THE ENGAGEMENT APPEAL

The Path to Inclusive Investor Engagement

A ROADMAP FOR MUTUAL BENEFIT

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Summary

WHAT IS THIS ABOUT?

We are addressing investor fairness and democracy, starting with calls for more inclusive engagement as part of the shift towards stakeholder capitalism. Our proposal is radical in that it is peaceful, constructive, solutions-focused and centred on effecting positive change by instilling voluntary improved global practices. It does not rely on other means to force action, such as antagonistic activism, further legislation, or even more reporting requirements for companies.

WHY DOES THIS MATTER? WHY NOW?

The struggle for inclusive investor engagement is real. It is happening right now: you only have to look at all the news in the media. Lobby groups and niche organisations have been busier than ever. However, inclusive investor engagement does not have to be a struggle. It does not have to lead to exorbitant costs for companies in terms of hiring lots of staff or creating new systems and IT. There are ground-breaking technological advances in existence today that can facilitate increased engagement and proxy voting without costing companies, individuals and other market participants the earth. Inclusive engagement is easier and much more affordable than many companies think. We look to enlighten and empower you to do even more good with the practical insights that will share in this paper.

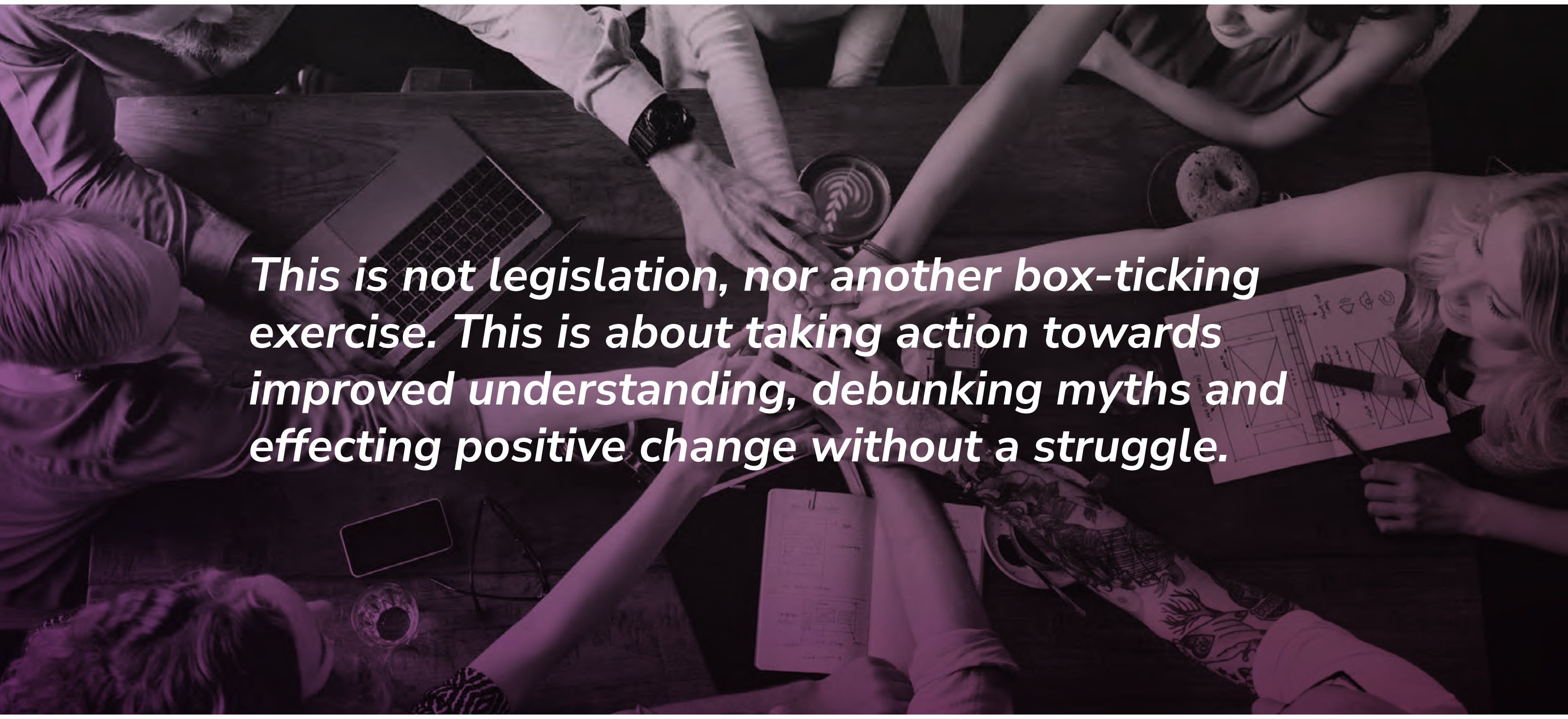
WHY INCLUSIVE ENGAGEMENT WINS

This movement is about people helping people, businesses helping people, and people helping businesses. It is about doing more of the good things that we are already doing, filling gaps and areas for improvement, and leveraging the amazing technology that already exists. This is about a diverse, cross-generational group of individual investors collaborating constructively with businesses to effect a positive people-powered change, help improve corporate performance, and importantly, deliver positive impact on society and the environment. Change is hard – people don't like it. But change is necessary to advance humanity forward and improve lives, and change is indeed possible. Look at our corporate governance reforms and the achievements on gender diversity. Together, we can do this.

WHAT WE ARE SEEKING

We are seeking constructivism and collaboration between companies and individual investors, supported by a responsible social venture dedicated to the cause: The Engagement Appeal. In addition, we will need the support of all key market participants, especially private client brokers and platforms, asset managers, global custodians and sustainable fintech companies.

The aim is inclusive engagement that will lead to improved mutual understanding and positive societal impact, such as increased national financial literacy, and raised awareness of pressing environmental matters, literacy, and raised awareness of pressing environmental matters.



WHY ARE WE DOING THIS?

We are driven by the real need to act. Talking, extensive reporting for the sake of reporting, and box-ticking are not the answers. Urgent action, education, sincerity, fulfilment of director statutory duties and solutions for fair and inclusive investor engagement is what drives us and what will deliver long-lasting, positive change that is much needed by today’s society and the world.

THE WAY FORWARD FOR COMPANIES & INDIVIDUAL INVESTORS

We believe that progress in relation to people, the planet and prosperity can happen much faster when people and businesses collaborate instead of fighting each other. We need individual investors to be included in corporate engagement activities, including in the quarterly roadshow meetings and AGM proxy voting. We therefore need companies to maximise their outreach to all their investors and enhance the effectiveness of their communications in a carbon-neutral and cost-efficient way. Equally, individual investors need to uphold their end of the bargain by knowing their investments, their rights and their responsibilities, exercising these rights, and interacting with companies constructively. The wholly unacceptable and misogynistic behaviour seen from minority retail shareholders at the 2022 Aviva AGM must never happen again. The Engagement Appeal will help push us forward in the right way.

BENEFITS TO COMPANIES

Companies have the opportunity for early adopter advantage. Front-footed inclusive engagement can prevent problems that would cost precious time and money to fix further down the line. Simple, cost effective – and potentially revenue-generative – options to facilitate inclusive engagement are available today.

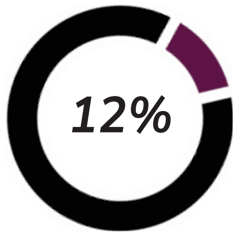
The alternative to inclusive engagement is ugly, costly and damaging to reputation. Consider the lawsuit Shell faced from climate activist group ClientEarth. Surely the prospect of company directors being sued and held directly accountable by shareholders for lack of alignment with ESG expectations is not a long-term option for PLCs? Companies committing to inclusive engagement and enacting wider investor engagement will be more able to effectively identify what their investor bases actually want, and be able to act upon these wants as necessary. Companies will be less likely to be blind sided and will instead have a better lens for future growth.

While inclusive investor engagement does not have to be difficult or cost an arm and a leg, the net benefit to companies could be enormous in terms of stakeholder loyalty and eventual financial gains.

Look at how Marks & Spencer succeeds at including, and even delighting, its large individual investor base without having to hire many more staff or expend huge sums on building new technology. It works with the team that it has, and leveraging existing fintech.

WE CAN'T IGNORE INDIVIDUAL INVESTORS

There are approx.
23 million individual shareholders in the UK



Representation of all the shares listed in the **London Stock Exchange**

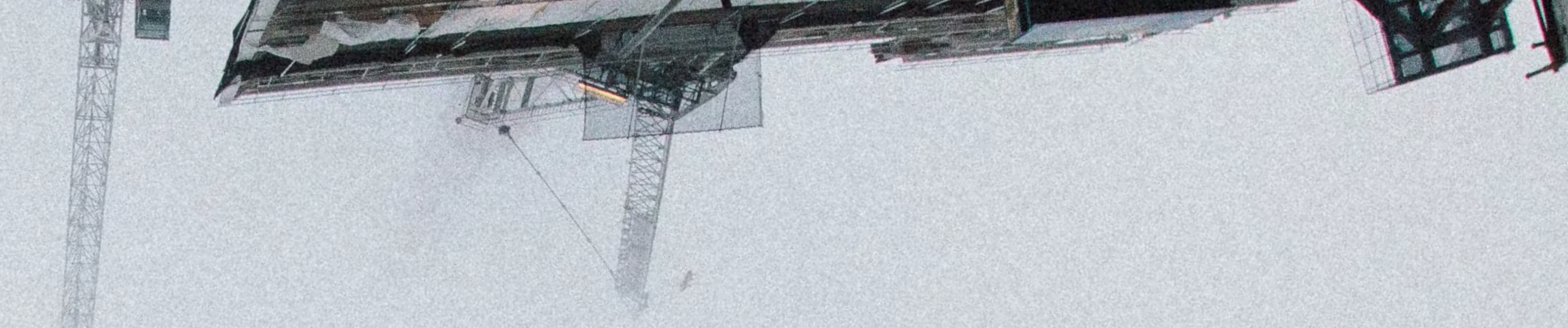
The total for individual investors, including those who own shares through pension and mutual funds, is even higher. In the age of diversity, equitability, inclusion, duty and levelling up, ignoring such a large segment of society and companies' share registers is no longer an option.

WHO WE WANT ON BOARD

It takes a village to effect long-lasting, positive change. As such, we are seeking wholesale market participation, particularly from companies and individual investors, and also from private client brokers and platforms, asset managers, global custodians, sustainable fintech companies, community groups, lobby and trade associations, regulators, advisory firms and academic institutions.

THE FEAR OF 'OPENING UP THE FLOODGATES'

Research has found that the majority of today's UK individual investors are millennials and Generation Z, whose ethos and ways of living tend to be more 'woke'. These investors therefore seek engagement, information and answers from companies that will help them to make consumer and investing decisions that align with their heightened commitment to social and environmental matters. Therefore, companies who actively engage with this group and sincerely solicit their opinions, along with those of other investor segments, will have a better chance of actually being able to organise, understand and act upon what is most important to their investors. The alternative is a frustrated Gen Z and millennial investor base that vents its discontent publicly, including via social media and activist campaigns, leading to costly reputational damage to companies.



Our Approach

Action, collaboration between companies and individual investors to effect inclusive engagement.

Sincere, voluntary application of diversity, equitability, inclusivity and inter-generational participation in the engagement between companies & investors.

Constructivism, a people-powered movement backed by big business for swifter progress.

A new normal – move away from old standards of engaging only top investors

Do more of what you (companies, investors, etc.) are doing well.

Provide reliable, compliant support to corporate boards and comms, IR and company secretarial teams toward optimising their effectiveness in engaging with individual investors

Utilise amazing, ground-breaking technology to facilitate inclusive engagement.

Save companies money in the long-run and generate strong stakeholder returns.

Educate and promote financial literacy and the values of stakeholder capitalism: people, planet and prosperity.

Help corporates generate profit responsibly from the delivery of positive impact to people and the planet.

WHAT WE DON'T WANT

- To create more work for companies, investors and other market participants.
- More onerous targets, reporting requirements and legislation to achieve aims.
- To incur costs needlessly that would negatively impact stakeholder returns.
- The continuation of the exclusion of individual investors in corporate engagement activities.
- Antagonism.

WHO WE ARE

We are a diverse group of thinkers, doers, business leaders, academics and individual investors who have a profound interest in finding solutions for constructive engagement between companies and all their shareholders. Our commitment to delivering positive impact to society and the environment underpins this focus on action.

We believe that inclusive engagement is the first step towards fulfilling wider stakeholder capitalism goals.

Over the past 12 months, representatives from impactful organisations and internationally renowned individuals have contributed to the insights in this white paper. These include:

- ShareAction
- Tumelo
- Tulipshare
- Sillion
- Proxymity
- Peel Hunt
- Mishcon de Reya
- Professor Oliver Hart, Harvard University
- Rethinking Choices
- Lumi
- Involve
- Investor Meet Company
- CAUSE
- CTFN
- Board Agenda
- Audeliss

"My view is that companies should find out what shareholders want and should pursue that goal..."

Professor Oliver Hart, Nobel Laureate

THE INFORMAL COMMITTEE

- Angeli Arora, Co-Chair
- Sheryl Cuisia, Co-Chair
- Alia Fazal
- Alison Owers
- Catherine Howarth
- Cathryn Riley
- Danny Wallace
- Dr. David Ko
- David Prosser
- Gabriel Brown
- Georgia Stewart
- Jenna Armitage
- Karin Schulte
- Kass Mohamed
- Kate Higgins
- Latika Shah
- Niam Patel
- Professor Oliver Hart
- Paul Matthews
- Richard Busellato
- Steven Fine
- Tom Rayner
- Tracey Brady
- Trevor Pryer

With corporate and institutional participation being essential to the realisation of inclusive investor engagement, over the course of preparing this white paper, we contacted around 150 individuals from UK PLCs, corporate advisers, institutional investors, sustainable fintech firms, academic institutions, and impact organisations. Roles represented include board chairs, directors, CEOs, company secretaries, and investor relations officers. We extend our sincere thanks to the said individuals for their honest views and opinions, time and consideration of this matter.

We extend the same thanks to the ESG, corporate governance and stewardship offices of the Financial Conduct Authority and the Financial Reporting Council, as well as to the Chief Executives / Executive Director of the Pensions Lifetime Savings Association, Association of Investment Companies and the Investor Forum for their impartial views and their fair and informed lines of questioning.

Please join in the conversation and add to the list of individual market participants with whom we consulted and/or contacted in relation to this white paper and inclusive investor engagement in general.

The Future of Retail Investor Engagement
A ROADMAP FOR MUTUAL BENEFIT

Introduction

Responsible businesses can change the world for the better. They not only deliver financial returns for their owners, but also play a crucial role in driving positive change for the benefit of everyone in society. From leading the fight to mitigate climate change to building more just and equal communities, responsible businesses have so much to offer.

Right now, however, we believe this opportunity is being missed. The authors of this paper – and we are a diverse group of individuals representing multiple organisations with different aims – believe that the vast majority of public limited companies (PLCs) in particular are falling short of fulfilling their true potential.

There are a variety of different reasons for this lack of engagement, many of them historic. But we believe this gap must now be closed. This is how we will create the responsible businesses of the future, with the agency and determination to achieve better outcomes for all.

In this paper, we set out the case for inclusive engagement with retail investors. We look at what is holding businesses back, as well as how that might change. And we sketch out the beginnings of an action plan for a brighter future. This is just the start – the beginning of a new movement – and we look forward to discussing it with as wide an audience as possible. Together, we can make the change.

What explains this failure? In short, while PLCs are owned by very diverse groups of shareholders, large and small, they only hear the voices of their biggest investors. Their leaders have little or no contact with the owners of the business, other than a handful of large institutions at the top of their shareholder registers.

Foreword

Alison Owers, Managing Director, Head of UK Morrow Sodali

Although retail investors in the UK have been growing significantly with rapid uptake of online investment platforms, their ability to engage with the companies they invest in has declined as the conduit to engagement has become more complicated and sometimes expensive. It's not that companies don't want to hear the retail investor voice – they just haven't found a way to listen that is practical and cost-effective.

At Morrow Sodali, this is an issue close to our hearts. Our work revolves around helping companies and their boards to communicate and engage with shareholders, and with other interested stakeholders. That is why we're delighted to be working with and supporting The Engagement Appeal, a new campaign for inclusive engagement and positive change.

We believe that if companies are able to bridge the gap to their retail investors, all stakeholders will reap the rewards.

Naturally, there may be some scepticism from corporates about the potential burden of work that greater engagement with retail investors might entail. They already face a significant and growing corporate governance workload. But as this White Paper argues, a new approach does not have to be unduly onerous, particularly given the opportunities that new technologies afford.

Moreover, the rewards for making the effort are considerable. Leaving aside the democratic imperative to engage with a broader cross-section of shareholders, companies have much to gain from doing so.

Not least, there is the potential to secure advice and support on the business's corporate strategy from a far broader audience. Today's engagement efforts, often focused on a small group of the company's largest institutional shareholders, inevitably generate a narrow set of views, all expressed through a similar lens.

There may be some anxiety about what retail investors have to say. But this is about enabling constructive engagement: a richer exchange of views with a far broader set of shareholders who offer different perspectives. Indeed, this sort of engagement will reduce the likelihood of activist campaigns and confrontation with shareholders.

At Morrow Sodali, we've seen the benefits of broad-based engagement in countries such as Australia, where market structures have made it easier to hear the voice of the retail investor. Turnout at company meetings and votes is higher, share register volatility is reduced – and very often, valuations are higher.

However, there is now an opportunity for the UK to become a global leader in its own right. If we can harness technology to facilitate a closer and stronger relationship between corporates and all of their shareholders, the UK will set an example that companies and markets worldwide will look to emulate.

That effort will require collaboration from many different parties and will certainly need the co-operation of private clients' stockbroker and investment platforms, without whom it is often impossible to identify retail investors. But many other market participants will have an important role to play too.

Nevertheless, the bottom line here is that the barriers that have always stood between companies and many of their shareholders can now be overcome. We look forward to working with The Engagement Appeal – and companies themselves – to make that happen.

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Roadmap

Part 1: How we got here
WHY ENGAGEMENT MATTERS

PLCs, as collective endeavours owned by a broad range of shareholders, have huge potential to stand as the benchmark for responsible businesses. However, to reach that point, companies and their boards need to get to know their shareholders: they must engage with a much broader range of investors. And crucially, that must include retail investors as well as the institutions.

The case for better engagement begins with fairness. Individual investors own 12% of shares in UK companies directly and substantially more through arrangements such as nominee accounts, as well as collective investment funds[1]. Yet companies and their boards routinely fail to reach out to this part of their shareholder base. Direct engagement is rare; shareholders are often disenfranchised through voting arrangements; retail investors are even denied the opportunity to take part in new fund-raisers. That said, we are starting to see exciting improvements in both voting access and capabilities, and retail ability to participate in fund-raisers.

The Covid-19 pandemic might have been an opportunity to level the playing field, with all investors forced to engage remotely with the companies in which they held shares, irrespective of their retail or institutional status. Instead, the pandemic saw retail investors routinely excluded from company meetings[2]; and engagement fell sharply at many companies[3]. Even where remote meetings were introduced during the crisis, these have now largely been dropped, even though hybrid alternatives could extend opportunities to engage.

We must do better. Directors have a fiduciary duty to act in the best interests of all members as a whole – in a public company where the shareholder base is fluid, more robust engagement with all shareholders is required for PLCs to reflect the different nature of ownership.

[1] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2020
[2] https://shareaction.org/news/two-thirds-of-ftse100-agms-shut-out-shareholders-amid-covid-19
[3] https://uk.practicallaw.thomsonreuters.com/w-032-4143

REASONS TO CHANGE

What, though, will persuade businesses to invest time and resources in beginning to put these problems right? The answer lies in the shift to sustainable investment – the growing commitment of investors to businesses that take their environmental, social and governance (ESG) responsibilities seriously.

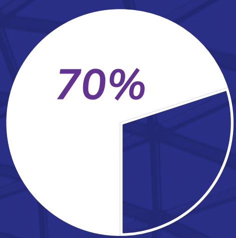
The value in major financial markets of **sustainable investment** has grown by

15%

in the last two years[4]

After all, consumers report their desire to transact with businesses whose values they share;

70% say they buy from **brands** they believe reflect their **own principles**[5].



£10bn ***a year*** **ESG** funds raised, In the financial services industry.

Employees want to work for values-driven companies; 68% of people would be more likely to accept a role at a business they view as aligned to their own world view[7]. Even suppliers are looking to corporates to drive ESG improvements[8].

First, companies neglecting one part of their shareholder base are failing at the first hurdle when it comes to delivering good governance. But also, engaging with retail investors provides a means to identify the crucial ESG issues that matter most to them, and to respond accordingly. In turn, that provides a short-cut to competitive advantage.

In other words, corporates must get to grips with their ESG responsibilities in order to drive better performance – and the bottom line. Improved shareholder engagement is one crucial element of this challenge.

The good news is that we have made some progress, with PLCs becoming more transparent. The UK's Corporate Governance Code and the rise in power and influence of institutional investors focused on stewardship has brought significant change in the way firms disclose financial and non-financial information. The sustainability agenda is driving further improvements and behaviours.

However, there is much more work to be done. Research shows businesses are more trusted than other groups, including government and the media, but more than a third of people still don't trust companies to behave the right way[9]. Indeed, there is widespread cynicism about the true commitment of many businesses to greater responsibility[10].

WHY ACCOUNTABILITY MATTERS

What sits at the heart of this failure to transform? The answer is ultimately a lack of accountability. PLCs are still not being forced to report to all stakeholders – let alone to engage with them in more meaningful ways – even though the Corporate Governance Code requires it; this is simply not being enforced. The result is their behaviours do not reflect the views of all stakeholders – and they are free to continue as before.

Bodies such as the Financial Reporting Council, the International Integrated Reporting Council, the Sustainability Accounting Standards Board, the Value Reporting Foundation, the International Corporate Governance Network and the PRI have long argued that transparency and disclosure will drive improved behaviour. But green-washing is a mounting problem – and in any case, PLCs are not currently forced to report on a range of key issues.

The result? We still see corporates failing on climate, diversity, executive pay and in many more areas. Businesses are once again under fire over executive remuneration, for example[11].

A new approach is therefore needed – something that offers far better communication with individual investors, to understand individual investor wishes.

This must work in parallel with already established formal engagement processes (the AGM, annual report, etc) that do not encourage engagement.

Investors, for their part, are ready to step up. When the online investment platform Interactive Investor made it more straightforward for retail investors to cast their votes at company meetings, it saw a 30% uplift in the numbers doing so[12]. Rival platform Hargreaves Lansdown is following this example[13]. Investors in collective funds are also keen to make their voices heard[14]. And Proxymity, the digital investor communications platform, reports clear investor demand for a voice[15].

Indeed, there is now every opportunity to go much further, particularly as younger generations join the investing public. Millennials have been at the vanguard of values-driven investment; now the evidence shows Generation Z is coming on board too[16].

The stage is therefore set. The imperative for engagement is clear – and the opportunity is a compelling one. Those companies that work harder to understand and deliver on the interests of all their stakeholders will drive societal good – and become more profitable companies in the process.

[4] https://www.refinitiv.com/perspectives/market-insights/the-rise-and-rise-of-sustainable-investment/
[5] https://www.weforum.org/agenda/2021/12/people-prefer-brands-with-aligned-corporate-purpose-and-values/
[6] https://www.fca.org.uk/publication/corporate/fca-climate-change-adaptation-report.pdf
[7] https://www.esgtoday.com/ibm-survey-employees-more-likely-to-accept-jobs-from-sustainable-companies/
[8] https://www.thomsonreuters.com/en-us/posts/tax-and-accounting/esg-supply-chain/
[9] https://www.edelman.com/trust/2023/trust-barometer
[10] https://www.edie.net/survey-7-in-10-brits-dont-believe-environmental-claims-by-businesses-are-credible/
[11] https://www.pwc.co.uk/services/human-resource-services/insights/executive-pay-ftse-100-agm-season-round-up.html
[12] https://portfolio-adviser.com/private-investors-find-their-voice-as-voting-jumps-30/
[13] https://esgclarity.com/hargreaves-lansdown-launches-online-voting-service/
[14] https://proxymity.io/news/proxymity-and-blackrock-empowering-investors-through-voting-choice/
[15] https://proxymity.io/
[16] https://www.cnbc.com/2021/05/21/millennials-spurred-growth-in-esg-investing-now-all-ages-are-on-board.html

Part 2: Change agents

WHY THE MOMENTUM FOR ENGAGEMENT IS BUILDING

Some boards may be tempted to stick with the easy option. After all, engaging almost exclusively with the same small groups of institutional investors will naturally feel more comfortable. Breaking out of that familiar zone will require effort and determination.

However, doing nothing is not an option. The downside risk of failing to engage more broadly continues to increase – and the potential competitive advantage for those that move fastest and furthest is becoming ever greater.

There are now a series of compelling arguments for expanding and increasing investor engagement, including to the retail base.

THE DOWNSIDE OF DOING NOTHING

To start with, in an era where every organisation is under huge pressure to embrace inclusivity, ignoring a segment of society is unacceptable. Besides, this is hardly a minority group – the UK retail shareholder base may account for a relatively small percentage of all owners of stock in UK companies, but it still numbers 23 million individuals by some estimates; indeed, 33% of Britons own shares[17]. To continue overlooking such significant numbers is not sustainable.

Boards are only being asked to comply with the law. The duty to be fair to shareholders in the round – to act in the best interests of all owners of the business – is not only a moral one, but also a legal requirement, enshrined in the Companies Act 2006. Directors who neglect this duty may be personally liable; the imperative to demonstrate inclusive engagement in this regard could hardly be more pressing.

In fact, there is evidence that shareholder disputes are already on the rise, with ESG becoming a key flashpoint. Legal experts warn companies that fail to take their ESG responsibilities seriously – and seek to pretend otherwise – should brace themselves for a spate of claims from shareholders related to green-washing[18].

Even in the absence of a full-blown legal case, retail investors are increasingly recognising that their shareholdings provide them with a means to make their voices heard at companies where they have concern.

UK law says that 100 shareholders are needed to file a resolution if they collectively hold less than 5% of the company

However collaboration is increasingly enabling shareholders to get past that threshold[19]. And social media enables individual investors to come together to make themselves heard.

The work of groups such as ShareAction has proved crucial in this regard, resulting in retail and institutional investors coming together in a string of ESG-related campaigns in recent years[20]. Other activist organisations, including the likes of Extinction Rebellion and Greenpeace also recognise the potential to mobilise retail shareholders in support of their causes. Even small groups of motivated investors can make a significant noise when working together in a well-organised way.

For boards, the best way to avoid being targeted by such campaigns is to engage with a broader set of shareholders before they feel the need to take action. Growing numbers of companies are putting climate change action plans to the vote with shareholders, for example. More direct engagement will be increasingly important as retail investors get more organised and seek to leverage their collective power.

[17]https://www.finder.com/uk/investment-statistics
[18]https://www.pinsentmasons.com/out-law/analysis/uk-shareholder-actions-greenwashing
[18]https://api.shareaction.org/resources/reports/ShareholderResolutionGuide-UK_2019.pdf
[20]https://shareaction.org

THE OPPORTUNITIES OF ENGAGEMENT

If companies and their boards are not persuaded to take action by the risks of failing to broaden engagement, the scale of the opportunity here is compelling.

For one thing, companies that build stronger engagement with a broader group of shareholders can look forward to enjoying more enduring relationships with their investor base. That is important, given the decline in average holding periods in recent years.

In the **US**, research suggests the average stock is held by a typical investor for just:

5½ ***Months***
down from ⬇
5 ***Years***
in the **1970*s***[21]

Data for the **UK** is harder to come by, however a study found average holding periods have fallen to around:

10 ***Months***
down from ⬇
10 ***Years***
in the **1980*s***[22]

In other words, companies have gone from a situation where a loyal investor base provided dependable long-term funding to one where shareholders trade in and out of their stock over very short time horizons.

[21]https://www.reuters.com/article/us-health-coronavirus-short-termism-anal-idUSKBN24Z0XZ
[22]https://www.finder.com/uk/investment-statistics

This matters in more ways than one. Price volatility caused by such frequent trading undermines confidence in the company. And there is little incentive for long-term corporate planning on the part of company's management – that is what delivers improved earnings and, therefore, better share price performance over the longer term, but if investors aren't going to wait around, what's the point?

Building a base of long-term investors therefore has the potential to drive commercial and financial return. In addition, a helpful by-product is as a smaller group of shareholders who held the business before moving on; these former investors, often critical of the company, represent a powerful malign influence in a connected age where there is every opportunity to share complaints and grievances.

A second important element of this argument is there is growing evidence that companies with better ESG performance also tend to perform better financially – both in terms of share price performance and operationally. For example, research from the Corporate Governance Institute points to a 1.5 percentage point annual share price out-performance from companies with stronger ESG credentials[23].

Such work builds on a body of historical evidence suggesting key elements of the ESG agenda are linked to corporate success.

In 2019, for example, analysis by McKinsey found that companies in the top quartile for gender diversity on executive teams were 25% more likely to have above-average profitability than companies in the fourth quartile .

Bearing in mind Professor Oliver Hart's theory that "shareholders don't always want to maximize shareholder value", how, then, will businesses deliver better ESG performance? A crucial challenge will be to build a much better understanding of what all their stakeholders need and want – that will set the agenda as businesses prioritise improvements. Retail investors, for those companies that engage properly with them, will be a crucial source of intelligence and insight in this regard.

[23] https://www.thecorporategovernanceinstitute.com/insights/news-analysis/companies-with-good-esg-perform-better/
[24]

A SAY WITH PAY

The final piece in the jigsaw here is the extent to which retail investors are increasingly being targeted as providers of share capital. These investors are effectively expected to pay, but not to get a say in how their capital is put to work.

New entrants to the market, such as the brokerage Robinhood, the fintech Primary Bid, and the technology platform RetailBook, are building successful businesses by connecting public companies with retail investors. They offer retail investors enhanced access to companies, at least in terms of providing their share capital.

In which case, these investors must be able to exercise the same rights as other shareholders. Organisations such as Proxymity, whose technology enables retail investors in funds to have an independent vote, Tumelo[25], which help fund managers to reflect the view of retail investors, and Tulipshare[26], which works with investors on activist campaigns, are making advances in securing these rights. But significantly more progress and widespread adoption is now required.

[25]https://www.tumelo.com/
[26]https://tulipshare.com/

Part 3: Breaking down barriers
OVERCOMING OBSTACLES TO INCLUSIVE ENGAGEMENT

If the case for increased shareholder engagement is so compelling, what is getting in the way? The honest answer is that companies and investors alike see a broad range of obstacles to engagement. Some are perception more than reality, but all will need to be dealt with in order to move forward to greater inclusivity.

BARRIERS FOR COMPANIES

Perhaps the biggest obstacle of all for many companies is attitudinal. The value they attach to individual shareholders is based largely or entirely on the size of their holding in the business. This automatically leads to a focus on handful of large institutional investors – and the neglect of the long tail of smaller investors, and retail shareholders, that sits outside this selection.

Such attitudes are antiquated but entrenched. They may also have been hardened by a difficult experience. In the absence of constructive dialogue, many companies' only experience of engagement with retail shareholders has been during a confrontational situation – from small micro-aggressions experienced at annual general meetings, to broader activist campaigns.

However, attitudes can change. Indeed, one irony of this debate is that one constituency now pushing for a greater voice for retail shareholders is formed of the very same institutions that companies prefer to talk to.

Forward-thinking asset managers including BlackRock, Legal & General, Aviva Investors, Abrdn and others recognise that their shareholder power comes from those who invest through them – and that these investors therefore deserve a say in how it is exercised. In doing so, they make the case for companies to engage too.

Elsewhere, there are other powerful drivers of change. Social media has become a powerful forum for shareholders to engage with one another[27]. Indeed, technology provides a means for investors to participate in a wide variety of ways, many of which corporates are overlooking. The work of organisations such as Proxymity shows what is possible.

[27]https://www.thetradenews.com/the-reddit-revolt-gamestop-and-the-impact-of-social-media-on-institutional-investors/

At the same time, we should also accept there are a number of practical issues standing in the way of engagement with retail investors. These include:

- Shareholder identification problems. Analysis of share registers is often limited to owners or holders of 1%, 2%, 3% or even more of the business. It therefore completely overlooks retail shareholders, who individually do not reach these thresholds. Frequently, moreover, companies do not know the names and details of their individual shareholders – or even how many individuals own their shares. This may be beyond their control: where investors hold shares through nominee companies and/or investment platform, the intermediary may not pass on their details. Companies may know nothing more than the size of the total holding at brokers and platforms.

- Establishing contact. Details of institutional investor contacts at the front office, middle office and even the back office are well-documented. Companies know who to reach out to on key governance issues, or in an ESG context. By contrast, companies often have no way to get in touch with retail shareholders, many of whom have private or undisclosed contact details.

- Insufficient resources and lack of established processes for engagement. Engaging with hundreds or thousands of retail shareholders requires a different approach to working with large institutional shareholders; it also comes with a different cost profile. Companies may lack the resources to engage at scale – including the expertise and experience. Nor is there one reliable shareholder body or organisation that companies can liaise with on matters concerning individual shareholders.

- Technology and logistical constraints. The custodial chain is complex and proxy voting systems require revamping to accommodate the increasing demand for wider, equitable investor participation. Nor is it only companies that may need to renew their systems. The challenge applies across brokers, platforms, intermediaries and share registrars too.

- However, ground-breaking networked technologies, like Proxymity, Investor Meet Company, and hybrid & virtual AGM facilitator Lumi, already exist. Wider adoption of the solutions they present would alleviate the noted constraints.

- Finally, it is worth saying that some companies see significant compliance and regulatory problems as standing in the way of increased engagement. They worry, for example, about the time and resources required to produce compliant material. Some even point to the way in which the Financial Conduct Authority defines retail clients, certified high-net-worth investors and certified sophisticated investors as distinct groups that must be treated differently in certain circumstances[28]. These definitions require review, and more importantly, widespread financial education is needed to achieve parity.

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BARRIERS FOR INDIVIDUAL INVESTORS

There are also multiple reasons why individual investors fail to engage more pro actively with the companies where they hold shares. The lazy assumption is that investors don't engage because they don't care about what companies are doing. That makes no sense – they clearly have an interest in the financial performance of the company, even if some investors may be less focused on other aspects.

In fact, when investors are asked, they make it very clear they are keen to exercise their rights as shareholders. For example, research from Equiniti suggests the majority of retail investors in the UK either vote on company resolutions already or would like the opportunity to do so[29].

What is stopping them? Many retail investors feel they have to jump through hoops just to secure basic shareholder rights. Unless their shareholding is registered directly with the business, rather than through an intermediary, it is not easy to engage or to cast votes. Very often, investors simply have no idea what engagement opportunities are available to them – or how to find out.

The growth of investment platforms has compounded the problem.

Since the platform often acts as a barrier between investor and company. Interactive Investor's move in November 2021 to make being able to vote at company annual general meetings, and other voting events, its default setting, shows that this can be addressed[30].

The platform now notifies investors when they are eligible to place a vote, as well as alerting them to shareholder events, unless they ask it not to. At other platforms, investors have to opt into such services, even assuming they are available.

Still, this is not a perfect situation. Even where companies are working harder on more inclusive engagement, the flow of information tends to be one way – from the business to its shareholders – with little opportunity for feedback. Even the AGM, to which all shareholders are usually welcome, is a missed opportunity; investors not within easy geographical reach of the event don't get the chance to attend. Virtual AGMs, pioneered during the pandemic, offer a solution here, even if they are combined with physical events in hybrid meetings.

Clearly, retail investors have to be prepared to step up too. As owners of the business, their rights come with responsibilities – to work with the company as it pursues its goals, supporting ethical and sustainable behaviours. One reward for doing so is for investors to better understand the businesses in which they invest – and ultimately, therefore, to make better decisions about how to allocate their wealth.

[28]https://www.handbook.fca.org.uk/handbook/COBS/4/12.html#DES586
[29]https://equiniti.com/uk/shareholder-voice-2022/
[30]https://www.ii.co.uk/investing-with-ii/shareholder-voting-information

Part 4: The way forward

A FRAMEWORK FOR INCLUSIVE SHAREHOLDER ENGAGEMENT

The issues facing companies and their shareholders as they seek to improve and broaden engagement may be challenging, but they are not insurmountable. Both sides need a practical framework through which to work towards their goals.

For companies, this framework can be based on these key steps:

STEP 1: COMMIT

Take more time to understand who your shareholders are and commit to regular two-way engagement with them in accessible ways, including digital interactions. The goal should be to embrace all investors in the most inclusive way possible.

STEP 2: ESTABLISH COMPANY POLICY

Develop clear policies on how you will work towards more inclusive engagement. Working with key stakeholders, both inside the business and beyond, you can put together a roadmap towards improved inclusivity, with clear targets along the way.

STEP 3: ENACT COMPANY POLICY

Put these policies into practice. Inevitably, there will be competing priorities and it may be possible to move more quickly in some areas than others. But be prepared to follow through on commitments and to resource policies properly.

STEP 4: MEASURE PROGRESS

Having set clear targets for increased engagement, measure progress towards these targets at agreed intervals. Is your business on track to meet its goals? If so, are they sufficiently demanding? If not, what do you need to do now to step up the pace of change?

STEP 5: REPORT ON PROGRESS

Feed back to all stakeholders on progress. The AGM, and post-AGM announcements, as well as filings such as reports and accounts, provide a means to do that. But corporates can also provide updates less formally – the more the business is prepared to talk about its efforts, the more positive the effect.

Importantly, not all engagement has to be formal; nor does it have to take place in rigid settings. For example, companies might choose to undertake a pre-AGM engagement session with individual investors. This will help to gauge the views of attendees, as well as to address questions and clarify concerns that individual investors may have before these become problems. Such sessions must be conducted in compliance with regulatory requirements and best practice guidelines, but the AGM is not the only forum for two-way engagement.

For investors, a framework for more inclusive engagement will also be useful, based on these key steps:

STEP 1: KNOW YOUR INVESTMENTS

What opportunities do you have for engagement? Find out when and how to vote, keep track of key documentation, such as annual reports and accounts, and be prepared to take part.

STEP 2: KNOW YOUR RIGHTS AND RESPONSIBILITIES

Identify your investments and how they are registered – for example, through nominee structures, funds and pension plans. Learn about the companies in which you are invested. Online tools and resources provide a wealth of information

STEP 3: NETWORK WITH OTHER INVESTORS

Working together, retail investors have greater power. A range of individual investor groups and campaigns provide the opportunity to build community.

STEP 4: EXERCISE YOUR RIGHTS

Participate at every opportunity. Take part in engagement meetings with companies, attend or vote at AGMs, take advantage of proxy voting, participate in transactions, etc.

STEP 5: MEASURE THE OUTCOME OF YOUR CONSTRUCTIVE ENGAGEMENT

How has collective engagement led to improved performance – both in terms of financial returns and the key areas of ESG that matter most to you?

Part 5: What next
A CALL FOR ACTION

It is time to move forward. Both companies and their shareholders have everything to gain from an embrace of inclusive engagement. The opportunity is to build a relationship that drives better performance from businesses in everything they do – commercially and financially, certainly, but also on their environmental, social and governance challenges.

Some progress is already being made. But to drive the acceleration now required, a step change is necessary. The authors of this paper believe the following points now require concrete action:

- Companies should begin to put in place their frameworks for engagement, and to commit to reporting transparently on the action they are taking.
- Individuals must be ready to embrace their framework for engagement, and to commit to pro actively engaging with companies, including at AGMs.
- Companies should consult with a broad range of key stakeholders on how to establish their individual investor engagement policies and programmes; this should involve individuals such as the chair, the CEO, the company secretary and the investor relations officer.
- Individual investor groups should focus on engagement in order to encourage more individual investor participation in a constructive manner.
- The broader community should look to develop and support a social organisation that is focused on the best interests of both companies and individual investors, and which can help enact the frameworks for engagement.
- All parties should provide further support for brokers and intermediaries, which will need to be more involved in order to enable inclusive investor engagement and voting/transaction participation.

Glossary

KEY TERMS WITH RELEVANCE TO THIS PAPER

Retail shareholder: an individual who owns company shares either directly (registered) or indirectly through a nominee, broker or platform.

Individual investor: An individual investor is often also referred to as a retail investor. An individual investor is a person who invests their own money in pension funds and mutual funds. In this white paper, when referring to ‘individual investors’, we include in this term the 23 million individuals who own shares either directly or indirectly through a nominee, broker or platform.

Beneficial shareholder: The ultimate beneficiary of an investment in a company that has been made through a nominee, broker, platform, pension fund or mutual fund.

Registered shareholder or nominee shareholder: A nominee shareholder acts as a legal and unrelated third party, who is officially registered as the holder of shares on behalf of the actual shareholder.

Sophisticated investor: A person who meets the requirements set out in article 23 of the Promotion of Collective Investment Schemes Order, in article 50 of the Financial Promotions Order or in COBS 4.12.7 R.

Engagement: The interaction and two-way dialogue between company representatives (generally the chair, CEO and CFO accompanied by the company secretary and investor relations officer) and a company investor or investors. Often the engagement takes the form of a physical meeting within an office setting, but can also be via video conference or hybrid format of physical and video conference. The engagement can be either one-to-one, or with a group of investors, depending on the matters being discussed and any regulatory requirements.

Quarterly roadshow engagement: The standard set of meetings undertaken by the company’s CEO and CFO with their investors (usually their top five to 20 institutional investors) immediately after the company’s quarterly and annual results. The CEO and CFO will either host the one-to-one meetings at their offices or at their investors’ offices.

Share register: A statutorily required list of all the registered, legal holders (often nominees) of shares in a company, which is maintained by the company and its share registrar.

Share register analysis / shareholder ID: The process of securing the list of investors that sit behind the registered, legal holders on the share register, comprising fund managers and beneficial holders. In the UK, share register analysis is generated by serving section 793 disclosure requests to nominees under the Companies Act 2006, requiring the nominees to disclose the underlying holders for whom they hold shares. The underlying holders are often institutional fund managers who manage positions on behalf of beneficial shareholders. The s793 disclosures are analysed and the data assembled into a detailed report that companies use to keep track of their top shareholders and running shareholder engagement programs. As the share register analysis only captures the largest shareholders, retail shareholders are often overlooked. Specialist investor relations firm undertake monthly or quarterly register analyses for companies.

Proxy vote reconciliation: The process of identifying the investors behind the nominees who instructed a proxy vote at a company shareholder meeting.

THE ENGAGEMENT APPEAL

INCLUSIVE INVESTOR ENGAGEMENT

Contacts:

Sheryl Cuisia
Danny Wallace
Co-Founders

Media Enquiries:

Latika Shah
Edelman Smithfield
+44 (0) 20 3047 2000

The Engagement Appeal
7 Bell Yard
London
WC2A 2JR
(The Engagement Act company no. 14612231)

This report was published by *Board Agenda* on behalf of The Engagement Appeal. Editorial enquiries should be directed to Trevor Pryer, CEO Tel +44 (0) 203 151 2653; www.boardagenda.com. Questor Media Group Ltd, 152-160 City Road, London EC1V 2NX