EQUINITI

RETAIL INVESTORS:

Technology led change and the opportunity (need) for increased engagement

Equiniti
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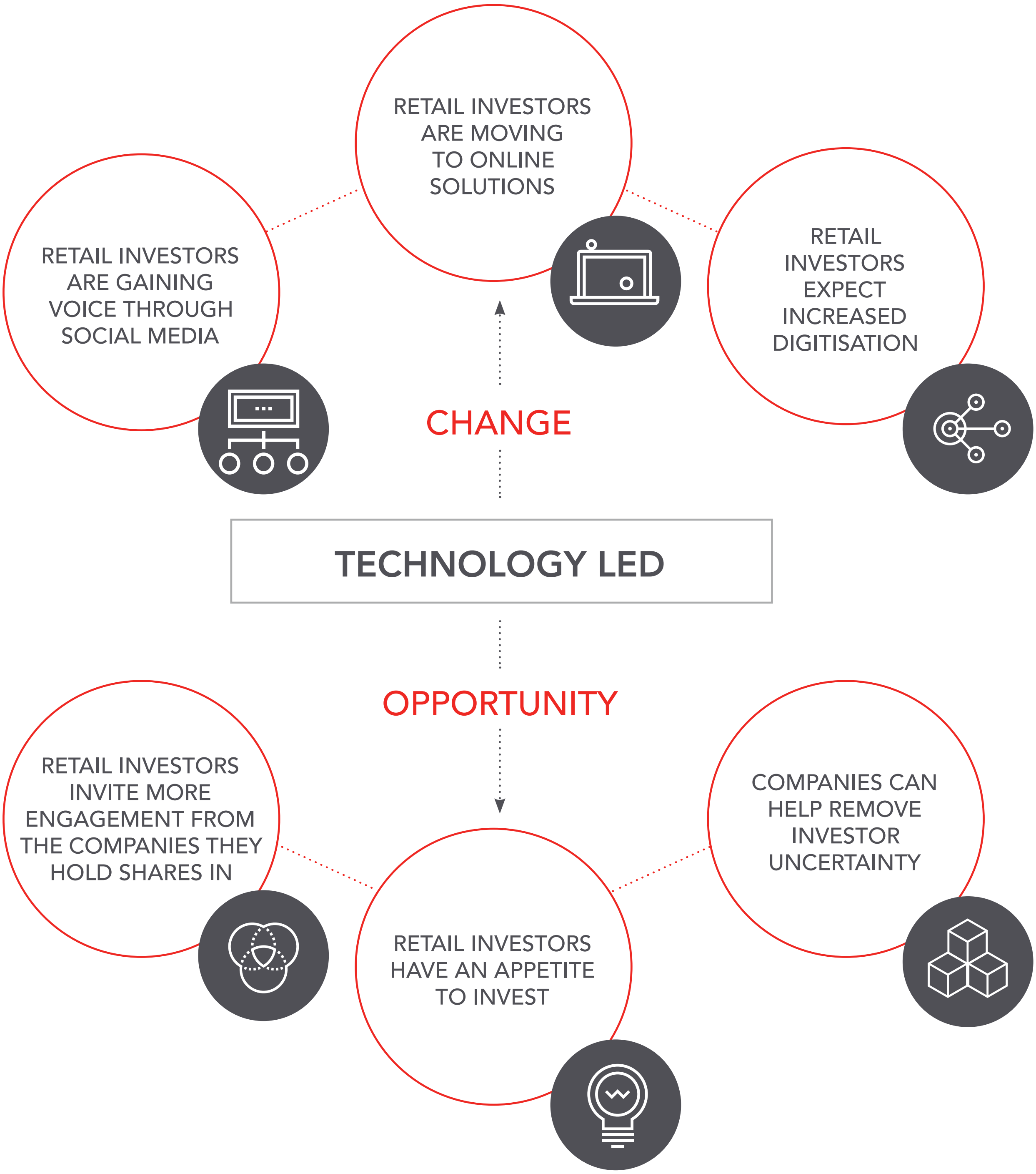

RETAIL INVESTORS ARE MOVING TO ONLINE SOLUTIONS
RETAIL INVESTORS ARE GAINING VOICE THROUGH SOCIAL MEDIA
RETAIL INVESTORS EXPECT INCREASED DIGITISATION
CHANGE
TECHNOLOGY LED
OPPORTUNITY
RETAIL INVESTORS INVITE MORE ENGAGEMENT FROM THE COMPANIES THEY HOLD SHARES IN
COMPANIES CAN HELP REMOVE INVESTOR UNCERTAINTY
RETAIL INVESTORS HAVE AN APPETITE TO INVEST

Foreword

Companies are having to enhance shareholder engagement as they come under increased public scrutiny to demonstrate a sustainable and responsible business model which balances the interests of both the investor and the environment in which they operate, not least in the regulatory arena.

As the UK's leading share registrar supporting more than 700 listed companies and over half the UK's shareholders, Equiniti has a unique view into the day-to-day actions and drivers of retail shareholders. Our inaugural 2016 Savings and Investments Survey captures the latest feedback of more than 6000 individual shareholders of some of the UK's highest profile listed companies.

In the report we look specifically at investor behaviours around savings and investment, the impact of digitisation and investors' response to digitisation with respect to managing their shareholdings.

It is always our ambition to consider how we can innovate as a proactive means of achieving continual improvement but also in response to market conditions. This research was conducted to provide insight into what future opportunities may exist to support companies with the ever increasing need for enhanced shareholder engagement. I hope that, like us, you find the results of the survey both informative and useful.

Stuart Ellen
Managing Director
Registration Services

Survey methodology

The Equiniti 2016 Savings and Investments Survey was conducted via an online survey among shareholders of Equiniti clients with over 6,000 complete responses captured. The survey is intended as a guidance tool to highlight retail investor attitudes amongst this audience around savings and investments and shareholder engagement. The survey was completed in Q3 2016.

The retail investor landscape: saving vs investing

Are low interest rates counteracting inertia?

It is clear from the results of this survey that stock market investment is being considered more now by the retail population due to environmental circumstances and people responding to the need to consider alternatives to saving.

With the recent reduction in interest rates people are looking for alternatives to simply leaving their money languishing in a savings account: in our survey most respondents were seeking a combination of growth and income from their savings and investments, something low interest rates will not deliver.

Stock market appetite but uncertainty

We asked respondents what their priority would be if they had more cash available and nearly a third (28%) said they would invest in the stock market proving that the appetite is there. However, for around one in five (19%) the reason not to save or invest is uncertainty about what to do.

Despite this uncertainty, there is a reluctance to seek advice, with respondents citing that they think it is too expensive (32%) or that they will make their own financial decisions using on and offline media sources or advice from family and friends (56%). This lack of confidence and an unwillingness to seek professional advice appears to be resulting in a tendency to shy away from the stock market in favour of 'less risky', although lower return, savings options.

Opportunistic versus engaged investing

Saving for retirement is high on most people's agenda and although over half (54%) of respondents expect their company pension scheme to be one of their top sources of income in retirement, 60% either say this will not provide adequate funds or don't know whether it will.

Despite awareness an income gap will exist in their retirement, most people don't seem to find this reason enough to take an active involvement in the stock market.

Half of respondents (50%) first acquired their shares through an Employee Share Scheme and about the same number are holding just one or two shares, it would appear that they have done little to grow or diversify their portfolio to protect against market movements. Annotated feedback also revealed that privatisations/flotations and building society demutualisations were a significant route into share ownership for many.

These entry points into the stock market would suggest that for the majority, this is an opportunistic route into share ownership rather than an active involvement in investing. The implication is that people see a 'good deal' and don't want to miss out, but this has not translated into making them active and engaged investors.

Opportunity for engagement

With a backdrop of uncertainty but an appetite to invest 77% of investors would welcome the move by companies for more engagement. And this number increases to 89% in the 18-24 year old category – the shareholders of the future.

Although still in the minority, 18.5% of respondents stated they have already seen the benefit of stock market investing, and cite that it will be one of their top sources of income in retirement.

A younger generation with a thirst for knowledge, the need to build wealth for retirement, an appetite to invest and an increasing ability to access online media resources would suggest that companies who actively engage through online channels, will gain access to this growing retail investor base as well as through the professional investment community.

28%

WOULD INVEST IN THE STOCK MARKET IF THEY HAD MORE CASH AVAILABLE BUT, 19% ARE UNCERTAIN ABOUT WHAT TO DO

THE COST OF ADVICE IS PUTTING

32%

OF PEOPLE OFF SEEKING PROFESSIONAL HELP

42%

HAVE ONLY 1 OR 2 SHAREHOLDINGS ACQUIRED OPPORTUNISTICALLY, INCREASING THEIR EXPOSURE TO MARKET MOVEMENTS

COMPANIES, ESPECIALLY THOSE WITH EMPLOYEE SHAREHOLDERS, HAVE AN OPPORTUNITY TO BUILD LOYALTY THROUGH INCREASED ENGAGEMENT, SOMETHING

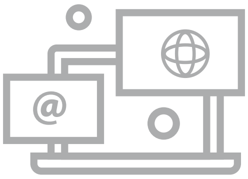
77%

OF SHAREHOLDERS WOULD WELCOME

“

A younger generation with a thirst for knowledge, the need to build wealth for retirement, an appetite to invest and an increasing ability to access online media resources would suggest that companies who actively engage through online channels will gain access to this growing retail investor base as well as through the professional investment community.”

Shareholder engagement: the significance of digitisation and social media



The so-called 'Shareholder Spring' which happened in 2012 and the underlying investor sentiment raised its head again in 2016. In the same way that the voice of the institutional shareholder has become louder, the trend is for the retail shareholder to become more vociferous and digitisation/social media is likely to help facilitate this. A stepping stone to having a greater voice in the way companies are run and executives are remunerated has appeared for shareholders who once had no voice.

The Government's recently published Green Paper on corporate governance reform will put more emphasis on this issue.

Traditional tools with a modern flavour

The AGM

One of the key opportunities to engage with shareholders is the AGM yet historically attendance by the retail investor has been limited to a core few with the time and means of travelling to wherever the venue may be. And there has perhaps been an assumption that this was the extent of interest in attending.

However, the research reveals that nearly a quarter (23%) of retail investors would like to attend AGMs, but only 6% do and 45% said they would be more likely to attend a digital AGM. This emphasises how much organisations need to focus on broadening accessibility to AGMs and finding new, convenient ways to facilitate this.

Shareholder communications

It is no secret that most organisations would prefer to move to online communications; this is a more cost-effective and efficient route and has become the way of the world.

A move to online communication would require shareholder agreement and it appears there is opportunity for change, and indeed an overhaul, in order to provide additional flexibility and widen the reach of communications with 58% of respondent saying they would prefer to receive communications about their shareholdings and investments by email.

While people welcome convenience and are open to online communications, the extent of this varies by generation and needs to be non-intrusive. When asked whether they would like to receive notifications about dividend payments and corporate actions on their mobile device the majority verdict (68.5%) was no. However, those up to the age of 44 bucked the trend (58%) and were definitely in favour of this channel.

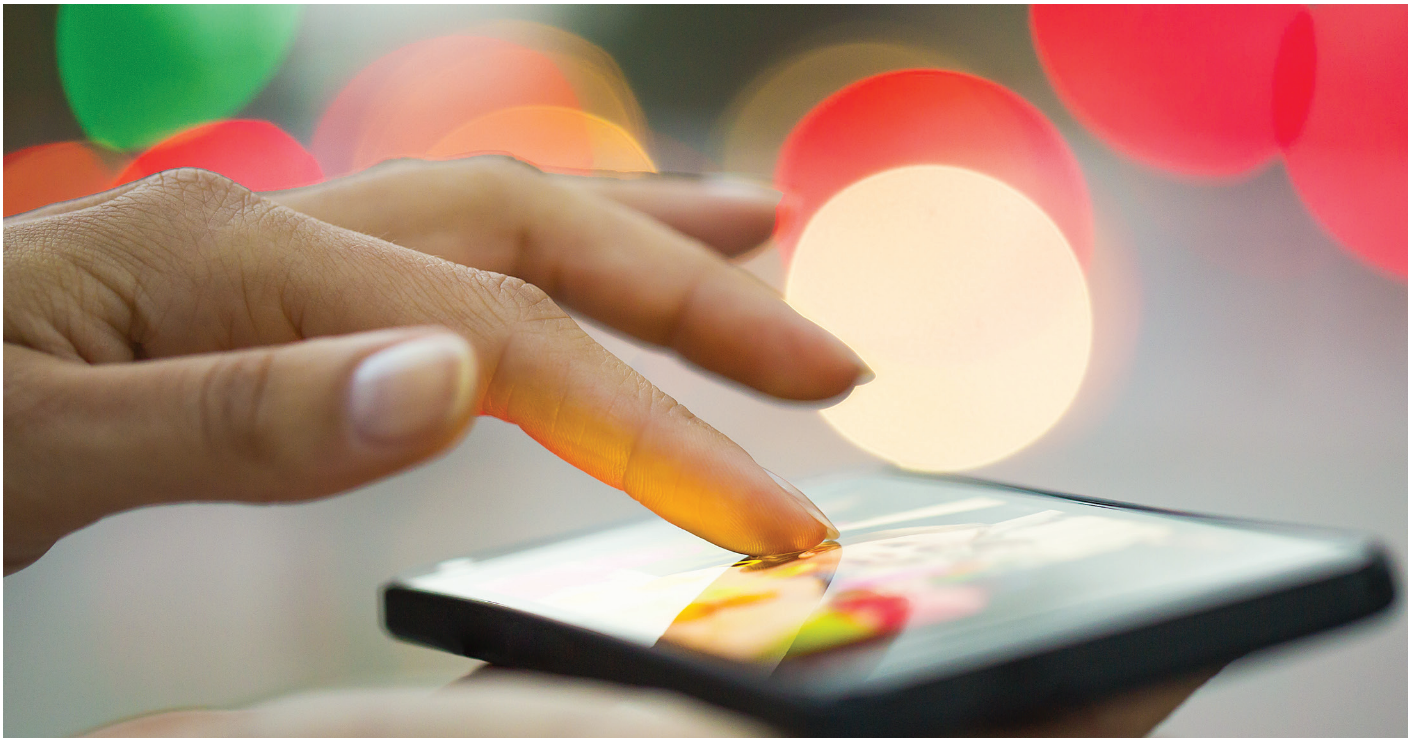
New tools with significant opportunity

Social media

Organisations are under a greater level of public scrutiny than ever before thanks to the spread of online media. While potentially a challenge to manage (Monarch was not so long ago forced to deny financial troubles off the back of a flurry of Twitter enquiries around the firm's financial stability) this greater scrutiny could also be turned to an advantage while companies have the shareholder's attention.

Companies can have limited direct access to retail shareholders through traditional communication methods which can be overcome through the speed and reach of social media. Conducted in the public domain it reaches beyond existing shareholders to those who may become shareholders in future.

There is a timely opportunity for organisations to be more responsive to the shareholder mood and to move to higher levels of transparency and accessibility. A third (33%) of shareholders claimed to follow all or some of the companies they invest in on social media. There is clearly an appetite amongst shareholders for increased digital interaction and shareholder engagement, and the communication options available to them are only going to increase.



The UK's first Digital AGM – a corporate governance milestone

Jimmy Choo and Equiniti recently partnered to successfully hold the UK's first digital AGM. The annual general meeting took place in the most convenient, cost-effective way possible, with the added benefit of a lower carbon footprint. With the globalisation of companies and shareholder bases spread around the world, the challenges of making an organisation accessible become even more relevant.

JIMMY CHOO

Impact of social media

It is well-known that the use of social media channels has increased manifold since Facebook first came online. (At the time of writing) Facebook still just retains its lead with 1.71 billion users* but YouTube and WeChat are close on its heels.

Importantly, social media channels are becoming more popular across all age groups not just the young. However, organisations need to tailor their use of the different social media channels as some channels are more popular amongst the younger and older groups. The latest statistics from Statista.com show that 40% of WeChat's users are aged between 25 and 34, while our survey confirmed that 18-34 year olds are the highest users of Snapchat.

The use of social media continues to evolve but it is an environment in which shareholders are active and feel comfortable to interact. To extend their reach and build their brand perception companies will benefit from reaching out to shareholders using the channels their shareholders choose to engage with; and social media is a trend which looks set to continue in an upward trajectory.

* Source: statista.com

Share management: the shift to digital

Speed of change accelerating

Over the last few years, people's propensity to use digital alternatives has grown exponentially; the pace of change is quicker and, coupled with this, the adoption rate is faster, greater and deeper. This paves the way for initiatives like digital AGMs to become popular much more quickly than they might have done in the past.

Digital has become a genuine alternative to the more traditional options and people are approaching new technology with more confidence. Shareholders are more prepared to interact online or digitally with organisations and this is not a weary acceptance of something inevitable but an active embrace.

Currently 85% of respondents hold shares online, although of this 43% still hold some in certificated form. Holding share certificates is likely to be a legacy factor as nearly one in five shareholders (19%) either inherited their shares or parents/grandparents bought shares for them. In the modern world, most (82%) opt to manage their shares online.

The move to managing shares through digital channels can also be witnessed by the death of the cheque; most people (59%) choose BACS as their preferred option for receipt of their dividend payment. Further evidence of the openness to the shift to online is evidenced with 54% unconcerned about the dematerialisation of shares.

Outside of the investment world the preference and confidence in online tools is further evidenced with 77% of respondents claiming to feel very competent in the use of online banking, a relative newcomer to the digital world, and 63% are using mobile banking.

Another illustration of the way in which the pace of change in the way people use technology has picked up in the last few years is the adoption of contactless payments. These were first introduced in the UK in 2007 and initially, take-up was slow. However, according to the UK Cards Association, in the first half of 2016 spending on contactless cards outstripped contactless spending for the whole of 2015, showing how rapidly this form of spending is becoming the norm. Just over a third of respondents (35%) to our survey thought that all share and financial transactions will be conducted online or via contactless card solutions within two to five years.

Sourcing advice and information

The digital impact can also be seen in the way in which shareholders source and digest information. With a third of shareholders saying they follow all or some of the companies they invest in on social media, and that the most likely source of advice is now online articles, there is an increased degree of trust being demonstrated in these fast evolving online channels.

When asked where they were most likely to seek advice on their savings and investments, it was almost level pegging between Financial Adviser/Wealth Manager (29%) and online media/articles (28%). While people still do not seem quite ready to go fully digital, with only 3.5% opting for online services like robo advisers, the trend is clear.

85%

OF RESPONDENTS HOLD SHARES ONLINE

82%

OPT TO MANAGE THEIR SHARES ONLINE

54%

ARE NOT CONCERNED WITH DEMATERIALISATION

35%

EXPECT ALL SHARE AND FINANCIAL TRANSACTIONS TO BE COMPLETED ONLINE IN 3-5 YEARS

Digitisation

Definition: The integration of digital technologies into everyday life by the digitisation of everything that can be digitised.*

According to Ofcom in its 2016 Communications Market Report, smartphones have become the hub of our daily lives and are now in the pockets of over two thirds (71%) of UK adults.

The vast majority (90%) of 16-24 year olds owns one; but 55-64 year olds are also joining the smartphone revolution, with ownership in this age group more than doubling since 2012, from 19% to 42%.

And people are using their smartphone for longer; spending nearly two hours every day to browse the internet, access social media, bank and shop online. It is simply more convenient particularly for the time-poor amongst us.

Dematerialisation

The existing process of providing proof of UK share ownership through paper certificates is an historical one, and one that many believe would better serve the industry if changed.

The question remains how to change this in a way that serves the best interests of issuers, investors and all of the market participants involved in handling paper share certificates but there is a commitment to preserve the rights of the shareholder in any proposed model, whilst ensuring that the market operates in an efficient and risk-free manner.

European legislation was the primary catalyst for making the share registration industry take a detailed look at the process. While the UK decision to exit the EU may remove the mandate for dematerialisation, it remains that dematerialisation is in the best interests of the industry as a whole driving efficiency which we believe will lead to a more secure model of recording share ownership. It would also appear from this survey, it would be meeting the preference and expectation for an online solution for many investors.

* businessdictionary.com

More to investing than money

The sense is that there is a shift towards a more holistic view when people are making investment decisions; one which is not driven solely by the return on investment, but which also takes into account a company's approach to sustainability and corporate responsibility and other ethical and social considerations. An individual's personal values and how these are reflected in the companies they are considering for investment is coming into play.

The indicators of a shift are supported by the responses to our survey; 45% said their investment choices are somewhat influenced by ethical and social considerations and for 8% they were definitely influenced by this. 10% said they will be influenced in future.

The survey confirmed that younger people (25-34 year olds) are more likely to consider alternative investment vehicles, such as crowdfunding, in order to invest in ideas and concepts aligned to their personal values, however, 30% of total respondents said 'yes they do' or 'would like to' take a closer look at alternative investments in future. These findings support the theory that change is on the way and will be driven by this new generation of investors.

These factors are likely to continue to move up the agenda for investors and the pace of change will quicken as the younger generation go on to become the shareholders of tomorrow.

And opportunities are beginning to emerge; the Social Stock Exchange provides access to the world's first regulated exchange dedicated to businesses and investors seeking to achieve a positive social and environmental impact through their activities.

In an interview with Mark Taylor, Equiniti's Chief Customer Officer and Bruce Davis, co-founder of peer-to-peer lending firm Zopa and crowdfunding platform Abundance Investment, Davis commented:

> "What's driving the growth of the peer-to-peer market is this sense of wanting control over where your money goes and how it's used, and a transparency on the other side."

There has been for some time a much greater call for a company to be more sustainable, responsible and socially conscious and for this to be at the core of the operation, rather than the adjunct to activity that it has been. Now it seems the shareholder is putting their money where their mouth is and choosing to invest in firms with a clear social conscience as well as a healthy balance sheet.

In summary

As companies continually consider the cost of disengaged shareholders and the opportunity of having actively engaged shareholders it seems technology is presenting a new and cost effective alternative to tackle some longstanding challenges.

Shareholders are no longer just open to considering more online dialogue they are actively using the tools and in many cases would prefer it to traditional methods. The younger generation of future investors in particular.

Online and digital communications are not only cost effective, they are flexible and agile, achieving reach more quickly and extensively than any traditional method could hope to deliver.

This increasing acceptance of new technologies presents an exciting opportunity for companies willing to embrace them.

Equiniti has been providing innovative share registration and shareholder services for the UK's best known brands for over 50 years.

Our technology led solutions have been developed in partnership with our 700 clients and around the feedback of over half the UK's shareholders we support.

We offer a joined up approach to listed companies' requirements in the areas of shareholder management, company secretarial services, corporate actions and investor analytics.

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