Teviot Partners - Investment Process

An investment process is critical to every investment management organisation. It should capture the investment philosophy, the analytical approach and the structures in place to ensure consistency and risk control.

Investors gain an insight into their investment manager and should be able to build a picture of what to expect in terms of performance and the companies within the portfolio. No investment manager should expect to outperform over every single period. The various styles and factors affecting markets mean relative performance will be susceptible to headwinds and tailwinds. The key is building a portfolio that delivers consistent and explainable outcomes.

From the investment manager's perspective, process is equally important because it details a professional standard to the work that is done with respect to investing. It sets boundaries and it controls risk. There is always a balance to be struck with process. When you impose too much process, decision making becomes too slow, opportunities are ignored and accountability for performance is blurred. Impose too little process and you are likely to generate more unpredictable outcomes.

Teviot Partners is a newly formed investment management business. Our process is defined with the benefit of many years of experience. Andy Bamford worked at Aberforth Partners for 15 years where he was a partner. The firm had a long and well established investment process. Barney Randle worked on the sell-side and has the benefit of observing the processes deployed by the leading managers across the market. Teviot's process takes the best attributes from our collective experience. Critically, we benefit from being a small business so decision making is highly efficient and we would also argue that as a young business we are not saddled with legacy procedures. While an investment philosophy should remain constant, an investment process should evolve to maximise its effectiveness.

Investment Philosophy

Teviot Partners is a value investor. It makes investments in companies where the fundamental attributes are not being properly recognised in the current valuation. The Partners' mindset is to strive to generate positive absolute, as well as relative returns over the long term. We are very clear that value is not the same as cheapness. Companies are often "cheap for a reason" and it requires significant care and due diligence to decipher the real value. We embrace this challenge but we also ascribe value to the sustainability of returns, the industry fundamentals and the merits of a particular business franchise.

We will always remain open-minded as to where value resides in its investment universe. No sectors or companies are regarded as off limits. At our core is a contrarian mindset that engages with companies where the broader market has disengaged for a particular reason. We see opportunities arising in three broad categories:

(a) The market fails to identify the qualities of a business, thus affording an opportunity to benefit from growth of earnings and re-rating. After a prolonged bull market, with growth investors to the fore these situations are few and far between in the more liquid end of the

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market. Opportunities are more much prevalent among the smaller, more poorly researched constituents where other investors have disengaged due to liquidity. Teviot's smaller unit size of investment means it can build meaningful portfolio positions among the smaller companies.

(b) The market values a mature or challenged business too harshly leading to a turnaround and re-rating opportunity. This can happen at all market capitalisations. Often there will be a period when earnings are on a negative trajectory and we look for catalysts to reverse this decline. The key is to invest at the point of maximum fear/capitulation but importantly get out when sentiment improves. Our advantage is that with a relatively small unit size of investment, we have the opportunity to build and exit our positions closer to the inflexion points.

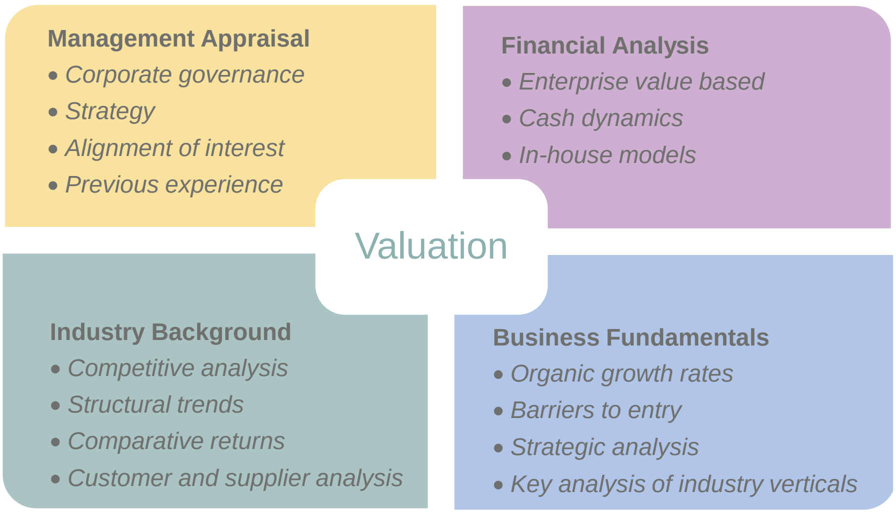
(c) An underperforming business elects to change its structure or management in order to revive fortunes. Teviot will not own stakes sufficient to force change on companies and has no aspiration to be an activist investor. However, the Partners have significant experience of how activist shareholders behave and when they tend to be successful. When catalysts for change emerge, we can judge their chances of success.

Investment Analysis

Teviot has a broad investment universe to keep under coverage. With a notional minimum market capitalisation of £20m, the universe includes around 800 companies. This means that Teviot will invest in around 1 in 12 companies in its universe and can run with active share in excess of 90%; truly active investment management.

The Partners divide the universe equally between ourselves. Many firms will boast screening mechanisms that sift for a particular set of characteristics; value investors will often screen for cheapness. However, this encapsulates our distrust of mechanistic screening. Real value presents in many different forms and is often obscured from general view. This is why we look at each company on its own merits. We grade the companies to establish a list of investment candidates, a Watchlist and companies of less interest. The portfolio comprises of around 70 stocks and the Watchlist is around 120 companies where we are building detailed knowledge.

The graphic below describes the different components to our approach:



- Valuation is critical in quantifying the opportunity.
- A bottom-up process producing self-generated investment ideas.

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In itself, we would be surprised if this approach differed markedly from the majority of our peers. However, there are three areas where we believe we differentiate ourselves from many of the competing funds:

-When we meet companies, we are seriously prepared. If we can identify the gaps in our knowledge and identify the key issues then we maximise this critical aspect of our process. Companies are more willing to help those investors that take the trouble and corporate access is readily available.

-We focus carefully on the valuation. We produce our own financial models to instantly access valuations and stress test our assumptions. What is reflected in the price and what is the potential? This provides a key trigger of when to buy and sell but helps in the wider process of capital allocation.

-We do not rely on broker generated research. There are abundant sources of information on the web. The skill is thinking laterally to identify the information that will provide us with the novel insight into the company and its markets.

The process is fundamentally based and driven from the bottom up. The portfolio represents an amalgamation of the best ideas available at any point. However, to support this we do look at an economic overlay to ensure that the portfolio appropriately reflects the risks and opportunities presented at the macro level.

Structures and risk control

In a formal sense, the key forum for debate is the weekly Investment Meeting. This ensures we present all new investment ideas and challenge the rationale for investment. It reviews all results and significant announcements from investee companies. The meeting will also review the macroeconomic environment and identify any emerging themes. On a monthly basis we review performance at the stock, sector and manager level. In reality we are a close-knit team sitting in close proximity to each other so these issues are typically dealt with on a real-time basis.

From the perspective of risk control, Teviot is managing a single client. The single focus is on making sure it delivers the expected outcome to investors. Teviot tries to consider risk in a forward looking way and anticipate the factors that could affect the portfolio. Great emphasis is placed on understanding the investee companies to fully appreciate the underlying risks. Teviot monitors portfolio risks in terms of underlying leverage, pension, geographic and industry risk. Consideration will be given to the impact of different macroeconomic scenarios. As with the investment analysis, there are no short cuts. Teviot is cognisant of volatility data but will not rely on it predicting how the portfolio will perform.

Managing an open ended investment vehicle ensures that the Partners are mindful of liquidity risk. We monitor the liquidity in underlying holdings to ensure that we can respond to redemptions in an efficient manner. Our ACD, Valu-trac, provides additional checks to ensure we are running in compliance with the parameters laid out in the Prospectus.

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