h2Radnor View

Embracing Retail

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For those of a certain vintage who can remember it, this year marks the 40th anniversary of the (then) iconic "Tell Sid" advertising campaign which ran in tandem with the privatisation of British Gas. In this, people urged each other to let Sid know he could buy shares at "affordable" prices and its success led to a new wave of first-time shareholders in the UK.

Many of us look at the market right now and regard quite a lot of shares out there as in the affordable bracket but forty years on from Sid, where is the next wave of new retail shareholders going to come from?

The recent liquidity woes of the UK market are well known, with seemingly endless outflows driven by asset allocation away from the UK and into other more "attractive" markets. This institutional dynamic has not in any way been compensated for by retail investors and comparisons between the level of retail equity ownership in the US (33%) (and the G7 e.g., Canada 22%, Italy 19%) versus the UK (8%) lay this bare.

There are however, signs of helpful change emerging. The most notable are the reforms to the UK Listing Rules, which came into effect on 19th January and are designed to make it easier for retail investors to participate in public markets, especially in IPOs (remember those?) and corporate bond issuance. Alongside this are reductions to the burden of needing to produce complex prospectuses on secondary fundraises and a Public Offer Platform (POP) regime allowing companies to raise capital (>£5m) using authorised platforms. All positive stuff.

On top of all that is the UK Retail Investment Campaign – now with 19 leading firms signed up – which is set to raise awareness of the importance of investing for both financial wellbeing and the positive impact it can have on the wider economy. Alongside a purposeful reduction of dealing and management fees by major platforms such as Interactive Investor, Vanguard UK and most recently Hargreaves Lansdown, there is a clear and concerted effort to get the UK retail investor back into the UK market.

This is not going to change things overnight but there is now a widespread acknowledgement that "something needs to be done".

Anything that introduces greater liquidity into the market is to be warmly welcomed, but this is a high-level initiative. If a different challenge was thrown down to all listed companies to more actively promote themselves to the retail community, what would the reaction be – or more importantly, what should the reaction be?

The good practice checklist (not exhaustive)

1. Does your website pass muster? Critically :
    - Have you got a strong 'Why invest?' section?
    - Do you have relevant and engaging video content that explains simply the company, its strategy and prospects?
    - Are relevant historic financials easy to access?
    - Have you got an efficient system for dealing with inbound investor queries?
    - Is the website professional, well organised and easy to navigate?
2. Is your LSE profile page up-to-date? Do you even have one?
3. What (retail) online meetings do you hold?
    - Investor Meet Company (or equivalent) for results and other briefings?
    - Is your AGM available online? If not, why not – and is your notice of AGM written in simple language rather than 'legalese'?
4. What research is freely available?
    - A lot of institutions struggle to get research, let alone retail investors. Sponsored research is often a solution and it can sit on your website. There is an additional cost attached but it is a vital consideration for retail investors, and frankly, even large companies should consider this.
5. How are you positioned on social media, with respect to key announcements at least, and do you monitor retail investor chat rooms?,
6. Do you attend or present at retail investor-oriented events?

The reality

Right now, UK plc is not, on the whole, optimally set up for efficient retail investor management.

Large companies understandably may devote less resource to it as the movers of their share prices will not be retail. Their engagement falls mainly under the umbrella of 'best practice' and good corporate governance to engage with all stakeholders.

At the other end of the scale, smaller companies with far less resource, often see retail more as a nuisance to be managed perhaps because there is a preponderance on the register; it is time-consuming to deal with queries; there is a constant demand for more information and there is a lot of volatility in share prices, the last two often being connected.

Growth in retail ownership over time will only make these issues more acute.

For companies without the benefit of IR teams to soak up the pressure, effective and efficient management is paramount, but even for efficient single Investor Relations Officers (as opposed to teams), more resource is probably required. Many companies without either, already struggle to cope.

At h2Radnor, we spend a lot of time on providing the widest possible, effective investor engagement for our clients. There is always more to be done to reach new pools of capital and 'more' does not always mean more time, but an organised plan of engagement.

There is no reason why retail management cannot be done better, but externalisation needs to be accepted and there will naturally be additional costs associated with that. However, the benefits should be material. Having a cohort of positive-minded, chatty retail investors onside can – aside from any liquidity angle – be a very positive influence.

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