

THOUGHT LEADERSHIP

# The Importance of Year-Round Investor Engagement



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## 1. INTRODUCTION

In today's uncertain market environment, year-round engagement with your retail investors is essential to success at major milestones like your Annual General Meeting (AGM), and to creating long-term buy-in and support. As institutional investors scale back their positions in equities, retail investors are playing a larger role in supporting the markets. In fact, retail investors have been net buyers over the past 12 months, buying stocks at attractive prices (*S&P Global Market Intelligence November 2022 Capital Flows*).

The upcoming generation of investors have different investment approaches than previous generations, with a greater emphasis on Environmental, Social, and Governance (ESG) factors. The COVID-19 pandemic has also introduced a new wave of individual investors with different objectives than companies have previously encountered. During the 2022 AGM season, companies learned several important lessons:

1. Retail investors are playing a more significant role in shareholder proposals.
2. The new generation of retail investors need to be approached differently than previous generations.
3. Engagement with retail investors is a year-round activity.

In light of these new realities, companies are preparing for the 2023 AGM season by introducing new strategies and approaches to engage with retail investors. These new strategies are expected to shape how future AGMs are conducted.

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## 2. THE BROADER MARKET & THE ROLE OF THE RETAIL INVESTOR

As the broader market has changed drastically over the past three years, retail investors have remained constant. Although market experts expected retail investors to stay on the sidelines, retail investors put money to work in the market at record levels despite downturns, volatility and inflationary pressures.

Retail investors provided essential liquidity in the equity markets, shifting capital in and out of stocks. Even after two years of impressive returns in 2020 and 2021, retail investors did not abandon the broader market in 2022 despite a -19.4% <sup>1</sup>performance of the S&P 500, the worst market since 2008. While institutional investors were net sellers in 2022, retail investors looked for buying opportunities and were net buyers.

Retail investors who are considered "owners" were less volatile:

- They rotated capital out of high-growth companies to preserve capital in blue-chip companies and cash or cash-like assets (i.e., short-term treasuries).
- They took advantage of industry leaders trading at or near 52-week highs to find "bargains".
- They seized opportunities to get "into the market" throughout the second half of 2022.

A recent [survey conducted by Finimize<sup>2</sup>](#) showed that 80% of retail investors think that the worst of the bear market is over, and they plan to build out their portfolio with Big Tech names in 2023. The survey also indicates that retail investors believe the stock market will bottom out in 2023.

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<sup>1</sup> "Financial data and analytics provider FactSet"

<sup>2</sup> Browne, Ryan, December 8, 2022, CNBC Markets, "Retail traders think stocks will bottom in 2023 – and they plan to load up on Big Tech, survey says", <https://www.cnbc.com/2022/12/08/retail-investors-say-stock-market-will-bottom-in-2023-finimize-survey.html>

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### **3. PROXY VOTING: RECENT THEMES & TRENDS**

When they vote, retail investors have traditionally been known to vote in favor of management's proposals. However, retail investors have rarely voted their shares. They commonly ignore proxy material mailed to their homes and fail to mail back the proxy cards for tabulation. As a result, these shares were often left unvoted.

As we entered the 2020 decade, this trend began to change. Voting participation among retail investors has increased as new technology has made it easier for investors to view proxy materials and vote shares.

The new (younger) generation of retail investors appear to have priorities beyond return and some results are not always in favor of management's proposals. As investors are paying closer attention to ESG-related proposals, it's important for companies to recognize that ongoing engagement and communication with retail investors can help investors be better informed of these items on the proxy card.

According to proxy services provider D.F. King, the 2022 proxy season showed that retail investors are paying closer attention to compensation-related proposals.

A total of six shareholder proposals received majority shareholder support this year, compared to none last year. This was largely due to the high number of proposals this year requesting companies submit severance agreements (change-in-control) to shareholder votes. These proposals were submitted by activist investors such as John Chevedden and his associates and received an average of nearly 47% support.

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### **3. PROXY VOTING: RECENT THEMES & TRENDS (con't)**

D.F. King also found that retail investors are prioritizing environmental and social issues when searching for companies to invest in<sup>3</sup>:

- Proposals regarding climate change reporting and greenhouse gas (GHG) emissions remain the most popular categories for proponents.
- The number of GHG emissions-related proposals on ballots quadrupled over the previous year.
- Despite proposals requesting a "racial equity audit" being a relatively new topic, many of these received majority shareholder support in 2022. Most of the proposals that were submitted on this topic ended up on ballots.
- Labor issues took center stage this year as one of the most common types of social proposals submitted. Proposals include requests to adopt paid sick leave and requests for reporting on concealment clauses.

As these themes are anticipated to continue into the 2023 proxy season, companies need to recognize the need to approach retail investors differently and to engage with them year-round.

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<sup>3</sup> Zally Ahmadi, "2022 The Debriefing - Season Review and Fall Engagement Guide"

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### **4. MEET QUORUM AT YOUR AGM**

Reaching quorum has been a top priority among companies heading into the 2023 AGM season. A successful proxy relies upon identifying and addressing any concerns and risks ahead of time, while minimizing unexpected additional costs.

An important step that a company can take ahead of time is having a comprehensive understanding of its shareholder profile. This will help raise any flags that could prevent your company from reaching quorum at its AGM. Shareholder profiles are typically divided into three categories: insiders, institutional investors, and retail investors, with the retail investor often the least known to the company. It is helpful to know the number of retail investors that hold your stock ahead of time. Given that there are often more individual investors holding a stock than the number of institutional investors, it can drive up costs. In 2021 and 2022, EQ + AST observed that in some cases, the total number of shareholders increased by tens of thousands, significantly driving up the printing and mailing costs of proxy material by issuers.

If a company fails to meet quorum at its annual meeting, the meeting is adjourned. The adjournment of a meeting means that the company must reschedule its annual meeting for a later date, forcing the company to incur significant additional costs to host a second meeting. Failure to meet quorum often happens on a single proposal where a group of investors will withhold votes due to sensitivity towards the proposal. In order to avoid an adjournment and added costs, better engagement with retail investors can help companies reach quorum, keep costs in check and deliver favorable results for the company. Keep in mind that increasing overall voter turnout is critical when there are known proposals that are disagreeable to institutional investors.

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## 5. BEST PRACTICES & RECOMMENDATIONS

As the 2023 AGM season begins, companies are expecting similar trends to those experienced in 2022. On average, 30% of a company's outstanding shares are held by retail investors, many of whom drive E and S shareholder proposal outcomes. In light of this, many companies have already begun engaging with retail investors, using new technology, to anticipate any potential unfriendly voting activity. This ongoing engagement with retail investors can also help companies reach quorum at their annual meeting and control the company narrative in a scalable way.

Here are some effective ways to approach engagement with retail investors:

- Leverage modern and innovative technology: Digital platforms, such as Stockperks, offer a wide range of features that help companies connect and engage with shareholders in a manageable and effective way.
- Use video content: Younger generations of investors respond better to video. Post short videos of management providing updates on its strategy and results.
- Utilize social media: Embrace a social media presence and have a dedicated handle for Investor Relations.
- Share your investment story: Provide investors with a concise and comprehensive overview of your company, highlighting key reasons to invest and allowing retail investors to hear from management directly.
- Introduce and emphasize your ESG strategy: Highlight your company's strategy, efforts and accomplishments. Also make it easy for investors to find your ESG report.
- Communicate with shareholders throughout the year, not just at AGM time<sup>4</sup>.
- Use the latest technologies to enable easy and efficient communication, voting, and feedback.

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<sup>4</sup> Companies should always comply with the regulations and laws of their jurisdiction when communicating with shareholders.

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### **6. CONCLUSION: YEAR-ROUND ENGAGEMENT IS THE SOLUTION**

Year-round engagement with retail investors is becoming increasingly important for the success of Annual General Meetings (AGMs). As institutional investors scale back their positions in equities, retail investors are playing a larger role in supporting the markets and their participation in AGMs is on the rise.

Companies are taking note of this trend and are implementing strategies to better engage with retail investors. This includes using modern technology, such as digital platforms and social media, to reach and communicate with retail investors. It also includes highlighting the company's investment story and emphasizing ESG efforts, as these are key areas of focus for retail investors.

By implementing these strategies, companies can better position themselves for a successful AGM and compete for investing dollars.



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### **About Stockperks**

Stockperks is reimagining and revolutionizing how retail investors and companies connect. It's the first multi-channel marketplace where individual investors get the perks of company ownership, companies create a community of engaged, informed and loyal individual investors, and everyone is invested in the company's success. For more information, visit [www.stockperks.com](http://www.stockperks.com).

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