Amati Global Investors Ltd

The Stewardship Code

Our Approach

Amati Global Investors Ltd ("Amati") supports the aims of The Stewardship Code ("the Code"), which was published by the Financial Reporting Council ("FRC") in September 2012. Amati manages two types of funds: an open ended investment company, the TB Amati UK Smaller Companies Fund; an AIM-based Venture Capital Trust ("Amati AIM VCT"); and portfolios of AIM stocks managed on a discretionary basis for individuals, the Amati AIM IHT Portfolio Service. As managers of clients' assets, part of our role is to monitor and, where appropriate, to influence the corporate governance of investee companies. Our point of maximum engagement tends to be when making qualifying investments for Amati AIM VCT, which involves dealing with companies that are raising money and hence, generally at their most receptive to suggestions about corporate governance issues. This is particularly true of IPOs on AIM, for which VCTs can play a crucial role. We have on a number of occasions had our proposed governance changes accepted and implemented prior to an IPO, for example persuading a board not to issue non-executive directors with options, or advising on appropriate salary levels. In doing so we need to establish a high level of trust with the company's management, and it would not be helpful in these relationships if we published details of our role on a case-by-case basis.

Beyond this, as active investors in UK quoted companies our investment approach is based around dialogue with the senior management both of companies that we invest in on behalf of clients, and those that we research. We would normally expect to see or talk to members of the executive management of investee companies at least once a year, and in many cases more frequently. In this ongoing dialogue we will often raise governance issues, but will only do so where we see relevant issues to discuss. Issues raised may cover business strategy, management appointments and executive remuneration, employment practices, environmental considerations and corporate responsibility. In certain specific cases where in our view there are important matters of principle being disregarded, which we believe will have a significant impact on shareholder returns, we will engage with other parties involved with the company, whether they be nominated advisers to the company, or other shareholders. We are involved in monthly dialogue with other AIM VCT fund managers, which provides a natural forum for raising matters of both general and specific corporate governance amongst a wider group of fund managers. However, as a relatively small fund management business we recognise that we are likely to have an influence only on the smaller investee companies in which we hold significant stakes, and the way in which we engage with companies will reflect this. We may choose to sell an investment where we see little chance of resolving a matter of corporate governance to our satisfaction.

The following describes in more detail our practice in relation to the principles outlined in the Code.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Amati has a team of four fund managers who work collectively on each of the types of fund that we manage. Research coverage is broadly divided up between the three by sector, and work on each stock that we research or invest in will be led by one member of the team, who will produce a recommendation on it, which will be updated over time during future monitoring reviews. This is then put to the others for debate. Our research will aim to encompass a consideration of the governance arrangements for each company, and if contentious, these will always form part of the evaluation made by the team. If we find particular aspects represent poor practice we will look to find ways of sending feedback to the company concerned, normally via the broker or NOMAD. We will generally hold regular dialogue with the directors of investee companies. Whilst our regular contact tends to be with the executive management team, we prefer also to have points of contact with non-executive directors, although this is not the norm.

Given the relatively small size of our business we will generally vote on company resolutions put to shareholders on a selective basis, prioritising voting where we see a matter of particular significance, or where we are responsible for a significant stake in the business. We do not delegate voting control to a third party, nor do we subscribe to an advisory service about voting. However, because our fund managers are directly engaged in assessing the corporate governance of investee companies and because we invest in small and medium sized businesses, the kind of feedback we give directly will often be more influential than any votes we might have cast at a company meeting. We are likely to have much less influence on the larger companies that we invest in.

We will from time to time intervene pro-actively to protect and enhance shareholder value where we see issues of particular importance. Such intervention will generally include seeking the participation of other shareholders and company advisers, and is unlikely to be made public, or to involve the media.

Amati's policy in relation to corporate governance, voting, executive remuneration and corporate responsibility and sustainability issues is published on the company's website.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Amati currently manages only the types of fund described above. As a small fund management business the scope for conflicts of interest in relation to stewardship is limited, but Amati will take all reasonable steps to identify, report, and minimise any conflicts of interest that may arise. We have a robust policy for the management of conflicts of interest and this is reviewed regularly. Conflicts of interest are recorded in a conflicts of interest register and are considered at monthly management meetings and quarterly board meetings of Amati. Any conflicts arising are reported to clients as appropriate.

Amati's fund managers do on occasion act as non-executive directors for investee companies of Amati AIM VCT. This can give rise to a complex series of potential conflicts, where for example, a fund may not be able to deal in a stock due to Amati having inside information, or where subsequent investments in the company may be made by funds managed by Amati. In these cases the fund manager who is on the Board of an investee company will defer all subsequent investment decisions to the other fund managers in the team, subject always to permission to deal being sought and obtained from the Chairman of the company concerned. It would be very unusual for Amati not to vote in favour of Board resolutions where it has representation on that Board. In the interests of transparency any perceived conflicts of interest would also be reported to the relevant VCT Board.

This situation also gives rise to a potential conflict of interest in relation to the investee company's remuneration policy in respect of its non-executive directors. However, in these cases Amati has a very strong reputational reason to act in the interests of shareholders and to be a force for restraint in relation to remuneration policies. In one case, for example, Amati was responsible for negotiating all non-executive director fees down by 50% prior to a fund manager taking on the role.

Other types of cases where conflicts relating to Stewardship can arise would be where a client of a fund managed by Amati is related directly or indirectly to the management team of an investee companies. For example, the pension fund of an investee company may become a client of Amati. In these cases the fund managers may feel constrained in how they vote on company resolutions or make representations about corporate governance to that company. Amati does not currently have any clients which might give rise to this kind of conflict of interest. However we have a clear policy in place regarding the management of this potential conflict, and the relevant disclosures to be made in relation to it.

The overriding principle is that Amati will always seek to put its clients' interests ahead of its own corporate interests in situations where a conflict of interest between the two arises, whether this be in relation to stewardship or any other matter.

It is also possible for conflicts of interest to arise between different funds managed by Amati. This is most obviously the case in relation to dealing, and Amati has a detailed allocation policy to take account of this, so that every order placed is also assigned an allocation principle which will explain the nature of the allocation between different funds. In relation to stewardship, there is likely to be a bias towards devoting energy and resources to qualifying investments held by Amati AIM VCT, as these are generally likely to be the largest positions that Amati holds in relation to the percentage held of an investee company's share capital. But these also tend to be the companies most receptive to receiving advice from Amati about governance issues. It makes sense for us to target our resources on the situations in which we can make the most difference.

Where there is a conflict of interest in relation to proxy voting, for example if a security is held across more than one fund under Amati's management, we will always vote in the interest of the underlying fund. The action taken will be documented and considered at monthly management and quarterly board meetings and will also be notified to the Board of the Amati AIM VCT and to the Authorised Corporate Director (ACD) of the TB Amati UK Smaller Companies Fund.

Regarding the potential conflict between stock lending and proxy voting, we do not lend out stock and nor do we have plans to do so in the future. Although we do not have an objection in principle to the practice, we believe that in the area of the market that we operate the benefits in terms of engagement and leverage with investee companies of retaining all of our voting rights at all times outweighs the potential revenue benefits from lending stock. We would view it as an unacceptable risk that a contentious situation might occur and we would not be able to exercise our voting rights on behalf of our shareholders, and that those rights would potentially be exercised by a third party with no interest in the long term welfare of the company. In any case, our funds under management are too small for stock lending to be of any material economic benefit to our shareholders.

Principle 3

Institutional investors should monitor their investee companies.

The monitoring of investee companies is central to Amati's business, and is conducted by the fund managers. Monitoring will include reviewing all statutory company announcements, reports and other shareholder circulars, as well as research published about the company by sell side analysts. Fund managers spend a great deal of their time meeting company management teams as part of their appraisal of a company's prospects, business quality, and value. We aim to invest in companies which are well-managed, with sound corporate governance, and a clear focus on producing long-term shareholder returns. We will regularly engage in debate with management teams about business strategy and governance issues, and view private meetings as the best forum for doing so.

Electronic records of company meetings are generally made and stored in Amati's research database. Generally Amati will not attend AGMs, or send a representative to do so. We find that the direct engagement we have with management teams and their corporate finance advisers provides our views with sufficient representation.

If an investee company is found to be in clear breach of the UK Corporate Governance Code of 2014 then Amati will expect to make some direct representations to the management, and will consider whether to vote against resolutions put to a general meeting.

Amati will not seek to hold inside information on a company, unless this is in relation to a specific fund raising activity across a limited period of time. If inside information is obtained inadvertently this will be recorded in Amati's dealing system, and the fund's will not be able to deal further in shares of that company until the information has either become public or has become no longer relevant or price sensitive.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Amati is not typically an "activist investor" in the sense that it will not make a new investment with a view to bringing about change directly in a company. Rather we will make new investments on the basis that we believe the companies to be well managed. Where we find that this turns out not to be the case, or an issue of governance arises which we feel compromises our investment we will initially raise our concerns at meetings with management, or else through the company's advisers. Where this proves ineffective we may begin dialogue with other shareholders with a view to building a consensus strong enough to influence change. If this proves not to be possible we are likely to sell the investment.

Issues that we may seek to intervene over would include:

- Management appointments
- Adviser appointments
- Acquisition / disposal strategy
- Responsible governance
- Inappropriate management incentive and remuneration packages

Examples of the above include interventions over management remuneration in an AIM-quoted resources company; over serious failings around corporate governance in an AIM-quoted food producer; and over a proposed long term incentive plan for the management of a support services company that was not aligned with the interests of shareholders, and which we successfully reversed after engaging with the non-executive chairman.

We will always seek to work constructively with boards of investee companies, and recognise that in most cases the directors have access to fuller information than we do, and are normally best placed to form judgements over the best means to enhance shareholder value. In practice we don't find it conducive to our investment style to escalate an issue to the extent of requisitioning an EGM. We are in a constant process of dialogue with our investee companies and we feel that it is far more effective to remain constructively engaged with them rather than escalating the issue and potentially to lose the ability to influence the company in more subtle ways. The same could be said of public statements – our close relationship with these companies is one of our strengths and in our view a strategy of constructive engagement is for us a far more effective way of influencing companies in the area of corporate governance and ultimately enhancing shareholder value. However, if the above strategy was not successful, Amati would in exceptional circumstances be prepared to act on its own, or in conjunction with other shareholders, to requisition an EGM to propose changes to an investee company's governance structure.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

We are actively engaged with other institutional small cap investors through an AIM VCT industry group, and value the views of our colleagues in the industry. Whilst always conscious of wishing to avoid the risk of being deemed a concert party, we will from time to time seek to discuss issues relating to specific companies with other investors. Our approach is to listen to all industry groups and to contribute to the discussion, but we believe that direct engagement with the company concerned, or at the very least through its advisers, is a more appropriate and effective channel for effecting change. Where the consensual approach outlined in Principle 4 has not been effective, we are of course willing to consider collective engagement, however the extent of this intervention would depend on the size of our investment, the size and nature of the investments of the other interested parties, and whether such a collective intervention would have more chance of achieving a positive outcome than the consensual approach. Issues that might prompt a collective approach, whether that be a formal alliance or a more informal strategy of pressure being brought to bear from all sides, would include but not be limited to the following:

- Board composition
- Corporate strategy
- Mergers and acquisitions
- Management remuneration including stock options

We also have a good relationship with other corporate bodies that bring shareholders together around governance issues relating to smaller quoted companies, including the Quoted Companies Alliance, and the UK Individual Shareholders Society, some of whose members hold significant stakes in investee companies of Amati funds.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

As a relatively small fund manager we will only vote at company meetings where we hold a significant position in the company, or where we believe there to be a contentious issue arising. Proxy voting services are only used to process voting instructions and no advice is taken. Issues we are particularly conscious of are those surrounding board structures, the concentration of share ownership, as well as option schemes and other forms of remuneration.

In the past, our approach was to disclose our voting record at particular company meetings on request. However, for our record of voting from September 2016 onwards we plan to make quarterly disclosures of our voting record available on Amati's website, with the first such disclosure being made at the end of December. As part of our engagement process, we may inform companies in advance if we intend to vote against a board recommendation, and if we have not sold the holding we will continue to engage with the company. However, before that staged is reached we would everything possible to persuade the company not to put forward resolutions at general meetings that would potentially be voted down, believing that it is far better for all parties for differences to be resolved before a confrontation develops and reputational damage is incurred by the company, to the detriment of all stakeholders.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

Our funds under management are relatively small and our voting at company meetings more the exception than the rule, however, we plan to begin public disclosure of our voting record as described above, for voting from September 2016 onwards.

We do not generally make disclosure of our direct engagement with companies, taking the view such disclosure could amount to a breach of trust which could be counter-productive in achieving the result we desire. We do report on specific engagements to our VCT client board members, and are happy to discuss stock specific issues with investors in the funds that we manage, and our investors will engage us in such discussions on a regular basis.

For the above reasons Amati does not consider that it would be worthwhile obtaining an independent opinion on their engagement and voting processes. None of our stakeholders has so far shown interest in our doing so. This also reflects our view that relatively little of the effectiveness of our engagement on governance issues would be captured by looking at our voting at general meetings, which in turn reflects the nature of the relationship between investors in small companies and the management teams which run them, as opposed that between investors and management in large companies. As a small company we don’t have the resources to put in place the structures to provide for an independent assurance process, however we do have robust procedures in place for the consideration of stewardship issues and voting policy. Further, with a view to strengthening this process, any activity around corporate governance, stewardship and voting policy will be documented and considered at monthly management and quarterly board meetings, and notified to the directors of Amati AIM VCT and the Authorised Corporate Director of the TB Amati UK Smaller Companies Fund, in the same way that we have outlined in relation to conflicts of interest in Principle 2.