

Separately Managed Accounts:

The Depository Receipt
Opportunity



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For many quoted companies, making their shares accessible to investors outside their home market, and in particular to investors based in the United States is a key goal. Businesses may wish to raise new capital abroad, diversify their shareholder base geographically, improve their profile with foreign investors, or use their shares to make acquisitions overseas.

However, investors may encounter difficulties in buying shares in foreign companies. There can be various reasons for this, but significant disincentives for investors are created by restrictions on buying shares outside their domestic markets and the fiscal and operational burden of administering foreign holdings – including the necessity to manage investments in multiple foreign currencies.

One of the most effective, and often one of the easiest, methods for companies to achieve a wider distribution of their shares is through the establishment of a depositary receipt (DR) programme.

What is a DR?

Depositary Receipts (“DRs”) are US dollar denominated negotiable instruments issued by a depositary bank, such as Deutsche Bank, that represent ownership of underlying ordinary shares of a non-US company.

DRs permits US investors to purchase non-US companies directly in the US equity markets. DRs are quoted in US dollars and trade just like any other US domestic security. US investors can acquire or divest non-US securities without the concern for different settlement times and other problems typically associated with investing directly in overseas markets.

Why do companies have DRs?

- Increase a non-US company’s visibility and presence in the US investor community
- Can increase liquidity of the underlying shares
- Can broaden and diversify investor base
- A new avenue for raising equity capital*
- An equity financing tool for M&A transactions and ESOPs (Employee Stock Option Plans) for US employees
- Improve communication with shareholders globally

Why do investors buy DRs?

- Trade and settle in the same manner as any other security in the investor’s home market
- Can offer lower trading and custody costs than shares purchased in the local market
- Minimize foreign exchange issues with dividend payments in US dollars
- Recognized as US securities so allowed in portfolios where foreign securities might be prohibited
- Voting rights can be facilitated by the depositary bank

*Through some types of DR programmes

Targeting US-based DR Investors

Once a corporate has made the decision to issue a DR, one of the most effective ways to maximize the programme is to focus on US-based investment managers that offer Separately Managed Account (SMA) portfolios to their clients.

What is a Separately Managed Account (SMA)?

Many investment managers offer their capabilities in multiple formats in order to meet the varying needs of their clients. For example, an investment manager may offer its global and international equity capabilities in two formats - a mutual fund and an SMA.

A mutual fund invests the pooled assets of multiple investors into securities such as stocks, bonds and other assets in a single portfolio. Investors receive shares of the mutual fund pro-rated based on their investment and participates proportionally in the performance of the fund.

In contrast, a separately managed account is a personal portfolio in which an individual investor has direct ownership of the securities. A separately managed account may offer opportunities for customisation but will likely have a higher minimum investment amount.

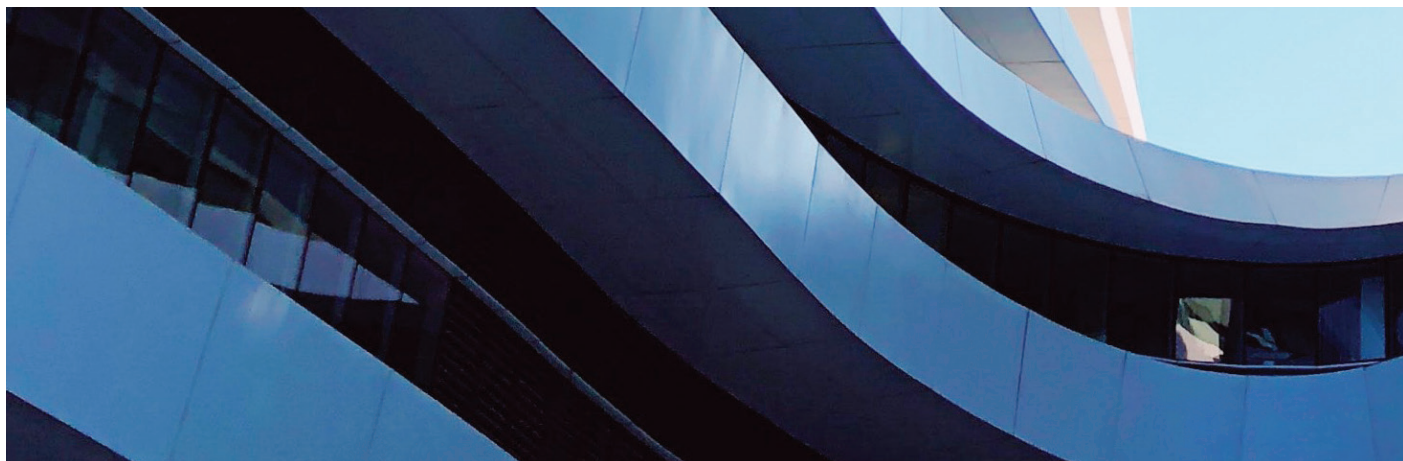
Mutual Fund

- Pooled assets (investor owns shares of mutual fund)
- Lower minimum investment*
- Typically invested in ordinary shares
- No customisation

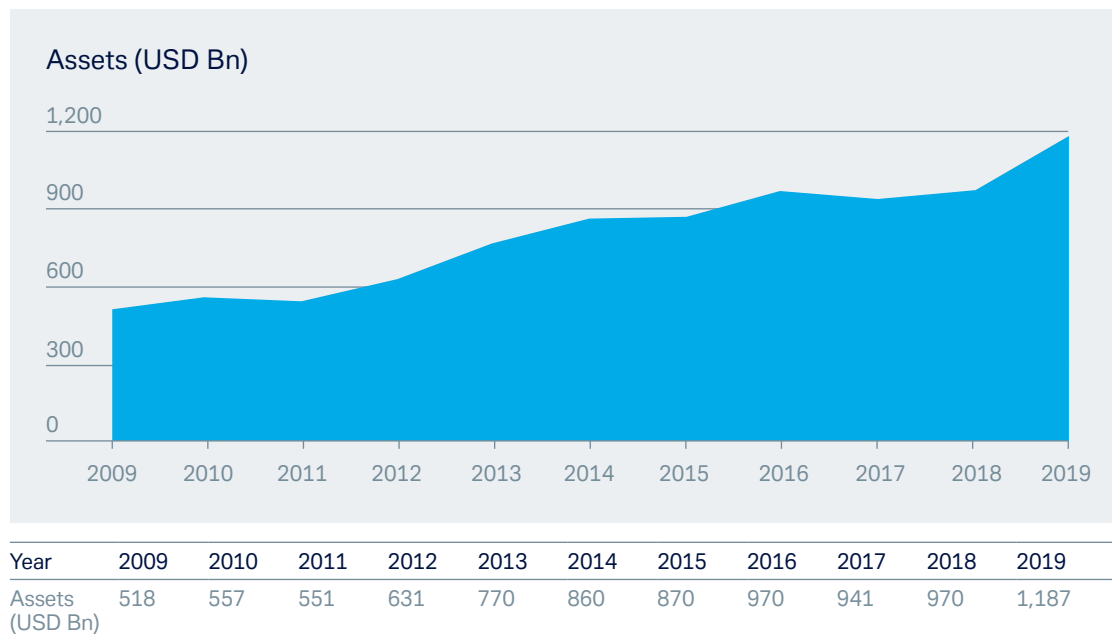
SMA

- Segregated assets (investor owns individual securities)
- Higher minimum investment*
- Typically invested in depositary receipts
- Potential for customisation

*Minimal initial investments will vary according to a number of factors, including mutual fund share class and SMA sponsor platform



The below graph illustrates the increase in assets held in separately managed account programs over the last ten years, equal to growth of over 112%.



Sources: Money Management Institute, Cerulli Associates, 4Q 2019

Growth in assets within Unified Managed Accounts (UMA) should also be noted. A Unified Managed Account can include multiple types of investment with differing investment objectives, including SMAs, mutual funds and Exchange-Traded Funds (ETFs). In comparison an SMA would typically not consolidate multiple investments. Assets within UMAs have grown rapidly over the last few years, and so too have the SMA assets held within UMAs. At the end of 2019, it was estimated that USD 550 billion of SMA assets were held within UMAs.



Traditional separate accounts plus model-based separate accounts and dual contracts:

Top 15 Managers (USD Bn), 3Q 2019

Rank	Manager	Traditional Separate Accounts	Model-Based Separate Accounts	Dual Contract	Total Assets
1	Eaton Vance	107.2	7.6	39.3	154.1
2	BlackRock	21.3	14.6	62.1	119.8
3	Legg Mason	24.1	62.4	7.6	94.1
4	Wells Fargo	12.4	60.6	0.4	73.5
5	Nuveen Investments	47.9	15.5	0.6	64.0
6	Fidelity Investments	38.4	4.9		43.3
7	Kayne Anderson Rudnick Investment Management	21.7	7.3	4.0	33.0
8	UBS Asset Management	19.7	13.2		33.0
9	NGAM Advisors	11.0	17.9	1.6	31.3
10	JPMorgan Asset Management	14.6	10.4	0.9	31.1
11	GW&K Investment Management	26.0	2.2	1.0	29.2
12	Capital Group	5.6	8.0		27.1
13	Federated Investors	5.5	19.2		24.7
14	Lazard Asset Management	2.9	16.3	4.3	23.5
15	PIMCO	1.2	12.3	0.2	19.8

Sources: Money Management Institute & Cerulli Associates, 4Q 2019



Neuberger Berman Investment Advisors, Inc.

Founded in 1939, Neuberger Berman is an investment advisor headquartered in New York and provides services to individuals and institutional clients.

As an example, Neuberger Berman offers the International Equity Fund with the below top 10 portfolio holdings as at end of Q4 2019:

Security	%
ASML Holding NV	2.1
Check Point Software	2.0
Kerry Group PLC	1.0
SAP SE Sponsored ADR	1.8
Techtronic Industries	1.8
Roche Holding AG	1.8
Aon PLC	1.8
Sonova Holding AG	1.8
SAP SE	1.7
BAWAG Group AG	1.7

Neuberger Berman International ADR Portfolio top 10 holdings as at Q4 2019:

Security	%
Roche Holding Ltd Sponsored ADR	3.0
ASML Holding NV ADR	2.5
Alibaba Group Holding Ltd. Sponsored ADR	2.3
Pernod Ricard SA Un-sponsored ADR	2.3
CRH Plc Sponsored ADR	2.2
SAP SE Sponsored ADR	2.2
Kerry Group Plc Sponsored ADR	2.1
Techtronic Industries Co., Ltd. Sponsored ADR	2.0
Sonova Holding AG Un-sponsored ADR	2.0
Heineken NV Sponsored ADR	2.0

Neuberger Berman offers separately managed accounts to institutional clients and high net worth individuals.

Neuberger Berman also offer separately managed accounts based on this strategy, the International ADR portfolio.

The Neuberger Berman International ADR Portfolio:

- Is focused on quality-at-a-reasonable price investing and driven by fundamental research
- Seeks differentiated businesses with an enduring competitive advantage, regardless of market capitalisation
- Provides a disciplined investment approach focused on strategic bottom-up fundamental analysis and valuation assessment with significant commitment to non-benchmark companies
- Offers comprehensive risk management embedded in portfolio construction and oversight processes while seeking to control deviation and beta



The DR Advantage

Investment managers that offer international equity capabilities in SMA format often choose to invest in DRs instead of ordinary shares.

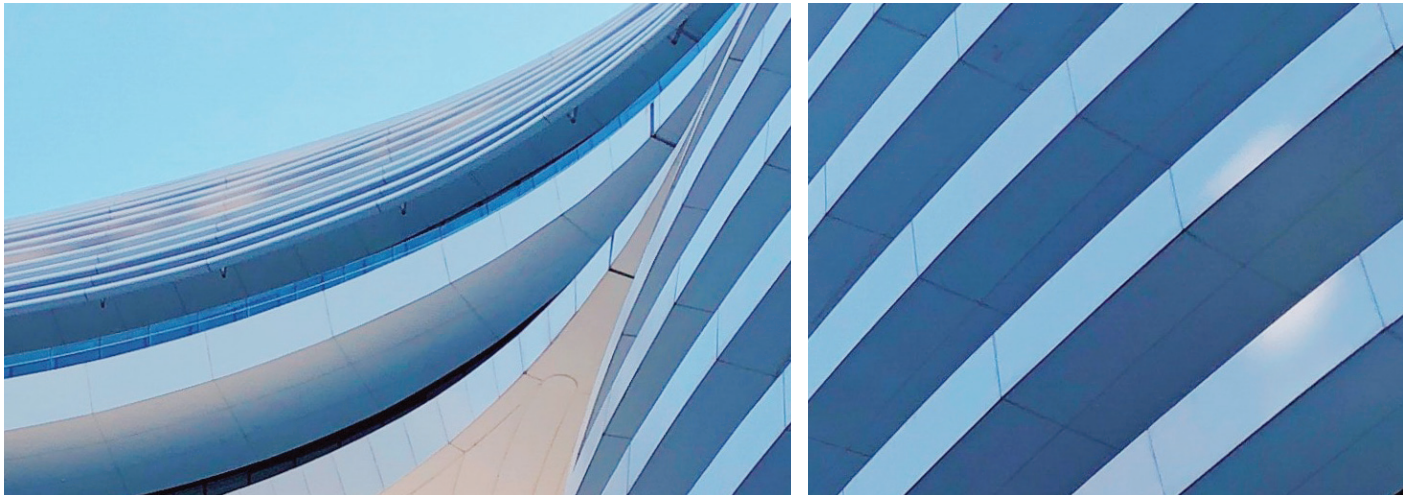
Michael Benedetto, Senior Vice President at Neuberger Berman, comments that “certain types of investors will typically own the local shares directly except when DRs offer greater liquidity than the local line or when local market access and settlement is prohibited. However, in the instance of SMAs, where managers may be transacting in smaller amounts and at regular intervals, “DRs are the preferred way of getting international exposure in the retail segment of the market”.

Michael also notes that “US settlement and US dollar pricing make transacting in DRs all the more efficient for certain client accounts”. Because DRs trade and settle in the same manner as other U.S. equities, DRs generally offer lower trading and custody costs than shares purchased in local, non-US markets. In fact, many investors do not have the ability to open brokerage accounts that can hold non-U.S. securities. Additionally, because DRs are US dollar-denominated, and pay dividends in US dollars, foreign exchange issues are eliminated for US investors.



Maximising Your DR Programme

Deutsche Bank's DR team works with issuers to ensure that efforts are directed towards activities that can have a meaningful impact on programme success. For example, we have developed a proprietary database to assist in identifying institutions that offer SMA portfolios relevant to your DR programme. Like mutual funds, SMAs are offered in multiple non-US investment styles, such as International Growth or International Value, and through the use of our database we help corporates to effectively target those institutions and portfolios that are most applicable.



Management teams should meet often with potential DR investors. As part of this communication corporates should highlight that they offer both ordinary shares and DRs in the US. It is important to actively promote the DR programme.

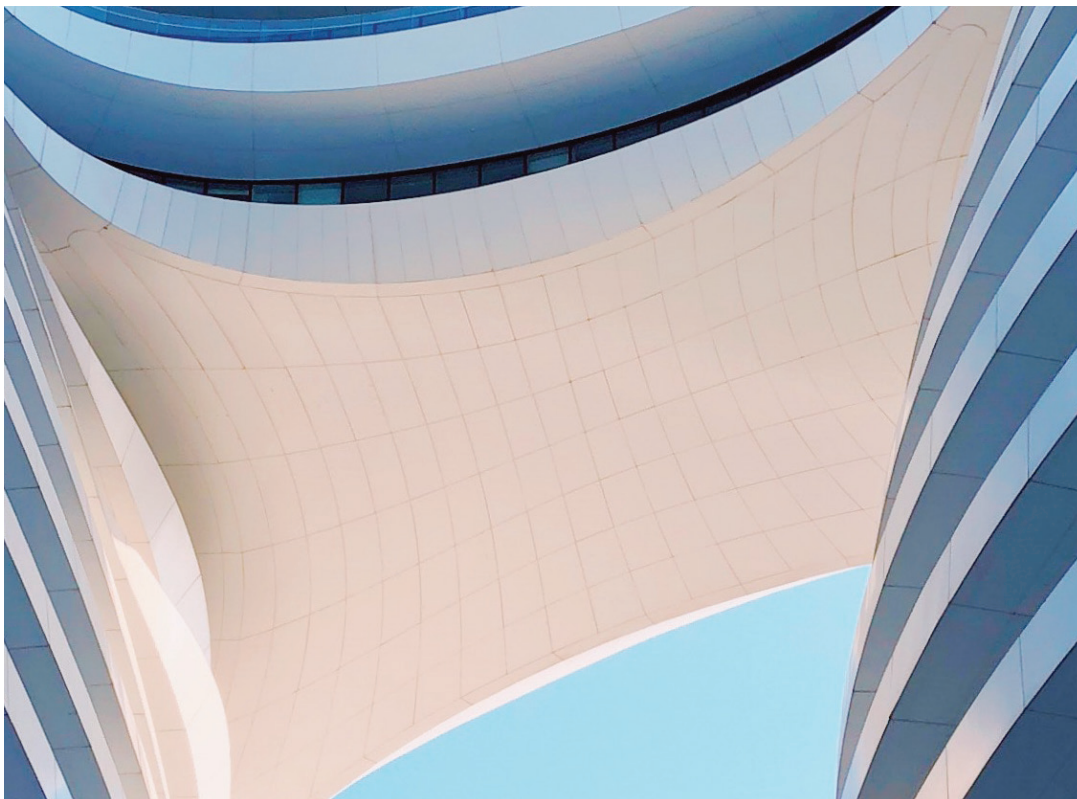
Liquidity, or the ease with which a security can be bought and sold in the market at a price reflective of its value, is an important factor when potential investors evaluate a DR investment. Neuberger Berman's Benedetto, for example, confirms that liquidity is more important than the type of DR.

Focus on Environmental, Social and Governance (ESG) Investing

The rising expectations from investors, consumers and regulators means corporates are operating in a dynamic ESG environment. Indeed, there is an increasing awareness of ESG and suitable investment solutions among retail investors.

ESG investment solutions have evolved past just the exclusion of stocks with poor ESG performance to a more refined process, for example, focusing on stocks that have a positive ESG impact.

According to Cerulli Associates, the number one priority of asset managers of managed account was the creation of ESG investments solutions, with 55% reporting this response.



The Deutsche Bank Difference

By leveraging Deutsche Bank's strength and expertise, issuers can develop a coordinated approach to targeting SMA managers investing in DRs.

250 sponsored programs

We serve as the depositary bank for more than 250 sponsored programs and more than 750 unsponsored programs, globally

Dialogue

We ensure an ongoing dialogue between Deutsche Bank's Broker Services and IR Advisory teams and external investment managers

In addition to access to the DR team's proprietary databases for targeting capabilities – both at the mutual fund and SMA levels – Deutsche Bank will facilitate next steps to connecting with investors. These may include:

- Comprehensive ownership and peer analysis to identify and prioritise DR-focused investment managers
 - Recommendations on structuring multi-city roadshows in the US and abroad
 - Market intelligence and trading insights, ensuring issuers are in front of the true decision-makers
 - Introductions to industry contacts, including key investment manager contacts
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