Navigating the Evolving Shareholder Landscape

Thomas Bohun
Head of Investor Relations at Swiss Re, Master of Science in International Management, University of St. Gallen, Bachelor of Arts in Economics, University of California-Irvine

1. The classical Investor Relations role

The primary goal of an Investor Relations (IR) team has focused on providing consistent, transparent and accurate information to investors to enable them to assess the value of a listed firm. IR teams are important in shaping and maintaining a firm's investor proposition and aim to ensure that this is understood and to the extent possible, appreciated by participants in the financial markets. Traditionally, this meant focusing on a firm's financial proposition, i.e. market outlook, margins, growth and / or dividend yield. In terms of focus audience, sell side research analysts and actual investors, often personified by institutional portfolio managers, represented the main groups of interests. Why? With respect to sell side research analysts, the answer is obvious: because this group produces the outside-in research that assesses a given firm's fair stock valuation. The main users of this information are the institutional portfolio managers: they are the individuals that ultimately take the investment decision on whether to purchase a particular stock.

A considerable amount of many firms' shareholder base constitutes of retail investors, which must not be left out of the equation. Their expectations and concerns can differ from institutional investors. Retail investors' touch points with IR teams are often more concentrated around themes related to the Annual General Meeting (AGM) and / or when dividends are declared. Ensuring that retail investors' inquiries are addressed represents a key additional task for IR teams.

2. Connecting management to investors

Listed firms communicate their performance via regular external results disclosures, usually on a quarterly or semi-annual basis. Apart from coordinating these events, IR teams engage in additional activities to support this undertaking. Examples include post-results disclosure management meetings, which provide investors with access to senior management. IR teams also ensure regular attendances of investor conferences hosted by third parties either with senior management or on an IR-only basis. IR-organized Investor Days represent a public opportunity for Senior Management teams to communicate their firm's equity story and thereby respond to existing perceptions in the financial markets. These events generate significant interest as they often focus on new financial targets set by firms and provide a platform for extended Q&A sessions with Senior Management.

The increasing importance of non-financial disclosure amidst an evolving shareholder landscape in a period where themes such as geopolitical tensions, climate change and/or economic turbulence are viewed as global in nature, financial market participants increasingly seek to bolster their confidence in companies' resilience not just from a pure financial perspective, but also in terms of reputation and overall stakeholder management.

The most significant trend in listed firms' communications with investors is represented by the continued growth in interest and requirements around non-financial matters. While these traditionally focused around more technical management and board governance and compensation topics, this has recently expanded significantly to broader non-financial/ESG themes. Firms have no choice but to respond this. As an example of this, Swiss Re, one of the world's leading providers of reinsurance and insurance, and an early voluntary adopter of sustainability reporting, includes more than 200 pages focusing on corporate governance, compensation and broader sustainability-related disclosure in its most recent annual reporting package. These address increasing stakeholder interest, but are also increasingly required from a regulatory perspective. AGM voting turbulences can often revolve around investor dissatisfaction around sustainability topics. This is not surprising as compared to just some years ago, shareholders today are provided voting rights on both say-on-pay and say-on-non-financial disclosure items. The most profound consequence of this is that company boards have to cover much broader topics today compared to previously. Industry expertise is no longer sufficient, generalist knowledge on diverse non-financial topics has become a must.

3. The increasing importance of proxy advisors

Proxy advisors increasing represent the gatekeepers of non-financial disclosure and overall corporate governance evaluation. Their recommendations are critical ahead of AGM seasons, especially in times where passive institutional investors have gained significant weight and often rely heavily on proxy advisors to fulfill voting obligations. As a result, proxy advisors develop best practice recommendations at an increasing pace. Companies that do not fulfill key expectations, e.g. around board gender representation, in a given year, can quickly fall behind. Maintaining a balance between corporate governance stability and rapidly evolving expectations is becoming increasingly challenging.

To address this, in the lead-up to AGM season, IR teams with support of additional internal stakeholders often interact with proxy advisors, allowing for practical exchanges that are important to provide context to a company's chosen approach to non-financial matters. The main purpose is to avoid negative surprises around proxy advisors' ultimate recommendations.

4. Connecting the Board of Directors to investors

At Swiss Re, regular engagement on non-financial / ESG matters with relevant stakeholders is key for top management and the Board of Directors. In addition to regular exchanges with proxy advisors, for more than a decade, Swiss Re IR has been orchestrating a Chairman Roadshow. This annual engagement gives the firm's large investors, often represented by their respective ESG and/or Stewardship teams, an opportunity to address and discuss any key concerns about the firm's financials, corporate governance, and other sustainability-related topic including compensation directly with the Chairman of the Board of Directors. The timing of such roadshows is generally chosen ahead of the AGM season to ensure that external views are captured and potentially addressed ahead of critical voting procedures. With the continued growth of non-financial / ESG reporting requirements, it can be expected that Chairman Roadshows will continue to see a shift in focus towards ESG-related matters.

5. Conclusion

Gone are the times where companies' interactions with shareholders were almost purely driven by financial performance considerations. In today's world, facilitating a regular dialogue on non-financial matters between company management teams and boards and shareholders and proxy advisors is a key prerequisite to maintaining resilient corporate governance.