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AIRA
AUSTRALASIAN INVESTOR RELATIONS ASSOCIATION

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CHANGING NATURE OF AUSTRALASIAN RETAIL SHARE OWNERSHIP

A decline in the number of retail investors that own ASX 300 shares directly, in their own name, has been revealed by new research commissioned by the Australasian Investor Relations Association (AIRA). The report, along with information from AIRA's members, confirms a trend amongst retail investors towards owning shares through managed platforms, which bundle numerous retail holdings under one shareholding in the name of a custodian, broker, or trading platform account. The report also highlighted the continued rise in holdings by the two largest global passive fund managers, BlackRock and Vanguard, increasingly used by retail investors as a low-cost method of accessing the market.

Commenting on the report Ian Matheson, AIRA CEO, said, "While investing via platforms can provide some benefits to investors and their advisers, these holding structures often unnecessarily prevent retail investors from exercising their right to vote on company resolutions and access retail targeted capital raisings, such as Share Purchase Plans."

The analysis of ASX 300 and NZX 50 share ownership, prepared by Professor Carole Comerton-Forde at the UNSW Business School for AIRA, showed the average number of retail investors, defined as holding 1,000 shares or less under a HIN or SRN, declined by 12.5% between 2017 and 2019. Although that trend reversed a little in 2020 as this number grew 7% across the ASX 300, it remains below 2017 levels across all but two sectors (Consumer Discretionary and Information Technology). In addition, the number of investors holding between 1,000-5,000 and 5,000-10,000 shares directly in ASX 300 companies also declined between 2017 and 2019, and in 2020 on average.

Offsetting this trend, anecdotal evidence from AIRA members and market participants showed that the size of registered holdings in retail focussed platform and custodial accounts grew significantly over the same period. This growth reflects the trend of mid-tier and retail orientated advisory brokers to outsource their trading, settlement, and technology platforms to large, lower cost intermediaries.

Professor Comerton-Forde said, "Getting an accurate view of the trends in share ownership are made difficult by the quality and frequency of reporting obligations for companies and fund managers. This may explain some of the differences between the members' observations and what is observed in the public data. Better quality data on shareholder trends would be helpful for policy making."

The Research also highlighted the world's two largest passive asset managers, BlackRock and Vanguard, increased their ownership to almost 10% of ASX 300 companies where they have a disclosable Substantial Interest, and over 10% of the NZX 50. In part, this reflects the popularity of passive strategies as a low-cost diversification tool for retail investors. This trend will likely be fuelled by Vanguard's recent announcement that it will cease investing for third party institutions and superannuation funds, and instead launch its own superannuation product that will allow it to market directly to retail investors.

Ian Matheson said, "Retail investors owning through platform accounts often face systemic or structural issues with directly accessing all the benefits of share ownership. Platform providers can be incentivised to minimise the costs of trading and ownership, commonly by minimising the administrative burden, which often leads to retail shareholders not receiving company communications, access to voting, or their rights under capital raisings.

"Voting is a valuable right that contributes to long term wealth creation, while not being given the option to participate in capital raising can lead to retail investors' holdings being diluted. This structural deficiency in the market can effectively mean some Retail Shareholders' rights are being disenfranchised.

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"Notably, this situation is not universal across all retail orientated platforms, and some make significant efforts to ensure retail shareholders receive all benefits of share ownership. In particular, the emergence of new Fintech players built around trading directly using an individual HIN will start to create a more transparent marketplace, where retail investors have improved access to company communication and can directly participate in security holder voting and capital raisings.

However, the shortcomings of ownership structures that bundle retail investors' holdings together remains a challenge that may well need closer industry and regulatory scrutiny, to ensure retail shareholders moving away from owning shares directly continue to gain all the benefits of their investments.

Ian Matheson said "Ultimately, it is up to investors who are using financial intermediaries to agitate for their rights. Hopefully, our research can be a catalyst for action by market participants and their retail clients."

AIRA continues to work with ASX to ensure email addresses are passed through CHESS to share registries to ensure we continue to build on the digital communications enhancements allowed for during COVID.

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About AIRA

The Australasian Investor Relations Association (AIRA) was established in 2001 to advance the awareness of and best practice in investor relations in Australia and New Zealand and thereby improve the relationship between listed entities and the investment community. The Association's 160 corporate members now represent over A$1.2 trillion of market capitalisation, over 80% of the total market capitalisation of companies listed on ASX.