CMi2i RESEARCH & INSIGHTS

TARGETING BOND INVESTORS

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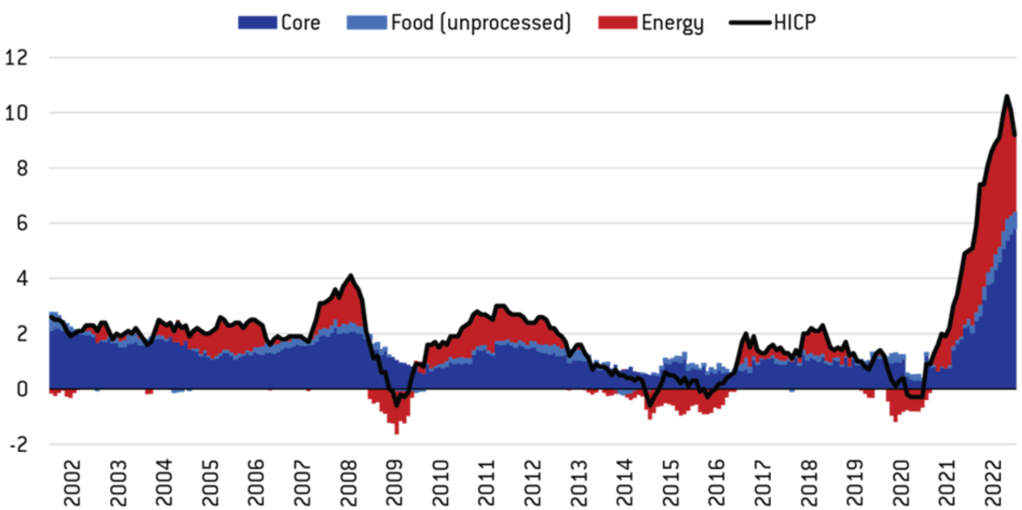
After almost a decade of quantitative easing and record low interest rates (Figure 1), 2023 has proven considerably more challenging for any issuer wanting to raise capital through the bond markets. Unfortunately, **the outlook for 2024 remains bleak for bond issuers due to the cost of refinancing, impacted by rising interest rates increasing from 1.25% in FY22 to 4.5% FY23 (Source: European Central Bank), slowing economic growth to 0.0% in Q3 2023 (Source: Eurostat), increased competition for capital, and more risk-averse investors.**

Fig.1 The ECB's Rational for Starting Quantitative Tightening



At the same time, **many corporates are faced with a significant proportion of their bonds maturing throughout 2024 and 2025.** These bonds were issued either before or during the first Covid lockdowns, when interest rates were extremely low. With economic growth slowing down and a potential economic recession around the corner, **companies are being forced to issue new bonds to manage their liabilities and to ensure their financial survival.**

To make things even harder for issuers, **investors themselves are navigating a tougher economic environment and are becoming more risk-averse and discerning when making both primary and secondary market investments**. We have already seen investors becoming more vocal, sometimes stopping restructurings and consent solicitations unless the terms are improved in their favour. At the same time, secondary markets have become more volatile with an increased rate of trading activity. **The bondholder identification reports carried out by CMi2i in recent months highlight significant investor trading activity, with some hedge funds buying large stakes unbeknown to the issuers. The days when fixed income investors held bonds until maturity are long gone.**

Against this backdrop, **it is especially important for issuers to proactively engage with investors to make their investment case as compelling as possible.** And yet, it is precisely the current environment that makes it difficult for issuers to engage with actual bondholders and the "right" prospective investors.

It is for this reason that having a well-defined and thought-out targeting program is key. In this paper, we will discuss investor targeting and outline how issuers can design a comprehensive targeting programme while also providing a case study demonstrating how being well prepared can significantly contribute to a reduction in refinancing costs.

INVESTOR TARGETING

Investor targeting is an essential element when establishing a proactive investor engagement programme, tapping into new pools of capital, and helping issuers attract the right kind of investor. It is a process of profiling investors to ensure that they will be a good fit for your company. **By understanding the profile of your targets, you can address them directly and thoughtfully. Effective investor targeting helps in the preparation of investor meetings, saving valuable time and creating higher quality engagement.**

Due to changes in regulation (MiFID II) and in sell-side coverage as well as other industry shifts (for example, trends of growing passive investment), corporates have become considerably more involved in their equity investor targeting programmes. When it comes to fixed income, however, this is a relatively new practice. **Until recently, most issuers would delegate investor targeting entirely to investment banks as part of their new issuance programme, and no investor targeting would be taking place once the bond was issued.**

In our current environment, delegating the targeting responsibility is insufficient, especially for small and mid-caps who have been finding it increasingly difficult to engage with the right investors to increase secondary market liquidity and demand for new issuances. A French large-cap entertainment house, for example, managed to issue a bond in Q4 2023, but most of the deal was acquired by hedge funds instead of long-only funds as they failed to generate enough interest among these investors (Source). **Such a hedge fund heavy bondholder base may well prove problematic for this issuer in the future, both in terms of investor activism and in terms of volatility (and yield).** It was only a couple of months ago that hedge funds stopped a major Belgian issuer from carrying out a restructuring of their bonds in favour of a full bond redemption.

Both examples show the importance of cultivating long-term relationships with investors, current and future, that goes beyond reaching out to investors only when tapping the primary bond market.

Finally, targeting investors outside of a new bond issuance can help to increase demand and thus liquidity in the secondary market, providing issuers with an already engaged list of investors ready for future funding opportunities – current buyers in the secondary market are likely to be equally interested in primary issuance. **Yet to do that an issuer needs to be aware of who their current investors really are (public data is often incorrect and outdated) and who are likely to become future investors; focusing on the same investors found in the allocation lists provided by the investment banks will simply not achieve that.**

A CASE STUDY: EUROPEAN BANK

CMi2i was selected by a European bank to help them identify a target list of debt investors for both their primary and secondary issuances. The issuer wanted to increase investors' appetite for its bonds across both markets.

The company chose CMi2i based on its reputation as a capital markets intelligence firm and its independence (CMi2i is employee owned and has no other ties to other market participants).

CMi2i helped the client select a representative sample of its bonds across the domestic and international markets. CMi2i then performed a forensic bondholder identification analysis to identify current holders. Overall, **CMi2i identified 187 institutional investors and 464 funds across the client's own bonds and identified several investors that were completely unknown to the client.**

CMi2i then produced a peer analysis report comprising of 20 securities across five sector peers, where the list was created together with the client in advance. Using geographical breakdown reports and combined with our proprietary database, CMi2i was able to build on public filing data and identify additional investors in the peer group. **On average, CMi2i identified around 50% of holders across the peer group, more than doubling the information available in the public domain and identifying investors not covered by public filings, including private wealth banks and pension funds.**

The higher identification rate combined with a broader investor base enabled a meaningful comparison between the client's current bondholder base and that of its peers.

This list was supplemented by further qualitative and quantitative analysis that considered investors' assets under management, their portfolios, investment strategies, and their history (if any) with the issuer, amongst other intelligence.

Finally, the targeting report screened all major markets and assembled investors into tiers to help the client better prioritise their debt IR and funding programs.

The peer analysis, in combination with the bondholder identification report, highlighted clear investment gaps and opportunities, and provided a list of qualified investors for the client to target (including top 20 targets across all agreed geographies, as well as Tier 1, Tier 2 and Tier 3 targets for each geography).

In particular, we were able to identify that our client had a great opportunity with a group of investors from a particular European country, resulting in the client organising a roadshow there.

Overall, our client was able to strengthen relationships with its bondholders, increasing secondary market liquidity, and finally ensuring its bond issuance program was successful.

CONCLUSION

The combination of higher refinancing costs, increased market liquidity and more demanding bondholders make having a strong debt IR department or policy even more important for issuers. Corporates must proactively engage with existing and potential bondholders to make their investment case as compelling as possible but to do so they first need to know who they are.

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ABOUT CMi2i

CMi2i provides unique capital markets intelligence and guidance to issuers and their advisors.

CMi2i is known for the world's most accurate share and debtholder identification service, supporting both corporates and their advisors with investor relations, M&A, shareholder activism, capital restructuring and proxy solicitation. Our team has provided intelligence and advice to over 500 of the largest, most structurally complex companies in the world, and supported numerous corporate transactions and general meetings. As a result, we offer clients a unique combination of skills, experience and methodologies within the following areas:

- Capital Market Intelligence & Investor Relations Support
- ESG & Corporate Governance Advisory
- Proxy Solicitation & Engagement

Contact info@cmi2i.com for more information on our services.

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