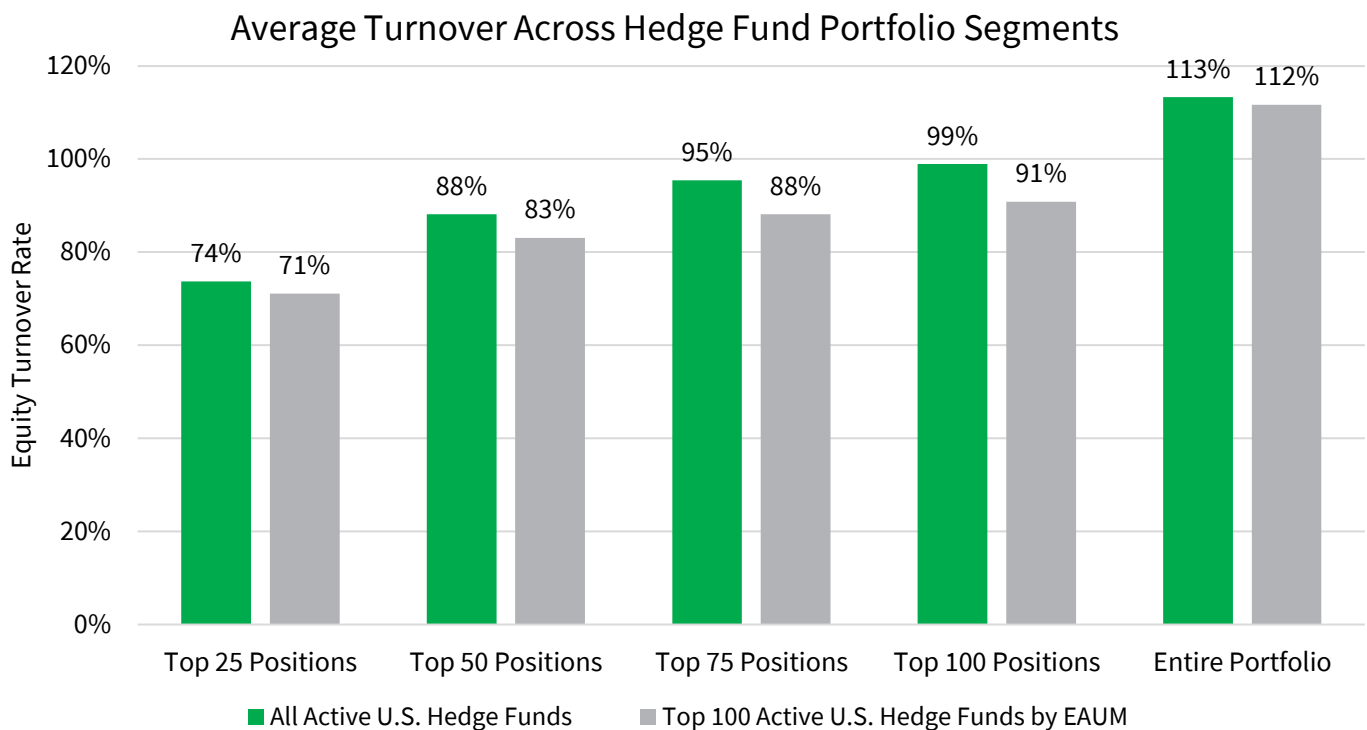


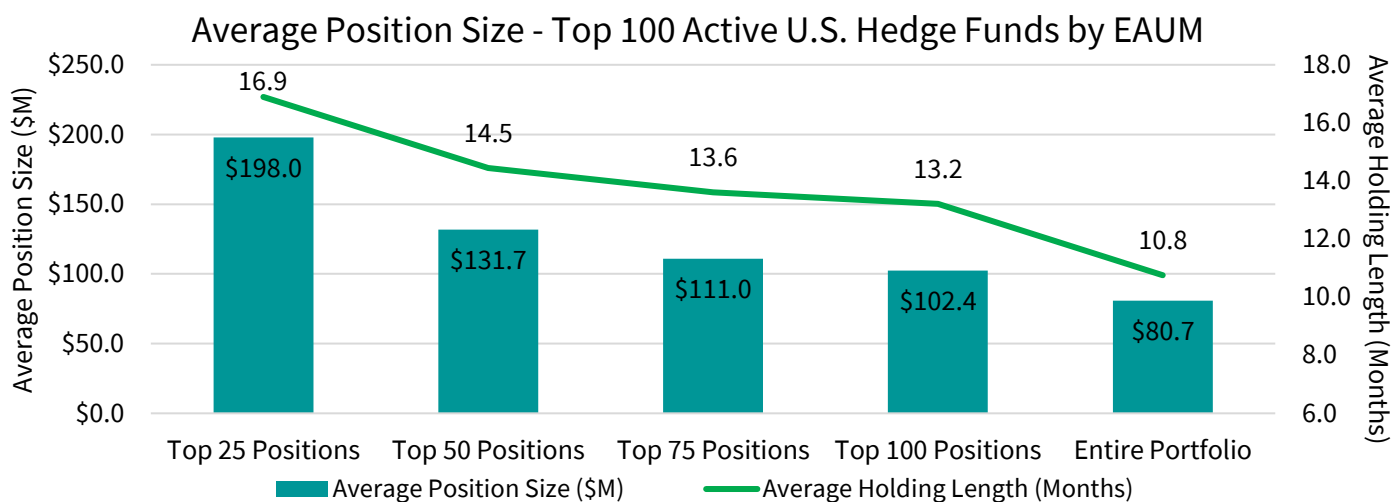
Prioritizing Engagement With Hedge Funds

IHS Markit analyzed the actively managed U.S. hedge fund universe to explore how the core turnover rates of these institutions vary across different segments of portfolios, and ultimately determined which hedge funds employ a longer-term investment approach and merit additional consideration for IR engagement.



Key Takeaways:

- Actively managed U.S. hedge funds hold their highest conviction ideas for more than 50% longer than ordinary positions.
- Nearly one-quarter of the top 100 actively managed U.S. hedge funds by equity assets have turnover rates of less than 50% across their top 50 equity positions, indicating that higher conviction ideas are often held at turnover rates in line with traditional asset managers, which have an average turnover rate of about 42% across their entire portfolio.
- An average position in an actively managed U.S. hedge fund's top 100 positions is \$28M. This figure increases to over \$100M when narrowing the scope to just the top 100 hedge funds by equity assets.
- The top 100 actively managed U.S. hedge funds by EAUM control approximately 80% of the entire actively managed U.S. hedge fund universe, or \$870B in net equity assets.



There are over 500 actively managed hedge funds across the U.S. that have at least 25 equity holdings in their respective portfolios. Unsurprisingly, these institutions are major players in the market, with over \$1T in equity assets in total. However, despite these hedge funds employing various investment strategies, this occasionally controversial group of investors is commonly painted with the same brush and rebuffed for prioritized access with corporate leadership.

Hedge funds can be beneficial to issuers though, as they provide liquidity for stocks, support equities in distress and can be stable key shareholders. So, if hedge funds can fulfill vital roles for companies, how does an IR program identify the ones looking to be a stable shareholder versus those looking for a quick trade? To answer this question, IHS Markit analyzed portfolio dynamics surrounding turnover rates in hedge funds' equity positions and how turnover evolves across different segments of a portfolio. For reference, an investor with a turnover rate of 100% typically replaces its entire portfolio throughout the course of a 12-month period, while a portfolio with a turnover rate of 50% replaces half of its holdings during the same time.

However, while turnover rates at hedge funds should be emphasized in the targeting process, they should not be the only determining factor. The world's top IR programs usually leverage strategic advisory services to build targeted outreach programs that assist in the identification of these additional criteria (e.g. *fundamental suitability, purchasing capacity, etc.*).

Given the investor conference scene is rife with hedge funds, determining which firms to prioritize for

management's time versus those that are more appropriate for a group meeting can be difficult. However, with the top 100 actively managed U.S. hedge funds controlling the vast majority of all actively managed U.S. hedge fund equity assets (80%), narrowing down this list to the worthiest hedge funds is easier than one may think.

Of the top 100 hedge funds, nearly a quarter have turnover rates of less than 50% across their top 50 equity positions, indicating that higher conviction ideas are often held at turnover rates in line with traditional assets managers, which have an average turnover rate of about 42% across their entire portfolio (e.g., *American Balanced Fund* – 43% turnover). Expanding the scope, 40 of the top 100 hedge funds have turnover rates less than 75% across their top 50 holdings, including well-known firms such as **Adage**, **D.E. Shaw** and **Marshall Wace**. Regarding **Marshall Wace**, the firm experienced one of the largest relative changes between its entire portfolio turnover versus its top 50 positions turnover rate (137% vs. 70%, respectively). Similarly, one of the largest and most well-known U.S. based hedge funds, **Millennium Management**, saw a significant shift across the same portfolio segments (156% vs. 96%, respectively).

Elsewhere, this analysis identified 19 hedge funds with over \$1B equity assets that also held at least 100 positions and had turnover rates less than 50% across the different portfolio segments (Top 25, 50, 75, 100), several of which are illustrated on page three of this report. On average, these firms hold over 200 positions, indicating they are likely diversified across different market caps and sectors and should be considered worthy of IR and management time.

Top U.S. Hedge Funds With Lowest Turnover Rates

Investor Name	EAUM (\$M)	Equity Securities Held	Top 25 Positions - Average Investment (\$M)	Turnover Rate			
				Top 25 Positions	Top 50 Positions	Top 100 Positions	Entire Portfolio
Adage Capital Management, L.P.	39,196.13	729	\$549.7	28%	33%	40%	62%
Baker Brothers Investments*	22,839.70	118	\$852.4	6%	8%	9%	9%
Alkeon Capital Management, LLC	16,506.95	164	\$346.2	39%	45%	49%	55%
OrbiMed Advisors, LLC*	8,471.62	164	\$178.4	37%	40%	43%	60%
Perceptive Advisors, LLC*	5,875.96	123	\$168.3	27%	32%	37%	45%
Allen Investment Management, LLC	5,500.88	177	\$181.4	21%	25%	25%	29%
Avalon Advisors, LLC	4,338.59	303	\$80.6	19%	22%	25%	39%
Rock Springs Capital Management, L.P.	3,663.74	142	\$65.1	29%	30%	39%	45%
Chilton Investment Company, LLC	3,035.63	144	\$104.4	19%	32%	38%	41%
Horizon Asset Management, LLC	2,870.86	446	\$86.6	16%	18%	18%	21%

Listed above are the top actively managed U.S. hedge funds that hold at least 100 positions and have turnover rates less than 50% across the different portfolio segments (Top 25, 50, 75, 100). This group of firms should be considered more IR-friendly than high turnover hedge funds and prioritized for interactions at conferences. IHS Markit's meeting analytics indicates that **Adage**, **Chilton Investment Company** and **Alkeon Capital** are the most active investors from this list when it comes to engaging with issuers.

Top U.S. Hedge Funds by Equity Assets

Investor Name	EAUM (\$M)	Equity Securities Held	Top 25 Positions - Average Investment (\$M)	Turnover Rate			
				Top 25 Positions	Top 50 Positions	Top 100 Positions	Entire Portfolio
Citadel Advisors, LLC	73,524.48	4,447	\$467.0	108%	107%	104%	152%
D.E. Shaw & Company, L.P.*	66,657.89	2,533	\$725.5	64%	69%	74%	100%
Millennium Management, LLC	46,223.03	3,341	\$242.7	94%	96%	99%	156%
Adage Capital Management, L.P.	39,196.13	729	\$549.7	28%	33%	40%	62%
Marshall Wace North America, L.P.	32,458.70	1,729	\$357.3	64%	70%	79%	137%
Eagle Capital Management, LLC (NY)	27,341.39	55	\$1,043.3	17%	19%	-	20%
Tiger Global Management, LLC	26,295.47	75	\$897.9	26%	32%	-	37%
Viking Global Investors, L.P.	23,323.23	73	\$681.7	70%	89%	-	118%
Baker Brothers Investments*	22,839.70	118	\$852.4	6%	8%	9%	9%
Select Equity Group, L.P.	20,695.27	191	\$507.1	35%	48%	55%	68%

The table above illustrates the top ten U.S. hedge funds by equity assets included in this analysis. As expected, these investors often dominate the conference scene. To most efficiently allocate time with these firms, it is important for issuers to understand if their companies are high conviction ideas and how the data displayed in this report can assist in the IR program's planning process, engagement initiatives and overall time management.

Recommended Actions for Hedge Fund Engagement



Prioritize analysts who comprehensively know the company's story. IR teams must ascertain whether their stock is a high conviction idea before prioritizing time for the hedge fund with leadership.



Push for a two-way street of transparency – be comfortable asking hedge funds tough questions. One key area where IR teams should push for transparency concerns "pod" style hedge funds and asking the teams to divulge which team members are linked with ownership.



Don't paint every hedge fund with the same brush. There are numerous hedge funds with more conventional buy and hold strategies, which can become valuable shareholders to any issuer.



Identify hedge fund targets. While turnover rates should play an important part in the screening process, they should not be solely relied on. Best practices include analyzing other essential factors such as fundamental suitability and purchasing power, while additionally leveraging strategic advisory services to create a customized outreach program that will yield the greatest results.



Don't rely on investor conferences for hedge fund engagement. Provide targeted hedge funds with one-on-one or small group meeting opportunities.



Keep a shortlist of hedge funds that are interested in the story, but find the valuation too high now. Hedge funds are often more tolerant of risk and may be crucial in stabilizing a company's share price in times of distress.

This report was prepared by IHS Markit's Situational Analytics team.

For more information, visit our [website](https://www.ihsmarkit.com/situational-analytics) or contact us at SituationalAnalytics@ihsmarkit.com

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