

Fund managers' reflections on IR and the UK equity market

In the context of global macroeconomic and geopolitical developments, the second panel discussed the current dynamics and outlook for the UK equity market.

In this plenary session the panel brought together four fund managers to reflect on the current dynamics and outlook for the UK equity market, particularly in the context of global macroeconomic and geopolitical developments as well as some comments on what makes strong investor relations from an investors' perspective.

The conversation opened with consensus among the panelists that UK equities have been significantly out of favour, both among domestic and international investors. This was attributed partly to the UK market's sectoral composition, particularly its limited exposure to high-growth technology sectors and heavier weighting toward more cyclical industries.

However, despite these headwinds, there was shared recognition of the opportunities in UK markets. We start from an attractive position, as Emma Mogford pointed out. "We've got our starting point, which is very attractive. Low valuations relative to global equity".

Additionally, there was a common consensus that a more volatile and unpredictable environment in the US, coupled with allocations to UK equities being so low, means we may well see inflows into UK equities.

Thomas Moore observed that the UK market offers compelling value relative to international peers, with many quality companies trading at deep discounts. He pointed to the UK's high free cash flow yields and healthy dividend profiles, arguing that such fundamentals are not being reflected in share prices. Richard Wingfield agreed but cautioned that value alone is not enough; investors need to see a clear catalyst for a rerating. He noted that without positive momentum – whether

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Small caps and passive flows

The panel then moved on to discuss a variety of related issue including the challenges for small cap stocks and passive investment flows. On the former, Michael Brown suggested that if asset managers are going to invest in smaller stocks, then a more active approach is needed. "You need to be able to take bigger positions and be a bit more active in your engagement with companies – taking board seats and being more involved in strategy." Clearly this approach would not be practical for many investors.

On passive investing, Mogford pointed out that with the inflows to passive funds being so strong, the opportunities for active management are increasing and she added that her team sees "valuation discrepancies at the greatest level they've seen in their careers".

PLENARY 2: BUY-SIDE PERSPECTIVES

Moderator: Evan Davis

- Michael Brown, portfolio manager, Lombard Odier Asset Management
- Emma Mogford, fund manager, Premier Miton
- Thomas Moore, senior investment director, Aberdeen Asset Management
- Richard Wingfield, portfolio manager – equities, Schonfeld Strategic Advisors (UK)

Moore said that there are not many UK companies that make the grade for inclusion in "big global passive funds" and so there is a limited audience for these smaller companies. Wingfield described a "two-tier market" with large companies benefitting from the advantages of higher liquidity levels. He spoke of the importance for smaller companies to have a clear narrative to attract that incremental investor and the dangers of buy-backs and dividends which appear to assume companies can "shrink to greatness". Instead, Wingfield argued that companies need to be confident and invest in themselves.

What IROs need to focus on

The role of IR professionals in addressing these challenges formed a second central theme. Brown emphasised that IR teams must move beyond basic disclosure practices and engage more strategically with the investment community. He argued that IR needs to have a strong financial



Michael Brown, Emma Mogford, Thomas Moore and Richard Wingfield

understanding of the business in addition to strong communication skills. He added that highly selective targeting of investors who will buy into the company's specific equity story is essential.

Mogford said that IR professionals must better anticipate investor concerns and questions, and often central to this is putting the company's numbers in the context of its peers, in a simple and effective way. Effective IR, she suggested, can help reposition a company's equity story, even within a structurally challenged market.

Wingfield focused on the need for IROs to have a "deep knowledge of their companies", be able to address queries and questions and drive the market narrative on the company. Moore supported this, adding that investor engagement must also include greater openness from management teams, not just IRO. He observed that access to senior management remains

“ Effective IR can help reposition a company's equity story, even within a structurally challenged market ”

inconsistent, and that more frequent, transparent dialogue is necessary to rebuild trust and attract long term shareholders. IROs need to minimise "sounds bites" and instead develop a partnership model with investors who

can then also help the company to maximise its potential.

Hope for UK equities

Overall, the panel acknowledged that, although there are entrenched perceptions about the UK among overseas investors, and a lack of definitive near-term catalysts, there are reasons to be optimistic. Moore asked why, up until recently, would an investor not buy one of the 'Magnificent Seven' in the US, rather than a UK company? Remarking that now it is reversing and offering some hope for opportunities in UK equities.

Wingfield pointed out that "the nature of the investor base in the UK is changing, ... there's more global ownership", suggesting that change has already started. A fittingly positive place for this excellent discussion to conclude. ■

Report by Ken Lee, Loughborough Business School.