

ESG:

Active Ownership 2.0

October 2020

“The secret of change is to focus all your energy not on fighting the old but on building the new.” Socrates

At Tellworth, we are stewards of our clients’ capital. As well as aiming to generate attractive returns, we also believe that we have a responsibility to use the capital we manage to seek better responsible investment outcomes on behalf of our clients. Through proxy voting and ongoing engagement with the companies in which we invest, this is Active Ownership 2.0.

Tellworth has a long history of interaction with management teams and boards of portfolio companies, particularly in UK Small & Mid-Cap. We believe that our market credibility relies on a reputation for pragmatism, honesty and telling it like it is. We treat management teams with the same respect as our clients, colleagues, suppliers and counterparties. We are never afraid to raise issues with companies and work with them to seek positive outcomes. This constructive approach is nothing new to Tellworth. However, ‘2.0’ is about taking this practice to the next level and making it easier for clients to understand and follow our efforts in this area.

Proxy voting is one way that we can make our voices heard when it comes to influencing company behaviour, particularly from a governance perspective. Fortunately, our investment process seeks out high quality management teams, which tend to already operate with a sound corporate governance structure, such that we find ourselves voting alongside management on the vast majority of ballots. This is reflected in the following voting record for TM Tellworth UK Smaller Companies (“TUKSC”) from October 2019 to date.

TUKSC Voting v. Management	With	Against	Abstain
% Ballots	95%	3%	2%

Where we vote against management, we seek to combine this with an active approach to improvement by contacting the board to voice our concerns. A focus on outcomes is key here, as per the following examples:

Construction Materials Company

Issue – We highlighted our concerns around the Company Board composition.

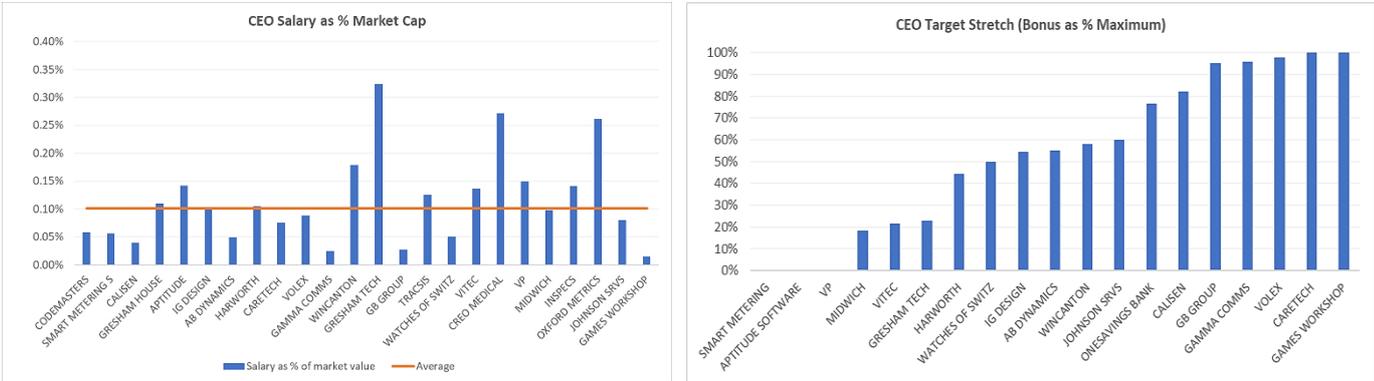
Outcome – Feedback acknowledged by the Company Board, who reiterated their intention to add another independent non-executive director in due course. An additional non-executive director was appointed in June 2020.

Media Equipment Manufacturer

Issue – The proposed executive long-term incentive plan targets were regarded by us as too soft. We engaged with the Head of the Remuneration Committee at Company Board level to provide feedback.

Outcome – An updated executive remuneration package was proposed by the Company Board, based on more stretching targets to trigger higher levels of incentive pay-out.

A '2.0' mindset to us also means going further, in terms of proactively assessing the strength of companies from a governance perspective and then engaging with them to improve shareholder outcomes. As an example of this, we have recently reviewed the remuneration approaches of companies held in TM Tellworth UK Smaller Companies. Part of our findings are highlighted by the charts, below.



Remuneration data as of FY19/20 annual reports. Market cap as of 22/10/2020, from Bloomberg

Careful interpretation of this data is key, which is considered in context of our knowledge of the underlying businesses. Outliers to the upside are notable but not necessarily unjustified – we are supportive of full pay-out of management bonuses, for instance, where shareholder value creation has been exceptional. However, conducting our own benchmarking across holdings helps us calibrate our expectations which, in some cases, prompts conversations with boards where we think they should be pushing their management teams harder.

Using these approaches in combination with investment experience and long-term company relationships, we see active ownership as a powerful tool that we can use on behalf of our clients, as part of our broader approach to responsible investment.

James Gerlis is Head of Research & Responsible Investment at Tellworth. His role involves finding and researching stock-specific investment opportunities, supporting in the management of portfolios and furthering Tellworth’s responsible investing agenda.

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Tellworth’s ESG approach is relevant to the Funds managed jointly by Paul Marriage and John Warren, detailed as follows. BennBridge was the appointed investment manager to the Schroders’ SARFCO UK Dynamic Absolute Return Fund and Schroders’ SAS UK Dynamic Absolute Return Fund on 2 October 2017. As of 14 November 2018, the SAS UK Dynamic Absolute Return Fund (the “Contributing Fund”) contributed all of its assets and liabilities in kind to Schroder GAIA UK Dynamic Absolute Return Fund (the “Receiving Fund”). Shareholders in the Contributing Fund received the equivalent value of shares in the Receiving Fund in place of their current shares in the Contributing Fund. The Contributing Fund will close following the Contribution. The investment manager of the TM Tellworth UK Select Fund is BennBridge Ltd and the authorised corporate director is Thesis Unit Trust Management. The Fund is authorised in the United Kingdom and regulated by the Financial Conduct Authority. Please see the prospectus and key investor information document for full details.

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Failures at service providers could lead to disruptions of fund operations or losses.