Bridging the Equity Divide

SYNDICATE ROOM
Intelligent Equity Crowdfunding

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Introduction

We are experiencing astronomical change in the financial sector here in the UK. An industry that has been in existence for hundreds of years, and is based on much legacy and regulation has been injected with an innovation booster in recent years. New mechanisms for investing and lending are well and truly turning the industry on its head.

There's no question that crowdfunding has established itself as an exciting opportunity for investors and has provided an invaluable supply of capital for businesses over the past few years. In fact, since its inception, crowdfunding has raised millions, giving tens of thousands of people access to opportunities that used to be the preserve of professional investors.

This new report from SyndicateRoom, Bridging the Equity Divide, has revealed just how much eagerness and keenness there is for smart investing. The issue, it seems, isn't demand but access to opportunities and easy-to-use platforms. As a result, the vast majority of British citizens still hold very little in equity investments, both in private and public companies – and this widespread demographic trend is having a negative effect on people's long-term wealth creation.

In a stagnant economic climate with savings accounts yielding record-low returns of 1.4% in 2015 and real wages failing to rise (average wages are expected to increase by 2%, not discounting inflation), smart equity investing might just be the simplest route to building personal wealth. There is also a clear benefit for the UK too, as wider retail investment will improve liquidity for companies.

As a result, we decided to commission to look into the investing habits UK citizens. We wanted to get a view of personal assets and wealth for the average Brit – along with an idea of where they're currently putting their money. We wanted to explore their perception of equities, along with what would motivate them to invest. This report is the output of that research.

Teaming up with FTI Consulting, we surveyed three distinct audiences: millennials (age 18–30), Generation X (31–50) and baby boomers (51+). We hope you enjoy reading it. It contains some fascinating results around our relationship with money and tells an inspiring story about a nation ready to take control of their finances and invest for the future.

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Setting the scene

The way we feel about our current circumstances and future aspirations is changing.

Despite headlines of squeezing household incomes and struggling but hopeful first-time property buyers, we are getting wealthier. Analysis from the London School of Economics, for example, suggests personal wealth has actually grown twice as fast as national income since the 1970s.[1]

As a result, today's Britons simply aren't content to just get by. They want to pursue and realise ambitious financial goals that, with some effort, could now be within their grasp. Indeed, our latest research suggests that even our attitudes towards social hierarchy are becoming equally expansive as financial differentiators continue to blur.

The driving force behind that shift? Today's young adults. Despite having barely half the assets that the UK's oldest residents enjoy[2], the majority (52%) of the millennial generation aged between 18 and 30 consider themselves middle class.

In fact, millennials are already more likely to have attended a fee-paying school and have an undergraduate degree compared to their parents. By contrast, baby boomers, now aged 51 and older, mostly (60%) feel they are working class and fewer than two in five (39%) would describe themselves as middle class.

Regardless of when we were born or how we define ourselves, Brits are almost universally fascinated with finance. With average total personal assets now coming in at around £173,000 per adult, it's understandable that almost nine out of ten people (88%) want to be involved with the investment decisions that will shape their future.

Yet again though, our study has found that age seems to play a vital role in our perceptions. Almost two in five millennials (39%) say their friends would describe them as willing to take risks, while most (54%) baby boomers say they'd be described as cautious, preferring only a small amount of risk.

This in turn raises an interesting question: will today's millennials adopt their parents' investment habits when they reach the same age, or will this self-starting generation with entrepreneurialism at its core always have a greater appetite for risk?

But age is not the only factor defining our relationship with money as the role of women in our society continues to evolve. With total assets worth an average £68,000 less than men, almost one-quarter (23%) of women, compared with only 15% of men, say they have no financial education, and almost one-quarter (23% compared with 17% of men) feel they are way off track when it comes to their financial goals and priorities.

Only half (53%) of women say they are actively involved in the investment decisions that affect their future. Among men, that figure is almost two-thirds (63%). Indeed, almost one in five (19%) women say they have no input at all. But few want it to stay that way.[3]

Male or female, young or old, it's clear there are significant drivers behind our wish to know and do more when it comes to investing our money.

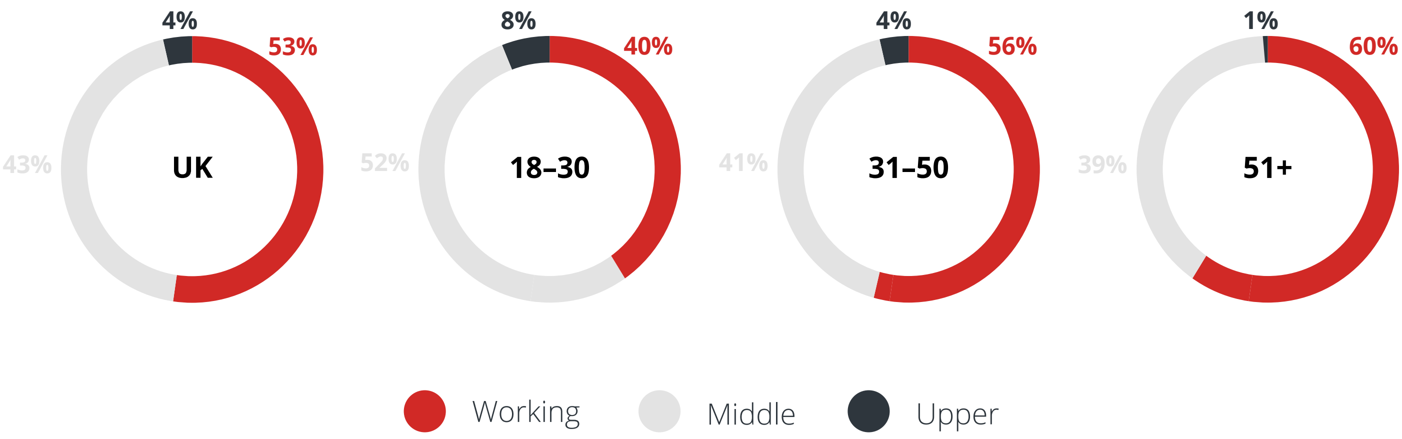
[1] In real terms http://sticerd.lse.ac.uk/dps/case/cp/casepaper178.pdf.

[2] Average of £117,000 among 18–30s compared with £200,000 of 51+.

[3] 14% of women that are currently uninvolved in investment decisions want to remain uninvolved.

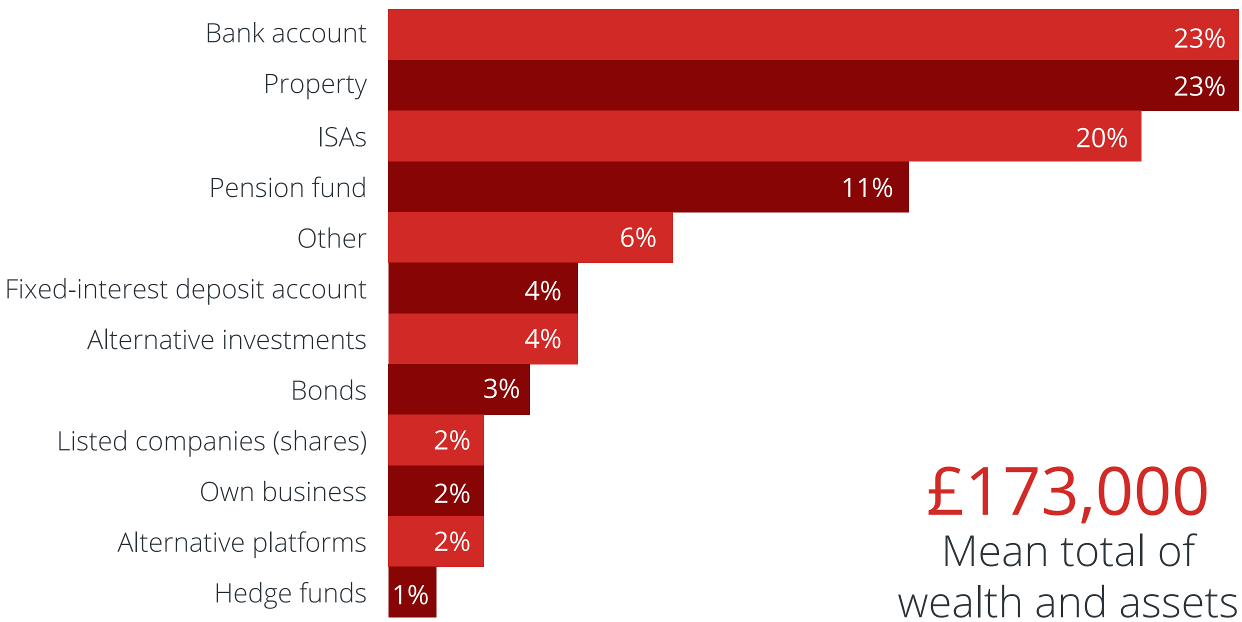
The growing middle class

Q. How would you describe your social class upbringing?



Amount and where

Q. Approximately what percentage of this is held in the following?



£173,000
Mean total of wealth and assets

Base: UK (n=3,096), 18–30 (n=828), 31–50 (n=1,412), 51+ (n=856)

Financial priorities

But growing levels of personal wealth is only part of the story. Financial priorities are pushing us to aim high and to make it happen when it comes to personal wealth, with 82% of us feeling that our money should work as hard as we do.

Above all we take the need to have sufficient funds for the rigours of modern life very seriously: two-thirds (66%) of people are focused on living within their budget.

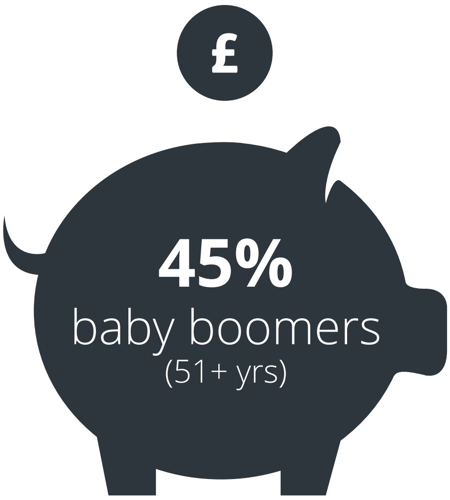
Our aspirations are greater than that though. Crucially, the financial pressures and aspirations of each generation – all at very different stages of life and finance – vary significantly. More than one-third (36%) of millennials are saving for the deposit on their first home, for example, while a well-planned retirement is top of the agenda for 45% of baby boomers.

But although we are acutely aware of the importance of wealth creation, of investing in order to deliver our goals, success is often elusive. With almost half (46%) of our assets currently tied up in property or sitting in bank accounts, and one in five (19%) of those with investments unsure about where their investments are held, only 28% of people are on track to achieve those goals.

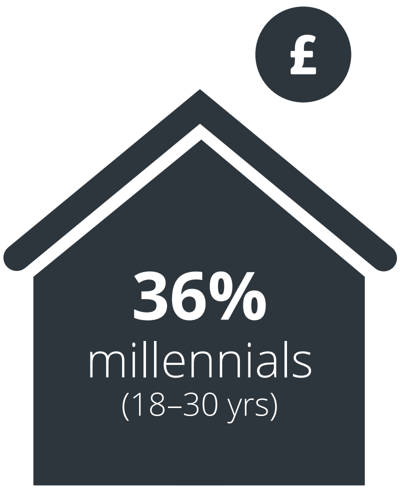
In fact, only one in five millennials (20%) are set to move into that first property as planned.

Financial priorities

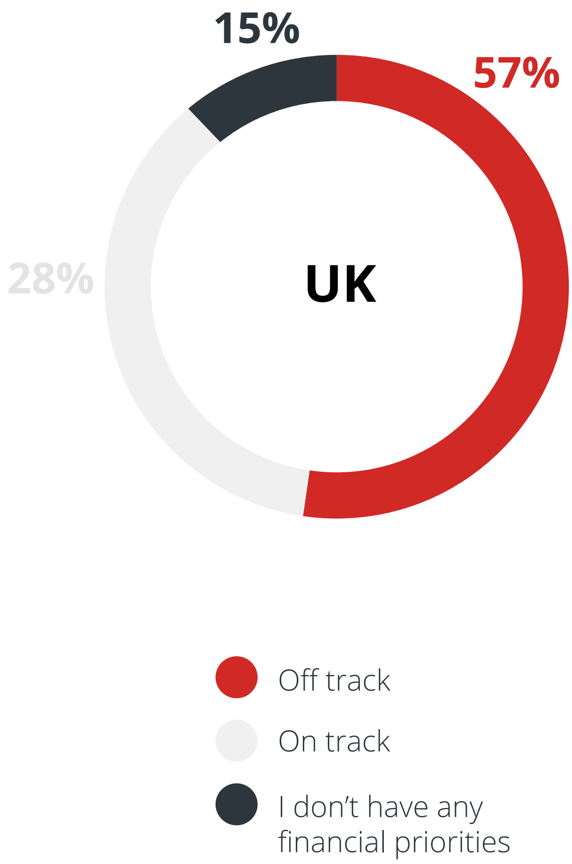
Q. Thinking about your financial priorities, which of the following is particularly important to you?



‘Planning their retirement’



‘Saving a deposit for a first home’



Base: UK (n=3,096), 18–30 (n=828), 31–50 (n=1,412), 51+ (n=856)

Investors’ motivations

It’s clear that the sticking point isn’t one of motivation and nor is it a lack of faith that investing could deliver our financial aspirations. More than half of those we spoke to (53%) believed their net wealth would increase if they invested in equities; among millennials that proportion rose to 60%.

In fact, we found that almost three-quarters (71%) of all age groups and a staggering 81% of millennials said they could be motivated to invest in equities.

Given that the 18–30s club is being targeted by a barrage of government-backed schemes to improve its financial lot in life, from retirement funding to a boost onto the housing ladder – usually through one investment vehicle or another – it’s no great surprise that this age group has more than a passing interest in equity investing.

Meanwhile, Generation X – people who came of age in the Yuppie era – and the affluent baby boomers are also understandably motivated to reinforce their wealth and financially succeed.

And yet even when ISAs and pension funds are taken into account (the two most common types of vehicle, especially with the latest automatic-enrolment workplace pension scheme), equity investing only accounts for two-fifths (42%) of the average Brit’s assets. Without ISAs or pension funds, equity ownership drops to just 11% of the individual’s portfolio.

But there may be light at the end of the tunnel for Britain’s frustrated investors.

A growing number of people from all age groups are talking about money. In fact, compared with only two-thirds (66%) of baby boomers, 78% of millennials will discuss their financial goals and how to achieve them with a wide range of trusted sources, especially friends and family (41%), colleagues and their employer (21%) as well as professional and independent financial advisers (20%).

Could you be motivated to invest in equities?

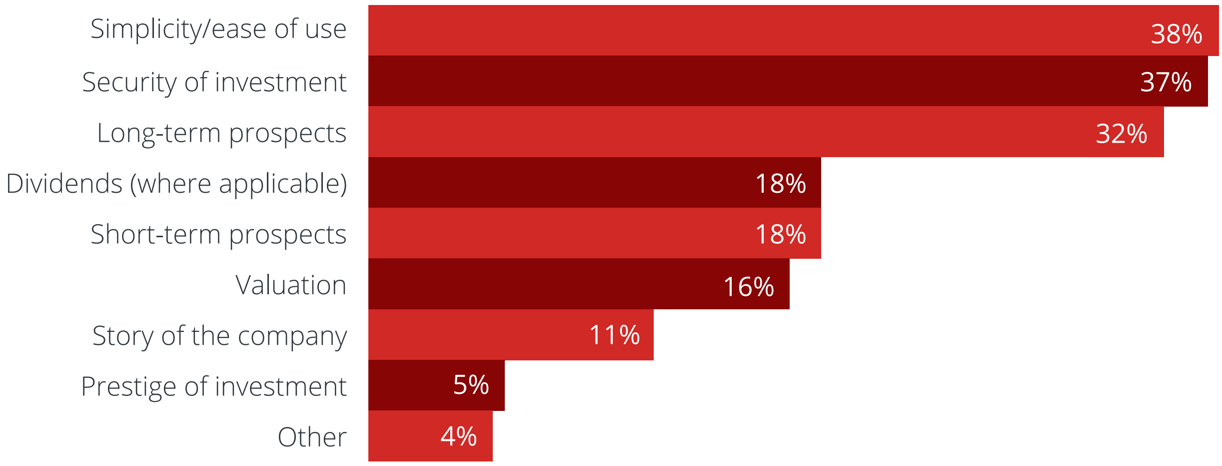
81% of millennials **say yes**

73% of Generation X **say yes**

60% of baby boomers **say yes**

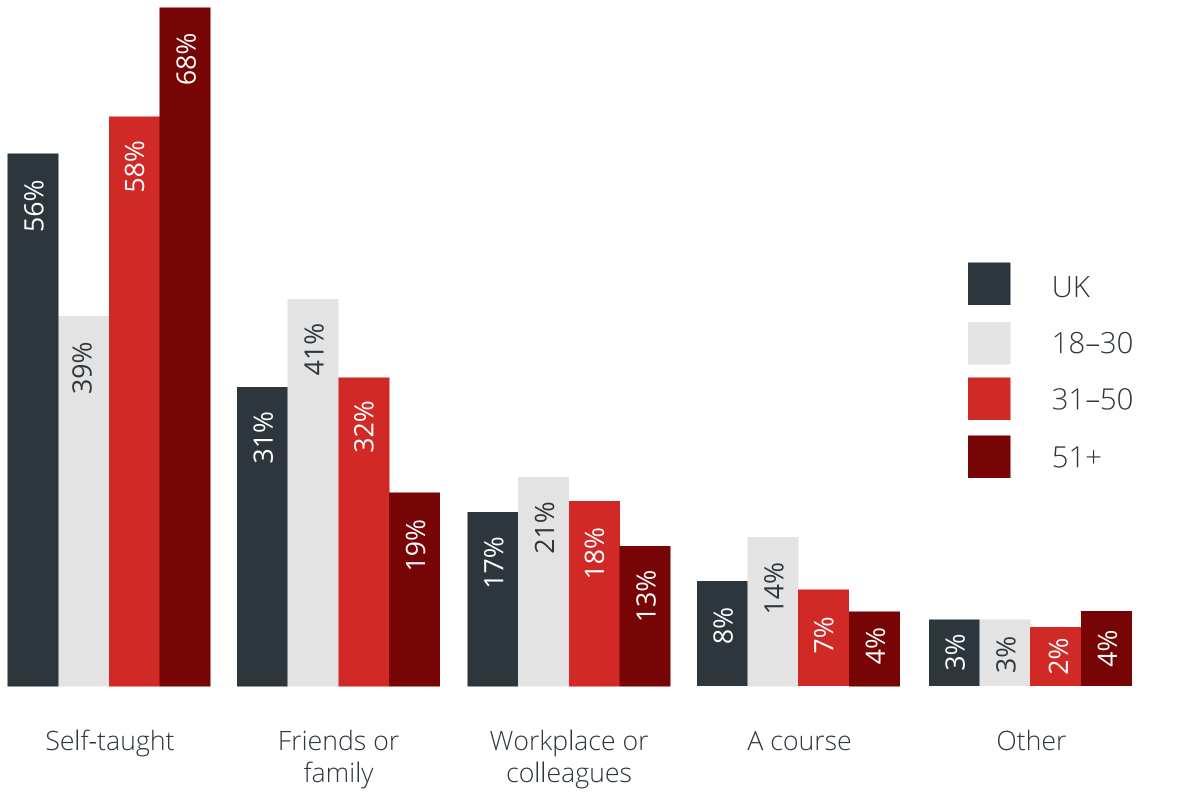
What would drive us to invest in equities?

Q. Which of the following messages would particularly motivate you to continue or begin investing in equities?



Learning is becoming more social

Q. How have you learned about personal finance and investments?



Base: UK (n=3,096), 18–30 (n=828), 31–50 (n=1,412), 51+ (n=856)

Knowledge and barriers

The potential effect of greater access not only to impartial guidance but also to the wider collective wisdom and experience of those around us could be game-changing – but finding the right information is fundamental.

Though organisations from across the financial, governing and social mobility worlds have launched scheme after scheme in a bid to improve levels of financial education across the whole of society, more than half the population (51%) feels they simply don't have the knowledge to make their own financial decisions. Indeed, a staggering one in five people still don't feel they have any financial education at all.

The way would-be investors pursue and use personal finance information is changing with each generation. Baby boomers are mostly self-taught (68%), often relying on the press for good-quality information (34%), while Generation X – aged 31–50 – are most likely to use a two-pronged approach, combining their own research (58%) with the support of friends and family (32%).

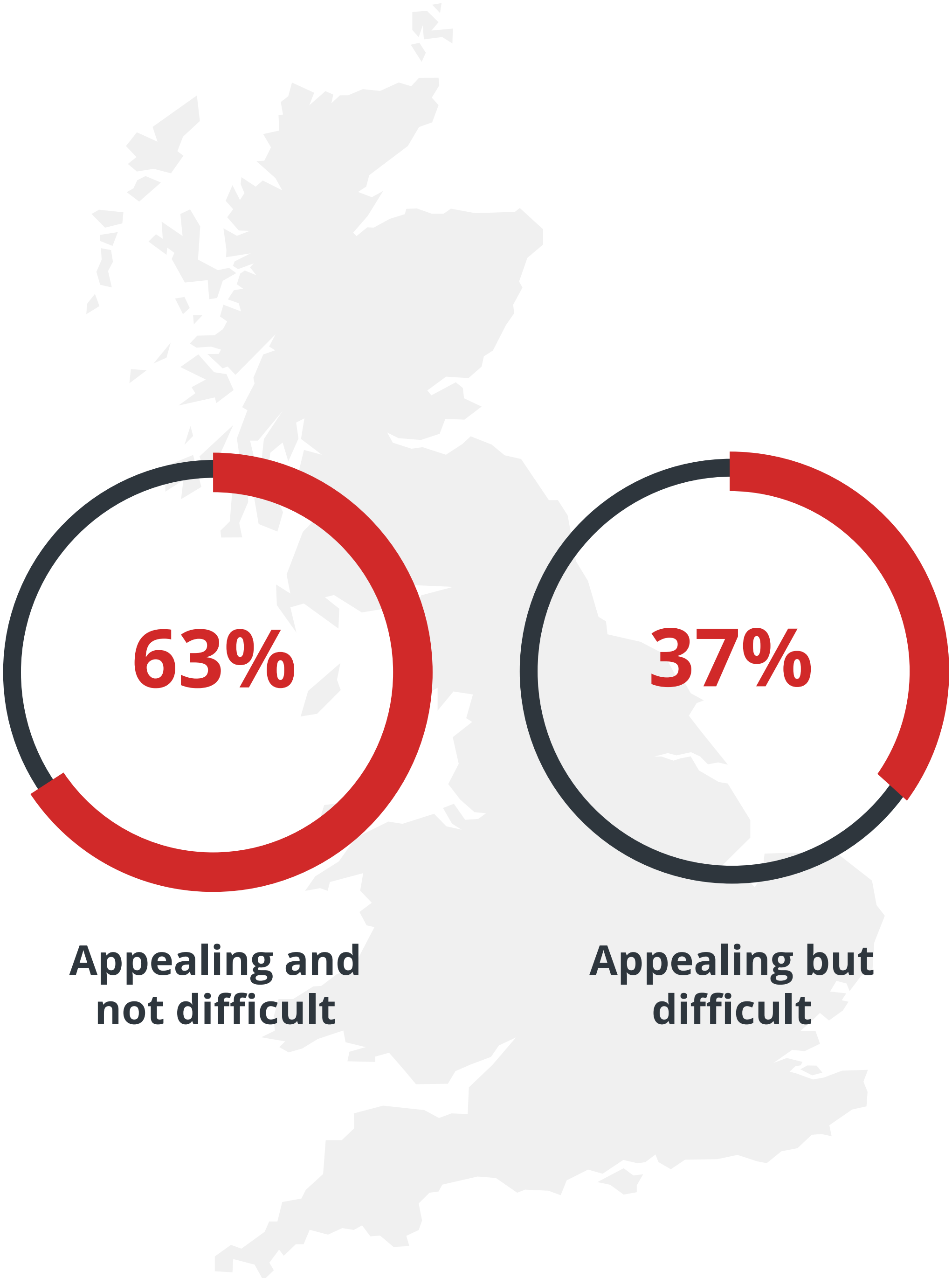
Millennials, meanwhile, prefer the guidance of those closest to them, with more than two-fifths (41%) going to friends and family, who many (45%) consider the best source of financial investment information. That said, more than one in ten (14%) have completed a course on the subject to give them a more formal foundation on which to base their investing future – perhaps another testament to the self-starting nature of millennials.

And once armed with education and confidence, things could develop quickly. Around two-thirds (65%) of all age groups found the idea of making their own investments enticing and 68% said they would prefer to use their own judgement to invest in companies rather than paying and trusting a fund manager.

But almost two-fifths (37%) of those that were attracted to the idea of DIY investing thought it was difficult, and the regret of missed opportunities dog many. With several high-profile flotations making headlines, one-fifth (19%) of people said they would have invested in IPOs had they known about them, not least because most of those who had invested in IPOs[4] said they turned out to be successful investments.

[4] Of the 19% that had invested in IPOs, 60% said they had been successful.

How appealing and difficult do you consider managing your own investments?



Base: Find 'making your own investments' appealing: UK (n=2,003)

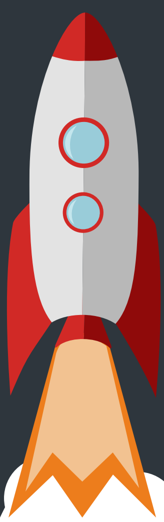
Where to invest?

The truth is that with almost half the population (46%) knowing what an IPO is, many would-be investors are more financially savvy than they give themselves credit for. And despite a whole host of added unknowns to grapple with, there's no doubt that this kind of investment event whets the British investor's appetite.

Thanks in part to the dramatic developments among major brands, from the UK's Lloyds Bank and the British Post Office, to the phenomenon that is the global social media leviathan Facebook, more than half (52%) of those we spoke to felt that IPOs presente a greater opportunity to make money than already listed companies. Millennials are particularly interested, with almost two-thirds (62%) agreeing that these kinds of events offer the potential to make more money and 50% saying they find the idea of an IPO appealing.

The problem is that many people just don't know how to access this kind of potential. One-third (32%) of people were interested in the idea of investing in an IPO. Indeed, one-quarter (25%) of those we spoke to, across the age ranges, said they had either already invested in an IPO and would do so again or wished to do so for the first time.

And yet major investment opportunities are being missed because two-fifths (40%) of those who would be interested in investing believe it is difficult to do. In fact, 70% of us wouldn't know where to start – a figure that remains consistent across the generations.



London Stock Exchange offers private investors access to markets, products and services across an unparalleled breadth of geography and sector. From global corporates to biotech startups, from established British institutions to emerging market infrastructure projects, private investors accessing our markets have a truly comprehensive offering at their fingertips. This diversity across multiple asset classes gives investors the opportunity to tailor investment portfolios to their own requirements. We believe private investors deserve the best possible access to our markets and the best possible offering.

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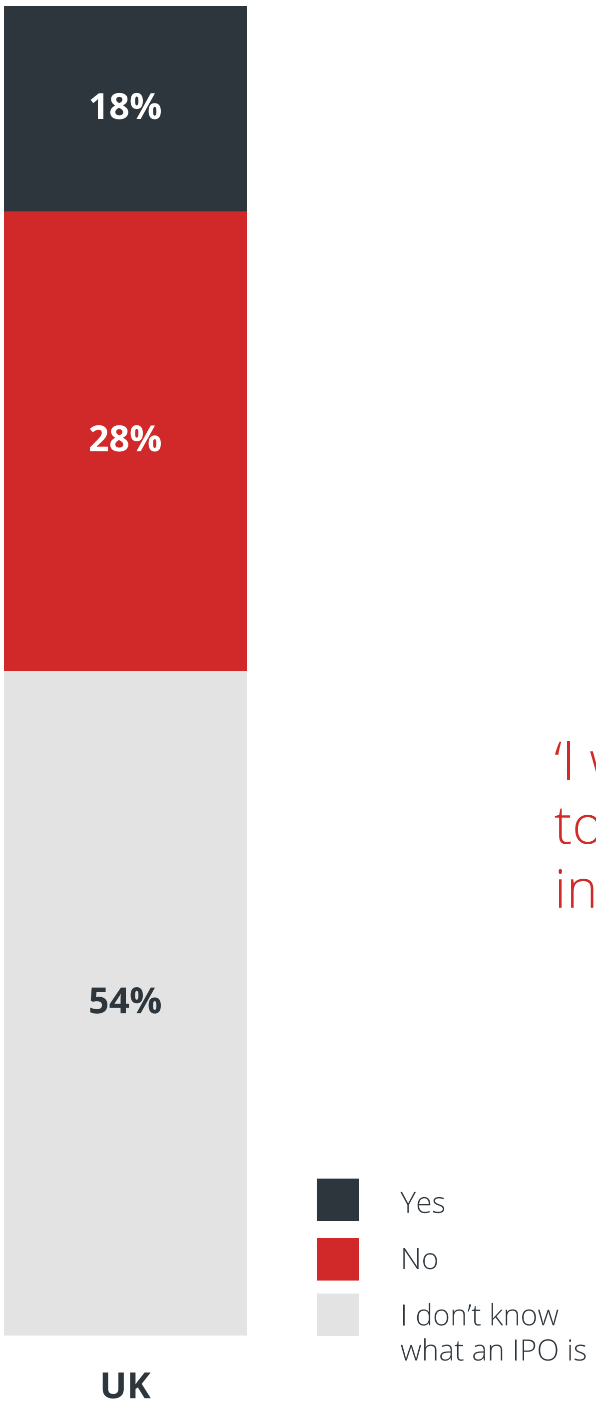
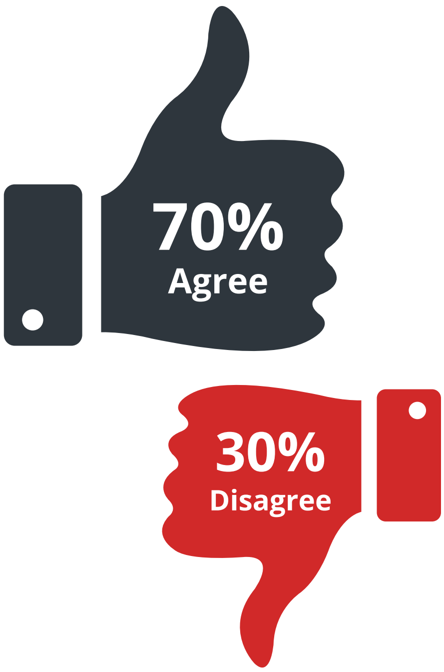
Knowledge of IPOs and missed opportunities

Q. Have there been IPOs where, had you known about them, you would have invested?





'I wouldn't know where to start when it comes to investing in an IPO'

Base: UK (n=3,096), 18–30 (n=828), 31–50 (n=1,412), 51+ (n=856)

Public markets: a lack of access

It's the same story when it comes to investing in stocks and shares more broadly. Almost half (46%) of people say they would love to invest in stocks and shares on the public markets, but just don't know how to get access.

And when two-thirds (67%) of those we spoke to knew which industries they would be keen to invest in, that message of frustrated potential comes through loud and clear.

Technology is a firm favourite among almost one-third (31%) of the nation, particularly among millennials and Generation X, for whom hyper-connected smart gadgets form the very foundation of modern life.

With millions of Brits reminded on a daily (often hourly) basis of their reliance on and commitment to the complete spectrum of up-to-the-minute technology, it's little surprise that current and would-be investors alike are confident the sector can offer compelling returns for the future.

But the British public goes further in its faith in technology and our research even found that almost two in five (37%) people said technological advances were set to transform investing itself.

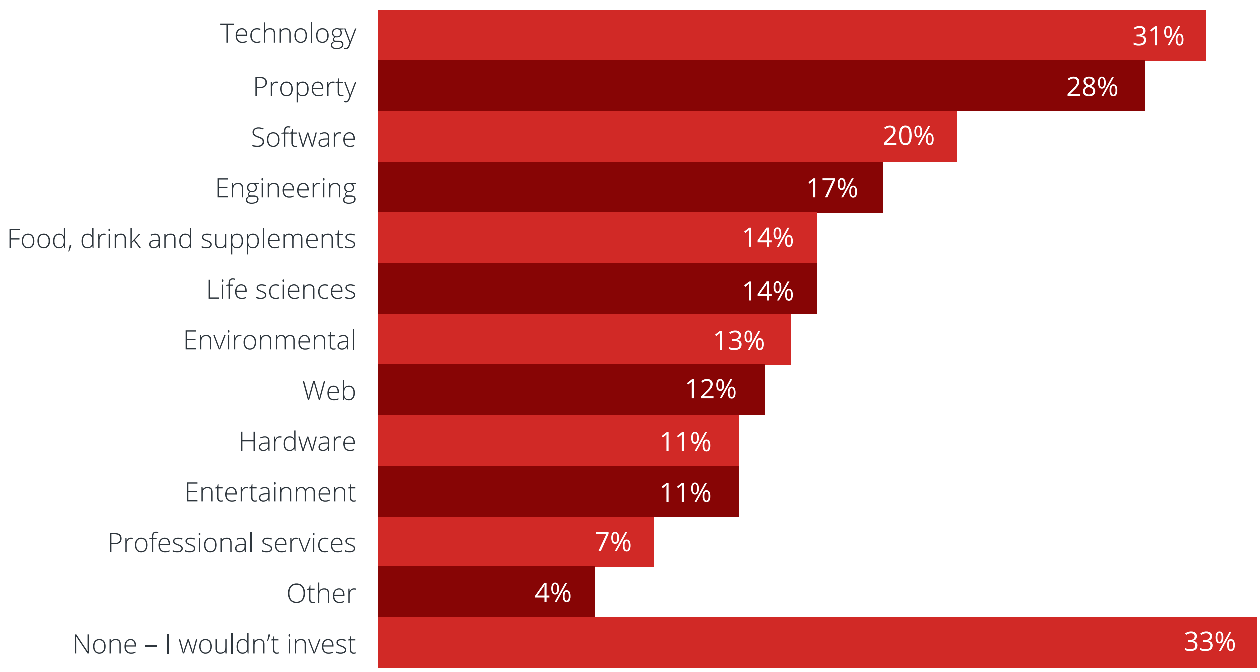
London Stock Exchange wants to see more shares offered to ordinary investors. Simple changes to the status quo of the current system, such as reinstating an optional retail tranche for all privatisations and IPOs, would substantially help ownership of equities and corporate bonds. The dramatically successful effect of the removal of Stamp Duty on AIM shares and their inclusion in ISAs has shown the exceptional appetite for private investment in equities.

London Stock Exchange

46%
of Britons
would love to invest
in stocks and shares,
but don't know how to

Technology is an increasingly popular investment

Q. Which of the following industries would you be particularly interested in investing in?



Base: UK (n=3,096)

The backing of crowds

Nowhere is the evidence of that transformation clearer than when it comes to crowdfunding.

Burned by the effects of indebtedness that led to the last major recession in 2008, major traditional lenders have been unable to back away from the UK's deep-rooted entrepreneurial drive fast enough. Regardless of both government-backed funding for lending shots in the arm and, above all, the growth potential that fledging businesses have demonstrated over and over again, the chances of securing funding by traditional methods have plummeted over the course of the 21st century so far.

No wonder 60% of the country feels the hardest part of developing a business from scratch is the startup phase.

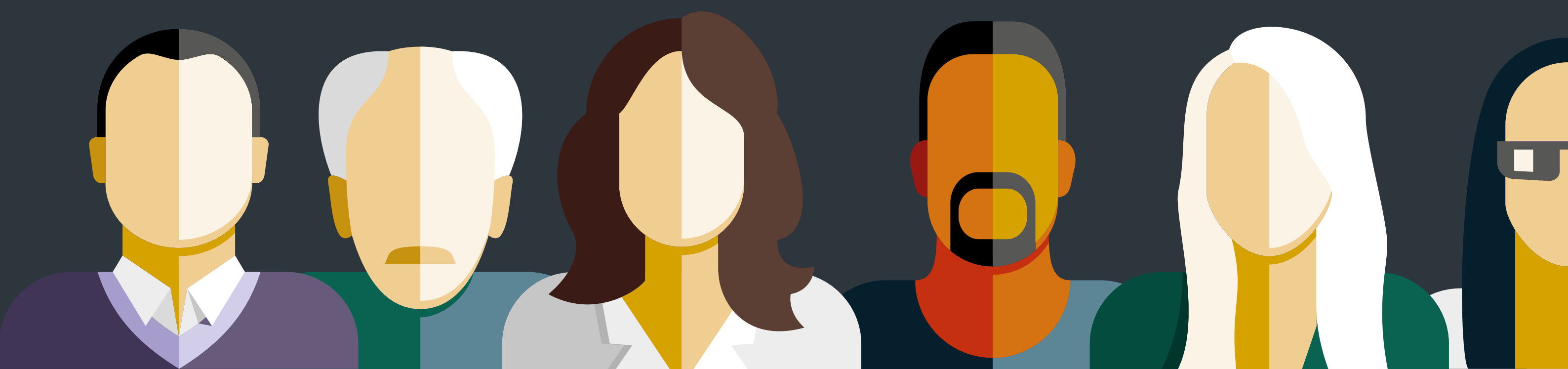
Today, more than one-quarter (26%) of people would urge startup entrepreneurs to seek the funding they need through crowdfunding. Almost 60% of millennials would suggest either crowdfunding or self-funding a startup compared with the 28% who would suggest approaching a bank.

It seems that most of the population sees crowdfunding as nothing less than a social, economic and personal finance game-changer. A huge three out of four people (75%) believe that crowdfunding has democratised the way people can invest in startups – and 68% believe that crowdfunding is transforming the financial industry.

Coming of age during the funding crisis, it's easy to see why the millennial generation is on board with the power of disruptive investment and funding alternatives. And for older generations that have experienced the way things once were, the enthusiasm for a more dynamic, democratic approach is a valuable accolade.

Spurred on by the high-profile success stories of businesses that produce everything from luxury perfume to craft beer, that enthusiasm is being constantly reinforced as the British investing public is increasingly getting behind the nation's homegrown startup businesses. Our survey found that no less than 43% of Brits are either already involved in a business startup or would like to be.

We are, it seems, on the threshold of a new way of consuming, working and investing – not just among pockets of ultra-engaged young adults, but as an entire nation.



73%
of people
believe crowdfunding
has democratised
the way people can
invest in startups

68%
of people
believe crowdfunding
is transforming the
finance industry

Base: UK (n=3,096)

Concluding remarks

There was once a time when the topic of investing and personal finance was taboo or associated with jargon-ridden conversations with men in expensive-looking suits.

But it's clear that with the advent of new technologies, normalising investing as a subject of conversation and big financial ambition across all generations, we've got all the right ingredients for a more vibrant and democratic investment culture. Even just the few already participating in this movement have proved to be a remarkable force, having dramatic effects both on their own wealth creation and the businesses they commit their cash to.

And cutting out the middleman not only strengthens the link between individuals, businesses and our communities, but also, crucially, fuels a renewed enthusiasm for conversation, for the pursuit of information and for knowledge as a tool of financial empowerment.

There is little doubt that the current evolution of the investment world is a liberating, levelling opportunity to deliver our wealth aspirations regardless of age, circumstance or previous investing experience. In other words, the chance to really go after the kind of lives to which we aspire.

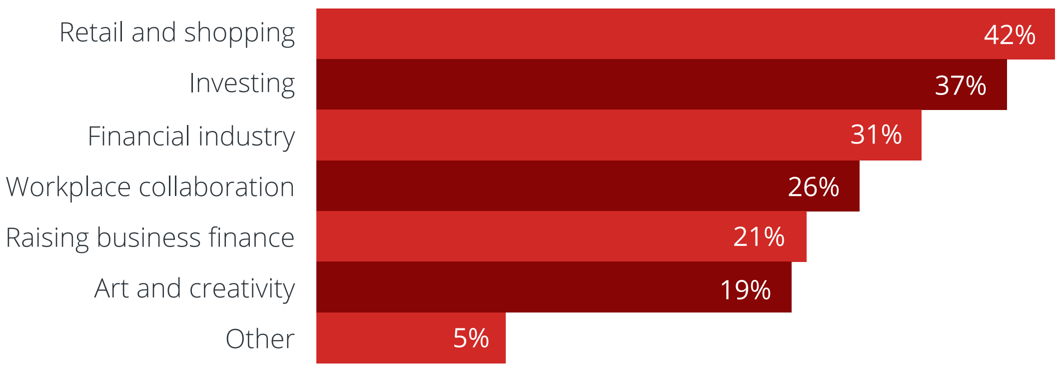
82%
of people
believe their money should work as hard as they do

76%
of people
would rather manage their own finances than pay fees to use a financial advisor

Base: UK (n=3,096)

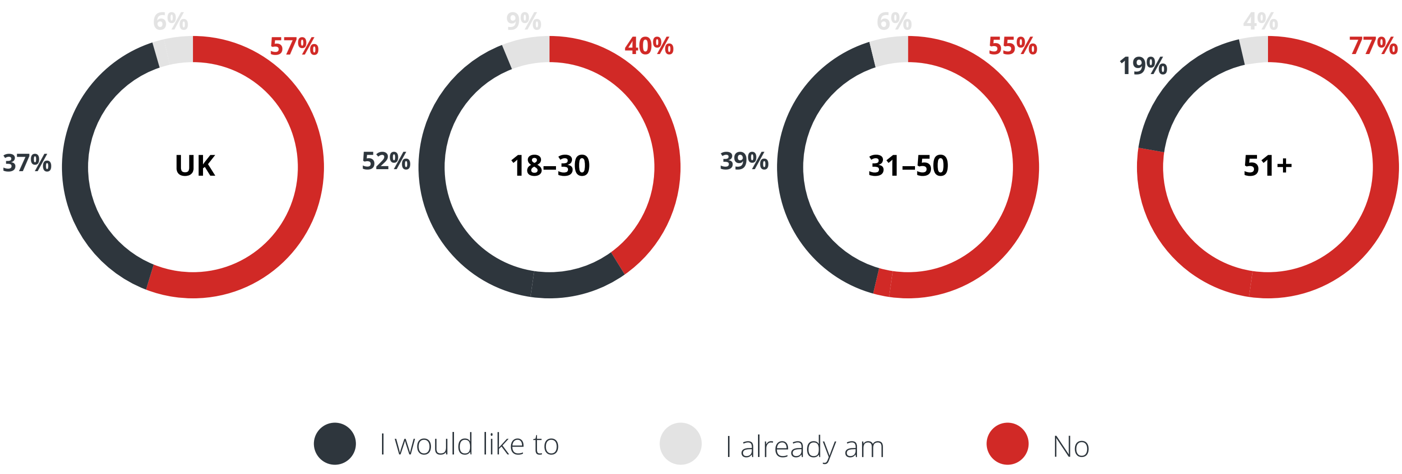
Transformed through technology

Q. Which of the following areas do you think have the potential to be positively transformed through technological advancements?



Aspirational young entrepreneurs

Q. Would you like to be an entrepreneur and involved in a business startup?



Base: UK (n=3,096)

Research methodology

Methodology

This research was conducted online by FTI Consulting's Strategy Consulting & Research team from 15th – 18th April 2016, involving n=3,096 UK adults reflective of the general population.

Further information on the results and methodology can be obtained by emailing dan.healy@fticonsulting.com

Please note that the standard convention for rounding has been applied and consequently some totals do not add up to 100%.

About FTI Consulting

FTI Consulting is a global business advisory firm that provides multidisciplinary solutions to complex challenges and opportunities. We are advisers to 64 of the world's 100 largest companies, 89 of the world's top law firms and nine of the world's top ten bank holding companies. We address challenges in areas such as reputation management, business strategy, litigation, M&A, policy and regulatory issues, and restructuring.

FTI Consulting's Strategy Consulting & Research practice regularly conducts primary and secondary market research, delivering in-depth market and stakeholder analyses to help clients solve complex business and communication requirements.

About SyndicateRoom

SyndicateRoom pioneered the investor-led model in crowdfunding, where members are able to invest alongside professionals and receive the same class of share and price per share. SyndicateRoom's vision is that on a £1-per-£1 basis, all investors (big or small) should make or lose the same amount of money, sharing the risk and reward fairly.

This applies to opportunities from early-stage private companies to premium segment listings on the main market of the London Stock Exchange.

SyndicateRoom was founded by Gonçalo de Vasconcelos and Tom Britton, and its own lead investors and advisers include UK Business Angel of the Year Peter Cowley and super-angel Jonathan Milner.

SyndicateRoom is authorised and regulated by the Financial Conduct Authority and is a member of the London Stock Exchange.

Contact details: team@syndicateroom.com

Invest alongside professionals

Same class of share and price per share

Investor-led model

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Intelligent Equity Crowdfunding

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