How MiFID II is already affecting fund managers

Corporates need to do more to ensure their investment message is heard – that is the key message from a survey of fund managers about corporate access and MiFID II topics, writes **Alex Schlich**.

Although we are only a few weeks into the new MiFID II regime, the new rules and regulations that were introduced on 3 January 2018 are already having an impact. Heartwood Partners surveyed 50 fund managers from the largest London-based asset management institutions and private client wealth managers to see how MiFID II was impacting corporate access and research.

The results are quite revealing and indicate that fund managers have already started to change their behaviour. We strongly believe corporates need to do to more if they are to ensure their investor communications are delivered effectively.

The decision by the vast majority of fund management groups in the UK to absorb the costs of sell-side research in order to comply with the MiFID II rules has seen some dramatic reductions in research budgets. Faced with the threat of losing a relationship altogether with fund manager clients, many investment banks and stock brokers have slashed the cost of their service. However, rather than just pay less to receive the same amount of research as before, fund managers have taken the opportunity to significantly reduce the amount of research they receive.

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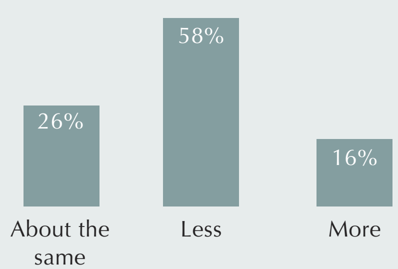
Emptier mail boxes and fewer phone calls

Our fund manager survey indicates that fund managers have become more selective in the research they receive with 39% receiving less research than a year before and only 13% reporting an increase in the research than last year.

More worryingly though, contact between brokers and fund managers has fallen much more than this with 58% of respondents reporting a decline in contact compared with only 16% reporting more contact. Further, just over 70% of fund managers surveyed report that they have reduced the number of brokers they are dealing with this year and of these almost one third report a reduction of over 20%. Most corporate brokers report ‘business as usual’ post MIFID II, but our research indicates otherwise.

Are you receiving more or less broker contact this year compared to last year?



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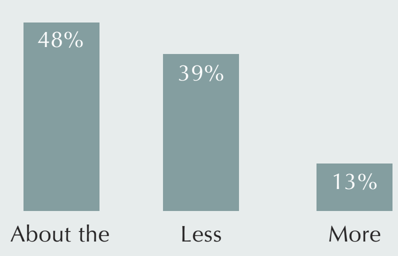


FUND MANAGERS

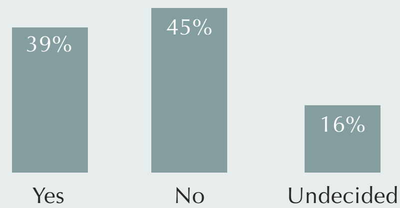
- **Many investment banks and stock brokers have slashed the cost of their service to fund managers.**
- **Meeting company management still has the most influence on a fund manager’s investment decision.**
- **IR teams should take on more of the roles hitherto done by brokers.**

MiFID II increases the cost of being listed

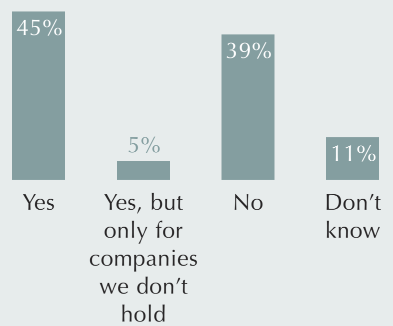
A concern for corporates must be that if fund managers are receiving less research and fewer broker calls how will they get their investment case heard? All listed companies, with or without IROs, should be considering other ways to keep in contact with investors rather than just relying on the traditional sell-side research notes and roadshows. Examples would be companies organising their own

> ‘ Meeting company management still has the most influence on a fund manager’s investment decision ’

Are you prepared to pay for corporate access?



Has a broker indicated there will be a charge for corporate access?



> ‘Less than 40% of fund managers are prepared to pay for corporate access meetings, while just over 40% responded that brokers had indicated there would be a charge’

roadshows, contracting paid for research, investing in corporate access technology, holding an annual capital markets day or taking on an investor relations adviser who is not restricted by MiFID II rules.

We suspect an unintended consequence of MiFID II for all listed companies, but especially for small caps, will be an increase in costs. As with many things designed by career bureaucrats the unintended consequences are often material.

Management meetings rule

Our survey confirmed that meeting company management still has the most influence on a fund manager's investment decision. Ensuring that management meets the right target investors is one of the key aspects of an effective investor relations programme.

Clearly the provision of corporate access provides a material benefit and should be paid for by the fund manager or the corporate. Under the new rules when corporate access is provided by a broker it now needs to be subject to a separately identifiable charge and ESMA guidance suggests there are only two exceptions to this: first, when the fund manager requests a meeting directly with the corporate and the corporate instructs the broker to arrange it; or second, if the broker is paid by the corporate for the service.

However, our survey results suggest that less than 40% of fund managers are prepared to pay for corporate access meetings, while just over 40% responded that brokers had indicated there would be a charge for corporate access meetings.

To ensure compliance with MiFID II would suggest that this mismatch between prepared to pay and need to charge would result in some meetings being declined or even refused. Already a small number of fund managers, around 5%, indicated they had been refused a corporate access meeting because they had declined to pay. In separate feedback from corporates carried out by another IR consultancy they reported that "brokers have declined to schedule meetings with the company's target funds where they have no corporate access contracts in place".

What does this mean for corporates?

- Corporate access arranged by brokers will need to be supplemented by corporate access arranged directly by the corporate or by non-broker intermediaries, if management are to meet the largest pool of potential investors.
- The investor relations section on the corporate website becomes more important as investors will more often use this as their first point of call when doing research on a company. It is imperative that the site is easy to navigate, contains all the relevant information and is kept up to date. The most obvious way is to get a colleague to have a look at your website and decide whether it would encourage an investor to meet management or make an informed investment decision about your company.
- Investor relations teams should be prepared to take on more of the roles that were previously done by brokers. ■

For a copy of the full survey results, email alex.schlich@heartwoodpartners.com

Which of the following have most influence on your investment decision (where 5 is most important and 1 is least important)?