NEUGROUP PEER RESEARCH REPORT

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Expanding the Role of Diverse-Owned Firms in the Capital Markets

INTRODUCTION

The past four years have seen a surge in discussions among corporate treasurers and their teams attending NeuGroup meetings about expanding their inclusion of diverse-owned firms in capital markets transactions. More importantly, many of the firms have made considerable progress in winning mandates, earning fees and taking on progressively more meaningful roles and responsibilities.

The purpose, then, of the DEI in Capital Markets Survey is to share the experiences, insights and best practices of treasury departments that are actively engaging with diverse-owned firms and, in so doing, promoting their representation in bond offerings, share repurchases, commercial paper programs and more. The objective is also to measure the current level of engagement with the firms and communicate the value they may bring when included in a treasury team's suite of vendors.

The survey also documents the roadblocks and reasons identified by treasury departments that are not making use of diverse-owned firms. We sought to uncover any issues or themes not previously addressed or experienced by corporations already partnering with the firms.

We want this research to motivate more stakeholders to consider where diverse-owned firms stand in today's capital markets, where they may find themselves in the future, and what actions by companies, investors, bigger financial institutions and the firms themselves will produce results that benefit everyone.

This much is certain: Diverse-owned firms are raising their profiles in capital markets transactions. The survey revealed that 66% of companies are already awarding or planning to award business to banks and brokerages with Black, Hispanic, women or veteran owners. And recent NeuGroup sessions demonstrate that treasurers at mega-cap corporations that are leading the way remain fully committed to expanding their use of diverse-owned firms, disrupting legacy systems and structural barriers in the capital markets.

We encourage readers to review this summary in connection with the full survey results, available here.

ABOUT THE SURVEY

The DEI in Capital Markets Survey was distributed in December 2023 to a curated group of senior treasury executives in NeuGroup's extensive member network. It was conducted in collaboration with the National Association for Securities Professionals (NASP) and Sustainable Fitch.

The survey generated 70 responses from large corporate issuers representing a diverse group of industry sectors. NeuGroup convened several follow-up conversations with respondents as well as post-survey focus groups. Almost 95% of the companies have more than $5 billion in annual revenue (see chart).

Figure 1: Respondents by annual revenue

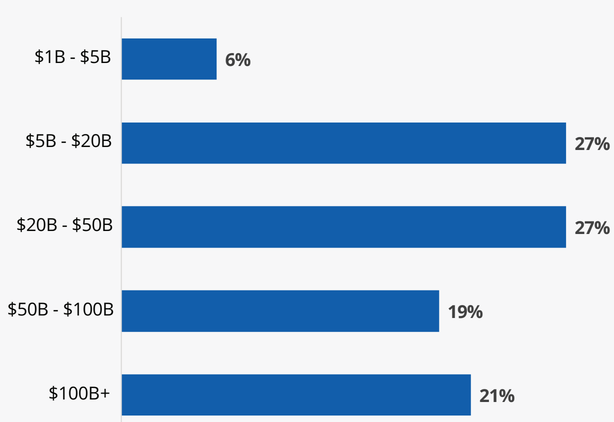
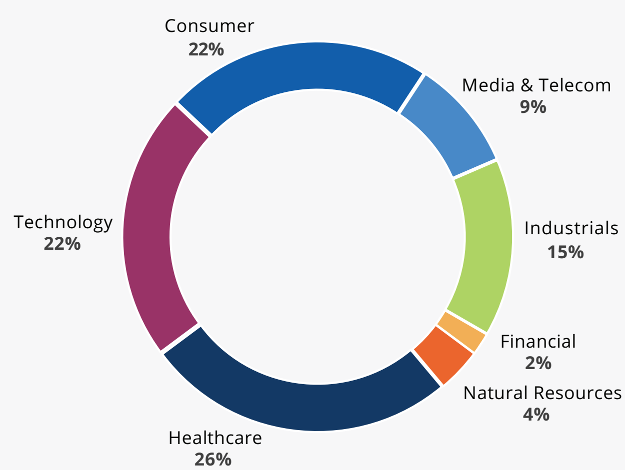


Figure 2: Respondents by industry



Source: NeuGroup DEI in Capital Markets Survey

66%

of respondents are working with or planning to work with diverse-owned firms.

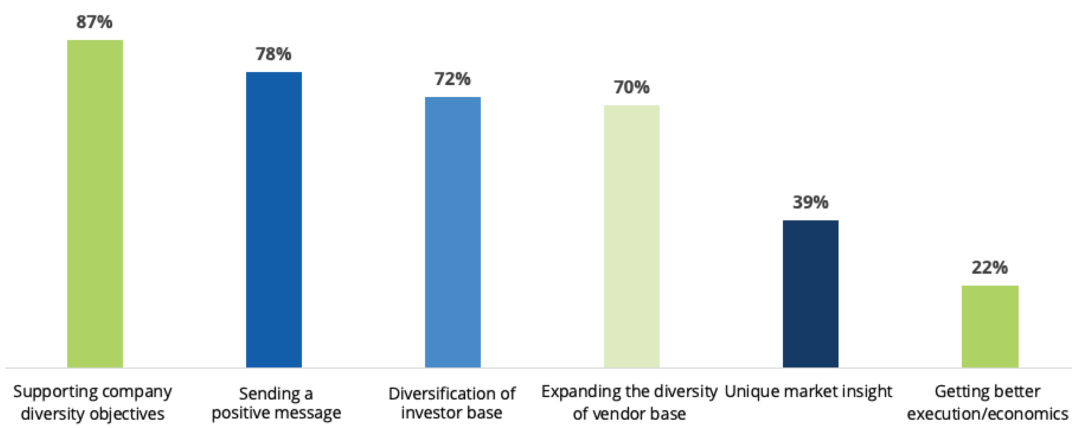
KEY FINDINGS

The following data points from the survey show that most treasury departments continue to make steady progress in engaging with diverse-owned firms in capital markets transactions; a relatively small fraction of issuers are not using the firms.

- 100% of respondents say treasury is responsible for selecting diverse-owned firms.
- 66% of respondents are using or planning to work with diverse-owned firms.
  - 67% of issuers that include diverse-owned firms in transactions have asked bigger banks overseeing the deal to ensure the firms receive their designated share.
  - In bond deals, 61% have allocated bonds to diverse-owned firms even when they are not active bookrunners.
- Treasury departments are driving these results in the absence of hard requirements or policies; only 2% of firms have a formal policy for engaging with diverse-owned firms.

The 66% of respondents that already include or plan to use diverse-owned firms are seeing quantitative and qualitative commercial benefits.

Figure 3: The benefits of engaging with DEI firms



Source: NeuGroup DEI in Capital Markets Survey

- 78% value the message sent to customers, suppliers and employees.
- 72% value the diversification of the investor base.
- 70% value expanding the diversity of the vendor base.
- Almost 40% value the unique market insights they receive from the firms.
- Roughly 20% believe they get better execution or economics.
- In addition to these tangible commercial benefits, 87% also value the benefits of supporting their companies' diversity objectives.

"We don't have a mandate, but partner if the D&I firms offers something unique and value added."

Respondents are using or considering diverse-owned firms for a variety of capital markets activities.

Figure 4: Transactions corporations execute via diverse-owned firms

	Currently	Considering
Bond underwriting	62%	17%
Open market stock repurchases	25%	36%
Commercial paper	27%	16%
Enhanced open market stock repurchases	2%	31%
Liability management (e.g., tenders, debt exchanges)	5%	5%

Source: NeuGroup DEI in Capital Markets Survey

The majority of respondents, almost 80%, are working with or planning to work with diverse-owned firms for bond underwriting. Open stock repurchases are also popular, with about 60% of respondents using or planning to use the firms. Diverse-owned firms have the potential to experience rapid growth in coming years on open market stock repurchases and enhanced OMRs, with over 30% of respondents considering the firms for these activities.

Respondents who are using diverse-owned firms are finding a depth of potential partners. In total, they named more than 20 diverse-owned firms with whom they have worked.

- On average, corporates that are using diverse-owned firms have used seven firms.
- 44% have used six or more different firms.
- 26% have used 10 or more firms.

When used, diverse-owned firms predominantly play the role of co-manager; that's the case with 76% of respondents. The firms are also tapped by corporate issuers as passive book runners (20%), junior co-managers (20%), senior co-managers (16%), active book runners (11%).

INFORMAL POLICIES

As noted, the vast majority of treasury teams are actively engaging with diverse-owned firms in the absence of formal mandates. That may be the result of the commercial benefits listed above and because 50% of respondents report having an informal policy of including diverse-owned firms in their capital markets activities.

In their words. Treasury professionals who have worked with diverse-owned firms shared a variety of insights, sentiments and experiences related to the informal policies and their measurement of performance.

- "If we are continuing to explore or expand the areas where we do business with diverse-owned firms, then I consider our informal policy effective."
- "We're distributing wallet share to existing relationship banks while initiating and maintaining D&I partnerships."
- "We try to manage a certain amount of D&I spend annually."
- "It's informal—we compare against peers and track DEI participation over time."
- "We don't have a mandate, but partner if the D&I firm offers something unique and value added."

"In our case, the diverse-owned firms conducted much better analysis ahead of a bond deal."

ENGAGING WITH DIVERSE-OWNED FIRMS

Commercial Paper (CP) and Open Market Repurchases (OMR). Diverse-owned firms are more likely to play an active role in CP and OMR programs because those do not require a capital commitment.

- In fact, some treasurers said that only diverse-owned firms handle their CP and OMR programs. "We get better execution than we do with bulge bracket banks, because the smaller institutions pay more attention to our business," explained one respondent. "We found that they actually outperform the bulge bracket banks."

Bond Transactions: Treasurers also see a greater role for minority-owned firms in advising on bond deals and M&A transactions by doing more in-depth due diligence. "In our case, the diverse-owned firms conducted much better analysis ahead of a bond deal," one respondent said. "They looked at our overall debt investor base and dug deeper to find out, for example, what percentage of bonds is held by different types of investors, like insurance firms."

Intellectual capital: There are two areas where some respondents said diverse-owned firms stand out.

1) Offering a unique point of view on the market.
2) Providing deeper and more insightful analysis.

"We partner with diverse-owned firms that offer something unique and value added," one respondent said. He added: "If I get 100 emails from banks with their market insight every day, the only one I read is from a diverse-owned firm. They bring a different geopolitical and economic perspective that I don't get anywhere else."

A SMALL MINORITY OF COMPANIES ACTIVE IN THE CAPITAL MARKETS ARE NOT ENGAGING WITH DIVERSE-OWNED FIRMS

Thirty-four percent of treasury teams reported not engaging with diverse-owned firms. It's worth noting, however, that 65% of this subset of firms reported not being active in the capital markets.

- This means only 12% of treasury departments surveyed that are active in capital markets are not engaging with diverse-owned firms.

Two primary obstacles. Other than not being active, the two most frequent responses among the subset of member treasurers who are not using diverse-owned firms are:

1) A policy to award all capital markets transactions to revolver banks (an estimated 18% of total respondents)—institutions that commit capital to the company's revolving credit facility. "We have a limited bank wallet and therefore need to keep it within our credit bank group," one respondent said.
2) The company has not yet established relationships with diverse-owned firms (about 9% of total respondents).

Regarding revolver policies, given the commercial benefits users of diverse-owned firms say they are experiencing, it is possible that companies will modernize legacy policies like these and become more flexible moving forward.

“We need to reward our traditional balance sheet/credit providers.”

One member recommended a formalization of policies to include diverse-owned firms to avoid “rehashing” treasury’s approach or rationale with each transaction. Another respondent without an internal policy said they have experienced some pushback from revolver banks when allotting a share of a deal to minority-owned firms. “But they are careful not to push too hard,” they added.

The perceived obstacle of not having relationships with diverse-owned firms is likely to dissipate in the coming years. The reality that 70 large corporate treasury departments have used about 20 such firms underscores that forming partnerships is not a significant challenge.

In their words. Following are a few of the reasons provided by treasury professionals whose departments are not as far along as some peers in diversifying their capital markets vendor base, or have tried and had negative or mixed results.

- “We’re taking it slow.”
- “We need to reward our traditional balance sheet/credit providers.”
- “Individual firm capabilities, bank share of wallet considerations, and/or specific capital markets areas we are focused on.”
- “After several years of monitoring, we did not see the tangible value and differentiated performance.”

THREE MESSAGES FROM RESPONDENTS FOR DIVERSE-OWNED FIRMS

1) Scale matters. “Consolidate: there are too many firms. Differentiate with strong advisory.”

2) Relationships differentiate you. “Continue having conversations. Relationships take years.”

- “Engagement has picked up considerably in the past few years.”
- “Continuing those touchpoints every three to six months is very helpful.”
- “Continue to build connections both with issuers as well as with issuers’ existing banking partners.”
- “Pitch to issuers directly. I actually have to ask my relationship banks for lists of diverse-owned firms, and then we introduce ourselves.”

3) Expand Capabilities. “Some of the larger diverse-owned firms have clearly invested in their capabilities.”

CONCLUSION: CONTINUED PROGRESS

- Two-thirds of respondents are already working with diverse-owned firms or plan to do so.
- An average of seven diverse-owned firms are working with corporate treasury teams that are receiving numerous commercial benefits by providing opportunities to firms outside Wall Street’s bulge bracket banks.
- Structural barriers such as legacy, internal policies and entrenched relationships persist in some treasury departments.
- Treasurers emphasized that scale matters, relationships differentiate and developing a range of capabilities will continue to help them decide to partner with diverse-owned firms.
- Corporate treasury teams continue to make progress in their use of diverse-owned firms.

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