



## **Straight Talk from the Buy-Side: *"I appreciate an IRO I can go deep with."***



Covering a wide range of topics -- from the value of the sell-side to the impact of the political climate on investing -- an honest and insightful buy-side panel discussion ensued Wednesday evening, March 15, at Morton's Steakhouse in Santa Ana. Craftily moderated by Evan Pondel, president of PondelWilkinson, the panel came from three very different investment styles: Tony Yao of Arrowpoint Partners invests in one-of-a-kind, innovative companies in the biotechnology space; Matthew Sandschafer of ALJ Capital is a more value-oriented, event-driven investor; and Jon Tringale of WCM Investment practices a fundamental, bottoms-up approach, focused on a limited number of U.S. and emerging market growth stocks.

When asked about company communication, all panelists felt face-to-face is very important at the beginning of a relationship. They expressed a need for candor, not scripted answers, and praised IROs who were highly knowledgeable about all areas of their business. Matt Sandschafer specifically said, "I appreciate an IRO that I can go deep with." The group encouraged IROs to direct management to add color on strategy and performance on the earnings conference call, not simply repeat the content of the earnings release.

On the topic of the sell-side, the panel was frank in their evaluation, concluding that sell-side analysts -- and their ratings -- have lost their influence over the years. Mr. Yao looks at sell-side financial models, only after building his own, to validate some of his assumptions. Mr. Sandschafer, a generalist, uses the sell-side to come up to speed on a new firm/story. Mr. Tringale uses them mostly for access to management through conferences and to hear general sentiments about a company.

As to the current political environment, Mr. Yao doesn't worry too much about the political environment alleging that "the healthcare system hasn't changed as much as people think." Mr. Sandschafer says there is big talk out of the Republican Party and that policy decisions -- such as those that affect the Federal Trade Commission -- "may create more mergers & acquisition possibilities." In terms of the rise of more passive investing through ETFs and indexes, Mr. Tringale believes the pendulum will eventually swing back and feels small and mid-cap is where there is more opportunity to outperform indexes.

At the NIRI OC event in January, panelist covered the importance of sustainability initiatives to both a company and its investors. At this meeting with three buy-side panelists, only Mr. Tringale paid attention to sustainability and corporate governance measures, but just as a part of the bottom-up analysis. Mr. Yao was interested in a company's "asset itself" along with cash burn, as he is placing his bets on early-stage companies working on medical breakthroughs. Mr. Sandschafer, who does a lot of "distress investing", often looks at cash flow and what the company is doing with its cash. He pays attention to poorly run companies whose management teams may not be doing what's best for the shareholders. He sees a lot of non-GAAP accounting and says, "it needs to be reined in."