shareholder voice

2022

Responding To Uncertain Times

FOREWORD

Responding to Uncertain Times

By Thera Prins, CEO of EQ Shareholder Services UK

Employee share schemes are a vital tool to help solve some of the most pressing challenges that companies face worldwide.

This year's EQ Shareholder Voice survey reveals that employee shareholders want support from their employers to deal with the cost-of-living crisis, and many say shares would help.

During the pandemic, giving shares to employees worked well for many companies wanting to thank staff for their hard work without impacting cash flows.

It could work again, alongside other measures, during the cost-of-living crisis. In our first article, we discuss efficient ways to do this that include using management information to target the hardest-hit; and supporting vulnerable employees – something EQ has invested much in recently. We even discuss how companies could auto-enrol staff into share schemes to maximise the huge potential benefits for staff, companies and society.

Recent research shows share schemes can help tackle the urgent problems of slow productivity growth; spiralling inflation; staff retention; and corporate performance. Then there's the long-term confidence and financial resilience share ownership can foster when coupled with high-quality education from employers – another key finding from this survey.

This is the second EQ Shareholder Voice Report, and it builds on the findings from last year to deepen understanding of retail investors' actions and motivations. The aim is to support companies in reviewing their practice, reporting and communication so they can better harness the opportunities and respond to challenges.

The report is based on a survey of 3,000 individual shareholders in the UK and US, combined with insights from experts and companies.

Building long-term resilience

The last 12 months have been unkind to many private investors. Pandemic after-shocks, soaring inflation and the Ukraine war have rocked markets and created a sense of extreme uncertainty for the uninitiated. Our survey revealed a wave of new investors who are feeling uninformed and out of control – and there is much issuers could do to help educate them.

But 96% of these jittery investors are not employee shareholders.

The data shows that employees have proved highly resilient and active since the start of the pandemic. This comes from the confidence that stems from knowledge about their company, and from employers' education programs. Companies have shown great resolve in boosting their employees' resilience, and we hope they can continue and expand these efforts.

It will be challenging. Many retail investors of all types are dissatisfied with communications from listed companies – much more so than a year ago. This is not surprising given people's tendency to question what went wrong when their portfolios plummet. But it still highlights the importance for issuers of maintaining a laser focus on communication and education – and how it can leave people floundering if they don't.

Helping shareholders use their voice

In other articles, we look at the continuing growth of interest in environmental, social and governance (ESG) investing – despite backlash against it from some politicians in the US and investors concerned about performance. We look at how forward-thinking companies are engaging with retail investors on the issues.

Plus, we discuss the long overdue prospects for digitisation of share ownership in the UK. Low levels of automation are hindering most retail shareholders' right to vote on corporate resolutions, and we support the changes needed to promote digitisation throughout the voting process.

Some brokers contend that individual investors only care about financial performance and not voting. But our data and our experience show they do care. They passionately want a voice. We want to help give it to them.

As a leading share registrar in the UK and US, we want to keep bringing ideas and insights to bolster our industry and strengthen wider society and economies. This year's report shows how companies can engage with retail shareholders for mutual benefit, if they choose to – and we want to keep helping them do that.

EQ

CONTENTS

Contributors: Thera Prins, EQ. Graham Bull, EQ. Ian Cox, EQ. Tim Brook, EQ. Zally Ahmadi, EQ & D.F King. Richard Davies, EQ. Anne-Marie Clarke, EQ. Steve Banfield, EQ. Richard Pearson, EQ. Jennifer Rudman, EQ. Brian Feroldi, Motley Fool. Cliff Weight, Sharesoc. Graham Bennett, Marks & Spencer, Michael Kempe, Proxymity.

How Share Schemes Can Help Employees in the Cost-of-living Crisis

Share schemes could play a vital role in helping employees struggling with the cost-of-living crisis.

The EQ Shareholder Voice survey shows 73% of all shareholders believe employers should offer them financial support to help cope with soaring prices; and 87% of employee shareholders believe this. The most popular option is a pay rise in line with inflation – 53% of those who want support feel employers should offer this. However, almost one in five want shares in the company.

Many organisations worldwide are facing the threat of industrial action as workers demand higher wage increases to keep up with soaring inflation. But the cost-of-living crisis could be short-term, so employers may not see large, permanent pay rises as appropriate – even if they could afford them.

A more affordable option could be to combine a modest pay rise with free shares, and a cash sum for hardest-hit employees. For example, rather than an 8% pay rise, companies could offer a 4% pay increase, 3% worth of free shares, plus say £500 cash for those on the lowest salaries. If the shares come from a new issue, that doesn't come from the company's cash, making it an easier option financially.

Graham Bull, head of all employee share plans at EQ, says: "Many companies that were finding it hard to generate cash during the pandemic gave employees free shares to thank them for their hard work and loyalty and it worked well. Some even had to reduce salaries, so they gave free shares to compensate. They found this was better than laying people off, and the staff ended up being slightly better off too.

Helping those on lowest incomes

A vital part of making this combined support effective and affordable is using data to tailor and target employees' needs. Organisations know how many employees they have on lower incomes. But where possible, they should target support for the hardest-hit by identifying staff who live in low-wealth areas.

"This indicates those living in genuine hardship," says Bull. "If they are on a low income but living in an affluent area, that gives you some comfort that they have other means – for example, they've inherited some money or their partner is better off. EQ's data team can help companies identify people who live in hardship areas, and use other data to refine that further, such as credit scores and sickness records. Combining these measures to identify vulnerable workers also helps you support them in other ways – such as through your employee assistance programme – and manage risk in your workforce."

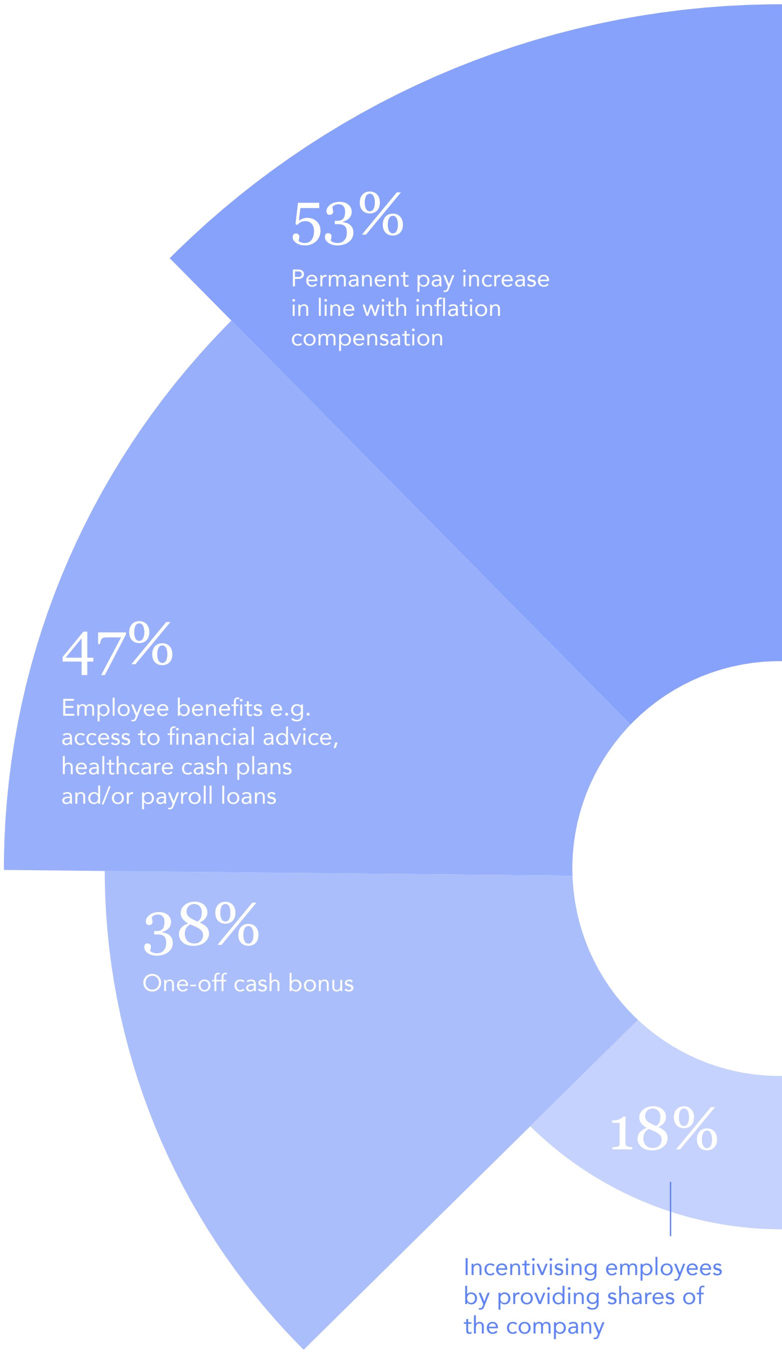
Ian Cox, head of share plan services at EQ, says better management information (MI) can help companies make this support highly tailored and efficient. "Many companies use the MI we supply to target demographics in their employee base. You can tailor to many factors, such as local dialects and different sections of your workforce such as depot workers versus office workers. By identifying communication styles that each segment prefers, we have seen engagement numbers go through the roof."

Cox says those needing immediate financial help could take a break from share scheme payments or change their contribution levels – so schemes could target them with reminders about this. They can also offer an ever-growing range of tools to help them manage budgets, contribution levels, savings, and investments.

SHAREHOLDERS WANT A MIX OF FINANCIAL SUPPORT

The support that shareholders feel employers should offer

Shareholder Voice 2022



Base = Retail investors who feel employers should offer support to employees during the cost of living crisis

> Many companies use the MI we supply to target demographics in their employee base. You can tailor to many factors, such as local dialects and different sections of your workforce such as depot workers versus office workers."

Ian Cox, Head of Share Plan Services, EQ

How Automatic Share Ownership Can Help Solve Economic Woes

One option for employers is to auto-enrol workers into employee share plans. It could help solve a range of critical business challenges and wider economic problems.

Pensions auto-enrolment has worked extremely well in helping people save for retirement in countries such as New Zealand, the US, and the UK. Auto-enrolment into share plans could help them save more in the medium-term – and solve pressing economic challenges such as slow productivity growth, staff retention and soaring inflation. Legislation requiring share scheme auto-enrolment would be welcome but it's not necessary for any company to start a scheme of its own.

Bull says auto-enrolling share schemes could work by requiring companies to pay a small amount – say 0.5% of salary – a month into a share scheme for each staff member, unless the member opts out. Providing the accompanying communication is done well, this will engage them more in owning shares and saving.

Governments and businesses are desperate to avoid giving in to demands for large pay rises as this often forces them to increase prices for products and services, creating a vicious cycle that will make inflation last much longer.

One way to alleviate this problem is to improve worker productivity because – other things being equal – this helps reduce costs, prices, and therefore inflation. Business bodies such as the Confederation of British Industry (CBI) have argued that wage rises will simply feed inflation unless they are driven by higher productivity.

How share ownership boosts productivity, retention and performance

A 2021 report[1] by the Social Market Foundation (SMF) refers to a range of compelling evidence that employee share ownership translates into higher productivity – and better business performance, employee relations, innovation and economic growth. For example, a study by Oxera, commissioned by HMRC, found that tax-advantaged employee share plans increase long-term company productivity by 2.5%.

Another analysis found companies with a relatively high proportion of employee shareholders outperformed stock market indices in the UK and US.

The SMF identified several current barriers to share plan participation. These include lack of awareness or scepticism about the benefits among companies and employees; implementation and administration costs; and the harsh accounting treatment share plans sometimes receive.

The foundation also found subpar share scheme participation in low-wage industries such as hospitality and retail, suggesting that financial means are a barrier. Higher staff churn rates could also be an issue. The rise of gig work and job hopping also limits the number of individuals who are willing or able to participate in share plans. Evidence suggests that, on average, people now expect to stay in a job for less than five years, so are less likely to want to join share plans with a five-year term.

1. https://bit.ly/3SFdOPr

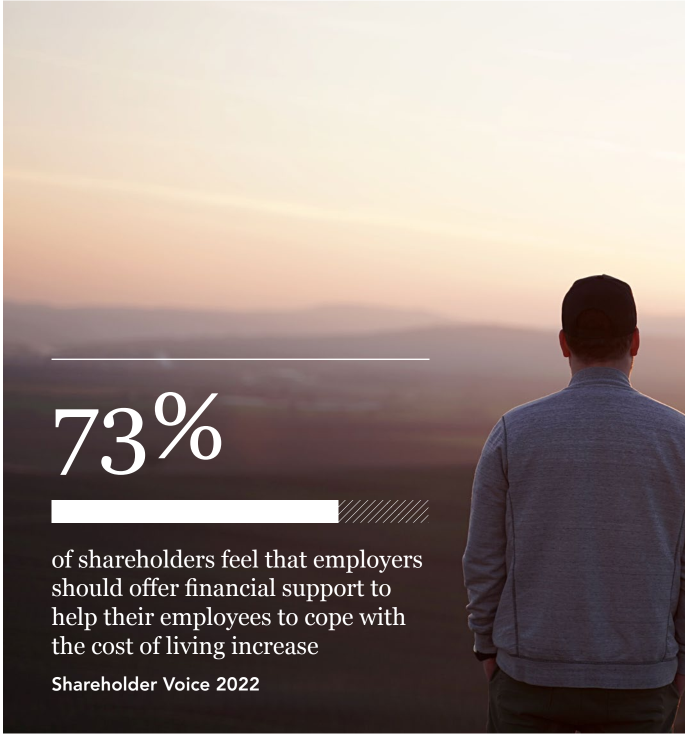
For share schemes to have significant long-term impact, companies need to devote substantial effort to them, including continuous access to high-quality advice, training and other support, says the SMF.

Auto-enrolment would help solve many of these problems by automatically placing all employees in a share scheme.

Bull says one challenge to this idea in the UK is that share plans are not offered to all UK employees. "We don't only want workers in PLCs to enjoy the benefits," he says. "The public sector could provide an alternative by, for example, auto-enrolling workers in a portfolio of FTSE shares or a multi-asset fund." Brook says it would also help if governments could allow employers to divert some of the money they put into employees' pensions into a shorter-term vehicle, such as an ISA. "This would enable them to save for events such as university fees or helping children with house deposits. It could also help during a cost-of-living crisis, when employees need more short-term help," he says.

But Brook adds that share schemes only improve productivity and staff retention if you have an effective communication programme and continue communicating the benefits throughout the term.

"If you launch and leave it, you are missing a trick," he says.



Longer-term help

Tim Brook, business unit lead at EQ HR Solutions, says any share-based solutions to the cost-of-living crisis should come as part of a coordinated "total reward" strategy. This should include other benefits – such as discount schemes and individual savings accounts; an ongoing communication strategy; and a rewards hub to host all the solutions centrally.

"Some people need more immediate help, so practical savings such as retail vouchers and discount schemes can help," he says. "If you can save 4% on all your shopping over the year, it's enough to cover the cost of your whole Christmas day. A message like that switches people onto it. We help companies maximise engagement by putting everything in one place, and building a communication strategy around that, which is critical to success – plus education and support to promote financial well-being.

"You should also ensure struggling employees are in touch with their employee assistance programme – for example, if they need debt or legal counselling – and signpost them to other agencies such as Citizens Advice. So don't just communicate about share plans; make it part of a bigger campaign starting with budgeting, saving tools, and education, then working through to benefits."

Shareholders Keep Up ESG Pressure Despite Performance Setbacks

The EQ Shareholder Voice data shows overall interest in responsible investing has continued to increase rapidly in the last 12 months, despite a backlash against it in some quarters.

In 2021, 13% of retail investors in the US and UK said "desire to influence a company's behaviour" was a top three factor in picking a share. In 2022, this rose to 19%. In addition, more investors said they were likely to vote at AGMs on environmental, social and governance (ESG) related issues than they would on those affecting financial performance.

This year, the cohort of retail shareholders who want to influence companies has gained support among older (57+) investors – up from 4% of investors last year to 15% in 2022. They remain confident investors – more so than the average – and are in it for the long term. 34% describe themselves as "fully confident and informed" versus 28% of the whole sample. They are also more likely to be employees (25%) versus non-employees (14%).

The sector has not been immune from stock-market gyrations, and the performance of many ESG stocks has suffered in the last 12 months. Of those keen to influence companies, 47% have replaced some stocks with shares that they believe offer a better return. But they could just be tweaking portfolios to align with the economic cycle. Looking at the data as a whole, it looks like a temporary setback for the ESG movement, at worst.

ESG continues apace

Overall, the survey suggests companies must maintain a strong focus on keeping ESG-led investors onside and ensuring they have the information they need.

Zally Ahmadi, senior vice president, corporate governance, ESG and executive compensation at EQ & D.F. King, says most research shows ESG investments correlate well with long-term returns.

"So, most investors who want to integrate ESG are in it for long-term returns," she says. "Short-term shakeups probably won't affect their strategy much. There is still increasing pressure on companies around ESG, including from larger investors. Plus, there is lots more disclosure from companies, which is driving greater interest among all investors."

Richard Davies, managing director, investor relations services at EQ, says most investors realise ESG is a work in progress. For example, the war in Ukraine highlighted complications involved in ESG ratings of Russian and Chinese companies. Meanwhile, there has been a backlash against ESG investing from some US Republican politicians.

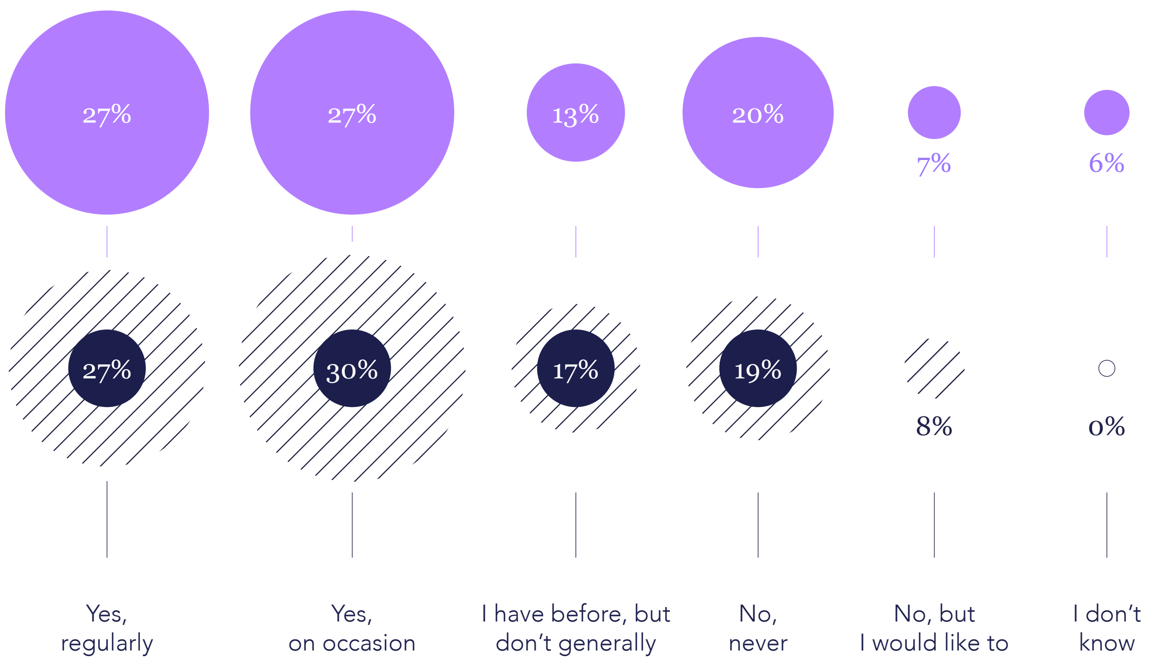
> But overall, the ESG movement continues apace, and we've done research showing that nearly all public companies take it very seriously, with dedicated subcommittees and CEOs taking full responsibility for the ESG process."

Richard Davies, Managing Director, Investor Relations Services, EQ

APPETITE TO VOTE REMAINS HIGH

Do shareholders vote in AGMs?

Shareholder Voice 2022



High-ranking representatives and general attorneys of several US states have issued statements questioning the wisdom of allocating public pension funds to ESG investments when oil stocks are rallying.

"But overall, the ESG movement continues apace, and we've done research showing that nearly all public companies take it very seriously, with dedicated subcommittees and CEOs taking full responsibility for the ESG process," says Davies. "They know major issues such as climate change could affect profitability in the coming years, and they understand the potential benefits, such as helping to raise capital.

"There is also still a strong commitment to ESG among asset managers. Their understanding of the risk management issues is improving, and there is less greenwashing."

Of those who hoped to influence companies:

47%

have divested at least part of their portfolio for shares with potentially better returns

Shareholder Voice 2022

34%

describe themself as "fully confident and informed" vs 28% of all retail investors

Shareholder Voice 2022

42%

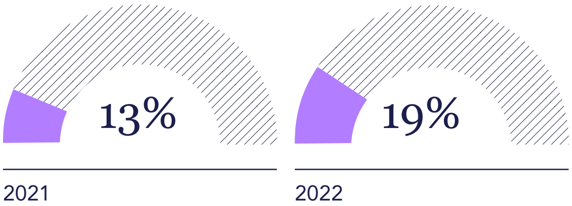
had shares in the finance sector vs 50% for all retail investors

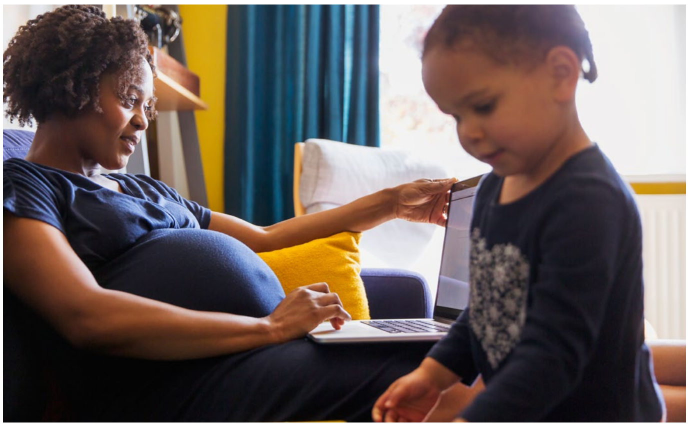
Shareholder Voice 2022

MORE SHAREHOLDERS ARE LOOKING TO INFLUENCE COMPANY BEHAVIOUR

Shareholders who ranked 'influencing company behaviour' as a top three reason for owning shares

Source: Shareholder Voice 2022





Focus on what matters to you

Ahmadi says many companies she works with have great ESG-related initiatives – they are already doing good work in this area. But their investor communications on the subject are inadequate, so they need to bridge that gap.

"One problem is it's easy to get lost when trying to figure out what ESG factors to communicate," she says. "Many companies think they need to disclose everything about subjects from climate change to diversity and cybersecurity. They do not know how to start.

"My advice is focus on messaging about what ESG factors matter to your company. What ESG factors impact your employees, stakeholders, and your bottom line? Start by communicating about them."

"There is still increasing pressure on companies around ESG, including from larger investors. Plus, there is lots more disclosure from companies, which is driving greater interest among all investors."

Zally Ahmadi, Senior Vice President, Corporate Governance, ESG and Executive Compensation, EQ & D.F. King

Stay on the front foot

Anne-Marie Clarke, head of corporate governance, EQ Advisory, says another factor prompting companies to engage with investors on ESG issues is when regulation doesn't drive change quickly enough to address public interest in an issue – such as diversity or the living wage.

"When there is such a delay, campaign groups like ShareAction can look to retail investors to act on it and create a shareholder resolution to vote on," she says. "That's where the retail voice can count as it can bring companies' attention to the issue much more quickly and easily."

Clarke says companies should be on the front foot with these important issues as they arise and use different channels beyond the annual report to engage with retail investors on them.

"We've worked on a few campaigns with forward-thinking companies that use social media and digital channels to reach retail shareholders," she says. "The aim was to bring them on a journey about what they are doing, rather than just communicating once a year. They found it to be effective. Companies increasingly need to reach out to retail investors and many could do much more on this."

If the issue is important enough, they could even create a full digital and social media strategy around it, she adds.

Voting and AGMs: 2022 Update

The UK's proposals for digitising share ownership and the end-to-end voting process are long overdue and the industry must now embrace them.

Data from this year's EQ Shareholder Voice survey shows no significant change to retail investors' low voting turnout since last year's report. Only 31% of shareholders in the US and 22% in the UK say they vote regularly. Only 14% say they didn't know they could vote – so what's holding them back?

In the UK, a big part of the answer lies in the fact that much of the end-to-end voting process has not been digitally integrated.

Retail shareholders usually buy shares through a broker. But brokers often do not remind investors they can vote or pass them information about resolutions – or if they do, the notice is too short. One reason for this is brokers' lack of digital and automated processes.

This lack of information and efficiency is made worse by the fact that multiple brokers are often involved – and it becomes difficult or even impossible for shareholders to exercise their right to vote. And it means companies trying to engage with their retail shareholders can end up failing due to these blockages in the voting chain.

Anne-Marie Clarke, head of corporate governance, EQ Advisory, says: "Through our shareholder engagement campaigns, we constantly reach out to private client brokers who often tell us they do not notify shareholders about voting events. Often, they will only process a vote if instructed by their investor clients who have become aware of the event through other sources – so it's a reactionary stance."

"However, we passionately believe the whole voting and ownership chain should take greater responsibility to ensure all shareholders can vote at shareholder meetings. Many issuers do try hard to engage with their retail shareholders who do not hold shares directly in their own name. But the issuers can still struggle to reach these shareholders because of complexity caused by the multiple layers in between."

Solving the digital riddle

Fortunately, the UK is now addressing these issues. In 2020, a Law Commission paper on Intermediated Securities[2] identified that brokers provide very different levels of service in terms of helping investors exercise their right to vote. Some brokers have more automation in their business that makes it easier for ultimate owners to vote – others have more manual processes that make it difficult or prohibitive.

Steve Banfield, industry director at EQ, said:

The Law Commission paper was followed in 2022 by the Austin Review on Secondary Capital Raisings[3]. This pointed to wide-ranging benefits from fully digitising share ownership, including helping information about voting flow up and down the ownership chain.

The Government accepted Austin's recommendation to establish a taskforce to modernise the UK's shareholding framework.

This Digitisation Taskforce[4] was set up immediately and is looking at how to achieve digitisation and remove any obstacles.

The UK could look to the US, which is more advanced in this area. US listed companies have been required to provide online proxy materials to all their shareholders for over a decade. The SEC rule was motivated by a desire to cut costs for issuers and reduce paper use, so the company only sends a one-page notice directing the shareholder to the internet. If the shareholder wants a hard copy of the materials, they must request it from the company.

> "These differences create an uneven playing field for shareholders. But if digitisation of the voting processes within the intermediated share sector became mandatory, the whole sector would become fairer and more efficient."

The rule, known as "Notice and Access", also determines that intermediaries – who are the shareowners on record and thus hold the right to the vote – must provide the materials to the ultimate or beneficiary owner in a timely manner. When informing shareholders that the proxy is accessible online, brokers and dealers also must include a request for voting instruction, giving shareholders the opportunity to participate in the process electronically, even if through the intermediary.

Shareholders are getting younger

The securities industry is one of the few yet to embrace digitisation, with corporate issuers often still having to send out reams of paper to shareholders. Digitisation has been held back by concerns about inclusion for those with no access to the internet – the so-called digitally excluded.

It is still important to allow people in that bracket to use paper – but their number is dwindling. According to Ofcom[5], the proportion of homes with internet access has grown from 76% in 2011 to 94% in 2021.

Furthermore, the traditional image of typical shareholders as older people who prefer to deal with paper is outdated. In this year's EQ survey, the average age of a shareholder in the US fell from 48 to 40; and in the UK, it remained at 38.

Banfield says another issue is that the Companies Act requires stamped and signed physical certificates where relevant.

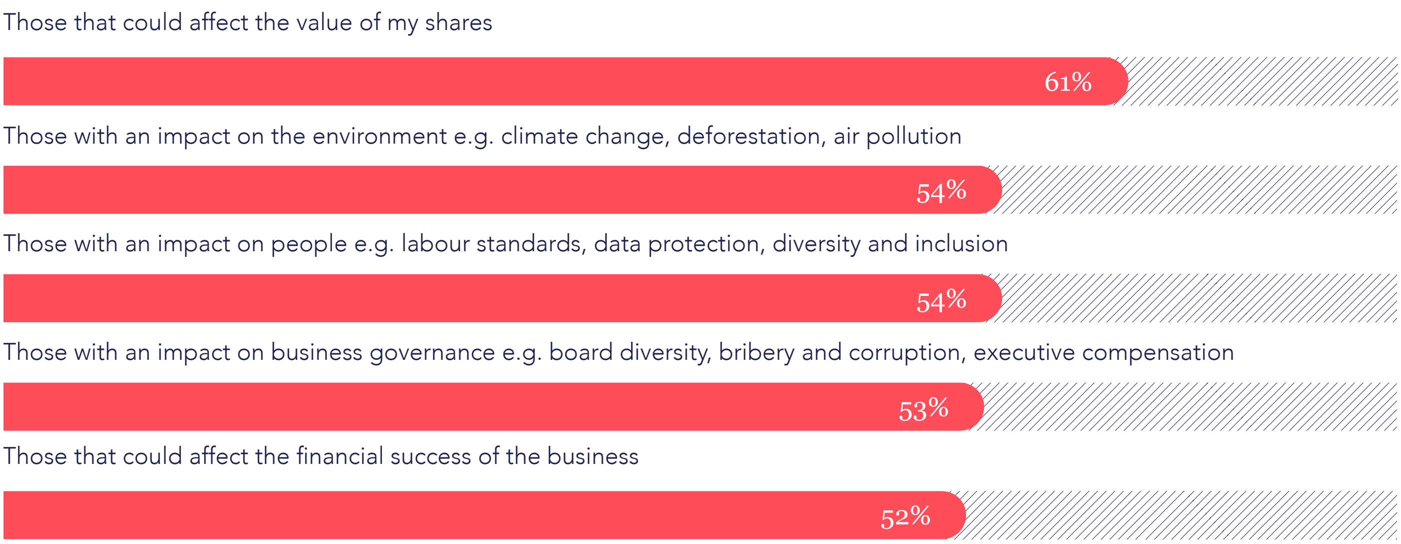
"We would support a change to the wording so the Act requires digital certificates, stamps, and signatures 'either in hard copy or electronic form' – and that the same should apply to resolution notices," he says. "This will make it easier for companies to choose digital communication methods providing they can get the shareholder's email address. I hope the Digitisation Taskforce will make this happen over the next 12 to 24 months.

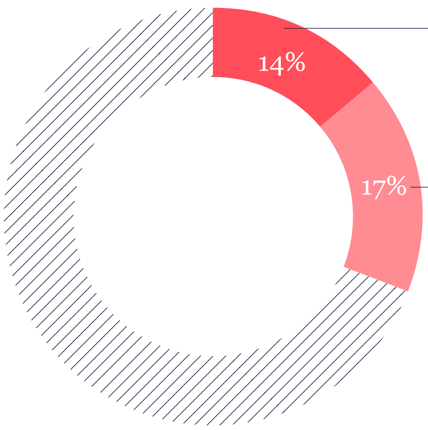
"Reduction or removal of paper would make the whole industry greener, faster and more efficient."

SHAREHOLDERS ARE MOST LIKELY TO VOTE ON ISSUES THAT AFFECT THEM FINANCIALLY

Percentage of shareholders who would vote on each issue

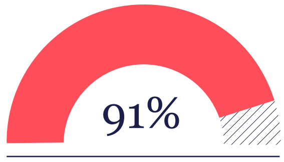
Shareholder Voice 2022



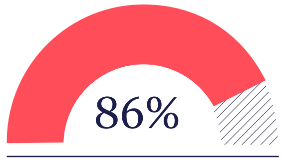


14% of retail investors don't know that they can vote

17% of those rating themselves as 'fully confident' shareholders



employee shareholders would be more likely to vote if bank/broker canvassed their opinion



employee shareholders would be more likely to vote if the bank/broker helped with process

Shareholders do want a voice

Banfield says it's surprising digitisation hasn't happened faster given the burgeoning support for the concept of shareholder empowerment, especially around environmental, social and governance (ESG) issues.

The EQ survey shows that ESG issues are a powerful motivator behind voting, and more shareholders say they would be likely to vote on ESG issues at an AGM than they would on factors affecting financial performance. Some brokers claim retail investors are only interested in tracking financial returns and not voting. But EQ's survey shows the opposite – most shareholders say they do want to be more engaged and have a voice, especially on governance issues.

They are aware of the issue with brokers too – 91% say they would be more likely to vote if their bank or broker canvassed their opinion; and 86% would if the bank or broker helped with the process. This suggests emphatically that digitisation of the voting process could make a significant difference to voting numbers and give retail shareholders a more powerful voice.

As Banfield says: "Voting is the best way for shareholders to get their views across to the companies they own. Digitisation will increase voting numbers by improving the ease and simplicity of the process. I hope that will happen as a result of the Digitisation Taskforce."

Reasons for optimism – the view from an investor communications platform

Michael Kempe, global head of business development at Proxymity, says: "There are several reasons why many retail investors don't vote but there is some optimism for the future. Some retail investors still do not believe their vote will make a difference. Some who hold shares via brokers may not have the opportunity to vote.

"However, companies are doing more to attract shareholder engagement by better communication and adopting new digital channels. Hybrid meetings are becoming the norm, allowing shareholders to attend meetings regardless of location or circumstance. Plus, they are embracing technologies that connect investors throughout the ownership chain. Retail investors who hold shares via a third party should demand that they use technology and provide them with the ability to vote."

Kempe says issuers and registrars are pushing the digital agenda for retail shares held directly on the register and the holders should use these wherever possible. This is more efficient, and provides more time to decide on voting matters. There is no reason shareholders who use a broker to hold shares should be disenfranchised either, he says.

"Most FTSE 100 companies now permit digital voting via CREST or Proxymity, so retail investors should ask their providers to ensure they can use the digital platforms available," he adds.

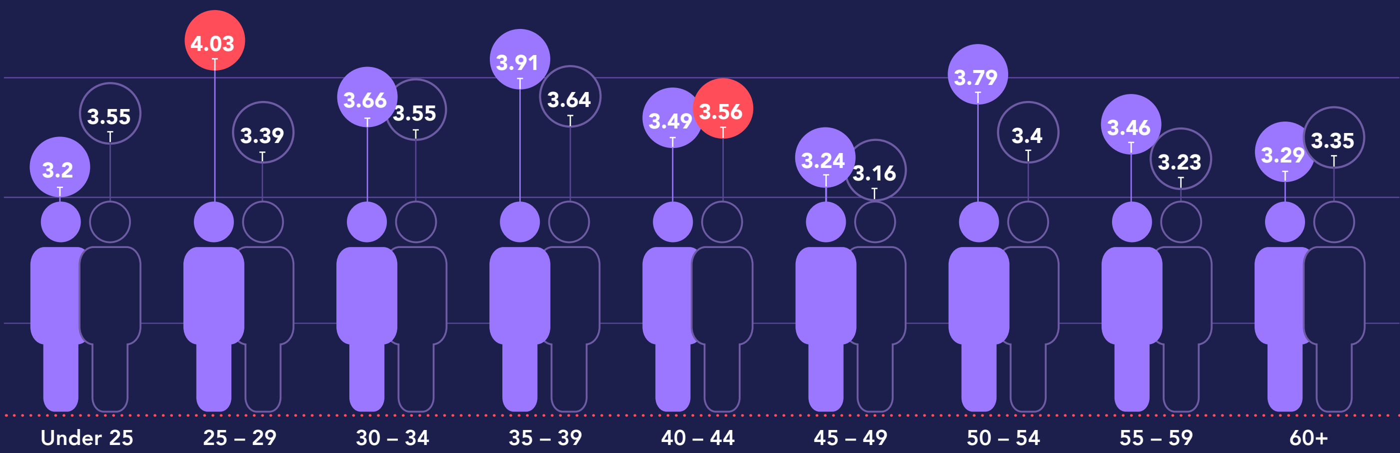
2. https://bit.ly/intermediated_securities
3. https://bit.ly/3CyQ0Y1
4. https://bit.ly/3V6qd0D
5. https://bit.ly/3fBQ68c

The Flashpoint on Executive Pay

Who really cares about corporate governance issues and by how much?

Younger investors are more likely to act on executive pay

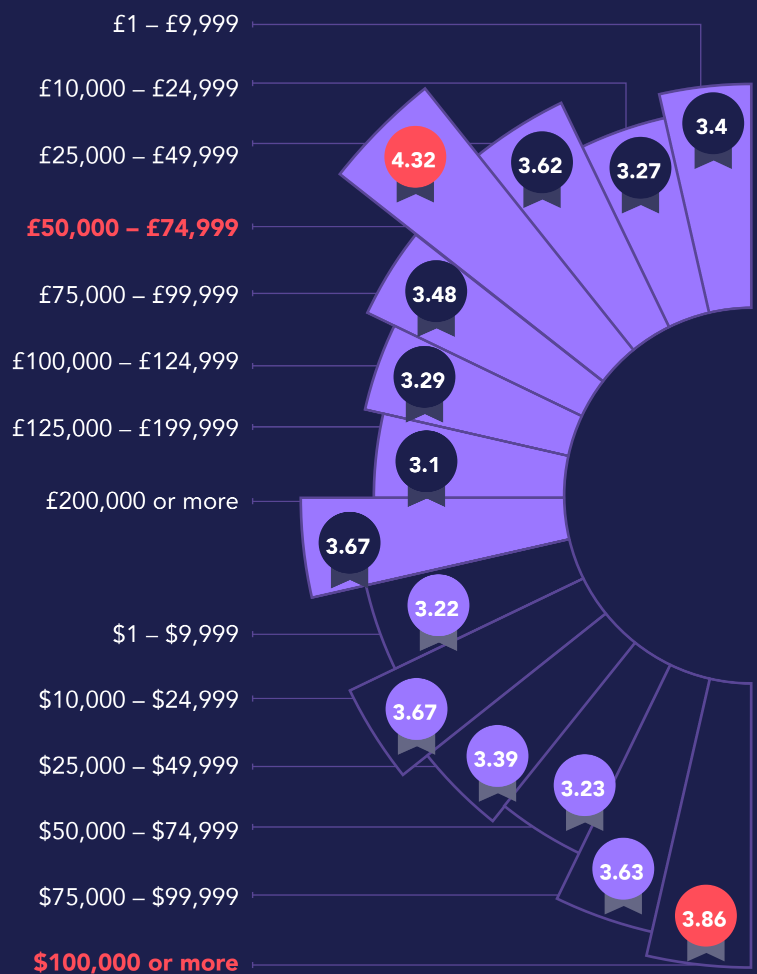
Differences in the level of voting on executive pay by location and age group



Investors were asked to say how likely they were to vote on corporate governance issues, with **5 = 'very likely' and 1 = 'would not vote'**

With the 'squeezed UK middle' and high earning US caring the most

Importance placed with **5 = 'very important' and 1 = 'not so important'** on executive pay based on UK and US annual salary



But those most concerned with executive pay are selling shares to cover the cost of living crisis

50%

of those who say they would be highly likely to vote on governance issues have sold shares because of a cash shortfall

VS

28%

of those who don't care at all

Colour code key ■ UK □ US

The debate over executive pay has settled into a post-covid **'normal'**. But, with the cost of living crisis, there has been an increasing focus on the gap between those at the top and those at the bottom of the corporate ladder. Who really cares about corporate governance issues such as executive pay? And by how much?

Focusing on this issue requires confidence…

Importance placed on executive pay based on UK and US annual salary

Importance
3/5

for investors who rate themselves 'fully confident'

Importance
3.8/5

for investors who claim to 'understand very little about my portfolio

…and it is of most importance to aggressive investors

Importance placed on executive pay based on UK and US annual salary

Importance
3.1/5

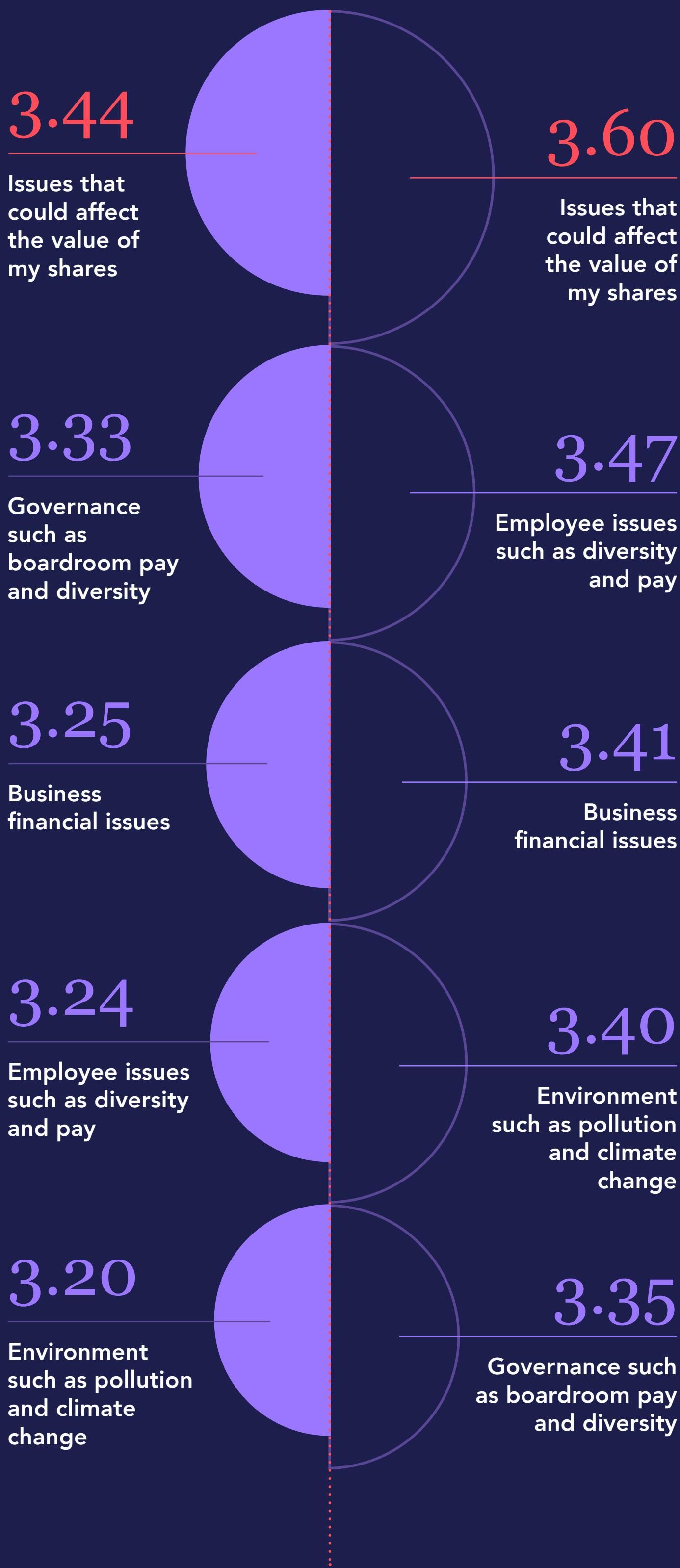
for investors expecting returns of 1% – 2%

Importance
4/5

for investors expecting returns of 10% – 14%

Despite investors' concerns with executive pay, the value of their shares still comes first

Issues UK /US investors most likely to vote on



Colour code key: UK | US

How Employers Can Help Avert an Investor Confidence Crisis

EQ's 2022 Shareholder Voice survey has revealed a growing wave of retail investors who lack confidence and control over their investments – and risk developing a phobia of equity ownership.

Investors who said they understand little about their portfolio and feel they are making uninformed decisions increased from 7% in last year's survey to a worrying 26% this year. Only 4% of this cohort were employee shareholders, who tend to be more confident – as discussed in the last article in this report.

The uninformed cohort are most likely aged 41 to 56, and 59% are female. They are more likely to have bought shares on advice from others but have been shocked by manic price swings over the last 12 months. Some have had to sell shares due to the cost-of-living crisis, and many invested in small companies.

Weirdest time ever

Brian Feroldi, investment educator, Motley Fool writer and YouTuber, says it's not surprising some new shareholders feel traumatised because the period since the start of Covid has been the weirdest investing time ever.

"During Covid lockdowns, millions of people tried investing for the first time," he says. "This coincided with the rise of crypto investing, Reddit campaigns, meme investing, and tools like Robinhood that made it incredibly easy to get exposure to the stock market. Unfortunately, the first lesson many of them learnt was 'whatever you buy, you will be quickly rewarded with up to 100% gains.' Then they learned the exact opposite. As volatility, inflation and the Ukraine war hit, however you invested, you lost.

44%

of shareholders have sold some shares because they need the cash

Shareholder Voice 2022

26%

of investors understand very little about their portfolio

Shareholder Voice 2022

"So, millions of people had a horrible introduction, and it's a tragedy because the stock market remains the best way for investors to build long-term wealth."

But how should issuers respond? Zally Ahmadi, senior vice president, corporate governance, ESG and executive compensation, EQ & D.F. King, says: "If a Robinhood investor loses money on your stock in the short-term, it's not your job to soothe them. But if there is global market disruption, you should increase disclosures, so all investors understand the impact and your prospects.

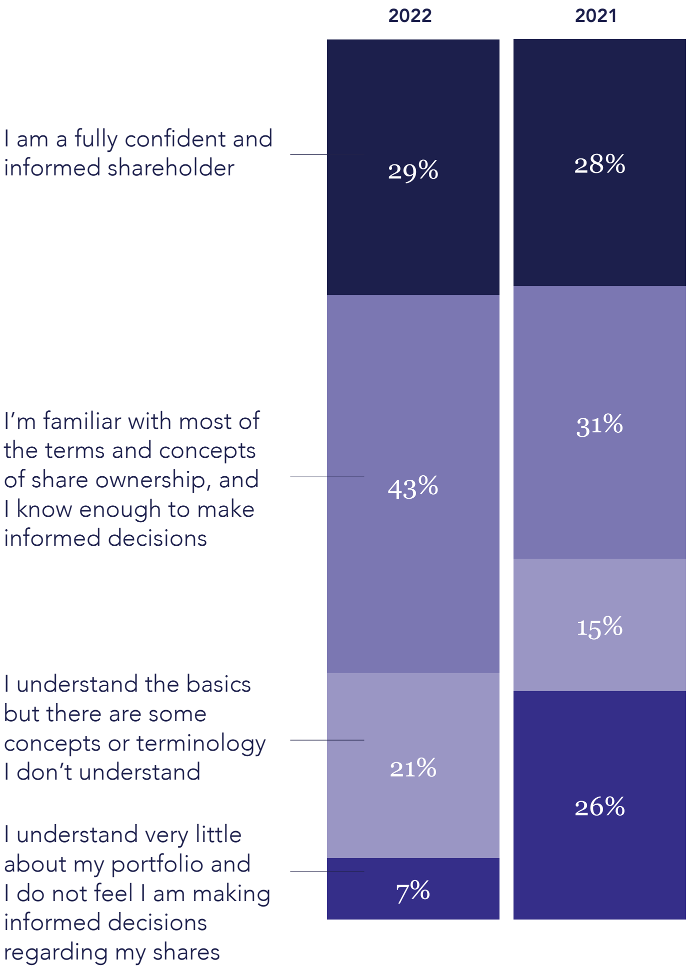
"You can reassure them by communicating how you are ensuring stability, strength and long-term returns. Shareholders have rightly been asking for much more information over the last 30 months and many companies have improved their engagement well to help soothe investor nerves."

Of course, not all investors are nervous. Despite the recent wild ride, about two-thirds of US retail investors held on to their investments, according to a July survey conducted by financial services firm eToro.

SHAREHOLDERS INCREASINGLY LIKELY TO DESCRIBE THEMSELVES AS UNDERSTANDING 'VERY LITTLE' ABOUT THEIR PORTFOLIOS

Shareholders who would describe themselves as:

Shareholder Voice 2022



A wider education?

Many of these new shareholders who are feeling jittery have not been trained about the need to hold equities long-term and ride out the frequent peaks and troughs, says Feroldi. He says many have accessed "financial education" on social media – some high quality, but much of it not.

Feroldi says he would love issuers to offer more quality education to their new individual shareholders.

"The best companies do a good job educating their shareholder base – the textbook example being investment firm Berkshire Hathaway," he says. "But many others explain the case well for investing in their business but don't emphasise the risks or provide more general education. To attract high-quality retail investors, they should also provide this more general education and make it as easy to understand as possible."

Cliff Weight, director at the UK Individual Shareholders Society (Sharesoc), agrees there has been a lack of good financial education available for individual shareholders. One of Sharesoc's aims is to address this, including with some upcoming videos aimed at younger investors.

"People blindsided by falling stock markets would not be so surprised if they had education," he says. "Socially responsible employers will provide such education. We've also talked to the FCA about providing it at point-of-sale when people buy shares – although at present they say they prefer to nudge platforms, rather than grandstand on the issue."

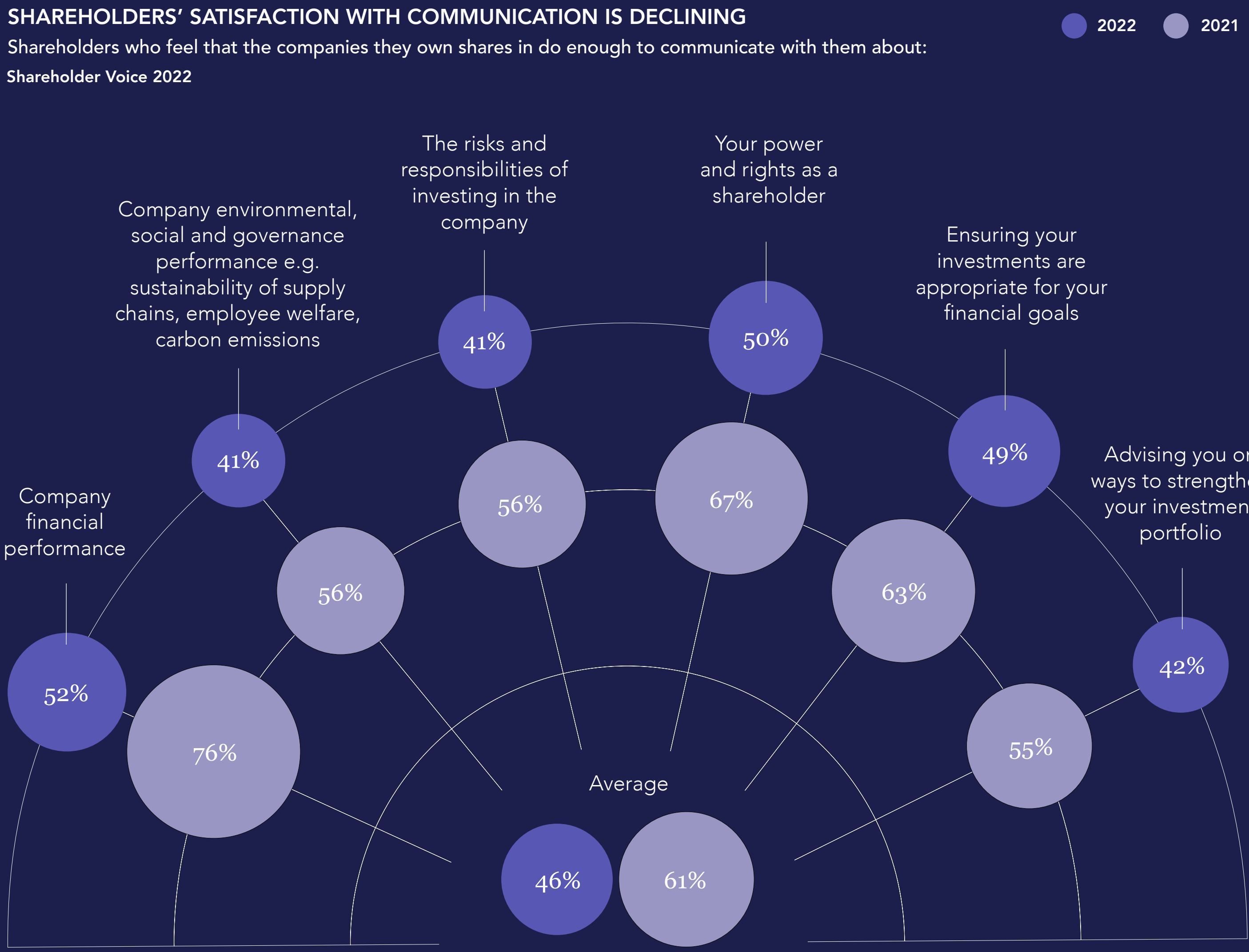
Thera Prins, CEO of Equiniti Financial Services UK, says many companies offer vast e-learning modules to their employees and could use similar solutions to inform and educate their retail investor base. This education could be part of a more front-footed strategy to engage with your shareholders, she adds. Greater engagement and better financial education would lead to more investing by individual shareholders. A recent study by BNY Mellon and the World Economic Forum found 75% of current retail investors would invest more if they had greater access to investing education.

> The best companies do a good job educating their shareholder base – the textbook example being investment firm Berkshire Hathaway."
>
> **Brian Feroldi, Investment Educator, Motley Fool**

SHAREHOLDERS' SATISFACTION WITH COMMUNICATION IS DECLINING

Shareholders who feel that the companies they own shares in do enough to communicate with them about:

Shareholder Voice 2022



Company Communications Under Fire

Shareholder satisfaction with communications from companies they invest in has plunged this year – down to 46% from 62% in 2021.

The fall is expected given investors' tendency to question what went wrong after they've lost money. But Richard Pearson, CEO at EQ Financial Services, says companies should still respond with a laser focus on continuous communication.

"When markets are rising, it's easy to forget the need to communicate well because people feel good anyway," he says. "The survey highlights that if you forget the communications, people will be left floundering when things get tougher."

He adds that companies can also help struggling shareholders by developing their support for vulnerable investors[6] – something EQ has invested much in recently.

This investment has included vulnerable customer courses for over 600 staff; software with speech analytics to identify and record vulnerable customers' needs; Dementia Friend training for 700 staff; an accessibility and inclusion hub; and charity partnerships.

An example of how this investment helps was a scheme member in crisis who called EQ wanting to support their family if they were no longer around. Thanks to their training, the colleague who took the call was able to identify vulnerability trigger words and act immediately, while also dealing with the member sensitively.

6. https://bit.ly/3e9A6tl

Employee Share Schemes Prove Resilient Amid the Turmoil

Covid, war in Europe, market gyrations, inflation, and recessions – it's enough to make any investor feel unsteady.

But employee shareholders have proved highly resilient since the start of the pandemic. Rather than clinging on to single shares for long periods, employee shareholders have been much more active than other types of investors in reducing risk and shoring up their finances.

In the EQ Shareholder Voice survey, 61% of employee shareholders have taken advantage of recent market falls to buy shares more cheaply, versus 37% of other shareholders. 72% have sold some stocks to meet living costs, versus 23%.

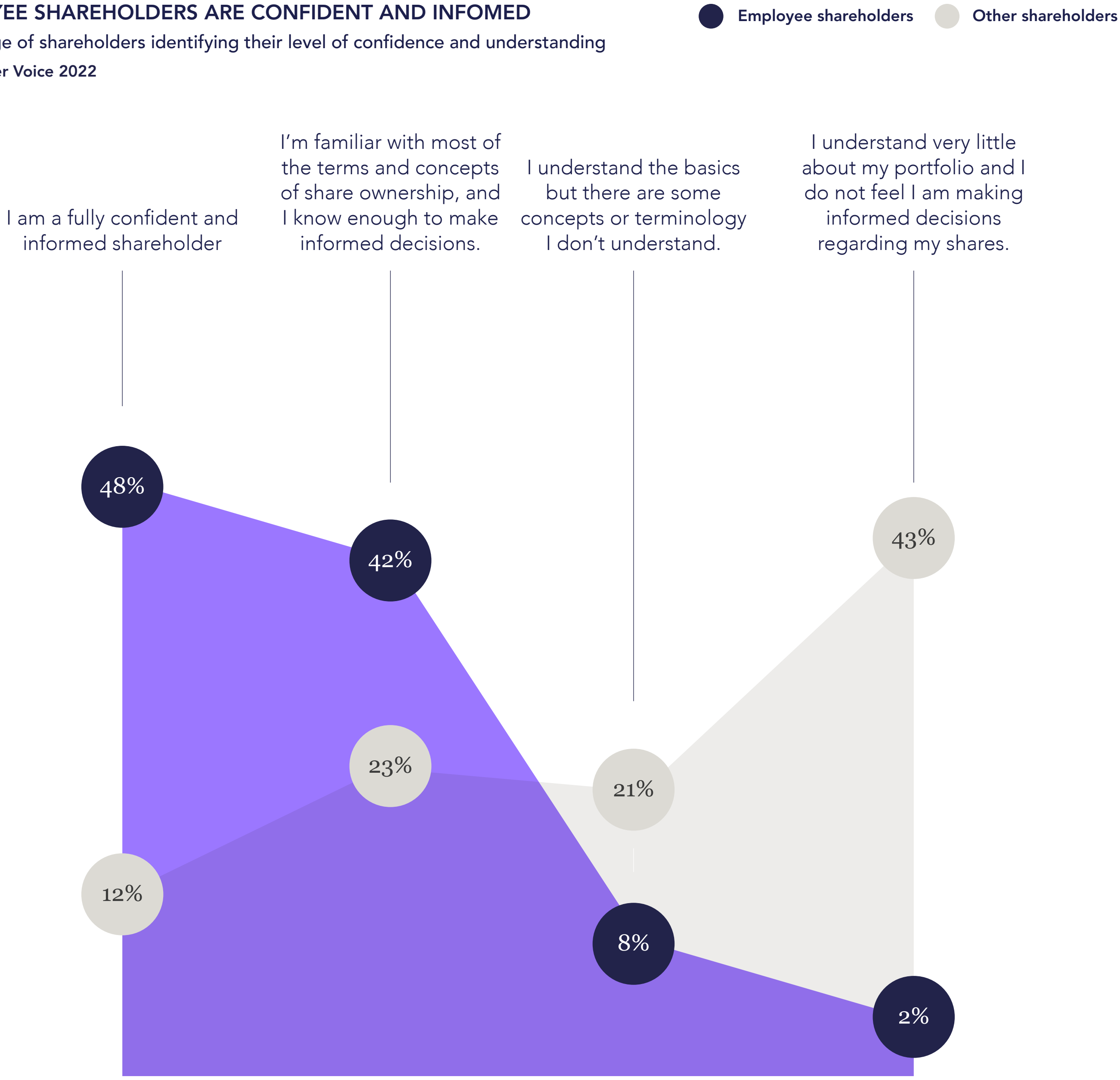
Employee shareholders are widely diversified too, holding mutual funds (40%), and bonds (27%) alongside their company stocks.

This activity is made possible by the confidence that comes from knowledge about their company, and employers' education efforts. Employee shareholders are more confident than the average investor – at 48% compared to 12%. As a result, the turmoil of the last 30 months has not dented employees' enthusiasm for share schemes.

EMPLOYEE SHAREHOLDERS ARE CONFIDENT AND INFOMED

Percentage of shareholders identifying their level of confidence and understanding

Shareholder Voice 2022



Scheme numbers hold up

In the UK, the total number of companies with tax-advantaged schemes rose to 16,330 in 2020/21, up 990 from the previous year, according to government data[7].

This was mostly due to the continuing success of enterprise management incentives (EMI), which tend to be used by smaller, fast-growing companies. The numbers in save as you earn (SAYE), share incentive plans (SIP) and company share option plans remained like those in the previous four years.

These figures show that, despite all the turbulence of the period, employees still had enough confidence in their employing companies to continue investing in their shares.

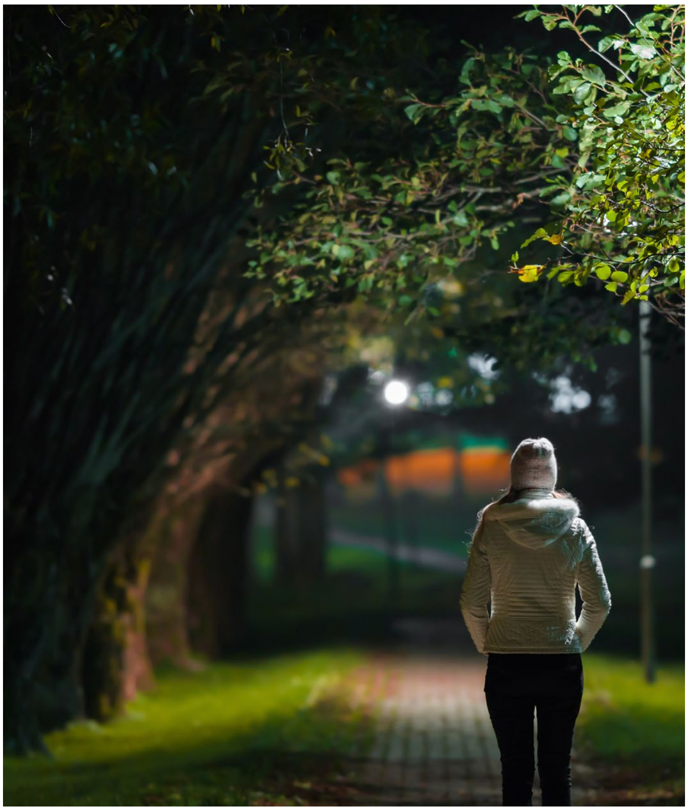
In addition, employees receiving free shares more than tripled between 2019/20 and 2020/21 – from 100,000 to 330,000. The initial value of employees' SIP shares awarded and purchased in the 2020-21 tax year rose to £780 million from around £620 million. And the number of employees granted SAYE options grew from 310,000 to 380,000, with similar rises in the initial value of options granted, and the average value per employee.

High return expectations

Jennifer Rudman, industry director, employee share plans at EQ, says: "From talking to companies, all types of share plans are proving resilient and that has continued this year. One reason is that many options were granted when prices were low during the Covid period, so there will be some large potential gains when they mature."

On average, UK and US shareholders in the EQ survey expect to make 8% return each year over the next 10 years.

"Employees know the company, so they know where it's headed and have confidence in expected returns," says Rudman. "They are confident generally because, when companies launch plans, they make sure employees have access to financial information and links to more guidance and financial advice if needed. That support should be ongoing too."



Ian Cox, head of share plan services at EQ, says financial education is allowing employees to understand the importance of de-risking and diversifying assets, and that many share schemes are low risk from the start. This is due to benefits such as free and discounted shares; matching ratios; guaranteed return of initial investments; and efficient tax treatments.

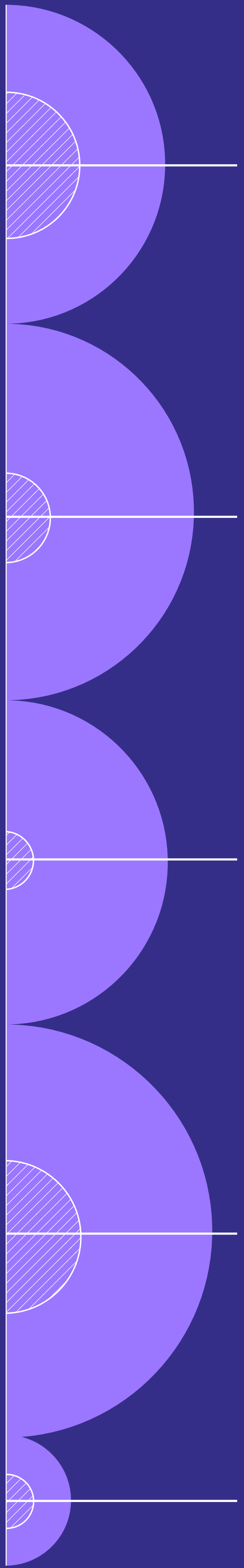
"Employers also educate shareholders that when SIP and SAYE schemes mature, the holder can move their shares directly into an ISA, which maintains the tax efficiency," adds Cox. "If they do that with EQ, they gain access to a very flexible ISA in which they can then sell, move some money into cash, or start diversifying into other stocks or funds. This level of understanding and confidence should balance any counter-productivity from market volatility."

"

From talking to companies, all types of share scheme are proving resilient and that has continued this year."

Jennifer Rudman, Industry Director, Employee Share Plans, EQ

7. https://bit.ly/3EhWJHb



Employee shareholders

Other shareholders

61%

of employee shareholder have taken advantage of recent market falls to buy shares more cheaply **vs 37%** of other shareholders

72%

have sold some stocks to meet higher cost of living **(vs 23%)**

62%

have adjusted their portfolio away from ethical stocks in favour of higher returns **(vs 15%)**

79%

would like more access to IPOs **(vs 39%)**

25%

say they believe they can influence the companies in which they invest **(vs 14%)**

Case study: Platform Improvements Boost Engagement at M&S

Graham Bennett, chair of National Business Involvement Group at Marks & Spencer, says: "Colleagues in our share schemes do tend to be resilient and confident. This is partly due to education and partly because talking to more senior colleagues helps them form a view about the future of the business."

Bennett says helping colleagues understand share ownership and making scheme access easy both build confidence.

"One thing M&S has done well is show how easy it is to buy into schemes and break down the myth that you need lots of spare capital to invest," he says. "We support this with several education opportunities including financial seminars, hints and tips, and welfare clinics for colleagues."

Bennett adds that the company has been improving its integrated digital benefits platform over the last two years. This includes improving functionality and ease-of-use via mobile devices, making it much simpler for colleagues to get information about their shares.

> "One thing M&S has done well is show how easy it is to buy into schemes and break down the myth that you need lots of spare capital to invest."
>
> **Graham Bennett, chair of National Business Involvement Group at Marks & Spencer**

Five Key Takeaways from the EQ Shareholder Voice Report 2022

1.

How share scheme auto-enrolment can tackle critical business challenges

The EQ survey shows that share schemes can be valuable in helping employees through the cost-of-living crisis. They can make support packages more affordable, especially if employers use management information to target help for the hardest-hit. This will help companies keep on top of soaring wage demands and fend off the threat of industrial action.

Companies could auto-enrol employees into share schemes, as some countries have done successfully with pensions enrolment. Research shows this would help address many urgent business and economic challenges such as low productivity growth, inflation, employee retention, and corporate performance.

2.

EQ supports digitisation of share voting and ownership

Digitisation of the share ownership chain and voting process is long overdue in the UK and the industry should embrace it. The voting rights of those who own shares through brokers are impeded by multiple layers in the chain and low levels of digitisation. EQ data shows that retail investors care about voting and want to have their say on critical issues such as governance. But the current system often leaves them without a voice.

EQ supports the changes needed to enable digitisation of share certificates and the end-to-end voting process.

3.

Some new investors feel out of control – but issuers could help them

The EQ survey identified a wave of new investors who have been shocked by market turbulence over the last two years, and risk developing a phobia towards equity ownership. Issuers could help them with quality financial education as a way of engaging more with their retail shareholder base – although there is debate about how far they should go with this.

4.

Employee shareholders remain confident and resilient amid turmoil

In contrast, employee shareholders do not feel out of control. EQ's research shows they have proved highly resilient and active since the start of the pandemic. This activity is made possible by the confidence that stems from knowledge about their company, and from employers' education efforts. Companies have done well to keep employees onside and should continue and expand this good work.

5.

ESG pressure keeps growing – companies should engage more on the issues

Though the performance of many environmental, social and governance (ESG) investments have suffered in the last 12 months, there is little sign of a backlash against them among surveyed shareholders. The ESG movement continues apace, and companies can do much more to stay on the front foot by engaging with retail shareholders on the issues. Forward-thinking companies have used different channels such as social media to promote engagement effectively.

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