Media Release

Why are SMSF and retail investors missing out on ASX capital raisings during COVID-19?

27 November 2020: Retail and self-managed super funds often lose out when listed companies raise capital, and the regulatory framework overseeing equity capital needs to be reformed to remove this anomaly in the capital markets, says SMSF Association CEO John Maroney.

Maroney, who was participating in a virtual forum examining the issue of "Why are SMSF and other retail investors missing out on ASX capital raisings during COVID-19?" as part of the Association's SMSF Week, says this failing was evident in the aftermath of the Global Financial Crisis (GFC), but legislators and regulators chose not to act.

"Post the GFC, institutional investors were favoured at the expense of retail and SMSF investors, and history has repeated itself when companies looked to quickly raise capital as COVID-19 created economic uncertainty.

"It means retail and SMSF investors are disadvantaged twice. Not only are their shareholdings in these companies diluted, but they miss the opportunity to buy shares at prices that are often a hefty discount to the market price. Clearly, it's not a level playing field."

The playing field was tilted even more towards the institutional market this year when ASIC and ASX announced on 31 March temporary emergency capital raising measures to help companies raise urgently needed capital, especially by allowing the 15% placement capacity to be lifted to 25%, a decision that disadvantaged existing retail shareholders. This measure is due to expire on 30 November 2020.

The forum also heard from Brian Sheahan, Chairman of the *Stockbrokers and Financial Advisers Association* of Australia and Geoff Wilson AO, chairman and Chief Investment Officer of fund manager Wilson Asset Management. The Australian Wealth editor, James Kirby, moderated discussion at the forum.

Sheahan says: "What has to be remembered is that companies that go to the market for capital during a crisis are largely seeking to do one thing – recapitalise and strengthen their balance sheets. They are not usually looking to change their business model or make an acquisition. Shareholders are already invested in the business and should have the opportunity to participate. The risk to them is not an investing risk but missing out.

“What must be particularly galling for retail and SMSF investors is that once these companies have made the placements, then the market gives them a tick and the share prices start to appreciate.”

Wilson says: “The interests of retail and SMSF investors were again overlooked in the capital raisings sparked by this recession. Of the $30 billion raised during and following the GFC, it was mostly by placements to wholesale investors at an average 17 per cent discount to the market price. By our reckoning, the retail end of the market was short-changed by $6 billion. This was totally unacceptable and similar dilution and lack of retail access has been occurring this year.

“Achieving this reform should not be that difficult. New Zealand had the same problem as Australia post the GFC, but in 2014 addressed the issue to achieve an equitable outcome for all investors by removing the “sophisticated investor” tag and introducing a term sheet that was available to all shareholders.” He adds that Wilson Asset Management raised this issue with the Murray Inquiry in 2014 but the issue wasn’t taken up in the report.

Maroney says the SMSF Association and Stockbrokers and Financial Advisers Association argue that three initial steps could be taken to level the playing field. They are:

- Large ASX-listed companies should structure their offers to maximise access for all investors to a proportionate offer, including setting aside a certain allocation for retail-focused brokers to offer to retail and SMSF clients. If retail/SMSF shareholders own 30% of company, the raising should come as close as possible to represent 30% of the offering to them.
- If a company does not offer SMSF/retail investors the chance to participate then they need to publicly explain why.
- Companies should clearly disclose their post-allocation to all investors. Allowing investors to scrutinise these decisions will place more pressure on companies to act in the interests of all shareholders.

The SMSF Association also believes developing a single digital retail platform that builds on advancements in financial technology is the next crucial step. The purpose of this platform would be to create a more efficient mechanism for fund raising from SMSFs and other retail investors.

Maroney says: “Participants could register on the platform, helping facilitate an even quicker process for companies and brokers to access all shareholders. Not only would this be effective for capital raisings but may be useful for larger-scale infrastructure investments from which SMSFs are typically excluded.”

About the SMSF Association:

The SMSF Association is the peak professional body representing the self-managed superannuation fund (SMSF) sector which is comprised of 1.1 million SMSF members who have over $700 billion of funds under management and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisers and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF.

About the Stockbrokers and Financial Advisers Association:

Stockbrokers and Financial Advisers Association (SAFAA)is the professional body for the stockbroking and financial advice industry. Our members are Market Participants and Advisory firms which provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry.

Contact for interviews:

John Maroney
SMSF Association CEO
M: 0412 115 663
E: johnmaroney@smsfassociation.com

Judith Fox
Stockbrokers and Financial Advisers Association CEO
M: 0408 667 246
E: judith.fox@stockbrokers.org.au

Media

Nicholas Way
Shed Connect
M: 0434 729 577
E: nicholas.way@shedconnect.com