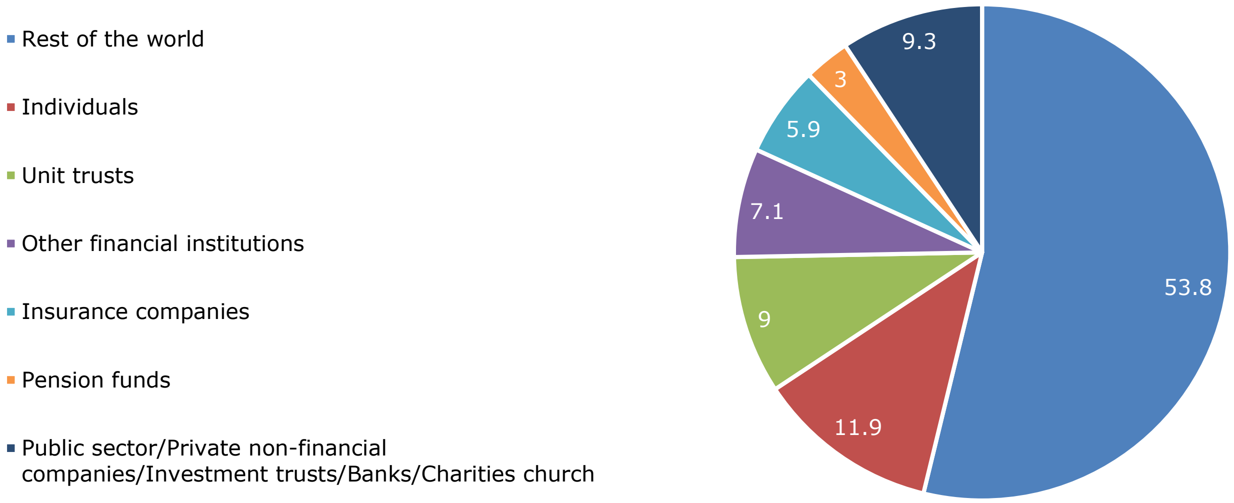
Effective engagement with all UK Shareholders in a post MiFID II world

In 1998 UK pension funds owned 21.7% of the average UK quoted company, and UK Insurance Companies owned a further 21.6%. By the end of 2014 these two percentages had shrunk to just 3.0% and 5.9% respectively*, as the closure (to new entrants) of huge numbers of UK company pension schemes, accompanied by the massive asset allocation shift from equities to bonds in most of those pension funds, resulted in this dramatic change in quoted company share registers since the turn of the century. Overseas investors now dominate UK share registers, owning nearly 54% of all UK quoted company shares. But overseas investors apart, the biggest single domestic shareholder category, at 11.9%, (up from 10.2% in 2010) is now "individuals". This trend is set to continue, particularly for many sub £500m market cap companies. Companies need to be aware of the increasing relevance and importance of the "Private Investor", and ensure that they engage effectively with them.

Ownership of UK shares



***Source: Office for National Statistics 2014**

There have been a combination of helpful UK personal tax changes in recent years, encouraging greater investment in shares by individuals. These include:

- From April 2013 AIM shares became eligible for inclusion in ISAs
- The 2014 UK Budget introduced fundamental changes re the future of pensions/annuities, resulting in many more people taking direct control of their "pension pot"
- From April 2017 the annual ISA allowance is increasing by over 30% to £20,000pa

The absence of meaningful yields on UK bonds & cash accounts has driven more investors to look at heavyweight UK companies such as Royal Dutch Shell, Vodafone, & GlaxoSmithKline to meet their income requirements.

HMRC recently reported that a record £21bn went into stocks and share (ISA) plans during the 2015/16 financial year.

Meanwhile, in recent years, institutional brokers' research coverage, in terms of number of companies covered, particularly in the sub £500m market cap. category, has been in decline. Secondary share trading commissions by the institutions (which went a long way towards covering the costs of broking research departments) have reduced massively in recent years, and that trend will accelerate post MiFID II. **Declining Institutional Brokers research coverage is only part of the story, because most institutional brokers do not allow their research to be accessible by Private Investors for compliance reasons anyway.**

Modern providers bridge the gap

To partly address the reduction in Brokers' research coverage, but also to ensure that research is available to the widest possible audience, (including institutions, wealth managers & private individuals), an increasing number of companies, particularly small / midcap & AIM listed companies, have embraced the **"paid for"** research model, which, as a result, has enjoyed huge growth in the UK in recent years. Post MiFID II this will undoubtedly continue.

For many small caps most research coverage has effectively been "paid for" for years, as for large numbers of sub £200m market capitalisation companies the only broker writing research on them has been their designated "corporate broker(s)", effectively "paid for" by (part of) the annual corporate retainer paid by quoted companies to their broker(s).

Transparent communication will be rewarded

For companies it can be argued that it can no longer be considered "best market practise" if they refer (in an RNS) to trading performance relative to management or market expectations without specifically stating what those expectations are, **unless those expectations are freely accessible elsewhere by all investors.** All too often, currently, the company's corporate broker responds to news by changing its numbers, but as that broker's research is only made available to the institutions, the private investor remains "in the dark" as to how that news might impact that company's forward profit / earnings and dividend expectations.

A further way for companies to engage with private shareholders is to ensure they have the opportunity to participate in fund raisings, either through **Rights Issues**, or for companies to include an **"Open Offer",** wherever practicable, alongside firm "Institutional Placings." For a variety of reasons, often to do with speed/timing & confidentiality, not every fundraise can include private investors, **but certainly more should**. Companies should bear in mind that private shareholders are, in the main, longer term in nature, and generally supportive of management, so excluding them from secondary placings – particularly those done at substantial discounts, and/or those which Company Directors do participate in – should be the exception rather than the rule. For many small caps it is the private investor who effectively sets the "day to day" market share price, as institutions tend to deal in large size, but pretty infrequently.

An increasing number of UK corporates now use **Twitter** as an additional route of shareholder communication. Currently the main protagonists tend to be "consumer facing" companies, but nevertheless the number of corporates active on twitter is increasing at a rapid pace, albeit (currently), UK adoption is still well below the levels seen in the US.

Recognise the critical importance of individuals

In summary UK quoted companies need to acknowledge the increasing scale and importance of Private Shareholders on their registers in the following ways:

- **Ensure all categories of investors have access to decent quality, regulated research**
- **Ensure all shareholders have access to current "market expectations"**
- **Include an Open Offer, whenever possible, alongside firm Institutional Placings, to allow (and encourage) all shareholders to participate**

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