Share ownership:

For the many, not the few – The sequel
Update post publication of ONS survey

By Hardman & Co in collaboration with Argus Vickers

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Share ownership: For the many, not the few – The sequel

Update post publication of ONS survey

We recently published a paper, *Share ownership: For the many, not the few*, based on a statistical survey of share ownership, produced jointly with Argus Vickers, the share analysis service. The Office for National Statistics (ONS) has now issued its equivalent survey. This paper compares its results with ours. Although there are, inevitably, differences in the detail, the two surveys reach the same conclusions.

The two key themes from the surveys are that: i) investors from the Rest of the World (RoW) dominate the main market; and ii) individual investors are becoming more important. Indeed, the ONS work suggests that retail is far more important than even we have given it credit for.

We live in a new world, post-Woodford, where liquidity becomes part of the investment process in a way it never was before

In the post-Woodford (PW) environment (maybe we should divide time into two periods, denoted as BW, Before Woodford, and PW?), liquidity has become critical to professional investors. Companies with low liquidity risk are being forgotten about – they need to engage with the widest investor audience.

The two surveys identify the rise in the percentage of shares held by individuals, and how significant they are outside the FTSE 100 in particular. For example, according to the ONS, they own 20% of the rest of the Main Market – but they are more important to liquidity than even these percentages suggest.

This paper contends that, for most quoted companies, on most days, small trades set the share price. We have consistently shown that 82.9% of AIM-quoted companies have an average trade size of below £10,000. One might think the Main Market would be different; it is, but not by much. A sample test shows that the average trade size on the Main Market is below £10,000 for 75.1% of companies. Of course, the identity of the parties behind a trade is confidential, but it would not be a wild assertion to suggest that, the smaller the figure for the average, the more likely it is that the party is retail.

Focusing only on institutions is no longer going to cut it. Ignoring retail is not only unfair on these investors, but it also neglects a key generator of liquidity. Such a path may prove ultimately fatal for the public life of a company.

This paper outlines a number of routes to improve investor engagement, diversify share registers and grow liquidity.

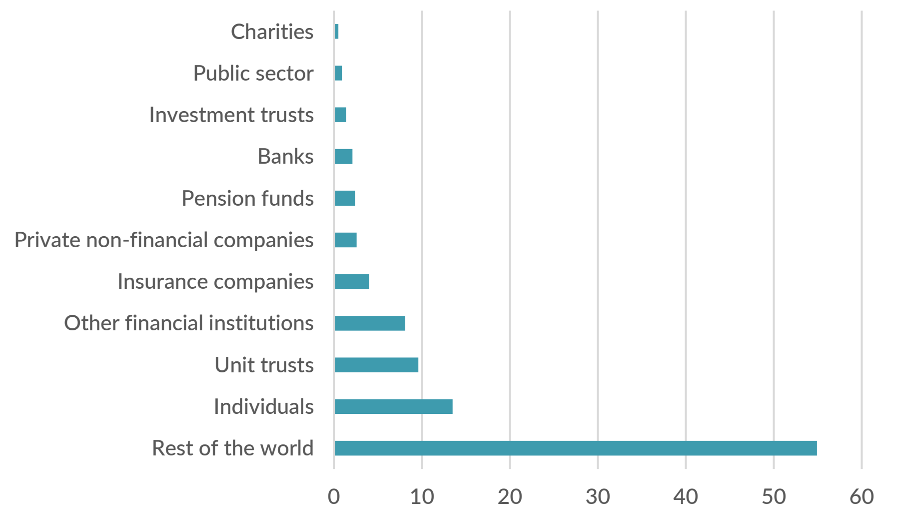
Hardman & Co recently published a paper looking at the ownership of the London market[1]. This was partly in anticipation of the ONS publication of its survey, and partly to explore the field in greater depth. In particular, our survey looks at the register of every company, not just a sample of 200 used by the ONS; it considers the NEX as part of the exercise and uses six-monthly data points, with the most recent point being June 2019. The ONS, however, considers the issue once every two years, with the most recent survey looking at December 2018.

The ONS published its survey, *Ownership of UK quoted shares 2018*, on 14 January 2020[2]. This is the latest contribution to a series stretching back to 1963 and examines the trends in the ownership of shares in companies quoted in London. Its findings bear out the conclusions from our own survey.

Looking at UK quoted companies in aggregate

The ONS survey first considers the position for the whole market at the end of 2018, which is reproduced below:

Beneficial ownership of UK quoted shares at 31 Dec 2018, %



Source: ONS, Hardman & Co

The ONS data show that the two most important investor groups are investors from RoW and individuals

We should point out that, while the ONS entitles this chart, *Beneficial owners of UK quoted shares*[3], we believe that, by this, it means the beneficial owners of shares in *UK domiciled companies* quoted on the London Stock Exchange. We do not believe it includes shares quoted on the London Stock Exchange that are domiciled overseas; nor does it include shares quoted on the NEX market (although the inclusion of NEX shares would make little difference to the aggregate percentages, given the scale of NEX market capitalisations).

The ONS data show that the two most important investor groups are investors from RoW and individuals.

[1] *Share ownership: For the many, not the few*, published 13 January 2020; https://www.hardmanandco.com/share-ownership-for-the-many-not-the-few/
[2] *ONS statistical bulletin*, published 14 January 2020; https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2018
[3] *ONS statistical bulletin*, published 14 January 2020; Figure 1: Rest of the world dominates ownership of UK quoted shares

However, just looking at the details for the whole of the market tells only part of the story. Drilling down into the various components of the London Stock Exchange pays dividends, so to speak.

The smaller the universe size, the more important the individual or retail investor

Holdings of FTSE 100, other quoted companies and the AIM by beneficial owner

At 31 December 2018	FTSE 100	Other quoted	AIM
Rest of the world	57.1%	48.4%	48.2%
Individuals	11.3%	19.8%	25.1%
Charities	0.5%	0.7%	0.6%
Insurance companies	4.1%	3.8%	1.3%
Pension funds	2.4%	2.3%	3.7%
Investment trusts	1.2%	1.9%	1.4%
Unit trusts	9.6%	9.5%	10.9%
Banks	2.0%	2.7%	0.7%
Other financial institutions	8.2%	7.7%	7.3%
Private non-financial companies	2.3%	3.3%	0.6%
Public sector	1.2%	0.0%	0.2%
Total	99.9%	100.1%	100.0%

Source: ONS, Hardman & Co

It should not come as a surprise that the smaller the universe size, the more important the individual or retail investor. The ONS survey does not cover the NEX market; the Argus Vickers/Hardman (AVH) survey does – individuals own 52% of NEX.

RoW investors remain the dominant players in the market as a whole

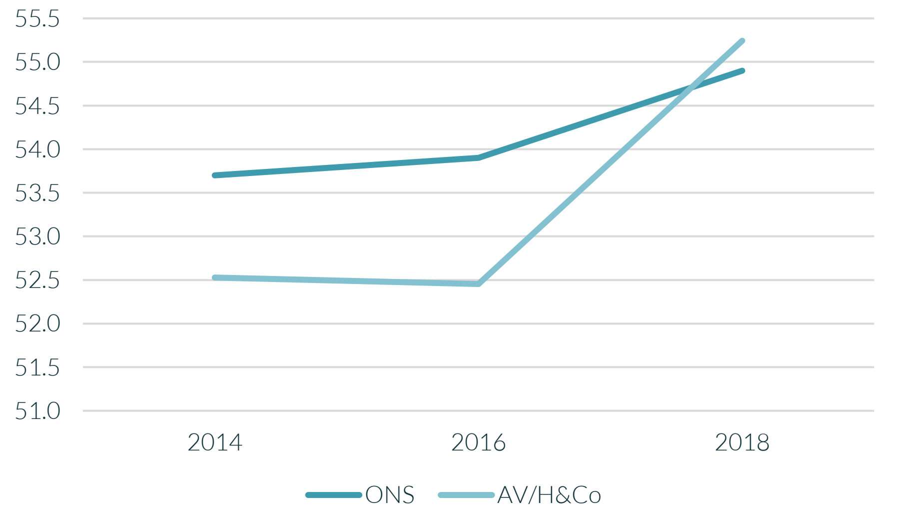
The ONS survey confirms our conclusion that RoW investors still dominate the market.

Our original paper noted that:

> *"In 1963, London was, essentially, a domestic market, even though it was home to international businesses like ICI and the old "colonials", such as rubber plantations. Big Bang, in 1986, was the start of a revolution. Since then, London has been seen as the listing venue of choice for companies from all over the world and, at the same time, has been transformed into a theatre for international investors. These investors owned 7% of the market in 1963, which shrunk further just before 1986; the most recent survey logged them at 53.9% (2016)".*

The latest ONS survey reckons that, in December 2018, RoW investors had grown their share marginally – to 54.9% since 2016. The two surveys have very similar results:

Percentage owned by RoW investors – the two surveys compared



Source: ONS, Argus Vickers, Hardman & Co

Note 1: We assume that when the ONS survey looks at the aggregate figures for the market, it includes the data for AIM. This is not clarified in the survey. Our results in the chart above match what we assume is the basis of the ONS output. In particular, we have not included data for the NEX market.

Note 2: To calculate the percentage for the AVH results in the chart above, we have included holdings where, despite our best efforts, we have been unable to identify the beneficial owner.

The data for June 2019, which we have, but the ONS does not, show little change since the previous December.

Retail investors continue to grow their share of the market

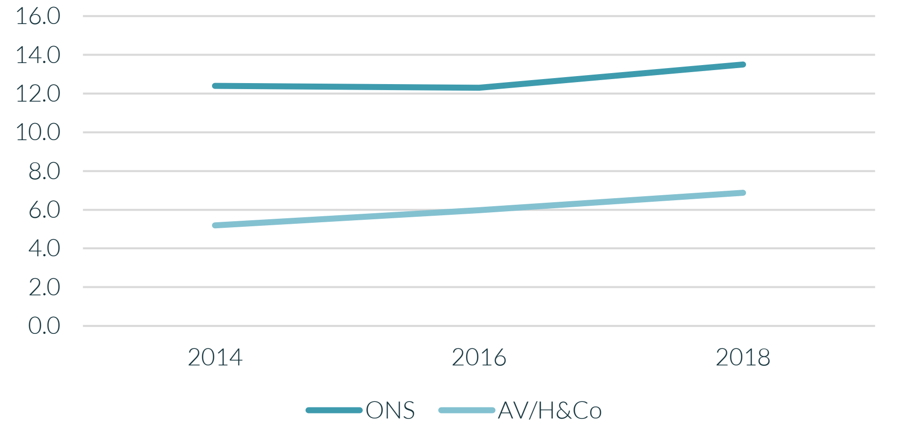
Our previous Insight stated:

> *"Back in 1963, the man in the street owned 54% of all the shares in issue on the London stock market. By 2012, this had fallen to a low point of 10.1%. This has since recovered, with the previous survey, using the data for December 2016, showing a figure of 12.6%".*

The latest ONS survey reports a further increase in the role of the retail investor. The ONS estimates that retail investors owned 13.5% of the market by December 2018. The AVH survey also reported a continuing rise in ownership of the market, albeit with a rather smaller total. If the ONS survey is correct, then the retail investor is even more important than we have suggested.

We compare the two surveys below:

Percentage owned by retail investors – the two surveys compared



Source: ONS, Argus Vickers, Hardman & Co

Note 1: We assume that when the ONS survey looks at the aggregate figures for the market, it includes the data for AIM. This is not clarified in the survey. Our results in the chart above match what we assume is the basis of the ONS output. In particular, we have not included data for the NEX market (as noted earlier, we have the data, but the ONS does not).

Note 2: To calculate the percentage for the AVH results in the chart above, we have included holdings where, despite our best efforts, we have been unable to identify the beneficial owner. If we were to redistribute these "unknowns" across the remaining categories in proportion to their holdings ex the "Unknowns", then the retail share would have been 8.1% in December 2018.

The ONS survey uses the data for December 2018. The AVH survey has more recent data. By June 2019, the retail share had climbed further to 8.3% of the whole market.

Share ownership and liquidity

Liquidity has become a much more important factor for professional investors since the events that led to the winding up of the Woodford Equity Income Fund (WEIF). Both Mark Carney, the outgoing Governor of the Bank of England, and Andrew Bailey, the CEO of the Financial Conduct Authority and the newly appointed Governor, have expressed concerns about the threat to the financial system from illiquidity in the holdings of Open-Ended Investment Companies.

In a letter to Nicky Morgan, chair of the Treasury Committee of the House of Commons, on 18 June 2019, Andrew Bailey wrote of the approach of dividing fund liquidity into buckets. Regulators set limits to the proportion of a fund that can be held in private companies of 10%[4]. However, if a security is quoted on a stock exchange, there are no limits – every exchange is considered as liquid as any other, and there is no distinction drawn by the authorities between shares on the same exchange. The basket analysis (created by Link Solutions, the Authorised Corporate Director of WEIF) considers liquidity of holdings by buckets, regardless of whether they are private or public companies.

Looking at liquidity in buckets!

Link assessed the WEIF portfolio in four buckets, and each security in WEIF was allocated to a bucket according to the number of days it would take to liquidate the holding:

- Bucket 1 (1-7 days)
- Bucket 2 (8-30 days)
- Bucket 3 (30-180 days)
- Bucket 4 (180-360+ days)

Even before the WEIF issue, many fund managers used liquidity analysis as part of their investment decision. Post-Woodford, there is a renewed focus on the issue. A small fund has more flexibility in what it can hold than a multi-billion-pound fund, because its unit size will be much smaller.

Often, institutions cannot help to improve liquidity – the support of retail becomes key

Hardman & Co has a long history of analysing stock market liquidity[5]. We used to be told by some professionals in the capital markets that liquidity was irrelevant, since every share was always owned by someone. That argument has been dropped. Today, company managements need to be aware of the liquidity in their shares, since low liquidity may mean a reduced investor audience. Of course, if an institution is keen on a company it does not already own, but is held back from purchasing by poor liquidity, it is powerless to solve the liquidity hurdle itself. It must rely on other investors to do that. And guess who they might be? – retail investors.

Our survey shows that the private investor is even more important because, on most days of most months, for most companies, these investors set the share price.

[4] We are using the term "private" here, rather than "unlisted" or "unquoted", to avoid confusion. Section 1005 of the Income Tax Act 2007 sets out which stock exchanges meet the HMRC definition of either "listed" or "not listed" for the purposes of HMRC legislation. The AIM market is considered "not listed".

[5] For example, our June 2018 paper, *After the love has gone*, explored post-IPO liquidity. https://www.hardmanandco.com/after-the-love-has-gone/

Role of retail investors in price formation of most shares is unappreciated

Another way to consider the influence of retail investors on liquidity and share prices is to consider trading data. The table below examines the average trade size on the AIM and Main Market for the month of November 2019. This is not the average value traded in a day or a month; it is the average size in pounds of each individual trade. It is also the most recent data available as this article went to press.

Average trade size on AIM in November 2019

Average trade size	Number of companies	% of all companies
More than £100k	7	0.8%
£80-100k	2	0.2%
£60-80k	6	0.7%
£40-60k	11	1.3%
£20-40k	55	6.3%
£10-20k	68	7.8%
£5-10k	153	17.6%
£0-5k	568	65.3%
Total	**870**	**100.0%**

Source: London Stock Exchange, Hardman & Co Research

In this particular month, for 82.9% of AIM companies, the average trade on the market was worth less than £10,000. Is there something unusual about November 2019? No, our latest paper using this dataset looked at November 2017, when 82% fell into this bracket. The previous paper to that showed that, in September 2015, the percentage of AIM companies with an average bargain size less that £10,000 was… 82%.

Is there something unusual about AIM? The answer is “hardly”. We publish, for the first time, the data for the Main Market, set out below. 75.1% of Main Market companies had an average trade size of less than £10.000 in November 2019.

Average trade size on the Main Market in November 2019

Average trade size	Number of companies	% of all companies
More than £100k	12	1.1%
£80-100k	4	0.4%
£60-80k	7	0.6%
£40-60k	21	1.9%
£20-40k	61	5.6%
£10-20k	164	15.2%
£5-10k	314	29.1%
£0-5k	497	46.0%
Total	**1080**	**100.0%**

Source: London Stock Exchange, Hardman & Co Research

The data do not show what type of investor is responsible for each trade, but it must be sensible to draw the conclusion that the lower the average, the more important the retail investor probably is. A few companies get the issue. Some managements tell us that the largest part of their register is accounted for by institutions, which trade infrequently, often only when there is a placing or fund raising. Yet the price at which these large trades occur starts from the trades in the days and weeks before – trades by retail investors.

What can company managements do to improve investor engagement and liquidity?

Better engagement with all investor audiences, not just institutions, will improve that vital liquidity, enabling more professional investors to buy

Managements spend too much time courting institutions and too little time thinking about other investor audiences. One of the authors of this paper spent a large part of his career doing exactly that.

Managements should consider the following:

- We understand why it is normal to restrict attendance at results meeting to analysts. However, we recommend pasting the slide deck on the company's website. Why not add a recording of the meeting as well?
- Host capital markets days where all investors are presented to by the whole leadership team, not just the CEO and CFO.
- Engage a sponsored research house (such as Hardman & Co). Some have very extensive distribution, covering all types of investors, including retail. Although a few institutional brokers claim they cover retail, this generally means that work is available to high-net-worth investors. Investors have to find the research; it is not proactively marketed to them.
- Consider retail investor events such as Mello, attended by ca.700 private investors over two or three days. We have found the typical investor to be knowledgeable and serious.
- Understand your shareholder register and investigate the holders of your peers. If they hold a peer but not your shares, why is that? Is it through lack of knowledge perhaps? This is where a shareholder analysis service such as Argus Vickers can prove useful.
- When raising new money, work with execution-only private client broking platforms and organisations, such as PrimaryBid, to enable retail investors to participate on the same terms as institutions. A measure of the role that PrimaryBid can play in assisting public companies is the fact that it recently signed an agreement with the London Stock Exchange[6]. Also recently, Mark Payton, CEO of Mercia Technologies, was forced to apologise for not including a retail offer in a further fundraising[7].

Excluding retail investors from engagement is not only unfair on those investors, but may rebound on a company. Without those investors enhancing liquidity, institutions may not be able to buy the shares in the first place.

[6] See interview with Marcus Stuttard, Head of UK Primary Markets and Head of AIM, London Stock Exchange and Anand Sambasivan, CEO and Co-Founder of PrimaryBid here: https://www.lsegissuerservices.com/spark/in-conversation-primarybid

[7] Financial Times, 29 December 2019, *Mercia contrite over small investors left out of £30m fundraising*. https://www.ft.com/content/ee75c2c2-228a-11ea-b8a1-584213ee7b2b

Methodology

Collecting the data

Argus Vickers combines detailed share registry work with a sophisticated database of the real beneficial owners behind nominee names

Argus Vickers employs a team of professionals to interrogate share registers. The law requires the share register of UK-domiciled companies to be a public document. Although the collection of all the data from share registers is a mammoth task in itself, it is only part of the work needed to produce the data used in this report. Much of a share register is held in nominee names; Argus Vickers uses its proprietary analytic tools and software to extrapolate the readily available information to understand who is behind these nominee names. For example, Rule 8 of the Takeover Code in the UK requires certain parties to disclose dealing in shares of a company involved in a bid situation and to reveal who is behind a nominee name. Indeed, the form that must be completed says specifically, "The naming of nominee or vehicle companies is insufficient. For a trust, the trustee(s), settlor and beneficiaries must be named". This is a key plank of the transparency, which is a hallmark of the British capital markets – parties cannot hide behind nominees, as is common in many other regimes. The detail about the beneficiary behind a nominee name revealed during a takeover bid is cross-referenced to uncover the beneficial owners on other companies' share registers.

Even so, there are still gaps, categorised as "Unknown" in the data, for a number of reasons. Many companies quoted in the UK are not domiciled here, and so their share registers may not be available to public scrutiny. The second main reason is that there may be a newly-registered nominee, or one that has never had to make a regulatory disclosure before – so the beneficiary behind the nominee cannot be discovered.

Categories

The ONS survey splits shareholders into various categories. We have worked with Argus Vickers to divide the data we have into the same categories.

What is an individual?

The ONS methodology paper defines individuals as "… individual persons resident in the UK (whether registered in their own name, through a PEP/ISA, or as clients of a stockbroker or fund management group); shares held for employee share ownership schemes; and shares held in trusts with named individual beneficiaries".

Why our results might differ from the upcoming ONS survey

- The ONS survey uses a sample of 200 companies quoted on the London Stock Exchange, representing approximately 80% of the value of shares on the London Stock Exchange. The ONS sample comprised the 85 largest companies and 115 small companies; it is possible that the 115 small companies are unrepresentative of smaller companies in total. The AVH survey does not use a sample, but, instead, uses the data for *every* quoted company. The difference in the datasets might explain varying outcomes.

- ONS only considers UK-domiciled companies. Our data include all companies listed in the UK, regardless of domicile. We focus on the data from Argus Vickers, excluding shareholdings where the beneficial owner cannot be discerned ("Unknowns"). This is a proxy for excluding non-UK-domiciled companies, since many of these unknown shareholdings are such companies where there is rather less public disclosure.

- We have tried to match the categories that the ONS uses. However, we cannot be sure we have perfectly matched its definitions without cross-referencing its work with ours. It is unlikely that the ONS would agree to that! It is the direction of travel that is important.

- Our survey includes the data for NEX-quoted companies – the ONS survey does not cover NEX.
- The ONS survey is conducted once every two years, whereas our survey has data points for every six months back to 2014.
- Our most recent data point is June 2019; the ONS survey was struck at December 2018.

About Argus Vickers

Argus Vickers provides a complete Intelligent Shareholder Analysis service, which enables companies and investors to identify and track the real beneficial owners and fund managers behind a company share register.

The shareholders behind Nominee accounts are identified and their trading behaviour is tracked. This intelligence is key for building strong investor relationships, developing efficient corporate communication and identifying investment trends of fund managers and beneficial owners. The service enables an investment bank equity trader, corporate financier, institutional stockbroker or investor relations consultant to find out who owns "what" and "how much" within a public listed company. Argus Vickers' professional analysts and products deliver detailed and accurate fund manager and beneficial owner shareholding information behind all companies listed in the UK and Ireland.

www.argus-vickers.co.uk

About Hardman & Co

Hardman & Co is a rapidly-growing, innovative corporate research & consultancy business, based in London, serving the needs of both public and private companies. Its expert team of nearly 35 sector analysts and market professionals collectively has more than 400 years of experience. This depth of knowledge and a reputation for integrity have built trust with investors. With effective communication and carefully-targeted distribution, Hardman & Co helps companies disseminate their investment message to interested investors, as well as advise them on strategy.

Our smaller, boutique structure allows us to provide first-class customer service and to deliver a wide range of ad-hoc services for multiple clients with different needs.

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Ben has spent a career in the B2B media sector, as a publisher, and head of events, marketing and business development. His career includes spells at Euromoney Institutional Investor, Caspian Publishing, jointly running Real IR and Vitesse Media (now Bonhill Group Plc), publishers of *Growth Company Investor* and *What Investment*, and manager of the Quoted Company Awards. He started at Argus Vickers in February 2017, and heads up the sales function, with a focus on cultivating the knowledge and understanding on the value of shareholder intelligence.

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The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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