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BRINGING THE MONEY TO WEST

An AMO Survey of Western Investor Relations Professionals' Approach
To Chinese Institutional Investors
February 2012

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CONTENT

INTRODUCTION

With all eyes on China as the rising economic power of the world, and home to the largest foreign exchange reserves, investor relations executives at Western corporations are increasingly questioning if and how they should attract Chinese institutional investors into their capital.

It is still early days in the process, with state controls limiting the amounts that Chinese investors can commit to foreign financial markets. However, the Chinese government is gradually lifting those limits, notably by loosening restrictions on sovereign wealth and the "Qualified Domestic Institutional Investor" (or QDII) investment funds looking to venture aboard, and by slowly raising the allocated quota for foreign investment by Chinese investors.

Despite the poor performance of international financial markets, and the slow but steady appreciation of the renminbi, the number of international funds addressing Chinese investors is growing. Moreover, those funds are gradually branching out beyond Hong Kong, which until now has captured the lion's share of the funds flow. This trend is expected to continue as Chinese investors' appetite for foreign assets will increase as the domestic economy slows and wealthy Chinese investors turn to foreign markets.

In an attempt to measure whether and how Western IR officers are preparing to take advantage of this important trend, AMO, the international network of financial communications agencies, has conducted a survey among investor relations professionals at 71 large listed multinational corporations across 12 countries globally. The resulting report shows that, despite their expressions of intense interest in the subject when questioned for the survey, many of the IR departments of major Western corporations remain at best skeptical and at worst ignorant of what Chinese institutional investors are seeking and what they expect.

We believe that we are today at the beginning of a long learning process, as Western corporations and Chinese institutional investors get to know each other better. We also believe that AMO, as the leading international network of best-in-class financial communications agencies across China, Europe, North America and Latin America, is uniquely positioned to help accelerate and smooth the process.

We hope you find the survey of interest and look forward to working closely with you on bringing together East and West.

Charles Fleming
AMO France, Euro RSCG C&O

EXECUTIVE SUMMARY

The AMO survey of 71 top IR executives at large listed companies in 12 Western countries brought to light a wide variety in knowledge, attitude and appetite with regards to attracting Chinese institutional investors as shareholders. Among the most salient findings:

Continental Europeans are already actively working the Chinese investors.

Investor relations executives of most Continental European firms surveyed are way ahead of their counterparts in terms of proactively targeting Chinese institutional investors. A majority of French, German and Spanish companies say that they have already established specific IR programs to approach Chinese investors, and one large German industrial group is going ahead with plans to open a new IR office in China.

The British are open to meeting the Chinese but focusing most of their energy on the US.

Most IR executives at the British companies surveyed say they are not convinced that any attempt to attract Chinese investment would be worth the effort. British companies have shown remarkably little appetite to date for heading east, preferring in the short-term to continue to focus their work on the US, where substantially larger pools of money are available for investment abroad.

The Americans remain deeply skeptical of Chinese investors.

US investor relations professionals said they would not prioritize targeting Chinese investment funds because of the effort it takes to work with investors at such a distance, combined with the perceived lack of transparency and the relatively small size of their overseas investment capacity.

Latin Americans are more focused on developing strategic joint ventures than seeking institutional investment.

Brazilian companies are keenly aware of the opportunities that Chinese investors offer, but have to date focused their attention on co-investment in joint ventures than on broadening their shareholder base. Mexican companies surveyed say they are more focused on developing relations within their domestic and the Latin American market.

Large cap IROs will be most active in meeting Chinese investors over the next three years.

A remarkably high number of all the IR officers questioned have no specific plans in place to meet Chinese investors within the next 12 months or three years. However, significantly more of the IR officers at large cap companies (above €7 billion) than at the smaller companies declined to rule out such meetings.

Certain European markets have already attracted significant Chinese institutional money.

It remains an open question whether the proactive strategy of some Europeans for developing their Chinese shareholder base is already paying off. German and French companies, which are by far the most enthusiastic in terms of addressing the new market, are today among the leaders in terms of reporting Chinese shareholders. But Swiss and British companies, where IR officers

have been less proactive towards China, report similarly high numbers of Chinese shareholders.

Others, notably the US, Mexico and some smaller European countries, have seen little or no Chinese investment.

Certain European countries, including Italy, the Netherlands, Scandinavia and Spain, and also the North American markets report much lower numbers of Chinese shareholders.

Mining and energy IR officers have been most proactive.

Possibly reflecting the widely-reported Chinese foreign direct investment flows into international mining and energy projects, IR officers in those two sectors are the most likely to have set in place specific IR programs to target Chinese institutional money.

But Chinese institutional investors have spread the wealth across a broad variety of sectors.

Even though they have not generally been as active in pursuing Chinese investors, the banks, pharmaceutical & health care, and retail & service companies questioned for the survey said they have proved just as likely to attract Chinese investment as those in mining, heavy industry and energy.

The IR community values the work of the bankers and brokers able to make introductions.

Like institutional investors from anywhere else in the world, the Chinese funds that have built positions in Western countries in recent years have often worked discreetly to acquire their stakes. However, a substantial number of IR officers in almost all the countries reviewed said that they worked with intermediaries, notably with those banks and brokers that had local expertise in China.

Chinese investors are generally perceived as hands-off and undemanding.

Most IR officers questioned for the survey qualified Chinese investors as remarkably passive, slow to show their hands, conservative in their appetite for risk, and very modest in their demands for special attention of any kind.

Opinions diverge on how transparent they are.

IR professionals in the US and UK were unanimous in their opinion that Chinese funds lack transparency, frequently citing it as a factor behind their reluctance to engage with Chinese investors. However, IR officers across the board – including the US and the UK -- rejected any suggestion that Chinese investment decisions were driven by political considerations.

Building a Chinese investor base is distinctly different from building a Chinese business.

With the exception of the French companies, few of the IR executives interviewed for the survey considered building their Chinese shareholder base would have an impact on their business in the region. A number of those questioned said that they considered Chinese shareholders to be more attracted by companies with a strong local story, but even this was not borne out by the survey, with others noting they had been in China for decades without building a local shareholder base.

OUR RECOMENDATIONS

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Large cap IROs will be most active in meeting Chinese investors over the next three years.

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METHODOLOGY

To ascertain how listed companies across Europe, North America and Latin America are positioning themselves vis-à-vis the new emerging class of Chinese institutional investors active internationally, we asked the member agencies of the AMO network to question a cross-section of IR executives within their domestic market.

In all, we spoke to IR officers at 71 companies in 12 countries representing a total market capitalization of over €1 440 billion between them. The companies ranged in size from over €100 billion to under €1 billion. The interviews were conducted in November and December 2011 either by telephone or in face-to-face meetings, based on a 10-point questionnaire. The IR officers interviewed represent a broad range of sectors, including banking and finance, insurance, energy, oil & gas, high-tech and media, construction, consumer goods and retail, industry, mining and minerals, pharmaceuticals and healthcare.

The interviews were prepared and conducted by AMO IR consultants from the following agencies:

- Abernathy MacGregor in the US
- Ad Hoc in Italy
- bluechip financial communications (for Hirzel.Neef. Schmid.Counselors) in Switzerland
- Euro RSCG C&O in France
- Hering Schuppener in Germany
- LLORENTE & CUENCA in Spain and Latin America
- Maitland in the UK
- Porda Havas in China and Hong Kong
- SPJ in the Netherlands
- Springtime in Sweden and Finland

Number of companies by country*:

NUMBER OF RESPONDENTS BY COUNTRY											
ALL	BRAZIL	FR	GERM	IT	MEX	NETH	SCAN	SPAIN	SWITZ	UK	USA
71	4	6	9	3	8	5	5	6	9	9	7

Number of companies by sector*:

NUMBER OF RESPONDENTS BY SECTOR									
ALL	CONST	CONSUMER	ENERGY	FINANCIAL	HEALTH	IND	INSURE	IT	MINERALS
71	4	12	13	10	4	10	5	7	6

Number of companies by market cap*:

NUMBER OF RESPONDENTS BY MARKET CAP				
ALL	€20bn+	€7-20bn	€3.5-7bn	<€3.5bn
71	21	20	13	17

CONST: Construction and basic materials

CONSUMER: Retail, textiles, services, consumer goods

ENERGY: *Sectors cover the following categories: Energy, Oil & Gas, Utilities

FIN: Banking, asset management and financial services

HEALTH: Pharmaceuticals, health and healthcare

IND: Industrials, automotive industries, conglomerates

INSURANCE: Insurance

IT: Information technology, software, media

MINING: Mining and minerals, steel, chemicals, paints

THE 10 QUESTIONS WE PUT TO 71 INVESTOR RELATIONS PROFESSIONALS AT LISTED COMPANIES IN 12 COUNTRIES

Q1. Are you targeting Chinese institutions as investors?

Q2. Have you already met any Chinese investors? If so, where?

Q3. Do you have specific plans to meet any Chine?

Q5. How have Chinese holdings of your stock changed in the last year, and where do you expect to see it in 12 months or three year?

Q6. If you do have Chinese investors on your register, please describe the investment process.

Q7. Are Chinese institutions open with you about their investment criteria? How do these differ from Western investors?

Q8. How would you qualify the Chinese institutional investors' management style in general?

Q9. In your experience, where are the Chinese investors' decision makers based (eg Beijing, Shanghai or London) and do you see signs of political interference?

Q10. Do you think the presence of Chinese institutional investors in your capital boosts your business activities in China?

KEY FINDINGS

Q1

ARE YOU TARGETING CHINESE INSTITUTIONS AS INVESTORS AND IF SO, WHY?

Only one in every three IR officers surveyed is actively targeting Chinese institutional investors…

Overall, only one in three of the companies questioned in the AMO survey have already set in place an IR strategy to target Chinese institutional investors. Continental European IR officers, especially in Germany, France and Spain (and to a lesser extent in Switzerland and the Netherlands) are the most enthusiastic in pursuing the opportunities for investment from the East. However, IR officers in the UK and the US were almost unanimous in their conviction that efforts to attract Chinese institutional investors are not worthwhile at this stage.

…even though Chinese institutional investors have the money and the permission to go abroad…

Among the main reasons offered by those who have set in place Chinese IR outreach programs, top of the list is simply that the QDII investors and sovereign wealth funds today have the money and the authorization to venture abroad. Very few linked their interest in attracting Chinese investment in their stock to any business objectives such as growing their visibility or their market in the Chinese market.

But for skeptics the Chinese are distant, opaque and generally a tougher sell than US institutional investors…

The primary reason against embarking on a Chinese IR program, for those European and British companies which answered in the negative, was a conviction that any time and money an IR department spent on drumming up investor interest in the US would yield better results than in China. IR officers in the USA said they considered Chinese investors to be distant and not transparent enough in their investment criteria or accounting.

Mining & energy sector companies are pushing the hardest …

Breaking down the results by industry sector highlighted that IR executives in the energy, mining and also insurance and industrial sectors were looking to build their Chinese investor base, reflecting a widespread perception that these are the sectors most attractive to Chinese investors. Perhaps surprisingly, banks and financial services firms other than insurers were generally more skeptical about the prospects for them in attracting Chinese shareholders. The survey did not single out luxury goods brands as a discrete sector, but retail and consumer goods companies were also less enthusiastic.

Select Commentary By IR Executives:
Q1. "Are you targeting Chinese institutions as investors and if so, why?"

Some are negative....

So far we target actively only Europe and the US for investors. China is still a long way off and presently not an issue, as we judge the effort/cost of targeting Chinese institutions as very high. *(Telecoms, Switzerland)*

It's too early. We are more interested in the US where changes to the proportion of funds in overseas investment are opening up considerable resources. We think China is at the cusp of something significant but it's not quite engaging fully yet. *(Consumer sector, UK)*

We don't see China as a priority for seeking investment right now. There are so many other markets. In addition, the distance also is a hindrance. *(Financial services, USA)*

We don't have enough resources. If we want to target new investors, we have to plan several roadshows, since "spot" action has no result. *(Automotive, France)*

For us (the US) is a much bigger opportunity to target. *(Financial services, UK)*

Some are cautiously testing the waters....

We meet them, but targeting is a big word. *(Financial services, Switzerland)*

If they're passing through London, we're happy to see anyone but in terms of spending time and effort going out there and talking to them on a regular basis, I think the market is just too immature. *(Financial services, UK)*

I think it's quite important to do missionary work just so that Chinese investors start to know the name from a financial point of view. But, as I'm sure the brokers can tell you, the amount of money available in China to invest in UK or European equities is still about 1% of the flow that comes from America. *(Consumer sector, UK)*

They are not our target, but we are starting to think about them. (Financial services, Spain)

We want to get closer to Asia, but we don't have a specific plan. *(Consumer goods, Mexico)*

We are open to partnerships with Chinese investors in our capital, but currently we are more focused on project related relationships. (Conglomerate, Brazil)

No. We have industrial relations, but not a Chinese institutional investors' strategy or program. *(Energy, Brazil)*

We are rather targeting Asian bond holders in terms of creditor relations. *(Financial services, Switzerland)*

Yes. We are looking for global investors, but we've been trying to approach debt investors in Asia, rather than equity capital ones. *(Telecoms, Mexico)*

And only a few are enthusiastically pursuing the new opportunities...

We are increasing our IR presence in China with a permanent IRO in Beijing, to satisfy the increasing interest of Chinese investors. We are always interested in having a reliable and balanced investor base. *(Autos, Germany)*

We want to attract investors wherever they are in the world (including China) to own our stock to have a broader geographical spread of ownership. *(Oil & Gas, UK)*

Yes, we are growing our capital base. *(Services, Germany)*

The pool of investable funds and sophistication is growing very fast, and so is the determination of the Chinese authorities to boost capital investment overseas. *(Financial services, Spain)*

The main reason is that Chinese institutions have economic resources despite the crisis. *(Energy, Spain)*

We just started to do so because of the growing importance of the Chinese financial market and because brokers have stated that limitations of investments to overseas companies have been reduced *(Chemicals, Germany)*

China is our third biggest market, so it is natural to also target investors there. A Chinese SWF would be appreciated as a strategic shareholder. *(Financial services, Switzerland)*

Yes, we are; we think they are interesting investors even if they aren't the most important *(Energy, Italy)*

Q2

HAVE YOU ALREADY MET ANY CHINESE INVESTORS? IF SO, WHERE: IN CHINA OR IN YOUR HOME COUNTRY?

More than half of those surveyed have already met Chinese institutional investors...

Even though relatively few Western IR offices are specifically targeting Chinese institutional investors, there has been no shortage of meetings arranged by both sides. Half of these meetings have been held in mainland China, primarily Beijing and Shanghai, but just as many of the IR officers surveyed have met Chinese investors in their Hong Kong or London offices.

...especially IROs from Continental Europe, who frequently took the time to go to the Chinese HQ...

Reflecting the greater enthusiasm of Continental European investors for targeting Chinese investment, as revealed in Question 1, well over half of the IR officers questioned in France, the Netherlands, Spain, and Switzerland. have found time to meet Chinese investors. In a slight majority of these cases, the meetings took place in mainland China, but both Hong Kong and London were frequently cited, reflecting their status as international banking centers.

Few Chinese institutional investors have embarked on reverse roadshows...

The survey shows that, with the exception of Mexico (where Santander's annual investor conference was frequently mentioned as a forum for such meetings), Chinese institutional investors made relatively few trips to centers outside London, Hong Kong and Singapore.

IROs know about the SWFs, but not the QDIIs...

Although IR officers were in general reluctant to name specific Chinese institutional investors they had met, the names of two Chinese sovereign wealth funds, the China Investment Corporation (CIC) and the State Administration of Foreign Exchange (SAFE) were mentioned by several of the interviewees. Only one company could name specific QDIIs.

Select Commentary By IR Executives:

Q2. "Have you already met any Chinese investors? If so, where: in China or in your home country."

West goes East and East goes West.....

We met them several times there in China, but never in Paris. *(Technology, France)*

We do a roadshow trip to China and Asia every year, apart from this year because the effort seemed not to be worth it due to the lack of appetite among Chinese/Asian investors for European equities. *(Insurance, Switzerland)*

We have been engaging with them over the last 3 years and that's predominantly been in China but also when they're travelling to the UK. *(Energy, UK)*

We have had a visit from a large Chinese fund and have visited several funds in Hong Kong but not yet mainland China. *(Chemicals, Germany)*

You can probably do 5 or 6 meetings and beyond that there's not a huge amount of interest, so we continue to do them a couple of times a year but that's about it for now until we see that change. Some of them do travel over to the UK… but we have met them in China, and Hong Kong and, more widely, down in Singapore. *(Consumer, UK)*

But frequently the twain meet in Hong Kong or London.

Our experience is that all contacts take place in London. If we're organizing a road show in Asia we mainly go to Hong Kong. *(Energy, Netherlands)*

We meet potential Chinese investors once a year when we travel to Hong Kong and Shanghai. *(Financial services, Netherlands)*

We do regularly meet Asian investors, from Singapore, China,and Japan, but mostly in London. *(Consumer goods, Netherlands)*

Q3

DO YOU HAVE SPECIFIC PLANS TO MEET ANY CHINESE INSTITUTIONAL INVESTORS WITHIN THE NEXT 12 MONTHS?

Most IR officers are pragmatic and remain open to meeting Chinese investors…

Despite the absence of specific Chinese IR programs in place, more than half the IR executives questioned either have plans to meet or are open to meetings with Chinese investors within the next 12 months. Unsurprisingly, many of those who aren't actively targeting the Chinese market adopted a pragmatic attitude, saying they were open to take a wait-and-see approach, and that they would willingly meet such investors if approached.

But the British & Americans remain on their guard…

Less expected, perhaps, was the relatively high percentage - almost half of those surveyed - who ruled out the prospect of such meetings, rising to over three-quarters in the UK and US. In a number of cases, this closed-door response was backed up with criticism of the lack of clarity of the Chinese investors' aims, means and requirements.

Energy, mining and consumer are the most bullish…

The sectors most open to meeting the Chinese investors tended to be those already closely associated with existing investment trends, notably energy, oil & gas, mining & minerals, and consumer & retail. Insurance companies distinguished themselves from others in the financial services sector, notably banks, as being more sanguine about the prospects of meeting Chinese investors.

Health and construction the least sanguine….

In line with their previous responses to questions about earlier meetings, two sectors stood out as seeing little prospect in interesting Chinese investors: pharmaceuticals and healthcare, on the one hand, and construction and building materials on the other.

Select Commentary By IR Executives:
Q3. Do you have specific plans to meet any Chinese institutional investors within the next 12 months?

Some say Yes...

We will probably plan a couple of meetings with Asian banks in order to meet Chinese investors during the coming year. *(Consumer goods, Mexico)*

The likelihood is fairly high – they are reasonably high on our radar. So there's a reasonable chance that we would consider that over the next 12 months. *(Oil & Gas, UK)*

I think the Chinese will play an increasing part of the financial markets. They certainly have the money. *(Software, USA)*

As we are starting with a local IR office in February it is clear that we will meet a number of Chinese investors over the next twelve month. *(Autos, Germany)*

Yes, potentially. We think about conducting our 2012 Investors Day in Asia, and potentially in China, as we would like to target new global investors over there. *(Services, Switzerland)*

We will probably include Asia in our roadshow schedule for 2012. Maybe not China as a first priority, but more likely Singapore and Hong Kong. *(Telecoms, Scandinavia)*

Yes, we are planning a roadshow for the coming year but we have to decide where we are going to. We have understood that most Chinese investors are represented in Hong Kong and Singapore, so we probably won't go to Beijing. *(Speciality chemicals, Netherlands)*

And some say Maybe...

Our policy will remain unchanged. We are talking to Chinese investors if they come and meet us, but we are not specifically targeting Chinese investors. *(Energy, Netherlands)*

We don´t have a specific strategy but we would love to meet them. *(Media, Mexico)*

I'm open-minded about it, but I think in practice to go there at the moment is a little bit too early. *(Banking and financial services, UK)*

But for many it's a clear No.

No. State ownership is a consideration but the opaqueness of the investors is probably more significant as of now as to a reason why we are not yet being pro-active. *(Consumer sector, UK)*

There still is some scepticism in the U.S. about doing business with the Chinese. That image problem needs to be addressed before Chinese investors are welcomed more broadly here. *(Financial services, USA)*

For us our priorities would be North America, long before we got anywhere near China. *(Insurance, UK)*

No, we've been invited to some events in China, but we don't accept because our float is very small, and generally investors choose bigger options. At the moment, Asia is not profitable for us. *(Retail, Mexico)*

No. We are focused in growing in Mexico and South America. *(Conglomerate, Mexico)*

Q4

DO YOU HAVE ANY CHINESE SHAREHOLDERS TODAY, AND IF SO WHAT PERCENTAGE OF YOUR CAPITAL DO THEY HOLD?

Chinese institutional investors are still few and far between in Western shareholder lists…

Fewer than half of all the companies questioned for the survey reported any Chinese investment in their capital, and of those, only a couple reported any significant investment above 5%.

Most Chinese indirect equity investment is focused on large caps…

Typically, those companies which said they had identified Chinese shareholders in their capital were large cap companies (above 20 billion euros), in the UK, Switzerland or France. However, there was no clear sectoral focus, suggesting that existing Chinese institutional investment tactics are driven more by geography and size than by sector.

Much Chinese institutional investment is below the radar…

Most of the companies that reported the presence of Chinese investors in their capital were unable to give specific details about the size of the holdings, because the stakes were below the declaratory threshold (which varies from market to market). As a result, any analysis of the size of the holdings on a statistical basis would be misleading.

Select Commentary By IR Executives:

Q4. Do you have any Chinese shareholders today, and if so what percentage of your capital do they hold?

Our Chinese investors are part of the shareholders' programme of our listed subsidiary in the region. The direct presence of Chinese investors in our shareholders base is not relevant. *(Consumer goods, Netherlands)*

Greater than 1% but less than 5%. *(Consumer goods, UK)*

Less than 2%, with among others, SAFE Investment *(Services, Germany)*

I do not know, I do know that we have institutions from Singapore as well as from Saudi Arabia in our shareholder base so we most probably have some Chinese institutions as well. *(Materials, Scandinavia)*

The percentage is very small, less than 1%. Main investors are Chinese wealth funds. *(Energy, Netherlands)*

Yes, it's about 2 or 3%, something like that. Basically the People's Bank of China holds about 1% of most FTSE 100 stocks we have been told. We have got them as a shareholder and I think we have got another small Chinese holding on top of that. (Consumer goods, UK)

We do have Chinese shareholders but none of them has a stake exceeding 5%, the percentage that you are obliged to disclose according to Dutch regulation. We don't disclose names of Chinese investors. *(Chemicals, Netherlands)*

We have Chinese 3 shareholders, two institutional investors and one mutual fund, but their stake is negligibly small. *(Financial services, Netherlands)*

Not much: 1½%. Japan is higher. Japan's about 4% and then there's a little bit in Australia, and Singapore but we are very much dominated by the US. The US is actually nearly 50% of our share register. (Consumer, UK)

Q5

HOW HAS THIS HOLDING CHANGED OVER THE LAST 12 MONTHS, AND WHERE DO YOU EXPECT TO SEE IT OVER THE NEXT 12 MONTHS AND NEXT THREE YEARS.

Continental Europeans have attracted new investments…

German, Swiss and French companies saw the most significant increases in Chinese institutional investment over the last 12 months, although a number of Dutch, Spanish and British companies also reported some increase.

…raising their hopes that more will come.

This inflow appears to have fuelled optimism for further future investment, as those countries also are the most bullish for the prospect of further increases over the next 12 months and three years.

Large mining and energy companies are expecting the most….

Large cap companies, and also those in the energy and mining sectors, clearly benefitted the most from new Chinese investment over the last 12 months. They also lead the way in terms of expecting further investment in coming months and years.

But many remain uncertain about increased flows, and North Americans especially expect little.

As many as half of the IR executives questioned said that they remained unsure about future trends. Of those surveyed in the US, Brazil and Mexico, very few said they were expecting any uptick in investment flows.

Select Commentary By IR Executives:

Q5. How has this holding changed over the last 12 months, and where do you expect to see it over the next 12 months and next three years.

It depends on how quickly the Chinese investment managers actually want to start investing in Europe. It's a big macro issue - will they be allowed to invest outside China and will they choose to do it themselves, or will they just pass their funds over to Fidelity or someone? *(Consumer sector, UK)*

The percentage of Chinese shareholders has grown gradually, not massively. We expect the percentage to increase in the coming years. *(Speciality chemicals, Netherlands)*

In 3 years, I can't really see it materially changing either to be honest. There is a huge amount of money in China and much of it is being effectively held as cash. I think there is longer term talk that there will be more interest in investing in international equities and that's part of the reason why we are warming people up. *(Consumer, UK)*

We don't expect major breakthroughs in the coming years, so we don't foresee big changes in the percentage of Chinese shareholders. *(Energy, Netherlands)*

Historic stakes were built without contact to our company. Now we approach investors using a broker intermediate in the local market. *(Services, Germany)*

Things will change but I think it will be very slowly. Obviously from a sovereign wealth fund perspective, they appear to be more active but not on a more conventional, global equity basis. We don't see many Japanese investors in Western companies, so why would China be fundamentally different or Hong Kong? *(Healthcare, UK)*

Q6

IF YOU DO HAVE CHINESE INVESTORS ON YOUR REGISTER, PLEASE DESCRIBE THE INVESTMENT PROCESS.

Few IRs have felt confident enough to work the Chinese market alone ...

The survey showed that Western IR officers have been relatively shy about going to knock on the doors of Chinese institutional investors themselves. Remarkably few of those with Chinese investors in their capital report having made the effort to approach the Chinese institutional investors directly.

Many but not all like to work with investment bankers and brokers...

Investment banks and brokers have received mandates from IR officers in most of the markets surveyed to help bring in Chinese investments. The notable exceptions to this were the US, the Netherlands and Germany, where none of the companies surveyed had used an intermediary.

The Chinese investors often moved quietly...

Many of the Chinese investors have built up their stakes quietly, working beneath the declaration threshold. Almost a third of the investments reported were the result of discreet stake-building by the Chinese investors before they declared their hand. This was most frequently reported in the sensitive sectors of pharmaceuticals & healthcare, banking & asset management, and also in IT & Media.

The Swiss, and also the larger cap companies have been more proactive...

Of those that did, it was primarily the Swiss and the mid-to large-caps, those that enjoy certain recognition in the global market, that were quicker to take the initiative, as opposed to smaller companies.

And IR officers from the less popular sectors have had to work harder...

The survey also shows that IR managers from those sectors which are not considered to top priority for Chinese investment managers, namely construction & building materials firms, and also the industrials, automotives & conglomerates, tended to be more proactive.

Select Commentary By IR Executives:

Q6. If you do have Chinese investors on your register, please describe the investment process.

They built a stake and we had never met them before. They asked no questions. (Financial services, France)

Until now Chinese investors have found us, sometimes advised by an equity broker, but never by an investment bank. We haven't actively approached Chinese investors yet. *(Speciality chemicals, Netherlands)*

We were introduced via brokers. *(Consumer sector, UK)*

We had just one approach from a big international investment bank, but did not advance after the second meeting. Never met the Chinese investor. *(Conglomerate, Brazil)*

We'll go through a broker because we just don't have the knowledge of that market and the direct contacts. We don't have the in-house resource or the expertise to do that to be honest. *(Consumer, UK)*

I don't think you could ever organize a Chinese road show yourself! *(Consumer sector, UK)*

We approached the investor. No brokers have presented Chinese investors in Switzerland, but there are brokers active in China, e.g. Citi or HSBC, and which cover us in terms of analyst research. *(Financial services, Switzerland)*

We are not targeting Chinese investors but they do approach us in London, via investment banks or during road shows, one on one's, presentations etc. *(Energy, Netherlands)*

At the moment, some banks are working for us as mediators. *(Media, Mexico)*

We had hundreds of meetings. *(Energy, France)*

Q7

IF YOU HAVE CHINESE INVESTORS IN YOUR CAPITAL, ARE THEY OPEN ABOUT THEIR INVESTMENT CRITERIA AND HOW DO THESE DIFFER FROM WESTERN INSTITUTIONAL INVESTORS?

IR professionals in the US and UK are very critical of Chinese lack of transparency…

Western IR officers have sharply differing views on how transparent Chinese institutional investors are. Those in the US and the UK are unanimous in their criticism of Chinese investors as lacking any transparency in their investment criteria.

…but Continental Europeans are quite complimentary…

On the other hand, a majority of the Continental European investors consider that they have been given clear guidance on the criteria and a significant number of those say that they don't see any difference from Western institutional investors.

The larger companies tend to have a clearer view of Chinese investment criteria…

Mid to large cap companies questioned for the survey tended overall to consider themselves better informed as to the Chinese funds' investment criteria.

…but many confess to not having any clear view.

One in four of those who questioned said that they did not know what the Chinese institutions' investment criteria were.

Select Commentary By IR Executives:

Q7. If you have Chinese investors in your capital, are they open about their investment criteria and how do these differ from Western institutional investors?

Some consider Chinese investors as opaque and closed....

In general, they are not very transparent with their investment criteria. (Cement, Switzerland)

Culturally not open at all. They are fairly blunt in meetings we have had, but not open. *(Consumer sector, UK)*

My advice would be to be very careful… because maintaining face is very important so if they're putting their top man up, make sure you've got your top man with you as well or make sure that it is very clear that it is investor relations only coming in. *(Consumer sector, UK)*

To help U.S. companies, Chinese investors should be more transparent and identify their positions. We need to know who the legitimate investors are and whether they can comply with U.S. regulation. *(Financials, USA)*

Investment decision is normally made top down - very often without direct contact with the company. *(Financial services, Switzerland)*

I would say there are varying degrees of openness, but not a huge degree of openness and I would say probably a greater aversion to risk is what I have observed. *(Oil & Gas, UK)*

They are very sensitive on disclosure issues. (Financial services, Spain)

Others consider them different from Western investors, but quite transparent...

Very long-term focused and top-down; Long-term, structural growth stories; Looking for which companies are benefitting from the boom in Asia, and which sectors. *(Services, Switzerland)*

My impression is that they invest more on fundamentals, longer term, rather than only on financial criteria. They seem to be less speculative than the European and the British or Americans. *(Automotive, France)*

I think they are long term investors and they value previous relations with them. *(Financial services, Spain)*

It's probably the knowledge that is the difference. Their knowledge gap is wider, hence we're warming them up. Part of the business case is by going there you get pushed right up the radar because they do their homework. They wouldn't entertain culturally doing a meeting without having done quite a lot of work beforehand. That's not the case you'll find in the UK actually! *(Consumer, UK)*

And some say they are just like any other investor.

Their investment criteria are quite similar to those of Western shareholders. The Chinese parties investing in our company are well prepared and have carried out a fundamental analysis of our company. And like our Western shareholders they are looking for the combination of fundamental strength and attractive valuation. *(Chemicals, Netherlands)*

Those we see seem to have similar financial criteria but we don't have contact with all investors. *(Services, Germany)*

They are not different from the other investors. They ask many questions during the meetings, but we don't know if and when they invest, they don't call us to say. We find this out later from the shareholder analysis. *(Consumer goods, France)*

We do not see any difference from other Western institutions. *(Financial services, Switzerland)*

As far we can judge, based on our meetings with Chinese investors in London, we feel their investment criteria are similar to that of Western institutional investors. *(Energy, Netherlands)*

No, they are not different from other investors. In our experience, they mostly have had their education in Western countries and work with big Western asset managers. *(Health & nutrition, Netherlands)*

During the meetings in London, we have experienced a good level of questions from investors. *(Consumer goods, Netherlands)*

Rigid analysis; similar to international standards. *(Financial services, Germany)*

The criteria for investment seem to be not so different to those of institutional investors. They are interested in certain growth prospects, margin development and financial situation. *(Autos, Germany)*

Q8

HOW WOULD YOU QUALIFY THE CHINESE INSTITUTIONAL INVESTORS' MANAGEMENT STYLE IN GENERAL?

Chinese investors tend to be more passive than their Western counterparts...

A large majority of the IR officers surveyed considered their Chinese investors to be generally passive investors, who rarely if ever call, rarely demand meetings with the management team, and are mostly content to adopt a hands-off approach. The larger the company's market cap, the more this hands-off approach is likely to be observed.

...but they expect to meet the top brass at the largest companies...

However, it was IR officers at larger companies by market cap who also reported that their Chinese investors were more likely to insist on meeting with the CEO or top executive, whereas at the smaller cap companies a larger percentage said the investors were happy to meet the IR officer or CFO.

Most IR officers consider Chinese portfolio management styles to be very different from their Western counterparts...

Overall, only about one in five of the IR officers questioned said they considered Chinese investors to have similar management styles as their Western counterparts. However, this percentage rose amongst those IR officers who have had greatest exposure to Chinese investors, namely the energy, mining and financial services sectors.

Select Commentary By IR Executives:

Q8. How would you qualify the Chinese institutional investors' management style in general?

Some consider them so passive as to be almost invisible…

We have no understanding of their style. *(Energy, Netherlands)*

They don't ask for meetings but they are available to meet us when we come. *(Financial services, France)*

I don't know what the data is behind it but certainly their style is more passive. Whether they are actually meant to be passive or not is another thing. *(Consumer, UK)*

In our experience, those investors are not very active, and do not insist in meeting management. *(Consumer goods, Netherlands)*

In terms of corporate governance, I don't think they are engaged at all. From what I understand there has almost been a government directive to the People's Bank of China – just to go and buy 1% of every company – so I think that's almost like an index fund but I can't really answer it because it's just too early days. *(Consumer sector, UK)*

They are fairly passive at the moment. *(Oil & Gas, UK)*

Passive. Very passive in fact. *(Utility, UK)*

For others, they are generally (but not always) passive, and can quite demanding at times…

Generally passive……and pragmatic. *(Consumer sector, UK)*

They never call. And they only want to see CFO and IRO. *(Cement, Switzerland)*

From their side, the meetings are attended by the CEO or management team. *(Conglomerate, Mexico)*

Did never have one in a conference call. However, they tend to become more active and better prepared now than they used to be. *(Financial services, Switzerland)*

They are passive investors, only accepting meetings with senior management, but not frequently. *(Financial services, Spain)*

In our case, the investor was fully happy with meeting the IRO. *(Services, Switzerland)*

They are passive investors and spend a lot of time in making a decisions. They only meet with the CFO or the CEO. (Energy, Spain)

They like to meet senior management. *(Financial services, Spain)*

Currently they seem to be passive. Not so many calls and they are not permanently pushing to see management of the company. From their side it is different, sometime we met buyside analysts, sometimes we met portfolio manager. *(Autos, Germany)*

There are not a lot of differences with Western shareholders. In the research process the portfolio manager is involved in the discussions together with the analysts. After the investment is made analysts are doing the biggest part of the job. Of course they want to speak to the CEO or CFO all the time, just like other investors, but that isn't possible. *(Chemicals, Netherlands)*

Our Chinese investors are generally active, their investment style is hedge fund; IR team and CFO have met analyst and PM *(Energy, Italy)*

Q9

IN YOUR EXPERIENCE, WHERE ARE THE CHINESE INVESTORS' DECISION MAKERS BASED (EG BEIJING, SHANGHAI OR LONDON) AND DO YOU SEE SIGNS OF POLITICAL INTERFERENCE?

Key investment decisions are seen to be taken at head offices in China…

A large majority of the Western IR officers interviewed for the survey say that all key investment decisions by their Chinese institutional shareholders are taken in China, not in the offices in Hong Kong, London or elsewhere.

Some Continental Europeans continue to look to London and Hong Kong…

Among the Continental European IR managers, a significant number of respondents consider that it is worthwhile talking to Chinese funds' representatives in London or Hong Kong, because investment decisions might be taken there. However, the UK IR community was unanimous in the opinion that any company seeking Chinese investment needed to look eastwards if they wanted to reach the key decision makers.

Investment decisions appear to be driven by fundamentals, not politics …

Remarkably few report any evidence of political interference in the funds' decision-making process. Although the vast majority of IR managers interviewed overall were generally positive in their assessment that politics did not play a role in investment strategy, there was a small number of dissenting voices amongst the large cap financial services companies, suggesting – but by no means proving -- that certain large equity investments in strategic sectors may be reviewed politically.

Select Commentary By IR Executives:

Q9. In your experience, where are the Chinese investors' decision makers based (eg Beijing, Shanghai or London?) and do you see signs of political interference?

Always Beijing, for the investors we have dealt with so far. *(Consumer sector, UK)*

We feel Chinese investors are spread out between London, Hong Kong and Singapore. We never experienced political guidance or interference. *(Speciality chemicals, Netherlands)*

We meet them in Beijing and Hong and incidentally when we organise investor conferences. *(Health & nutrition, Netherlands)*

No political interference, not really. But we have only had the one set of meetings and they were as interested in what they could learn about the luxury sector as they were in what they could learn about the company. That's why you would have to keep going back year after year after year as an education process. *(Consumer sector, UK)*

Not in our case. However, in general we would not be surprised to see such a politically motivated interference. *(Financial services, Switzerland)*

The largest investors are directly owned by the Chinese government. *(Financial services, Spain)*

Q10

DO YOU THINK THE PRESENCE OF CHINESE INSTITUTIONAL INVESTORS IN YOUR CAPITAL BOOSTS YOUR BUSINESS ACTIVITIES IN CHINA?

Europeans are more likely to consider that Chinese investment could help their local business…

Overall, a clear majority of the IR exectutives interviewed for the survey draw a distinction between their local business interests and the presence of Chinese institutional investors in their capital, saying there was no link. However, a significant number of European IR officers, especially in France, but also in Spain, Switzerland and the UK, say that the two aspects are related.

…especially among the industrial and smaller cap companies…

Companies in the industrial, automotive & conglomerates sector were most likely to think that exposure to Chinese investors would be able to further their local business. This was especially, but not exclusively, true of the smaller cap companies.

But others suggested that it might be better first to build a business, and then seek the investment…

Several respondents raised the point that in fact the relationship between Chinese business interests and shareholders worked in the opposite direction, noting that a strong business profile and prominent brand exposure in China would be likely to attract local shareholders.

Select Commentary By IR Executives:

Q10. Do you think the presence of Chinese institutional investors in your capital boosts your business activities in China?

Some say probably not ...

I don't think so, but even if we had Chinese investors, we wouldn't make decisions like opening stores in China, for example. *(Retail, Mexico)*

That would be logical but we have been operational in China for 20 years, with a plant there, and we have never met Chinese investors *(Utility, France)*

No, these are separate things. Looking at the business side we are very active in China and talking to all large industrial companies. *(Energy, Netherlands)*

Building materials is a very local business and we operate two local 50:50 JVs doing local production, marketing and sales. As such there is no close link between the shareholder base of the group and the business activities in the country. *(Building materials, Germany)*

Not yet, but we expect it will do over time. *(Consumer sector, UK)*

Not with 2% (of capital in Chinese hands). *(Technology, France)*

Not really, (but) it is probably more helpful to the business to have meetings at the banking level than at the investment management level. *(Consumer sector, UK)*

It is difficult to say whether the presence of Chinese investors will boost our business activities in China. But for sure it will not hurt our activities. *(Speciality chemicals, Netherlands)*

If it is a case of strategic investors, like in a JV, of course, but not if they buy from the free float. *(Autos, France)*

No direct link up to now, we have very successful activities in China without major shareholdings *(Services, Germany)*

And some say probably yes ...

This could be possible in those cases where the Chinese investor owns a substantial portion of the company *(Financial services, Switzerland)*.

If it wasn't for the fact that we have operations there that we wanted to visit, I don't think we would go there at the moment actually. *(Consumer, UK)*

In our view, this is likely to be the case. It goes hand-in-hand and we would certainly expect some advantages for local PR and marketing activities in China. *(Services, Switzerland)*

Yes, in due course, which is why it's on our horizon, but the US comes first. We think it's still pretty early stage. *(Industrials, UK)*

That is the purpose! *(Energy, France)*

It's difficult to correlate but I think if more of our ownership is in China, that's good for our Chinese business. *(Energy, UK)*

Support, not "boost" *(Financial services, Germany)*

Yes if it is a significant holding, more than 10%, but not below. *(Financial services, France)*

And a few said in fact it is their Chinese business that drives investor interest.

In the past we evaluated whether we should list our stock on Chinese exchanges. We learned that Chinese investors are mostly interested in companies doing business in China. Since we do not do any business in China, we decided not to pursue a Chinese listing. (Utilities, USA)

It's rather the other way around: if we develop activities in China, we expect more interest from Chinese investors. *(Financial services, Netherlands)*

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