Building a US investor base after MiFID II

Brian Rafferty spells out the 'Rafferty's Rules' which will help companies to find investor support in the US after the new regulations come into effect.

Growing up, I was delighted when an Australian friend first used the phrase 'Rafferty's Rules,' which I learned meant 'no formal rules in a competition.' Today, new, old and unwritten rules and emerging IR Best Practice comprise the 'Rafferty's Rules' free-for-all currently facing investor relations professionals competing for capital in the MiFID II capital markets.

Old rules die hard

As MiFID II implementation approached, the sense of urgency to prepare, plan and properly resource 2018 IR programming grew. IROs advocated for increased investment in their team and programme resources while investment banking/corporate broking contacts continued to reassure senior managements that nothing would change.

Common sense, basic economics and leading financial journalists highlighted the approaching seismic change in equity research and sell-side corporate access. Yet centuries-old rules of engagement die hard and betting on the death of the sell side has been a loser's game since 15-plus years ago when fallout from the internet crash was supposed to lead quickly to a new equity research model. Most IROs are planning to play by the old rules in 2018, by design or due to resource restrictions.

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Survival of the fittest

Thanks to 'routine' shifts in work priorities through earnings reports, capital markets days, market intelligence processing, etc., punctuated by bursts of demanding senior managers and investment professionals requiring immediate attention in changing market conditions (and the occasional crisis management project for good measure), IROs are among the most adaptable and multitalented of senior executives. No role in the capital markets better builds an executive's fitness to survive and prosper faced with rapid and unpredictable change.

But resource constraints – and that no one can precisely predict what MiFID II implementation will change for IR, and when – make it almost impossible to anticipate what will be needed to conduct best practice IR in 2018. The good news for non-US IROs is that when it comes to growing a US shareholding, frontier justice long ago rendered that dilemma moot.

Frontier justice

It appears a particularly chaotic competitive landscape to IROs looking across the Atlantic Ocean as the US buy-side and regulators have, until recently, remained largely in denial that MiFID II will have a direct effect on them. What appears to be chaos presents great opportunities for non-US IROs, who are better prepared than their US counterparts to thrive in the US and global capital markets in 2018 and beyond.

The 'Old' has surpassed the 'New' world in IR standards and practices over the past few decades as non-US companies pioneered IR as a professional marketing function and a strategic capital markets capability. Non-US companies needed access to capital outside their home markets and developed new rules for successfully competing for that capital in financial communities where they arrived as newcomers and outsiders. Over the same time period, US companies of equivalent size and stature reinforced passive IR approaches, wallowing in the relative homogeneity, and parochialism, of the world's largest capital market.

Some 30 years after I began guiding non-US companies to grow their US

US INVESTORS

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- **MiFID II should change things for the better for non-US IROs growing a US shareholder base.**

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shareholder bases by creating a 'level informational playing field' with their US peers, I now cringe when my client's senior management wants to benchmark their IR against leading US peers on the false assumption they will learn something new from this exercise. The opportunity for the non-US company is clear, but the role of traditional sell-side research in the investment process is not.

Research still rules the roost

As some point, what used to be called Bulge Bracket firms will exit the 'corporate access' business that is a loss leader and brand destroyer for them, but 'equity research' as impacted by MiFID II has already been overridden by high-value content delivered by specialists, boutique firms and the buy-side itself. Traditional sell-side equity research will decrease in quantity but increase in quality and creativity.

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The exodus of sell-side analysts into the buy side and hedge funds began 15 or so years ago and today, data analytics firms, industry-specific consultancies, corporate investigators and math and science PhDs all provide paid research services to the buy-side. Bespoke research and data and information aggregation are commonplace, widespread and remain under the radar because of buy-side competitive sensitivities and standard practices of confidentiality.

Clearly on the radar – and a development that will help define IR best practice in the years ahead – the most fundamental change in actionable equity research today is the growth of analysis and decision making at 'passive' funds regarding how AGM votes will be cast and inclusion or exclusion from funds with clear CSR parameters.

Sell-side research has never played a powerful role for non-US companies growing a US shareholder base, the IROs and managements have largely shouldered the burden of delivering the investment thesis themselves. MiFID II should change things for the better for non-US IROs growing a US shareholder base, if only to remind them there's never been any formal rules for cross-border IR success anyway, Rafferty's Rules have always reigned. ■