Teviot Partners - Voting and Stewardship Policy

December 2022

Teviot has a number of attributes which naturally lead to the firm actively engaging with investee companies. Our chosen asset class is UK Smaller Companies, a diverse and dynamic part of the market. Many of these companies will be younger, with a more entrepreneurial approach and it is important to help these companies develop sound governance structures. We are aided by the fact that the UK is a well-regulated market which has a long tradition of evolving its approach to corporate governance. We expect all our investee companies to comply with the UK Corporate Governance Code. Where companies deviate from best practice, as described by the Code, then we expect companies to explain their approach. We will treat each company on a case by case basis.

Teviot is an active investment manager with a clear motivation to preserve and enhance the value of its client's capital. If a company's governance is causing it to perform sub-optimally or poses a risk of eroding value in the future, then Teviot will not hesitate to engage.

Teviot is a value investor. It tries to identify companies where the valuation of the company trades below its intrinsic value. By analysing why this discount arises, it can judge whether there is scope for the discount to close. It is often the case that the discount reflects an issue that requires to be addressed. Teviot will proactively engage in a constructive manner when it identifies an addressable issue.

A core part of the investment process is to carry out thorough fundamental research on potential investments. We place a strong emphasis on having regular contact with management to deepen our knowledge of the companies. We are naturally inquisitive and challenging. These dialogues are often the catalyst for a more structured engagement with the company. They also allow us to approach engagement from an informed prospective.

The business is wholly owned by the partners. This reduces the risk of conflicts of interest. Our engagement with companies is aligned with the best interests of our investors.

We outline below our policies in relation to Voting, Remuneration, Board Composition, Sustainable Investing and other policies:

Voting

Teviot is the delegated investment manager to the VT Teviot UK Smaller Companies Fund and a segregated mandate with an identical investment strategy. The firm exercises voting rights on behalf of both these clients. We cast votes on all resolutions after due consideration as what is in the best long-term interests of our investors. The voting decision is made by the investment manager with specific responsibility for the investment.

Wherever possible we will alert the company to a negative vote, either by abstention or vote against, so they understand the rationale for our decision. This is a good opportunity to raise concerns with the board as a whole. A negative vote should be taken as a firm expression that we want something to change within the current approach of the company.

We will become insiders when it is appropriate as we see this as consistent with the stewardship responsibilities of long-term investors. It is preferable to be made inside for the shortest period that is practical and for this step to be taken only when our views will be additive to the choices faced by the company.

Remuneration

Teviot is not prescriptive when it comes to constructing remuneration schemes. Remuneration should show an appreciation of the circumstances of the company and the key performance metrics that will deliver the best outcome for investors over the long term. Accordingly, we welcome schemes that are tailored to a specific set of circumstances.

We list below a range of principles and guidelines that point to our thinking on remuneration. It is not designed to be exhaustive or prescriptive. We are willing to provide feedback on scheme proposals and constructively consider policies where the approach is properly explained and justified.

-All schemes should reward long term value creation.

-The rewards should be proportionate to the size of the company and the value created.

-Schemes should promote building an effective team with scope for succession. Rewards loaded to a single individual risk distorting behaviours and creating a key man risk.

-Schemes should be simple and clear with a single, long term structure for remuneration.

-The remuneration committee should avoid re-testing or resetting of options and should avoid making discretionary awards.

-Long term equity ownership by executives should be promoted. Minimum equity ownership levels should be established, and these should be achieved, at least in part, by cash purchase of shares. Failure to reach minimum levels could restrict their ability to participate in incentive plans.

-Bonuses should be paid in shares rather than cash, with minimum ownership periods attaching to these awards.

-Claw-back provisions should be in place in the event that fraud or wrong-doing are subsequently discovered.

-In the event of management under-performance and dismissal, the remuneration committee should work to minimise the cost to investors.

-Incentive schemes should set stretching targets which are beyond the base level of performance budgeted by the company. Where possible, they should incorporate a range of performance criteria. The criteria should include targets which are definitively aligned with the return received by investors. Total Shareholder Return metrics are viewed favourably by Teviot.

Board Composition

Teviot recognises that a well-balanced and effective board of directors can make a significant difference to the outcome for investors. Accordingly, we pay close attention to the effectiveness and experience of the directors. This is particularly important in smaller companies where they are often younger and more entrepreneurially founded. Occasionally it can be difficult for a founder director to recognise the value of independent directors and the challenge this brings. However, this is the underpinning of good corporate governance and is not negotiable.

The role of Chairman is critical to the effective operation of the Board. Attracting a Chairman with a proven track record is a key priority as, in our experience, this leads to a sound strategy and effective decision-making. A good Chairman often attracts higher calibre non-executive and executive directors and so their value cannot be over-emphasised. Of course, where a Chairman is considered to be under-performing, it is important that the Senior Non-Executive Director shows sufficient independence and judgement to deal with the situation.

Teviot expects the board of directors to be fully accountable for its actions. To this end, we favour smaller rather than larger boards, with a balance in favour of independent directors. In our experience, smaller boards lead to more effective decision making, with the board taking ownership of the consequences.

Teviot welcomes the progress towards greater diversity on boards both in terms of gender and ethnicity. Further progress needs to be made and the pool of available candidates needs to be broader and deeper. Despite these considerations, Teviot's priority is that appointments to the board should be based on merit and we would prefer non-compliance rather than tokenism.

Sustainable Investing

Teviot believes it is the responsibility of all investors to promote ethical and sustainable investment. We see our job as identifying potential risks that could undermine the long-term value of a company. This evaluation should consider a broad range of non-financial metrics that point to the sustainability of a company's business model. All companies present a different set of risks; some extract natural resources, some have large global workforces, some are power and resource intensive, some provide services to vulnerable segments of the community. Teviot is not pursuing some over-arching political agenda. We work to identify the risks on a case by case basis and understand how they will impact the long-term value proposition of an investment. Where we identify issues of concern then we will engage to understand more and change practice where we see it in the best long-term interests of investors.

No sectors or companies are excluded from our coverage or as potential investments. It is quite possible that risks have depressed a valuation and yet management are taking steps to mitigate the risks or are proactively changing to more acceptable practices. As such, these may be interesting investment opportunities providing the change of approach culminates in a sustainable investment case.

Other Considerations:

-Return of Excess Capital: Teviot expects investee companies to run with an efficient capital structure over the long term in order to maximise the returns to investors. What constitutes an efficient balance sheet will vary on a case by case basis depending on the characteristics of the underlying business and its ability to service debt over the economic cycle.

The mechanism for returning excess capital will also be judged on a case by case basis. Above all, we expect every investee company to prioritise the payment of a regular and sustainable dividend stream. Returning capital by way of special dividends is the most efficient way of delivering capital back to shareholders. However, Teviot will actively encourage share buybacks where the investee company shares are trading at a pronounced discount to their intrinsic value and there is sufficient liquidity in the shares to allow capital to be deployed in this manner.

-Pre-Emption: All companies should seek to defend the interests of existing shareholders by upholding the principle of pre-emption when raising additional capital. In the case of rights issues and open offers, the right of pre-emption is enshrined in the fund-raising mechanism. Where companies place shares or use a cash box mechanism, it is at the discretion of the company and their advisers as whether existing shareholders are able to participate. In these situations, Teviot would expect to be consulted as an existing shareholder. In the event that we were not consulted then the company should not rely on our support to renew the powers to raise capital on a non-pre-emptive basis.