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Best Practices
New Practices in Corporate Earnings Releases – An Old Format Meets Some New Thinking

Anyone that has listened to or participated in a corporate earnings call has likely been hit with the thought that there has to be a better way to conduct these calls to make them less scripted and more interactive. Given the pay scale of the C-Suite corporate executives, the buy-side investment managers and the sell-side analysts participating in these calls, a somewhat perfunctory re-read of the already distributed press release seems like a model in need of an update. In fact, several companies have begun to re-work the conference call model to take advantage of new media, including video and social media, all in an effort to emphasize more non-scripted interaction and better address the needs of the investment community. Ipreo spoke with IROs at seven companies that have implemented a new framework for their earnings calls and sought out the opinions of the buyside and sellside, obviously two critical constituencies.

Key Findings:
• IROs and investment community participants are in broad agreement that less time should be allocated to prepared remarks and more time should be provided for Q&A.
• Being thoughtful about the timing of the press release, and the timing of the call, is seen as value added. For example, some companies are releasing information well ahead of the call, even the day before, in order to give the investment community time to digest the material before the call.
• Many companies are including a slide deck or supporting materials with their press release that include more granular financial data and information on different business units, which have been well received by the investment community.
• A small, but growing number of companies have added a video component to their earnings releases. For example, Yahoo! broadcasts a roundtable discussion with its management team and Netflix uses Google Hangouts to show its Q&A on a dedicated YouTube channel.
• Other companies utilize a Twitter feed to provide a link to earnings releases and other important news flow. Zillow Group has taken it a step further by incorporating questions received via Twitter into its Q&A segment of the earnings call.
• Changes have been made beyond the scope of the earnings release as companies such as salesforce.com are making the process for post-earnings follow-up calls more efficient by pre-scheduling them in advance with the Street.

A Refresher of the Current Format

Before we dive into the details of our findings, let’s review the current earnings process most commonly employed today. The approach is pretty straightforward: the press release is made public, the C-suite executive talks through the prepared remarks and then takes Q&A. The earnings call typically takes place a few hours after the press release is made public. After approximately 30 minutes of prepared remarks, the Q&A line opens and the sell-side and buy-side participants have at it. However, we found that investment community participants are not entirely happy with this format.

“I get agitated when the prepared remarks go on and on and management will literally be reading word for word off of the press release. That leaves such little time for Q&A. In my opinion, it’s in the press release; people can read that, just provide some new incremental color and open it up for Q&A.”

Anonymous Analyst at a Bulge Bracket Sell-Side Firm

As we did our research and gathered more data, we asked ourselves if earnings calls are still vital to the investment decisions of investors and analysts? Has the current format become so stale that analysts are opting to read the press release and the call transcript instead of listening live?

“It depends on how familiar I am with the company. If it’s a company that I have been following for a long time, the calls are definitely important, because it’s where you get most of your new information. If we have a big position in the company, I am definitely going to be on the call and there is a pretty good chance that we are going to make trades off of what is said on the call. I am very unlikely to take a position or exit it, but I will be doing some sort of maintenance trading around the position.”

Anonymous Buy-Side Analyst
This format has been in use for decades, and why wouldn’t it be? It provides the necessary information the buyside and sellside need for their valuation of the company. But, what if there was another way? In our research we discovered that there are a number of different ways companies are going against the grain for earnings calls. In the subsequent pages we will highlight the different strategies being used across multiple platforms in today’s earnings releases.

**New Strategies and Tactics**

**Timing and Use of Time**

Participants in our survey across IR and the buyside were consistent in their feedback that it’s a more effective use of time for issuers to spend less time reading a script or the press release, and more time on Q&A. Additionally, some companies are tweaking the timing of the call and the timing of the release of the script and other information. For example, Netflix and Devon Energy release prepared remarks before the call.

> We actually publish our quarterly letter to investors, which is in essence our script to the site, a couple of hours before the earnings call so that people can read it and digest it. Then we devote the entire time to Q&A, which makes a ton more sense because everyone can read scripts and press releases on their own and the importance of the call is the Q&A piece. We are dedicating 40 to 45 minutes of Q&A to the call and we got a ton of great feedback saying how it was so much more informative and helpful to have the scripts early so they don’t have to take copious notes and inevitably miss something.

> Erin Kasenchak, Director of Investor Relations at Netflix

> The first few times we did it, we pre-recorded the comments and played them back on the call. Then we took it to the next level and said, ‘Let’s just put everything, press release, operations report and prepared remarks, out the night before.’ As a result, the level of interest and particularly the quality of the notes from the sellside analysts have gotten significantly better because they have everything the night before. It also fosters a more substantive call with higher level questions. I think it’s a better use of everyone’s time -- management, investors and analysts -- and I think it provides more transparency into the company.

> Howard Thill, Senior VP, Communications and Investor Relations at Devon Energy

Several benefits emerged as a result of these tweaks. First, the quality of the questions on the call improves as the script and material released before the call answers some of the more basic questions, leaving more strategic questions. Additionally, the analysts have more time to write their notes, so the quality of that analysis improves.

> “The result is more thoughtful, more strategic questions that management is accustomed to answering during typical one-on-one or breakout sessions at a conference. So it actually becomes easier for management. I am not going to sit here and profess that we will never get the hard questions, because we will get those either way. The major hurdle is convincing the CEO and the CFO that, yes, you would rather take 40-45 minutes or even an hour of questions than spend 20-40 minutes rehashing the quarter on the call. It’s a better use of your time and it’s a better use of investors’ time and, in the end, everyone benefits.” - Howard Thill, Senior VP, Communications and Investor Relations at Devon Energy

In the name of achieving scale, instead of holding separate follow up calls, Twitter holds one call where the team can answer FAQ’s en masse.
We have actually stopped doing scheduled follow up calls, because we found they were all pretty much the same. We now do one follow up call with our CFO that everybody calls into. So it is more democratic. Everyone gets the information at the same time, and they get to hear everybody else’s questions. I don’t have to answer the same capex questions 19 times; it can get asked once, and no analyst is disadvantaged by his or her order in the call-back list. It also helps, because analysts typically don’t want to spend time on the regular calls going through modeling questions. The follow up call is a better forum for that.

David Rivinus, Investor Relations at Twitter

Supporting Material

In addition to improving the timing around the earnings call, issuers are adding to the content they are releasing. Some are including supplemental slide decks available on their website prior to the call while others are enhancing the release with infographics. Infographics are a more visual representation of the financials and data in the release, typically in the form of charts and graphs. Infographics make it easier to digest material and offer management teams a more effective method to highlight aspects of the company’s results and goals.

Our prepared remarks document is the focal point of our earnings information. We have been evolving it over the course of the last two and a half years and ultimately it is now the centerpiece of our published quarterly results. We push everybody to that document because it outlines in detail all the major things that have happened in the business during the quarter. I post the prepared remarks document to the homepage of our IR website simultaneously with the earnings press release going out over the wire, giving investors and the sell-side about three and a half hours to digest the information in advance of the call. This has allowed us to dramatically shorten the scripted comments by our CEO and CFO on the call. They speak five to ten minutes and then we move directly into Q&A. As a result, the types of questions asked on the public call are now much more strategic and less housekeeping in nature.

Annette Arribas, Global Investor Relations & Insurance Officer at ANSYS, Inc.

We created infographics that gave a snapshot of our regional pretax performance and also the total company pretax performance, which was a cool way to provide our results in a way that people can use as a resource and also to visualize Ford as a global company. We are looking at changing the way we do our press release—creating more visuals. It helps employees too, so it is not just external, it’s internal also.

Whitney Eichinger, Manager, Corporate Communications at Ford Motor Company

The feedback on providing this additional information in an easy to digest format has been positive.

From the buyside we have gotten very personalized notes from some of the biggest investors, saying that what we are doing is fantastic. They love how things are more visual. We also got quite a bit of positive feedback from the sellside. When they got the 10-K this year we gave them some new metrics that they did not have before and we made it much easier to digest the business results, so I think it’s been positive for us.

Seth Martin, Director, Corporate & Financial Communications at GE
Video

Several progressive companies are incorporating video into their earnings release. Video can be a more engaging medium and allows for more color on results and company strategy, and has been met with both encouragement and criticism from the investment community.

Eric Kasenchak, IRO of Netflix, offers some advice and cautions against the use of video if a management team isn’t prepared or trained for it.

“You need to think through the company and management’s comfort with making those changes. Not all management teams want to be live on camera during their earnings call. But I think if you just want to take a baby step to improve the effectiveness of your earnings process, just publishing your script to the website and not spending 40 minutes reading it, but take that time and devote it to Q&A, is something that is quite easy to do and makes a ton of sense. I think that the Street really appreciates that information being available to them in advance in a written format so that can refer to it, and it just helps them do their job better as well. It is much more efficient.” – Erin Kasenchak, Director of Investor Relations at Netflix

Social Media

As companies experiment with different channels of communication with the investment community, Twitter has emerged as an effective tool. Of course, Twitter’s IR team is leading the charge, but you may be surprised to know a number of other companies are choosing to engage over social media. Twitter can be used to release the earnings press release, direct investors to the IR website, disseminate supporting materials, and some companies even take questions via Twitter.

"The idea here is that social media is in our DNA and we wanted to be able to open up more access during the earnings process that would work in that channel. It’s one that we felt was the next step in the evolution as far as investor communications. So it was something we were interested in doing and did a lot of prep work for as far as what are the legal implications, reporting implications and what’s the best practice."

RJ Jones, Vice President, Investor Relations and Competitive Intelligence at Zillow Group

“We were looking at different ways to communicate our financial messages and we know that Twitter is a popular way of sharing information and also a way to communicate succinctly. We wanted to see how to boil down our very complicated financial messages into something that consumers and shareholders could digest. It’s also about sharing the information and retweeting the messages that are out there and getting some personality around our executives during this time. So I include photos of products, I include photos of CFO Bob Shanks speaking, so people can see the Ford brand’s personality.” - Whitney Eichinger, Manager, Corporate Communications at Ford Motor Company

“We have a main Twitter handle for corporate news and information, and we highlight this for investors in our press releases. When we have a financial event like earnings, we will link to visuals like infographics to highlight key performance elements, such as product milestones that we think are important to the quarter. We also live tweet things that CEO Jeff Immelt said or other executives say on the call that we think captures what the quarter was all about or other important points they are making.” – Seth Martin, Director, Financial Communications at GE

The reaction to the use of Twitter as an additional channel for communication has been well received. Investors and analysts enjoy the timely and succinct data points and color, and also draw value from having a long history of announcements and Q&A since tweets are available on a historical basis.

“They view it as another piece of due diligence because it’s archived forever. So it’s out there so that anybody can go back look at the timeline and see what questions were asked. They can look at our #ZEarnings hashtag and see what was asked and how we answered it. They can also look in the transcript and see what questions we pulled.” – RJ Jones, Vice President, Investor Relations and Competitive Intelligence at Zillow Group
"We start tracking questions people submit on Twitter after the release is out, or even before if there are any. By doing this, we can start to see any questions that are bubbling up or a point that may be confusing in the press release or prepared remarks. The goal is to try to be as proactive as possible in answering questions, and the feedback has been great. Again, it is a way that we can democratize the call and open it up to a lot more people than just the sell-side analysts. We even have a number of analysts that don’t queue up to ask questions on the main call, but submit their questions on Twitter. Everybody can see those questions as they come through, giving the analyst credit, and we try to answer most of those, depending on time. I think it has evolved pretty well, and we would like to use it more.” – David Rivinus, Investor Relations at Twitter

IROs that leverage Twitter acknowledge that social media may not be the right fit for every company. A lot depends on industry, management team comfort, and the company’s general philosophy and current presence on social media.

“You have to spend a lot of time listening and assessing what’s happening on Twitter with your company. You also have to understand if it’s the right fit for your brand and your team. For us, we are a very social brand and very social team. It might not make sense for, perhaps, a chemical manufacturing company. It has to be a series of right fits all the way around. You don’t want it to be something that appears awkward. You don’t want someone getting on Twitter that isn’t comfortable.” - RJ Jones, Vice President, Investor Relations and Competitive Intelligence at Zillow Group

“I think IROs should get in touch with their communications person, and I am not just saying that because that’s what I am, but I think some IR teams probably don’t think they excel in communication, but communication is one of their biggest roles. Just like in public relations, you have to think about the different ways to communicate your message and take it further than just analyst reports and meetings with investors. You have to figure out how you can broaden the group of people interested; it’s like attracting customers.” - Whitney Eichinger, Manager, Corporate Communications at Ford Motor Company

This practice has also drawn positive feedback from the sell-side community.

“Companies know they have to follow-up with X number of sell-side and buy-side firms after the call. Those that do it best will typically schedule these calls ahead of time.” - Anonymous Analyst at a Bulge Bracket Sell-Side Firm

Street Takeaways

We wanted to highlight the consumers’, namely the buy-side and sell-side, takeaways from all of the different changes that companies are making in terms of information disclosure. The consensus is that the investment community welcomes the multitude of avenues that companies are choosing to communicate important data to the public.

“Some companies will bring in someone that you do not hear from often who is a business unit leader and that person will give specific insight into a certain business segment of the company. At the end of the day, the CEO or CFO will give high-level commentary on the earnings call and it is not a value add for us. It’s refreshing when they bring someone in that you don’t hear from very often and that person explains in more granular detail the fundamental environment in a certain market.” - Anonymous Analyst at a Bulge Bracket Sell-Side Firm

“In this day and age when everyone is on the move, being able to view that information on the go is absolutely paramount. For example, I have the GE app on my iPad and even though I don’t closely follow the GE financial rhythm, I get a notification every time the company puts out an earnings release, press release or even an SEC filling.” – Rupert Spiegelberg, CEO at Investis Inc.

That being said, although investors and the Street welcome the vast modes of receiving the insight from the company, it is vital that this information is being communicated in an accurate and efficient manner.

“It can be very confusing when companies give their guidance on the earnings call, but not in the press release or accompanied slide decks. I have seen it many times where Street numbers are misconstrued because the CFO or the CEO does a poor job of explaining the guidance.” – Anonymous Buy-Side Analyst

Conclusion

While there is certainly a critical mass of corporate earnings releases that continue with the status quo, there are also quite a few companies that have evolved it into something a bit different and what many would say, a better format. There are many factors to consider when overhauling the earnings call, or even tweaking it slightly. That said, the participants in these interviews have reaped
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“There is no silver bullet which solves all of your problems. The key is to be as close to your end user in as many different formats as possible and recognize that they will want to consume that information at different points of the day or the week, in different formats, from different devices and for different reasons. You are not always looking at an earnings release because you’re just about to push a button on a trade. You may be doing it for broader research. You may be doing it to understand context for a different trade or for a different reason.” – Rupert Spiegelberg, CEO at Investis Inc.

Author: Jason Oury & Greg Costa

Jason is a Director in the Global Markets Intelligence Group
Greg is an Associate in the Global Markets Intelligence Group
Participants

Annette N. Arribas:
Annette N. Arribas has been the Global Investor Relations and Insurance Officer of ANSYS, Inc., the world’s largest engineering simulation software provider, since November 2007. Prior to joining ANSYS, Annette worked for 10 years in the electric utility industry in Maine, where she served as the Vice President of Investor Relations, Compliance and Treasurer. Annette has also held various positions in banking with KeyCorp and assisted in the establishment of a successful de-novo bank. Ms. Arribas holds a Bachelor of Arts degree in Management and a Masters of Business Administration in Finance and International Business from the University of Maine, and is a Certified Treasury Professional.

Whitney Eichinger:
As a spokesperson for one of the most iconic brands in American history, Whitney Eichinger intimately understands the power of the press and the impact of a positive corporate reputation. In her role at Ford Motor Company, she oversees financial and legal communication where she handles everything from quarterly earnings communication to Ford’s communication strategy around legal issues. Whitney has more than sixteen years of PR and media experience. Before joining Ford, she ran the Commercial Communications Team at Southwest Airlines. In her management role in the Communications department, she and her team kept Southwest Airlines in the media and at the forefront of consumers’ minds through strategic placement in mainstream, social, and entertainment media.

Erin Kasenchak:
Erin has more than 15 years of experience as a senior IR professional. Her 10+ years as a Director of IR at Netflix focused on creating and executing an IR program focused on efficiency, transparency and innovation. Prior to joining Netflix in 2004, Erin was Manager of Investor Relations at Keynote Systems, a leader in Internet and mobile cloud monitoring. Before that, she was Manager of Investor Relations at E*TRADE Financial. Erin has a MBA in Finance from Santa Clara University and a BS in Finance from Cal Poly, San Luis Obispo.

Seth Martin:
Seth Martin leads financial communications for GE including quarterly earnings, M&A, legal issues, the annual report, annual meeting and CFO communications. He also leads media relations on corporate and reputational issues, and is responsible for digital communications externally. Seth has spent nearly his entire career in the financial services, asset management and investment banking business. Prior to joining GE, Seth was Vice President, Communications at Barclays in New York managing media relations for several of Barclays’ core business lines including research, commodities, clean-tech investment banking and Latin America communications. Prior to Barclays, Seth was VP, Communications for Mizuho Corporate Bank, managing Mizuho’s Americas communications. Prior to Mizuho, Seth was an Assistant VP at Morgan Stanley, first leading internal communications for Morgan Stanley Investment Management, and later as a media relations specialist covering asset management. Seth began his career as a financial journalist and editor at IDEAglobal, covering U.S. equities. As a market strategist at IDEAglobal, Seth was frequently quoted in the media and interviewed on CNN, Fox, and YahooFinance TV. Seth graduated from Cornell University and lives in New York City with his wife and son.

Howard J. Thill:
Howard J. Thill was named senior vice president of Communications and Investor Relations at Devon Energy in June 2014. Thill previously served as vice president of Corporate, Government and Investor Relations at Marathon Oil Corp. Before joining Marathon, he was director of Investor Relations at Phillips Petroleum, where he began his career in 1982 as a drilling fluids sales and service engineer. Thill holds bachelor’s degrees in accounting and marketing and a master’s in business administration, all from Oklahoma State University. He is a certified public accountant.

Rupert Spiegelberg:
Rupert Spiegelberg, CEO of Investis Inc., heads up North American operations, headquartered in NYC. He previously drove Investis’ push into mainland Europe and more recently was responsible for developing Investis Product strategy before moving to the US. With more than 14 years of experience in online IR and corporate communications in the US and Europe, Rupert knows exactly what corporates require in a digital communication strategy. As an ex-Bloomberg journalist, he also has an acute understanding of what stakeholders look for in communications. Rupert holds an MBA from INSEAD in France.
Liquid Alts and the Future of Asset Management

Over time we get accustomed to seeing hyperbole in the financial industry – with thousands of information sources coming from every direction seeking our attention, it’s somewhat natural to see “impossible” dollar figures attached to trend pieces, especially those with an ultimate goal of selling us a product. However, when a source as credible as McKinsey uses the moniker “The Trillion-Dollar Convergence” to describe its view on the future of asset management it is difficult to dismiss as simply hyperbole.

For the record, the subtitle of McKinsey’s research piece is “Capturing the Next Wave of Growth in Alternative Investments”, and the topic covered in the piece is the liquid alternatives universe, hereafter referred to as “liquid alts.” McKinsey presents the case that demand for liquid alts will come from two primary sources: major asset owners, such as pension funds and foundations, which will continue to increase their allocations to alternative investments, and retail investors. McKinsey projects annual growth in alternative assets of greater than 5%, with a “barbell” shape highlighting the largest growth (>10% annually) coming from the largest institutions, such as sovereign wealth funds, as well as strong growth from the smallest investors (individuals). McKinsey is not alone in its forecast, as Goldman Sachs projects the retail side of this equation to grow even faster – as much as 15-20% annually, according to its study Retail Liquid Investments: The New Frontier.

These projections aren’t a major news flash to the investment community – investors are already facing these changing customer demands today and reacting to their needs. However, to understand the impact on issuers, we need to understand how the investment community positions itself.

What are liquid alts, and what are their advantages to asset owners?

Hedge fund managers have typically sought to maintain the belief that their higher returns justify higher fees (the traditional 2% management fee and 20% performance fee, to start with) and higher liquidity restrictions (3-, 6-, or 12-month lockup periods after any redemption request). However, asset owners may argue, accurately in some cases, that the returns have not justified these restrictions. Therefore, the search for a “third way,” with lower fees and greater liquidity while still retaining the potential for higher-than-market returns, is what drives the asset management community in creating new investment products.

Liquid alternative vehicles are a method for asset managers to offer investment strategies previously only offered through private placement vehicles, such as hedge funds and private equity, to a broader universe. Securities registration rules have typically placed accredited investor rules (>1M in net assets) on any private placements of hedge fund and private equity partnerships, but the liquid alternative structure works more like a mutual fund, and will usually fall under similar regulatory framework (namely the UCITS Collective Investment Trust structure in Europe, as well as traditional ‘40 Act mutual funds in the US). Though it’s a minor consideration, owning a hedge fund stake through a liquid alt, as opposed to a direct investment, does not require a K-1 form, allowing an investor more flexibility in the tax reporting process.

As opposed to standard open-end mutual funds, the goal of a liquid alt portfolio is to offer consistent liquidity to investors, who are able to invest and redeem funds on a daily basis. Fees tend to be similar to those of traditional alternative portfolios, but given that these fees must but openly disclosed, there tends to be slightly more direct competition on fees, and more focus on management fees as opposed to performance fees (the “2” instead of the “20” in the traditional “2 and 20” structure). These types of portfolios attract both institutional and retail assets – pension funds and trusts seeking alternative-style returns while maintaining daily liquidity will often allocate to liquid alts.

Continued on next page...
**Why are these vehicles growing?**

Rarely in the financial world is a single cause solely responsible for an effect. In the case of liquid alts, there are plenty of broad contributing factors. The sustained low interest rate environment is likely the primary factor behind most of the innovation in the financial industry over the last five years, and liquid alts are no exception. The increased asset/liability mismatches requiring investors to offset lower returns from fixed income generally leads investors to increase allocations to alternatives, and pension accounting rules enacted over time have made pension funds in particular seek higher “expected rates of return,” regardless of “actual rates of return.” Greater regulation and transparency needs often lead large asset owners to allocate more dollars to fewer managers, giving liquid alt portfolios offered by large managers an inherent advantage over hedge funds. From the retail demand side, McKinsey suggests the demand in the retail space reflects increasing sophistication of the retail community, along with the general expansion of mass affluence as important factors.

**Who is launching these portfolios, and what’s the impact on the asset management community?**

Many traditional managers that have the scale and desire to have portfolios with a range of investment strategies, have entered the liquid alt space already, or are looking at their options. Even Vanguard, the standard bearer of low-cost investing, filed its intent to launch a new multi-alternative fund in the second quarter of 2015, the Vanguard Alternative Strategies Fund, with an expected expense ratio of an un-Vanguard like 1.1%. According to Alternative Strategy Partners, other major asset managers that have launched liquid alt funds since the beginning of 2014 include AllianceBernstein, Columbia Management, Dreyfus Funds, Invesco Advisers, PIMCO, Transamerica Asset Management, Wells Fargo Funds Management, and William Blair & Co.

From the hedge fund side, the story is similar, and potentially even more acute, as hedge fund managers need to build scale to compete with the offerings from the traditional manager side. A KPMG / AIMA / MFA 2015 survey of global hedge fund managers noted that 38% of hedge fund managers had either opened, or were developing, a UCITS fund, and 27% of managers were either currently operating or developing a ’40 Act mutual fund.

Hedge funds have traditionally been restricted from actively selling and advertising their products, and even changes to the general solicitation rules under the JOBS Act haven’t changed this practice. However, if you’re a hedge fund manager seeking to build a larger asset base, opening a liquid alt mutual fund portfolio may have benefits to you in terms of having to spend less time directly fundraising, as well as letting your SEC filings market your strong track record for you.

Not all hedge fund strategies work well within the confines of a public mutual fund, however. To date, merger-arb strategies and limited long-short strategies have thrived – Figure 2 highlights some of the hedge fund managers that have ventured into the mutual fund arena and the types of strategies they manage. However, in the US, strategies that require high leverage, such as short-bias
investments, are prevented by SEC requirements that maximize leverage at 33% of overall assets. (Of note, swaps are treated as leverage in this calculation, preventing liquid alt portfolios from using a strategy of, say, fully hedging a high-yield portfolio with CDS positions).

Figure 2 – Largest US Traditional HF Managers Operating Liquid Alt Portfolios Holding Short Positions, 4Q14

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investor Name</th>
<th>Firm Managing</th>
<th>Total Disclosed Shorts ($M)</th>
<th>Total $M AUM in Liquid Alt Portfolios</th>
<th>Total Firm (Long Equity) $AUM</th>
<th>% of Total EAUM in Portfolios Holding Short Positions</th>
<th>Firm Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gotham Asset Management, LLC</td>
<td>J.P. Morgan Investment Management, Inc.</td>
<td>-3,851.0</td>
<td>7,031.0</td>
<td>12,240.8</td>
<td>57.4%</td>
<td>Market Neutral, Others</td>
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<tr>
<td>2</td>
<td>Westchester Capital Management, LLC (NY)*</td>
<td>Robeco Investment Management, Inc</td>
<td>-1,069.1</td>
<td>6,598.1</td>
<td>4,037.7</td>
<td>163.4%</td>
<td>Event-Driven</td>
</tr>
<tr>
<td>3</td>
<td>Whitebox Advisors, LLC</td>
<td>-19.3</td>
<td>920.9</td>
<td>2,496.8</td>
<td>36.9%</td>
<td>Long/Short, Others</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Chilton Investment Company, LLC</td>
<td>-67.1</td>
<td>506.0</td>
<td>2,857.7</td>
<td>17.7%</td>
<td>Long/Short, Sector Specific, Others</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Brigade Capital Management, L.P.</td>
<td>-21.5</td>
<td>498.4</td>
<td>701.6</td>
<td>71.0%</td>
<td>Multi-Strategy</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Independence Capital Asset Partners, LLC</td>
<td>-28.7</td>
<td>211.7</td>
<td>725.0</td>
<td>29.2%</td>
<td>Long/Short</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Atlantic Investment Management, Inc.</td>
<td>-9.4</td>
<td>202.3</td>
<td>1,527.4</td>
<td>13.2%</td>
<td>Long/Short, Regional</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Ionic Capital Management, LLC</td>
<td>-22.9</td>
<td>192.1</td>
<td>1,617.7</td>
<td>11.9%</td>
<td>Event-Driven, Volatility Arb</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Sirios Capital Management, L.P.</td>
<td>-26.3</td>
<td>170.2</td>
<td>2,890.8</td>
<td>5.9%</td>
<td>Long/Short</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Visium Asset Management, L.P.</td>
<td>-75.2</td>
<td>148.7</td>
<td>6,240.3</td>
<td>2.4%</td>
<td>Long/Short, Event-Driven</td>
<td></td>
</tr>
</tbody>
</table>


What’s the impact on issuers?

The direct impact on equity issuers should mirror what the IR community has seen over the last decade as alternatives have grown – greater flows into alternative strategies, all else equal, lead to greater short-term focus on the issuer’s performance, as investor timeframes for many strategies (such as long/short) are measured in months instead of years. The trend may be intensifying and may mean more of a diversification of the alternative universe to include traditional long-only investors.

However, the asset management community isn’t gaining a new source of capital funding without bearing some costs. Asset managers launching liquid alt strategies are receiving access to smaller investors and lower-cost methods of raising capital – but what they may gain in asset flows they may give back in terms of regulation and transparency. Any mutual fund manager will tell you that the retail-class mutual fund is one of the most closely-regulated investment structures, with reporting requirements, governance policies, and checks and balances imposed on few other industries. Among these transparency requirements is the necessity for managers of mutual funds to allow the public to disclose each of their individual security positions to the public – not just the long positions, but the short positions as well. An important side effect of the expansion of liquid alts is the transparency being allowed into the “short side” of the ledger for issuers.

Ipreo gathers mutual fund portfolio information through relationships with Morningstar and FactSet, as well as through its own bespoke research. Looking deeper at the disclosures made by these portfolios, we can start to get a picture of the size of the short side of the aggregated liquid alt book in equities, as well as how it behaves. Figure 3 highlights the largest mutual funds disclosing short positions – at a glance, many of these investors are the same names issuers would know from the long-only community (J.P. Morgan Investment Management, Robeco Investment Management, etc.).

Figure 3: Top US Mutual Funds by Largest Disclosed Ownership of Short Positions, March 2015

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investor Name</th>
<th>Firm Managing</th>
<th>Fund Total Assets ($M)</th>
<th># of Short Positions</th>
<th>Total Short Position ($M)</th>
<th>Largest Short Security of Largest Position ($M)</th>
<th>Short Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JPMorgan US Large Cap Core Plus Fund</td>
<td>J.P. Morgan Investment Management, Inc.</td>
<td>14,914.9</td>
<td>149</td>
<td>-1,557.2</td>
<td>-100.0 AT&amp;T Inc.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Boston Partners Long/Short Horch Instl</td>
<td>Robeco Investment Management, Inc</td>
<td>5,778.0</td>
<td>188</td>
<td>-2,679.0</td>
<td>-29.5 Verifone Systems</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>MainStay Marketfield fund</td>
<td>Marketfield Asset Management, LLC</td>
<td>8,688.0</td>
<td>12</td>
<td>-1,897.2</td>
<td>-226.4 Southern Co.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Gotham Absolute Return Fund</td>
<td>Gotham Asset Management, LLC</td>
<td>3,589.2</td>
<td>431</td>
<td>-1,798.8</td>
<td>-14.3 Post Holdings</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>BlackRock Global Long/Short Equity Fund</td>
<td>BlackRock Fund Advisors</td>
<td>1,913.4</td>
<td>505</td>
<td>-1,647.4</td>
<td>-25.2 Coach Inc.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>AQR Multi-Strategy Alternative Fund</td>
<td>AQR Capital Management, LLC</td>
<td>3,246.1</td>
<td>351</td>
<td>-1,177.3</td>
<td>-41.3 Micron Tech</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Gotham Enhanced Return Fund</td>
<td>Gotham Asset Management, LLC</td>
<td>2,388.8</td>
<td>448</td>
<td>-1,023.1</td>
<td>-7.7 Akorn Inc.</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Merger Fund</td>
<td>Westchester Capital Management, LLC (NY)</td>
<td>6,251.9</td>
<td>16</td>
<td>-1,005.7</td>
<td>-173.3 Medtronic PLC</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>JPMorgan Funds - Europe Equity Plus Fund</td>
<td>J.P. Morgan Asset Management (UK), LTD</td>
<td>6,200.0</td>
<td>96</td>
<td>-838.1</td>
<td>-35.2 Mediset</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>BlackRock Strategic Funds - European Diversified Equity Absolute Return Fund</td>
<td>BlackRock Advisors (UK) Ltd</td>
<td>1,337.3</td>
<td>549</td>
<td>-832.5</td>
<td>7.7 Pennon Group</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ipreo Research
IROs would do well to know more about the investment strategies being followed by those on the other side of the table in every case, but none more so than when the investor is actually holding a significant short position. That said, as this is still a small but growing market, many of the short positions we witness in the data set are fairly small as a percentage of institutional ownership or shares outstanding. Further, the overall disclosures really just account for a small piece of the overall universe of short sellers – taken from an issuer view, if we sum the total short positions identified for all securities and divide them by the total reported short interest at the time for each security, we average just 3% of the total short interest being disclosed. The liquid alt market is not the whole short community, but it’s a piece that’s starting to become notable.

Even in the absence of disclosures such as the above, IROs should have the ability to probe deeper into the investment strategies being followed by major investors. Larger investors that run alternative portfolios that aren’t liquid alt / disclosing platforms will still generally have some basic information about these strategies available. In order to build out alternative platforms, traditional asset managers have also often chosen to acquire into these spaces, either through directly acquiring alternatives platforms, or through acquiring talent with hedge fund experience. There are strong odds that the manager across the table from you who happens to have 20 years of experience running hedge funds, but is now carrying a business card with a Wellington, JPMorgan Asset Management, or Janus moniker, isn’t running a long-only US core value strategy inside that shop. Learning more about your investors and what’s driving their business strategies, not just their investment strategies, will pay dividends to IR when facing a rapidly changing world of asset management.

**Author:** Brian C. Matt, CFA
Brian is Director and Global Head of Strategy and Innovation with Ipreo.
Japan Stewardship Code – What Investors Think (so far)

In February 2014, Japan’s Financial Services Agency (FSA) finalized the Japan Stewardship Code, a formal ‘call to action’ for institutional investors to fulfill their stewardship responsibilities by regularly and proactively engaging with investee companies in Japan. The Code closely mirrors the UK Stewardship Code (enacted in 2010), as its key objectives are to foster sustainable corporate growth and improve corporate governance through a principles-based, “comply or explain” approach.

Adherence to the Japan Stewardship Code is voluntary, yet it has seen notable success since its inception, as over 180 institutions (including trust banks, investment managers, pension funds, insurance companies, and proxy voting advisors) have adopted the Code as of February 2015 according to the FSA. Japanese institutions, which are generally not as active in engaging companies as their non-Japanese counterparts, account for a large percentage of the initial adopters (approximately over 80%). Given the high level Japanese equity ownership by this group, the ultimate success of the Stewardship Code rests in how seriously they adhere to its principles.

Unlocking value in the Japanese market, however, will come from increased demand from institutional investors outside of Japan. To gauge the early sentiment of global investors regarding the Stewardship Code, Ipreo’s Perception Analytics reached out to a group of global investment managers to determine if they believe potential changes in investor and corporate culture will influence the attractiveness of investing in Japan.

For a small subset of investors who were less familiar with the Stewardship Code, Ipreo engaged in broader discussions about corporate governance in light of the recent introduction of the Japan Corporate Governance Code, which is expected to be implemented in 2015 and calls upon corporate issuers to improve independent oversight.

In total, Ipreo spoke with 17 investors who actively invest in Japanese equities and whose firms collectively represent an estimated $536B EAUM. The survey population includes investors domiciled in North America, Europe, and APAC (ex.-Japan).

Of these investors, 12 who are familiar with the Stewardship Code provided candid, detailed feedback on the initiative, and the analyses below depicts their sentiment:

**View of Japan Stewardship Code**

- Nearly all investors hold a positive view of the Stewardship Code, noting that it is a step in the right direction to improving shareholder engagement, capital efficiency, and corporate culture in Japan.
- In fact, some tenured Japan-focused investors state that this is a long-awaited effort by the Japanese government as there has been clear room for improvement, particularly in terms of shareholder returns, Board independence, and strategic proactiveness by management.
- The sole investor who holds a neutral view of the Stewardship Code maintains caution because adoption of the Code is still in the preliminary stages, and he/she has yet to see meaningful improvements in corporate governance among Japanese companies.

“We think the Japan Stewardship Code has been an incredibly positive development. One reason the Japanese market has tended to trade at a discount to other global markets over the past few years has been a perception on the part of investors that although it is cheap and there is a lot of cash locked up in the balance sheets, there is no way for shareholders to actually access that cash. Therefore, the whole focus on ROE and making companies think more about the cost of capital and how they can allocate capital more efficiently is a very positive development that should lead to improving ROE over the long-term. That also means that you should see a proper culture of shareholder returns take hold in Japan.” - European-based Investment Firm

**Impact of Code on Investment Approach**

- When probed, 69% of investors state that the Japan Stewardship Code has not directly impacted their approach to assessing Japanese companies because their firms have historically prioritized corporate governance in their investment analyses across all regions.
- However, some participants now spend more time holding discussions with Japanese companies about long-term strategy, Board composition, capital allocation, focus on returns, and voting policies, and AGM proposals.
“The new Stewardship Code has not changed my firm’s approach to assessing governance. We always look for good management, which implies good governance. With Japan we had to lower the hurdle a little bit because not many Japanese companies met our standards. We have always demanded or asked for better corporate governance. We vote accordingly when it comes to shareholder meetings, and we try to communicate with companies who we do not vote in favor and explain ourselves. We spend time discussing corporate governance issues with management whenever we can meet with management teams.” - North American-based Investment Firm

“The Japan Stewardship Code has not changed the way that our firm assesses corporate governance. It is very much what we were hoping would happen. Step one was establishing a Japan Stewardship Code. Now, we have to see how it will actually be put into practice. We have talked to people who are very hopeful that it will make companies really focus in on what is important, in terms of profitability, capital efficiency, and sustainable long-term growth. The Japan Stewardship Code will hopefully push companies that are resting too much on tradition.” - European-based Investment Firm

Effect on Japan’s Investment Attractiveness

- 83% of participants believe that the Stewardship Code will improve the attractiveness of Japanese equities for global investors with the caveat that this will not happen dramatically, but rather over time as investment firms and Japanese companies put the principles into practice and demonstrate the fruits of sustainable growth.
- A few investors do not expect the Stewardship Code to have any effect on Japan’s investment appeal and state that it will not impact the underlying fundamentals of Japanese companies.

“The Japan Stewardship Code will improve corporate behavior in Japan. It will increase the attractiveness of equity investments in Japan.” - APAC (ex.-Japan)-based Investment Firm

“The Japan Stewardship Code will affect the attractiveness of investing in Japanese equities, but I do not think that this will happen through the Code itself. If the Japan Stewardship Code manages to help businesses become more shareholder-friendly and perform better, then as a result, you will get more foreign investor interest in Japan. Solely having the Japan Stewardship Code on its own will not do anything. It will only work if companies take it seriously and actually change the way they think about shareholders. Rather than running the business for management, they should be running the company for shareholders. Shareholders should also be considering their role differently. They should play an active interest in how the business performs over the longer term.” - European-based Investment Firm

Disclosure of Voting Activity

- A majority of investors believe that enacting the practice of disclosing voting activity by investment firms will enhance corporate culture in Japan, which many view as a market where the buy-side communication is more complacent relative to other developed countries.
- These respondents appreciate that disclosure of voting activity will promote transparent communications between investors and companies, and encourage minority shareholders to exercise their rights more proactively.
- Investors who are neutral acknowledge these aforementioned benefits, but worry that this practice may lead to investment managers in Japan being less likely to vote against agenda items for fear of retribution.

“I think it will help the business practices if investors are required to disclose their votes because part of the culture of domestic investment firms in Japan has been to not ‘rock the boat’ and to go along with management. I think if they are forced to disclose how they are voting and combine that with the new Stewardship Code, you are going to see them really exercise their right as shareholders more aggressively.” European-based Investment Firm

The remaining five investors who are unfamiliar with the Japan Stewardship Code broadly discussed their views of corporate governance practices in Japan, and their views are summarized below:

- Investors find that Japanese companies have historically demonstrated poor capital efficiency, significant cross-ownership, a lack of focus on shareholder returns, inadequate stock-based remuneration, and insufficient Board independence.
- When asked about how practices in Japan compare to the rest of APAC, sentiment is mixed as some appreciate the rule of law and accounting credibility in Japan (versus their perceptions of China, for example), while others note all APAC countries are similarly below-average relative to global standards.
- The two most important suggestions to improving corporate governance in Japan are focusing on profitability and returning excess cash to shareholders.
• Other recommendations include enhancing Board composition (in terms of independence and diversity), increasing engagement with the investment community, and proactively managing market expectations.

• Most of these global investors welcome further discussion on corporate governance matters with Japanese executive teams as it becomes an increasingly important factor in their decision-making, but a few only look to engage on these topics in the event of significant transgressions.

“Management teams of Japanese companies are generally good, but we have seen poor deployment and uses of capital, commitment to shareholder value creation, and hitting financial targets.” - European-based Investment Firm

“Japan is not the only country in the APAC region with corporate governance issues. India and many Southeast Asian countries are all in the same group. China is the worst with corporate governance. All the Board members are interrelated somehow. There are a lot of questionable Board members.” - North American-based Investment Firm

“Japanese companies can improve corporate governance practices by cutting out parts of the business that are not operating well and are not core to the company’s dealings. Japanese companies should be thinking more about the shareholders and if there is excess cash, management should pay it back to the shareholders. A lot of corporate governance practices that American companies do well, Japanese companies seem to struggle with. Also, Japanese companies should stop giving out unrealistic guidance and projections to investors.” - North American-based Investment Firm

“If a Japanese company reached out to me concerning corporate governance, I would like to speak to the management. Preferably this meeting would take place in person.” - North American-based Investment Firm

Author: Qian Chen
Qian is an Associate in Ipreo’s Perception Analytics group
**BetterIR - Firm Snapshot**

**Target Firm:** Calamos Advisors, LLC

### Targeting Profile:

Calamos Advisors, LLC was founded in the 1970’s by John Calamos Sr., and is headquartered in Naperville, Illinois. The firm discloses $19.4B in equity assets and typically holds ~1000 securities in its portfolio; its average holding period for these securities is just under 2 years. In 2012, Calamos acquired Black Capital LLC, which added a long/short capability to the firm and augmented its existing alternative strategies. Gary Black, Former CEO of Black Capital, is now a portfolio manager and co-Chief Investment Officer at Calamos, bringing in a new strategy and increasing the activity of what was once a firm that seldom met with issuers stemming from the concern it would cloud their unbiased research.

The Naperville office, which is outside of Chicago, is a frequent destination for meetings with Calamos; it is also a good representation of the firm’s overall portfolio. Outside of the Naperville headquarters, Calamos has satellite offices in New York and London. Recently, Calamos detailed its expansion to London in a press release: “The expansion of our London office is yet another indication of our commitment to the global markets and investors worldwide, as we believe our unique approach to risk management well serves the needs of institutional, retail, and high-net-worth investors.” Calamos is an Aggressive Growth-oriented investor that invests in global equities of all market capitalizations, with the majority of its holdings in large-to mega-cap securities. The firm invests 85% of its equity assets in North America, 7% in Europe and 6% in Asia. A large portion of the firm’s overall portfolio is in U.S. equity assets (700 holdings); however, it does hold around 250 stocks from Europe and Asia.

### Healthcare and Consumer Services sector coverage.

The firm’s largest sector is Technology and it discloses relatively balanced holdings in Financials, Healthcare, and Consumer Services. Last quarter, its largest macro industry increase was in Financials ($733M). Due to the firm’s recent expansion into the UK, Calamos could be looking to increase foreign investment opportunities. The Calamos Market Neutral Income Fund – CALAMOS Investment Trust recently increased its European issued holdings by approximately 17%.

### How Not to Approach:

Although Calamos manages several total return and growth & income funds (Calamos Growth Fund, Calamos Growth & Income Fund, Calamos Strategic Total Return Fund, and Calamos Market Neutral Income Fund), pure yield plays are not a focus for the firm. While the firm does invest across all market caps, it has relatively little exposure to small- and micro-cap issuers; it allocates less than 1% of its equity assets to such companies.

### Largest Funds Managed:

- Calamos Growth Fund ($3.17B EAUM)
- Calamos Market Neutral Income Fund – CALAMOS Investment Trust ($1.96B EAUM)
- Calamos Growth & Income Fund ($1.80B EAUM)
- CALAMOS Strategic Total Return Fund ($1.58B EAUM)

### Portfolio Fundamentals:

- Forward P/E: 20.8x
- 5 Yr Proj. Growth Rate: 14.0%
- Dividend Yield: 2.0%
- Price/Book: 5.4x

### How to Approach:

Calamos offers a wide variety of investment styles, with Aggressive Growth being the most dominant; due to the multiple investment strategies, it will be important for IR to determine the dominant style at each office. Although the Naperville office is home to the vast majority of portfolio managers and analysts, the New York office has significant...
**BetterIR - Fund Snapshot**

**Targeted Fund:** Oppenheimer Global Funds

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**Portfolio Manager: Rajeev Bhamen**

**Targeting Profile:**

The Oppenheimer Global Fund is managed by Rajeev Bhamen, the director of global equities for OppenheimerFunds Inc., Rajeev Bhamen. The fund is predominately invested in North American and European securities with 44% and 37% of its $10.4B in EAUM invested in each region, respectively. The fund turns over its portfolio about once every five years.

The fund is concentrated towards the financials, industrials, technology, and healthcare sectors. These sectors comprise roughly 73% of its equity portfolio. Additionally, the firm invests primarily in mega-cap (44%) or large-cap (42%) securities, with a smaller allocation to mid-cap securities (11%).

Over the past two years, the fund has been consistently reducing its exposure towards Europe. Over the same time frame, the fund has been reducing exposure across equities in general. The fund invests in a number of countries without mandates to invest a certain percentage by country.

The fund is relatively diversified with a portfolio of 86 securities. The top 10 securities make up only 20% of the portfolio. The fund looks for long term growth, so securities that it invests in can be held for long periods of time. The fund has been invested in 17 of its top 20 holdings for five years or longer.

**How to Approach:**

Rajeev Bhamen joined Oppenheimer in 1996 and has been managing the fund since 2004. Bhamen looks for companies that are expected to grow earnings faster than global GDP and uses a number of macro-economic strategies when evaluating potential investments. In addition, Bhamen looks for companies that have a sustainable competitive advantage over their rivals. He looks for market volatility as an opportunity to find favorable entry points in high-quality companies. When deciding whether to sell, he tends to ignore any short term fluctuations in the market and focuses on a company’s long term prospects. His contrarian buy discipline lets him look for securities when their valuations underestimate their long-term earnings potential. The portfolio manager may require multiple meetings in order to take larger positions. Additionally, the fund looks for many characteristics in a security including but not limited to, strong cash flow, high barriers to entry, and dominant market share.

**How Not to Approach:**

The fund does not invest significantly in basic materials, energy, and utilities. Collectively, the fund allocates less than 4% of its EAUM to those sectors. Historically, the fund’s allocation to these sectors has been underweight as well. Any small and micro-cap issuers will also have a hard time finding a place within this portfolio. Any outreach to the fund should focus around a long time horizon given the fund’s low turnover. Additionally, the firm invests very little of its equity to developing markets.

**Portfolio Fundamentals:**

- **P/E:** 21.12x
- **PEG:** 1.88x
- **5 yr. Proj. Growth:** 13.51%
- **ROE:** 14.53%
Metro Area Targeting Focus– San Francisco, California

In addition to scenic rolling hills and cable cars, the city of San Francisco is the third largest investment center in the United States by actively managed equity assets. There are 242 institutions headquartered in the metropolitan area, with five investment juggernauts managing $401B of the total $611B in equity assets: Dodge & Cox ($170B EAUM), Franklin Advisers ($130B EAUM), Fisher Investments ($50B EAUM), Matthews International ($26B EAUM), and Jackson Square ($25B EAUM).

The city is also a popular satellite office location for institutions such as the Capital Group, Invesco Advisers, and Columbia Management Investment Advisers, which have Portfolio Managers touching a combined $129B. The mixture of five large institutions, $210B of actively managed assets by other domiciled firms, and a multitude of satellite offices make the financial might of the city hard to miss. It is worth noting that Invesco is in the process of moving the majority of investment discretion currently in San Francisco to its Atlanta and Houston offices.

Sector allocation by San Francisco-based investors as of 4Q2014 favors the Financial and Technology spaces, garnering 20.2% and 18.0% of dollars invested, respectively, mostly in line with the S&P benchmark. Recently, value-oriented investors have shown strong interest in the Energy sector, accounting for $8.3B of the $12B net activity increase QoQ. Largely due to the fallout from crude oil prices, Dodge & Cox was a strong buyer of Oil & Gas with purchases of Schlumberger LTD ($891M) and Apache Corporation ($782M). Franklin Advisers also aggressively invested in the industry with a $3.9B investment in Royal Dutch Shell, largely rotated from the selling of $3.2B that was invested in 23 different Utilities holdings. Growth-oriented firms were less aggressive towards any one sector, but Fisher Investments, Matthews International and Jackson Square were all buyers of Consumer Goods companies, as seen by the 1.8% increase in the sector’s recent net activity.

Most Recent Regional Net Activity (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>Net Activity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>2.5%</td>
</tr>
<tr>
<td>Asia/Pac. Ex. Japan</td>
<td>1.0%</td>
</tr>
<tr>
<td>Middle East/Africa</td>
<td>1.3%</td>
</tr>
<tr>
<td>North America</td>
<td>3.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.1%</td>
</tr>
<tr>
<td>Latin America</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Most Recent Sector Net Activity (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Net Activity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Materials</td>
<td>0.0%</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>1.9%</td>
</tr>
<tr>
<td>Consumer Services</td>
<td>0.3%</td>
</tr>
<tr>
<td>Energy</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Financials</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Industrials</td>
<td>-11.8%</td>
</tr>
<tr>
<td>Utilities</td>
<td>21.8%</td>
</tr>
<tr>
<td>Technology</td>
<td>0.3%</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.3%</td>
</tr>
<tr>
<td>Energy</td>
<td>8.0%</td>
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<tr>
<td>Financials</td>
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<tr>
<td>Energy</td>
<td>13.7%</td>
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<tr>
<td>Financials</td>
<td>20.2%</td>
</tr>
<tr>
<td>Basic Materials</td>
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<tr>
<td>Consumer Services</td>
<td>8.3%</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>8.0%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>14.7%</td>
</tr>
<tr>
<td>Industrials</td>
<td>9.4%</td>
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<tr>
<td>Consumer Services</td>
<td>8.3%</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>8.0%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>14.7%</td>
</tr>
<tr>
<td>Industrials</td>
<td>9.4%</td>
</tr>
<tr>
<td>Energy</td>
<td>8.0%</td>
</tr>
<tr>
<td>Financials</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

Money Center Statistics

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported Equity Assets ($B)</td>
<td>611.0</td>
</tr>
<tr>
<td>Number of Institutions</td>
<td>242</td>
</tr>
<tr>
<td>Top Sector Weighting</td>
<td>Financials 20.2%</td>
</tr>
<tr>
<td>Top Region Weighting</td>
<td>North America 72.4%</td>
</tr>
<tr>
<td>United States Weighting</td>
<td>70.1%</td>
</tr>
<tr>
<td>Total Net Buying ($B)</td>
<td>$61.7</td>
</tr>
<tr>
<td>Total Net Selling ($B)</td>
<td>-$54.6</td>
</tr>
<tr>
<td>Total Net Activity ($B)</td>
<td>$7.1</td>
</tr>
</tbody>
</table>

Summary Notes

In addition to scenic rolling hills and cable cars, the city of San Francisco is the third largest investment center in the United States by actively managed equity assets. There are 242 institutions headquartered in the metropolitan area, with five investment juggernauts managing $401B of the total $611B in equity assets: Dodge & Cox ($170B EAUM), Franklin Advisers ($130B EAUM), Fisher Investments ($50B EAUM), Matthews International ($26B EAUM), and Jackson Square ($25B EAUM).

The city is also a popular satellite office location for institutions such as the Capital Group, Invesco Advisers, and Columbia Management Investment Advisers, which have Portfolio Managers touching a combined $129B. The mixture of five large institutions, $210B of actively managed assets by other domiciled firms, and a multitude of satellite offices make the financial might of the city hard to miss. It is worth noting that Invesco is in the process of moving the majority of investment discretion currently in San Francisco to its Atlanta and Houston offices.

Sector allocation by San Francisco-based investors as of 4Q2014 favors the Financial and Technology spaces, garnering 20.2% and 18.0% of dollars invested, respectively, mostly in line with the S&P benchmark. Recently, value-oriented investors have shown strong interest in the Energy sector, accounting for $8.3B of the $12B net activity increase QoQ. Largely due to the fallout from crude oil prices, Dodge & Cox was a strong buyer of Oil & Gas with purchases of Schlumberger LTD ($891M) and Apache Corporation ($782M). Franklin Advisers also aggressively invested in the industry with a $3.9B investment in Royal Dutch Shell, largely rotated from the selling of $3.2B that was invested in 23 different Utilities holdings. Growth-oriented firms were less aggressive towards any one sector, but Fisher Investments, Matthews International and Jackson Square were all buyers of Consumer Goods companies, as seen by the 1.8% increase in the sector’s recent net activity.