



**REPORT FROM
THE BUY SIDE:
THE POWER OF INTANGIBLE FACTORS
ON INVESTMENT DECISIONS**



BACKGROUND & METHODOLOGY

This research was conducted to determine how, and the extent to which, communications influence buy-side investors' valuation perceptions and investment decisions.

Weber Shandwick, in partnership with KRC Research, conducted a 20-minute telephone survey among 104 buy-side investors in the U.S. from June 14 to July 17, 2017.

Respondents were screened as follows to qualify for the study:

- + Currently work for a large financial organization, such as a bank, hedge fund, pension fund or asset management firm
- + Personally provide recommendations to inform decisions about the value of a company, which ultimately lead to substantial trades on behalf of their organization
- + Primarily involved in buy-side investing
- + Work for a firm with assets under management of at least \$500 million



KEY FINDINGS

- + Investment decisions are ultimately based on financial factors, but non-financials wield considerable influence, with 80% of investors reporting that they assign at least some weight to intangible factors.
- + The most influential intangible is quality of management and the confidence it instills, according to nine in 10 investors (89%). Rounding out the top three influential factors are performance transparency (78%) and governance/ethics (76%).
- + Half of investors (51%) report that they have a method for evaluating intangibles in place. Most often, this is based on internal research (30%), but many (19%) are not sure how their firms go about assessing non-financials. Similarly, 52% of investors say their firms do not have protocols for exiting positions or deciding not to invest in a company.
- + Investors cover a lot of ground when making investment decisions, relying upon an average of 12 sources, the top three being internal research (87%), the Bloomberg Terminal (77%) and the company website (75%). There is deep equity in the Bloomberg brand, with it being identified by 25% of investors as the most credible media source for their decisions.
- + The corporate communications/investor relations activities of companies do not go unnoticed by investors. More than six in 10 report that they rely on the following when making decisions: management presentations (73%), press releases (73%) and general news coverage (64%).
- + With quality of management playing such an important role in decisions, many events could potentially trigger investors to begin monitoring a CEO's actions. Three-quarters or more cite corporate financial struggles (78%), strategic investments or financial decisions (77%), a public image crisis (75%) and government scrutiny (75%). However, even a competitor CEO making a public appearance could spark monitoring activity according to 63% of investors, indicating that investors are always on alert.
- + Investors consider their personal interactions with the C-suite to be critical in making investment decisions. In fact, 65% say they rely on one-on-one or group meetings with management to make their decisions.
- + Investors would like to interact with senior management on average seven times per year, either by email (3.1 times), by phone (2.6 times) or in-person (1.3 times).
- + Although not close watchers of a company's social media activities, 70% of investors check social media to see what is being said about a company, even if infrequently, and 38% of investors follow senior company leaders on social media.

How much weight does your firm give to non-financial performance measures when considering an investment decision/valuation of a company?

Total

%

A lot/some weight

80

A lot of weight

22

Some weight

58

Not too much weight

14

No weight at all

5

It depends

1

80% OF INVESTORS SAY THAT THEY ASSIGN AT LEAST SOME WEIGHT TO INTANGIBLE FACTORS.

CONFIDENCE IN LEADERSHIP IS THE MOST INFLUENTIAL INTANGIBLE FACTOR IN INVESTMENT DECISIONS.

How influential are each of the following factors in your typical investment decision?	Very/ somewhat Influential
	%
Management quality/confidence (net)	89 (#1)
Confidence in the company's senior leadership team to do its job	81
Quality of the management team	77
Transparency into company's performance	78 (#2)
Corporate governance and ethical standards	76 (#3)
Overall corporate reputation	74
Growth plan valuation	74
Accessibility to company's management	74
Cyber-security or data breach issues	73
A clear corporate strategy	69
Management compensation commensurate with business results	68
Media image of the company	67
Company's response to managing issues and crises	67
Corporate values or purpose	66
Company's mission statement	66
CEO's role as an industry thought leader	65
Senior leadership team's visibility to the public	65
Rapport with the U.S. Government and regulatory agencies	61
A diversified, experienced board	61
Corporate responsibility and social sustainability initiatives	60
Board and/or senior leadership team gender and/or racial diversity	54
Senior leadership's public stance on major societal issues that may or may not be directly related to the corporation	43

51% OF INVESTORS REPORT THAT THEIR FIRMS HAVE A METHOD FOR EVALUATING INTANGIBLES, WHICH IS MOSTLY BASED ON INTERNAL RESEARCH.

Does your firm have a way to assess the value of non-financial performance measures, or the intangible assets, of companies?

	Total %
Yes	51
No	49



How does your firm assess the value of non-financial performance? (open-end)

Among those whose firms have a way to assess the value of non-financial performance measures

	%
Internal research	30
Competitor comparison	8
Public perception	6
Analyst research	6
Management conversations	6
Other	15
Not sure	19
N/A	13

SELECTED VERBATIMS:

- + “Through conference calls and reports.”
- + “Our analysts spend a lot of time to analyze the mission statement, the business models and a lot of the qualitative factors get looked at regularly.”
- + “By reading companies’ management comments, either in the annual report or conference call.”
- + “Various factors - Governance, public awareness, no negative publicity of the company.”

A FIRM'S OWN RESEARCH AND THE BLOOMBERG TERMINAL ARE MOST IMPORTANT WHEN MAKING AN INVESTMENT DECISION.

How much do you rely on each when making an investment decision?	A lot/ some
	%
Your own firm's internal research	87 (#1)
Bloomberg Terminal	77 (#2)
Company website	75 (#3)
Management presentations	73
Filings, such as SEC and regulatory	73
Press releases	73
Sector or industry analyses	72
Sell-side research	70
Third-party data	69
Earnings calls	66
One-on-one or group meetings with management	65
General news coverage	64
<i>The Wall Street Journal</i>	58
Leadership speaking engagements at industry events, such as the New York Times' DealBook Conference, which don't include investor conferences	51
Corporate social responsibility reports	50
Rankings or best of lists, such as Institutional Investor rankings, Fortune World's Most Admired companies, CSR rankings, etc.	48
Social media channels of the company, such as its LinkedIn page, Twitter feed or Facebook page	44
Expert networks that charge a fee for sharing their knowledge	43
<i>The New York Times</i>	40
Avg # sources used a lot or some	12.0

98% OF INVESTORS RELY ON MULTIPLE SOURCES 'A LOT' OR 'SOME'

INVESTORS PREFER OPINION PIECES AND WHITE PAPERS OVER OTHER TYPES OF CONTENT WHEN IT COMES TO ORIGINAL CONTENT.

Apart from financial-related announcements and information that would require an SEC filing, what are three pieces of content a company might publish that you find useful when making an investment decision? (open-end)

Total

%

Opinion pieces	18
White papers	14
Investor presentations	11
Management commentary	10
Industry articles	4
Ratings	4
Press releases	2
Future outlook	2
Sustainability report	1
IR website	1
Webinars	1
Other/N/A	14
Not sure	2
None	22

SELECTED VERBATIMS:

- + “Any industry related article or publications, any letter from the CEO and any product information.”
- + “New product announcements, conferences and trade shows.”
- + “Industry white papers and op-eds.”

BLOOMBERG IS THE MOST TRUSTED MEDIA SOURCE.

What do you consider to be the most credible media sources, specifically, when making an investment decision?* (open-end)	Total
	%
Bloomberg	25
WSJ	17
Traditional media (not specific)	10
Digital media (not specific)	8
Morningstar	5
Forbes	5
Twitter	4
SEC/regulatory filings	3
Other	14
None	14

*Only answers shown by 3% or more of respondents shown in table above

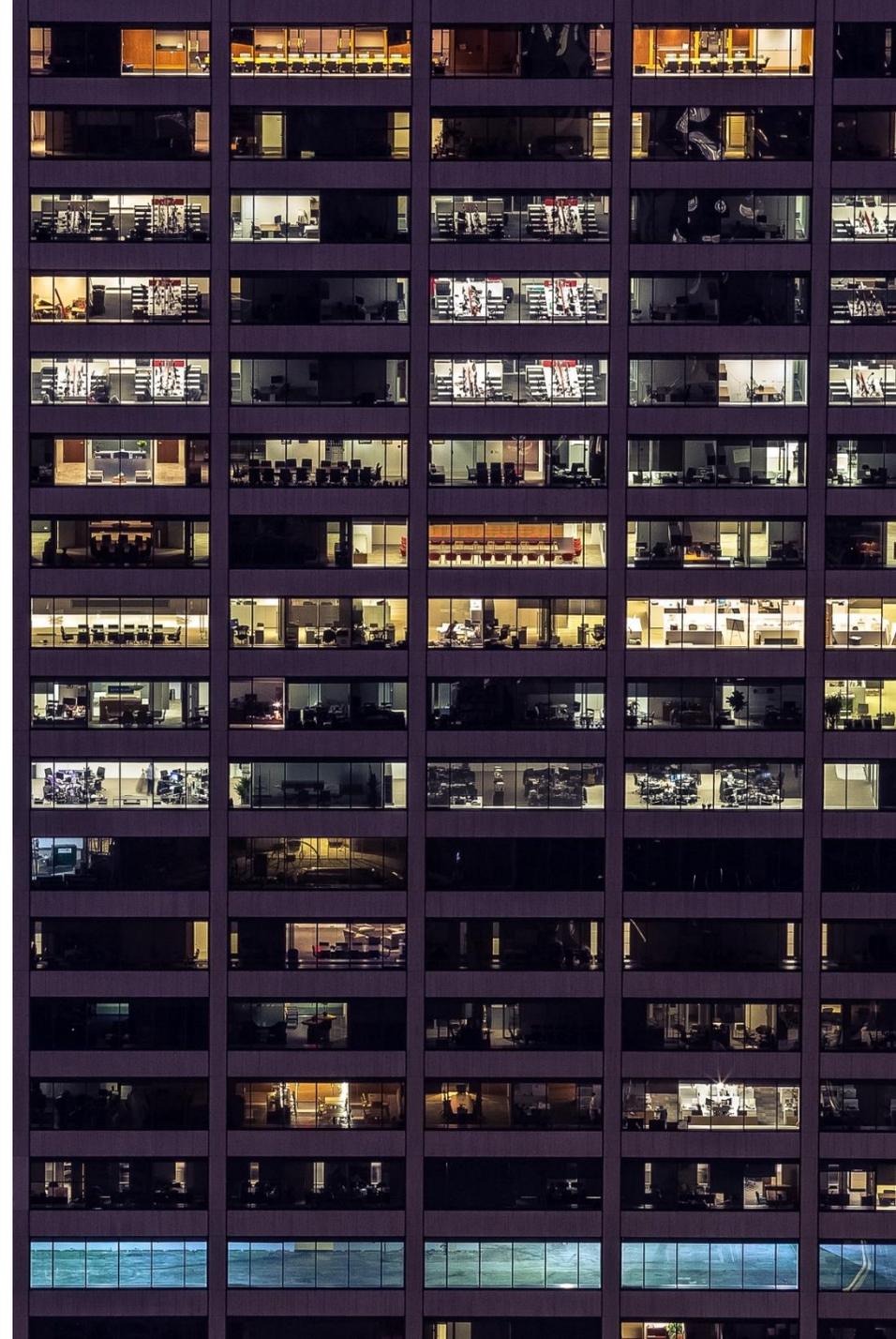
SELECTED VERBATIMS:

- + “There are multiple sources like *The Wall Street Journal*, CNBC and Bloomberg.”
- + “Most credible as a media source is Bloomberg.”
- + “News channels, Bloomberg, Morningstar.”

A NUMBER OF COMPANY EVENTS TRIGGER A MONITORING OF A COMPANY CEO.

Which of the following events would be a possible reason to monitor the CEO's appearances, statements, media interviews or other external activities? Total

	%
When the company is struggling financially	78
When the company has made a strategic investment or financial decision	77
When the company is experiencing a public image crisis	75
When the company is under government scrutiny	75
When the company performs well financially	74
When the company is in an activist situation	71
When M&A is part of the corporate strategy	70
When the company launches a new product or service	70
When the company's competitor CEOs make public appearances or statements	63



AMONG INVESTORS WHO HAVE A PROTOCOL FOR EXITING A POSITION BASED ON NON-FINANCIAL REASONS, MANAGEMENT ISSUES TOPS THE LIST.

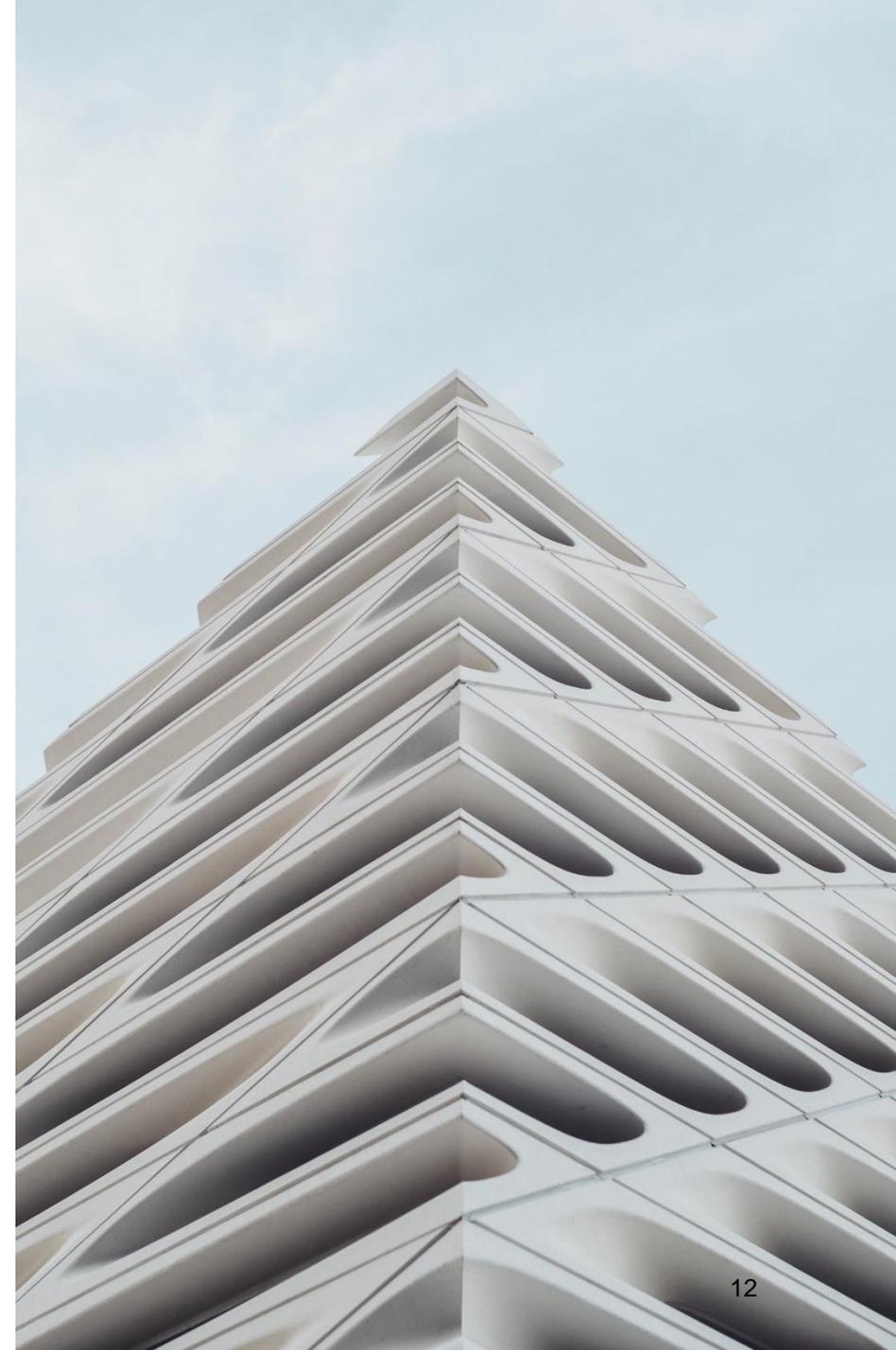
What protocols does your firm or fund have, if any, for exiting a position or deciding not to invest based on non-financial reasons? (open-end)	Among Those Who Have A Protocol
	%
Management issues	16
Decisions made by someone else/a committee	12
Legal issues	12
Reputation risk	10
Social responsibility	10
Protocol decided on case by case or sector basis	10
Negative publicity	8
Financial issues	6
Based on research	2
Macro reasons	2
Other	12
Not sure	8

SELECTED VERBATIMS:

- + “We don't have a protocol necessarily, but if there is any accounting scandal we will generally take it into account.”
- + “If it is involved in illegal stuff then we exit the position.”
- + “Credibility of the management is very important.”
- + “Management trustworthiness.”
- + “More specifically will be the Environmental Social Awareness.”

ON AVERAGE, INVESTORS WOULD LIKE TO INTERACT WITH SENIOR MANAGEMENT OF COMPANIES THEY'VE INVESTED IN **7 TIMES PER YEAR.**

How often during a 12-month period do you like to meet with the senior management of companies you invest in?	Average times per year
	#
In-person	1.3
By phone	2.6
By email	3.1
Total # interactions	7.0



70% OF INVESTORS CHECK SOCIAL MEDIA TO SEE WHAT IS BEING SAID ABOUT A COMPANY, EVEN IF INFREQUENTLY. THOSE WHO DON'T FEEL THAT EITHER THERE ARE BETTER SOURCES THAN SOCIAL, OR THEY DON'T TRUST SOCIAL.

How frequently do you check social media to see what is being said about a company?	LinkedIn	Twitter	Facebook	YouTube
	%	%	%	%
Ever	61	57	44	40
Multiple times a day	4	7	3	3
Once a day	8	8	5	4
Every few days	9	8	5	3
Weekly	19	12	15	13
Less frequently	21	23	16	17
Never	39	43	56	60

70% check any of these platforms; 30% never check social media. The non-checkers are more likely than those who do check to be older (Boomer Generation), cover U.S. and multinational markets equally (versus primarily U.S. or primarily multinational) and work in equity long-only.

Which of the following reasons best describes why you do not check social media to see what is being said about companies?	Among those who never check social media to see what is being said about companies
	%
There are better sources than social media for this	45
I would not trust social media for this	35
I don't use social media	13
My firm's internal policy does not allow us to use social media for work	6

Do you follow any senior leaders of companies on social media?	Total	Social Media Users*
	%	%
Yes	38	48
No	62	52

**Small sample. Interpret directionally.*

38% OF INVESTORS FOLLOW SENIOR COMPANY LEADERS ON SOCIAL MEDIA.

Has your approach to valuing a company changed with the new U.S. presidential administration?

Total

%

Yes

45

No

55

**45% OF
INVESTORS
REPORT THAT
THEIR APPROACH TO
VALUING COMPANIES
HAS CHANGED WITH
THE NEW U.S.
PRESIDENTIAL
ADMINISTRATION.**

How influential are each of the following issues associated with the new U.S. presidential administration in your typical investment decision?

Very/
somewhat
influential

	%
Regulatory changes	70 (#1)
Policy decisions	67 (#2)
Tax reform	67 (#2)
Political risk	65
Healthcare reform	64
Energy or climate change policy	63
Global/international relations	60
Uncertainty	59
Public opinion	49

**A NUMBER OF
WHITE HOUSE
POLICY ISSUES ARE
INFLUENTIAL ON
INVESTMENT
DECISIONS, WITH
REGULATORY
CHANGES THE
MOST INFLUENTIAL.**

In general, how do you think a company should react, if at all, if President Trump publicly criticizes the organization and/or its leadership team?

Total

%

Do not respond at all

57

Proactively respond, engaging in a series of public forums

29

Reactively field select inquiries

12

Refused to answer

3

**INVESTORS
GENERALLY THINK
IT BEST FOR
COMPANIES TO
NOT RESPOND TO
TRUMP CRITICISM.**

GROWTH POTENTIAL, VALUATION AND COMPANY FUNDAMENTALS ARE THE TOP THREE REASONS FOR INVESTING IN A STOCK.

What are the top reasons you buy a stock? (open-end)	Total
	%
Growth potential ¹	26
Valuation ²	24
Company fundamentals ³	19
Estimated ROI	10
Company management	10
Dividend	8
Right fit to portfolio	7
Macro trends	7
Ratings	6
Free cash flow	3
Risk/Reward ratio	1
Other	11
N/A	6

¹ Growth potential includes responses such as positive outlook, growth prospects, future outlook, future development

² Valuation includes responses like undervalued stock, P/E and Enterprise Value

³ Company fundamentals includes things like track record, no bad press, reputation, integrity

SELECTED VERBATIMS:

- + “For the stock portfolios that we maintain, we try to hold high quality of stocks in nature so we look after the return on capital, equity balance sheet equality, etc.”
- + “Technical reasons, macroeconomic reasons and suitability reasons.”
- + “Quality, performance history & management history.”

THE DECISION TO SELL A STOCK IS BASED MOSTLY ON VALUATION AND POOR PERFORMANCE.

What are the top reasons you sell a stock? (open-ended)	Total
	%
Valuation	33
Bad performance	20
Company fundamentals	12
Growth outlook	12
Portfolio specific	10
Company management	8
Negative news	6
Dividend	3
Macro trends	3
Other	7
N/A	3

SELECTED VERBATIMS:

- + “Either bad news or surprise earnings disappointments and maximum valuation level.”
- + “Growth of firms is stagnant with no new products or services launched”
- + “To reduce exposure to a certain level of client.”

SIX GUIDELINES FOR INFLUENCING INVESTMENT DECISIONS

1

DON'T OVERLOOK YOUR INTANGIBLE ASSETS.

Investors report that the most important intangibles are management quality/confidence, transparency into company performance, and corporate governance and ethical standards. Publicly-traded companies need to regularly reassess their communications – both messaging and strategy – to provide investors continued confidence in the company's strategy and growth potential.

2

MAKE CEOS AND OTHER SENIOR LEADERS PERSONALLY AVAILABLE.

Investors like to keep in contact with leadership at the companies they invest in, so connecting several times a year, either face-to-face, by phone or by email is important.

3

ENSURE INTANGIBLE ASSETS ARE EASY TO IDENTIFY.

Investors are very reliant on their own research, so it is critical to make your assets easy to identify on public-facing channels and properties. Don't forget to utilize your corporate communications tools, such as the company website and press releases as visibility platforms, as these are things investors rely on to make investment decisions. Content needs to be up-to-date and completely accessible to be noticed by investors' internal researchers.

4

DON'T IGNORE SOCIAL MEDIA.

Investors may not rely on social media as heavily as other assets when making investment decisions, but social media isn't something they overlook. Investors check social media to see what's being said about a company and over one-third follow senior leaders on social media. Keep an active and fresh presence on social media, and if senior leaders don't have their own social network profiles, feature them on company social pages.

5

BUILD A STRATEGIC ENGAGEMENT PLAN FOR THE CEO.

Common business events – positive and negative – trigger CEO monitoring. Build a strategic engagement plan for the CEO and be able to respond rapidly on social media.

6

BE IN LOCKSTEP WITH YOUR GOVERNMENT RELATIONS TEAM.

Investors pay attention when a company is under government scrutiny and many have changed their approach to valuing companies with the new presidential administration. Ensure your company is ready to communicate how it navigates any potential regulatory changes or policy decisions, as these are the top issues that can impact an investment decision when it comes to the administration.

THANK YOU

For more information about our *Report From the Buy Side: The Power of Intangible Factors on Investment Decisions*, please contact:

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