Stewardship Code 2020

This report details Teviot's approach to stewardship and governance in order to explain how Teviot embraces the principles of the UK Stewardship Code. The report has been approved for adoption by the Partners who comprise the senior leadership team of the Firm. If you would like any further information in relation to Teviot's approach, then you should contact the Partner with overall responsibility for the matters: Barney Randle at enquiries@teviotpartners.com or call 0131 510 7280.

Principle 1	Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

Teviot Partners was formed in 2016 and launched the VT Teviot UK Smaller Companies Fund in August 2017. Industry trends were leading investment managers to seek scale in order to offset pressures from falling fees, rising costs and an increased regulatory burden. However, Teviot identified that the pursuit of scale can have a detrimental impact on returns due to the relative loss of liquidity. By remaining small and retaining a "liquidity advantage", Teviot believed it could retain greater flexibility to allocate capital more quickly and with less frictional cost, allowing it to capitalise on the most attractive opportunities in its investment universe. In more illiquid assets especially, Teviot's larger peers struggle with the liquidity and can struggle to build meaningful positions in smaller constituents. A core contention was that being small, with better relative liquidity, also served to increase the size of our addressable market and provided greater choice.

Teviot remains wholly owned by partners working at the firm. Teviot's mission statement remains to deliver superior long-term investment returns in an illiquid asset class. The target investor base, detailed in Principle 6, is institutional or wholesale investors that want to give their own clients exposure to small UK quoted companies.

Teviot's model is to be an investment-led asset manager, designed to maximise clients' investment outcomes. Teviot is focused on a single asset class where it has strong domain expertise, and it has a clear investment philosophy about the impact of liquidity on investor returns. Teviot values liquidity highly and is committed to managing capacity responsibly. Teviot focuses on the relatively illiquid asset class of small UK quoted companies. Pricing and valuations are relatively inefficient therefore through fundamental analysis and strong domain knowledge, and relatively strong liquidity, Teviot is of the opinion that the asset class is well disposed to active management. Teviot currently manages a single strategy, whose investment universe is the Numis Smaller Companies Index including AIM (excluding investment companies) [NSCI (XIC)], which is constituted by the bottom ten percent of the UK equity market by market capitalisation.

Teviot manages its clients' portfolios with a value investment philosophy. Teviot considers valuation to be central in any investment decision, and it considers that an assessment of investment prospects to be key in determining the appropriate valuation. Teviot readily engages with the Boards of investee companies with the aim of improving governance and investor returns. All matters that can affect the valuation of an investee company are relevant to Teviot's investment process and can be the subject of engagement with the investee company's directors – future prospects, environmental, social and governance (ESG) issues. These issues are integrated into Teviot's investment process. An investee company's approach to governance is crucial as to how its environmental and social policies are designed and implemented. Teviot always considers ESG matters in selecting investments. There is a significant risk that investee companies that choose to ignore ESG considerations will result in deteriorating investment returns. Teviot is committed to engagement with companies that face ESG challenges, and to engage with Boards that are seeking to address them.

Teviot is a limited liability partnership, wholly owned by its partners. Client outcomes are primary and to that end Teviot is committed to investment expertise, and first-class service and transparency with clients. A partnership structure allows for succession and Teviot is committed to ensure that client relationships exist at a firm-wide level, allowing them to endure and extend beyond any individuals.

Activity

Teviot's approach to investment is fully integrated with that of effective stewardship. Investment managers are directly responsible for an assessment of valuation, prospects, ESG and stewardship at individual stock level. Every investee company in the client portfolios is allocated to an investment manager who performs the investment analysis, meets with investee management, deals, engages and votes. Teviot delivers a consistent and coherent message on stewardship to the Boards of investee companies. Control and oversight is provided by additional investment managers – all investment decisions are made collectively so individual investment managers always receive assistance, scrutiny, and are challenged. Investment managers also adhere to Teviot's overall approach to stewardship, as described herein.

Teviot's investment universe encompasses many companies that are poorly researched, often leading to mis-priced investment opportunities. Board engagement opportunities are therefore greater (regular direct board contact) and with Teviot's approach to domain expertise (internal fundamental appraisal of companies to originate the best investment ideas) this ensures that Teviot can engage effectively on all investment considerations. Deep knowledge of the individual companies leads to a sounder understanding of both the risks and opportunities enabling Teviot to engage with the benefit of knowledge that has a greater chance of resonating with companies.

Outcome

Teviot and its investment managers have extensive experience of investing in and advising public companies. Individual investee company directors can have a great effect on the fortunes of a small company, both positively and negatively. Effective stewardship is imbued in Teviot's investment process and culture. See responses to Principles 9, 10, 11 and 12. Stewardship is further effected by Teviot's clients themselves, who are, in aggregate, significant investors within Teviot's investment universe of small UK quoted companies, often holding significant stakes in investee companies. Despite Teviot's relatively small size in isolation, Governance considerations and engagement are of paramount importance in forming investment decisions. Teviot holds regular interactions with the directors of investee companies, and engages with all voting issues arising from general meetings and shareholder meetings. Teviot votes on every company meeting. Influencing investee companies relies on a deep understanding of the issues and the quality of the insight. Scrutiny of investee company chairpersons is undertaken, given its importance within the UK Corporate Governance Code 2018.

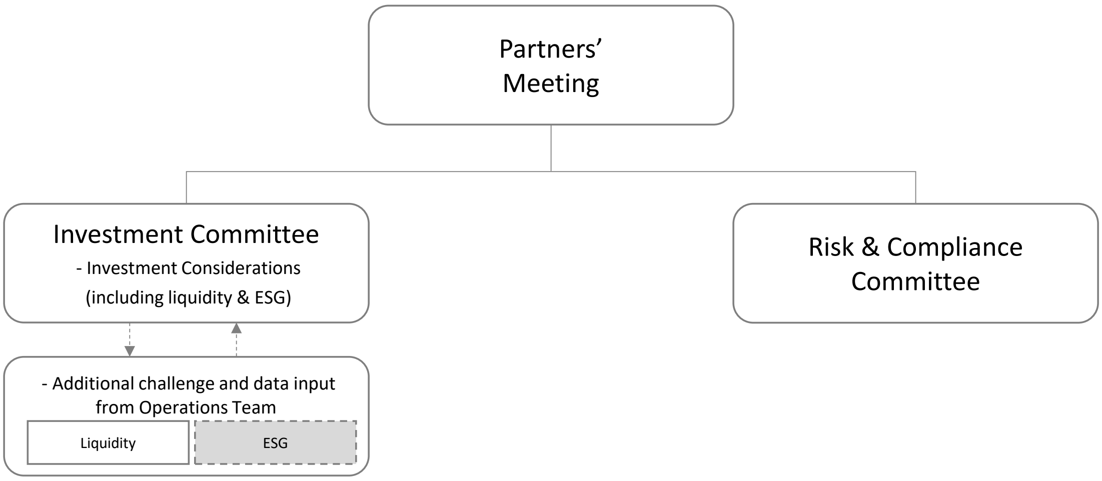
From inception (29th August 2017) to 31st December 2020, the VT Teviot UK Smaller Companies Fund has generated a total return of +54.5%* compared to the NSC + AIM (XIC) return of +14.8%*. A large part of the superior return was attributable to the liquidity advantage afforded to this client by virtue of being small in aggregate size.

*Source: Teviot Partners, Numis

Principle 2 | Signatories' governance, resource and incentives support stewardship.

The key functions of Teviot Partners are summarised in the organisational chart below:

Teviot Partners LLP Governance



Activity

Stewardship has been at the heart of Teviot since inception. The partnership model itself places the client at the centre of Teviot's business, as described in Principle 1. Products themselves are designed with client interests in mind, and product capacity is determined on the same basis. Partner level responsibility is dedicated for all stewardship matters. Stewardship decisions are made by the investment managers, who are responsible for possessing a deep understanding of the companies they invest in and close contact with the Boards of investee companies for the purpose of stewardship engagement. Teviot's investment process ensures an integrated approach to stewardship. Analysis, Research, Engagement and Stewardship decisions are taken by the investment manager responsible for the investment in general. All investment managers are highly experienced and possess deep domain knowledge of the investment universe covered. Further information and training is undertaken and third-party data sources are continually evaluated for their effectiveness. Teviot engages research services from seven stockbrokers servicing the UK smaller companies sector, and the research is evolving to incorporate ESG considerations. As at the date of this document there is limited comprehensive third-party data that provides meaningful insight on ESG benchmarking of Teviot's investment universe. Teviot continues to independently source and build data sets with this in mind.

Stewardship is inextricably linked to performance and is most likely to become increasingly so. Teviot and all of its partners, investment managers, and all staff are rewarded on the basis of the firm's overall performance.

The Investment Meeting convenes weekly to consider all aspects of investment, Stewardship and ESG issues. This involves the monitoring of existing investments and the consideration of new purchases or divestments. Investment managers each carry responsibility for engagement and analysis of their investments, which is subject to peer review and can be escalated so that more managers participate in meetings and engagements with companies where it is additive to the process. Voting is an agenda item at every Investment Meeting where we discuss and record any contentious issues or negative voting intention. The investment managers all have extensive experience in analysing and engaging with listed companies, and the Operations Team provide additional challenge on ESG with data sets that are increasingly being sourced.

Members of both the Investment and Operations teams have attended seminars and industry discussions on ESG matters provided by brokers and third-party consultants. Information is fed back to the wider team. Teviot is committed to continually improving the volume and quality of this information.

The Operations team responsible for providing data on liquidity and ESG matters is headed up by the Head of Operations. As at the date of writing, Teviot has recruited an additional Senior Investment Manager / Partner Designate who is ultimately responsible for all ESG matters.

Teviot is an equal opportunities employer and the team comprises an equal mix of male and female employees. Half of all employees walk or cycle to work, with the remainder taking public transport; and Teviot is committed to incentivise further progress in this regard.

Outcome

Teviot is a young business and its processes reflect the reality of today. Stewardship has never been more pertinent and it has evolved to the point where matters of stewardship and ESG have a direct bearing on the prospects for, and performance of, investee companies. Performance is inextricably linked to stewardship and ESG matters. Teviot's partners are directly responsible for implementing the stewardship policy. As a young business, Teviot is constantly striving for better information and better data, to enable Teviot to thrive in tomorrow's world. Investment considerations and debates increasingly reference ESG issues. Data is sourced and collected for the purposes of tracking, benchmarking and reporting. Teviot's niche investment universe continues to receive less priority and attention from third-party data suppliers, however Teviot continues to evaluate the effectiveness of the data sets provided. Teviot is building its own internal process to identify, analyse and benchmark key ESG disclosures; and to track how investee companies' practices have changed over time. Teviot continues to record engagement with investee companies and votes on all shareholder meetings.

Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

Teviot is wholly owned by its partners and is not subject to a corporate overhead that it needs to feed, or the commercial necessity to grow profits and accumulate assets which might prejudice the ultimate returns Teviot can generate for clients. From inception, Teviot has been open and transparent with all clients about managing a moderate and responsible quantum of assets under management, thereby affording Teviot a relative liquidity advantage over many of its peers. The partners believe that liquidity is the most significant factor in determining investment returns in an illiquid asset class like quoted UK smaller companies. Many of the traditional conflicts of interest faced by larger, more diverse investment management firms do not apply to the same degree. Teviot's Conflicts of Interest Policy provides for the identification and management of conflicts of interest, with the aim of ensuring that clients are not adversely affected and are all treated fairly. Any conflict of interest is considered by the Risk & Compliance Committee, the partners and Teviot's Compliance Officer; and the conflict is managed or disclosed to the clients. A copy of Teviot's conflicts of interest policy is available here. The most relevant conflicts that can arise from a Stewardship perspective are (a) between Teviot's interests and those of its clients, (b) among its clients or (c) between the interests of the firm's partners or employees and its clients.

Activity

Teviot has identified and managed conflicts of interest relevant to stewardship as below:

- Teviot only ever deals as agent on behalf of its clients and never as principal on its own account.
- Teviot currently acts as delegated investment manager to two clients who are both Authorised Corporate Directors (ACDs), who conduct regular audits on Teviot's systems and controls, and daily monitoring and valuation of all dealing activity. Both portfolios are managed to an identical strategy; and Teviot has a detailed Allocation Policy to ensure clients are treated fairly at all times;
- Teviot has designed it's own, bespoke Order Management System ('OMS') which is designed to deliver fair allocation of aggregated orders between multiple clients. This is subject to regular compliance monitoring. Controls have been put in place to ensure that mandate restrictions directed by clients are known by investment managers and are built in to the OMS, with automated notifications which flag any potential breaches.
- Teviot encourages long-term savings and investment by partners and employees. Personal dealings in investments is subject to compliance with the personal dealing policy and prior approval by a partner.
- Teviot's LLP agreement specifically requires that partners are required to dedicate all of their time and efforts to Teviot Partners. Partners are not permitted to take Board positions on investee companies.

Outcome

The Conflicts of Interest Register is kept under regular review and is available for inspection by all clients and investors on request. Examples of the management of conflicts in practice are noted below.

Example 1
Teviot Client Potential Conflict
In November 2019, Teviot was approached by a new client to manage a portion of its fund under a segregated mandate to deliver an effective mirror portfolio of Teviot's existing client. Teviot had to ensure that both clients were treated fairly and that neither was prejudiced in terms of dealing allocation. Teviot also needed to assess what level of additional resource it might need to deliver this service effectively. Teviot engaged in a scoping exercise to assess the impact that a second client would have on the business and consulted at length with both clients to minimise any impact.

Example 2
New Clients and Investors
In building a relationship with any client or underlying investor, Teviot goes to great length to ensure that its corporate philosophy concerning liquidity and capacity is fully understood. Teviot communicates very clearly the need to manage inflows slowly and responsibly and regularly seeks to deter clients' desire to commit capital to Teviot quickly. Whilst this results in lost revenue for Teviot, it is in the best long-term interests of the underlying investors and Teviot's clients. Teviot has behaved in this manner consistently since inception.

Example 3
Client desire to incorporate Principles for Responsible Investment
Teviot also seeks to understand clients' stewardship and ESG principles and requests. During 2020 Teviot engaged with one client on its specific ESG requirements, and took action as a direct result, becoming a signatory to the UN PRI. This was greatly appreciated by the client.

Principle 4 — Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Context

Market-wide and systemic risks are constantly assessed by Teviot's investment managers in the regular performance of their daily processes and investment considerations. They are continually considered in the assessment of the valuation of investee companies and are identified by the investment managers in the course of their analysis.

These risks are further considered at a Firm level at the Partners Meeting and in the Risk & Compliance Committee.

Activity

Investment managers continually address economic and market-wide issues that may impact the portfolio. Fundamental research and deep investee company domain knowledge is a fundamental characteristic of Teviot's investment process. Teviot's investment approach incorporates a top-down macro-economic overview. Systemic risks and their impact on companies or markets are discussed at investment meetings, and valuations may be adjusted accordingly which will be reflected in portfolio holdings. Teviot's relative liquidity advantage greatly enables the ability to actually respond to macro changes and market-wide risks, and actually reflect the changing landscape through portfolio re-positioning.

If a market-wide issue has relevance to Teviot itself, it is discussed by the partners and actions are taken as appropriate. Partners and employees participate in industry forums, courses and receive specific training to help identify and manage risks, including systemic risks. Information sources include; SMCR courses, The Investment Association, UN PRI, the Financial Reporting Council, the Financial Conduct Authority and the Bank of England.

Example 1
Liquidity risk
Liquidity risk is arguably the single greatest systemic risk for well-functioning financial systems, as was aptly demonstrated during the Global Financial Crisis (GFC). Both before and after the GFC there have been liquidity events which have threatened the financial system on a less global level. The collapse of the Woodford Equity Income Fund (WEIF) in 2019 was an example and Teviot responded accordingly. Teviot identified that the holdings in the WEIF would very quickly start to price in greater liquidity risk and Teviot swiftly analysed any common holdings and took mitigating action where appropriate. There was minimal overlap. However, Teviot also identified that a further consequence of the failure of WEIF would result in other funds being challenged by similar liquidity considerations and this would likely result in greater liquidity risk being priced-in to the more illiquid portion of Teviot's investment universe. As a result, Teviot consciously sought to reduce its exposure to the more illiquid end of its investment universe, reducing portfolio exposure in market capitalisations under £100 million from 25% of the portfolio to 12% by calendar end 2019. Teviot continually reviews data on the liquidity profile of the portfolios to ensure that investors are able to access their capital in a timely manner. Teviot is open with clients to share the independent data which demonstrates how investment performance impairs, as assets under management scale; and is committed to cap the size of the strategy at a level which protects the long term returns of investors.

Example 2
Brexit impact
The UK's exit from the EU (Brexit) was a market-wide risk for the UK economy and its financial markets. Teviot conducted a process to ascertain the impact of Brexit on the Firm's activities, regardless of the type of deal struck. This involves a broad ranging review covering underlying investments, dealing in investments, client relationships, operational risks and data management. Many small UK quoted companies are reliant on the domestic economy and Teviot engaged heavily with investee companies to canvass their views on the risks and opportunities of Brexit and provided insight in return which helped those companies assess the potential impact and their preparations.

Example 3
Covid 19
The Covid 19 pandemic impacted many businesses and resulted in a reduction in demand which threatened their short-term liquidity requirements. Typically, investee companies responded by cancelling shareholder dividends and in many instances by issuing equity as an additional capital buffer. Teviot engaged with the Boards of many companies to ensure that the need for dividend restoration was fully appreciated, and a path to dividend restoration was often a pre-requisite for Teviot's support in raising additional equity capital. Dividend considerations are a crucial part of a proper and balanced governance structure; they are key for companies to attract capital and thus help deliver economic resilience; and the cancellation of them directly impacts the ultimate beneficiaries (pensioners, charities, private individual savings).

Example 4
Q4 2019
In October 2019 global financial markets became concerned about global growth projections and heightened political tensions driven by US tariffs imposed on Chinese exports. Teviot's investment managers responded quickly by increasing the portfolio's weighting to defensive orientated investments and reducing exposure to cyclically exposed investments. Teviot was able to do this in very short order because of its excellent liquidity by virtue of managing a relatively small quantum of assets. This activity helped enable Teviot funds to outperform their benchmark index for Q4 2019.

Outcome

Teviot's integrated approach to investment ensures that investment managers are engaged in assessing market-wide risks, and the impact they may have on the valuations of investee companies. These risks are considered throughout the investment process and have led to changes to portfolio holdings. Teviot's strong liquidity is a significant enabler in actually being able to action these investment decisions.

Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

As a relatively young business, Teviot has less entrenched legacy processes that are no longer fit for purpose. In addition, the business continues to grow and expand, adding resource and fresh perspectives. Stewardship policies are continually subject to internal review and improvement. Implementation is fairly straightforward given the simple organisational structure and the overall size of the personnel resource. Process assurance is further subject to consideration by Teviot's ACD clients.

Benchmarking remains an important tool for assessing appropriateness and effectiveness. Partners and investment managers attend relevant industry forums and presentations and report their learnings to the Partners Meeting for consideration. Industry bodies, broker presentation forums; and as a signatory to the UN PRI, partners attend presentations and digest relevant industry reports.

Outcome

The Stewardship policy was amended in 2020 to reflect changing industry guidance and the UK Stewardship Code 2020. Teviot's stewardship process has evolved to reflect deeper and wider partner and employee consideration and contribution. Responsibility was previously held by one partner but is now held by the Partners Meeting in general. Data sets are in the process of being built to record and measure stewardship activities, which will lead to more extensive external reporting.

Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

Effective engagement with the Boards of investee companies can improve investment returns for clients. ESG matters regularly impact upon the investment case for investee companies, and Teviot's investment managers engage with Boards to understand how these issues may be addressed, and are best placed to perform this activity given that they have a deep understanding of the investment merits of investee companies and already perform detailed engagement in the normal course of selecting appropriate investments. Teviot currently manages assets on behalf of two clients. As at 31 December 2020, these two open-ended vehicles had assets under management of £92m and £66m, both managed with an identical portfolio strategy. Teviot considers that it has ample capacity headroom to manage assets under its current single product strategy. Teviot invests with a 3-5 year investment horizon, which it considers sufficiently long term to induce the appropriate investment considerations and assessment of investee company prospects, whilst recognising clients' needs to demonstrate outperformance against the asset class and benchmark index. Teviot Partners has actively sought an investor base which shares a long-term time horizon and appreciates the case for backing smaller funds in an illiquid asset class. Accordingly, the vast majority of Teviot's underlying investors are institutional and Uk-based. This means the flows in and out of the Fund have been low and therefore protective of existing investors.

Activity

Both funds are overseen by an ACD. The ACDs scrutinise Teviot's approach, its investment performance and its stewardship activities. Teviot's investment managers also meet the funds' principal underlying investors at least twice a year to explain performance against investment objectives and to discuss other relevant considerations for the investment strategy, including investee company engagement and stewardship. Underlying investors often provide feedback and requirements, which are processed, recorded and addressed where required. Underlying investors are also updated monthly through a fund Factsheet distribution, and through annual and interim reports. Teviot prizes highly the effective and continual communication with its underlying investors and encourages the advance notification of any investment activity. This enables Teviot, as manager of a collective investment fund, to have optimal foresight of investor intentions and so enables Teviot to manage liquidity responsibility and in a manner able to optimise the performance for all underlying investors. In practice, Teviot engages with many of the underlying investors in the funds on a more frequent basis, and often responds to requests for additional information. Investment management agreements are in place with both ACD clients.

Outcome

Teviot was founded with clients' investment demands in mind and the core part of the investment proposition centres around Teviot's strong liquidity. The needs of clients and their beneficiaries is catered for by strong performance and regular direct engagement and reporting to the underlying investors in the funds. A collective investment fund will naturally need to serve multiple underlying investors and they may have differing views on investment strategy and stewardship. However, the ACD clients both scrutinise Teviot's stewardship policy and monitor compliance with it.

Example 1
Dilution Levy
Prior to launching the VT Teviot Fund, Teviot sought the opinion and advice of the ACD of the Fund and several potential underlying investors. It was agreed that the best mechanism to protect long term investor interests was to apply a dilution levy to ensure that long-term investors would not have to subsidise the dealing costs of short- term investors. This has been applied successfully since inception.

Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

Teviot's investment process involves fundamental analysis of investee companies, and it considers all issues that the investment managers judge to be relevant to an investee company's valuation, and this involves a detailed consideration of the investee company's ESG footprint and journey. ESG issues and opportunities are inextricably linked to the long-term prospects for investee companies and their valuations. Consideration of ESG issues, and the responsible management of them, is therefore integrated into Teviot's investment process. An investee company's system of governance is crucial to how its environmental and social policies are designed and implemented. Boards should, and do, describe their approach to managing these issues. Teviot does not directly exclude investments from portfolios on the basis of ESG matters alone, but it forms a crucial part of the investment consideration.

Climate change is a systemic risk to economies and financial markets. Teviot's analysis of companies and industries includes an assessment of climate change implications, and specifically how an investee company's strategy and operations may impact climate change, or stand to be affected by climate change. Teviot also evaluates plans to mitigate these effects. Investee companies that can benefit from climate change, or can invest to diminish climate change, are likely to see improved recognition by investors and rising valuations attributed to them. By the same token, companies that fail to address climate change risks are likely to see the valuations accorded to them by investors diminish. An assessment of the impact of climate change on an investee company is an integral part of the analysis performed by Teviot's investment managers, and investee company valuation targets reflect this.

The health of any business, and its future prospects, does partly depend on the good stewardship of its employees, customers, and suppliers. Many businesses are reliant on the retention and motivation of employees, the promotion of a responsible image to their customers and building a resilient and sustainable supply chain. Teviot's investment process tries to unearth how investee companies treat all their stakeholders; and it tries to assess the culture, including consideration of diversity and inclusion and the ability to attract high calibre resource. Both ultimately affect valuation and are therefore integral.

Activity

As a small, focused business, Teviot is able to demonstrate effective and timely integration. The Operations Team collaborates daily with the Investment Team. Integrating stewardship and investment is straightforward. A small business, a simplified ownership structure, and strong client engagement, all result in quick and effective integration of new information and requirements. Investment managers are typically also partners of the firm, so the importance placed by Teviot on ESG issues flows directly into investment considerations, company analysis, engagement and portfolio activity. Teviot's investment managers have individual investment responsibility for each investee company, and there is the option to seek a second opinion (from another investment manager) where required. All investment decisions are undertaken jointly by the investment management team. Monitoring is effected by way of data, which is sourced in-house and is being developed further to enhance reporting going forward.

Outcome

Teviot engages frequently with investee companies, typically at least every three months. Teviot further challenges its investment managers to have greater depth of knowledge of their investee companies and requires them to become 'domain experts'. Consequently, Teviot prides itself on its in-depth engagement with investee company Boards, and continues to vote on all relevant shareholder meeting resolutions. Stewardship is integral to the investment process and it affects all investment decision making.

Example 1
Central Asia Metals
This is a mining company with operations in Kazakhstan and Macedonia. These are resource rich regions but with economically disadvantaged populations. A key part of the investment decision was to understand the mining process and its environmental impact. There is also a related social impact with careful consideration of the safety record and respect for the local community. The company has a long term track record of exemplary practice with a strong governance framework around the company. In September 2020, the company announced a leak from a tailings dam at its Sasa facility in Macedonia. While this was brought quickly under control, there was some pollution of a local water course. Teviot held two separate calls with the company to ascertain the causes and associated response. In an adverse situation the management responded effectively, and no resource was spared in rectifying the problem. Teviot will continue to scrutinise the response and subsequent enhancements to processes to ensure there is no repeat of this event.

Example 2
Mothercare
Teviot invested into Mothercare at a point where the Market had largely written off the company's prospects of survival. Teviot engaged with the Board and concluded that the company could be saved. Throughout 2019 and 2020 Teviot engaged extensively with the Board and supported a Company Voluntary Arrangement to restructure its UK business and subsequently withdraw completely from the UK subsidiary. This process had a profound impact on employees, pensioners and the supply chain. Ultimately Mothercare reached a position where its global franchise business has survived, the supply chain continues to service the company and the pensioners have seen their scheme supported by the PLC covenant. Many jobs were also preserved. Teviot engaged heavily with the Board to challenge the legitimacy of its approach in the belief that the long-term viability of the company relied on all stakeholders being fairly treated.

Example 3
Emis
Emis is a major provider of healthcare software and IT in the UK; serving Primary Care/GP Practices, Acute Care, Community Pharmacies and Digitally-enabled patient care via the Patient.info health platform. A stretched NHS, which is under pressure for resources, needs high performing, reliable technology that speeds up processes and can underpin its sustainability and help deliver the best possible patient care. In 2018 the Emis Board identified a failure to meet certain service levels and reporting obligations with NHS Digital. This undermined confidence and threatened to result in lost business. Teviot was concerned about any lasting damage this event might have on the valuation of the business. Teviot engaged with the management to gain confidence that client trust had been restored and that appropriate remedial damages had been offered in compensation. The investment case was considered but further confidence was sought so Teviot performed a further period of monitoring and engagement. Teviot engaged with the Board and took comfort from the fact that the issue came to light following a review of customer and product support

processes led by the Group's new CEO, and sought reassurance that no patient safety or patient data had been compromised. Teviot took further comfort from the subsequent award of business from the same customer. Ultimately, Teviot found the necessary reassurance to invest in January 2020 by virtue of numerous meetings with management, the award of subsequent business from its NHS clients, and remedial investment and cost to ensure no such error could reoccur. Internal research concluded that Emis was making the investments required to achieve better standards.

Throughout 2020 Emis demonstrated a strong eagerness to support its NHS clients during the Covid pandemic and did not seek to exploit their increasing reliance on Emis's products, many of which were offered for free to help serve patients and deliver better outcomes whilst GP surgeries were closed for many citizens because of lockdown restrictions. Teviot increased its investment in Emis during 2020 as a result.

Example 4

Gulf Marine Services

Gulf Marine Services operates a fleet of lift boats in international markets primarily in offshore oil, gas and renewable energy sectors. During 2018 Teviot engaged with management and considered investing. Further analysis and due diligence was performed by the investment manager, which revealed certain related party transactions that Teviot was concerned about, principally Green Investment Commercial Investments LLC (which owned 27.77% of the equity). Teviot engaged with the Board and sought reassurance as to sufficient independence. The UK Corporate Governance Code recommends that at least half the Board, excluding the Chairman, should be Non-Executive Directors whom the Board considers to be independent. At the time the Board of directors constituted the following: Simon Heale (independent non-exec), Duncan Anderson (CEO), Simon Batey (independent non-exec), W. Richard Anderson (independent non-exec), Dr Karim El Solh (non exec). Management suggested that it had considered the independence of the non-executive directors, and that it considered Simon Batey and W. Richard Anderson to be independent in accordance with provision B.1.1 of the UK Corporate Governance Code. Dr Karim El Solh was classed as a representative of a "controlling shareholder" and was not considered to be independent. The Board also stressed that The Listing Rules required that independent non-executive directors be elected by a majority of votes cast by independent shareholders and as such the election should be considered to be fair and independently voted for. Teviot was also concerned by the lack of a Chief Financial Officer (CFO) at Board level. Ultimately, Teviot could not satisfy itself of sufficient independence and therefore elected not to invest. Later in 2018, Green Investment Commercial Investments LLC sold its shareholding, which Teviot attributed to increasing pressure to demonstrate independence and provided validation for Teviot electing not to invest.

Subsequent Board changes have continued to be monitored by Teviot as part of its assessment of the investment merits of the business. Whilst a CFO was appointed to the Board in 2018 (Stuart Jackson), he was soon replaced in 2019 (Steve Kersley). In 2019 the CEO was replaced with Executive Chairman, Tim Summers, and 2020 saw Mansour Al Alam appointed as CEO and then as Executive Chairman. Holding the positions of both Chairman and Chief Executive is not recommended by the 2018 UK Corporate Governance Code, although the Board concluded that this was appropriate. Another CFO was appointed in 2020, Andy Robertson, an internal candidate, although he was not appointed to the Board. Teviot again elected not to invest.

Example 5

Drax

Drax is a UK-based renewable energy company engaged in renewable power generation, the production of sustainable biomass and the sale of renewable electricity to businesses.

Teviot first invested in January 2018 after extensive analysis and Board engagement. The valuation appeared overly punitive relative to peers. The investment managers concluded that this was primarily due to sustainability considerations. Drax's history prior to investment has been as a coal-fired power generator, and investors had rightly been concerned as to the sustainability of that source of power given widespread government commitments to renewable energy and a low carbon future. It also had a finite nature to the government subsidies for its biomass units. Internal research by the investment manager concluded that its legacy of coal-fired generation had all but gone and that it had converted its infrastructure to generate

renewable biomass in its place. Moreover, whilst investors took concern as to the sustainability of its biomass generation, and this was reflected in a punitive valuation, Teviot research indicated that the business was making significant progress to ensuring that its biomass generation would endure well beyond the contractual subsidy term. The Board had taken ownership of its supply chain and was making material progress in reducing input costs to ensure biomass profitability without subsidies. Moreover, whilst intermittent sources of power (wind, solar) dominated the UK's electricity generation output, it was critical for the overall system to balance this with sources of dispatchable power, otherwise the UK would run the risk of electricity black-outs in times of low wind output, which would threaten the lives of thousands.
Once the biggest coal fired power station in Western Europe, Drax has now slashed its CO2 emissions from power generation by over 90 percent since 2012, radically transforming the company and securing its place as one of Europe's lowest carbon intensity power generators and moving it closer to achieving its world-leading ambition to be carbon negative by 2030. Using sustainable biomass and hydro, Drax has become a renewable power generator, producing 12% of the UK's renewable electricity – enough to power over 5 million homes and support the deployment of intermittent renewables such as wind and solar. And by deploying bioenergy with carbon capture and storage (BECCS) at the power station, Drax is aiming to go even further – generating the negative emissions needed to meet the UK's net zero climate target while delivering jobs and clean growth in the North.

Outcome

Teviot's integrated approach to investment is grounded in fundamental analysis and deep domain knowledge. This places Teviot in a good position to identify and assess systemic and market-wide risks as part of the investment process itself. The outcome of this process continues to result in direct investment decisions and continual adjustments to target valuations of investee companies and changes to holdings. Teviot is committed to engage with other stakeholders on systemic and market-wide risks where it can improve the investment outcomes for its clients and a well-functioning financial system.

Principle 8	Signatories monitor and hold to account managers and/or service providers.

Activity

Teviot continues to monitor third-party service providers in the area of stewardship; however Teviot has elected to conduct most of these activities internally and directly given the sparsity of comprehensive and high quality data sets for Teviot's smaller companies investment universe. This is under continual review and will be re-assessed in 2021. The Investment Meeting provides the forum to challenge the interpretation and implementation of Teviot's stewardship policies.

Independent research providers are subject to an annual review to assess their performance and value for money. In a broader business sense, all third-party service providers (ACDs, IT, Professional services) are subject to regular review through the Partners Meeting and the Risk and Compliance Meeting. Teviot's two ACD clients are monitored daily and monitoring is reported periodically to the Partners and Risk & Compliance meetings. Workflow is covered by detailed Service Level Agreements (SLA), which were agreed mutually as part of collaborative onboarding processes. These are working documents and are subject to periodic adjustment if required. Teviot has received high praise for its robust control environment and working standards from its ACD clients.

Outcome

Teviot discharges its stewardship responsibilities via the use of an integrated approach in assessing investment opportunities, and the use of internally derived data. The use of third-party providers is kept under regular review and Teviot will seek to add providers where they can add value to Teviot's process.

Principle 9	**Signatories engage with issuers to maintain or enhance the value of assets.**
Principle 10	**Signatories, where necessary, participate in collaborative engagement.**
Principle 11	**Signatories, where necessary, escalate stewardship activities to influence issuers.**

Context

Teviot Partners sets out to deliver superior returns in an illiquid asset class. There are two key elements in being able to execute on that aim: strong domain knowledge of investee companies, and strong liquidity in the underlying holdings (by responsibly managing the overall size of assets managed under the strategy). Constructive and regular engagement with the Boards of investee companies is a critical component of Teviot's investment process. It affords Teviot the means to obtain strong domain knowledge and it also affords Teviot the means to effect change and influence issuers. In Teviot's experience, it is not the size of the ownership percentage of a portfolio company that confers greater influence over the investee company but rather the quality of the insight and perspective. Teviot does not possess the quantum of assets under management to result in large ownership positions in investee companies, but it has not hampered Teviot's ability to engage with Boards and articulate its views.

Teviot's philosophy is to be "constructively engaged" directly, and to not publicise its views. Public confrontation often hinders the chances of successfully effecting change, and can frequently lead to positions becoming entrenched and misinterpreted. A flexible approach to engagement is key, reflecting a myriad of differing circumstances facing investee companies. Engagement is directly with the investee company executives, non-executives and Chairpersons where appropriate. Teviot recognises that there is a place for collaborative engagement and would participate where it would be beneficial to do so for the underlying investors.

Activity

Teviot's investment approach is based on fundamental analysis of investee companies and all investment theses are developed internally. This involves regular engagement with companies and often provides opportunity for feedback. The investment managers have good access to executive and non-executive directors. The depth of work and knowledge of the underlying companies aspires to be of a very high standard when compared to other investors, and this is particularly important when it comes to engagement because companies respond better to engagement when it comes from an investor who can display a knowledge of the business and its industry. Engagement is always led by the investment manager responsible for the investment decision. Much of Teviot's engagement takes place through phone calls, email and direct face-to-face meetings, and is conducted by the investment managers.

The objective of engagement is to enhance value for clients. Teviot typically meets the executive directors of each investee company around four times each year. These meetings address strategy, execution, operational and financial performance, prospects, capital allocation; and with an overriding focus on ESG issues. These engagements are used to inform a view on an investee company's underlying value.

Escalation of engagement takes place following discussion at the weekly Investment Meeting and, where appropriate, a second investment manager is assigned to the engagement, to participate in meetings with directors and provide added challenge to the investment case. This normally occurs when the investment case starts to deviate from its previous path. It is designed to protect the interests of Teviot's clients. A more formalised escalation strategy may develop if Teviot finds little satisfaction, and then typically will engage with the Chair and/or independent directors, or the investee company's advisers and other investors.

Engagement with executives helps Teviot to understand a company and the issues affecting it. Engagement with the Chair is also a pre-eminent consideration within the UK's governance regime. The Chair has oversight of executives and their appointment, and is responsible for strategy and capital allocation. Teviot's engagement with the Chair of an investee company will increase where the investment case deviates from its projected path, or where events conspire to increasingly challenge the investment outlook.

Teviot also values engagement with independent non-executive directors, especially so when the Chair's performance is questioned. Engagement with non-executives can address strategy, execution, executive performance, capital allocation, remuneration and voting.

Teviot seeks to conduct engagement through the investee company's executives and independent non-executives. The investment managers are usually able to engage directly and effectively with Board members via strong domain knowledge and insight. There may be instances when a collective approach to engagement may be appropriate, when Teviot considers that it's holding position is proving insufficient to effect change. Any interaction with other investors is governed by the Takeover Code. Teviot is happy to share views with other industry practitioners.

Outcome

Teviot typically conducts over 400 meetings each year with Board members of both investee and potential investee companies. It is a critical element of Teviot's investment process. Typically, there are around 4 meetings each year with each investee company. The challenges thrown up during 2020 (specifically the impact of Covid-19) led to much more regular contact with investee companies. Many companies saw trading disrupted and in some sectors operations were suspended due to Covid restrictions. Companies took swift action in relation to restructuring and refinancing their businesses. Associated to this have been decisions around accessing government support, dividends and remuneration. Teviot was constructively engaged throughout this period and supported a number of equity raises to position companies better for the new environment.

Meetings alone significantly understates the degree of engagement undertaken. Email often serves to multiply the engagement points. Phone, email, Zoom and Teams meetings substantially replaced face-to-face physical meetings during lockdown for most of 2020, and we are unlikely to see a full return to pre-Covid protocols. Teviot responded quickly and effectively in migrating to virtual engagements. Systems and technology enhancements occurred mid-year, so not all engagement activity was fully recorded during 2020, but Teviot will report more comprehensive measuring of engagement in future periods.

2020 threw up a range of issues for investee companies and engagement was materially influenced by sector and the timing of lockdown impact.

Example 1
Countrywide
Countrywide had endured a difficult few years. Failure to integrate acquisitions, upgrade systems and refinance its balance sheet left the company disadvantaged relative to its peers and exposed to the inherent volatility of its markets. Teviot invested in 2019 when the share price was severely depressed as the debt weighed on Market sentiment. Teviot engaged with the company and supported the management with its turnaround strategy. This was showing promise until Covid struck, resulting in many parts of the business suspending activity. Activist shareholders acquired a stake and began promoting a break-up strategy to alleviate the debt. However, there was a clear dis-synergy from selling components of the company. Teviot supported the Board and investigated alternative avenues to secure the company's future. By creating a viable alternative strategy, it persuaded a peer group company, Connells, to pay a significant premium for control of the company.

Example 2
Ebiquity
After a poor period of returns for shareholders and a failure to deliver on the stated strategy, Teviot made its views known to Ebiquity's corporate advisers on leadership. A change in CFO had helped address cost control and strategic cost locations but the business needed new leadership with a clear vision and strategy. Teviot further engaged with the Chair on the thoughts for a refreshed leadership and renewed strategic direction. The company's fortunes have seemingly improved following the removal of the old CEO and the appointment of a new CEO from July 2020, and Teviot's clients have benefitted from a rising valuation for Ebiquity.

Example 3
Lookers
Lookers shares were suspended in July 2020 due to a potential fraud and weaknesses in accounting processes that caused a delay to the publication of its financial results. Teviot increased engagement with the company to understand the root causes for the publication delay and what steps the Board was taking to strengthen governance and the composition of the Board. In a meeting with the Chair, Teviot gained confidence that the replacement of the executive team and the appointment of a new CEO would ultimately address these concerns and ensure an improvement in systems, controls and governance.

Example 4
Anglo Pacific Group (APF)
APF holds a portfolio of mining royalties. As such it does not operate mines but it is a material stakeholder with the ability to influence operators. Teviot regularly engages with APF and has observed a steady improvement in the company's ESG reporting. Particularly sensitive are the royalty streams deriving from coking coal and coal. This presents a conflict in the investment case and one which Teviot has continually engaged with the Board about. Whilst these royalties generate strong cashflows for the company, resulting in a high dividend being paid to shareholders, Teviot has been concerned about their sustainability and has engaged about reprofiling APF's portfolio towards other minerals, predominantly associated with battery technologies. Whilst this will have implications for the dividend stream in the short term, in a holistic sense Teviot recognises that this is a much more sustainable path for the company and has encouraged the Board in this process.

Example 5
Company X
In April 2020 Teviot was approached regarding a potential equity issue from an investee company. The investment manager concluded that it was opportunistic of the executive team and that there was actually no need for the business to issue equity, which would be dilutive to returns for its clients. Liquidity seemed ample and profitability was likely to materially improve as lockdown impacts began to normalise. Teviot made its views known to the investee company's advisers and to the Board directly and Teviot communicated that it would not support the equity raise. The planned equity raise was abandoned and the business sought funding through debt facility extension instead.

Principle 12 | Signatories actively exercise their rights and responsibilities.

Context

Teviot is a constructively engaged investor with an investment process based around fundamental analysis of investee companies. Whilst it is rare that Teviot holds stakes in investee companies that can be meaningfully influential in isolation, Teviot does possess deep domain knowledge of the companies and it has been Teviot's experience that companies have valued the insight and feedback on a range of issues (Board structure, management performance, strategic direction, strategic execution, ESG, remuneration, dividends, capital structure, non-financial risk factors). The investment managers engage with the Boards of investee companies in order to understand the companies' strategies, governance and to effect change if required.

Teviot votes on every resolution at all company meetings. It is a fundamental right for shareholders and a vital method by which Teviot can exercise stewardship on behalf of its clients. With Teviot's frequency of engagement with the Boards of investee companies, and its deep domain knowledge of investee companies, Teviot will have had the opportunity to influence important issues before they are put to shareholders and there tend to be few resolutions that Teviot is not already abreast of. Moreover, Teviot's strong liquidity enables it to exercise its right to sell where Teviot does not concur with the resolutions to be voted on. This often translates to fewer votes against Board recommendations. Where Teviot does vote against it will openly divulge its views to the Board.

By virtue of constraining the size of our assets under management, Teviot retains strong liquidity in the investee companies in the portfolio, and also ample choice of alternative companies from which to invest in. Where an investment thesis is blown off course or circumstances change then it is always a real option to sell the holding. A decision whether to engage or to sell and move on will be determined by the best long-term interests of Teviot's clients. Teviot's first instinct is always to listen, engage and to understand if a manifest change of strategy or management might realistically deliver better prospects. However, if an expedient improvement in prospects is not apparent, and there is a risk of poor behaviours compounding, Teviot will typically exercise its right to sell the holding. The rule of thumb that Teviot's investment managers are challenged with answering is that Teviot should sell if the basic investment thesis that Teviot invested for has fundamentally changed.

Activity

Teviot has discretionary mandates on behalf of two clients (as at 31 Dec 2020). All clients delegate voting control to Teviot as manager and all clients vote identically. A copy of Teviot's voting record is available here.

Teviot clients invest in plain vanilla UK equities without any use of derivative instruments. As a result, voting rights are attached to virtually all of Teviot's portfolio. Teviot votes on all voting opportunities. Close liaison with ACDs and default instructions are in place to ensure voting opportunities are not missed. Teviot monitors all shareholdings on a daily basis.

Outcome

Negative votes provide tangible evidence of Teviot discharging its stewardship responsibilities. Examples are shown below. In reality, Teviot's most meaningful and material engagement is through dialogue and engagement with investee company Boards, and many examples have been provided earlier.

Example 1
Costain
This has been a poorly performing investment for Teviot. The company has a substantial opportunity in the provision of infrastructure in the UK. Poor controls in the business resulted in a costly onerous contract that reduced liquidity in the business. After extensive engagement with the company Teviot was satisfied that it was not a systemic issue in the business and supported a re-financing of the company. This preserved thousands of jobs and allowed the company to reset its strategy. As part of this process, Teviot sought enhancements to the governance structures and voted negatively on the re-appointment of certain directors. Changes have been forthcoming and Teviot expects performance to improve.

Example 2
Brooks MacDonald
The company is a private wealth manager primarily servicing the intermediary sector. Under relatively new management, the company is evolving from its entrepreneurial origins to professionalise its platform in order to grow in scale. Like many financial services firms, its largest expense is people and the firm has structured remuneration with a significant variable element in order to cushion the impact of Market volatility. In 2020, given the depressed level of markets in the early part of the year, the employees saw variable pay drop. However, this was not reflected at executive level and Teviot felt this set a poor example to the company's employees who are ultimately the company's key asset. Teviot voted against the remuneration report.

Example 3
Ricardo
This has been a poorly performing investment for Teviot. The Board came to the conclusion that a change of CEO was needed. Teviot's view that the demise in the company's fortunes was more to do with the hiatus in the automotive industry cycle and the consequent delay in new product R&D by customers. Consequently, Teviot voted against the Board resolution to accept the resignation of the CEO.

Teviot Partners
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