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Share ownership:

For the many, not the few?

By Hardman & Co in collaboration with Argus Vickers

ARGUS VICKERS®
Intelligent Shareholder Analysis

Table of contents

Share ownership: for the many, not the few? 3
Conclusions 3
Setting the scene 4
The purpose of this paper 4
Share ownership as a whole 5
Methodology 10
Disclaimer 15

Share ownership: for the many, not the few?

The Office for National Statistics (ONS) is due to publish its most up-to-date survey on share ownership in mid-January, which identifies the beneficial owners and decision- makers of the stock market. Hardman & Co has worked together with the share analysis service, Argus Vickers, to jointly produce its own survey, which anticipates the conclusions of the ONS survey but goes into much greater detail. Our work does not use a sample of 200 quoted companies as the ONS historically has, but rather includes *every* UK quoted company. The ONS samples share registers every two years; our study uses six-monthly data points. Our survey also extends to shareholders on NEX; the ONS does not.

Investors from the rest of the world (i.e. ex-UK) continue to dominate share registers for Main Market-listed stocks on the London Stock Exchange but are less critical to AIM and NEX.

Retail investors continue to grow their ownership of quoted companies and are far more influential to price formation than many advisors and company managements understand.

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 (maybe we should denote it as BW and PW?) environment, 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. Just focusing on institutions is no longer going to cut it. Ignoring retail is not only unfair on these investors, but it 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.

Conclusions

Looking at the trends in the Argus Vickers/Hardman & Co dataset, we find that:

- retail investors continue to grow their share of the market;
- Rest of the World (RoW) investors remain the largest shareholders on the Main Market; and
- AIM and NEX have a very different shareholder structure from the Main Market. On AIM, retail is only second to the RoW, and dominates NEX.

Company managements need to understand who is mainly responsible for share price formation – it's probably not who they think!

Our analysis of the London Stock Exchange dataset tells us that, in November 2019, 82% of AIM stocks and 75% of Main Market stocks had an average trade size below £10,000. While institutions may be the largest holders on the share register, they tend to trade in blocks, often infrequently. Even then, the price at which they trade starts from the price that already exists in the market, and our evidence suggests this is set, for most companies, by retail investors.

Finally, we consider ways for management to better engage with all investors to generate a fuller appreciation of the investment issues and improve that increasingly vital liquidity.

Setting the scene

The ONS has been charting the beneficial ownership of UK quoted companies every two years since the early 1960s[1].

The ONS surveys have identified three key themes over the past half century:

- The decline and subsequent recovery of the retail investor. 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 most recent survey, for December 2016, showing a figure of 12.6%.

- The rise of overseas investors. 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).

- Institutional investors discovered the equity market in the early 1960s and came to dominate it by Big Bang. Since then, their influence has declined, due partly to the rise of overseas investors, and partly because of a move to more risk-averse approaches by, for example, pension funds. They remain important, but less so than many advisors believe, particularly for generating liquidity and in price formation.

The purpose of this paper

Hardman & Co has worked with Argus Vickers, the complete intelligent shareholder analysis service, to produce our own survey of beneficial ownership. Partly, we have produced this survey to anticipate the results of the next ONS survey, which will consider the data for December 2018 and is due to be published on 14 January 2020; however, our survey provides a deeper level of analysis than the ONS version.

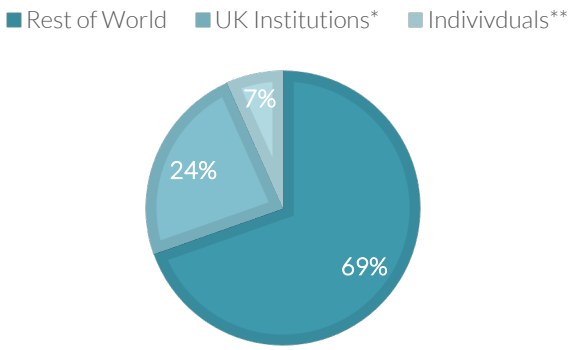
The results of our survey will differ from the ONS survey for a number of reasons, outlined in the *Methodology* section. However, the relative sizes of the different categories and their trends over time between the two surveys seem to be very similar.

[1] Statistics Bulletin: Ownership of UK quoted shares: 2016

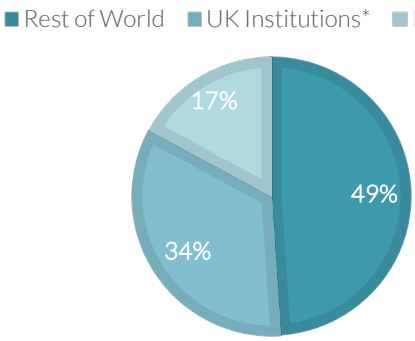
Share ownership as a whole

Ownership of the FTSE 100 is substantially different from the rest of the Main Market, as the two pie charts show below.

Ownership of the FTSE 100 at 30 June 2019



Ownership of the Main Market X-FTSE 100 at 30 June 2019



Source: Argus Vickers, Hardman & Co Research

To simplify the presentation in these charts, we have combined certain categories, explained in the footnote[2]. The full categories are displayed later.

RoW investors dominate the Main Market

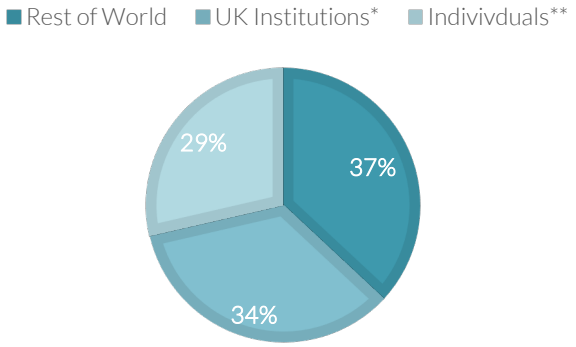
The charts above show ownership being dominated by RoW investors. The pie charts also demonstrate that individuals domiciled in the UK are clearly far more important to the Main Market, excluding the FTSE 100, than they are to the FTSE 100. As we will demonstrate later, their influence on liquidity and price formation is even more critical than these figures suggest. RoW investors dominate the Main Market.

AIM and NEX markets compared for the first time

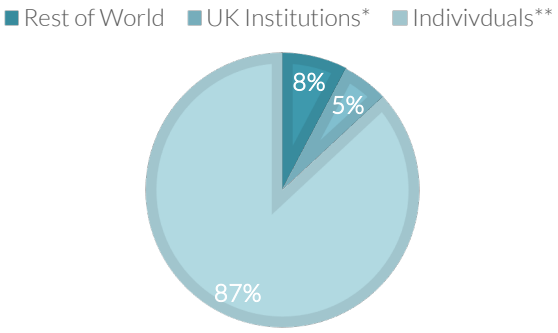
For the first time, we can reveal the picture for the NEX market. Some think of NEX as an alternative to AIM. The two markets may have many characteristics in common – for example, appealing to growth companies – yet the distribution of ownership by investor type is certainly very different. The retail investor dominates NEX, but accounts for nearly a third of AIM.

[2] UK institutions* includes investment trusts, unit trusts, other financial institutions, pension funds, Insurance companies, 'charities, churches, etc.' and banks; Individuals** combines individuals and private non-financial companies

Ownership of the AIM at 30 June 2019



Ownership of NEX at 30 June 2019



Source: Argus Vickers, Hardman & Co Research

The full split of shareholders by category is set out in the tale below.

Holdings of quoted companies by beneficial owner by value %, excluding "Unknowns"

At 30 June 2019	Whole LSE Market (ex NEX)	FTSE 100	Main Market (ex FTSE 100)	AIM	NEX
RoW	64.0%	69.6%	48.9%	36.9%	7.6%
Investment trusts	12.8%	11.3%	17.2%	17.1%	1.3%
Individuals	8.3%	5.3%	15.7%	27.1%	52.0%
Unit trusts	6.4%	5.7%	8.4%	9.1%	0.0%
Other financial institutions	3.1%	2.8%	3.7%	6.4%	0.4%
Pension funds	1.8%	1.9%	1.8%	0.7%	3.3%
Private non-financial companies	1.4%	1.3%	1.4%	1.5%	34.9%
Insurance companies	1.3%	1.3%	1.6%	0.4%	0.0%
Charities, churches, etc.	0.8%	0.7%	1.3%	0.6%	0.4%
Banks	0.0%	0.0%	0.0%	0.1%	0.0%
Public sector	0.0%	0.0%	0.1%	0.1%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Argus Vickers, Hardman & Co Research

Readers should note that it has not been possible to identify the beneficial holders of all stock. We have excluded "Unknowns" from the charts and table above. They represent 8.4% of the FTSE 100, 12.1% of the rest of the Main Market, 7.2% of AIM and 27.8% of NEX.

Share ownership trends – RoW investors

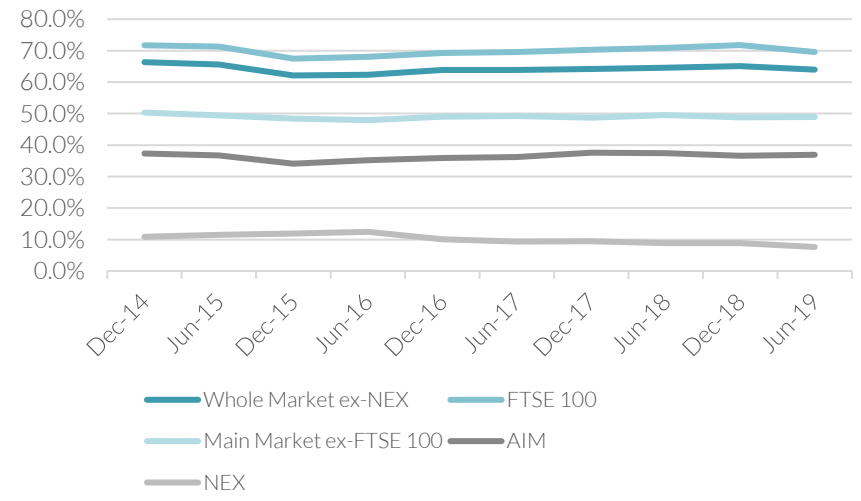
The latest ONS survey demonstrated the dramatic rise of RoW investors.

Our survey provides six-monthly data points over the past five years[3]. Broadly, we find that RoW investors continue to dominate the Main Market. Five years ago, they represented 71.7% of the FTSE 100, compared with 69.6% at 10 June 2019. For non-FTSE 100, Main Market-listed stocks, the figures were 50.3% and 48.9%, respectively.

For the two markets targeted at smaller and mid-sized companies, RoW investors have never been so significant. Back in December 2014, they owned 37.3% of AIM, and a mere 10.9% of NEX. The share of AIM had fallen a little to 36.9% by June 2019, and to 7.6% of NEX. The trends are illustrated in the following chart.

[3] All the figures in this section are after taking out "Unknowns"

RoW investors' share over time



Source: Argus Vickers, Hardman & Co Research

Share ownership trends – retail investors[4]

The ONS has pointed out that the marked decline in the share of retail investors since 1963 seems to have come to an end. Our data suggest that its next survey will show a further uptrend in retail ownership.

Retail investors over time

	Dec-14	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17	Dec-17	Jun-18	Dec-18	Jun-19
Whole LSE Market (ex NEX)	6.6%	6.9%	7.5%	7.3%	7.3%	7.7%	8.0%	8.1%	8.1%	8.3%
FTSE 100	3.8%	4.1%	4.4%	4.3%	4.2%	4.4%	4.6%	4.7%	4.7%	5.3%
Main Market (ex FTSE 100)	13.7%	13.9%	14.2%	14.0%	14.7%	15.3%	15.7%	15.6%	15.7%	15.7%
AIM	27.3%	28.1%	29.1%	28.7%	28.5%	28.8%	27.8%	27.2%	27.1%	27.1%
NEX	51.3%	50.6%	50.5%	50.5%	47.9%	48.3%	48.4%	46.3%	51.4%	52.0%

Source: Argus Vickers, Hardman & Co Research

The upcoming ONS survey will compare the data for December 2018 with the data for December 2016. The table above shows that retail ownership of the Main Market between those dates continued to expand. While the absolute percentages we have measured differ from the ONS survey, the direction is clear.

Share ownership and liquidity

Liquidity has become critical to professional investors post-Woodford

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

[4] Unlike the first four tables, this table considers the "individuals" category on its own and excludes private non-financial companies

in private companies of 10%[5]. 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[6]. 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.

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.

[5] 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".

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

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 pro-actively 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[7]. Also recently, Mark Payton, CEO of Mercia Technologies, was forced to apologise for not including a retail offer in a further fundraising[8].

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.

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.

[7] 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

[8] 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

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 has historically used a sample of 200 companies quoted on the London Stock Exchange, from which its results are extrapolated. The Argus Vickers/Hardman & Co survey does not use extrapolation, 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 use. However, we cannot be sure we have perfectly matched their definitions without cross-referencing their 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 will be struck at December 2018.

For those who do want to compare the data, the table below sets out the detail. The most recent ONS survey published was for the data at December 2016. The table gives a comparison between the ONS and Argus Vickers/Hardman & Co work for the same date, the same categories of investors and the same stock universes.

Holdings of quoted companies by beneficial owner by value %, excluding "Unknowns": ONS and Argus Vickers/Hardman & Co compared								
At 31 December 2016	Whole LSE Market (ex NEX)		FTSE 100		Main Market (ex FTSE 100)		AIM	
	ONS	AV/H & Co	ONS	AV/H & Co	ONS	AV/H & Co	ONS	AV/H & Co
RoW	53.9%	63.8%	56.0%	69.3%	48.5%	49.0%	42.8%	35.9%
Investment trusts	2.4%	11.8%	2.0%	10.9%	2.3%	14.5%	2.4%	13.8%
Individuals	12.3%	7.3%	9.5%	4.2%	19.4%	14.7%	29.7%	28.5%
Unit trusts	9.5%	7.0%	9.1%	5.8%	10.4%	10.2%	11.3%	12.0%
Other financial institutions	8.1%	3.5%	8.1%	3.3%	8.3%	3.9%	8.3%	6.0%
Pension funds	3.0%	2.8%	3.0%	2.7%	3.0%	3.1%	2.8%	1.1%
Private non-financial cos.	2.2%	1.6%	2.6%	1.6%	1.1%	1.4%	0.2%	1.4%
Insurance cos.	4.9%	1.5%	5.0%	1.5%	5.0%	1.4%	1.8%	0.5%
Charities, churches, etc.	1.0%	0.6%	1.1%	0.5%	0.7%	1.2%	0.4%	0.7%
Banks	1.8%	0.0%	2.0%	0.0%	1.2%	0.1%	0.4%	0.0%
Public sector	1.1%	0.0%	1.5%	0.0%	0.0%	0.5%	0.0%	0.1%
Total	**100.2%**	**99.9%**	**99.9%**	**100.0%**	**99.9%**	**100.0%**	**100.1%**	**100.0%**

Source: ONS, Argus Vickers, Hardman & Co Research

Clearly, there are differences between the datasets. One is not right and the other wrong. They are measuring slightly different things. The trends the two sets of data throw up seem to be consistent, though.

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

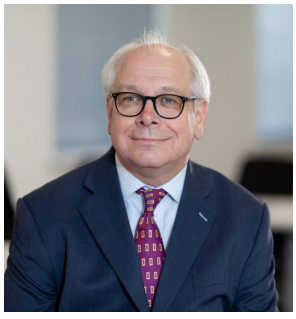
About Hardman & Co

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.

www.hardmanandco.com

About the authors



Keith Hiscock is the Chief Executive of Hardman & Co

He is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate. Keith has 40 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.

Yingheng Chen is a senior financial analyst at Hardman & Co

Yingheng has particular experience in the markets for palm oil, cocoa, citrus, coconut, Jatropha and sugar. She worked as a corporate finance analyst at the Agricultural Bank of China, and is fluent in Cantonese and Mandarin. She has a thorough understanding of the Chinese financial and business markets, as well as of those in the UK. Yingheng joined Hardman & Co in 2008. She holds the Chartered Financial Analyst Level 2 qualification, together with a BSc in Economics from the London School of Economics.

Ben Brougham is Head of Sales & Marketing at Argus Vickers

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.

Telephone +44 (0) 203 370 3344
Email: *bbrougham@argusvickers.com*

Richard Downard is Head of Business Development at Argus Vickers

Richard started his career as a trader in the London capital markets, working for firms such as BZW, Panmure Gordon and Jeffries. He has more than 25 years' experience covering global equities, specialising in UK/Pan-Euro/Canadian and Small/Mid-Cap and Natural Resources companies. Richard is a proven account relationship manager with extensive Institutional and Broker/Dealer contacts. He joined Argus Vickers in May 2016.

Tel: +44 (0) 203 405 5146
Email: *rdownard@argusvickers.com*

Antonio (Tony) Martins is an IT Consultant at Argus Vickers

Tony Martins started his career as an Environmental Data Analyst, using Relational Data and Satellite images to analyse environmental impacts in areas of Hydroelectric Power Plants, working for companies such as CESP, CETESB and AXA-IM. With over 30 years' experience working in Database Technology, he has been creating and implementing processes and data analysis reports. Tony joined Argus Vickers in July 1999.

Tel: +44 (0) 203 370 3350
Email: *amartins@argusvickers.com*

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research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com