE 100 companies have a current lead executive on the remuneration committee; and
- there are 59 women sitting on the remuneration committees of the FTSE 100 companies (16% of total).

The Investor Relations Society
26th ANNUAL CONFERENCE

The Competition for Capital

A full report on the IR industry's premier conference, held in London on 22 May

FEATURE CONTENTS

CONFERENCE 2012

A 26-page special feature with session reports and photos.

The 26th annual conference of the Investor Relations Society took place on Tuesday 22 May in the pristine modern setting of Kings Place, near Kings Cross station, London.

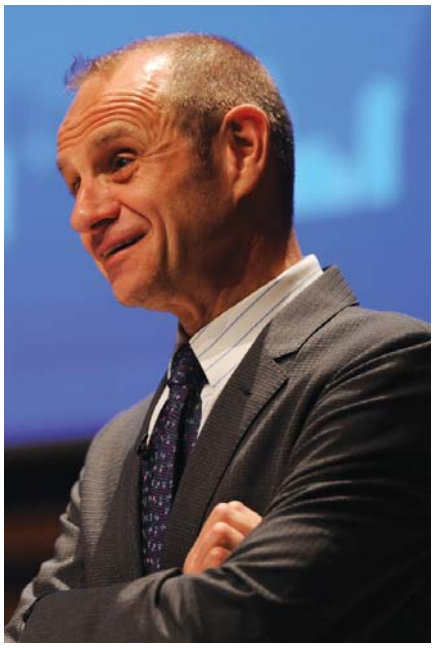
Over 300 IR professionals and others attended the all-day conference to hear a range of City and business experts and commentators discuss key topics of importance to the IR community. The title of the conference, 'The competition for capital', provided a theme around which the many conference sessions were based.

The proceedings were supported by a popular exhibition space for a range of commercial exhibitors. At the end of the day, there was a post-conference drinks reception sponsored by the main conference sponsor, Barclays.

The moderator for the day was the broadcaster and journalist Evan Davis, who was returning to this role for a third year.

The conference was introduced by the IR Society's chairman John Dawson, who set the scene. "This has been a very challenging year for anyone in business," he said. "This time last year we were all hoping that we were perhaps seeing the first signs of light at the end of a long tunnel but the tunnel has got even longer.

John Dawson



Evan Davis

Despite this, many corporates have performed well but IROs have still had their work cut out to tell a positive story."

He noted that "at the heart of our role in investor relations is the challenge of becoming better communicators, more open and transparent, more trusted and effective."

The key to this is building stronger dialogues between investors and companies, he added – "so that we can be held to account for what we say we will do but not unnecessarily punished for factors outside our control."

There was a need to promote the role of IR in the boardroom. "The Society will do what it can to help you on your career path but you need to engage with us to benefit."

Dawson noted that in the conference audience, there were IR professionals from Finland, Ireland, Germany, the Netherlands, Romania, Russia, Spain, Switzerland, the Ukraine and a few from the US as well.

"Thank you all for coming and helping make this Europe's preeminent IR conference," he added. ■

THANK YOU – we are grateful to our sponsors...

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Vintra
WorkCast
WorldTV

...and to the conference reporters who supplied the copy for this feature.

Growth and change in the world economy

In the conference's opening keynote, Rich Ricci of Barclays explained the challenges facing international capital markets and addressed the priorities of corporates and IROs.

"As an investment banker, one of the most interesting themes I have observed over my career is how the markets have changed – even over just the last 25 years," said Rich Ricci, co-chief executive of corporate and investment banking at Barclays, in his opening keynote.

"In 1990, the UK domestic bond market was £7.5bn; today it is £70bn – ten times the size. In 1990, £3.9bn of equity capital was raised in the UK; last year, that figure was over £25bn. In 1998, 31% of investors in UK companies were based outside the UK; last year, that figure was over 40%."

He told the packed conference hall that the field on which competition for capital plays out was now more global, more complex and more challenging than ever before.

Over the last 70 years, sovereign spending has outpaced growth in the real economy, as indeed has consumer spending, and now there must be a rebalancing.

"Sovereign debt globally is running at levels not seen for a generation," Ricci said. In the US, it is over 100% of GDP, higher than at any point since the Second World War. In the UK it is at its highest level since the 1970s. Creating stability by eliminating those deficits will not be easy, but that makes it no less vital.

> 'There's clearly a greater role for the corporate bond market, at the expense of traditional bank loans'

The consequences of economic change

So what does that mean for investors? Confidence has been shaken, he said. "We have seen a retrenchment to better-understood home markets, which has reshaped many of the global capital streams on which companies and governments have come to rely in recent years." That is particularly true of investors in the US and Asia, whose home markets are showing a stronger recovery than the beleaguered eurozone. Investors are also placing a keener focus on the fundamentals and seeking greater transparency than ever before.

"It's no secret that the complexity of some investments was a contributor to the credit crisis, and it's therefore natural that investors are wary of complexity and want to avoid it wherever possible."

There are also consequences of the crisis and recession for the way capital is allocated. One of the aberrations in the global economy that led to the crisis was the mispricing of credit. What's under-priced is almost always over-consumed, and credit was simply too easily available. Credit needs to be provided at a market rate, based on an economic calculation of risk. While banks clearly have an important role to play in the provision of credit, particularly to individuals and small and medium sized businesses, an important lesson is that when dealing with certain types of risk, banks should recycle it, not warehouse it.

That means there's clearly a greater role for the corporate bond market, at the expense of traditional bank loans. In the US, 70% of corporate debt is raised in the capital markets, and only 30% through bank finance. "In Europe, those percentages are the other way around," he said. "That needs to change, to deliver on the objectives of changing regulation, and avoid stockpiling risk within financial institutions."

Investors are shifting their focus from corporate equity to consider debt as an investment opportunity. Ten years ago, UK pension funds typically allocated around 70% of their assets to equities and the rest to bonds. Today, less than 50% of assets are invested in equities, around 10% in alternative investments and around 40% in bonds.

The issues that bond and equity investors worry about are converging and, as a result, corporates are now increasingly treating the two groups as one. This evolution in approach is something that banks can actively support their clients to manage, by

Opening keynote address
Speaker:
- Rich Ricci, co-chief executive of corporate and investment banking, Barclays

Session sponsor: Barclays

Rich Ricci

strengthening the bond market and helping both companies and investors to understand how it can work to their advantage.

The rise of emerging markets

Ricci noted that it was not just in the structure of the capital markets that seismic shifts were occurring – the growing strength of emerging economies was also having a significant effect on the balance of global capital flows.

The evolution of capital markets is critical right across the developing world. Fast-growth economies need to develop deep and flexible pools of capital to sustain and secure their progress.

"We are already seeing accelerated growth in China of both the domestic bond market and the offshore 'dim sum' market, mirroring the recognition in Europe that reliance solely on traditional bank loans is not a sustainable model for corporate finance," he said.

Against that backdrop of shifting economic patterns and fundamental changes in the structure of the markets, those seeking capital must deal with the fact that the next investor is as likely to be in Beijing as Birmingham.

The rise of the developing world and increasingly international capital flows can be a source of strength if approached in the right way, but companies have finite resources and time, and the opportunity cost of pursuing the wrong option could be significant.

The importance of regulation

"Just as stability in the global markets is fundamental to their smooth operation, so too is getting the rules right," Ricci said. "Strong banks want strong regulation; and we are grateful that much has already been done by lawmakers and regulators to carve out from the fog of debate a clearer path to the future. But there is still more to do: converting frameworks into rules, disparate local approaches into a level playing field globally and well-intentioned theories into workable practical solutions."

He urged "a grown-up conversation about the options and consequences for regulatory change, removed from the strong emotions and political hyperbole to which we have become accustomed." For the markets and the public to have confidence in the regulatory framework, it must be based on a sound understanding of the way capital markets work.

For markets to work efficiently, there are three basic requirements: liquidity, transparency and certainty of settlement. Regulation, when effective, serves to deliver these requirements, and much of the planned regulation does just that.

Firstly, the stressed conditions we experienced in 2008 made it clear that banks needed to operate with more liquidity and more capital. Huge strides have already been made in this regard.

"Today, as an example, Barclays is carrying five times the liquidity we were in 2006; we've almost doubled the levels of capital we keep on our books and we're one of a number of banks that are well on our way to meeting Basel III levels of regulatory capital well ahead of the deadlines."

Secondly, markets need greater transparency, coupled with stronger corporate governance. Transparency ensures effective pricing; it allows companies and governments to make accurate and informed decisions and it safeguards regulators' ability to identify where there is excessive concentration of risk.

Finally, markets need to provide certainty about the way they operate, in the enforceability of contracts and about how any failure within the banking system would be managed. In a global economy, certainty is needed not just in the big markets like London and New York, but everywhere that markets are made. International capital requires international regulation.

> 'The role of banks must be to provide the machinery through which the free market works, not to act as a leading principal within it'

He warned, however, that some regulatory changes would increase the cost of credit for consumers and businesses, and the cost of market-based activities more generally.

"This isn't new news and we are already adjusting the shape of our business to be ready for the new regulatory environment. Capacity in parts of the system is likely to fall away and we have already seen signs of banks retrenching to their home markets, concentrating their product offering, or even leaving businesses altogether," Ricci said.

He predicted that there would be a smaller number of full-service, global investment banks, but those that remain would be better placed to serve the diverse and global needs of their clients. "That makes the approach to recovery and resolution from crisis and failure in the banking system all the more important; getting this right, visibly and transparently, is the only thing that will remove the phrase 'too big to fail' from the popular lexicon."

Conclusion

Ricci concluded by saying that the role of banks must be to provide the machinery through which the free market works, not to act as a leading principal within it.

"Our focus remains on helping governments, institutions and companies to access the capital they need to make progress in the real world; to invest in growth, to secure jobs and to provide long-term stability, so that individuals, businesses and economies can deliver their plans for the future."

Responding to audience questions following his address, Ricci said UK-based companies should consider looking at capital-raising opportunities in overseas markets and in other currencies – and should embrace the idea of a European corporate bond market.

For the investor relations industry, he noted that, while it was easy to get caught up in market-based "gloom and doom", there were many opportunities for companies to find the means to achieve their goals. "There is a recognition that Europe has the tools," he said. ■

Reporting by Christiane Dickens and Alex Murray, Silverdart.

The big picture – shifting flows of capital

The first full session of the conference saw a lively debate between an investor, a banker and a journalist about the best fund-raising options in international markets.

Opening plenary session
The big picture – shifting flows of capital in the global marketplace – a holistic view of funding options
Moderator: Evan Davis
Speakers:
- Richard Boath, managing director, co-head of global finance IBD, EMEA, Barclays
- Steve Cheetham, portfolio manager
- Philip Coggan, the Buttonwood columnist and capital markets editor, *The Economist*

Session sponsor:
BNY Mellon Depositary Receipts

(l to r) Evan Davis, Richard Boath, Philip Coggan and Steve Cheetham

Each year, the IR Society conference seems to take place against a global political backdrop that mirrors the issues that the business and financial world is facing, and 2012, and the focus on 'Competition for Capital' was no exception.

Around the globe, the status quo has been shattered or is under threat in many regions, and people are adjusting to the new environments in which they live - bringing greater freedoms and equally greater challenges. As we move from the Arab Spring to the 'shareholder spring', companies and funders alike are flexing their new muscles and navigating in the new environment.

How to access capital in this changing world was the theme of the first plenary session at this year's conference, with the sweeping title of 'The big picture - shifting flows of capital in the global marketplace - a holistic view of funding options'. Debating this topic, moderated by Evan Davis, were Richard Boath of Barclays, where he is active in global finance, Philip Coggan of *The Economist*, and portfolio manager Steve Cheetham.

It is of course recognised that companies increasingly look beyond their borders for access to funding - as Rich Ricci of Barclays pointed out before this session, foreign capital is a lifeline for many companies.

Coggan wondered however whether capital was flowing in the right direction - pointing out that the Chinese were investing in US bonds, rather than corporates, many of which are in desperate need of funds. In terms of competition for funds – it's not just companies that are battling it out. Governments, which are propping up banks and have large pension and healthcare obligations looming over them, also need capital.

Both Cheetham and Boath were optimistic about the outlook for equities. The former believes that as investors become bored with the pedestrian returns provided by government bonds, "greed will triumph over fear and we will go back to real wealth creation (via equities)".

For Boath, the issue is an over-reliance on bank financing, which he believes is starting to happen for large UK corporates. He also cited bond issues in the region of $5bn by BHP Billiton and GlaxoSmithKline. Highlighting the 2.1% coupons on these issues versus the pharmaceutical company's c.5% dividend yield, he believes that people are now considering a move back into equities.

> ‘Governments, which are propping up banks and have large pension and healthcare obligations looming over them, also need capital’

There was further discussion of the bonds versus equities issue in the Q&A session. Cheetham acknowledged that volatility had led to a 'point of revulsion' with equities, and investors felt safe with bonds in their pension plans.

Coggan addressed the issue of which equities were the most attractive, noting that at that moment the US looks overvalued compared to Europe on several measures, with many companies boasting dividend yields way in advance of their bond yields. The real-time conference polling system provided a snapshot of delegates' views of the likelihood of a 'Grexit', with 63% believing that Greece will not be a member of the eurozone at end-2012.

This was believed by many to be a vote on how well the Greek effect could be contained. Richard Boath believes that there hasn't been yet a proper consideration of what a Grexit could mean, noting a 'lack of understanding of the real issues, what it would mean to have Greece leaving'.

While there are few certainties in today's volatile political, economical and financial environment, the panel seemed to be of the view that the time for equities is now. Let's see! ■

Reporting by Emma Palmer Foster, EJ Palmer Consulting.

The efficient use of debt

(l to r) Kai Otto, Mark Hutchinson and Francis Burkitt

The morning plenary debate saw a lively discussion on the challenges and opportunities of corporate debt issuance in UK and international markets.

Plenary debate – morning
What is the debt market – who are the players and how do corporates tap into it?
Moderator: Evan Davis
Speakers:
- Francis Burkitt, managing director of debt advisory, Rothschild
- Mark Hutchinson, head of alternative credit, M&G Investments
- Kai Otto, head of capital markets, Volkswagen Fixed Income

Session sponsor: King Worldwide

A perennial question for the CFO is how to lower his or her company's cost of capital and, in achieving this, what is the optimum mix of equity and debt. In turn, he or she has to determine what is the most efficient and cost-effective mix of debt.

Since 2008, accessing banks and the debt markets at the right time, on the right terms and at the right price has been as challenging as ever, especially for the CFO of a SME. Tackling this topic in 45 minutes was a 'big ask' but Francis Burkitt, managing director of debt advisory, Rothschild, Mark Hutchinson, head of alternative credit, M&G Investments, and Kai Otto, head of capital markets, Volkswagen Fixed Income, made a valiant attempt, providing interesting insights from their respective perspectives.

At the outset, Otto scoped Volkswagen's funding position and strategy, outlining how they manage relationships with banks and debt investors, hedging strategies (currencies and commodities) and counterparty arrangements. Currently, funding is sourced 80% from capital markets and 20% through banks, whereas the historic funding ratio for most European companies seems to be 70% from banks and 30% from other sources.

We all knew that Volkswagen is a major multinational business and therefore has huge capital requirements and Otto left us in no doubt. 2011 revenues were €47.3bn, shareholder funds were €57.3bn and total debt was €93.5bn.To reinforce the message, Otto pointed out that its group treasury acts as service centre for 800 group companies, it deals with some 140 banks around the world and has over €30bn of bank lines available. It also has its own bank, mainly for the purpose of offering financing to purchasers of their vehicles.

The broad principles of Volkswagen's treasury strategy were relevant to all corporate borrowers – namely, to ensure flexibility and liquidity, to avoid risk and to maintain good relations with lenders and debt investors through regular and timely communications. However, for any SMEs presently struggling to obtain bank funding, it may have seemed that Otto was speaking from another planet. It is not so easy to obtain affordable debt when banks are deleveraging their balance sheets.

By contrast, Hutchinson focused mainly on alternatives to bank lending given the shrinkage of banks' balance sheets and the consequent reduction in bank lending. Considerable changes had been taking place over the last 10/15 years, in particular since 2008. This included the launch of M&G's UK Companies Financing Fund, set up with the aim of providing loans of around £100m to up to 50 UK companies, operating across a range of sectors. However, somewhat surprisingly, the take up from companies has not been great and there has not been a plethora of similar initiatives. This may partly explain the government's recent intervention to encourage more activity.

The private placement market provided another alternative to bank finance. However, it was relatively undeveloped in the UK and Continental Europe. This is why many major companies had been 'tapping' the more developed US private placement market since early 2010 which has remained open for quality corporate credits and, therefore, remarkably stable throughout the banking crisis.

Within the UK, issuers and investors are agreed about the need to develop a private

placement market and this was recommended specifically earlier this year by the Breedon task force, set up by the government. However, realistically, it will take time to develop this market (for example, in establishing the appropriate benchmarks for issuers and investors) but, at least Hutchinson thought we were beginning to see some positive steps being taken to offer more alternatives to bank lending.

Burkitt then focused on the 'big picture' for UK corporates since the start of the banking crisis. Over that time, UK corporates undertook major deleveraging (including 92 rights issues, less M&A activity and restraining returns of cash to shareholders through dividend payouts).

Most recently, he noted that the lending scope of European-based banks has reduced by some $250bn, a very severe constraint. While there was scope to access the private placements market, this was really only 'open' to the larger corporates given investors' 'fixations' on credit ratings (in general, investors were not interested in borrowers below $200 million). He also pointed out that the scale of the UK bond market was not bigger due to lack of involvement of the UK retail banks (feeling 'bruised and battered' after the mis-selling of insurance and other products). He also reminded everyone that, whatever success corporates had achieved in deleveraging since 2008, they could not escape the need to replace maturing debt so they needed to ensure they had effective refinancing strategies in place.

> 'Ensure that there is transparency and consistency in the information provided to equity and bond investors'

Other topics covered included financing for infrastructure projects, future trends in interest rates and lessons for IROs. It was noted that the UK government, in its efforts to promote growth, was keen to encourage low cost loans to industry and that there was a major debate developing between France and Germany to do the same.

Regarding UK interest rates, corporates had benefitted to date from the low interest rate regime but they should not take it for granted, especially in the event of any changes in government funding arrangements or if inflation were to become a serious threat.

Finally, Otto provided some advice for IROs: maintain close contact with your colleagues in your treasury team; be aware of issues for bondholders and your debt investors; and ensure that there is transparency and consistency in the information provided to equity and bond investors. ■

Reporting by Paul Heward, IR Society – Scotland.

CONFERENCE POLLS (1) – WHAT YOU THOUGHT OF THE TOPICAL ISSUES

Snap polls conducted during the conference provided a fascinating view of opinion within the IR community. See more polls on page 36. Thanks to Investis for sponsoring the votepads.

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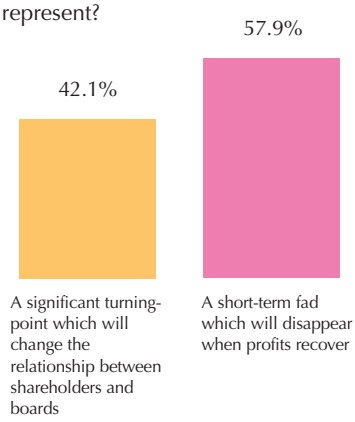
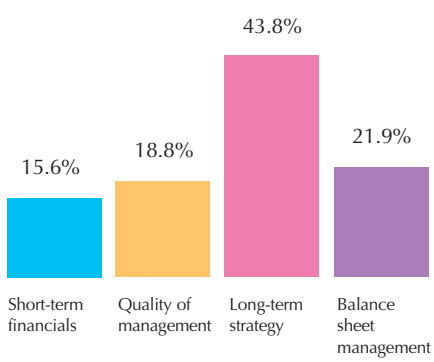
Shareholder activism

Q. What does the current spate of shareholder activism represent?



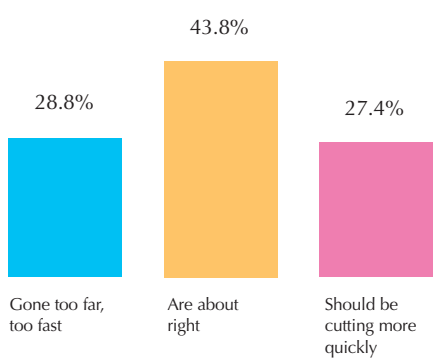
Fund manager issues

Q. What are the issues most discussed by fund managers?



The government's policies

Q. What do you think of the government's austerity measures?



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(l to r) Sarah Paterson, Ian Hodgson,Bob Hedger, Neil Goldie-Scot and Chris Parker

Dealing with debt in a crisis

When things go wrong, how do you balance the demands of debt and equity investors and what are the lessons for IROs? The first breakout session considered the issues.

Approaching the bank when trouble is first anticipated is one of the key steps – but how do you do this effectively? Bob Hedger of RBS said that borrowers are best advised to approach their bankers proactively when they can see a potential issue such as technical breaches, a breach of covenant where there are otherwise no problems with the borrowing, or major repayment problems. In reality, he stressed, it is the banks that tend to make the first move when their monitoring indicates problems.

Then there are factors for borrowers to consider at the outset. Neil Goldie-Scot of HSBC explained that the creditor market is much more opaque than the equity market, so the borrower will need to ensure that it has all the information in place to enable a proper discussion.

Breakout – Stream 1
Dealing with debt in a crisis
Moderator: Sarah Paterson, partner, Slaughter & May
- Chris Parker, director of group treasury and corporate affairs, Inchcape PLC
- Neil Goldie-Scot, global head of government advisory and head of restructuring advisory, HSBC
- Bob Hedger, director, corporate restructuring unit, RBS
- Ian Hodgson, partner, Slaughter & May

Even small technical breaches will set the alarm bells ringing and banks will want to get all their information up to date. They will ask lots of questions and want lots of information. In his opinion, this should be prepared in advance. The bank will be looking for a route to a solution and borrowers should endeavour to have thought through the problem and have prepared a business plan before the first meeting.

The critical factor for borrowers is to preserve their credibility in the eyes of the bank. This means sounding out the full depth of the problem first time and taking adequate action. A mounting succession of identified problems and series of solutions which prove inadequate will undermine the bank's faith. The keys to credibility are to contact the bank early and put measures in place which work first time.

Corporates should first check their legal documentation with their legal team to identify their position, according to Ian Hodgson of Slaughter and May. He added that there are usually contractual obligations in place for simple bank loans. However, different types of credit may have different requirements and relationships. He felt that care should be taken not to trigger breaches or cross defaults to other loans.

Consideration will have to be given to disclosure and transparency rules and particular attention paid to ensuring that market abuse does not take place. The fundamental principles that apply are equality of information and keeping the market properly informed – confidentiality agreements may be necessary. The corporate should work out what and when it needs to announce and prepare a holding announcement in case of any leak.

Goldie-Scot explained that it is likely that relationships will be weaker to a syndicate of lenders than to bilaterals. In his opinion, there is likely to be divergence of reaction within a syndicate. Pre-crisis syndicates are more likely to have a tail of non-active participants with no strong relationship with the company or sector. Such members are likely to want to exit and hope to be bought out by other members.

Problems emerge over time and you should see them coming, Chris Parker of Inchcape stressed. Part of that build-up is that the treasurer will be talking to credit analysts some time before any announcement. From this he should have some awareness of the position of the lead banks.

In considering the order in which to address the problem, start with whoever has still got money in the game, Goldie-Scot advised. Then analyse where the value breaks. Once the model is calculated it becomes apparent what shape the problem

has and where best to start. This may be the senior or junior creditors, or even equity if it still has value. Hodgson added that pensions fund trustees are also powerful. If there is more than one fund, it can help to form a single credit committee. Credit insurers may be unknown to the company, but can have the power to halt key suppliers, he said. They are likely to want a meeting and information and may set conditions for future supply.

In considering the requirements of equity analysts in this situation, Chris Parker of Inchcape suggested preparing the following information: the nature of the problem and the back story; how the company proposes to address the issue; the variables for their models for forecasts; more detail than usual on creditors, pensions and banking – the analysts will suddenly want to go deeper than usual into the credit, headroom and funding area – and the background on process and participants.

According to Hedger, key decisions on distressed borrowers need to look at whether this is a long-term or a short-term problem? (Usually also whether it is a timing or a fundamental problem.) If it is a long-term problem, consider disposals and their effect on the rump. (This includes refinance by equity.) If not curable via a performance curve – then some debt to equity conversion will be required.

The debate finished with Goldie-Scot stressing that "you have one bite, so get it right first time. Remember there is a lot of goodwill and expertise in your advisers to help you get it right."

Be professional, honest and humble. Dealt with well, the process can result in a stronger business and an enhanced reputation. ■

Reporting by Raghnall Craighead.

> ‘Be professional, honest and humble. Dealt with well, the process can result in a stronger business’

The power of the rating agencies

Are the rating agencies a force for good in financial markets? This breakout session looked at the arguments on either side of this controversial subject.

The rating agencies: are they terrible tigers or misunderstood moggies? One of the chief culprits of the financial crisis in the court of public opinion was the ratings agency industry, pilloried for granting investment grade status to securities based on risky sub-prime loans that then went bad.

As the US Financial Crisis Inquiry Commission stated in 2011: "The three credit rating agencies were key enablers of the financial meltdown. The mortgage-related securities at the heart of the crisis could not have been marketed and sold without their seal of approval. Investors relied on them, often blindly. In some cases, they were obligated to use them, or regulatory capital standards were hinged on them. This crisis could not have happened without the rating agencies. Their ratings helped the market soar and their downgrades through 2007 and 2008 wreaked havoc across markets and firms."

Breakout – Stream 2
The power of the rating agencies
Moderator: Sue Scholes, director of communications, AMEC plc

- Jeremy Baldwin, head of European credit research, AIG
- Ray Travis, managing director, head of capital structuring and ratings advisory, Barclays
- Paul Watters, senior director and head of corporate research, Standard & Poor's

Despite this public dressing-down, the agencies have regrouped and continue to occupy a central role in the political-economy (consider the furore following the US and euro area downgradings) and finance – companies seeking to raise debt

(l to r) Jeremy Baldwin, Ray Travis, Paul Watters and Sue Scholes

will require a rating or find it very difficult to do so without one.

But has anything really changed? And just how powerful are they really? These were some of the issues discussed and debated during this breakout stream, which was moderated by Sue Scholes of AMEC plc with panellists Jeremy Baldwin of AIG, Paul Watters of Standard & Poor's and Ray Travis of Barclays.

Baldwin's opening gambit addressed the aforementioned "vilification" of the rating agencies following the crunch and the "love-hate" relationship that many fund managers feel towards them. While accepting that volatility is a function we have to live with, he asserted that the rating agencies' record on assessing the intrinsic quality of the rated organisation to be "not bad" and that with external ratings used as a framework for calibrating banks' own ratings, the rating agencies continue to fulfil an essential role.

Watters outlined some of the factors agencies look for when setting ratings including business risk, cash flow, industry management and profitability with the macro environment also very important. Investment grade companies will have more emphasis placed on business risk while speculative grade ones are more scrutinised on liquidity and cash flow generation.

Travis contended that in reality the agencies do not possess as much power as is commonly assumed, although outward perceptions of a company based on its rating means agencies continue to hold a key position. He then went on to explain the central role of the IR department in managing these relationships and the agencies' request for information. With investors now "more than just shareholders", the days of management explaining their company's dynamism to equity investors and their "boringness" to debt investors are over!

Baldwin warned that having no rating at all can make debt capital raising impossible, even for global businesses, and that the agencies are therefore a "necessary evil" in the context of debt investors making their investment decisions based not on growth but potential risk. There was a general consensus view that before the financial crisis there was an over-reliance on the agencies which has now been tempered to some extent, notwithstanding the points raised.

IR professionals were advised that the way to get the best from fund managers and the agencies is to be honest and open and give as much information as possible within the regulatory framework.

The discussion finished with the message for IROs to remember that the issuer-investor dialogue is two-way and it is at least as important for information to reach company management as it is for companies explaining their strategy. ■

Reporting by Richard Knight, IR Society.

IR and private equity

Private equity (PE) holds many attractions for investors – but is there a role for IR? This breakout panel discussed the growth of PE and its implications.

A formidable panel – including Stefan Barden of Brakes UK & Ireland, Shaun Browne of McQueen, Colm O'Sullivan of PAI Partners and Mark Raban of Selfridges – provided an engaging debate, with Lisa Williams of Debenhams plc as the moderator. If investor relations and private equity (PE) are indeed uneasy bedfellows, then this tension is borne out of misunderstanding.

"Left to our own devices, we're all kind of nerdy," said Colm O'Sullivan of PAI Partners about the private equity (PE) industry. "We've hidden our heads under the duvet for a long time – mainly because we felt that

Breakout – Stream 3
Beyond debt – IR and private equity – uneasy bedfellows
Moderator: Lisa Williams, head of investor relations, Debenhams plc
Speakers:
- Stefan Barden, former chief executive, Brakes UK & Ireland
- Shaun Browne, managing director, McQueen
- Colm O'Sullivan, partner, PAI Partners
- Mark Raban, director of finance, Selfridges

(l to r) Mark Raban, Stefan Barden, Shaun Browne, Colm O'Sullivan and Lisa Williams

the media and the public were not really interested in us." He said that five years ago it would have been hard to persuade someone from PAI Partners, for example, to speak at a panel at an IR Society Conference. "We're now thinking about how we communicate with the outside world and trying to engage better with the media and our own investors."

O'Sullivan believed that the PE industry does not get treated equitably in comparison to how the public company model is judged. The challenge for private equity is now about transparency and communication and working hard to challenge preconceptions.

The panel considered the basic question – what is private equity? Private equity invests a third party's money (often pension funds and other long term investors) on their behalf. Each PE-backed company is a separate stand-alone entity and the PE investors make money through a share of the capital gain when the business is sold or floated on the stock market. The PE managers receive fees to help cover the costs of their own business.

Over the long term, PE has been a good area of investment. If you had invested between 1980 and 2010 in FTSE All Share equities, you would have an 8.7% internal rate of return (IRR). Compare that to the long term BVCA private equity database IRR of 15.2% (*source: BVCA 2010 Survey*).

The PE model is based around simplicity and day to-day involvement. If the company's management team isn't performing, the PE managers will replace them to maximise return for investors. "The speed at which we operate is something you couldn't achieve in a publicly listed business. We act for the medium to long term – we buy businesses because we want to turn them round and exit after three, five or seven years," O'Sullivan said. Many public companies act to meet investors' short-term expectations. The paradox is that overall public market investors are more short-term than PE investors.

Asked by an audience member whether PE can be accused of meddling in businesses, O'Sullivan said: "We attend every board meeting but we are not involved in the day-to-day management of the business. Of course we can't speak for other PE houses and no two firms will operate the same. But we believe there's a real sharpness and clarity to the decisions we make which can't be described as meddling."

According to Raban, there is an 'own money' feel in private equity – it's a common sense approach in which everyone thinks 'if this was my money, how would I spend it?' Systems like working capital control are still in place at Debenhams which were borne out of private ownership, Williams pointed out.

"We pay modest salaries with incentivisation on exit," said O'Sullivan. Exit strategies are either by trade sale to a third party, or flotation. However the stock market is a fickle mistress – and every IPO needs an IRO!

> 'We are trying to engage better with the media and our own investors'

Barden said that the PE industry is not judged on its capital structure but on the value it creates. One study from McKinsey/London Business School (*Private Equity vs PLC boards: A comparison of practices. Acharya/ Kehoe/ Reyner, Aug 2008*) suggests the value is as follows: one quarter from leverage and sector performance; one third from world-class management (alpha performance over and above sector); and two-fifths on exit multiple/entry multiple (the belief that the business has been fundamentally changed and the 'alpha' is sustainable post exit). Cost cutting was a good source of profit growth 20 or even 10 years ago. Top line growth is the mantra for today.

In 2010, 65% of the UK investments made by PE were in small businesses and 20% of UK investments were in medium-sized businesses (*source: BVCA 2010 Survey*). That is 85% of UK investments made by PE in small or medium-sized companies where there is a real need for investment in the absence of bank financing. Furthermore there is approximately £37bn of PE money available to invest in the UK (*source: BVCA 2010 Survey)*.

The UK government is looking to encourage investment in the UK – in small and medium-sized companies in particular. Private equity can play a key role as entrepreneurs that are looking to invest and to get things moving. ■

Reporting by Virginia Phillips, Red Oyster.

The political will to build a better economy

The chief secretary to the Treasury, Danny Alexander, told the conference about the steps the government is taking to secure an economic recovery for the UK.

Danny Alexander

Midday keynote address
Speaker:
- The Rt Hon Danny Alexander MP, chief secretary to the Treasury

Investors are critical to securing the UK's economic stability, promoting economic recovery and restoring economic prosperity, according to Danny Alexander, the chief secretary to the Treasury, in his midday keynote address to the conference.

Alexander highlighted how in the two years the coalition has been in office it has cut the deficit by a quarter from its peak, safeguarded economic stability and secured record low gilt yields, helping businesses secure loans, and families pay their mortgages.

He stressed that creating stability is the vital precondition of growth and tackling the deficit is a central plank of the government's strategy for restoring the UK economy to good health. He insisted that business, enterprise and innovation lie at the heart of the economy and make the UK one of the best places in the world to invest.

Alexander spoke about how UK competitiveness had slipped dramatically in the decade before the coalition came into power. He stressed that the government was reversing that decline and "due to the changes that this government has already made, we've already broken back in to the top 10."

He outlined future plans to increase the UK's competitiveness, including cutting the headline rate of corporation tax to 22% by 2014, reducing income taxes especially for people on low and middle incomes, lifting layers of bureaucracy that continue to suffocate entrepreneurial start-ups and overhauling cumbersome planning rules.

Alexander went on to say that while it is

> ‘It’s my job to make sure Whitehall keeps its foot on the gas, and delivers on time and on budget’

important to remove barriers to growth, “we also need to help ensure that businesses have the finance to fuel their success.” He stated that in an uncertain environment, banks across the board are repairing their balance sheets but the government is making sure that finance is available.

He said that the government has secured agreement with the big UK banks to provide £190bn of new lending to UK companies in 2011, which is £11bn more than the previous year. Furthermore, they announced the National Loan Guarantee Scheme to give smaller businesses access to cheaper loans – a vital step to mitigate the impact of ongoing euro area uncertainty on the costs of funding for UK banks.

He also said that the government is using its balance sheet to help record low gilt yields feed through to market rates for businesses across the UK. Alexander also explained that for the year ahead the government is going even further to broaden access to finance by encouraging businesses to capitalise on non-bank lending channels and helping to address the ‘equity gap’ that confronts many SMEs in the UK.

Finally, the government wants to ensure that businesses can secure the investment they need to seize new opportunities not just here in the UK, but in some of the fastest growing economies in the world.

Export markets

Alexander listed some of the ways in which government is aiming to boost exports, with new funds for UK Trade & Investment to enable it to support small and medium-sized exporting companies. He said the ambition is to double British exports to £1 trillion a year by 2020, with most of that growth coming from increased trade with emerging powers.

He highlighted that over the last year, the value of UK goods exports to India grew by 40%, and China by over 20%. “In the first quarter of this year, the UK exported more cars than it imported for the first time since 1976, driven by strong demand from the US, Russia and China”, Alexander said. The UK is also building on its unparalleled strengths in financial services to develop and promote London as a home to the offshore renminbi market.

Inward investment

Alexander noted that he was also eager for global investors to invest in the UK. Alongside the Olympics, the government is hosting the Global Business Summit to bring together global investors and local businesses.

Recent successes in this area include: becoming the number one destination for inward investment from Kuwait and Qatar; £1.5bn of investment by Tata-owned Jaguar Land Rover in new technologies and products at Halewood, providing 1000 new jobs; Thai investment in the Redcar Steelworks in the North East, kick-starting steel production there for the first time in two years; and over £1bn of investment from General Motors to support more than 2,000 jobs through renewed car production at Ellesmere Port near Liverpool.

Infrastructure

Noting the need for the UK to upgrade elements of its infrastructure, Alexander said that the government has major programmes in hand for rail, road and wifi investment.

He commented that the UK’s infrastructure needs cannot be met through public spending alone and private sector investment is critical. Infrastructure investment has the potential to offer secure, sustainable and long term returns that institutional investors are looking for at a time of market instability, where returns on most types of investment are volatile.

The government is working closely with UK pension schemes to help develop and support a new Pension Infrastructure Platform which came into existence in March, and they “expect the first £2bn of investment by the beginning of next year”.

But he also stressed that there are huge opportunities for international investors as well, listing examples such as Japanese investment in the Gunfleet Sands Offshore Wind Farm, Abu Dhabi Investment Authority investment in Thames Water and most recently the China Investment Corporation’s (CIC’s) investment in the same company – the CIC’s first major investment in Europe.

Alexander went on to explain that the government is eager to promote greater inward investment in a wide range of new infrastructure opportunities in the coming years. He said that the National Infrastructure Plan identified the top 40 projects and programmes of national significance that will most support economic growth. As he is chairing the cabinet committee responsible for overseeing those projects, “it’s my job to make sure Whitehall keeps its foot on the gas, and delivers on time and on budget.”

Finally, he noted that IROs have a critical role to play in helping secure the UK’s economic recovery and to promote greater investment in the UK. ■

Reporting by Christiane Dickens and Alex Murray, Silverdart.

The IR Society’s conference committee chairman, **Gillian Karran-Cumberlege**, set the scene for the afternoon sessions by highlighting the topics that were about to be discussed. The subject areas included equity allocation and management, changes in technology and the social and governance issues surrounding companies and financial markets.

How responsible is our capitalism?

With the financial crisis still causing headaches, how far should we blame our problems on capitalism? The afternoon plenary panel considered the question.

Plenary debate – afternoon
The acceptable face of capitalism?
Moderator: Evan Davis
Speakers:
- James Featherby, Church of England Ethical Investment Advisory Group
- Simon Hills, executive director, British Bankers' Association
- Will Straw, associate director for globalisation and climate change, IPPR

Session sponsor: MerchantCantos

merchantcantos

In a change of focus, the conference turned its attention to the issue of 'responsible capitalism', and the extent to which investors – and wider society – expect companies to do more than provide solid results and a good shareholder return.

To whet our appetites, a thought-provoking video brought us commentary from the media, corporate governance, an IR practitioner and – bravely – from the British Bankers' Association. There was certainly agreement that there was a problem, although not necessarily on its shape.

"Capitalism is in crisis", "there are wider interests than just shareholder value" and "capitalists must live in society's norms" were a few of the soundbites.

None of the speakers suggested that capitalism is fundamentally flawed, and certainly no-one tried to suggest an alternative, but the prevailing view was that it needs to be made to work better: and that's where companies need to play a role. And that role needs to be best practice-driven rather than mandatory.

"Rules", said one speaker, "are there to be arbitraged. The right answer is having the right people in place, including inspiring CEOs, who understand the wider context of companies' role in society." And examples of this exist in other markets; another speaker looked at the German model of voting, with participation from employees and other stakeholders outside the shareholder base.

Meanwhile, we continue to wrestle with related problems. Short-termism is a fundamental but intractable problem. How to balance liquidity with long term stewardship involvement? And the 'agency' problem where the owners of companies' stock are disconnected and have unaligned interests from those managing the selection and voting.

So what advice was given to IROs in communicating with the markets?

First, and perhaps obviously, tell the whole truth. The business model should take into account a complete picture of the company and issues that affect it. Increasingly these factors are impacting valuations. Indeed one speaker estimated that 80% of total valuation is driven by "non-financial assets".

He went on to explain that these might include customer service, accident rates, the value of brands and many other items which add to shareholder value. There are clearly difficulties in measuring (some of) them, but as we move towards more of an integrated reporting world, and as more companies adopt some form of reporting framework to allow measurements to be made, explaining the social value of your company – including the negatives – is essential.

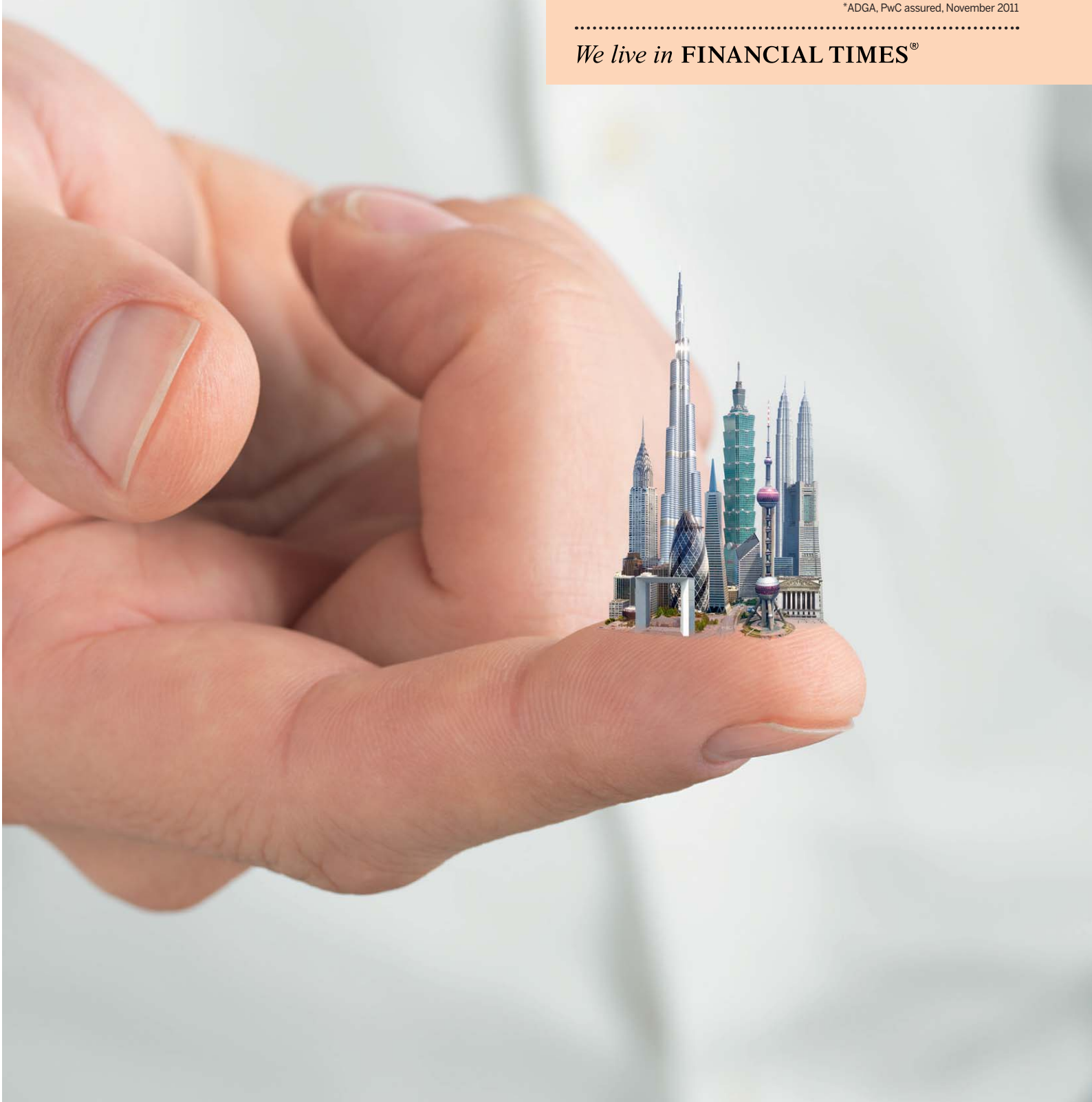
Second, speakers noted how social media has created a tool for activists to 'cause trouble' for companies whose communications are not done effectively. The ability to monitor and respond to inaccurate and unwelcome commentary is essential.

In a final roundup, speakers emphasised the underlying concerns at the heart of this change and the demand for greater company-recognition of a social role. The 'Occupy' movement, for example, generated its support through appealing to disaffected people in various cities across the world, who believe that capitalism has failed them.

However those attending were left with the impression that the scope of this topic had been only slightly explored. Corporate social responsibility (CSR) and 'environmental, social and governance' (ESG) issues – from executive compensation to environmental concerns – were also explored in other sessions at the conference, but can also be grouped together as issues which investors are increasingly focused on. More communication is needed! ■

(l to r) Evan Davis, Will Straw, James Featherby and Simon Hills

Reporting by Mark Hynes, Transparency Matters.



(l to r) Peter Davies, Gary Leibowitz, Doug Webb, Alisdair Gayne and Catherine Nash

Managing your equity in times of low growth

How do shareholders want companies to use their capital? Should they spend on share buybacks or dividends? Should they focus on organice growth or acquisitions?

These were the issues pondered by an authoritative panel, consisting of Alisdair Gayne of Barclays, Gary Leibowitz of SAB Miller, Doug Webb, of London Stock Exchange Group (LSEG), Peter Davies of Lansdowne Partners and Catherine Nash of BT as the moderator.

The panel began by discussing what challenges companies face as they decide how to allocate their capital in the current environment. With both SAB and the LSEG having been acquisitive in the recent past they went on to discuss what needs to be done to convince investors to support a proposed acquisition. The financial crisis and ensuing macroeconomic concerns have added to long-standing reservations about the wisdom of many acquisitions. The panel felt that the lack of short-term visibility and the general nervousness in the market is holding back many companies from making important long-term investment decisions.

However, the panel was unanimous in its recommendations: in the experience of the panel members, investors can be persuaded to support a proposed acquisition or another major investment if they have a thorough understanding of how the acquisition or investment project fits in with the company's strategy and objectives. "Laying the groundwork is very important" said Doug Webb. In his view, which was shared by the other speakers, it is vital that investors, including those who are not industry specialists, understand - really understand - the company's business model. Management actions such as acquisitions, organic expansion programmes, dividend decisions and so on should not come as an unwelcome surprise to investors but should be seen as a logical continuation of the company's strategy. Webb added that companies should be very clear about what

Breakout – Stream 4
Managing your equity in times of low growth
Moderator: Catherine Nash, group director investor relations, BT
Speakers:
- Peter Davies, senior partner, Lansdowne Partners
- Alisdair Gayne, managing director, head of corporate broking, Barclays
- Gary Leibowitz, senior vice-president investor relations, SAB Miller
- Doug Webb, chief financial officer, London Stock Exchange

they think the optimal capital structure and dividend policy should be.

Leibowitz explained that frequent investor days – often at divisional level – have led to a much better understanding of SAB Miller's business by investors. "We really like to drill down to the details during these investor days, almost as if investors are carrying out due diligence for a private equity investment," said Leibowitz.

Speaking from an investor perspective, Davies pointed out that he and his colleagues are now probably more biased towards growth stocks than they have ever been and are very attracted to companies with a credible growth perspective. With respect to acquisitions, the key questions they ask are: does the world need more of this asset? Who should own and run this asset? Are you (the company) the best owner?

Representing the view of a corporate broker, Gayne emphasised the importance of frequent and regular engagement with investors: "overcommunicate rather than undercommunicate." He also recommends that companies try and match their investor base to their strategy, i.e. growth companies should focus their IR effort on growth funds, relatively mature, cash-generative companies should focus more on income funds and so on.

The bottom line? At a time of low growth – indeed when the market may be getting back into crisis mode – the classic principles of good IR are more important than ever: communicate often, communicate early, explain your goals, your strategy and your business model in great detail.

If investors receive consistent messages about your strategy and obtain a thorough understanding of how your business works, they are more likely to have confidence in your ability to use capital wisely. ■

Reporting by Susanne Oliver, CNC - Communications & Network Consulting.

> ‘At a time of low growth, the classic principles of good IR are more important than ever’

(l to r) John Dawson, Will Tovey, Nigel Ridge, Edward Perkin and Mark Hargreaves

The challenges of equity allocation

Fund managers face many conflicting pressures in making equity investment. This session considered some of them.

Breakout – Stream 5
Equity allocation
Moderator: John Dawson, head of IR, National Grid
Speakers:
- Mark Hargreaves, senior fund manager, AXA Framlington
- Edward Perkin, managing director, CIO European equity, Goldman Sachs
- Nigel Ridge, managing director and portfolio manager, BlackRock
- Will Tovey, managing director, head of European cash equities, Barclays

Session sponsor: Barclays

Touching on several issues close to an IRO's heart, the 'equity allocation' session was ably chaired by John Dawson of National Grid. Subtitled 'How do funds make investment decisions? What is the screening/review process?', the discussion involved Edward Perkin of Goldman Sachs, Will Tovey of Barclays, Nigel Ridge of BlackRock and Mark Hargreaves of AXA Framlington.

The first issue to be addressed was that of risk and returns, with Hargreaves noting the current risk-off environment. For Perkin, there were issues around benchmarks and being asked to beat them. If instead, he was "just tasked with generating returns", there would be more flexibility around many issues, such as when to enter the market or how much to invest in cash. At the moment, people seem to "want to have their cake and eat it" with "returns but no risk".

Ridge agreed that investors wanted low-risk returns, believing that equities will come back into fashion as a source of this. For BlackRock's allocation decisions, it was important to look at companies in the global context. With UK companies generating 75% of revenues outside the region, it's no longer good enough just to be top dog domestically.

Tovey highlighted the importance of global research as a consequence, noting that as the US buyside reduced in size, fund managers were building up their own global research databases which were standing them in good stead.

Moving on to the corporate-shareholder interaction, stewardship and engagement issues were discussed. Using the conference real-time polling system to take a snapshot of audience views, it was clear that the 'shareholder spring' isn't over yet, with just over 78% believing that the company-fund manager relationship will become more challenging in the future.

Perkin was of the view that IROs had to a certain extent disintermediated themselves with the use of brokers, whereas Goldman Sachs liked to see companies directly, not via brokers. This directness was reflected by Ridge, who expects to be much more interactive with the companies that BlackRock invests in, and similarly liked to communicate with companies directly. Leading on from this, he believes that more 'wall crossing' of investors prior to large transactions would increase the chances of positive outcomes and avoid repeating some of the recent corporate debacles.

Highlighting the importance of corporate governance issues, he estimated that whereas previously these were discussed once a quarter, they were now a topic of conversation in-house weekly. This was reflected by Edward Perkin, noting that companies that fail to get into Goldman Sachs' environmental, social and governance (ESG) portfolio might also be avoided for non-ESG funds.

> 'IROs had to a certain extent disintermediated themselves with the use of brokers'

Moving on to interactions, audience polling indicated that over 56% of respondents were experiencing more requests for meetings with senior management. Discussing this, the panel didn't seem to be taking more meetings, but Tovey highlighted the importance of interaction with the chairman and non-executive directors. Ridge felt that there was an increased call on IROs.

The final part of the session highlighted the topics of importance to fund managers when making equity allocation decisions, with a full understanding of risks (eg the effect of euro devaluation), the 5-10 year view and balance sheet sensitivities all raised by the panel and backed up by an audience poll. It was important to acknowledge that risk existed, with Perkin expressing the view that a negative view would be taken of a company that didn't seem to be considering any.

This was a fascinating session for the IRO and we should all note Hargreaves' comment that "IR should be fully integrated with the management team". ■

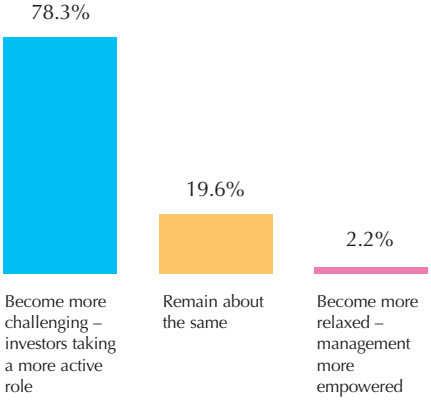
Reporting by Emma Palmer Foster, EJ Palmer Consulting.

CONFERENCE POLLS (2) – WHAT YOU THOUGHT OF THE TOPICAL ISSUES

Snap polls conducted during the conference provided a fascinating view of opinion within the IR community. See more polls on page 22. Thanks to Investis for sponsoring the votepads.

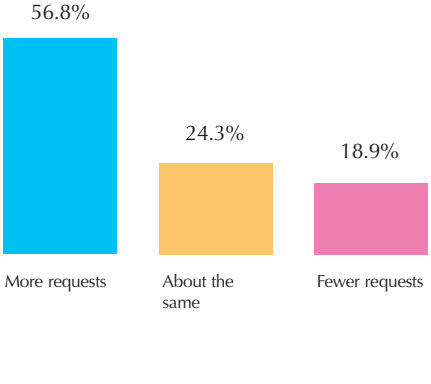
Investor relations

Q. How do you think the relationship between companies and fund managers will change in the future?



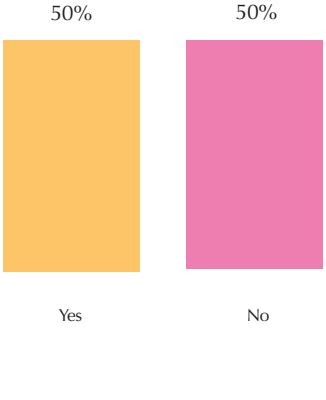
Meeting requests

Q. What is the pattern of requests from fund managers for meetings with senior management?



Returning cash

Q. Have you felt under pressure from shareholders to return cash through higher dividends or share buybacks ?



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Technology – is the medium changing the message?

Adapting corporate communications to the latest technology is a never-ending task. This breakout session panel discussed the pros and cons of social media.

Undoubtedly social media has made the transition from being a tool to organise one's social life to an almost vital instrument in the operation of a modern business. This was made clear by the array of speakers from the digital world, financial PR and equity research – social media has clearly touched and brought together these very different worlds. The panel was made up of YouTube's marketing director EMEA, Anna Bateson, Anthony Silverman, a partner at StockWell, Louise Evans from Aegis and Philip Dorgan of Panmure Gordon. The discussion was moderated by Al Loehnis of Investis.

Loehnis introduced the speakers and the topic and by the time he had finished his three-minute introduction, there had been one million Facebook comments, 228 hours of YouTube videos uploaded and 25,000 apps made their way to smartphones around the world. Such is the power of social media.

The debate was focused on how corporates can harness this power and incorporate it into an effective communication strategy. Loehnis described social media as an 'electronic soapbox', thus moving the debate to an in-depth discussion on how companies must have a clear strategy to exploit the potential of services such as Twitter and Facebook.

The uses of social media are clearly wide-ranging in the commercial world. Silverman discussed how Twitter can be an effective tool for corporate reputation management since it allows the quick distribution of messages during a crisis. Loehnis's view of social media being 'word of mouth at scale' suggests two things. Social media can be used in a crisis, however it equally can be used from a business development perspective since it facilitates the targeting of a wide range of potential customers.

Al Loehnis

This in many ways plays into the hands of corporates and Bateson drew upon the example of Willie Walsh of International Airlines Group who uses YouTube as a platform for business development and as a way to communicate with customers. IAG is able to broadcast extensively without the costs of commercial television broadcasting.

Coming at the debate from a different angle, Dorgan was able to offer his views from the world of equity research. He raised the point that social media and equity research do not necessarily go hand in hand and from a regulatory perspective analysts must be very watchful. They must not divulge price-sensitive information via Twitter nor may they offer stock tips to their Twitter followers.

A theme which returned time and time again is that if social media is to be used successfully within corporates then it must be implemented properly. Unlike newspapers, tweets do not become tomorrow's fish and chip paper so it is imperative that corporates use social media strategically in order to maintain their corporate profile in the market and avoid damage to their brand. Corporates need to ensure they have a clear social media strategy and they must adapt and acquire the correct people who are au fait with this modern communication tool. Communication with stakeholders through social media has become an integral part of the modern corporate world.

From the debate it was distinctly clear that social media is not a fad which will pass by next year. Therefore it is something which must become entrenched in corporate strategy and it will play an ever more important role in the competition for capital. ■

Reporting by James Loughridge, Fidelio Partners.

Breakout – Stream 6
Technology – is the medium changing the message?
Moderator: Al Loehnis, business development director, Investis
Speakers:
- Anna Bateson, marketing director EMEA, YouTube at Google
- Philip Dorgan, retail analyst, Panmure Gordon
- Louise Evans, group director of communications and marketing, Aegis Group
- Anthony Silverman, managing partner, StockWell

Session sponsor: Orient Capital

Assessing the strength of the 'shareholder spring'

Shareholders have been flexing their muscles over governance issues such as executive pay. This panel discussion focused on whether this was a short- or long-term phenomenon.

(l to r) Evan Davis, Trelawny Williams, Carol Bell and Ken Olisa

This afternoon session focused on whether the recent shareholder revolts over pay at a host of British companies – dubbed the 'shareholder spring' – represent a pivotal moment in investor relations or a temporary spurt of activity that will be over next year.

First, audience members were given the chance to offer their opinions. The result? A majority of 57.9% said they believe this is just a short-term fad, while the remaining 42.1% felt something fundamental is changing in the way companies and shareholders engage over pay. "I wouldn't tell your shareholders you think their anger is just a short-term fad," joked moderator Evan Davis.

The panelists then got their chance to answer. Ken Olisa, chairman of boutique merchant bank Restoration Partners, said the shareholder spring is here to stay. "There is a democratic wave happening where people who own something… feel their voice should be heard," he commented.

Carol Bell, who currently holds a number of non-executive board positions, including at companies in the UK and Scandinavia, took a more cautious approach. "I think it is significant – things have got too far out of whack," she said. "The processes going on now will bring it back into whack and then it may go away as a problem."

Trelawny Williams, a director at Fidelity Investments, thought that the world and public opinion had moved significantly on this issue. "I don't think it's going to go back to the way it was in the past." He warned that if investors slipped back into passive ways then government and regulators would step in and "we'd find these decisions being made for us, which none of us wants".

Olisa recounted his time serving on the board of London listed miner Eurasian Natural Resources Corporation (ENRC), which was mired in a governance scandal last year when he and another independent director were voted off the board. It was a "huge clash of cultures," he said.

The panelists next discussed how to improve diversity on boards, shareholder time horizons and the pros and cons of quarterly reporting. Bell said the value of quarterly reporting "varies from industry to industry" but the engagement that results from it is a good thing "in terms of the flow of information".

During Q&A at the end of the session, one audience member questioned how much of a protest shareholders are really putting up. In the case of Aviva, he said, shareholders voted down the pay report at the AGM, but offered 95% support to the CEO Andrew Moss, which suggests they are happy to put up with lousy performance as long as they don't have to pay for it. Despite the vote of support, Moss resigned from his post the week after the meeting.

In response, Williams suggested that investors may start to target individuals more often. "Historically, we've always been very reluctant to vote against individuals unless there is an absolutely compelling case to do so," he said. "But I think going forward… where there are companies that put forward remuneration schemes we can't support, I think increasingly we're going to consider linking that to a vote against the chairman of the remuneration committee as well, and to start to personalise a bit more some of these votes we are casting." ■

Reporting by Tim Human, IR magazine.

Panel discussion

The shareholder spring – the changing relationship between investors and the board

Moderator: Evan Davis

Speakers:

- Carol Bell, non-executive director, Salamander Energy plc
- Ken Olisa, chairman, Restoration Partners
- Trelawny Williams, director, Fidelity Investments

Session sponsor: RD:IR

Making the case for an improved stock market

The traditional capital-raising role of the stock market is being eclipsed by debt and private equity – and this is not good, argued **Luke Johnson** in the closing keynote.

The final session of the day was the closing keynote from Luke Johnson, a prominent private equity investor, former chairman of Channel 4 Television and a regular columnist in the *Financial Times*.

Johnson began by explaining his background as a stockbroking analyst, journalist and investor. He had seen the equity investment process from a number of angles and he said that his overall investment views were conservative, believing in long-term growth of businesses. He was "very sceptical about hedge funds, who are short-term holders. They are wonderful machines to make the managers money."

He was concerned that the "stock market is no longer fulfilling its primary function of capital raising." In the 1980s there were hundreds of new issues by companies on the London Stock Exchange or the smaller markets. "In the last 25 years, debt and private equity have usurped that role – and most of the problem lies with the stock markets, where there is too much regulation and costs are too high." He said that the number of quoted companies in the UK has fallen by 40% since 1997.

He believed that there were considerable advantages for companies to consider funding via the private equity route nowadays, by comparison with the traditional stock market route. Senior executives of public limited companies (PLCs) can spend 25% of their time servicing the needs of investors, whereas in private equity, that issue simply does not arise, because the equity investors are much closer to the company and more aligned with the executives. Moreover in PLC accounts, there is a confusion of detail as a result of the overcomplications introduced by the accountancy bodies.

He believed there was a "neurotic" obsession in the public arena with corporate social responsibility (CSR), which for many public companies was really a question of box-ticking. "Private equity does not have to deal with that," he said.

Johnson argued that the stock market plays a vital role in a capitalist society, in allowing small investors to buy shares directly in small and growing companies, enabling wealth to be built and good ideas to be funded. But now, because of the problems with the stock markets (over-regulation, obsession with CSR, costs etc), venture capital (VC) funding for business is drying up – the VC investors need to have an exit route and they simply don't want to take their investments public. For society, this is a potential problem as small growing companies need to be funded.

> ‘More people should be arguing the case for free enterprise’

Final keynote address
Speaker:
- Luke Johnson, chairman, Risk Capital Partners and former chairman of Channel 4 Television

Luke Johnson

He believed that part of the problem has been the crowding-out of the private sector by the public sector. He said that he spent a significant part of his time writing and talking about the needs of entrepreneurs and small business and said "more people should be arguing the case for free enterprise."

For the investor relations industry, the growth of private equity posed a threat, he added – "in private equity, there is no need for an intermediary" between the management and the shareholders. However he believed that it was in everybody's interest that the stock market became once again a more useful and popular marketplace for capital-raising by small and medium-sized companies – which would be good for capitalism as a whole, as well as for the IR profession. ■

Reporting by Christiane Dickens and Alex Murray, Silverdart.

The competition for canapés – a selection of photos from the IR Society conference...

...with around 300 IR professionals networking and enjoying the UK's premier IR event.

Events

The events below are scheduled over the rest of 2012 for IR Society members. Further details will be announced in due course. For the latest information and to register for our events, please visit www.irs.org.uk/events.

SEPTEMBER – DECEMBER 2012

IR WEBINAR: SOCIAL MEDIA – STILL SOCIAL OR MORE SERIOUS?

Tuesday 11 September
Time: 12.30pm-1pm
Cost: Free of charge
CPD - IR Society CPD points 2

IR BREAKFAST: MANAGING YOUR BROKERS

Wednesday 12 September
CPD - IR Society CPD points 2

IR NETWORKING: TREASURE HUNT WITH WINE TASTING

Thursday 20 September

IR WEBINAR: DERIVATIVES 101

Tuesday 2 October
Time: 1.20pm-1pm
Cost: Free of charge
CPD - IR Society CPD points 2

IR SEMINAR: AUTUMN SEMINAR

Thursday 11 October
This half-day seminar will look at new accounting standards IAS 19 Pensions etc., developments in financial markets (UK, EU regulations) and technical update (FATCA).
Venue: TBC
Time: 8.30am registration, presentations 9am-12.30pm
Cost: Free to STD+ members, £100+VAT to members, £200+VAT to non-members
CPD - IR Society CPD points 4

IR WEBINAR: CORPORATE GOVERNANCE AND CSR REPORTING – SHOULD IR BE INVOLVED?

Tuesday 6 November
Time: 12.30pm-1pm
Cost: Free of charge
CPD - IR Society CPD points 2

IR NOW LUNCH: MEET THE FUND MANAGERS

Tuesday 13 November
Time: 12.30pm lunch, presentation 1pm-2pm
Cost: Free to members, £50+VAT to non-members
CPD - IR Society CPD points 2

IR BEST PRACTICE AWARDS AND ANNUAL DINNER

Tuesday 20 November
Venue: The Pavilion, Tower of London

IR WEBINAR: IR AND THE PRIVATE INVESTOR

Tuesday 4 December

If you have a query about any of these events, please contact Dipty Patel on dipty.patel@irs.org.uk – or call her on +44 (0)20 7379 1763.

IR SOCIETY BEST PRACTICE AWARDS 2012

Be a prize winner! There's still time to enter your company or your clients for these prestigious awards – see www.irs.org.uk.
And reserve the date – **20 November** – in your diary.
(See also the advert on page 2 of this issue.)

Courses

The IR Society provides a comprehensive programme of training courses as well as half and full day seminars. For further information, visit www.irs.org.uk.

PROFESSIONAL DEVELOPMENT PROGRAMME 2012

Foundation level	*INTRODUCTION TO FINANCIAL MARKETS FOR IR* This course gives you a basic introduction to investor relations and the financial environment in which IR professionals work. It explains how the financial markets operate and are regulated.	Tuesday 18 September Thursday 22 November
Foundation level	*IR – OPTIMISING CITY RELATIONSHIPS* This interactive day of workshops presented by senior practitioners explores their day-to-day roles and helps you understand their interaction with companies. This course builds on the aspects covered in 'Introduction to financial markets for IR'.	Wednesday 15 August Tuesday 4 December
Foundation level	*PRACTICAL IR TOOLS AND TECHNIQUES* IR is communication. This interactive day of workshops presented by senior IR executives explores the most current communication tools and techniques relevant to IR practitioners in their day-to-day roles.	Thursday 19 July Thursday 25 October
Foundation level	*INVESTOR RELATIONS FOR PERSONAL AND EXECUTIVE ASSISTANTS* Executive assistants and board level personal assistants who come into contact with investors and external advisors need to understand the dynamics of the financial markets. Who should they prioritise for meetings and phone calls? What information can be disclosed and how can they support senior management.	Thursday 11 October
Core IR Skills	*DEMYSTIFYING COMPANY ACCOUNTS – MODULES ONE AND TWO* If you are working in investor relations or financial PR you need to understand financial statements and be able to answer questions from analysts, investors and the financial press. This two part course will help you achieve this by providing foundation knowledge in accounting.	Tuesday 11/Wednesday 12 September Tuesday 6/Wednesday 7 November
Core IR Skills	*IR REGULATION & COMPLIANCE ESSENTIALS* This course provides essential information and updates for both new and experienced IR professionals. Understand the legal compliance requirements for IR communications and how they are best applied in practice.	Thursday 6 September Wednesday 21 November
Core IR Skills	*IR REGULATION UPDATE* This half day course will bring you up to date with latest rules and regulations.	Tuesday 9 October
Core IR Skills	*EFFECTIVE INVESTOR TARGETING* Gain an understanding of how to effectively target investors nationally and internationally, through using practical tools and leveraging external advice and resources. Understand how to maximise the investment in brokers, sales teams and other service providers and get a perspective on the key requirements for executing a successful roadshow.	Thursday 18 October
Core IR Skills	*ANNUAL REPORTING – BEST PRACTICE IN PRACTICE* In autumn 2011 the UK Department of Business, Innovation and Skills announced a wideranging review of the way companies report to shareholders. This course will update you on the progress of the new proposals and consider the implications on best practice reporting in 2012.	Thursday 27 September

To join the Professional Development programme, sponsored by Deutsche Bank, call 020 7379 1763 or email laura.hayter@irs.org.uk.

Deutsche Bank

PROFESSIONAL DEVELOPMENT PROGRAMME 2012

Core IR Skills	*UNDERSTANDING THE MEDIA FOR IROS* It's easy to get the wrong headline, but how can you use the press to develop your corporate profile in a positive way? On this course you will hear directly from a journalist on what they look for in a story; from a PR advisor on how to position your company with the media; and from an IR practitioner on how its done in practice.	Wednesday 10 October
Specialist course	*DEBT IR – THE NEW FRONTIER* This course will explain the nature of debt instruments and help professionals to understand the information requirements of holders.	Planned for November
Specialist course	*BEHIND THE TRADERS' SCREENS – HOW SECURITIES ARE TRADED* This course provides a basic knowledge and understanding of the key aspects of equities-related securities trading including the operation of markets, use of new trading platforms and dark pools, securities lending and borrowing and the interaction with short selling and derivatives trading.	Thursday 6 December
Specialist course	*IR FOR DIRECTORS AND SENIOR EXECUTIVES* The new Corporate Governance Code and the UK Stewardship Code has put increased emphasis on effective communication between boards and investors. It is therefore ever more important to understand how investor relations can facilitate effective contact with the investor community. This course provides a unique opportunity to understand how to make the best use of IR resources, what IR can do to help to increase liquidity in your shares, and more.	Bespoke course run in-house
Personal Development	*WRITING AND PRESENTATION WORKSHOP FOR IR* This interactive course will help to make sure your writing and verbal communication is clear, efficient and authoritative. Understand what makes a document readable and learn how to get your message across succinctly, through the written and spoken word as well as the web.	Tuesday 25 September

CERTIFICATE IN INVESTOR RELATIONS (CIR) 2012

	CIR REVISION COURSE To revise the CIR Study Guide and assist candidates with any questions they may have on specific sections of the syllabus.	Wednesday 8 August Wednesday 19 September Thursday 15 November
	CIR EXAM DATES The following are exam dates for the Certificate in Investor Relations.	Monday 20 August Thursday 4 October Thursday 29 November

The IR Society promotes the highest standards among its members and the wider IR community. Our training courses increase awareness of IR techniques, issues and best practice for IR practitioners at every stage of their careers. For more details see www.irs.org.uk.

The IR Service Providers Directory

The *Informed* IR Service Providers Directory features those organisations who offer key services to the IR community and shows the categories in which they have chosen to appear.

This section is published in parallel with the service provider section on the IR Society website – www.irs.org.uk.

For more information and to list your business here, please call Christiane Dickens on +44 (0)1285 831 789 or email cdickens@silverdart.co.uk.

Key to IR SERVICE PROVIDERS by category

ADR depositary services
- BNY Mellon
- Deutsche Bank

Annual reports
- Black Sun
- Capita Financial Group
- Emperor Design
- Investis
- Jones and Palmer
- Langsford Corporate Design
- MerchantCantos
- Sampson May
- SAS

Board advisory
- Fidelio

CRM databases
- IR.soft
- Nasdaq OMX Corporate Solutions
- Orient Capital
- RD:IR

Executive search
- Fidelio

Internet services
- Black Sun
- global3digital
- The Group
- MerchantCantos
- Nasdaq OMX Corporate Solutions
- WorkCast

Investor relations
- Africa Practice
- Broadridge
- Clare Williams Associates
- EmCo
- Fidelio
- h2glenfern
- Imagination
- Investis
- Maitland
- Makinson Cowell
- MHP
- Nasdaq OMX Corporate Solutions
- Orient Capital
- RD:IR
- WorkCast
- World Television

IR for small caps
- Investis
- RD:IR

Investor roadshows
- RD:IR

News providers
- ADVFN

Opinion research
- Orient Capital
- RD:IR

Proxy and corporate support
- Orient Capital
- RD:IR

Publications
- IR Magazine

Public relations
- Jones and Palmer
- Lansons
- MHP

Shareholder research
- Clare Williams Associates
- Investor Perceptions
- Orient Capital
- RD:IR

Shareholder targeting
- Nasdaq OMX Corporate Solutions
- Orient Capital
- RD:IR

Webcasting
- h2glenfern
- Investis
- Nasdaq OMX Corporate Solutions
- World Television

Website development
- Black Sun
- Clare Williams Associates
- Emperor Design
- global3digital
- The Group
- Investis
- Jones and Palmer
- MerchantCantos
- Nasdaq OMX Corporate Solutions
- WorkCast
- SAS

ADVFN – www.advfn.com – *news providers*

AFRICA PRACTICE – www.africapractice.com – *investor relations*

BLACK SUN – www.blacksunplc.com – *annual reports, internet services, website development*

BNY MELLON – www.bnymellon.com/dr – *ADR depositary services*

BROADRIDGE – www.broadridge.com – *investor relations*

CAPITA FINANCIAL GROUP – www.capitafinancial.com/1462.htm – *annual reports*

CLARE WILLIAMS ASSOCIATES – www.clarewilliamsassociates.com – *investor relations, shareholder research, website development*

DEUTSCHE BANK – www.adr.db.com – *ADR depositary services*

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