



INSIGHT

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ESG & practical IRO tips

“The speed with which ESG has pushed itself forward has been phenomenal and that drive is coming from multiple channels; consumers, investors, societal pressures.”

An Orient Capital interview with McCarthy & Stone plc

In the third of Orient Capital's Insight interviews, we move from Switzerland to the UK.

This edition offers the wisdom and insights of Marina Zakharova de Calero, former Head of Investor Relations for FTSE350 McCarthy & Stone plc.

She is also the founder of **IROs Coffee Breaks**, a regular interaction space she first created during lockdown. It now sees up to 60 IROs regularly drop in to discuss key issues and pick up practical tips.

In our interview, Alison Owers – Orient Capital's Global CEO – explores key topics facing IROs today as she and Marina reflect on how things have changed since lockdown, the challenges faced and how IROs are meeting them head on.

“Marina, thank you for joining me for our virtual catch up today. Before we begin, I'm sure people will be interested to know about your journey into IR and how you have juggled the advisory and in-house IR world. Tell us a bit about your background. What was the journey for you to get to where you are now?”

I began as a management trainee at Marks & Spencer Group plc and had my first window into

what a publicly listed company does. From there I moved into my first dedicated IR role at Psion plc, a technology business that helped me shape my broader understanding of the IR space.

I was always intrigued by advisers, so when the company got taken over, I moved from in-house and spent 14 years at Citigate Dewe Rogerson on the advisory side.

The opportunity arose for a secondment at McCarthy & Stone during my last advisory role at Powerscourt; I was very happy to take it on. The initial challenge was just for six weeks to work with newly appointed CEO and members of the Board on developing and articulating the new transformational vision and strategy to the City. It was well received, and we managed to retain our active investors on the register. The company didn't have in-house IR, so the Board entrusted me to set up and run the IR function for the nearly three years until the company was bought by Lone Star in February this year. They valued a rare combination of good operational understating of the business which I acquired while working on the strategy development and my

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experiences in 'real-time' while holding an advisory role and working with other clients.

My in-house versus advisory experience is fairly rare and I've been grateful to experience both sides. In-house, you can swim in very deep water along a narrow tunnel. Whereas as an advisor, you've got an enormous shallow pool so can be exposed to different things. But you never go quite deep enough or have the need from the client to do that.

“Let's tackle ESG head on. Do you think IROs need to be more focused on ESG & Sustainability topics, or are issuers hiring experts within the IR team to focus on the topic?”

As an IRO, not having a very good grasp of the ESG target and strategy within your organisation will put you at a disadvantage when having conversations with the buy-side.

Having an ESG specialist is beneficial, especially from an execution perspective, because they can support the internal communication to pull the aspects together and focus on the detail. Without that support it can be very time-consuming. For example, at McCarthy last year we worked on an ambitious Sustainability strategy. Ambitious goals come at a cost and we needed a specialist to put together cost implications of certain targets (e.g. gas boiler replacements to reduce carbon footprint of existing developments)

Your ESG resource will be tuned into the minutiae around the execution and operational side. Their role typically interacts with all the scoring agencies and different rating agencies, but the IRO will still be the one having the conversation with the analyst who looks at the ESG element or the valuation, as well as the buy-side.

If as an IRO you don't have luxury of that resource. It's difficult and management should understand that it's a full-time job. IROs absolutely need to be up to speed and as hands-on as possible because ESG is not a subject that will go away. IROs should be able to confidently explain the strategy, milestones and defend the targets, so it's more on the plate for us.

“Some have argued that the ESG bubble may have come to an end and that companies will no longer see a premium if scoring highly on ESG. For example, it was noted that only companies that will reinforce their Social within ESG will be rewarded. What are your thoughts?”

The whole ongoing conversation about ESG is here to stay. I can't imagine any IRO who is now not faced with investor meetings challenging company's ESG

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credentials and commitments. On the flipside, investors are keen to share how they approach ESG assessment, so it is a two way learning process.

The focus on ESG around management remuneration is moving up the agenda. Yes, the baseline was raised for many companies; before, we were talking about having the strategy in place but now we're talking about progression and meeting a diversity of targets. But if those targets are not part of the remuneration package, how does that impact the investor perception and the confidence in the management commitment?

This in turn can become more high-profile around the AGM where investors are making their voices heard. At the beginning of the AGM season, discussions at IRO Coffee Breaks calls naturally focused on challenges companies are facing and investor expectations. We are always keen to hear investors' view therefore this year we had BlackRock and Vanguard Stewardship teams joining our discussions and it was apparent that the link between ESG and management remuneration is one of their priorities, and so were E and S elements.

The G element is way advanced to some extent, but everybody is lagging behind on the E and the S. A new item on the agenda is what are people doing about talent retention during the pandemic and how companies are looking after their people. One challenge is how do you report on that? These are all things that are very soft and in terms of writing a report, and very tricky.

The pressure will continue. UK and global governments have ambitious targets to become carbon neutral, which requires a lot of investment. So, from that perspective, the finance has to come from somewhere. ESG at this stage is one of those few available differentiators for investment in your company. I believe the next stage of the ESG evolution is going to be separating the real change makers from those who are simply reporting to standards.

Lots of companies are still some way behind the curve, but the high speed of ESG has been phenomenal and that drive is coming from multiple channels: consumers, investors and societal pressures.



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That’s really interesting and your points on the AGM definitely echo the findings from our latest AGM season review¹.

Can we pick up on your point around ESG reporting? What challenges do you think issuers face when deciding which sustainability standards to follow or which reporting framework to adhere to?”

Most of our problems go back to the lack of standards in terms of comparison, which is like equating apples and pears. We need to have something of equal measure that applies to everyone.

There is a lot of transformation going on and any discussion on consolidation is in very early stages, but I think it will happen. From where we stand – and we’ve discussed it on a number of occasions within the IRO Coffee Breaks – we need to take back control. So instead of doing multiple things because you’re required to, because you have to do multiple questionnaires and multiple reporting, it all goes back to sitting down and thinking with the team – across the company – to reflect on what is material, what is important to us and how we can make a difference.

We need to focus on the reliable collection and reporting of data that is meaningful. This is something that will take a mindset change from ‘I have to report on everything’. It’s not helpful that most of the buy-side also have their own methodology. It’s great that they have applied their own thought to it, but they’re not thinking about it from the issuer perspective. So if I have Blackrock, Fidelity, L&G on my register, I have these many methodologies and this many questionnaires and these many ways of reporting.

The ideal would be to turn that upside down to promote the thinking ‘this is how we do business; this is how we see what sustainability looks like and we think that this standard is the best for us’. Perhaps by

providing data libraries in a format that is digestible and can be uploaded on the website, while keeping a tight and consistent narrative?

My advice would be to make yourself available and ensure the consistency and quality of the data. If you don’t have the data, make that clear or it looks like gaps from one period to another. Look at your approach to the standards from ‘what works for us’ perspective. Be open with the agencies on how you are approaching your reporting.

We had this discussion with SASB to reflect back to them what might work well for one sub-sector didn’t necessarily apply to us. The conversation was fine, and they understood it. In some ways, figuring out what works for you will help you refine what is right for your company. More work for IROs, but adapting to the next industry requirements is something we are very used to!

“Tell us about setting up “IROs Coffee Breaks”. What was the idea behind that? Was there a main pain point you were trying to address?”

Quite simply yes. When Covid-19 hit, a lot of the rules for networking were rewritten and evolving requirements appeared that needed to be addressed. Being in-house and an IR team of one, I definitely felt – not loneliness – but a realisation that I was more isolated.

For me, lockdown also coincided directly with the AGM preparation for McCarthy. So I found myself working with colleagues remotely to plan the AGM for the first time ever over Zoom. All the plans in place had to be reworked, adjusted and moved, and the update that we would normally issue with the AGM had to be rewritten with a different emphasis from what had been initially planned.

It was meant to be about our progression with the transformation strategy one year in and it turned on

A key question has certainly become ‘do you recruit someone to look at ESG or is that something you should be taking on your shoulders as an IRO?’



its head to focus more on the here and now. The theme around that time was very much “cash is king”.

After that experience, I started to talk to other IROs within the same sector and share our experience. Although their financial calendar run behind mine, I could see my peers facing the same and their own challenges. So, the IRO Coffee Breaks was born.

We started with a very small group of mainly sector-related people, just to exchange ideas. The more we spoke, we realised that a peer-to-peer sounding board was needed. We had five people initially joining and now we have hosted over 60 people from different countries, markets and sectors.

This is not an event or a society. We think of it more as a drop-in extended IR department, something I took for granted when I was on the advisory side and had more colleagues to bounce ideas off. Because things were changing every week during lockdown and we were less grounded, it really gave everybody who was joining a sense of community.

It's the IRO's job to have their finger on the pulse and make sure they are the guardians of management's precious time.

We don't have an agenda unless we have a speaker and it's about keeping things practical, in relation to a topic. It's peer-to-peer, plus we are all short on time and need answers as soon as possible – so it's a good forum for a quick response on something.

“From what you are hearing from IROs, what are the most important challenges and changes that IROs have seen during the pandemic?”

It really feels like we have observed an evolution over the last 18 months. We initially talked about how dividends and how management should be paid. But it started to fade away and become more about recovery, reopening and the plans for the future, to more recently the discussion on the return to pre-Covid-19 levels and what that will mean. A large factor of that has been about how

we keep the momentum, and how we deliver and keep this level and growth sustainable.

ESG is firmly on the agenda. Initially we were discussing ESG on the periphery, but it is now absolutely front and centre. This is because there is so much pressure coming from every part of the connected industry: from the buy-side, from rating agencies and in some cases from boards too.

Many companies, including mine, were working on ESG strategy when Covid-19 first hit and we were developing priorities and allocating resources. A key question has become, ‘do you recruit someone to look at ESG or is that something you should be taking on your shoulders as an IRO?’ Finding somebody that is knowledgeable in your sector is tricky – there's a lot of musical chairs going on.

“Our working days are longer and we're online much longer than we were in the past. Do you have any practical tips for IROs?”

This theme emerged around the first set of virtual roadshows. The main learning that came out very quickly was dealing with the fatigue. Right from day one it has become a repeated theme throughout the Coffee Breaks.

It is tempting to cram more meetings into the day because you aren't travelling, but you need to pace yourself accordingly. We are all resilient humans but being online is tiring when looking at little screens and little people, and very often blank screens with just a name (especially on the investor side). This is what you and your management team are dealing with.

Not being able to read the room makes it harder, especially if you cannot see who you are speaking to. When you are giving eight presentations a day to a blank screen, by meeting five you've had enough of your own voice, and you want to see people. We discussed it with the buy side and in some cases they didn't realise the effect it was having. Cameras need to stay on as energy levels need to remain up.

It is important that the IRO sets the ground rules from the outset for the tone of the meeting and asks that people have their cameras on and introductions are made. If it's a conference that has been organised by brokers, you pass on that same message. If it's your own roadshow, then the CEO can often reinforce the message.

Sometimes you have to provide a briefing to your management team. Unfortunately, there is no longer that moment when you are in the car before the meeting to align your thoughts.



The pandemic, to a certain extent, gave control back to the IROs

On the plus side, you can speak to London at 10am then you move on to Frankfurt the following hour, all with your cup of tea in your hand!

“What do you think about the transition from real to virtual world, and the slow return to normal? Will physical meeting resume as pre-Covid times, or will the majority of meetings be virtual? Do you think people are starting to hold more meetings or conferences in person again?”

I understand from IRO peers that for the Capital Markets Days it is mainly virtual, some have been held already and more are in the pipeline. At least for the early part of Autumn, people are planning safely, and they will be online but the ones later in the Autumn are braving it and planning hybrids.

They will hybrid, as technology allows and companies are feeling more comfortable with it, having the screen in the room where you're having the conversation will make it more accessible. Tailor the event for your virtual audience in the same way as you would for your audience in the room.

Those who have had Capital Markets days and even braved in-person London roadshows have reflected that, although there is an appetite from the analyst, the buy side has not quite caught up yet. They are still looking at it from the online perspective.

Going forward, we expect to see a horses-for-courses approach, especially for new investors coming to the stock who have never met management. We expect they will want to see and meet management at least once a year. Those investors who have been with the company on the journey for some time may feel more comfortable having virtual discussions. So it will be for the IROs to decide the best approach.

Ultimately, it is the IRO's job to have their finger on the pulse and make sure they are the guardians of management's precious time. Making the call on how and when an investor should meet management will be a judgement call. Establishing new relationships with new people coming onto your register, keeping those who are about to sell or are red flags, will be an important juggling act

with incoming requests from large investors. So you will need to prioritise accordingly.

This will be more work for IROs and corporate brokerage teams, because we now have a greater pool of people to meet. I see that as a positive because you can efficiently reach lots of investment pools by being in your office, just as effectively as running a meeting from home.

“Do you think that IR faces more difficulties in attracting new investors due to the lack of physical investor meetings? Has the corporate access/targeting piece become more difficult?”

Some sectors (such as renewables) are fashionable and they have a lot of incoming requests. For them, it's more targeting from the perspective of who to select rather than who to approach – but this covers a minority.

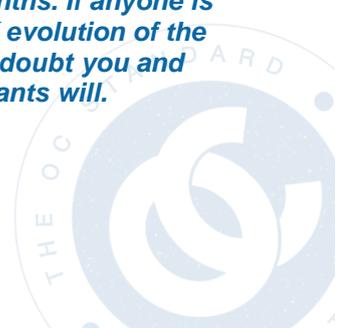
For the majority, from conversations I've had, it's fallen on the IRO shoulders to take control. In the past, corporates in the UK have often looked to their corporate broker to support them. I think the pandemic, to a certain extent, gave control back to the IROs because that's the time where you can look at your wish list and there is nothing stopping you. I have a list of investors to contact, so how do I get in touch with them? People are using social media platforms such as LinkedIn to reach out and generally are more proactive.

“Do you think that is unique to the UK? And how has the broker dynamic evolved?”

I've worked internationally for most of my career and in the UK for slightly less time, so I know that the presence of a house broker can really create a culture of reliance on the broker – not simply by the IRO but management too. By comparison, most European companies wouldn't have that privilege; they really are more self-sufficient than the UK.

I absolutely recommend having house brokers – you are making the most (not blindly relying) of their outreach, experience, contacts; however working with the broker and putting together a target list is, in my view, an IRO responsibility. I can incorporate other names into that list, where I would be my own corporate access. If they have contacts they know best, I would use that for the outreach, but for me it's about taking back control.

Marina, thank you. I'm sure your views will be very valuable to our readers. I look forward to seeing you over the coming months. If anyone is going to drive the continued UK evolution of the IRO community forward, I don't doubt you and the IROs Coffee Breaks participants will.



Meet the expert



Marina is a highly experienced IR adviser and in-house practitioner with over 20 years of experience in Investor relations. Throughout her career, she advised on strategic positioning and IR-related issued on c. 40 capital market transactions worldwide. She's often worked with listed clients on a secondment basis, developing and successfully putting into practice numerous strategies to communicate clients' often complex value propositions. This has been across a broad spectrum of sectors and geographies with different regulatory frameworks – working closely with the CEOs, CFOs and other C-level executives, as well as IR teams. She is a founder and host of Europe's only peer-to-peer network of senior IR professionals, IROs Coffee Breaks – a weekly platform for discussion of current industry issues. For more information on IROs Coffee Breaks please email: marina.calero@irocoffeebreak.co.uk

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