

# Communicating With Hedge Funds

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Thomson Financial Corporate Services

## *Executive Summary*

The relationship between public companies and the hedge funds that invest in securities issued by these companies tends to be highly complex. Like mutual funds, hedge funds want information from companies to inform investment decisions. But too often, the similarity ends there. Most hedge funds are secretive, with very few filing SEC registrations; many are activist; and although an increasing number of hedge funds claim to focus on long positions, short-selling and high turnover of holdings is common. At the same time, hedge funds often will make a concerted effort to bypass the investor relations department and go directly to management or rank-and-file employees.

Meanwhile, IR professionals are grappling with how best to communicate with hedge funds, as well as when to facilitate hedge fund requests to meet with the CEO, CFO, and other busy senior managers. Now more than ever, it has become critical to know this audience, to understand the different investment strategies and types of information sought by different hedge funds.

Thomson interviewed 50 hedge fund managers to find out what they want from their interactions with companies. In addition, Thomson surveyed 220 investor relations professionals to benchmark communication practices with hedge funds. Key findings include:

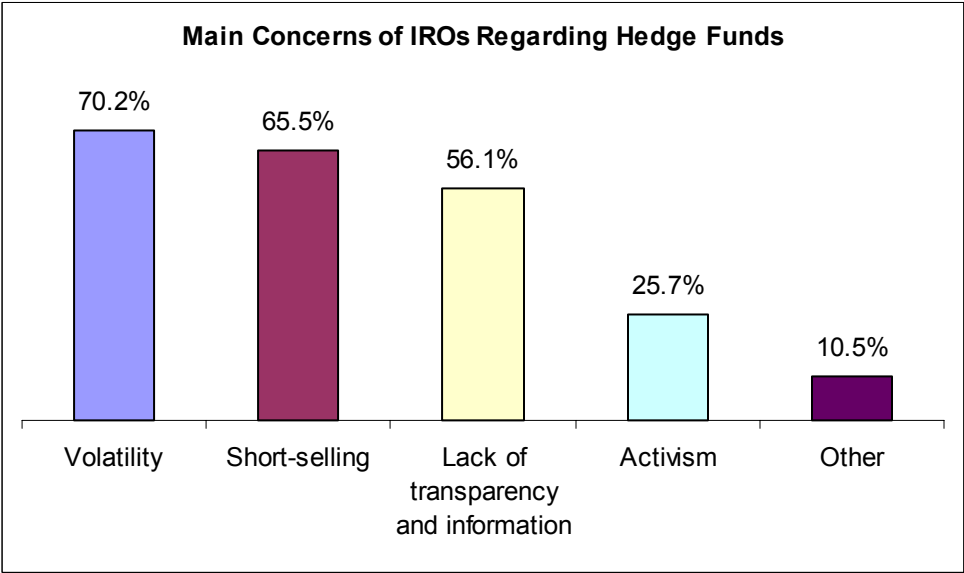
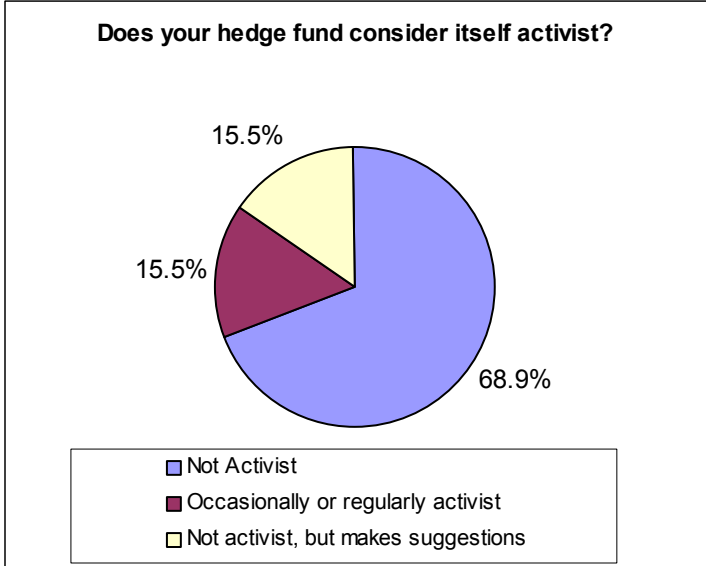
- Fundamental research is an important part of the investment decision-making process for most hedge funds, with strategic and financial information both in high demand. Meeting with companies is desired by nearly 94% of hedge fund respondents, and most IR professionals (92%) are willing to take these meetings.

- The CEO or CFO is in demand at meetings with hedge funds. About 30% of hedge funds also want to meet with business unit heads. Apparently, IROs are willing to facilitate these requests, as 89% of respondents said the CFO meets with hedge funds, and 63% said the CEO takes these meetings.

- Over 90% of hedge fund respondents participate in conference calls, sell-side conferences, and analyst days. However, many hedge funds rated these events as mixed in value, in part because information disseminated there is too broad, generic, or "dumbed down" for retail investors.

- Surprisingly, both hedge funds and companies see activism fears as overblown by the media. Although activist funds get the lions' share of the headlines, for the most part, relatively few hedge funds identify themselves as having an activist bent. Nearly 70% of respondents said they do not get involved with the companies in which they invest. Only 16% of responding hedge funds saw themselves as activist.

- Meanwhile, the number one concern of IROs regarding hedge funds is that their investment will result in increased stock volatility (70% of respondents). Activism trailed far behind, with only 26% of respondents flagging it as a primary concern when dealing with hedge funds.



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