Investment company liquidity – steady as she goes, but could be better

A review of investment company liquidity in London since 2016

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Summary

- Liquidity is the lifeblood of equity markets.
- Following the events at the Woodford Equity Income Fund (WEIF), in 2019, professional investors, increasingly, focus on liquidity when making investment decisions.
- Hardman & Co is employed to analyse liquidity by Authorised Corporate Directors, Depositaries, stock exchanges and for court cases. We have published a number of publicly available reports on liquidity data.
- This report builds on our previous work, which analysed the liquidity data for non-financial trading companies, by applying the same analytical techniques to the investment companies (IC) space.
- We analyse liquidity for ICs as a whole, compare traditional with alternative ICs, interrogate the data in market capitalisation (MCap) baskets and, finally, by AIC sector.
- Liquidity for ICs has not seen the sharp decline experienced by quoted trading companies. However, typically, it is lower than that for trading companies.
- Having noted the steady liquidity across time for the IC space as a whole, our work does show that there seems to have been a decline in that for the smallest ICs; this is part of the pressure on these boards, forcing mergers.
- Finally, we consider the consequences of falling liquidity and outline some suggestions to help IC teams improve liquidity in their shares to become more attractive to investors; many have recognised the positive impact that sponsored research can have.
- Where appropriate, we have kept sections of the text as it was in our previous report.

Liquidity for investment companies

Companion note to our one on trading company liquidity, in October last year

Hardman & Co published a note about liquidity back in October 2023, in cooperation with Winterflood Securities.[1] That note covered trading companies only, excluding investment companies. This note analyses the data for investment companies, and also compares the data between the two "asset classes".

We have used the same methodology for both notes, details of which can be found in the *Methodology* section below. Readers of our previous note will realise that some sections are repeated here, since identical comments are, at times, appropriate.

[1] Liquidity – shrinking when it's most needed, 5 October 2023.

Liquidity – good or bad?

Many worries about the future of the UK stock market…

The London equity market is under a particular spotlight at the moment, and many commentators worry whether its global significance is threatened. Participants are concerned about issues such as the decline in IPOs, the "loss" of IPOs to Wall Street, the shrinking number of quoted companies, listing rules, and the availability of research.

…this note focuses on liquidity

This report seeks to understand another fundamental aspect of healthy markets about which participants are concerned – liquidity. Indeed, it is difficult to describe an exchange as a market if it rarely trades. This paper seeks to answer the question of what has really happened to liquidity in the IC space. We also consider ways that ICs can improve liquidity in their own shares.

What is liquidity?

The Oxford English Dictionary defines liquidity as *"the availability of liquid assets to a market or company"*, with liquid assets being *"a high volume of activity in a market"*. In short, liquidity is the lifeblood of markets, and measuring it over time is a way of gauging a market's health.

Why does it matter?

Some investors have always kept an eye on liquidity. The primary reason is that they need to know how easy it will be to build their normal size position in a stock – and to get out of it when they come to sell; understandably, this mainly applies to professional investors.

Since Woodford, liquidity has become more important for institutional investors

However, many professional investors paid little attention to liquidity, until the unfortunate events surrounding the Woodford Equity Income Fund (WEIF) became public. This open-ended fund was subject to a wave of redemptions, which, at first, was met by selling holdings in liquid FTSE 100 companies; as these holdings were exhausted, the manager was left with holdings in smaller quoted companies, and even private companies, for which it struggled to find buyers. Eventually, the fund had to be "gated", i.e., dealings were suspended.

Subsequently, the Treasury Committee of the House of Commons investigated the events. The Financial Conduct Authority (FCA) provided a report to the Committee, which analysed the remaining WEIF holdings by the average number of days it would take to get out of each holding.[2] The FCA then sent a letter to fund managers highlighting their responsibility to pay attention to the liquidity of their portfolios.

Today, the compliance community takes the issue of liquidity very seriously and, for fund managers, it is a fundamental part of their investment decisions.

[2] Letter from Andrew Bailey, then CEO of the Financial Conduct Authority, 18 June 2019. Obviously, this was a backward-looking measure of portfolio liquidity and not a forecast of how long it would actually take to liquidate a position.

The consequences of low liquidity

Poor liquidity destroys public markets…

So, what are the practical impacts of low liquidity? First, the interest of some investors, principally institutions, wanes. As volumes fall, market-makers find it trickier to make two-way prices; spreads widen, and quoted sizes shrink. Eventually, this vicious circle causes the market to move to an auction basis, and finally become indistinguishable from trading in private companies. It is a downward spiral that can feed on itself.

…by reducing the appeal to investors and making it more difficult to raise new money

Lower levels of liquidity make a share or market less appealing to investors. Of course, there are investors who will buy private companies, but they know they will probably be locked in, having to wait for an occasion to sell, if at all, which partly explains the lower valuation multiples. By contrast, most investors prefer the flexibility of a public market, where they can more easily buy or sell at will.

Lower liquidity contributes to the difficulty of raising new equity in the IC sector (alongside other issues, such as discount to NAV, underperforming the benchmark and an asset class falling out of fashion). If fewer investors are interested in a company, it generally means that the valuation will be lower.

Defining liquidity

Many ways to measure liquidity. Each has its own value…

Liquidity in equity markets can be measured in many ways and different investors will look at it from different angles. The main definitions are set out below, but, obviously, all of these measures are backward-looking:

1. **The number of days traded:** Even if just one share changes hands, that day is considered a "traded day". The investor then compares the number of traded days to the total number of days on which an equity could have traded in any one year. The resulting percentage is the measure of liquidity; the higher the better. This measure is crude and not widely used.

2. **The pounds million traded in a year:** Imagine a £1bn fund with 20 holdings of £50m each. The fund manager might use the pounds million traded in the year to judge how long it would take to build his normal position, and, eventually, to get out of it. In its submission to the Treasury Committee of the House of Commons about the WEIF, the FCA measured the liquidity of the fund in terms of the average number of days traded it would take to sell each position. This measure favours big cap companies because, generally, the larger the market cap of a company, the larger the £m traded in a year.

3. **The normal market size:** This is the size in which one can easily deal with a market-maker in one shot. In a sense, it is the measure of immediate liquidity. It has its value as a measure in the short term, but we prefer to use a longer-term measure of liquidity.

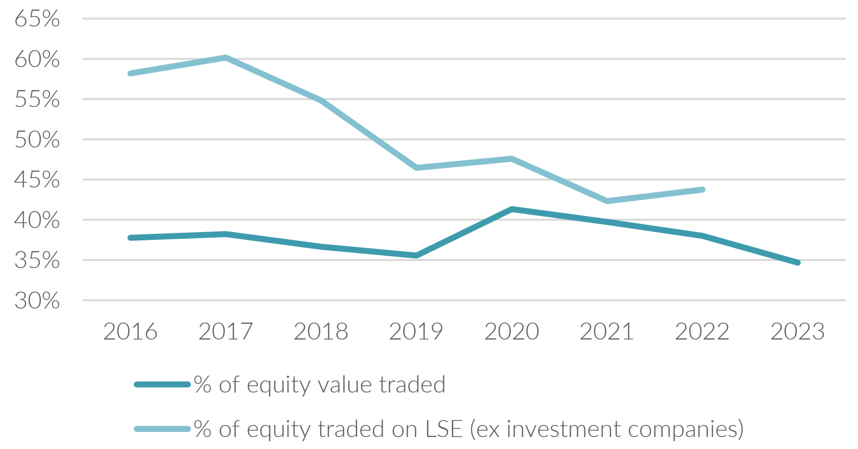
….but our preferred method, for this paper, measures the percentage of a company that trades

4. **The percentage of the share capital traded in a year:** This measure compares the total number of shares traded in a year with the average number of shares in issue in the period. The average number of shares in issue is calculated by using the average of the number of shares in issue on the first and last trading days of the year. Another way to assess this is to compare the total value traded to the average MCap for the calendar year, which is the method used in this paper. The higher the percentage of shares traded, or ratio of value traded to MCap, the more liquid a company's shares are. So, if the result is 100%, it means that an investor could, theoretically, have bought the entire company in the year, or sold it. This is misleading, though, because, for example, it might be that the same 10% stake changed hands 10 times! While we recognise that the other measures have their uses, this is our preferred measure to assess a market, because i) it is calculated over a long time period, and ii) it is blind to a company's market capitalisation.

However, as with all methodologies, the fourth measure does need to be taken in context and does have downsides. See the *Methodology* section for an explanation of these.

Liquidity over time – the whole market

Liquidity for the whole market: % of equity traded 2016-23



Source: LSEG, London Stock Exchange, Hardman & Co Research

The chart above looks back to 2016. It uses our preferred methodology for measuring liquidity, comparing the total value traded with the average MCap for each calendar year for two cohorts of companies:

- LSE-listed ICs, excluding Venture Capital Trusts (VCTs);[3] and
- LSE-listed trading companies, excluding "funnies", ICs and financials, leaving us with what most commentators would describe as "trading companies".

For more detail on the definitions, refer to the *Methodology* section, later in this report. Our previous paper looked at liquidity in trading companies between calendar 2016 and 2022; we have not updated that data for calendar 2023, hence the line in the chart for trading companies is shorter than that for ICs.

IC liquidity more stable over time than for trading companies, albeit at a lower level

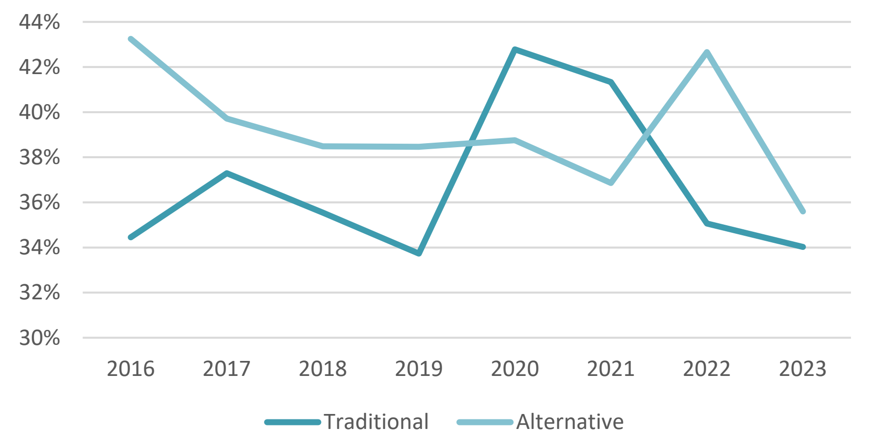
The message from the chart is that liquidity in ICs has been more stable in recent times than for trading companies, albeit at a consistently lower level. Back in 2016, the liquidity for ICs, by our measure, was just under 38%, which had fallen to just under 35% by 2023. Contrast that with trading companies, where 2016's figure of around 60% shrank to 45% by 2022.

While IC liquidity has enjoyed a trajectory which is better than that of trading companies, why is it lower? This might be a good subject for a further note. One reason is that some professional investors use ICs as a way of getting exposure to certain asset classes in which they do not have management expertise; they tend to buy a stake and then just hold it, thereby reducing the liquidity for that IC.

[3] We exclude VCTs because the vast bulk of investors buy these and hold for a minimum of five years to get favourable tax benefits.

Liquidity over time – traditional versus alternative ICs

Traditional vs. alternative ICs: % of equity traded 2016-23



Source: LSEG, London Stock Exchange, Hardman & Co Research

This chart breaks our data between the traditional and alternative ICs. There are no official definitions of these baskets, but we think most observers would agree on these: we define traditional ICs as those whose funds are mainly or wholly invested in publicly traded assets, such as equites and bonds. In contrast, alternative funds mainly or wholly invest in private assets, such as wind farms or private companies.

Many would think liquidity in alternatives would be worse – it is not

Back in 2016, liquidity in alternatives was far higher than in traditionals, but the picture has since become less clearcut. Some may be surprised that, historically, liquidity in alternatives has been the better of the two baskets. We suspect that many would have assumed that the reverse would be true, and this assumption may have discouraged investment into alternatives.

Given what we said earlier about some institutions using ICs as a way of getting access to specialist management in certain asset classes, which, typically, will be alternatives, it is no surprise that a recent report from the Association of Investment Companies (AIC) and Argus Vickers[4] estimated that institutions own 70% of alternatives but only 36% of equity ICs. On the face of it, that should mean lower liquidity in alternatives, but the evidence shows that is not the case. However, there is a long tail of small institutions (small in terms of their IC holdings, anyway), some of which might have shorter time horizons, including arbitrageurs and other discount players. In contrast, perhaps, many retail investors are buy-and-hold.

[4] The ownership of investment companies, February 2024.

Liquidity over time, by MCap bands

% traded by MCap band, 2016-23

MCap basket	2016	2017	2018	2019	2020	2021	2022	2023	Change
< £25m	37.2%	40.0%	44.7%	32.3%	21.0%	22.9%	11.5%	18.8%	-18.4%
£25m-£50m	29.5%	28.4%	25.7%	27.6%	37.3%	59.7%	41.1%	23.8%	-5.7%
£50m-£100m	28.3%	34.7%	28.6%	29.3%	31.0%	37.3%	23.7%	23.6%	-4.7%
£100m-£200m	31.8%	36.6%	34.7%	32.3%	30.3%	39.5%	35.8%	32.6%	0.9%
£200m-£500m	34.1%	35.7%	35.2%	34.0%	42.1%	38.4%	33.3%	35.5%	1.4%
£500m-£1,000m	37.3%	34.5%	33.6%	38.0%	44.6%	45.8%	40.9%	34.2%	-3.1%
£1,000m-£2,000m	47.0%	37.3%	35.3%	36.5%	40.4%	38.4%	41.4%	37.5%	-9.5%
> £2,000m	38.0%	47.6%	44.5%	35.1%	41.6%	37.7%	36.9%	33.4%	-4.6%

Source: LSEG, London Stock Exchange, Hardman & Co Research

In the table above, ICs are allocated to a MCap size band each year, based on their MCap at the end of each calendar year; thus, a company could be in a different size band every year in the table. Clearly, as we focus down on a narrower set of companies, any one company can have a "disproportionate" impact on the result.

Lower liquidity is one reason smaller ICs are merging

The message is that liquidity is better for larger ICs, which is probably not a surprise to the reader. One clear conclusion is that, for the smallest ICs, those below £25m, liquidity, in the round, has dried up. This has been reflected in the pressure that many boards of smaller funds have felt from investors. We have already seen mergers between smaller funds, driven partly by this.

For completeness, the table below shows the number of companies in each band in each year.

Number of companies by MCap band, 2016-23

MCap basket	2016	2017	2018	2019	2020	2021	2022	2023	Change
< £25m	18	23	19	22	17	18	19	20	2
£25m-£50m	17	15	23	17	17	15	13	16	-1
£50m-£100m	42	35	43	45	42	44	40	34	-8
£100m-£200m	71	70	65	59	59	55	55	57	-14
£200m-£500m	100	103	110	107	99	96	90	87	-13
£500m-£1,000m	43	52	49	54	58	62	58	51	8
£1,000m-£2,000m	18	24	26	27	28	32	36	36	18
> £2,000m	6	8	9	11	16	20	19	16	10
Total	315	330	344	342	336	342	330	317	2

Source: LSEG, London Stock Exchange, Hardman & Co Research

Liquidity over time, by sector

% traded by sector, 2016-23

Sector	2016	2017	2018	2019	2020	2021	2022	2023	No. of companies in 2023
APAC	34.7%	38.8%	40.6%	33.6%	48.4%	45.6%	32.2%	35.3%	34
Biotechnology & Healthcare	44.6%	36.3%	34.4%	33.9%	45.3%	39.5%	34.3%	43.3%	7
Commodities & Natural Resources	49.8%	42.2%	31.0%	41.9%	63.7%	96.1%	76.3%	47.9%	8
Debt	42.8%	35.9%	33.8%	38.4%	40.9%	32.3%	32.2%	31.0%	23
EMEA	33.6%	37.4%	37.0%	37.2%	42.8%	41.0%	29.5%	32.5%	11
Environmental	30.6%	38.6%	30.1%	59.1%	61.4%	44.6%	30.4%	40.2%	3
Farmland & Forestry	16.9%	16.4%	n/a	n/a	n/a	4.7%	20.8%	12.5%	1
Financials	78.1%	42.1%	25.1%	26.8%	42.9%	93.5%	54.0%	49.1%	2
Flexible Investment	23.4%	23.6%	20.3%	24.8%	31.4%	29.1%	35.3%	32.7%	20
Global	34.3%	41.4%	36.8%	32.5%	43.0%	43.3%	36.0%	32.8%	36
Growth Capital	n/a	n/a	n/a	41.3%	21.9%	36.5%	20.2%	19.3%	6
Hedge Funds	60.7%	29.0%	37.4%	27.8%	35.8%	22.6%	41.4%	33.9%	5
Infrastructure	42.0%	41.8%	43.9%	32.9%	33.2%	30.4%	38.2%	35.4%	11
Insurance & Reinsurance Strategies	17.0%	31.3%	48.3%	30.9%	26.3%	40.0%	8.7%	7.2%	2
Latin America	65.8%	39.3%	30.2%	28.4%	23.2%	43.8%	70.2%	41.1%	1
Leasing	22.0%	28.3%	22.1%	27.5%	26.0%	273%	27.5%	19.2%	6
Liquidity Funds	9.8%	38.9%	13.8%	84.4%	13.8%	16.6%	15.3%	32.3%	1
North America	35.8%	38.4%	34.8%	36.7%	49.9%	50.2%	27.8%	23.9%	9
Private equity	40.0%	43.6%	40.5%	36.9%	33.5%	32.4%	32.7%	33.3%	17
Property Direct	51.3%	40.3%	41.9%	45.0%	47.5%	52.3%	66.4%	46.3%	35
Renewable Energy Infrastructure	35.8%	32.0%	29.7%	38.6%	38.0%	32.8%	40.8%	31.3%	22
Royalties	n/a	n/a	n/a	50.0%	55.3%	37.1%	49.1%	55.6%	1
Technology & Media	33.2%	38.0%	38.1%	37.4%	59.5%	44.5%	42.2%	42.4%	3
UK Quoted	35.2%	35.6%	36.4%	38.6%	41.1%	41.4%	36.7%	37.8%	53
Utilities	26.8%	49.9%	42.4%	n/a	n/a	n/a	n/a	n/a	0

Source: LSEG, London Stock Exchange, Hardman & Co Research

AIC sector changes over the years mean readers should be careful in their interpretation of this table

In the table above, we show the data by AIC sector. The AIC sector to which an IC is allocated is determined each year; thus, a company could be in a different sector every year in the table (although, in practice, of course, companies do not move sectors that frequently!). In some cases, we have amalgamated sectors (such as APAC) for ease of reading. AIC's sector definitions have changed over time, with new sectors being added and others retired; this explains the "n/a"s in the table. Another caution to note is that the components of each sector can change. As an example, we have included "Farmland & Forestry", which had one component between 2016 and 2017 and again between 2021 and 2023; the reader may have guessed that this is not the same company! The fewer the number of constituents of a sector, the more possible it is for one company to have a disproportionate effect on the aggregate.

Some sectors have consistent liquidity

The table throws up lots of messages, which we leave the reader to discover. For example, the grouping of UK Quoted sectors has exhibited very consistent liquidity over time. In contrast, Latin America has been on a rollercoaster, with liquidity down at 23.2% in 2020, and up to 70.2%, two years later.

Why has liquidity fallen?

Post-Woodford investment approach caution, long-term decline in UK institutional ownership of LSE-listed companies and changes in allocation of domestic pension funds among the many factors contributing to liquidity decline

We believe that many factors have contributed to the decline in liquidity that we have measured:

- Woodford: The events discussed above have contributed to a more cautionary approach to investment by professional fund managers. Not wanting to invest in companies, whose shares are considered too illiquid, only further reduces the liquidity in those shares. It is ironic that, at the same time as professional investors have paid more attention to liquidity in public markets, many have been increasing their allocation to relatively illiquid private equity funds.

- In 1981, 68.2% of LSE-listed companies was owned by UK institutional investors; by 2020, that figure had fallen to just 31.6%.[5] There are many factors behind this decline, but one that is attracting attention is the shift of pension fund assets from equities into bonds and other assets.

- A recent paper from the Capital Markets Industry Taskforce shows how the allocations by domestic pension funds has changed: *"Over the past 25 years, UK pension funds have reduced their allocation to equities from 73% to 27% - and they have slashed their allocation to UK equities from 53% to just 6%."*[6]

Ways to improve liquidity?

So, if the lack of liquidity is an issue, what can be done to improve it?

We outline practical steps to boost liquidity…

Overhaul corporate communications so individual stocks stand out

- **Websites:** Revamp the company website and ensure it features high-quality, engaging content that sets out the corporate story clearly. The use of websites and the internet by investors seems to have lagged their use elsewhere. However, Hardman & Co's experience is that traffic has grown dramatically in the past few years. Companies need high-quality content for their sites, such as sponsored research.

- **Retail investor events:** The QCA and Hardman & Co jointly published a paper in November 2022[7] about the impact of such events for trading companies. There was evidence that such engagement could significantly improve liquidity; there is no reason to believe that the same is not true for ICs.

- **Invest in financial public relations** and investor relations support to develop the company narrative and advise on where, when and how to tell it.

[5] Data from surveys conducted by the Office for National Statistics. For more information, see Hardman & Co note, *Latest ONS survey: steady as she goes…and ignore retail investors at your peril*, 9 May 2020.
[6] Capital Markets Industry Taskforce: *Unlocking the capital in capital markets*, *https://capitalmarketsindustrytaskforce.com/wp-content/uploads/2023/03/2023.03-Unlocking-the-capital-in-capital-markets-New-Financial.pdf*, March 2023.
[7] QCA/Hardman & Co: *Quoted company engagement with retail investors – a new world*, October 2022.

More research

- **Increase the volume and value of equity research to inform trading decisions:** One solution might be to introduce stock exchange-sponsored research, similar to the models used in many overseas markets, including Germany, Australia and Israel, where the cost of analysis is subsidised by the market operator. Following the HM Treasury review of investment last year, consideration is being given to establishing an official research platform that might be subsidised to commission research.[8]

...which includes creating more news events through sponsored research

- **Sponsored research:** This is research about a company or fund, which is paid for by that issuer. It has become much more common practice for companies to engage with a sponsored research house, partly because, unlike brokers' research, it can be made available to every type of investor. Professional investors can consume it without breaching the MiFID II rules (covered by clause 12.3), and, as long as it meets certain criteria, it can be made available to retail investors without conducting a "know your client" exercise.

  Excluding VCTs, approximately 40% of alternative ICs use one or more sponsored research house, alongside 75% of traditional funds. Unfortunately, much of the sponsored product in the IC space is lightweight and little more than a "cut and paste" of what the fund has already published; much of it is really journalism. Good, sponsored research not only has credibility but is seen to be independent of management. It should explore the particular characteristics of the asset class in which the IC invests, why an investor would choose this particular manager in the class and what the risks are. This is a particular issue in the alternatives space where generalist IC analysts will lack the specialist sector knowledge required. We are not suggesting that writing about performance relative to benchmark and discount to NAV is wrong, rather that these are not the most important issues. For example, if the investor is looking at a debt investment company, analysis of the credit markets, the particular credit assets in the portfolio and credit risk are more important; a generalist IC analyst is unlikely to have the relevant experience and skillset.

  Hardman & Co is the longest-established sponsored research house in London and employs leading sector specialists for its work in the IC space. For example, our debt investment clients are covered by a former top-rated banks analyst, while renewables are the responsibility of an analyst whose career started floating the electricity companies back in the 1980s. We also bring to bear our skillset as specialist advisors on private assets, where our services are employed by Authorised Corporate Directors, big four accounting firms and lawyers for court cases.

- **Increase confidence in sponsored research:** Establishing a code of conduct that details how it is issued, funded and regulated would help.

- **Media coverage:** Getting its message in the press can help a company's profile. However, this is becoming increasingly difficult, especially for small and mid-sized quoted companies. The reduction in the pool of financial journalists is the main reason.

- **Release more news:** This is a suggestion from the QCA/Peel Hunt survey for trading companies. More relevant news keeps your story in investors' minds. Research from a sponsored research house can be part of the solution. For example, Hardman & Co's research is released into the Regulatory News Service (RNS) stream.

[8] UK Investment Research Review: https://www.gov.uk/government/publications/investment-research-review

The role of retail in liquidity

A healthy market needs lots of different types of investors with different approaches

It is worth spending a little time on retail investors. Engaging with them is a good way of improving liquidity.

A healthy equity market needs investors to be buying and selling all the time, with different benchmarks, aims and time horizons. An unhealthy market can occur when all investors share the same outlook, and, as a result, will all be buyers or sellers at the same time. This is often the case at the smaller end of the market when a small group of fund managers can dominate the share register and share the same time horizons and ways of looking at stocks, a kind of group-think.

One group of investors that have a variety of time horizons and ways of looking at companies is retail investors. Moreover, they are, generally, not put off by poor liquidity when considering investments because they are much smaller in size than professional investors.

Growing role of retail on share registers underestimates their impact on liquidity

Retail investors have become more important to the market in recent years as their aggregate ownership has grown. Hardman & Co has written extensively about this, using data from the Office for National Statistics (ONS) surveys of ownership of UK shares, every two years. The ONS work also shows the decline of the traditional UK institution, which owned 68.2% of the market in 1981 but just 31.6% in the latest survey (the data is from 2020).

This is likely to increase, as the factors that have driven direct retail investment in the equity market (such as Self-Invested Pension Plans, greater access to sponsored research and information on websites) are not going away. These influences are being reinforced by governance considerations (a movement to treat retail fairly and not as second-class citizens, part of the ESG agenda) and by the direction of regulatory movement; a recent example of this being the UK Secondary Capital Raising Review, led by lawyer Mark Austin, which recommends compulsory involvement of retail in secondary fund raisings.

Many IC managements recognise the value of employing sponsored research houses

74% of traditional ICs employ at least one sponsored research house, alongside 40% of alternatives. This is a clear indication that many managers have grasped the issue. Our work on trading companies shows that engagement with retail has a positive impact on liquidity.[9] In addition, Hardman & Co's work has demonstrated that retail investors have an even greater impact on trading volumes than their presence on the shareholder register would suggest.[10]

Methodology

1. **Calculating the percentage of shares traded in a year:** In this report, we calculate the percentage traded by dividing the total value of shares traded in each calendar year for all the companies included in the basket in question, by the average of MCap of all the companies added together on the first and last trading days of each calendar year.

   The perfect calculation using this methodology would involve creating an annual measure of MCap using the number of shares for every trading day. By using the average of the opening and closing MCaps, this report's data and charts might be misleading in individual cases because, effectively, the calculation assumes that, if the number of shares in issue (one of the components of MCap) changes in the year, it happens exactly in the middle of the year. However, it might be that the company issues more shares on day two of the year, in which

[9] *The Monthly: A different kind of beat: Boyzone, 1996;* November 2022

[10] Hardman & Co *Latest ONS survey: steady as she goes…and ignore retail investors at your peril*, 9 May 2022, pages 7 onwards.

case, the annual average we used will be understated; issuing new shares on day 364 of the year would mean that our average is overstated. However, by using baskets of shares in this report, these drawbacks for individual companies should, by and large, even each other out.

2. **Capturing shares traded:** We do not have a "consolidated tape" in the UK. In a consolidated tape, the trading data from every trading venue is pulled together to give a total figure for each day. We have used figures from the London Stock Exchange. This might be particularly misleading for some companies, which trade on several venues. The "Edinburgh Reforms", a series of measures announced by Jeremy Hunt, the Chancellor of the Exchequer, on 9 December 2023, include the ambition of "*Committing to having a regime for a UK consolidated tape in place by 2024*".[11]

3. **Our cohort of companies:** All the data used in this report refer to companies listed on the LSE, and which are members of the AIC; there are a few ICs that are not members of the AIC. For this report, we have excluded VCTs, since they are mostly bought by retail investors and held for at least five years to get the associated tax benefits.

   In the first chart in this paper, we compare liquidity in ICs with "trading companies". The detail of what is included in trading companies was set out in our October 2023 paper.[12]

4. **Particular definitions**
   - "All ICs": When we use this term, it means all AIC members taken together, but excluding VCTs. We have chosen to exclude VCTs for reasons set out above.
   - "Traditional ICs": We divide the universe of ICs into two broad types – traditional and alternative. A traditional IC is mainly invested in listed equities and securities.
   - "Alternative ICs": An alternative IC is mainly invested in unlisted assets, such as wind farms, solar or direct property.
   - Sector – we use the same sector definitions and allocations as the AIC

5. **Market capitalisation (MCap) bands:** In this report, one of the ways by which we have analysed the data is to put the companies into MCap bands. The band in which a company is included is determined by the MCap on the last trading day of each calendar year.

[11] *Financial Services: The Edinburgh Reforms*, 9 December 2022.
[12] *Liquidity – shrinking when it's most needed*, 5 October 2023.

About...

About Hardman & Co

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Our 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 precision distribution, we help companies disseminate their investment message to interested investors.

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About the authors

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Keith has published a number of papers on the issues facing companies and markets in today's climate.

His career in stockbroking started 45 years ago 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, 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.

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