

# Are Your Investor Engagement Efforts Falling on Deaf Ears?

## RESEARCH SUGGESTS THAT MANY ACTIVELY-MANAGED INSTITUTIONAL INVESTORS ARE EFFECTIVELY INDEXED TO THE S&P 500.

If your management team is doing great things, investors need to know. Sharing your strategy with portfolio managers at institutions known for active management should theoretically be a great way to get your story heard and ultimately get you credit for the steps your company is taking to drive value for shareholders. But our recent research suggests that, depending on the investors you're targeting, some of your communications efforts could be in vain.

## JUST HOW MUCH ACTIVE MANAGEMENT IS REALLY HAPPENING IN THE INSTITUTIONAL INVESTMENT UNIVERSE? MAYBE LESS THAN YOU THINK...

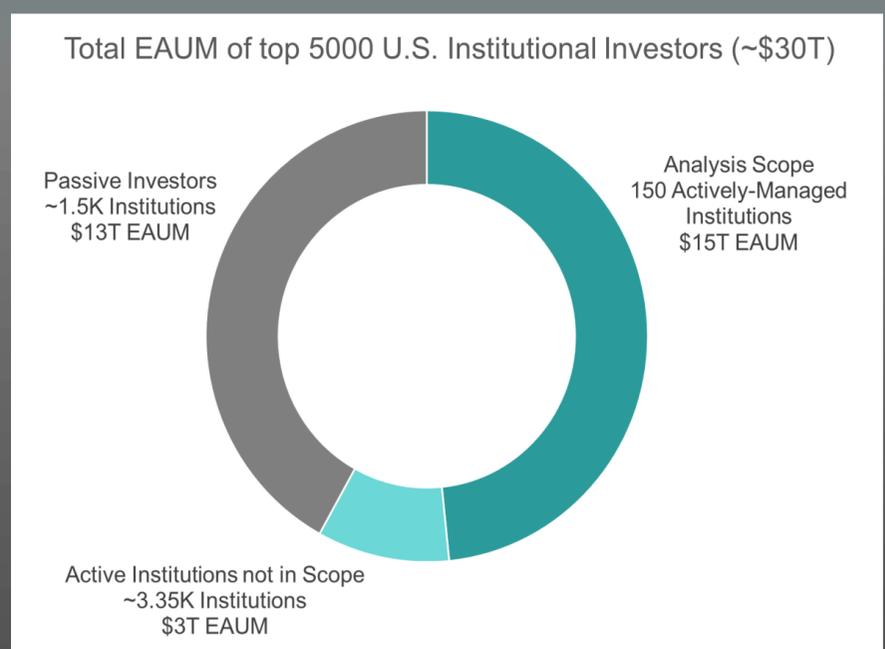
Have you ever wondered just how different actively-managed portfolios really are compared to their passively-managed counterparts? We decided to find out. And the answer is, not much.

Overall, the institutional investor universe is top-heavy and portfolio construction lacks diversity, especially among the largest investors. Indeed, many institutions that we consider "actively managed" are effectively glorified index funds. And, the more closely correlated a portfolio is to an index fund, the less likely it is that a meeting with management will lead to an overweight position for your stock.

Here's what we uncovered during our initial investigation along with our take on how these findings should factor into your targeting and engagement strategies.

## WE ANALYZED 150 U.S. INSTITUTIONAL INVESTOR PORTFOLIOS

Our analysis included the 100 largest actively-managed U.S. institutional portfolios, as well as the top-50 small- and mid-cap U.S. investors, i.e., the institutions with the highest concentration of ownership in stocks with market capitalizations less than \$5 billion. Collectively, these 150 institutions manage about \$15 trillion in U.S. equity assets under management (EAUM). Depending on the benchmark, this amount could represent upwards of 50% of all U.S. EAUM.



## WE THEN COMPARED THE PORTFOLIOS TO THE S&P 500.

For each of the 150 investors in our analysis, we specifically measured both of the following:

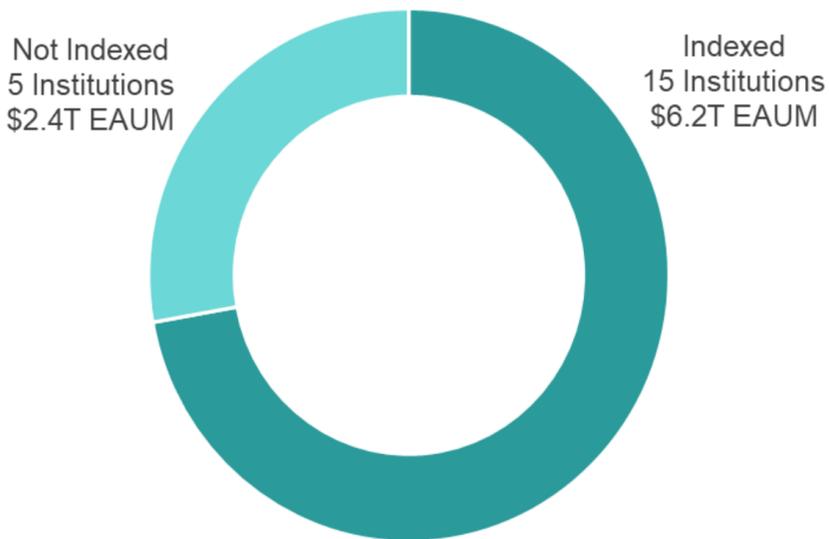
- The total number of S&P 500 stocks owned by the portfolio; and,
- Correlation of portfolio holding values against the individual stock weightings for the S&P 500 index.

We conducted similar analyses against the S&P 400, S&P 600, and Russell 3000.

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**15 OF THE TOP-20 ACTIVELY MANAGED U.S. INSTITUTIONS ARE ESSENTIALLY INDEXED.**

Top 20 Active Institutions ~\$8.6T EAUM

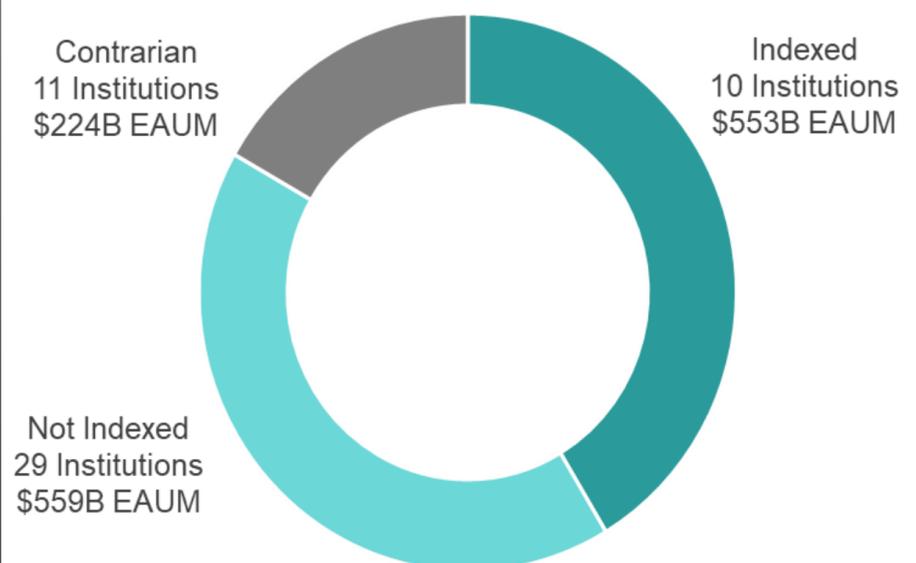


We considered a portfolio indexed if it owns 80% of the stocks in the S&P 500 and the overall correlation against the index weightings was 80% or more. For several of the largest institutional investors, we found a correlation of greater than 90%. Additionally, 12 of the top institutions are invested in 98%, or 490 of the S&P 500 companies.

**COMPARISON AGAINST SMALL- AND MID-CAP U.S. INVESTORS SHOWED THAT THESE INSTITUTIONS ARE MORE LIKELY TO PRACTICE ACTIVE STOCK PICKING.**

In contrast, 40 of the top-50 small- and mid-cap investment portfolios (80%) are considered non-indexed against the S&P 500. Further, these non-indexed investors show just an 11% correlation to the S&P 400 and a 27% correlation to the S&P 600. What's more, 10 of the funds exhibit a negative correlation; the investors have effectively construed contrarian portfolios. Overall, it appears that those funds known for investing in relatively smaller organizations are much more engaged in active stock picking than their peers at the larger institutions.

Top 50 Small- & Mid-Cap Active Institutions ~\$1.3T EAUM



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## TAKE THESE 4 STEPS TO MAKE THE MOST OF YOUR MANAGEMENT'S TIME.

Based on our findings, it appears that the indexing methodology used by large “active” investors likely prohibits access for small- and mid-cap companies. Or, it at least significantly limits the likelihood of an overweight position relative to the index. Therefore, targeting at the intuitional level and attempting to guess the best-fit portfolio manager may be a futile effort. Instead, use these tactics to get a greater return on your time:

- 1. Take meetings with the “indexed” institutions with a grain of salt.** In other words, modify your expectations. You still need to meet with current holders to maintain status quo and manage potential risks. But bear in mind that these meetings are not likely to result in the investor taking an outsized position. Adjust your presentation effort accordingly.
- 2. Target at the fund level.** Within the largest institutions, even those that are heavily correlated to indices, it’s likely that individual funds are more actively managed. If you want to gain traction in terms of non-indexed ownership, you will have more productive, more proactive meetings if you target specific fund managers. Make sure you have good intelligence about key contacts including which portfolio managers have historically accepted meetings.
- 3. Focus engagement where it counts.** Look for evidence of active management. With a little time and effort, you can do your own analysis of the institutional and fund-level targets you are considering to vet just how active they really are and how much of the pie is actually up for grabs.
- 4. Consider smaller investors.** According to our study, these investors are more likely to be nonindexed and, therefore, to make decisions based on factors related to a company’s strategy, financial performance, and underlying fundamentals. If you want an engaged audience for your investment narrative, these investors may be your best bet.

## WE’RE DIGGING EVEN DEEPER...

Our index correlation research has confirmed suspicions that many of you probably share. We will continue to explore the numbers, specifically looking more closely at investor performance against the backdrop of portfolio construction. And we will use the intelligence to continue targeting specific pools of available capital and put our clients in front of the stock pickers who will be most receptive to their stories. In the meantime, if you have questions about our study or want to discuss the findings in more detail, [give us a call](#).