



# Shareholder Sentiment Index 2017

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Shareholders  
Frustrated by Lack  
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### Locked-in Equity: Shareholders Frustrated by Lack of Equity Liquidity

Britain's business ecosystem is populated by a diverse collection of growth enterprise. At one end of the spectrum lies the nation's rapidly-expanding collection of start-ups and early-stage SMEs, renowned for their entrepreneurial spirit and disruptive capabilities. At the other, a collective of more established entities fly the flag for the private sector, navigating a heightened level of growth that ranges between the scale-up and leap category of business. Remaining largely undisclosed to financial media, this community of circa 3,000 businesses presents a timeline of expansion that is of significant importance, transitioning between small to mid-size levels of growth and offering an equally significant range of opportunities for the shareholders that hold a stake in their respective stories.

Asset Match has launched the Shareholder Sentiment Index 2017 to delve further into the constructs of Britain's share-holding population, analysing the sentiments, challenges and desires that define the profile of what is an integral community of SME investors. The nationally representative survey of 2,000 adults dissects investor interest in relation to the nation's private sector capabilities, revealing the challenges faced by investors looking to buy and sell shares in private companies. The research also delves into post-Brexit sentiment towards growth finance and the general appetite for small to mid-cap shares in the current economic climate.

Formed of approximately 10,000 private companies, Britain's mid-sized section of the unlisted SME market tends to present a well-established, high-growth collective of businesses. Supported by a body of 500,000 individual shareholders owning circa £300 billion in equity value, the Asset Match Shareholder Sentiment Index reveals a frustrated population whose investor interest has not transpired as a priority. As a result, the desire to release value or exit the holding entirely has become a prominent objective, one that – as the data reflects – has become increasingly difficult to realise.

The financial crisis of 2008 is positioned as a potential root cause of the discontent unveiled among UK shareholders. Governments and regulators worldwide have concluded that a combination of excess liquidity and risk appetite in large banks required an increase in regulation, which led to the unintended consequence of removing liquidity from all major markets. Consequently, shareholders in the SME market are currently affected by an inherent difficulty in releasing equity through traditional market means, a dynamic that is intensified due to the infancy of the companies in question.



Any company that issues shares in exchange for capital has a moral responsibility to provide their investors with an exit in an appropriate timeframe. What an 'appropriate' time-frame might be is subject to debate, but this is most often quoted as being three to five years. However, in a disproportionate number of cases, that three to five years can quite quickly extend to ten or more. With this in mind it is essential that shareholders have a realistic way to take some chips off the table if they want to.

**Iain Baillie, Co-CEO, Asset Match**

## Key Breakdown of Research Statistics

We asked shareholders of private UK companies about their current equity portfolio. We found:



**OVER 670,000**

private equity investors have not even been consulted about their share options, with 27% of shareholders in the dark about the value of their shares



**16%**

of investors would like the opportunity to invest in high-growth companies, but feel restricted or do not know how



**11%**

of shareholders have been holding their shares for longer than originally intended



**ONE-TENTH**

of UK shareholders feel trapped by lack of equity release options



**ONE-TENTH**

of shareholders have never been given the opportunity to discuss their share options since making their original investment



**OVER A QUARTER**

of UK shareholders are unaware of the current value of their share portfolio



## The Role of Alternative Finance in the UK's Growth Businesses

As a collective entity, British businesses have continued to play a fundamental role in propelling the economy forward in times of transition and opportunity. In 2016, there were 5.5 million private businesses operating in the UK – an increase of 97,000 on the previous year's figures. As part of a longer trend, Britain's business population has been expanding at an average annual rate of 3% since 2000, with over 2 million businesses added to the nation's private sector over the course of the last 16 years. Looking ahead, the financial sector is optimistic that the national economy will continue to grow as a consequence of productivity and entrepreneurial resilience. In January, the [Bank of England](#) revised its 2017 growth forecasts from 1.4% to 2.0%.

For scale-up and leap companies in particular, the rise of private capital investment businesses over the past five years has helped entrepreneurial Britain overcome stringent high-street banking measures that threaten to undermine the growth potential of the country's scaling businesses; the value of SME loans from mainstream banks has fallen steadily over the past six years, dropping from £198 billion in 2011 to £165 billion last year. Peer-to-peer lending, equity crowdfunding platforms and tax-efficient investment schemes have ensured that more investors are able to directly invest into companies, creating a significant increase in the number of shareholders across the country. Equity-based ventures into scaling firms have become a particularly popular investment venture since the alternative finance revolution first gained momentum: from 2011 to 2015 the total volume of seed stage and venture stage equity investment grew from £488 million to £1.6 billion, according to data from [Beauhurst](#).

The UK's community of private equity investors is heavily weighted towards those people who have held shares for less than five years. Of the 6.71 million UK investors currently holding shares in private companies, over half have held them for less than five years – equating to 3.44 million UK adults. These findings correlate directly with the rise of equity investment options over the past five years through alternative finance platforms that have opened investors to business investment opportunities. For instance, equity-based crowdfunding in the UK is the second fastest growing alternative finance sector, expanding [by 295%](#) from £84 million raised in 2014 to an impressive £332 million in 2015.



## The New-age Shareholder

Asset Match's research revealed that over 27% of UK shareholders are not aware of the monetary value of their current private company investments. Furthermore, in the UK 16% of shareholders said they would like the opportunity to invest in high-growth businesses but are restricted from doing so. Combined, these findings present a significant challenge for those seeking to redistribute some of their shareholdings and develop a diverse portfolio of private equity holdings.

## Poor Investor Relations Adversely Impact Shareholder Appetite

An inability to monetise or diversify equity investment can lead to a longer than anticipated holding period, with 13% of short-term shareholders (those who made the investment within the last five years) stating that they have been forced to hold on to shares longer than originally anticipated, and a further 12% revealing they had not been given the opportunity to discuss their share options since making the original investment. This has had a particularly profound impact on millennials – the [Schroders Global Investor Study 2016](#) found that 41% of millennials (18-34 year-olds) have an investment timeframe of less than 12 months, and are likely to hold their investments for an average of 2.3 years. This is compared to the average across all age ranges of 4.7 years.

The new-age investor has become an important catalyst for private investment into scaling British businesses. However, the fact that this potential cannot be fully realised due to the lack of equity release instruments could present significant long-term problems for businesses demanding growth capital, with potential investors unable to inject capital into them due to their inability to realise the value of existing investments. Research from [SyndicateRoom](#) has revealed that 52% of millennials hold preference towards equity investment, making this younger generation three times more likely to make this type of investment than investors aged over 51.



## How Satisfied are Millennials with their Private Share Portfolio?



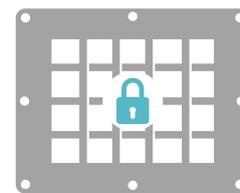
### A QUARTER

of millennials do not know the current value of the shares they own



### ONE FIFTH

have held shares for longer than initially anticipated



### OVER ONE IN TEN

feel locked in their current share investment due to an inability to sell or trade the shares they own



## 24%

would like the opportunity to invest in other exciting, high-growth businesses but feel restricted



## 13%

have not even been given the opportunity to discuss their share options since making their original investment

## Mid-term Shareholders Seeking Equity Release

When looking at the number of investors who have held shares in companies for over five years, our research reveals a sizeable community who have opted to use equity investment into unquoted companies as a part of a long-term investment portfolio. Our research found that less than one fifth of UK shareholders have been holding shares in private companies for between five and ten years – equating to 1.23 million investors.

In proportion to the 51.3% of the investors holding shares for less than five years, and the 30.4% of those who have done for over ten years, it is evident that the traditional holding time for private equity shares no longer falls in the five to ten year bracket, with shareholders either opting for short-term shareholdings or so-called 'buy and hold' investments.

### Profiling the UK's private shareholder landscape

<b>Shareholders who have held shares for 0-5 years</b>	51.3% or 3.44 million investors
<b>Shareholders who have held shares for 5-10 years</b>	18.3% or 1.23 million investors
<b>Shareholders who have held shares for over 10 years</b>	30.4% or 2.04 million investors



## Shareholders in the Dark

When focusing specifically on investors that have held shares for between five and ten years, our research found that 31% were unaware of the current value of the shares they own. A quarter of mid-term investors would like to have the opportunity to invest in other companies but feel limited in their ability to do so due to a lack of knowledge or a lack of equity release options. Interestingly, out of all the investor classes surveyed, the five to ten year bracket felt the most restricted in their current investments due to an inability to sell or trade the shares they own.



27%

do not know how much  
their shares are worth



16%

would like to invest in high-  
growth companies but feel  
restricted in doing so



NEARLY  
ONE IN TEN

feel locked in their current  
share portfolio

## Buy and Hold Investors

Our research uncovered an older community of shareholders who have used private equity to support a long-term investment plan, utilising a more conventional buy and hold strategy. In the UK, there are 2.04 million shareholders who have held shares in a private company for over ten years. Furthermore, our research revealed that there are currently over 1.4 million investors who have held shares in private companies for over 15 years – equating to nearly one fifth of UK shareholders. When profiling shareholders who have incorporated private equity as part of a long-term investment strategy, we found that close to half a million investors have held shares in an unlisted companies for more than 25 years.

Over a quarter (26%) of long-term investors who have held shares for over ten years are unaware of their monetary value. However, only a tenth of them are interested in diversifying their holdings across a broader range of high-growth companies. Despite this, 6% of these investors feel they have not been given the opportunity to discuss their options available since making the original investment, and also feel restricted in their ability to sell or trade shares. The expertise of these experienced equity investors could bring valuable knowledge to the next generation of UK businesses seeking to scale or leap into AIM or the Main Market. With 10% of these investors saying that they would value the opportunity to invest in high-growth businesses, there is potential for this class of investors to inject much-needed growth capital into Britain's next generation of scaling companies should they be able to release their equity.



## Looking to the Future

Over the past 12 months, the UK investment landscape has faced a series of landmark political announcements and economic events that are set to have a profound impact on the private sector. Record-low interest rates and a fluctuating pound have forced investors to consider an investment portfolio that extends beyond traditional ISA savings accounts, bonds and currency exchange. For scaling and leap businesses, the coming months will provide much-needed clarity concerning what the UK economic landscape will look like upon the completion of the Brexit negotiations. That being said, investor sentiment remains resilient; according to a February study by [IW Capital](#), 44% of UK investors say Brexit will have a positive impact on their investment strategies.

With nearly £300 billion worth of equity locked-in to 3,000 private companies, our report has revealed that a significant proportion of shareholders are currently seeking to release or redirect part of their investment portfolio. However, the process of releasing this equity is limited, with shareholders typically not offered the appropriate infrastructure to release their investment or, alternatively, inhibited by way of education and awareness for possible methods of entry. With the UK boasting a bustling community of scaling companies, there is immense potential for private capital to support the future growth aspirations of businesses seeking an IPO or significant expansion.

The results serve as a critical indication as to the importance of ensuring entry and exit objectives of the UK's shareholder community are not left to lie dormant. While an efficient suite of platforms and solutions exists to facilitate equity liquidity for the UK's larger businesses, the views expressed in the Asset Match Shareholder Sentiment Index reveal a community of investors who support a vital proportion of Britain's private sector expansion, yet are significantly restricted by way of the trading facilities available to them; an issue exacerbated by the lack of prioritisation surrounding investor interest and overall communication.

The urgent requirement for further trading options within the industry must be addressed to adequately service liquidity within the small to mid-cap sectors, thus appeasing the growing sense of discontent that exists with the UK's shareholder community. Failure to do so risks hampering the long-term growth prospects of the nation's scaling companies – a collection of businesses that are vital to the make-up of Britain's private sector and overarching economic prosperity.

