Foreign investors take an increased stake in UK plc

By Alison Owers, CEO of Orient Capital

Building the right shareholder base is vital to create the stability that a company needs to execute its strategy. A century ago, it was an easy job just to look on the shareholder register. Shareholders, mostly individual investors and predominantly UK residents, were easily identifiable.

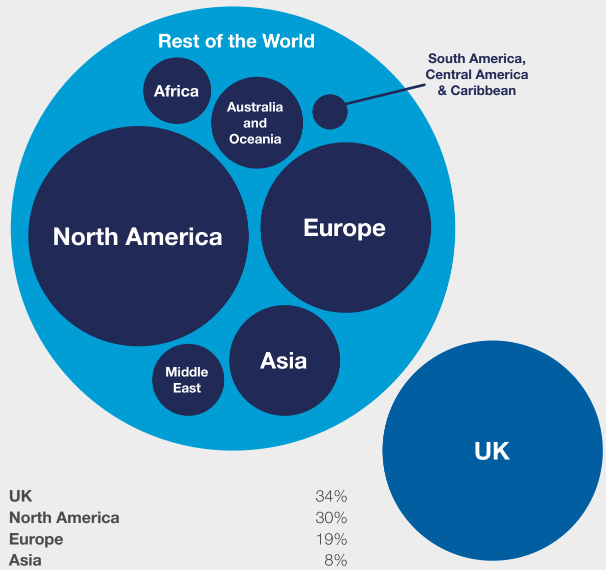
The rise of the fund management industry and the development of pension funds, life companies and retail investment funds, the dematerialisation of share certificates and the associated rise of anonymous nominee accounts, and the increasing internationalisation of the investment have all made it harder, and arguably even more important, to understand patterns of ownership.

At Orient Capital we are specialists in uncovering who really owns UK plc (as well as issuer registers across Australia, Asia and Europe), having worked on thousands of identifications across multiple companies for a number of decades.

For this article, our latest delve into the share registers of the UK's top 100 shows that Brexit and the big hit the UK has taken in the pandemic have not dented the ongoing purchase by foreign investors of stakes in British companies.

We identified shareholders in 107 countries ranging from banks to insurance companies and funds, charities, governments and private shareholders. By the beginning of this year, foreign investors had taken another two percent of UK plc since 2019, upping their stake to a record 66%. As recently as 2013, they owned just 58%.

Ownership of UK plc - 2021



UK	34%
North America	30%
Europe	19%
Asia	8%
Australia and Oceania	3%
Africa	2%
Middle East	2%
South America, Central America, & Caribbean	1%

US investors are easily the largest foreign holders of British shares, owning 28% of the London market in 2021. Almost three fifths of this (57%) is from US mutual funds. Along with their Canadian neighbours, US mutual funds now own £1 in every £6 of UK shares, up from just £1 in £9 in 2013, making them the largest shareholders in British companies, bigger even than British unit trusts which now own £1 in every £7. European unit trusts (or OEICs) are the next largest owners (£1 in £14), while German savers hold the largest share of these European trusts investing in the UK[1].

[1] Funds domiciled in Luxembourg and Ireland are larger, but their underlying owners are geographically dispersed

Across all forms of institutional and retail ownership, European investors have increased their holdings of UK shares the most in the last two years, and now claim a 19% stake (up from a post-referendum low of 15% in 2019). At the individual country level, it is often those with deep links to the UK stock market (commonly in the form of dual-listed companies) that have the largest holdings. The Netherlands, South Africa, Australia and Hong Kong all therefore feature strongly. Elsewhere, investors from China, especially public corporations, have notably taken more interest in British companies. They have more than doubled their holdings from 0.7% in 2019 to 1.7% in 2021.

Foreign investors are most interested in UK-listed mining, healthcare and consumer goods companies.

The share of the UK market owned by UK pension funds has fallen sharply since 2013, from 8% to just 2%. This is partly due to international diversification as UK pension assets have swapped domestic for overseas holdings, partly because liquidity rules have pushed pension funds into more fixed income assets and partly because of the increasing interest pension funds have shown in alternative assets like infrastructure whose long time-horizons match pension fund liabilities. Foreign pension funds have also become less enthusiastic owners of UK shares, though they have reduced holdings more slowly than their UK counterparts. They currently hold 7%, down from10% in 2013.

Internationalisation is a two-way street. Just as foreign investors have raised their share of UK assets, so UK investors have increasingly invested overseas. Fund flow data is a helpful lens through which to view this trend. Global funds network Calastone, which handles around over 70% of transactions in UK funds, shows that since the beginning of 2015 UK investors have added £49bn to UK-domiciled unit trusts investing in overseas equities. Over the same period, they have only invested £3.6bn into UK-focused equity funds. This trend has accelerated more recently. In the last twelve months (to end March 2021), Calastone's data shows that UK investors have withdrawn £295m from UK-focused equity funds while adding £18.2bn to equity funds investing internationally.

The UK's army of retail shareholders now owns just £1 in every £12 of the UK market, unchanged from two years ago.

The UK stock market, in common with leading stock markets around the world, is dominated by big multinationals whose operations span every continent and compete with global peers, wherever they happen to be listed. There is therefore no logic for investors only to consider companies that happen to be listed at home. What's more, stock markets everywhere tend to have a sector bias that make them obvious targets for investors interested in a particular industry exposure, or keen to balance out skewed sector weightings in their home market. The UK market has not been a stellar performer, but it still has value to foreign investors for the purposes of diversification. This is a healthy trend. As UK investors have looked further afield to find the best opportunities and to maximise the benefits of diversification, so foreign investors have come to our shores.

There is a natural end point to increasing internationalisation. British investors will always need to be more heavily weighted in domestic assets than the UK market's share of global stock market value because most British people will retire here meaning their future sterling liabilities should be matched to some extent by sterling savings. Many UK-listed companies operate mainly in their home market, so they make good candidates for this element of our savings and investments. Even so, at Orient Capital we judge that foreign investors will hold as much as 80% of the UK stock market by 2040, but it is unlikely to rise much further than that.

0345_052021