Stewardship is our way of exerting influence in service of long-term shareholder value creation. Over time, we have developed a set of best practices that help us develop constructive and lasting relationships with the management teams of the companies we invest in.

Stewardship refers to the responsible management of assets through influence, in service of long-term shareholder value creation for clients and beneficiaries. Influence can be best exerted through ongoing constructive conversations with company management about the key issues affecting the business. We have therefore spent a considerable amount of time thinking about the most effective way to have these conversations. It is through these discussions that we can a) understand the businesses we invest in and the risk/reward trade-offs, and b) nudge the company in the direction of long-term shareholder value creation, when needed.

Stewardship has always been an integral part of our long-term active investment philosophy. Below are some of the principles that have come to define our approach to stewardship and have stood the test of time as part of our investment process.

STEWARDSHIP PRINCIPLES

1. Conduct deep research to understand the business

Being intellectually curious about the companies and businesses we are researching is the foundation for successful stewardship. This deep curiosity leads us to interrogate the key issues, test hypotheses, and develop informed conclusions. The key issues must then also be quantified to size the potential investment risks and opportunities. Building a successful mental and financial model for a potential investment requires the following:

a. Avoiding incremental thinking: It is important to understand why a business has earned its historical margins from a fundamental rather than short-term viewpoint. A zero-based modeling approach helps uncover the actual opportunity of or threat to a business. For example, we ask ourselves why a company makes money at all, rather than why the earnings may be up or down by a certain percentage.

b. Debating key issues with a range of experts: Intentionally soliciting a wide range of perspectives from different sources is important. This includes, but is not limited to, management, industry experts, and sell-side analysts. In particular, the perspective of a bear analyst is an effective way to pressure-test assumptions.

2. Focus the conversation on the most important issues

Deep research is essential to focus conversations with management on the issues with the greatest potential to impact the investment thesis. That does not mean that, going into a meeting with a management team, we should know everything there is to know about the company or that we should have the investment thesis entirely figured out. It can be much more productive to use the discussion to test a hypothesis, maintaining an openness to “knowing what we don’t know.” It can also be effective to temper individual beliefs and convictions, at least initially, and make space for the management team to share their perspectives first. Listening can go a long way toward establishing credibility and uncovering important lines of discussion that may not otherwise have been apparent.

We may be deeply familiar with the key issues at hand, or we may need extensive help understanding the decisions of the management team. The topics may or may not be environmental, social, or governance-related. If these issues are among the most financially material, then they should be discussed in as much depth as any other core business concern.

3. Build and maintain relationships over time

One of the advantages we have as deep value investors is that the companies we invest in are experiencing temporary difficulty. The management team is therefore more likely to be curious about our point of view on key business issues. However, we must earn the right to have our viewpoints taken into consideration. Some of the ways we have successfully built and maintained these relationships over time include:

a. In-person meetings: We think it is important to make in-person visits to all the management teams of companies we invest in. Ideally, we conduct these visits off-cycle from formal roadshows where there may only be a specific company agenda on the table for discussion. We also prefer convenings of smaller groups of key decision makers to facilitate a candid but detailed conversation.
b. Proactive communication: In case-by-case instances where we think it is necessary to escalate our discussions, e.g., voting against management during proxy season, it is important to communicate the rationale for these votes to the management team ahead of time. We find that this helps preserve the relationship, even if we are publicly disagreeing with management decisions. To do this effectively, we must have first earned the trust and respect of the management team.

Building those relationships for the long term is essential. Getting shut out of conversations because of a failure to exercise effective stewardship is detrimental to our understanding of the business and, ultimately, our ability to exert influence.

STEWARDSHIP EXAMPLES

For more information about our approach to stewardship and examples from 2024, please see our recently published Stewardship Report.

CONCLUSION

Exerting influence is not the same as making demands of a management team. The former requires deep knowledge of the company, a genuine understanding of what matters, and the establishment of our position as a trusted advisor over time. We benefit from having an integrated investment team of experts in their companies and industries, rather than a separate stewardship team or checklist of questions to ask management during every conversation. If the mindset going into engagement conversations is one of long-term partnership, in our experience, we are often afforded the opportunity to act accordingly—which is ultimately in the best interests of our clients as well.

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