



## The Evolution of Market Surveillance

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The world of market surveillance, which draws its roots back to the 1980s proxy solicitation firms, has come full circle. Back in the late 1980s, companies used surveillance to identify corporate raiders (considered villains) who would accumulate a position in a company, take it over and then sell off the pieces while arguing that the sum-of-the-parts was worth more than the whole. The collapse of the junk bond market caused the takeover strategies of these investors to become extinct. Surveillance however, had proven itself to be an effective IR tool. Increasingly, it has been used to gauge the effectiveness of roadshows, assist with investor targeting, and to gather perceptions of the financial community. Nevertheless, we believed that traditional surveillance was due for an "upgrade." Alliance Advisors is using cutting-edge analytics to enhance the accuracy and usefulness of surveillance offerings. By leveraging technology to combine real-time institutional investor voting data with proprietary custodial database, our analysts accurately track changes in our clients' shareholder base - in particular for activist investors - in a highly cost effective manner.

We believe, an effective surveillance program should not only help identify potential activist accumulation but equally importantly, enable companies to monitor the key vulnerabilities in real-time. According to FactSet, assets under management by activist hedge funds jumped to \$200 billion, or 264%, from \$55 billion in 2007. Access to capital has allowed activists to build in-house teams and retain outside experts. This has resulted in a tremendous increase in activist campaigns - both in terms of volume and sophistication. Not surprisingly, market cap is no longer an

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effective defense against activists.

Moreover, the perception of activists has changed as creators of value with traditional institutions in many cases investing alongside these hedge investors. Activist playbooks are likely to focus on potential vulnerabilities that translate into one or more of the following types of activist campaigns: operational activism (i.e. spin-off of business segments), balance sheet activism (i.e. stock buybacks, special dividends), and governance activism (pursue improvements in profiles/policies such as separation of Chairman/CEO roles, board declassification, management compensation, etc.).

Companies can stay abreast of activists by utilizing tools such as Alliance Advisors' proprietary Activist Risk Score (ARS). The ARS (developed by PhDs) replicates the screens used by activists to identify potential targets. It acts as an early warning system. Last year, 94% of the Russell 3000 companies (non-financials), where activists sought board representation, were flagged as "vulnerable" months prior to activist involvement.

Surveillance remains a vital tool that should be in every IROs arsenal as an early warning mechanism for detecting potential accumulations by hostile entities. In years past surveillance was seen by IROs as a luxury with fees that were out of the reach for many micro/small cap companies. However, today Alliance Advisors' data driven offerings enables companies of all sizes to benefit from our surveillance expertise that includes a best-in-class institution/custodian database that makes tracking activists easier than ever.

#### About Alliance Advisors

Alliance Advisors is a shareholder intelligence firm that specializes in proxy solicitation, corporate governance consulting, proxy contests, market surveillance and proxy management. Founded in 2005, the firm services more than 400 corporate clients globally.

## BEST PRACTICES IN CORPORATE GOVERNANCE OUTREACH



Over the last several years investors have become more focused on issues regarding corporate governance. Given the effectiveness of activist campaigns, as well as increased opposition on proxy voting on topics such as proxy access and say-on-pay, corporates have become more proactive in engagement with the investment community.

Best practices have started to develop as it pertains to outreach to governance and proxy contacts at institutions. For Ipreo's BetterIR Newsletter, we interviewed several IROs that are at the forefront of best practices involving managing governance/proxy contacts and governance roadshows. While the full report can be found at [betterir.com](http://betterir.com), some of our



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primary takeaways around shareholder engagement were:

- The practice of maintaining relationships in the governance/proxy community is typically born from crisis. However, issuers have found that maintaining the relationships has proven to have a solid ROI. IROs have found it useful to stay ahead of any potential proxy issues on the horizon, and have also found it valuable to have a relationship with the governance/proxy community in the event they need to call on the constituents over a future issue.
- Issuers conducting proactive engagement are typically looking to reach out to 50-70% of their voting shares, usually between the top 20-50 institutional investors; however, the list shortens after excluding investors likely to closely follow ISS / Glass Lewis recommendations.
- The cost and impact to maintain relationships with the corporate governance/proxy community at the most relevant institutions is fairly low. Our interviewees generally dedicated time once a year, visiting Boston and New York, with minimal materials; separately, issuers will reach out to other governance teams by phone and email. Obviously proxy season demands much of the attention of the governance community, meaning much of this proactive engagement typically takes place between September and January.
- Some investors may decline offers to engage; while IROs supporting their investment story may see investors declining engagement as a signal of risk, this is not always the case in the governance community, where "we have no issues, thank you" may be a statement of confidence in the company.

Issuers conducting ongoing outreach with investors can typically reach out through IR or corporate secretary roles; however, if a specific issue exists, board members (typically independent directors) may add value to the process. Regarding preparation for the board member, the feedback was that most board members are aware and fairly well versed in the issues surrounding corporate governance and their particular company's policies. That said, preparing a short slide deck has proven helpful to summarize the hot button issues. Further, it may be valuable to describe in advance questions board members should not answer, such as operational details that would best be relayed by management.

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