shareholder voice

2021

Grasping the retail investor opportunity

EXECUTIVE SUMMARY

Grasping the Retail Investor Opportunity

By Paul Lynam, Group Chief Executive Officer, Equiniti

Over the last 18 months, we've seen non-institutional shareholders increase their access to and knowledge of equity markets — and exert growing influence over them.

Lockdowns played a crucial role, giving people more time to think about their financial circumstances, and to try and improve returns relative to rock bottom interest rates. All powered by popular online trading platforms.

Companies are responding and embracing these changes by engaging with shareholders. Communicating with investors who are also employees and customers builds loyalty and recruits powerful brand advocates. EQ has supported a record 19 IPOs in the first half of 2021, and, in many cases, this relationship with retail investors was a key consideration.

The proportion of overall capital owned by retail and employee investors compared to their institutional counterparts remains modest. But their impact in voicing displeasure can be disproportionate and amplified on social media. A large swathe of today's retail investors are under 40 years old and can be quick to make use of technology.

This influence has grown further as individual investors understand environmental, social and governance (ESG) and other fundamental issues as they relate to corporations.

Retail investors betting on certain corporate outcomes has, in some cases, led to violent share price swings in recent months. Some large IPOs were faced with negative headlines and poor feedback, depleting investor appetite and knocking share prices. The stock price often recovers after the initial shock, providing the business fundamentals are strong. But companies can avoid such issues and minimise reputational damage by anticipating retail investors' needs and keeping them onside.

Reflecting on this shift in the investment landscape, we've created a report that deepens understanding of the behaviour and motivations of retail investors. Our hope is that its findings can support companies in reviewing their practice, reporting and communication to better respond to the opportunities and challenges these changes may bring.

The report is based on our survey of 2,000 individual shareholders in the UK and US, combined with interviews with experts and company secretaries.

Survey participants include those enrolled in employee share plans and equity compensation schemes. The results show that some companies have a great opportunity to boost employee shareholder loyalty, including younger shareholders, by offering perks and discounts.

As a leading share registrar in the US and UK, we're delighted to continue bringing insight and ideas to strengthen our industry, and to explore how companies can harness retail shareholder participation for their mutual benefit, if they so choose.

CONTENTS

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Meet Tomorrow's Shareholder: Gen Z

Younger shareholders are now standing toe-to-toe with older generations of investors and could be set to surpass them in both size and influence.

EQ's Shareholder Voice survey sample revealed that 50% of all shareholders in the UK and US are aged between 18 and 40, and 18% are between 18 and 24 — the so-called Generation Z.

Gen Z currently comprise 20% of the population and are poised to become the "most disruptive generation ever", with the economic firepower to back their convictions, according to research from Bank of America.

By 2030 they will account for over a quarter of global income and their earnings will eclipse those of millennials, who are between 25 and 40 years old.

This surge of youthful shareowners could be a boon for public companies, but is not without its challenges. First, corporate executives need to fundamentally change their perception of retail investors, says Sheryl Cuisia, managing director and founder at Boudicca from EQ and incoming Chair of the UK Individual Shareholder Society (ShareSoc).

"In the US in particular, as well as Scandinavia, individual shareholders are starting to be perceived as young, cool and relevant," she says. "In the UK, where there is a track record of retired gentlemen hobbyists taking up investing, we are also seeing an increased diversification of individuals.

"With the ready availability of online trading platforms and the rise of cryptocurrency, it is no wonder younger generations are taking interest. This was exemplified by what we saw with the Wall Street Reddit traders earlier in the year.

"Also, more women are getting into investing. The increased diversity and inclusivity of the individual shareholder community, something ShareSoc strongly advocates, is a factor in the changing perception of UK individual shareholders.

"Individual shareholders have much to contribute to companies and society. Because they are singular, they struggle to be heard. But companies are realising there are millions of them, and they will collaborate more."

Nathan Long, senior analyst at investment platform Hargreaves Lansdown, says: "As younger retail investors engage more with their finances, their understanding of how companies work and perform will grow. This could be hugely beneficial for companies, particularly those that are consumer-facing and can build brand loyalty through share ownership."

This echoes the findings of EQ's survey, which shows that 37% of Gen Z investors in the US say being a consumer is a top three reason for buying a company's shares — the highest percentage of any generation.

89%

of Gen Z shareholders in both the US and UK either vote, or intend to vote, in AGMs

Shareholder Voice 2021

80%

of Gen Z factor ESG investing into their financial decisions

Bank of America, 2020

Long-haul investors

Some companies question whether it is worth engaging with young individual investors if they only buy and sell shares to make a quick buck. But this is a misconception.

The rise of trading platforms such as Robinhood in the US has helped younger people access shares more easily, including those that trade frequently. But EQ's research shows 80% of Gen Z shareholders have already voted in AGMs — the highest of any generation. Furthermore, another 9% says they would like to have their say at AGMs. This suggests most are committed, long-term investors.

Some commentators suggest younger investors are less concerned about share price, but are more likely to base their investment decisions on narratives and themes from Twitter feeds, Reddit threads and streaming news.

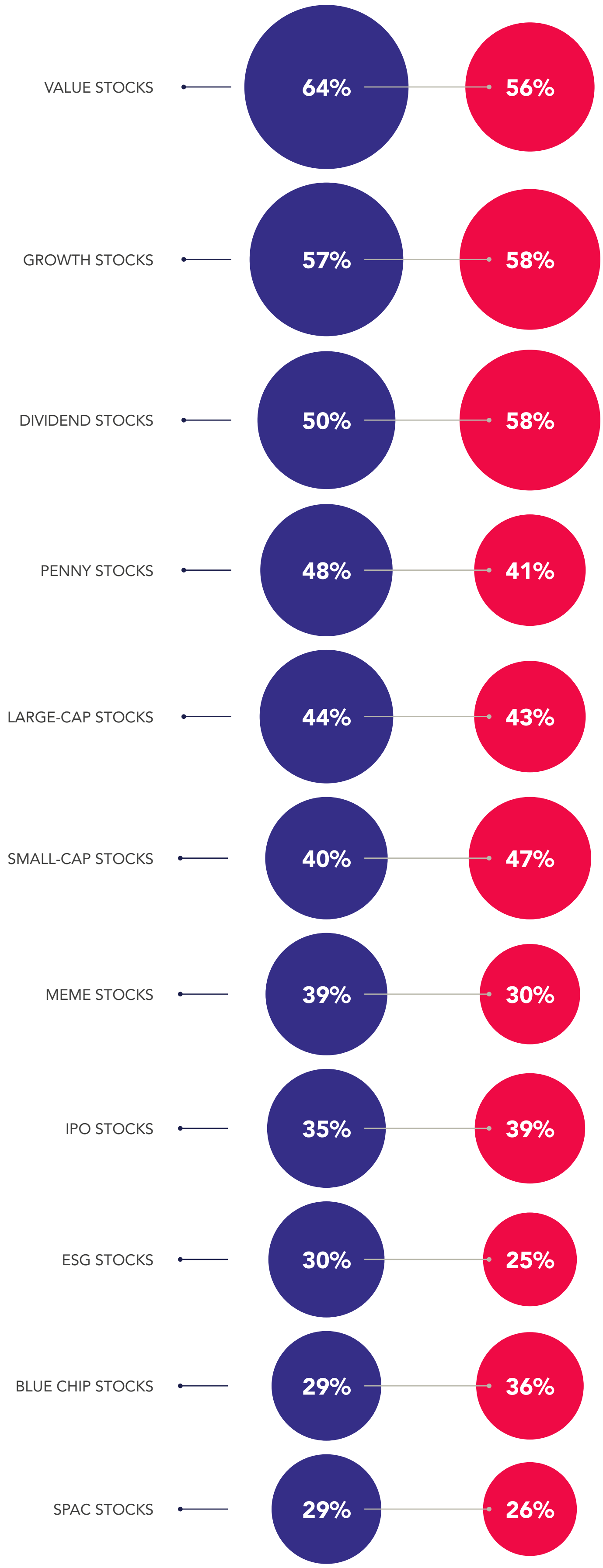
However, Motley Fool research suggests historical stability and investment researcher ratings are the biggest influence on Gen Z shareholder decisions, while social media and influencers are the least important.

In any case, there is an opportunity to engage with younger investors who do follow stories and themes. Building narratives in digital channels can gain shareholder engagement with a corporate's journey.

GEN Z ARE MORE LIKELY TO INVEST IN VALUE STOCKS

Gen Z All investors aged 18 to 40

The Motley Fool, US participants, April 2021



"Financial metrics are important," says Charlie Walker, head of equity and fixed income primary markets at the London Stock Exchange. "Increasingly we are also seeing investors willing to support longer-term missions, whether it's helping the transition to a green economy or building new disruptive technologies.

"In some cases, this is requiring investors to look to longer-term financial metrics and KPIs. This is also apparent in some prospectuses with language being more emotive and mission-driven."

"Themes and narratives do influence certain retail investors," adds Long of Hargreaves Lansdown. "But many are savvy and look at fundamentals. Rather than focusing on narrative to attract investors at the point of results, building a loyal retail investor base with a long-term investment narrative linked to the company brand may be more effective."

IPO engagement

EQ's research shows that 70% of Gen Z investors and 78% of millennials in the UK are interested in investing in more IPOs. Companies would do well to grab that opportunity.

The opportunity to build loyalty with young retail investors often starts with your initial public offering. Long says it is surprising that most companies planning an IPO do not have a retail component at the point of listing and only offer shares to institutional investors.

"Including retail investors at flotation is an excellent way to start with a loyal investor base," he says. "It is also crucial to then keep them front and centre of any decisions on communications and secondary funding."

Many hold cash, waiting for opportunities, says Long. "They then tend to hold shares for a prolonged period rather than dumping them on day one of trading. If you do offer to retail investors on IPO, draft prospectuses clearly and without jargon to appeal to people outside investment banks or asset managers.

“For too long, information about companies, including in annual reports and prospectuses, has been written for institutional investors, making it impenetrable to ordinary people. This will require a big shift in approach but is necessary to satisfy the new generation.”

Walker, of the London Stock Exchange, says: “Companies can broadcast much more widely than before — for example, using virtual AGMs and digital aspects in IPO roadshows. This helps them find different pockets of investors than they could have 10 years ago.

“Companies are also now able to engage with a wider set of their stakeholders by offering them shares more easily. The desire to do so is not being driven by the need for funding but instead asking ‘how can we build a community, including employees and customers, that are invested in the company and engaged in our story?’ A company can do this at any point but it is easier if they start at the IPO.”

Ethical challenges

Gen Z’s concern for corporate ethics is another theme that stood out from the EQ survey. As much as 82% of Gen Z shareholders in the US have experienced frustration when a company they invest in behaves unethically — the highest of any generation. What’s more, 85% of them believe companies are responsible for communicating on environmental, social and governance (ESG) issues, but only 58% say they feel companies are doing it enough.

“Retail investors can have a disproportionate effect in voicing displeasure as they become more sophisticated about ESG and other fundamentals,” says Paul Matthews, CEO, EQ Boardroom at EQ. “As ESG topics continue to grow in importance, companies need to deliver more quality information and perhaps even run a separate, dedicated shareholder meeting on them.”

Perhaps companies need to understand that ESG issues are personal for the younger generations.

Rachel Barrett, ESG partner at law firm Linklaters, says: “It’s easy to underestimate the strength of feeling about ESG. This generation are frightened about their future and it’s not a passing phase.

“But it’s also a huge opportunity for companies. Many are enthusiastic to promote their green credentials, but you must have a good, substantiated story.

“Saying nothing is also a danger. Explain what you have done, what you plan to do, and what’s going well. Where there are challenges, explain how you are addressing them. Don’t only talk about good news. The next generation’s appetite for information is enormous.”

85% UK

82% US

gen z shareholders have experienced frustration when a company they own shares in behaves in a way they consider unethical

Shareholder Voice 2021

Communication challenge

Cuisia encourages a robust communication and engagement programme with individuals and organisations who represent them. This includes through sophisticated web pages, social media and email aimed at individuals.

“Identify all types of shareholders, reach out and include them in roadshows and town halls meetings,” she says. “Assess, in advance, concerns that individual shareholders could raise at meetings; and how to address those.

“Opening communication channels with hundreds of individuals takes time and planning. But it could — in the case of an activist uprising, for example — give you a crucial mechanism for gaining support.”

Investors Expect Greater ESG Transparency from Companies

For all the attention environmental, social and governance principles have received in recent years, many investors still feel companies could do more to explain their approach to ESG.

The EQ Shareholder Voice survey found that 82% of shareholders in the US and UK think companies are responsible for communicating about ESG, but 43% feel they are not doing it enough. A further 34% of investors report intense frustration when a company behaves unethically.

With regulators in both countries calling for more accountability on ESG practices, many companies are strengthening their sustainability reporting. But still, many others are doing the bare minimum to comply.

Failing to address shareholders' concerns on ESG is a reputational risk, as investors can easily amplify their frustrations on social media. Some have even campaigned successfully to oust board members based on their perceived ESG failings or lack of commitment.

By contrast, a slew of recent studies from the likes of research firm Morningstar and index provider MSCI have shown that companies with sound ESG practices are reaping the benefits in financial performance, sustainable value and share price premium.

Walk the ESG talk

Getting ESG communication right will go a long way to appease investors, says Richard Davies, managing director at RD:IR, EQ UK's investor relations specialists.

"Shareholders have become much more vocal on ESG because of issues such as the way companies treated their employees during the pandemic, and re-emerging climate change awareness," says Davies. "Even some traditional institutional investors call themselves activists and may threaten to vote against companies based on their low commitment to ESG."

Companies must be much more mindful of investors' ESG agendas so they can anticipate how they might vote, he says. "Conversely, good communication on ESG can boost shareholder engagement."

Companies in the UK and the US are appointing board-level sustainability committees, often chaired by the CEO, in response to investor outcry. These committees aim to improve ESG practices, reporting and communication. They also hope to embed ESG principles into board thinking to help avoid accusations of "green washing" and of reflexively ticking compliance boxes.

CEOs are also trying to recruit senior sustainability leaders, but there is a dearth of suitably high-quality talent because it is a relatively new discipline, says consultant Tom Rayner, founder of ESG consultancy Sillion. CEOs are also seeking more coaching on the subject, he says.

"There is insufficient understanding of what investors want from corporates in ESG terms. Compared to financial outcomes, there is a lot of variation between institutions in terms of their expectations," Rayner adds.

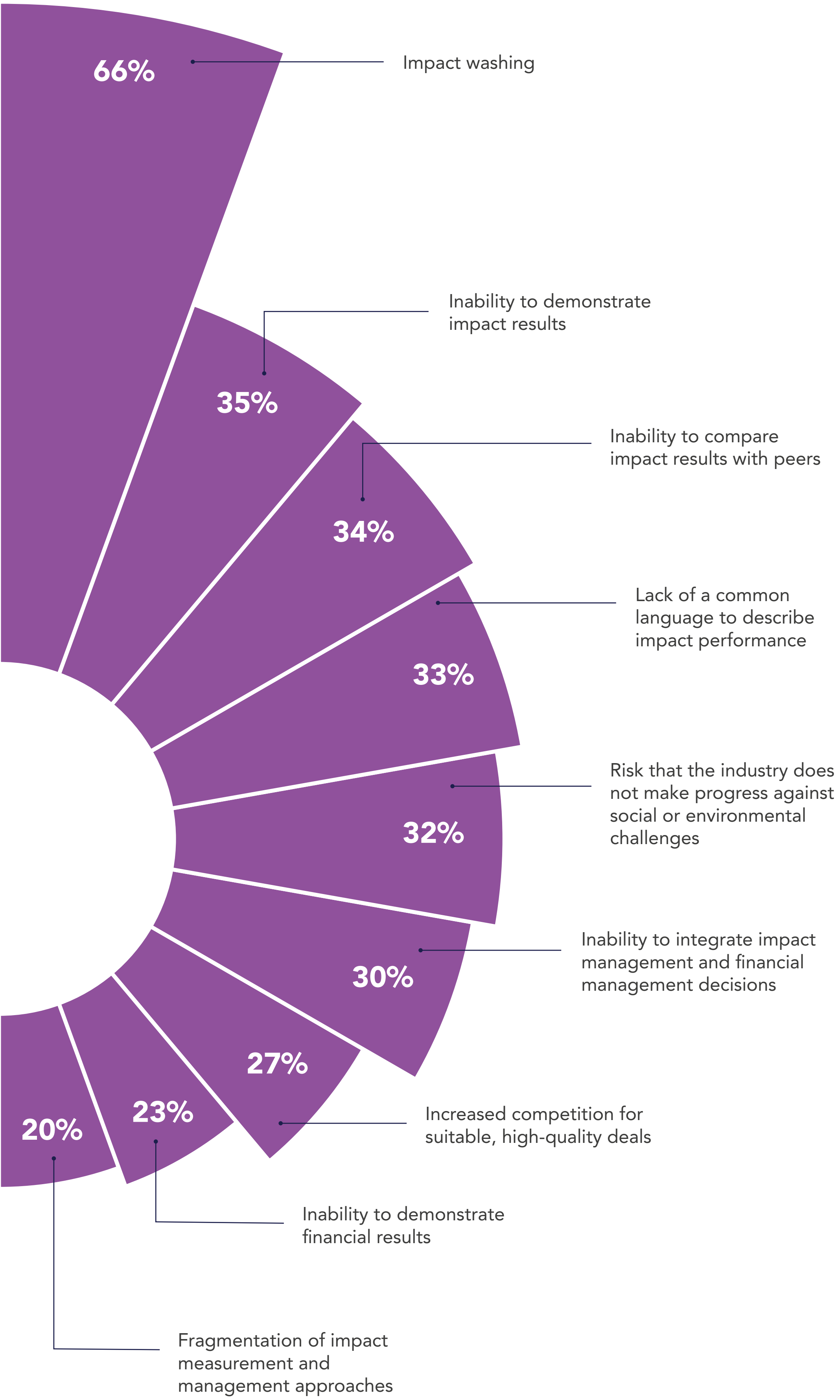
Ultimately, boards need to understand that ESG reporting is about openness and clearly defining the firm's objectives and progress, as opposed to worrying about missing targets as is the case with financial performance, says Rayner.

> "Shareholders have become much more vocal on ESG because of issues such as the way companies treated their employees during the pandemic, and re-emerging climate change awareness."
>
> **Richard Davies, managing director at RD:IR, EQ UK's investor relations division**

IMPACT WASHING IS INVESTORS' BIGGEST CONCERN

Investors' opinion on main challenges for the impact investing industry over next five years worldwide in 2020

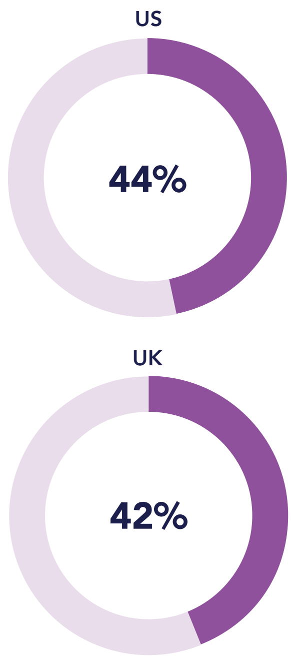
GIIN Annual Impact Investor Survey 2020



82%

of shareholders feel that companies have a high to medium level of responsibility to communicate about ESG

Shareholder Voice 2021



shareholders are currently dissatisfied with the level of ESG info they receive

Shareholder Voice 2021

Exciting new structures

Despite increasing efforts to sharpen their ESG tools, companies implementing good practices are not necessarily reporting them well or using all potential communication channels, says Davies.

"Good practice is to have an adequately resourced team focused on keeping shareholders aware of ESG processes and results, including via social media and email, in the same way finance teams do with financial news and results," he says.

"Companies will often wait until the annual general meeting to talk to shareholders about ESG…but it should be an ongoing, year-round activity. They could also run a separate ESG investor day."

The rise of ESG has forced firms to set up a new structure in which investor relations, company secretaries and governance teams collaborate more closely, merging financial and non-financial metrics to align with investors' new understanding of a company's value. This evolution requires investor relations to learn how to communicate non-financial metrics.

"Using multiple channels such as social media, online meetings, ESG investor days and webinars can inform investors in a powerful way," Davies concludes.

51%

of all investors have heard of the term 'sustainable investing' (vs. only 30% for 'ESG')

Architas, 2021

83%

of US retail investor households prefer to invest in companies that are leaders in environmentally responsible practices

Cerulli Associates, 2021

> "Good practice is to have an adequately resourced team focused on keeping shareholders aware of ESG processes and results."

Richard Davies, managing director at RD:IR, EQ UK's investor relations division

Is US poised to overtake UK on ESG disclosure?

UK regulation and corporate practice are, in many ways, ahead of the US when it comes to ESG disclosures. The UK's Stewardship Code and Modern Slavery Act, which requires explanation of supply chain risks, are just two examples of leading transparency frameworks.

But with the Securities and Exchange Commission (SEC), the US regulator, now primed to address ESG disclosures, the country could be poised to catch up or even overtake the UK in corporate ESG transparency. The SEC's website also includes their responses to climate and ESG risks and opportunities.

The Black Lives Matter and #MeToo movements have shown the power of the people, and helped to ignite ESG awareness and disclosure in the US, says Katie Sevcik, an executive vice president of EQ.

"These opened understanding of work conditions and further showed diversity efforts were falling short," she says. "Most US corporate sites now have something about ESG. Activists and proxy advisers pushed that, and Covid pushed it further."

Margaret O'Keefe, managing director, corporate governance at EQ, says this change is also reflected in companies' proxy statements, many of which open with a discussion of ESG issues such as board diversity, social impacts, and climate change.

Investors welcome these discussions as they increasingly seek information on companies' intentions regarding ESG policies and practices. BlackRock, for example, specifically wants to see reporting aligned with Sustainability Accounting Standards Board (SASB) and Taskforce for Climate-Related Financial Disclosures (TCFD).

Arrow Electronics' 2021 proxy statement starts by discussing diversity and environmental disclosure, including through SASB.

Also, Procter & Gamble's 2021 proxy statement begins by highlighting the importance of corporate citizenship and ESG practices, impacts and disclosures.

"Since the pandemic highlighted issues in global supply chains, US investors also want companies to show they are treating suppliers well," says O'Keefe. "Some companies responded immediately."

For example, Omnicom Group's 2021 proxy statement discusses "advancing a code of conduct for our supply chain" and expanding diversity in its supply chain.

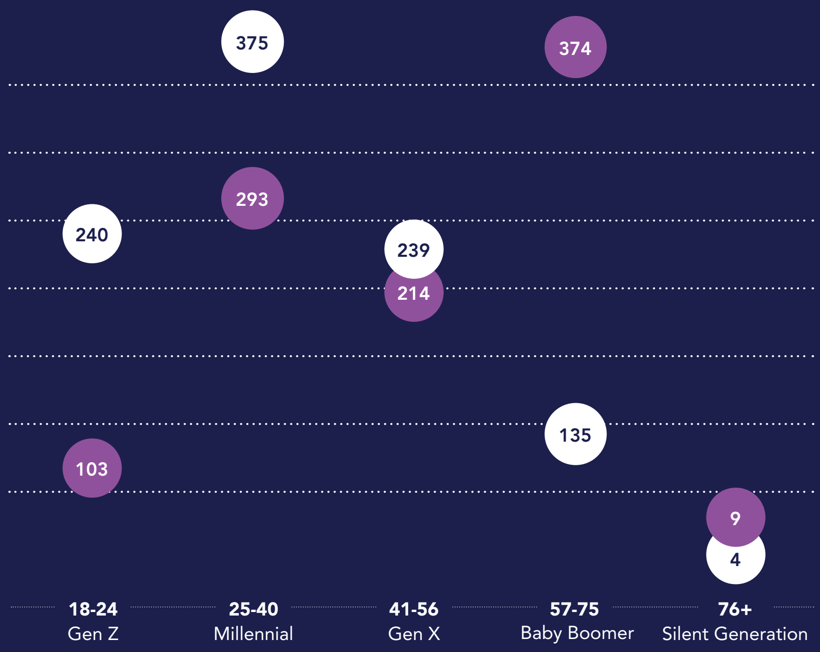
These examples could signal the start of a rapid trend towards ESG practices and disclosures in US companies and their global supply chains.

Rise of the Retail Investor

EQ surveyed 2,000 US and UK retail investors. A mix of employee shareholders, direct holders and those who own stocks indirectly. The results show a diverse community of retail investors keen to grow their wealth and exert their influence.

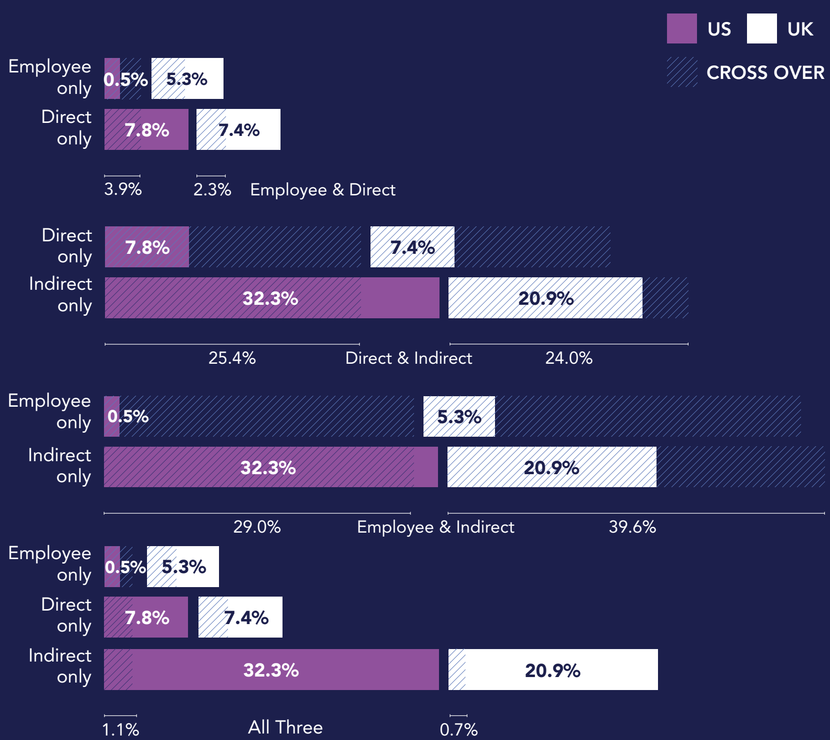
UK shareholders skew younger than US

Number of survey respondents by age



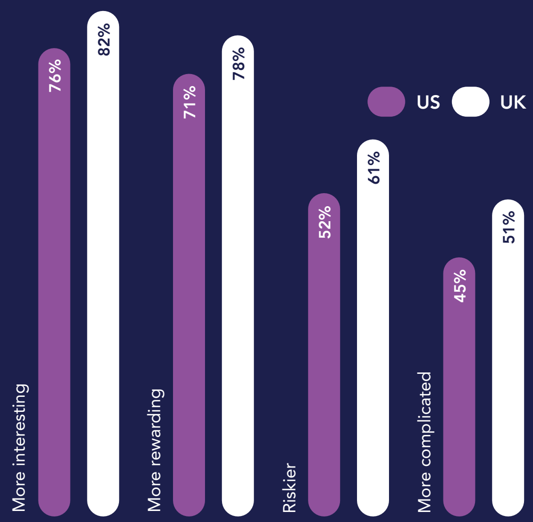
Most shareholders invest through more than one channel

Percentage of respondents of each shareholder type



Shares are perceived as more interesting and rewarding than other investments...

Proportion of shareholders who 'agree' or 'strongly agree' with these comparisons of shares with other investments in their portfolios

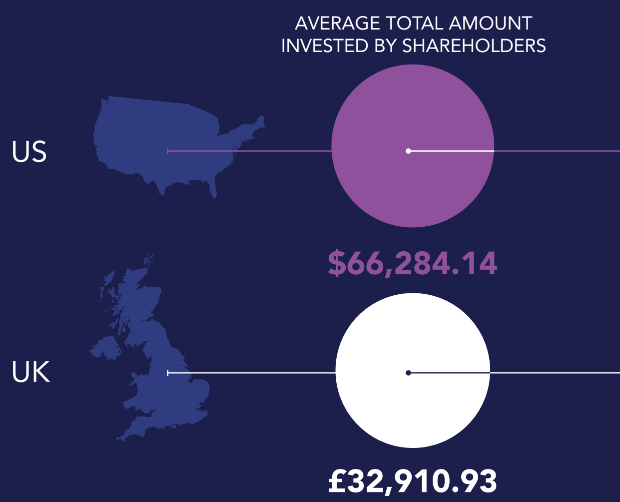


...But shareholders are not putting all their eggs in one basket

56%

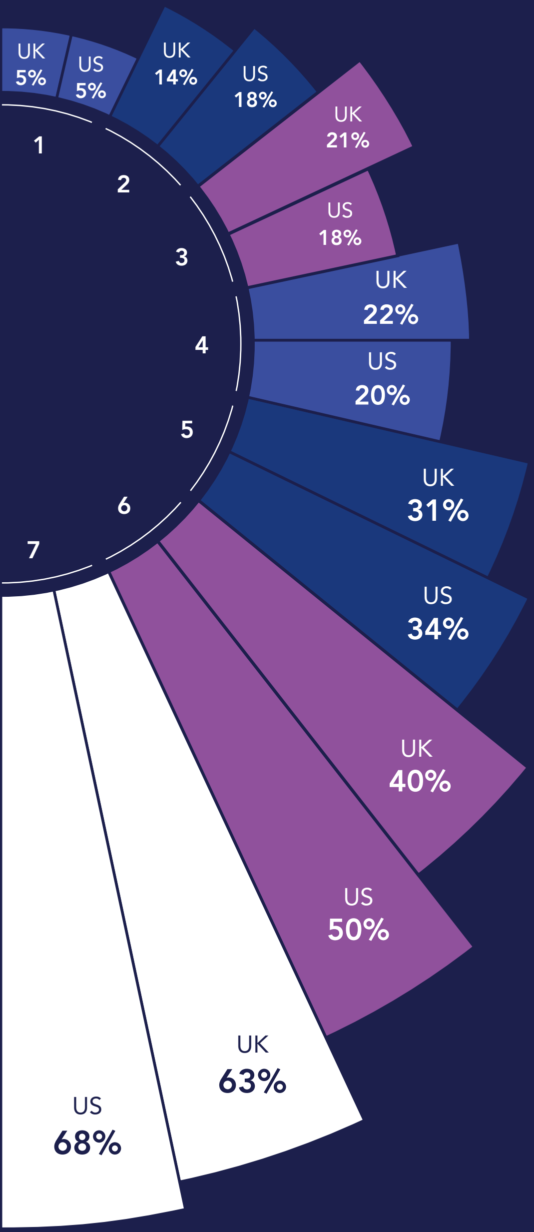
of shareholders also have other investments in their portfolios e.g. investment / mutual funds, corporate or government bonds, investment trusts or exchange-traded funds

US shareholders tend to invest more and expect higher returns



Growing wealth and saving for retirement are key motivators

Percentage of respondents who selected these reasons for why they chose to buy shares



1. To influence a company to behave differently
2. To support a company I like
3. To raise money for a specific purchase e.g. a house, college fees
4. To pass on shares in my inheritance
5. For fun or interest
6. To save for retirement
7. To grow my wealth

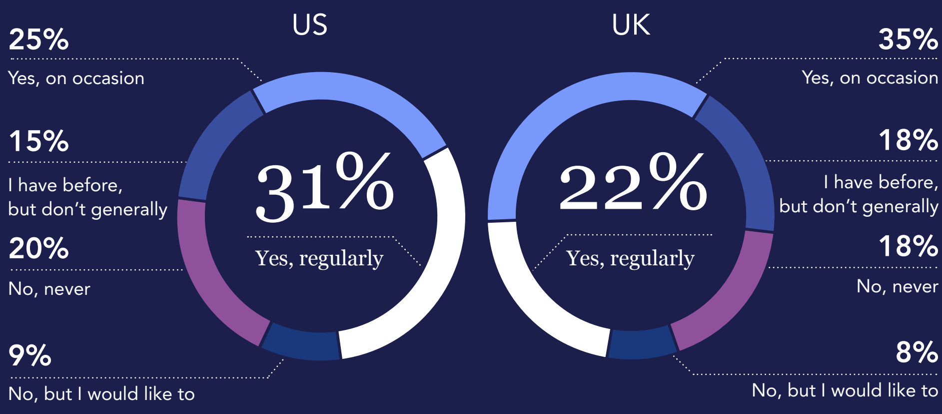
...But a company's values also matter

59%

of US shareholders, and 63% of UK shareholders will consider a company's goals, mission and purpose before choosing to invest

Shareholders want to make their voices heard at AGMs

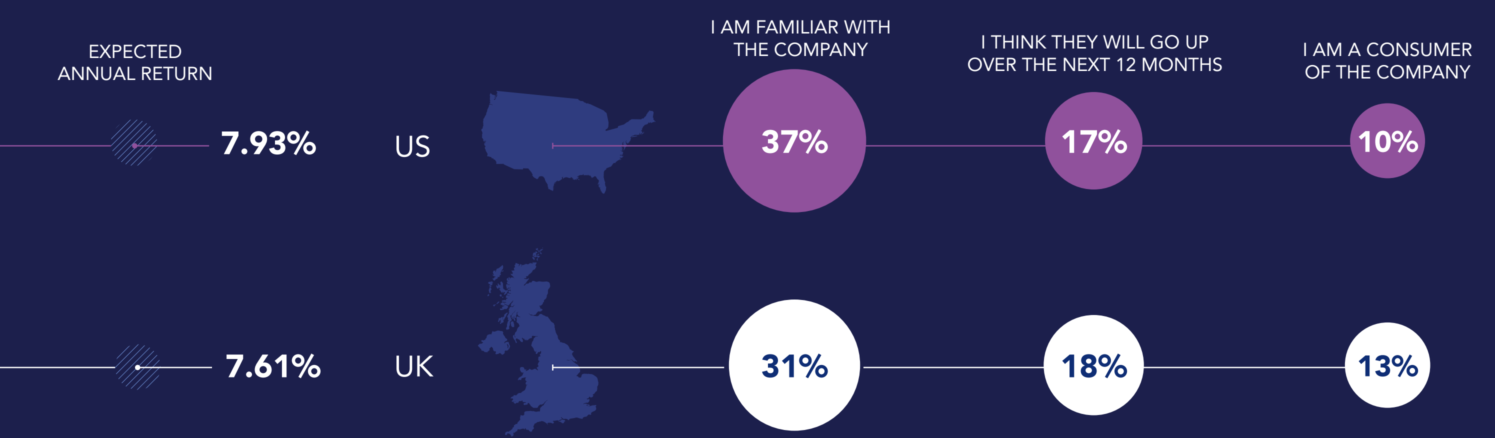
Percentage of respondents who vote in AGMs of companies they own shares in:



Company familiarity and short-term gains drive investor decisions...

Top three reasons why respondents bought shares in the companies they did

US UK



Perks can Turn Investors into Brand Advocates

In addition to financial returns, modern shareholders want the same type of value offered by a membership club, such as education, events, discounts, networks and experiences.

> “
> John Bohan, founder of Jigsaw Business Solutions, says perks and discounts are a particular draw for younger shareholders, who love deals and are savvy about how to find them.”

In addition to financial returns, modern shareholders want the same type of value offered by a membership club, such as education, events, discounts, networks and experiences.

EQ's Shareholder Voice research showed that over 25% of UK Gen Z investors ranked perks and discounts as a top three reason for buying shares in a particular company.

In addition, many retail investors want more exclusive experiences such as advice, education and in-person events.

Benefits such as rewards and discounts for retail investors have become less fashionable in recent years.

Some share issuers question the value of providing such benefits to retail shareholders when professional investors generally hold more sway over boardrooms. Also, as rapid online trading allows shares to change hands at unprecedented speed, will reward programmes have any effect on stock owner loyalty?

But with retail shareholders increasingly flexing their investing muscles and the maturing of a generation that cherishes the "membership economy", it may be time to revisit these questions.

Customer shareholders

Some companies in consumer-facing sectors are starting to see the value of investors who are also customers. By keeping them happy, the firm can perpetuate a positive stream of social media and online PR that bolsters the brand and share price.

The EQ data shows that 50% of shareholders own consumer goods stocks, the most for any sector. 66% say they prefer to buy shares in companies where they've had a good experience as a customer.

"In the past, many companies considered customers and investors as separate," says Mark Bullen, managing director, share registration services at EQ. "But the connections individuals make with companies via their retail activity are starting to permeate into how they think about what stocks to invest in.

"This goes far beyond stock analysis and opportunity for value growth. Many shoppers also connect with retailers for ethical reasons, and this has become a strong factor in stock picking."

Offering membership benefits can make equity ownership more attractive because many people can't resist perks and other offers that give them a feeling of exclusivity.

John Bohan, founder of Jigsaw Business Solutions, says perks and discounts are a particular draw for younger shareholders, who love deals and are savvy about how to find them.

"With so many younger people now holding shares, they may expect that same world of discounts and offers related to their shareholding," says Bohan. "For companies, it's a great way to interact with shareholders, rather than just pushing information to them."

But many benefits and rewards that companies give shareholders are still too rigid, Bohan says. "To maximise the benefit, rewards should hit all the demographics of your shareholder base and where people are in their financial journey," he adds. That will help companies avoid the exclusion of a particular section of consumers.

"Slick communication is also key," Bohan says. "Demonstrate to people that the more they trade with you, the more that unlocks benefits. Remind them what benefits they're getting regularly, and make sure they're valued and being used."

95%

of members want to engage with their loyalty program through new and emerging tech, including wearables, AR, VR, chatbots etc.

Bond, 2018

Affiliate benefits

One effective way of offering rewards is through affiliate brands — for example, a US financial services firm offers its shareholders a discount with a well-known insurance brand.

"Using other brands that are stronger than yours helps get your message across and create more incentive [for the shareholder] to act," says Bohan. "It's not just about offers. Social media content plays a big part in this piggybacking off other brands."

This practice helps make investments more fun and increases awareness to attract this next generation of shareholders, Bohan adds. "The emotional connection to a brand has become much more important."

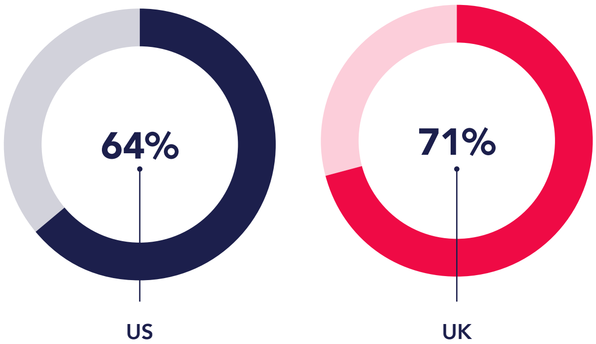
Offering membership benefits to shareholders has its challenges, one of which is the cost and difficulty in measuring the return on that expense.

But Bohan says one way to counter this is to make sure the customer cannot get the benefits you offer elsewhere.

"If you make people's money work harder for them, they will value that scheme," he says. "Also, with the discount cards we offer to employee benefit scheme members, people want them instantly because they can see something online that they want to buy. So, your benefit needs to be instantly available too. If it needs to be sent in the mail, people are less engaged."

> Using other brands that are stronger than yours helps get your message across and create more incentive [for the shareholder] to act."

John Bohan, founder of Jigsaw Business Solutions



retail investors would find it useful to attend in-person events with companies

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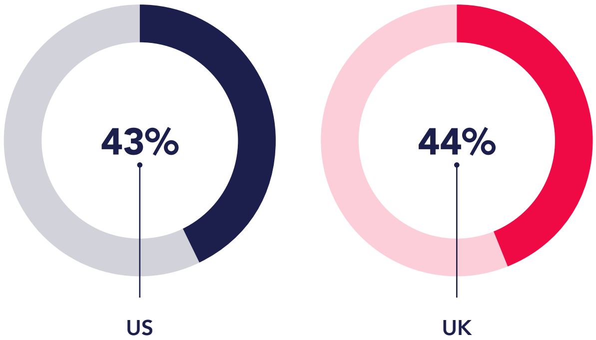

retail investors feel companies are not doing enough to offer advice on strengthening their portfolios

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Restaurant chain vouchers fit the bill

Every year, pub, bar and restaurant chain Mitchells & Butlers gives each of its 53,000 shareholders a booklet of 12 discount vouchers. These are so prized by stock owners there would be "outcry and uproar" if the scheme was abandoned, says Greg McMahon, company secretary.

Each voucher offers 20% off meals for up to 10 guests at M&B venues. The company encloses them in the annual report correspondence, along with a letter from the chairman, which encourages shareholders to learn more about the company.

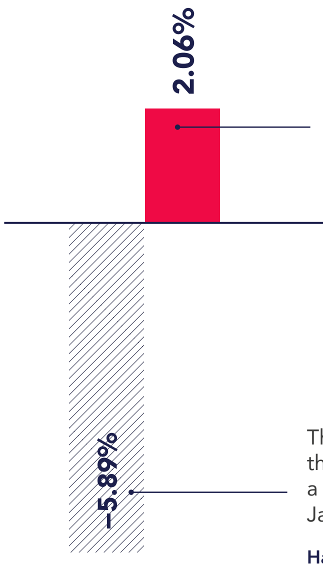
But McMahon says the main motivation behind the voucher scheme is to encourage stock owners to visit and experience the pubs, bars and restaurants in which they have invested.

"We find this works — it's what people like," says McMahon. "If somebody doesn't get their vouchers, they quickly let us know. They also talk about it on social media, which helps others understand the value of the scheme."

McMahon acknowledges it is harder for some companies, such as manufacturers, to provide such a benefit to their shareholders, in contrast to retailers and hospitality businesses.

M&B sees the scheme as a win-win as it keeps shareholders happy while also getting them to spend in the company's venues and boosting brand awareness with their guests.

The booklet is only available in paper format. But the firm is considering using an app, especially as so many such benefits have gone online since the start of the Covid pandemic.



The 3-day average abnormal stock return associated with the announcement that a firm will initiate a perk program (based on data from Japanese firms)

Harvard Law School Forum on Corporate Governance, 2021

The abnormal stock return associated with the announcement that a firm will suspend a perk program (based on data from Japanese firms)

Harvard Law School Forum on Corporate Governance, 2022

Over
25%

of UK Gen Z shareholders ranked perks and discounts as a top three reason for buying shares in a particular company

Shareholder Voice 2021

Employee Share Schemes Need a Makeover

Employee equity schemes are increasingly important in securing and retaining talent in many sectors in the UK and US, but uptake in voluntary schemes can still be enhanced in both countries.

According to EQ's Shareholder Voice research, companies need to intensify employees' financial education and raise awareness about their equity ownership benefits to boost participation and promote engagement.

In 2020, there were over 15,000 tax advantaged employee share schemes in the UK — 6% more than in 2019 and 77% above 2010's plans. However, according to a recent study by SMF, 38% of employees declined to join share schemes because they couldn't afford it.

In the US, just over half of companies offered stock purchase plans to employees, according to a 2020 Deloitte survey. A further 21% are considering setting up a scheme. Yet, in most companies, less than half of eligible staff participated.

Satisfaction among stock owners also reflects a generational shift in attitudes toward employment. According to EQ's survey, 85% of employee shareholders were positive about the experience and 75% said they would buy shares in other companies. But these figures are significantly higher among baby boomers than Gen Z employee shareholders in the UK and the US.

First, let's look at why employees are positive about their schemes.

EQ's research shows, for employees working for companies whose shares are publicly traded, 65% chose to buy shares to boost their wealth and 38% because they thought the share price would rise in the next 12 months. 83% check the share price at least once a month; and 50% feel the employer has a high responsibility to communicate the company's financial performance with them. A further 22% opted into their employer's scheme because they believe in the company's goals, and 9% feel they have influence over their company's performance.

A further 21% opted into their employer's scheme because they believe in the company's goals, and 10% feel they have influence over their company's performance.

Encouraging further engagement

However, changes in employee-employer relationships in recent decades call for a different approach to help schemes stay relevant, says David Ellis, consultant at David Ellis Associates.

Gen Zs and millennials are now the dominant generations in the workforce, but they tend to stay with the same employers for a shorter period compared to baby boomers. Employees should be able to share in the company's success through the equity they receive, but not be penalised with loss of that equity if they leave, says Ellis.

UK schemes offering the option to buy shares after five years of employment, for instance, have become less effective in light of higher personnel turnover. By contrast, many US plans are starting to offer share ownership earlier in an employee's tenure with the company.

UK employers will have to offer shares soon after hiring and allow employees to buy them frequently to help reduce the risk of stock market volatility, says Ellis.

"Explaining and communicating clearly how these factors work is also critical to maximising take-up," he says. "The most sophisticated schemes will also use slick digital systems to ease the experience, and explain how they fit into the employee's long-term financial plan."

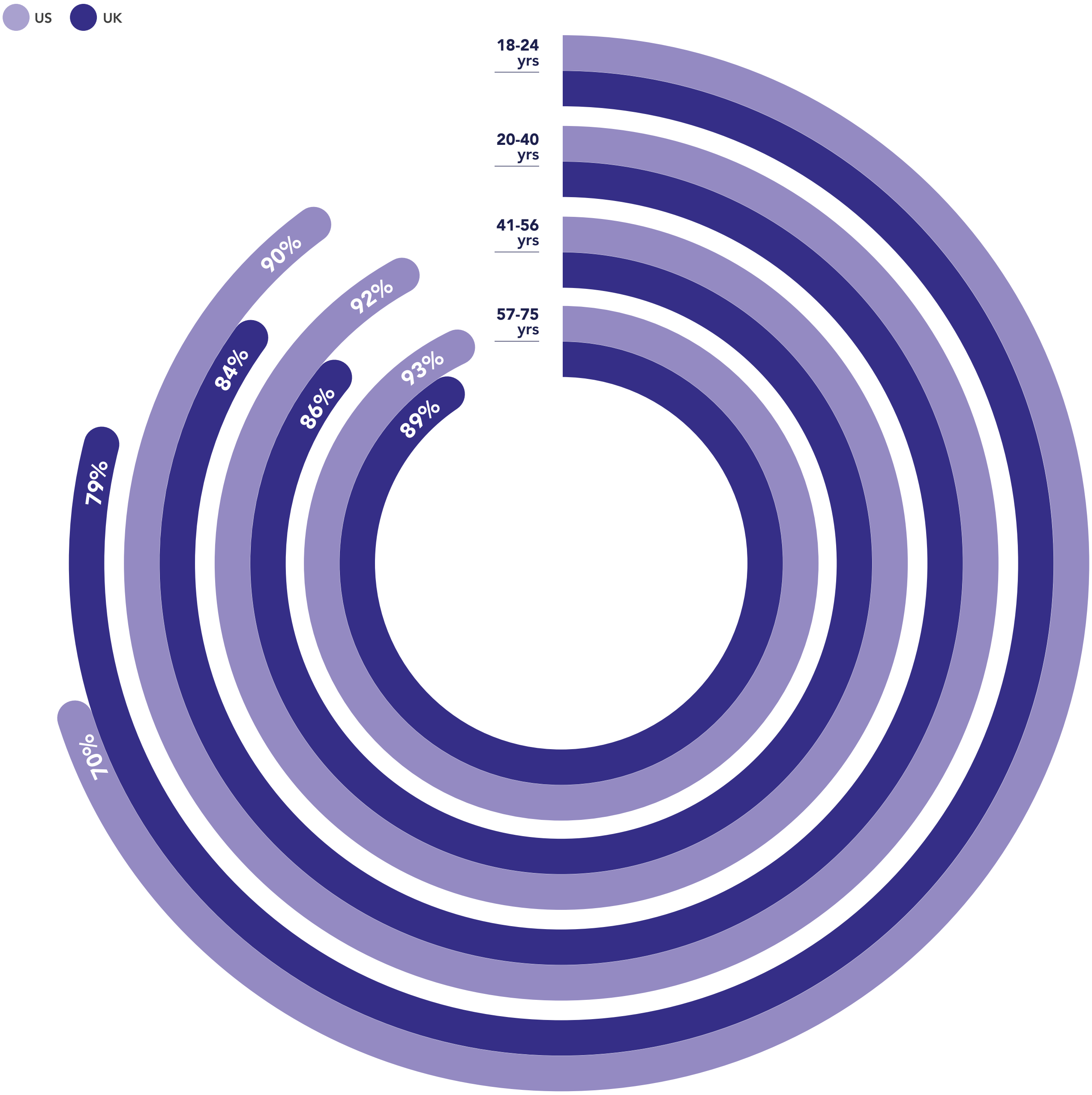
The tax advantages of share schemes are substantial and make the plans much more attractive. But those advantages may be lost on employees if companies fail to provide education and guidance on stock ownership.

Another trend schemes need to keep up with is the rise in gig workers, zero hours contracts, and other workers in a less formal relationship with the company, says Liz Pierson, a partner at Deloitte.

YOUNGER EMPLOYEES ARE LESS POSITIVE ABOUT THE EXPERIENCE

Proportion of each age group of employee shareholders who 'agree' or 'strongly agree' that the experience has been positive

Shareholder Voice 2021



"In the UK, current laws make it difficult to invite them into your schemes, but they are a valuable part of the workforce, so companies might want to include them," she says. "This area has been getting some attention and, although it will be complex, the authorities might consider changing the definition of who can join."

> "The most sophisticated schemes will also use slick digital systems to ease the experience, and explain how they fit into the employee's long-term financial plan."
>
> **David Ellis, consultant at David Ellis Associates**

> Generally, companies need to do more on promotion, communication and education of the plan, especially in sectors where the employees may not be tech savvy, such as manufacturing."

Jim Wulforst, executive vice president, head of equity compensation services at EQ

Supporting financial wellbeing

Companies wishing to attract their employees to share plans can choose various strategies.

"A good way to kick start ownership is with a free shares award, then use partnership and matching plans to build on that," says Jennifer Rudman, industry director, employee share plans, at EQ. "This helps attract new joiners as well as boost [employee] retention."

Another path could be introducing auto-enrolment in stock purchases in the same way the UK has with pensions — because "once placed in the plans, people tend to stick with their shares," says Graham Bull, EQ's head of all employee share plans. Employees can always opt out if they don't want to join for any reason.

Jim Wulforst, executive vice president, head of equity compensation services at EQ, says one reason take-up in US stock purchase plans varies significantly between companies is the different quality of their communications.

"We see 70% participation in some companies and 20% in others," he says. "Some companies have staff and resources dedicated to promoting share ownership plans but many don't.

"Generally, companies need to do more on promotion, communication and education of the plan, especially in sectors where the employees may not be tech savvy, such as manufacturing."

Digital communication plays a key role in boosting participation, as technology tools can allow an employee to easily access information about their shares, as well as details about the company's performance, Wulforst adds.

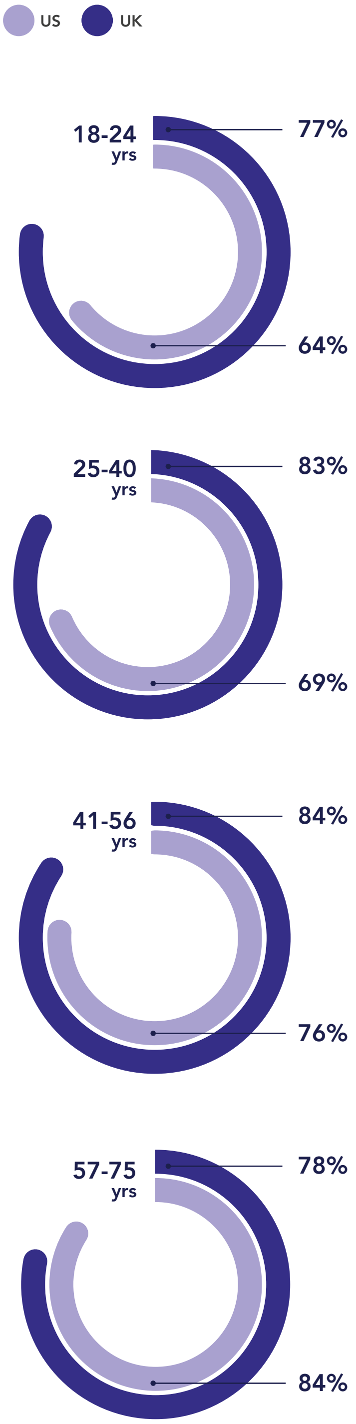
"This can work particularly well with IPOs, where communication can start at least a year ahead of the float," he says. "Employees can learn that if they are still working for a company when it lists, they will get a certain number of shares."

However, any pre-IPO plan requires careful planning and clear warnings regarding, for instance, the fact that IPOs sometimes do not go ahead and that the share price might fall as well as rise at listing.

MOST EMPLOYEE SHAREHOLDERS INTEND TO BUY SHARES ELSEWHERE

Proportion of employee shareholders who intend to buy shares in other companies

Shareholder Voice 2021



14,050,574

participants in Employee Stock Ownership Plans in the US

National Center for Employee Ownership, 2018

1,819,000

households in the UK own employee shares and options

ONS 'Financial wealth: Wealth in Great Britain', December 2020

Maturity options

According to the EQ survey, employees feel existing communication tools are effective in keeping them informed about share ownership, but they also consider their employers responsible for providing education about their investments.

Most track the stock price at least once a month, which suggests share plans are effective at increasing overall employee engagement with the company, says Rudman.

But Ian Cox, managing director, share plan services at EQ, suggests companies could offer more options on maturity such as individual savings accounts (ISAs), and combine that with advice about financial wellbeing. This way, the scheme would become a stepping stone to wider share ownership, helping employees build cash resilience, reduce debt and diversify savings.

This chimes with research by SMF suggesting employee share ownership could bolster the financial resilience of workers.

"Companies can do more to educate members about corporate performance and about maturity," says Cox. "If you give them opportunities to learn, grow and earn through a share plan, you're more likely to keep them. But you need to get the message right."

Pierson, from Deloitte, says companies are moving in the right direction on communication. "Over recent years, we have seen much better communication about share plans," she says. "That reflects a shift in the way these schemes are used. They are less about another reward, more about engagement and getting employees involved in company strategy. With a global or diverse workforce, it's a way to make you feel part of one organisation."

Pandemic Accelerates AGM Evolution

With the Covid-19 pandemic as a catalyst, many company secretaries are reinventing the annual general meeting. By introducing innovations such as virtual and hybrid meetings; separate sessions for retail and sustainability-focused investors; and year-round investor communications, they are taking the opportunity to boost engagement with shareholders.

Executives have been concerned for some time that AGMs no longer meet their needs or those of their shareholders. Declining attendance and increasingly esoteric questions from gadfly investors during meetings have exacerbated these worries.

"AGMs have previously been a forum for retail shareholders," says Victoria Whyte, company secretary at pharmaceutical multinational GlaxoSmithKline. "They also increasingly provide a unique opportunity for activists to raise matters of particular concern to them. These can range from living wage, to carbon reduction targets or the number of beehives on the group's sites."

AGMs also facilitate a forum for employee shareholders to share more widely any matters of concern outside the internal employee engagement processes.

"We should not forget that AGMs' fundamental purpose is to secure shareholder approval and authorities on key company matters, including approval of the annual report, dividend policy and payments, remuneration policy and implementation, and the reappointment of directors," says Whyte.

"The outcome of the votes on these resolutions are very often predetermined by proxy votes received in advance of the meeting… so the votes 'in the room' don't determine the final outcome of the AGM. This can be a frustration for attendees."

Another concern is that increasing numbers of younger shareholders have no voice at AGMs. EQ's Shareholder Voice research shows that half of all US and UK shareholders are aged between 18 and 40, so mostly unable to attend physical AGMs during working hours.

VIRTUAL SHAREHOLDER MEETINGS LEAVE LESS ROOM FOR QUESTIONS AND UPDATES

The effect of virtual shareholder meetings compared to in person meetings

2021, Miriam Schwartz-Ziv, Hebrew University of Jerusalem and ECGI

Average meeting time shortened by

18%

Time dedicated to providing a business update decreased by

40%

Time spent answering questions decreased by

14%

Nick Folland, general counsel and company secretary at retailer Marks & Spencer, says: "If the AGM does not change, it will die. Declining numbers engage in traditional AGMs as fewer people hold direct shareholdings. But we need to communicate with our shareholders. So the AGM needs to stay relevant in a world where people conduct their business online."

Rapid virtual response

Companies and EQ worked together to respond quickly to travel restrictions and social distancing orders by enabling remote AGMs during the pandemic. Most were well received, which bodes well for their increased adoption in future. By removing the need to travel, virtual meetings encourage more attendees of any age and any location.

GSK offered its shareholders three ways to join its 2021 AGM: Lumi platform, telephone and Zoom. With the proliferation of video conferencing and the need to attract a more diverse shareholder base to AGMs, Whyte believes it will become the new normal for companies to facilitate and promote a variety of methods to enable remote participation.

This could promote long-term shareholder engagement. It could also reduce the cost and administrative burden of physical meetings.

However, remote and hybrid AGMs also have their challenges. Research published in 2020 by the Harvard Law School Forum on Corporate Governance shows the move to virtual shareholder meetings decreased the average meeting time by 18%; and time spent answering questions by 14%.

Other challenges with virtual meetings include low confidence in the technology involved and costs. Providers are, however, keeping up with an ever-changing technological landscape, and a wealth of enhancements will be available for the 2022 AGM season.

Potential silencing of shareholders

Last year, the UK's Financial Reporting Council reviewed AGM practices in over 200 companies, in light of Covid-related changes. It found 30 of them did not enable any shareholder engagement before or during the AGM.

"We were surprised to find some companies had no flexibility in their articles to allow virtual meetings," says Maureen Beresford, head of corporate governance at FRC. "Some just had two people in the AGM, and no communications before or after."

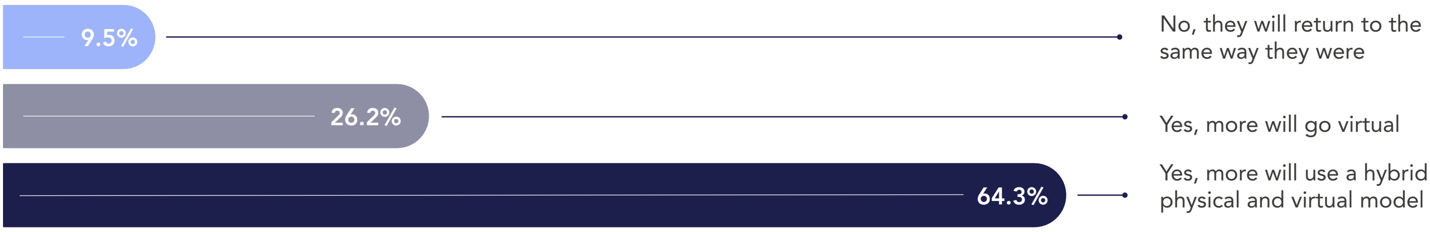
Among the review's recommendations are a significant increase in technology use to ensure robust virtual interaction during AGMs, and greater access for all shareholders. The FRC also recommended promoting shareholder engagement throughout the year, and allowing retail investors to go to other investment discussions.

Folland says: "It's easy to use a digital AGM to shy away from your responsibilities to your private shareholders. We are against that. The point of the digital AGM is to extend democracy and open the board to scrutiny.

INVESTORS PREDICT A MOVE TOWARDS HYBRID AGMS

Do you expect shareholder meetings to change when the crisis is over?

Proxy Insight 2021



"Communication before and after the meeting is just as important as in the meeting itself. Seeing the AGM as an opportunity to engage changes your approach and leads you to deliver better content with a longer shelf-life. For example, we shared meeting extracts on social media and received over 30,000 impressions."

Another issue is that retail shareholders are concerned about the moderation of questions and lack of spontaneous answers at meetings, says Beresford.

"Companies should clarify why and under what circumstances they moderate questions," she says. "Best practice is to allow shareholders to write questions before, during or after the event; and to answer them all."

M&S has addressed this by appointing a shareholder advocate.

"As the questions come in live, the shareholder advocate groups them to make sure the most pressing questions are addressed at the AGM," says Folland. "They select the questions shareholders want answered, not those the board wish to answer."

"We want our shareholders to feel they have someone on their side, in the room, asking the difficult questions. It reinforces that this is a legitimate engagement with shareholders and not just a chat."

M&S also answered all questions not addressed at its last digital AGM within 48 hours.

Legal clarification

The FRC study also noted that there is some uncertainty around whether UK company law allows for virtual-only AGMs, despite companies, such as fashion luxury brand Jimmy Choo, holding their first fully virtual AGM in 2016.

Across the Atlantic, the US has embraced fully virtual AGMs and US practices may influence UK AGMs, Beresford says. However, there is concern that US companies may not engage with retail shareholders remotely as effectively as they would in physical meetings.

Whyte says a lot of board and management time and effort goes into hosting and running AGMs.

"We should look to ensure that these opportunities for interaction are as effective and meaningful as possible by making access for all shareholders easy and secure and that they can be run efficiently and cost effectively for the company," she says. "The more flexibly the rules governing AGMs can be set the better for everyone.

"Safeguarding principles could be established to balance this flexibility such that truly virtual meetings could be operated for those companies who wish to use them, provided that they do not prejudice shareholders or stop them from putting their views and questions to the company. Companies' articles should facilitate utilising the full range of technological solutions providing greater accessibility."

Folland adds: "I hope digital AGMs become the norm because online, everyone has a voice. We went fully digital in 2020 and participation levels trebled compared to the prior year's physical meeting."

Remote meetings are also key for younger investors, says Steve Banfield, head of industry at EQ. "Gen Z investors are looking for remote participation. They embrace technology to research corporate reports, news and even board members," he says.

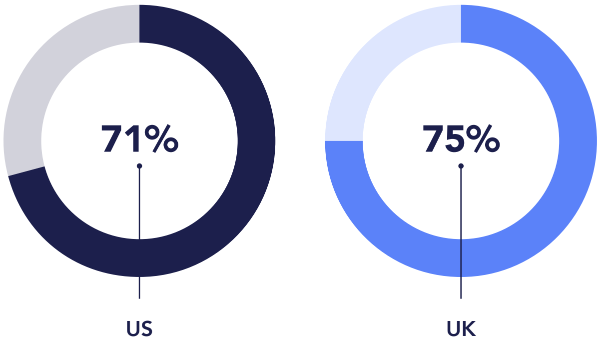
"If you communicate more proactively, you can make the AGM work more to everyone's benefit, rather than it being an inconvenience. There is room to give more information to more people, and enable all sizes and shapes of shareholder to ask questions more regularly."

In EQ's research, 75% of shareholders have voted at AGMs, with 22% voting regularly. This suggests there is still plenty of willingness to get involved with meetings if you can make them easy, interesting and relevant to shareholders.

98%

of firms that held virtual shareholder meetings held the meetings in an audio-only format

2021, Miriam Schwartz-Ziv, Hebrew University of Jerusalem and ECGI



investors have voted in an AGM

Shareholder Voice 2021

Banfield says there are lots of opportunities to improve the way companies and shareholders interact and Gen Z investors will welcome this.

"The pandemic has driven the use of technology for companies and shareholders and the challenge will be to find a balance that drives attendance and engagement, particularly at the AGM itself," he says.

"Companies may not continue with the fully virtual meetings they held during the pandemic but an increasing number will host hybrid events. With technology improving and regulators seeking to clarify the law, there will be a bigger shift to remote participation."

> "Gen Z investors are looking for remote participation. They embrace technology to research corporate reports, news and even board members."
>
> **Steve Banfield, head of industry at EQ**

Sainsbury's uses pandemic as opportunity to revamp AGM

The company secretary role has moved significantly up the value chain in recent years, partly due to the increasing importance of corporate governance, says Tim Fallowfield, company secretary and corporate services director at retail group Sainsbury's.

The role no longer involves administration and minute taking but rather advising boards on how they should act and really understanding what makes the board tick collectively and individually to make them as effective as possible, he adds.

Improving the relevance of the AGM is part of this evolution, and he has been testing several new approaches.

"We had a reasonably high-profile AGM with around 300 attendees, but attendance has been gradually declining," says Fallowfield. "The pandemic and not being able to hold a physical meeting was an opportunity to look at the whole way we communicate with investors."

Sainsbury's held a limited AGM online in 2020. But in 2021, it built on that experience to evolve a fully interactive hybrid meeting, with shareholders enabled to vote online and submit questions verbally and in writing.

To recognise the increasing influence of retail investors and ESG issues, the group also introduced a separate investor relations session for retail investors, as well as an ESG-focused investor day.

"We have a lot to say on ESG and wanted to share our plans and progress with investors and receive feedback," says Fallowfield.

"We also want to engage with retail shareholder bodies and individuals. It is time consuming, but the opportunities from that dialogue are worthwhile. Holding these events online is powerful in terms of transparency and communication. We have 100,000 shareholders and there's no limit on who can join [the AGM]."

Conclusion

Our research makes clear that the voice of the retail investor is becoming louder. These shareholders will soon have more influence in the markets as they take greater control of their investments. Though retail investors still own a small proportion of companies compared to their institutional counterparts, their power and impact can be disproportionate.

For the first time, millennials are the largest group of shareholders and they are less passive and more direct as investors. The number of Gen Z investors is also growing and they are set to become even more active and engaged.

Across the world, retail and institutional investors are developing a keen interest in ESG, making it crucial for all companies to communicate their ESG journey openly. They must have an ESG message that people feel comfortable with or risk losing access to a critical cohort of younger shareowners.

Retail investors want more and better communication. They use social media avidly and crave a clear message on ESG matters, on who you are as a corporation and where you are headed. Having a good message won't count for much if you do not follow it through at challenging times — that is what individual investors care about most.

Although retail investors are adept at making their concerns known through social media, it is not yet clear whether they will take more "shareholder action" than institutional investors — for example, in trying to oust directors they disagree with at AGMs.

In any case, it will be important for companies to speak directly to their individual shareholders, where possible, to maintain engagement across their entire investor pool. In future, they will have to invest more in that conversation.

“

Retail investors want more and better communication. They use social media avidly and crave a clear message on ESG matters, on who you are as a corporation and where you are headed.”

Nurture the loyalty

Most importantly, the rise of the retail investor offers unique opportunities. Individual investors tend to be highly supportive of management when the corporate mission and behaviour is aligned with their values.

If your company is consumer-facing, shareholder customers and employees will support your decisions, buy your products, and become powerful brand advocates on social media.

It may not be cost-effective to have direct conversations with many individuals, so companies need to communicate with retail investors efficiently. This can be achieved by using the right channels, including an accessible website and smart social media, as well as by ensuring there are proper governance structures in place. Do not underestimate the power of social media.

This report has also revealed the importance of openness with retail investors. They quickly understand the issues companies face, so it is important to show where you are making progress, acknowledge any challenges, and say what you are doing to address them.

It will be fascinating to see how AGMs evolve. Some companies are happy with virtual meetings, as they are more cost-effective. Others want to go back to physical gatherings, which allow them to communicate more personally with investors. Others still are looking at a hybrid approach. One thing is clear, there will be much more choice and discussion about it in the coming years.

What do you think?

EQ acts as registrar and transfer agent for hundreds of public companies. Each year, we communicate regularly with 1.1 million share plan investors and 23 million global shareholders on behalf of these companies.

This research and report help us and our clients understand more about what retail investors are thinking. But we need to keep listening to you, our corporate clients, to understand how we can advance our services to meet your needs.

So please get in touch and share your thoughts on the issues raised in this report. Our aim is not just to share research and best practice with our community, but also to take time to listen and adjust to support your needs.

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