AIRA

White Paper

31 January 2022

Am I a Shareholder?

Retail Investor Investment Facilitators and the Full Share Ownership Experience

Contents

1. Executive Summary

The past few decades have seen significant growth in the range of ways in which Australian Retail Investors may gain exposure to individual companies listed on Australian stock exchanges.

Coincident with the presence of the COVID-19 pandemic in Australia and likely facilitated in part by its myriad implications, the last two years has seen dramatic growth in the participation of Retail Investors in the Australian sharemarket. This recent period has also seen the launch of a number of newer services particularly targeted at first-time, millennial investors, with a focus on low cost and ease of use via mobile devices.

While we believe the technological innovations leading to a broader range of cheaper and more flexible options for Australian Retail Investors are positive developments, we are deeply concerned that, unknowingly, Retail Investors utilising many of these services are being deprived of the 'Full Share Ownership Experience' (FSOE) i.e. each of the components of the full direct share ownership experience historically enjoyed by all investors in Australian listed companies regardless of their service provider.

Of most concern to us is the failure of many 'Investment Facilitators' - those service providers who arrange transactions but do not carry out the purchase/sale of investments themselves - to enable the flow of information and opportunity from the listed companies in which their clients have sought to invest, to those investors, whereby depriving them of the FSOE.

Not only do these Retail Investors suffer from a lack of information and opportunity, but just as importantly, Australia's listed companies are permanently impacted by their inability to form valuable, long-term relationships with these vital providers of equity capital.

We are strongly of the belief that the FSOE not only best serves Australian Retail Investors, but just as importantly, our listed companies.

The Australasian Investor Relations Association (AIRA), pursuant to its mission to advance the awareness of, and best practice in, investor relations in Australasia, has commissioned Listcorp, a listed company and retail Investor information platform, to prepare this whitepaper in order to facilitate discussion on this important topic and to present a recommendation to the industry it strongly believes will provide a better future for Australian Retail Investors and Listed Companies.

Note: This paper does not include investments held in exchange traded funds (ETFs), listed investment companies (LICs), and managed funds

2. Introduction to the 'Full Share Ownership Experience' (FSOE)

For most of the 160 years in which Retail Investors have been investing in companies listed on Australian stock exchanges, concepts such as 'buying shares', 'investing in the share market' or 'building a share portfolio', necessarily involved becoming a direct shareholder.

Pursuant to the introduction of a range of new services to the Australian Retail Investor market in more recent times however, this is becoming increasingly less certain. We believe that many of these newer service providers, while delivering valuable innovation to Australian Retail Investors, are inadvertently doing so at a cost to both investors and listed companies by depriving them of some of the key elements of the 'Full Share Ownership Experience' (FSOE) i.e. each of the components of the ownership experience enjoyed by direct shareholders and as contemplated under the Corporations Act, which include:

a) Economic Benefits

Exposure to the full extent of all economic benefits including share price changes and timely receipt of all dividends (plus franking credits where appropriate), capital returns and takeover proceeds;

b) Operational Information

The timely provision of all operational information produced by the Company for shareholders including the Annual Report, newsletters and/or other background information and operational updates;

c) Meetings

The timely provision of information about the Annual General Meeting and any Extraordinary General Meetings to be held by the Company and the ability to participate as a shareholder in all such meetings;

d) Further Investment Opportunities

The timely provision of information about and ability to participate in, all further investment opportunities including Dividend Reinvest plans (DRPs), Share Purchase Plans (SPPs), Rights Issues, etc.; and

e) Other Benefits

Access to any other benefits that may be afforded direct shareholders including but not limited to Shareholder benefits and discounts.

While we do not doubt that all service providers facilitate the delivery of the Economic Benefits as outlined in a) to each of their clients, from that point on, exposure to the remaining benefits is far less certain and somewhat concerningly, we believe many Retail Investors are unaware their experience is any different - and perhaps significantly so - to that of a direct shareholder.

As the number of service providers increases and their offerings become more complex, we believe it is vital for both Retail Investors and the Listed Companies relying on Australia's capital markets for their equity funding, that all Retail Investors are making fully informed decisions about the way in which they implement their investment decisions and the full costs and benefits associated with these choices.

We believe this issue is becoming increasingly important given the recent and significant growth in first-time participation in Australian equity markets.

3. Growth in Retail Investor participation

Research from financial services industry research company Investment Trends, shows Retail investment into equities in Australia grew dramatically during the COVID-19 pandemic. According to Head of Research, Irene Guiamatsia:

> *"...the number of active retail online investors, that is those who bought or sold securities in a 12-month period, almost doubled compared to pre-pandemic levels, from 750,000 to 1,430,000,".*[1]
>
> *"Even when the lockdowns eased during late 2020 and early 2021, and people spent less time on screens, the report shows that first-time investor inflows remained healthy; 148,000 new online investors placed their maiden trade in the past six months alone, compared to 170,000 in the second half of 2020."*[2]

ASX figures support the Investment Trends research revealing a dramatic increase in both the number of retail investors and their activity as measured by growth in:

a) Active Holder Identification Numbers (HIN)[3] - Retail Investors trading within the previous 12 months through their sponsoring brokers (tracked through their HIN i.e. the identification number allocated to each Investor to record their shareholdings sponsored by a specific stockbroker); and

b) Active shareholdings on a HIN - the number of shareholdings held on each HIN

---

[1] 'Retail investment doubled during pandemic: Investment Trends', Professional Planner, Tahn Sharpe, 9 August 2021, https://www.professionalplanner.com.au/2021/08/retail-investment-doubled-during-pandemic-investment-trends/

[2] *ibid*

[3] See Appendix 1 for more information

Investor and Investor activity growth

Source: ASX, 1 December 2021

In addition, Computershare, the world's largest share registry business, also recorded a significant increase in activity in Australia, seeing investor accounts grow from 9.9 million in February 2020 to a peak of 12.1 million in July 2021. This 20% increase across its 800+ client base masks the experience of some companies which saw their retail shareholders grow more than 100% in the period and included one company which witnessed growth of more than 400%[4].

[4] Computershare.

4. Evolution of the Service Provider industry

The growth in Retail Investor participation over recent years has coincided with the launch of new services to facilitate that participation. While there are many factors that have influenced the growth in retail investor participation including:

a) the lack of alternative investment options with residential real estate prices continuing to rise and interest rates remaining at record low levels;

b) the increase in the availability of accessible information about investing via social media platforms; and

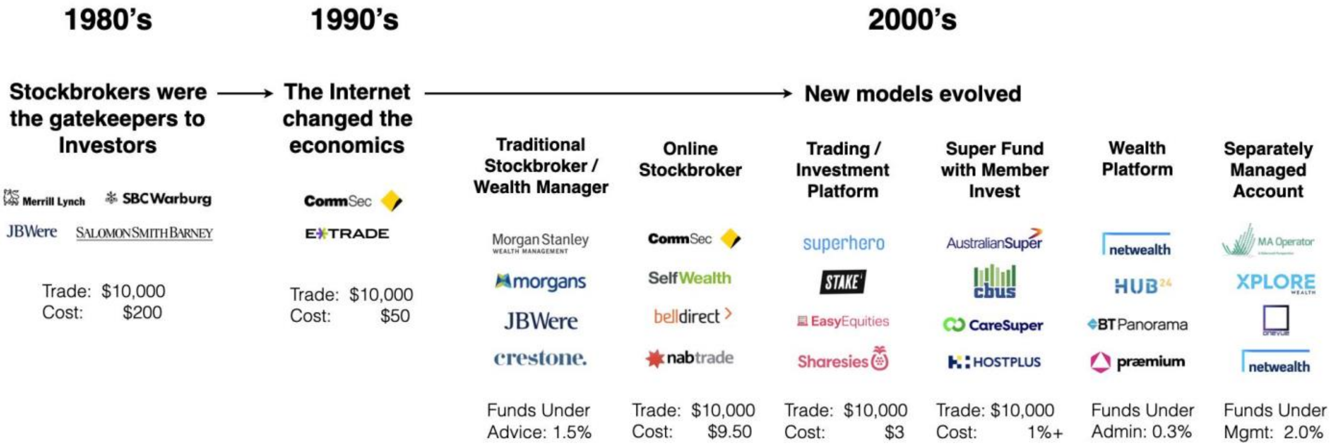
c) the increase in available time afforded by 'work from home' and the highly restricted lifestyles associated with Australia's pandemic response,

it is also likely that at least some of these new services - particularly the low-cost, mobile-app focused providers targeted at Millennials, will have contributed to this growth.

To better understand today's marketplace for investor services, it is instructive to look at the evolution of the industry in Australia and the factors that led to today's significantly broader range of offerings.

Historically, an Investor's first foray into the sharemarket began by opening an account with what we now nostalgically refer to as a 'traditional stockbroker'. Originally to transact in the shares of an Australian listed company one needed either be a member of the stock exchange, or work for one. When the state-based exchanges merged to form the Australian Securities Exchange (ASX) in 1987, all investing activities were still communicated directly to an employee of a broking firm, who would then ensure the transaction was carried out on behalf of the client before reporting details of the executed trade.

When CommSec launched its web-based operation in 1997, it kick-started the evolution of retail investing in Australia, disaggregating the bundled service offering (research, advice and execution) of the traditional brokers and for the first time allowing Australian investors to trade without first instructing an employee of a broking firm and more importantly, to enable the purchase of execution services on their own.



Since then, myriad providers have entered the industry offering a range of different services. We categorise the current range of service providers as follows:

a) Traditional Stockbrokers / Wealth Managers

The original service providers who deliver a full range of personalised services including stock selection and portfolio construction. Historically this category was remunerated on the execution of a buy or sell order i.e. commission was charged as a percentage of the value of a trade. It was not uncommon for investors to be charged a rate as high as 2% however this included the aforementioned advisory services as well as the provision of in-house research. As commission rates came under pressure from disaggregation, Traditional Stockbrokers began to adopt the Wealth Management revenue model of 'Funds Under Advice' (FUA) charging a percentage of the total value of FUA for the ongoing provision of advisory services. Traditional Stockbrokers also carry out corporate advisory and capital raising services today, offering access to allocations in IPOs underwritten and/or arranged by the Firm to their retail clients.

b) Online Stockbrokers

Online stockbrokers, with a significantly lower-cost business model and focus on providing access to execution via a web or mobile platform rather than personal or even product advice, led the initial charge to lower cost participation. CommSec, a wholly-owned subsidiary of one the ASX's largest listed companies Commonwealth Bank (ASX:CBA), locked in its early-mover advantage with several acquisitions and today remains the dominant provider of online stockbroking services to retail investors in Australia.

c) Trading / Investment Platforms

The most recent entrants to the service provider marketplace are the new breed of trading / investment platforms focused on low or no-cost execution and high-quality, intuitive digital experiences, particularly via mobile devices and aimed almost exclusively at the Millennial investor audience. These providers, including the likes of Superhero, Stake and Sharesies, are driving significant growth in the first-time investor market with features including fractional share investing enabling investors to by-pass the ASX's $500 minimum investment to facilitate investments of as little as $0.01[5].

d) Super Fund with Member Invest

In order to stem the flow of money out of Industry and Retail Super funds into Self-Managed Super Funds (SMSF), a growing number of Funds are enabling members to make their own investment decisions with a portion of their account. There appears to be a range of approaches taken by different Funds including the percentage of the account balance that may be invested, the list of investable assets and the fees charged (which may include account administration, access fees and brokerage). Funds that currently provide this feature include Australian Super, CBus, CareSuper and HostPlus[6].

[5] https://sharesies.com.au/investments
[6] https://www.canstar.com.au/superannuation/direct-investment-options/

e) Wealth Platforms

Providing a technology-based solution to the problem of managing a multi-asset class, multi-provider investment portfolio, newer wealth platform providers such as Netwealth and Hub24 joined incumbents such as BT Panorama (previously BT Wrap) and Macquarie wrap in this rapidly growing industry.

f) Separately Managed Accounts

Separately Managed Accounts (SMAs) are made up of a selection of managed funds called model portfolios housed under one account[7]. Unlike a Managed Fund however, the client owns the underlying shares and is able to tailor the ultimate portfolio to his/her requirements, adding holdings, blocking sales or leaving all decisions to the Managers involved. The aim of an SMA is to provide access to the professional investment management provided by one or more fund managers while retaining control over the ultimate composition of the portfolio and timing of tax events.

[7] Financial Standard Guide to Managed Accounts

5. Rise of the Investment Facilitators (IFs)

While the past 30 years have delivered many and varied innovations in service provision for Australian Retail Investors, one of the more prevalent themes is the introduction and growth of the ‘Investment facilitators’ (IFs) i.e. service providers that arrange for, or facilitate investment transactions, but do not carry out the transactions themselves.

Unlike Traditional or Online Stockbrokers, IFs - which include many Trading / Investment Platforms, Wealth Platforms, Super Funds with Member Invest and Separately Managed Accounts - often use multiple third parties to provide particular components of their service offering. We believe the reasons for this include some or all of the following:

- a focus on providing the best possible services to clients by outsourcing peripheral components to third parties;

- to enable the delivery of new services (e.g. fractional share ownership);

- to facilitate the lowest possible cost base by outsourcing functions that may be provided more cost-effectively by third parties; and

- to reduce overall compliance obligations and/or capital requirements where this can be achieved by transferring specific functions to third party providers.

While the growth of the IFs clearly demonstrates they are meeting an unfulfilled need, we believe the way some choose to construct their offerings is leading to likely unintended, but nonetheless significant consequences for both their clients and the listed companies in which they seek to invest.

6. Not all IFs created equal - Personal HIN vs No Personal HIN

While most IFs seek to differentiate themselves from their competitors through price and increasingly, better digital experiences, we believe there are other factors that are of equal if not greater importance to both Investors and listed companies. One such factor is their ability to provide the FSOE.

One of the key roles often outsourced by IFs is that of custody. While Traditional Stockbrokers and Online Stockbrokers provide the FSOE for their clients through the issuance of a personal Holder Identification Number (HIN), by utilising a custody structure through which all client holdings are grouped together under the one HIN, clients of these firms are far less likely to enjoy the FSOE.

Our research reveals that some categories of IFs - such as Super Funds with Member Invest options and Wealth Platforms - have universally adopted the custody approach, while some members of other categories offer personal HINs while others do not as the examples in the following table demonstrate:

Investment Facilitators		**Personal HIN?**	
		Yes	**No**
1.	**Trade / Invest Platforms**		
	Superhero		x
	Easy Equities		x
	Sharesies		x
	Stake	x	
2.	**Super Funds with Member Invest**		
	AustralianSuper		x
	CBUS		x
	CareSuper		x
	HostPlus		x
3.	**Wealth Platforms**		
	Netwealth		x
	Hub24		x
	BT Panorama		x
	Praemium		x
4.	**Separately Managed Accounts**		
	MA Operator	x	
	Xplore Wealth		x
	Onevue		x
	Netwealth	x	

It is important to note at this point, that we do not believe service providers must offer personal HINs to their clients in order to deliver them the FSOE. In fact, we believe there are some shortcomings of the HIN system, particularly in relation to the creation of hardcopy CHESS statements to confirm each trade and their delivery to shareholders via traditional mail (having said that, we note that the ASX recently launched the ASX CHESS Statements Portal[8] in order to facilitate the electronic delivery of CHESS statements).

As we explain further in section 7 below, share registries, acting on behalf of each listed company, provide the custodians acting on behalf of IFs with all of the information necessary to deliver each shareholder with the FSOE. It therefore may only be a matter of custodians and/or their service provider masters, passing on the information and opportunities provided them by the share registries, to the underlying indirect shareholders in a timely fashion, in order to deliver them the FSOE.

---

8 https://www2.asx.com.au/investors/start-investing/electronic-delivery-of-chess-notifications

7. Failing to provide the FSOE and the cost to Listed Companies

While theoretically the absence of a personal HIN for each client of a service provider need not be of concern to listed companies, in practice it is a significant and likely growing problem particularly with respect to each companies' ability to nurture a patient, stable and informed register of shareholders.

The aim of every Listed Company, via its investor relations program is to achieve the following three goals simultaneously:

a) fair valuation for the listed entity's securities;
b) appropriate access to capital when required; and
c) sufficient security liquidity for the listed entity's investors[9].

The key to achieving these goals is shareholder communication and herein lies the problem i.e. the vast majority of services that insert a custodian between the Company and the underlying shareholder are presently creating an impenetrable barrier to that communication.

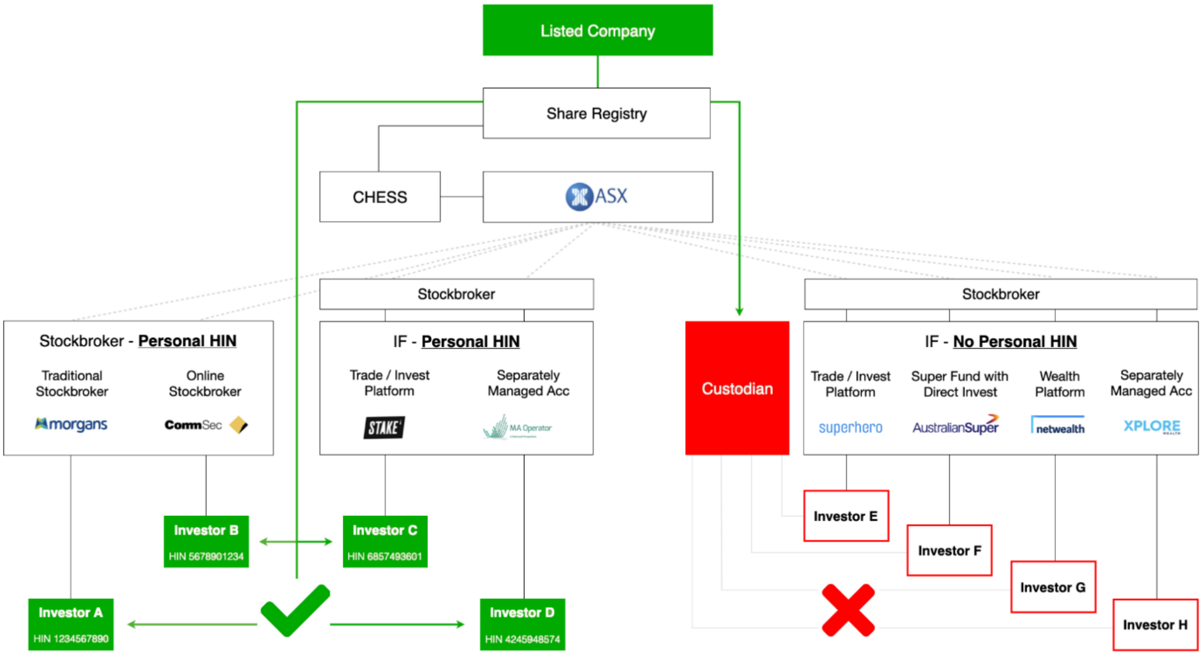
While there is no theoretical reason information and opportunity cannot flow from the Company, via its share registry, to the custodian and on to the shareholder, in practice, this is rarely the case.

It is certainly the case that companies communicate directly with custodians i.e. the legal owner of the shares in question - at the very least in fulfilment of their legal requirement to do so - but in the vast majority of cases we have witnessed, this information is not passed on to the indirect owners. In fact, as a rule of thumb, unless the communication has direct and immediate economic consequences - such as a dividend payment - any and all other communication is not passed on.

[9] Best Practice Investor Relations, Guidelines for Australian Listed Entities, 5th Edition, 2021, Australasian Investor Relations Association, P 7

This is not only highly prejudicial to companies as they seek to build long-term relationships with their owners, but also creates the unacceptable situation whereby, through no fault of the company (and we suspect unbeknownst to the impacted investors), some shareholders are more informed, and better rewarded, than others.

Information and Opportunity flows from the Company to some Investors, but not all…



The diagram above demonstrates that while theoretically Investors A, B, C, D, E, F, G and H are all shareholders in the same company, information and opportunity flows from the Company to Investor A, B, C and D, but not E, F, G and H.

In relation to the latter group, while the share registry delivers the information/ opportunities from the Company to the Registered Shareholder i.e. the Custodian, the information and opportunities are not subsequently passed on to the beneficial owners leading to the situation where, simply through choice of service provider, some shareholders are not only better informed than others, but also have access to additional and potentially lucrative, investment opportunities.

8. Benefits of the FSOE for Retail Investors

According to the 2019 Chambers Global Practice Guide on Shareholders' rights & Shareholder Activism (Australia) prepared by Herbert Smith Freehills[10], shareholders rights are:

> *"...derived from and governed by the terms of the company's Constitution, shareholders' agreements (if any), any 'replaceable rules' in the Corporations Act which have not been replaced by the company's Constitution, and the Corporations Act generally.*
>
> *The rights conferred on shareholders (or members) differs based on the type of company and the class of shares held. However, rights commonly held by shareholders include:*
>
> - *the right to vote at general meetings of shareholders on items such as director appointments and removal, constitutional amendments, an advisory resolution that the company adopt the remuneration report (for listed companies), auditor appointments, certain issues of shares, share buybacks, and mergers and de-mergers;*
> - *the right to share in dividends;*
> - *the right to participate in the distribution of company assets in the event of return of capital or the winding up of the company; and*
> - *the right to requisition a resolution or general meeting."*

While it is true that the economic benefits experienced by direct shareholders including the full extent of all share price changes and receipt of all dividends, capital returns and takeover proceeds, are also derived by Retail Investors through an indirect holding, it is similarly true that, in the majority of instances, as we have explained, most other ownership rights are foregone.

The rights enjoyed by direct shareholders that may not be enjoyed by indirect holders include:

[10] https://www.herbertsmithfreehills.com/latest-thinking/2019-chambers-global-practice-guide-on-shareholders-rights-shareholder-activism

a) Access to Operational Information

While Institutional Shareholders have direct access to the senior management and Investor Relations Officers of the companies in which they invest, in the majority of cases, Retail Shareholders do not and must therefore rely on information produced by the Company for the purpose of distribution to shareholders to remain informed about its progress. While the Annual Report has always been an important component of this information transfer, increasingly listed companies are producing newsletters and other regular/semi-regular communiques to keep their shareholders informed on a more timely basis.

b) Meetings

Long regarded as the most important opportunity for shareholders to engage with the Board of Directors and management of the company, participation in the Annual General Meeting through questioning of the board, and voting on matters including directors, remuneration of directors and senior management, the approval of annual accounts, company activity and name changes etc., is a vital component of Australia's corporate governance framework. With the importance of environmental, social and governance (ESG) issues continuing to build, it is expected the significance of the AGM will only continue to grow. Similarly important is the ability for all shareholders to receive information about and participate fully in, Extraordinary General Meetings and all other gatherings of shareholders.

c) Further Investment Opportunities

Listed Companies regularly offer existing shareholders further, often attractively priced opportunities to invest additional capital into the securities of the company. Common structures for such opportunities include:

- Dividend Reinvestment Plans (DRP). DRPs provide the ability for a shareholder to reinvest their cash dividend in additional shares of the company without the requirement to pay commission on the purchase (and often at a discount to the price at which an investor may have been able to buy shares on market).

- **Share Purchase Plans (SPP).** An SPP often follows an institutional placement and is an offer specifically to a company's retail shareholders affording them the ability to participate in the same, or similar opportunity as was recently offered to the institutional market.
- **Rights Issue.** A Rights Issue is an offer made to all shareholders to apply for a certain number of shares calculated to ensure that, should the offer be taken up, the shareholder would not be diluted. Rights Issues may be 'renounceable' in which case Investors not wishing to take up their rights (i.e. make a new investment) are able to sell their rights in the market to another investor whereby gaining some financial benefit to offset their pending dilution.

d) Other Benefits

Some Companies also offer specific discounts and other benefits to shareholders that utilise their goods and/or services. A current example is the Event Shareholder Benefits Card issued by Event Hospitality & Leisure Limited (ASX:EVT) to direct shareholders owning 500 shares or more. The Card entitles holders to discounts on EVT-owned accommodation, restaurants, bars and activities[11].

[11] https://www.evt.com/investors/#benefits

9. Conclusion and Recommendation

For reasons of cost, prioritisation, or simply lack of understanding, a growing number of Retail Investor service providers are failing to deliver the FSOE to their clients.

As this group of service providers continues to expand in size and number, we believe it is time to explore solutions that will ensure the benefits of the FSOE - as we believe most investors expect and is intended under Australia's Corporations Law - are received by all Retail Investors and listed companies, or if they are not, investors are fully informed when they choose a lesser experience.

To ensure this is the case we believe all Retail Investors must have easy access to clear, comprehensive and current information about the full implications of utilising each service - not just cost and features - including as to whether they will receive anything less than the FSOE and if so, detail as to each shortcoming.

We recommend that all service providers be required to include in their marketing material a statement confirming that, by utilising their service:

a) Retail Investors will receive the FSOE; or
b) Retail Investors will not receive the FSOE and detail as to the ways in which their service will fall short of providing it.

We believe such information, presented consistently, will prove highly valuable to Retail Investors while in the process of making their choice of service provider/s and may be presented in simple tabular form such as in the examples presented below:

Through utilising our service you will receive the Full Share Ownership Experience including:

	Yes	No
1. Economic Benefits Exposure to the full extent of all economic benefits including share price changes and timely receipt of all dividends (plus franking credits where appropriate), capital returns and takeover proceeds	✓	
2. Operational Information The timely provision of all operational information produced by the Company for shareholders including the Annual Report, newsletters and/or other background information and operational updates	✓	
3. Meetings The timely provision of information about the Annual General Meeting and any Extraordinary General Meetings to be held by the Company and the ability to participate as a shareholder in all such meetings	✓	
4. Further Investment Opportunities The timely provision of information about and ability to participate in, all further investment opportunities including Dividend Reinvest plans (DRPs), Share Purchase Plans (SPPs), Rights Issues, etc.	✓	
5. Other Benefits Access to any other benefits that may be afforded direct shareholders including but not limited to Shareholder benefits and discounts.	✓	

Or

Through utilising our service you will not receive the Full Share Ownership Experience.

Below we detail which elements you will receive and which you may not.

	Yes	No
1. Economic Benefits Exposure to the full extent of all economic benefits including share price changes and timely receipt of all dividends (plus franking credits where appropriate), capital returns and takeover proceeds	✓	
2. Operational Information The timely provision of all operational information produced by the Company for shareholders including the Annual Report, newsletters and/or other background information and operational updates		✗
3. Meetings The timely provision of information about the Annual General Meeting and any Extraordinary General Meetings to be held by the Company and the ability to participate as a shareholder in all such meetings		✗
4. Further Investment Opportunities The timely provision of information about and ability to participate in, all further investment opportunities including Dividend Reinvest plans (DRPs), Share Purchase Plans (SPPs), Rights Issues, etc.		✗
5. Other Benefits Access to any other benefits that may be afforded direct shareholders including but not limited to Shareholder benefits and discounts.		✗

We hope this paper will begin a conversation about the future of Retail Investor service provision in Australia in order to ensure the best possible combination of:

a) Innovation - to continue bringing new and better services to Australian Retail Investors;

b) Education - to ensure each and every Australian Retail Investor is able to maximise the level of confidence with which they make their service provider decision/s through a full understanding of the choices available to them; and

c) Cooperation - between Investors, Listed Companies and the Service Providers that facilitate the flow of capital between them;

in order to ensure all Retail Investors enjoy the full rights and benefits of the FSOE, including the unimpeded flow of all information and opportunities from the listed companies in which they've invested, or if they do not, that they have consciously chosen a lesser experience with the benefit of clear, comprehensive and current information.

We believe this is not only vital for our listed companies, but also to encourage continued growth in the number of Australians making long-term investments in Australian listed companies, and for those who are already invested, to do so with greater frequency and confidence in the future.

About AIRA

The association's mission is to advance the awareness of, and best practice in, investor relations in Australasia in order to achieve better outcomes for all capital market stakeholders through enhanced engagement.

About Listcorp

Listcorp is a multi-function, digital investment information platform designed to enable listed companies to communicate with the broad investor community in today's digital world.

Appendix 1

Identifying direct share ownership in Australia - HINs and SRNs.

The most obvious indicator of direct share ownership in an ASX-listed company is possession of a 'Holder Identification Number' (HIN) or 'Securityholder Reference Number' (SRN).

HINs and SRNs are an essential component of the registration of shareholdings in Australia and accompany each and every direct shareholding. Having said that, they are fundamentally different:

HIN - Issued by the ASX's settlement and clearing operation known as CHESS. A HIN identifies the Investor and each of the holdings of that Investor 'Broker-sponsored' by a particular stockbroker. A new HIN will be issued to the Investor for each stockbroker through which the Investor holds shares.

SRN - Issued by a Company's share registry, an SRN relates to a specific shareholder's holding in one company. Therefore, if an Investor owned shares in six different companies all of which were 'Issuer-sponsored', that shareholder would have six different SRNs.