

The Rt Hon John Glen MP, Economic Secretary to the Treasury and City Minister
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

18 February 2021

Dear John Glen

Re: Retail investor participation in UK Initial Public Offerings (IPOs)

We are writing this as an open letter because we wish the arguments made to also be heard by the Boards and advisers of companies considering listing on the London Stock Exchange (LSE).

Our combined businesses administer assets worth over £200 billion for around 2 million retail investors in the UK. These and other retail investors are a growing market but are excluded from the majority of IPOs via the LSE, with the Hut Group, Dr Martens and Moonpig recent high-profile examples. For too long, UK listings have been the preserve of financial institutions and we urge you to consider the rights of retail shareholders in relation to IPOs.

This could be in the form of a consultation on how retail investors are given fair access to IPOs and not disadvantaged in favour of city institutions. Part of this debate should be around whether there needs to be a regulatory obligation on companies coming to market to consider a retail element to their IPO. Currently there is a danger that this only happens when the company and its advisers suspect there will be weak demand for the IPO.

Regulatory change will take time, so we also call on the Boards, Chairs and CEOs of companies considering listing on the LSE, and the advisers to these companies, to ensure a proportion of the shares offered through their IPOs are made available to UK retail investors. Ultimately it is the Boards of companies that control whether their IPO is open to retail investors, but they are currently discouraged to do so by the sponsoring investment banks.

The case for retail investor participation in IPOs

As it stands, retail shareholder rights are almost completely ignored when it comes to the vast majority of IPOs, which largely take place between City institutions behind closed doors.

It has been reported that between October 2017 and October 2020, private investors were invited to take part in just 24 out of 352 IPOs on the main market and AIM. That means they were excluded from 93% of share launches.

That needs to change. Retail investors should have as much right as any other institution to invest at IPO, rather than having to 'get in line' and potentially buy the shares at a premium in the open market, post IPO. The UK taxpayer stands behind UK plc and should have unfettered opportunity.

Most of the growing numbers of retail investors in the UK manage their portfolios via investment platforms that can provide quick and easy access to IPOs.

From a practical perspective, opening an IPO to retail investors is now a standardised process which is fully compliant with the FCA listing rules and requirements of the London Stock Exchange. Retail

investors are provided with all the necessary information via the investment platform and they apply for a monetary amount via their existing online account.

All shares issued are held in the platform's nominee account and the platform manages the ongoing requirements of the shareholder, for example by issuing any dividends, so there are no additional ongoing costs or administration for the listed company.

There are also several benefits to companies of having a retail offer as part of their IPO:

- It gives them access to an additional source of capital and can generate increased demand for the IPO
- It can help raise the profile of the business and deepen relationships with loyal customers by treating them equally with institutional investors
- It can create a healthy shareholder base – most retail investors are long-term holders via pensions and ISAs and supportive of management, creating shareholder diversification and pricing stability

We have first-hand experience of facilitating IPOs for retail investors and we know there is demand for them from our retail customers. We would be happy to share this experience with you.

Yours sincerely

Three handwritten signatures in blue ink, arranged horizontally. The first signature is a simple, flowing line. The second signature is more complex, with a large loop and a horizontal line. The third signature is also complex, with multiple loops and a horizontal line.

Andy Bell
Chief Executive
AJ Bell

Chris Hill
Chief Executive
Hargreaves Lansdown

Richard Wilson
Chief Executive
Interactive Investor