

# RUNNING AN ACTIVE IR PROGRAM IN AN INCREASINGLY PASSIVE WORLD

SEATTLE NIRI, MARCH 2016



# OVERVIEW

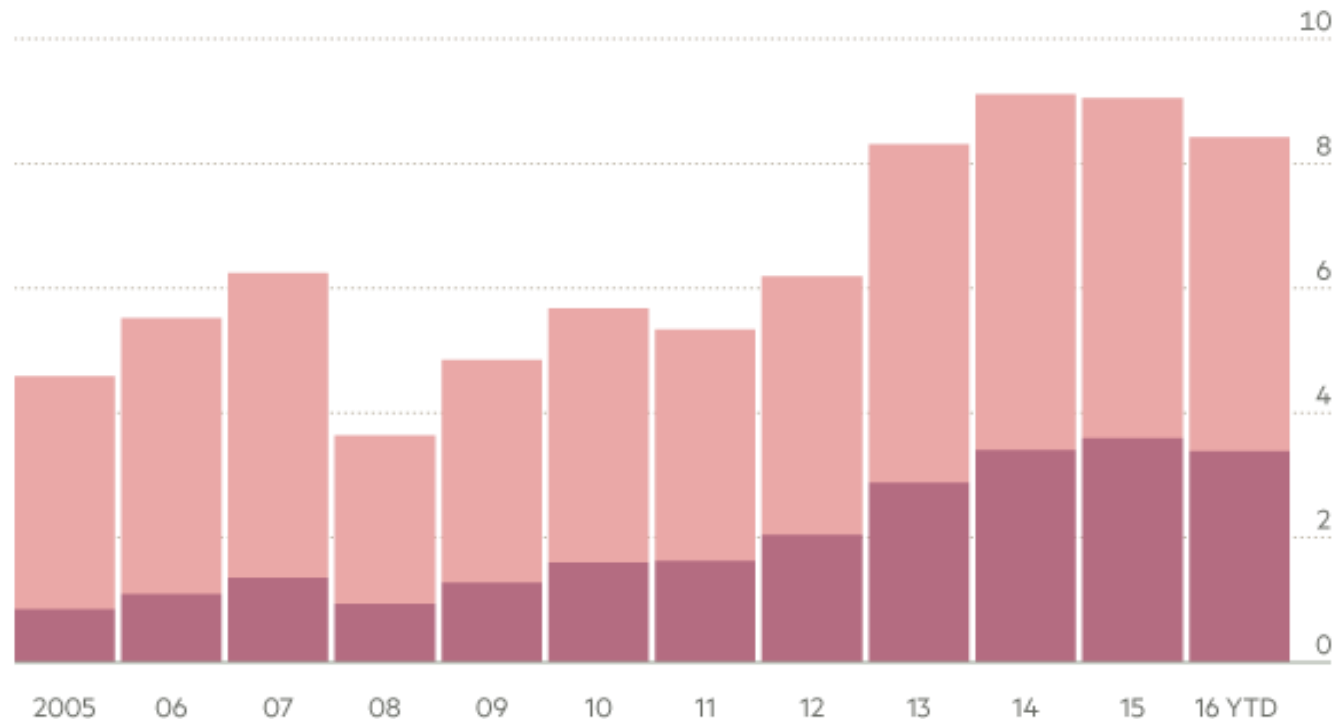
- **Growth in passive investment vehicles and the changing stock ownership composition for issuers**
- **Analysis by firm of greatest inflows/outflows**
- **Reasons for continued shifts across asset classes**
- **Growth/Value vs. passive quarterly performance; a story of extremes**
- **Combating the new normal**

# GROWTH IN PASSIVE VEHICLES CONTINUES SQUEEZE ON ACTIVE FUND MANAGERS IN THE S&P 500

- **Vanguard** saw \$235bn in inflows in 2015; more than any other investor.

Proportion of passive stock market investing swells

(\$tn) ■ Passive assets ■ Remaining\*



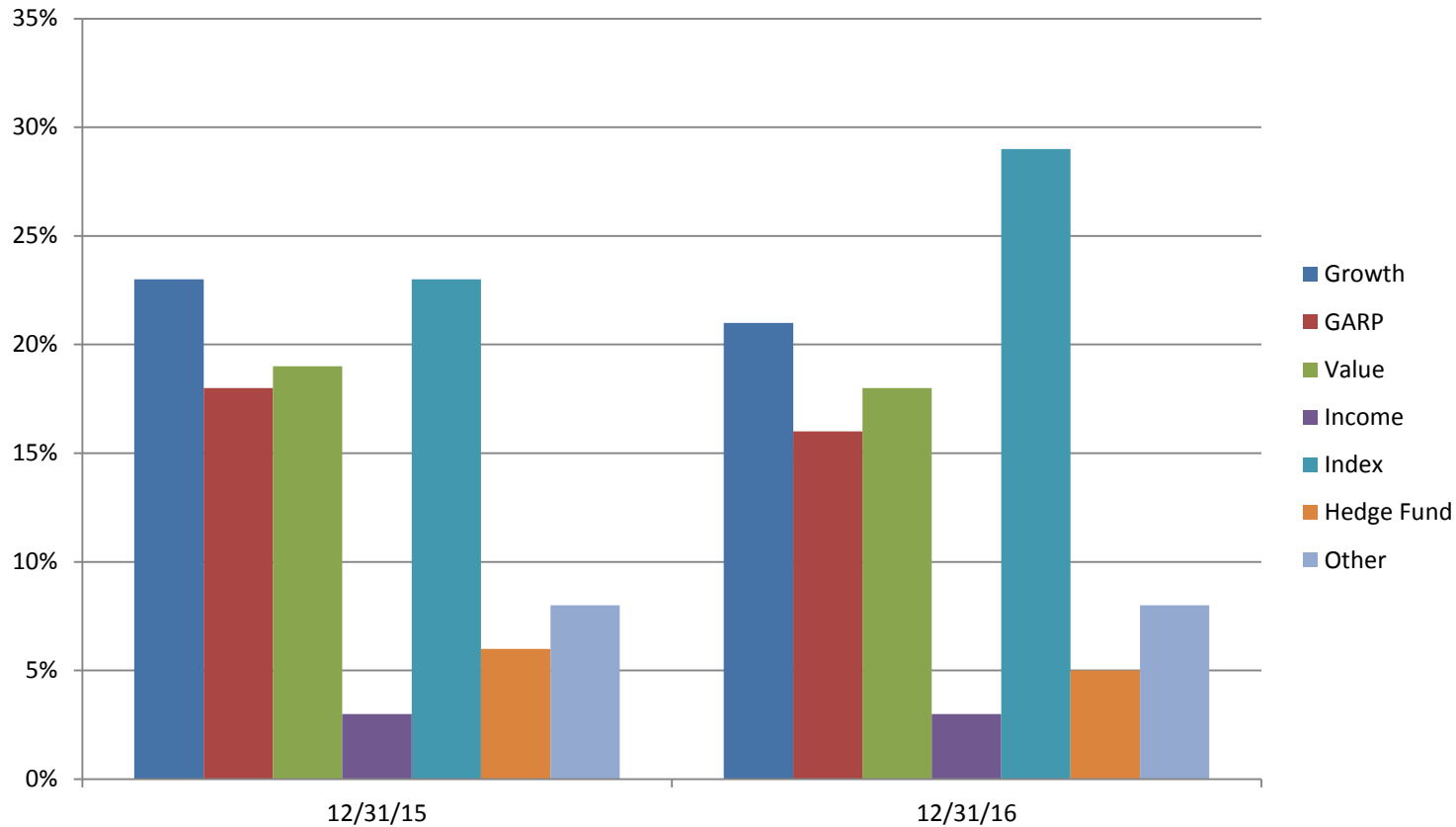
\*Total assets shown in bar height

Source: Morningstar

FT

# Stock Ownership by Investment Style; S&P 500

Style Concentration	Growth	GARP	Value	Income	Index	Hedge Fund	Other
12/31/15	23%	18%	19%	3%	23%	6%	8%
12/31/16	21%	16%	18%	3%	29%	5%	8%



# Top Inflows/Outflows by Investment Firm; 2016

Firm Name	EAUM in \$mn	12 Month Flows	Q4 2016 Flows	Q3 2016 Flows	Q2 2016 Flows	Q1 2016 Flows	Style	Country
The Vanguard Group, Inc.	2,200,371.58	111,211.3	31,290.0	20,153.0	24,785.9	34,982.4	Index	United States
BlackRock Institutional Trust Company, N.A.	1,672,324.22	55,178.2	43,871.5	20,276.4	(991.5)	(7,978.2)	Index	United States
State Street Global Advisors (US)	855,083.86	36,919.7	39,677.4	11,083.0	(11,322.0)	(2,518.7)	Index	United States
Dimensional Fund Advisors, L.P.	311,403.32	16,261.5	2,247.7	2,147.2	4,508.5	7,358.0	Core Growth	United States
Charles Schwab Investment Management, Inc.	106,618.91	11,778.8	4,547.1	2,931.9	2,801.4	1,498.3	Index	United States
KBC Asset Management N.V.	9,997.97	5,977.6	3,527.2	2,049.8	187.1	213.6	Core Value	Belgium
TIAA Global Asset Management	279,234.13	5,479.8	1,712.7	411.3	1,211.3	2,144.6	GARP	United States
Geode Capital Management, L.L.C.	233,628.20	4,927.8	1,694.4	1,913.3	548.0	772.1	Index	United States
Fundsmith LLP	10,890.59	4,376.7	740.5	1,314.8	1,495.2	826.2	N/A	United Kingdom
Veritas Asset Management LLP	13,322.11	4,315.9	NA	(213.4)	5,038.4	(509.1)	GARP	United Kingdom
Fidelity Management & Research Company	863,620.48	(73,528.0)	(24,162.5)	(22,700.5)	(17,453.4)	(9,211.6)	GARP	United States
T. Rowe Price Associates, Inc.	548,719.67	(34,582.3)	(9,348.7)	(9,103.7)	(12,882.6)	(3,247.4)	GARP	United States
Capital World Investors	617,265.87	(17,099.8)	(5,325.6)	(8,103.2)	(3,427.4)	(243.5)	Core Value	United States
Wellington Management Company, LLP	458,596.62	(13,627.6)	(7,570.9)	(4,403.2)	(2,192.1)	538.7	Core Value	United States
Mellon Capital Management Corporation	165,603.74	(12,472.4)	627.6	(2,749.1)	(4,475.4)	(5,875.5)	Index	United States
Grantham Mayo Van Otterloo & Co LLC	46,792.62	(12,253.0)	(3,240.0)	(4,623.6)	(2,976.9)	(1,412.6)	Core Growth	United States
Harris Associates L.P.	97,210.86	(10,953.8)	(1,728.4)	(4,769.5)	(2,840.5)	(1,615.3)	Core Value	United States
Jennison Associates LLC	103,282.18	(10,523.3)	(2,690.2)	(2,859.4)	(3,099.4)	(1,874.3)	Growth	United States
Dodge & Cox	167,677.51	(10,430.6)	(2,491.5)	(4,122.5)	(2,409.6)	(1,407.1)	Deep Value	United States
MFS Investment Management	304,117.40	(9,335.9)	(3,070.2)	(2,404.6)	(1,793.5)	(2,067.7)	Core Growth	United States

Source: Lipper Data

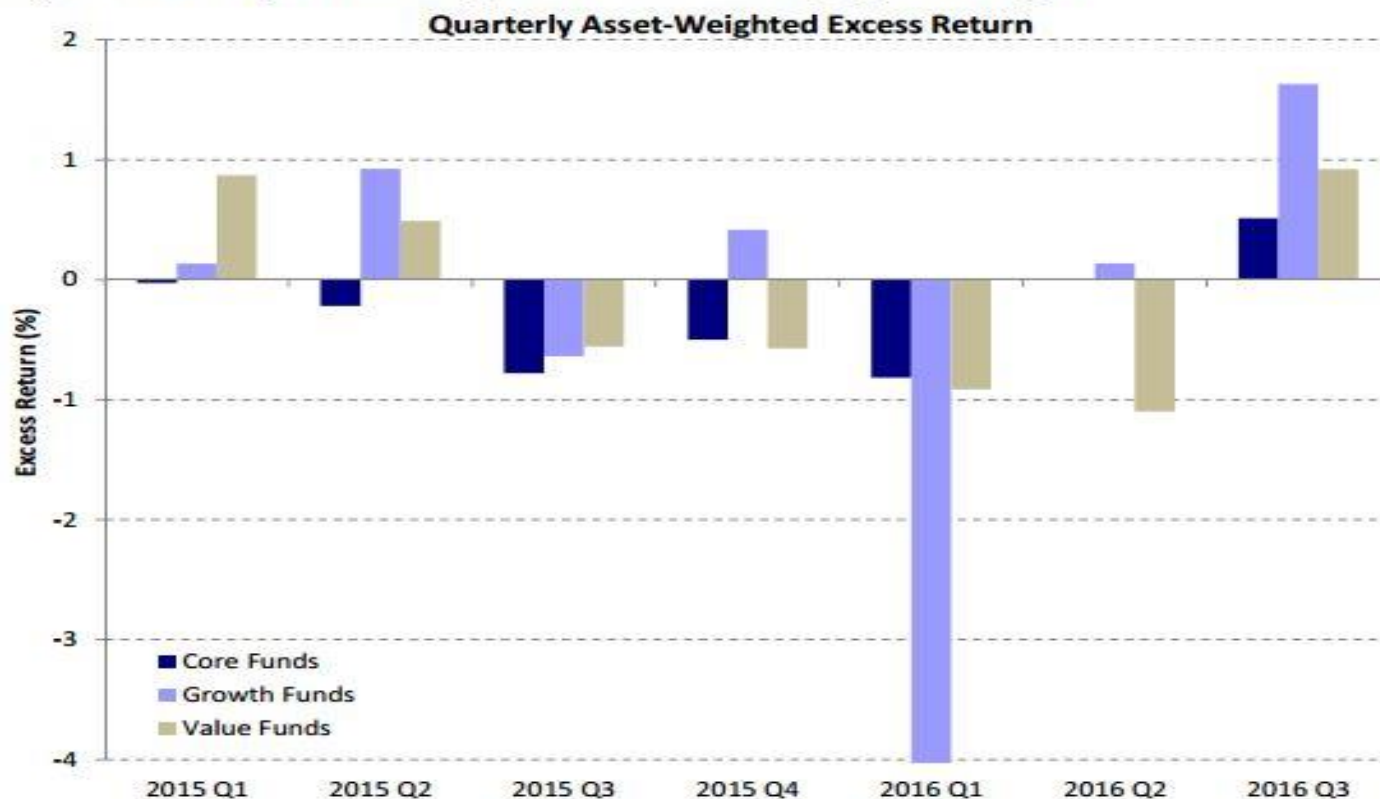
# GROWTH IN PASSIVE VEHICLES CONTINUES SQUEEZE ON ACTIVE FUND MANAGERS

**Growth in low cost ETFs continued in 2016;** ETF AUM surpassed \$3tn mark

- Relative market underperformance remains a key driver
- Last year, ETFs attracted nearly \$200bn while actively managed equity funds lost \$124bn. (FT.com)
- Just 19 per cent of US mutual funds that invest in “large-cap” companies outperformed the S&P 500 in recent years, according to Bank of America Merrill Lynch, the lowest quarterly hit rate since its data began in 1998
- Only 6 per cent of “growth” funds managed to beat their index, the worst rate since at least 1991

# GROWTH IN PASSIVE VEHICLES CONTINUES SQUEEZE ON ACTIVE FUND MANAGERS

**Fig. 6: Quarterly Asset-Weighted Excess Return, by Fund Style**



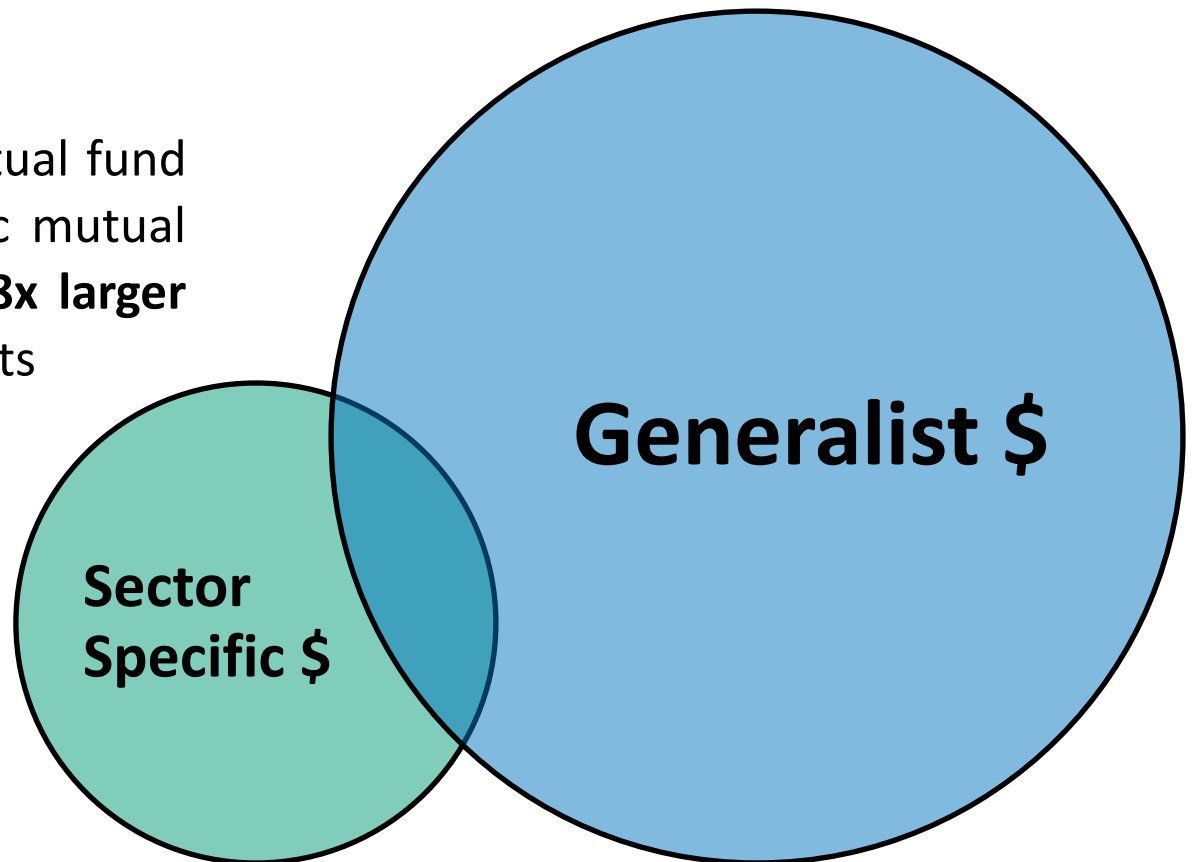
Note: Shows quarterly asset-weighted excess return of active U.S. large-cap core funds (dark blue bar), growth funds (light blue bar), and value funds (brown bar) since 2015. Large-cap core funds are benchmarked to the S&P 500 index, large-cap growth funds to the Russell 1000 Growth index, and large-cap value funds to the Russell 1000 Value index.

Source: CRSP, Bloomberg, Nomura research

# YOUR SECTOR DOES NOT DEFINE YOU

To capture the larger pool of assets, you need to **go beyond the sector**

According to Lipper mutual fund data, non-sector-specific mutual fund assets are nearly **8x larger** than sector-specific assets





# HOW DOES PASSIVE INVESTMENT AFFECT ACTIVE INVESTMENT

- Increased opportunity cost of time for management teams
- Increased scrutiny over performance & corporate governance
  - Heightened risk to Activism
- Active managements more selective in decision making process
- Velocity of SRI/ESG's incorporation into the investment decision making process – bridging the activism gap (so far)
- IR time stretched across Investors/Governance

# QUESTIONS?