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Founded in 1969, the National Investor Relations Institute (www.niri.org) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts, and other financial community constituents. NIRI is the largest professional investor relations association in the world, with more than 3,300 members representing over 1,600 publicly held companies and $9 trillion in stock market capitalization. NIRI is dedicated to advancing the practice of investor relations and the professional competency and stature of its members.

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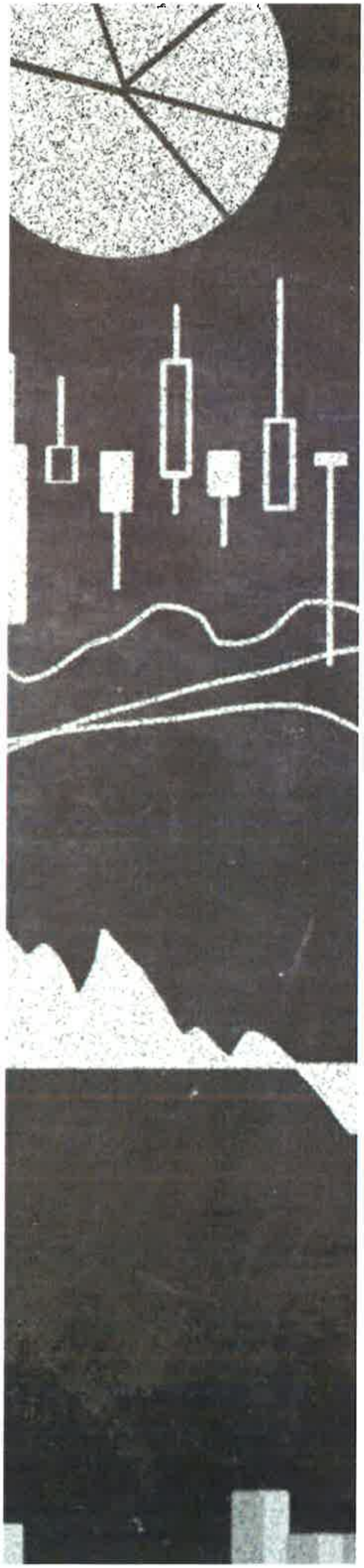

Outreach to Retail Investors – or Not

With investing and stock trading increasingly dominated by institutions, does it make sense to include retail investors in your IR outreach efforts?

By Scott Dudley

Over the 30-plus years that I have been practicing investor relations, stock markets have changed dramatically. The change has been driven by incredible advances in technology, the growth of mutual funds and hedge funds, and the significant increase in retirement investing via 401(k) and IRA accounts. These changes have impacted how individual (retail) investors participate in the equity markets, especially through reduced direct ownership of individual stocks.

Against that backdrop, should your outreach efforts still include retail investors? That's a question we recently asked ourselves at my company. Based on the data and the evolution of the shareholder mix of my company, the short answer is "yes, but," as explained below. The answer for most companies appears to be "no," but one size does not fit all.

I serve as managing director of investor relations for The Laclede Group (LG), a natural gas utility holding company with a $2.8 billion market cap, which serves 1.6 million customers as the largest gas service provider in Missouri and Alabama. Over the last three-plus years, LG's market cap has tripled as a result of two sizable acquisitions, funded in part with the issuance of nearly 21 million shares that essentially doubled the company's share count. On average, more than 60 percent of the new shares were allocated to institutions, and the offerings were several times over-subscribed.

In late 2012, Laclede outlined and began to execute a strategic growth plan that included acquiring other gas companies and growing its core gas utility business. LG also launched a formal IR program and began to be much more proactive in reaching out to investors and analysts to communicate its story – including the strategy and outlook for growth. The float increased significantly and daily trading volume increased fourfold to more than 250,000 shares per day. LG became more attractive to institutional investors, who found it easier to build and manage meaningful positions in our stock. As a result, LG's shareholder mix has increased from 58 percent institutional in early 2013 to about 83 percent last June. This shift resulted in a retail ownership of less than 15 percent.

While we were pleased with the success of our IR efforts in attracting investors, we stepped back to ask ourselves some important questions:

- Is having such a high institutional ownership too much of a good thing?
- Does high institutional ownership lead to higher trading volatility? Or raise the risks?
- What level of retail ownership represents an optimal shareholder mix?
- What do other companies – both inside and outside our industry – do to manage the mix?

These questions led to a good bit of analysis that confirmed some things believed to be true: institutional ownership continues to increase, individuals have more of their investments in mutual funds than individual stocks, and (perhaps as a result) most companies don't focus on retail investors.

Perhaps more important, we took a look at the makeup of the top holders – specifically, their investment style and turnover.

Institutional Ownership Is Increasing

For the last several years, Broadridge Financial Solutions and PwC's Center for Board Governance have partnered to produce ProxyPulse, a report on proxy issues, as well as trends in voting and share ownership. The most recent report, based on an analysis of nearly 4,300 companies that held annual meetings during the first half of calendar 2015, highlights that institutional ownership of street shares of U.S. companies increased to 68 percent in 2015 from 65 percent three years earlier. Or, stated another way, retail ownership decreased to 32 percent from 35 percent over that time period. It is interesting to note that shareholder mix varies by market capitalization of the company. For example, mid-cap companies, like Laclede, have higher-than-average institutional ownership (about 76 percent), while the percentage of institutional investors at micro-cap companies is much lower (28 percent). According to ProxyPulse, these differences illustrate the importance of companies understanding how their shares are held.

An examination of the shareholder mix for peer utilities showed a similar trend. Based on a study by Morgan Stanley, average institutional ownership for 44 electric utilities increased to 67.6 percent at March 31, 2015 from 64.2 percent at the end of 2013.

Risks Associated with High Institutional Ownership

In examining our shareholder base for potential risks associated with being more than 80 percent institutionally held, we looked at several elements. First, how concentrated are the holdings among the top institutions? The theory was that there could be volatility in our shares if a large holder were to rotate out of our shares in a big way and potentially trigger others to do the same. We looked at the percentage of institutionally held shares represented by the top 25 institutions. We found that our concentration, at 74 percent, was in line with that of our gas utilities peers, which averaged 76 percent.

Perhaps more important, we took a look at the makeup of the top holders – specifically, their investment style and turnover. Our top 25 included four low-turnover index funds that owned nearly 20 percent of shares outstanding, and just one high-turnover hedge fund with a 2 percent stake. The rest of the top 25 were mainly lower turnover funds with value, growth, or Growth-at-a-Reasonable-Price (GARP) orientations.

The third factor we considered was risk of activism. This seems like an obvious thing to know or regularly track concerning your shareholder base, but do you? Among our institutional investors, we saw only a few firms with any sort of activist history; most were classified as only occasionally "active" and none had been so in our industry sector.

Direct Ownership of Equities by Individuals is Shrinking

In its annual Fact Book, The Investment Company Institute (ICI) notes that total net assets of investment companies (mutual funds, closed-end funds, Exchange-Traded Funds (ETFs), and unit investment trusts) have increased four-fold since 1997 to more than $18 billion in 2014. This incredible growth is mainly driven by mutual funds, which have grown from $4.5 billion to $15.8 billion over this time. Individuals (households) make up the largest group of investors in investment company funds and these funds managed 24 percent of household financial assets at year-end 2014, compared to just 2 percent in 1980.

The ICI Fact Book also points out that individuals today rely more on funds, and less on directly held equities, due to the growth of IRAs and defined-contribution pension plans. Mutual funds managed 55 percent of retirement plan assets in 2014, two-and-a-half times the level 10 years earlier. From 2010 to 2015, a total of $1.3 trillion of household net investment flowed out of directly held equities, while $2 trillion flowed into registered investment companies.

Proxy Voting by Retail Investors is Low and Declining

In addition to being a decreasing portion of the shareholder mix for most companies, retail investors traditionally have voted a significantly smaller proportion of their shares held. Based on the 2015 proxy season, ProxyPulse reports that individuals voted only 28 percent of their shares. This means that more than 97 billion retail shares went unvoted during the last proxy season, which equates to just over 22 percent of the street shares outstanding. By contrast, institutions voted 91 percent of their shares on average.

Most Companies Don't Actively Target Retail Investors

According to a NIRI survey about retail shareholder practices published in November 2014, 77 percent of respondents said their companies do not actively seek

ENHANCING YOUR RETAIL TARGETING

BY PATRICK GALLAGHER

For companies where some level of retail engagement makes sense, here are some cost-effective ideas to consider, in addition to traditional approaches such as partnering with Better Investing, and leveraging relationships with sell-side brokerage firms.

Engage with Seeking Alpha. With five million registered users, the large majority of whom are investors or financial advisors, Seeking Alpha has established itself as a leading online community for individual investors, according to George Moriarty, the site's executive editor and vice president of content.

Seeking Alpha has more than 10,000 contributors and covers 7,000 companies, including hundreds of small-cap stocks with no sell-side following. The quality of the contributed content is mixed, but it does include a large amount of professional-level commentary, including from major firms such as BlackRock, Invesco, and JP Morgan. Moriarty notes that only 20 percent of submissions are published.

He strongly encourages IROs to engage with Seeking Alpha by commenting on articles, posting content, providing clean transcripts, and reaching out to contributors. He points to General Electric Co., which has published content on Seeking Alpha since September 2014, including CEO Jeffrey Immelt's annual letter to shareowners. Immelt's February 2015 letter posting had 13,000 page views.

Go Virtual. Can't justify traveling to the Better Investing conference? Consider presenting your story on VirtualInvestorConferences.com. Launched in 2010 by PR Newswire and Better Investing, the site has hosted more than 500 presentations. Some of the regular monthly conferences have a theme, such as life sciences, real estate investment trusts, master limited partnerships, or community banks. Deutsche Bank hosts two conferences a year on VirtualInvestorConferences.com for companies with American Depository Receipts.

Individual investors affiliated with Better Investing are the core of the site's registered audience of 33,000, but a growing number of institutional investors and wealth management professionals are also registering and now account for over 12 percent of the total, according to John Viglotti, vice president of investor relations products and services at PR Newswire.

Most of the participating companies are small-cap, but some large companies also present. For example, Daniel Bellware, a senior manager at Aflac Inc., who leads his company's retail IR effort, is a fan. "We do these presentations two to three times a year," he says. "I travel a lot, so I like that I can do them from my office or from a hotel."

Gregory Tiberend, president and CEO of Tiberend Strategic Advisors, which focuses on life sciences and healthcare companies, has used the service multiple times for different clients. "It enables companies to reach an audience they would not have otherwise reached," he says.

Upgrade Your IR Website. The most basic way to attract more individual investors may be simply to have a user-friendly IR website. A recent flash survey by Rivel Research on targeting the retail market generated a number of suggestions, such as adding an introductory "investor story" up front, posting transcripts of earnings calls, and having a robust shareowner services section.

Interestingly, three of the survey respondents commented that they had recently redesigned their IR sites to make them more user-friendly to retail and institutional investors alike. One described the new site as "eye appealing, very clean and simple to use. Succinct. Intuitive." Of course, that illustrates one final point: whatever you do to enhance your story for retail investors is likely to appeal to institutional investors as well.

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to attract retail investors. Companies most likely to target retail investors are micro-cap (those with four or fewer analysts), mega-cap (with 20 or more analysts), or are in the utility industry, presumably because the utility stocks pay attractive dividends that appeal to retirees and other income-focused individual investors.

Conventional IR wisdom has suggested that, depending on the nature of your product or service, targeting customers to become shareholders can be an effective approach, since customers already have some affinity for the company. However, two-thirds of NIRI survey respondents said that their company's product or service does not influence whether or not they actively target retail shareholders.

The NIRI survey pointed out some other interesting facts about retail investor outreach. When IROs were asked if retail investors should be actively targeted, the responses were almost evenly split, with one-third each saying "no," "yes," or "it depends on the company or situation." Oddly, some 63 percent of those who do actively target retail investors do not set goals for their retail program. A similar percentage of IROs said they do not benchmark their retail ownership against peer companies, which suggests that industry averages aren't particularly relevant since companies evaluate their target shareholder mix.

Similar to the information in the ICI Fact Book, IROs acknowledge that there has been dramatic growth in ETFs over the last decade. This has led to 82 percent of IROs believing that retail shareholder interest in individual stocks has either generally decreased or not changed. In regard to proxy voting, survey respondents reported a higher retail voting rate – about 47 percent in 2014 – than the 29 percent noted for that year in the ProxyPulse analysis. The point is still valid – individuals don't vote most of the shares they own.

Oddly, some 63 percent of those who do actively target retail investors do not set goals for their retail program.

Bottom Line: Retail Outreach or No?

Clearly, the data suggests that retail investors have become a smaller part of the investor universe, at least when it comes to direct ownership of individual stocks. The growth in retirement savings/investing, which is largely done through institutionally managed funds, has caused retail investors to shift out of individual stocks.

When retail shareholders do vote, they typically vote more closely with management. During the 2015 proxy season, individual investors voted just 15 percent of their shares in favor of shareholder proposals seeking proxy access (which management generally opposed), according to the ProxyPulse report. By contrast, institutions voted 61 percent of their shares in favor of proxy access resolutions. Retail votes also can be helpful in a proxy fight. At DuPont, support from retail investors and retirees, who owned one-third of the company's shares, helped management fend off a 2015 proxy challenge from Trian Fund Management.

However, a majority of retail shareholders don't vote their shares, and fewer are doing so each year. Some companies do see value in retail investor outreach – especially those at the top and bottom ends of the market cap spectrum. But the relative investment in time and money for the amount of impact (moving the needle on shareholder mix more toward retail) needs to be carefully considered.

As noted at the beginning, one approach doesn't work for every company. For Laclede, we decided that the answer is "yes," some level of retail engagement would be good. But not because we see risks in our high institutional ownership and feel a need to manage the mix toward more retail. Rather, we believe that there is benefit to maintaining a level of interest in Laclede among retail investors, especially since they have been, and remain an important part of our investor base.

Our approach has been to leverage our relationship with sell-side brokerage firms to tap their retail networks. We do this in a way that requires a minimal investment of time and money. We have conducted conference calls and luncheons with the retail brokers/financial advisors of a handful of the brokerage firms that follow us. We've also had face-to-face meetings with local wealth advisory arms of these firms. In addition, there are indirect ways in which we reach retail investors with our story. Some of these include the IR section of our website, more robust communications such as earnings releases and conference calls, and our interactions with institutions that also have strong retail networks.

As an IRO, our jobs are to make the most of our time, and that of our management teams, in getting the investment story out to the right audiences. Although, retail investors have become a smaller piece of the shareholder universe, they may still have a place in your outreach program. Take time to examine your own situation and decide what's best for your company. IRU

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