Engagement Policy – Annual Report

Engagement is an activity with a number of incarnations. The effectiveness of each of these will vary according to the specific instance, but each shares an underlying philosophy that Hawksmoor should at all times act in the best interest of its clients.

It is important to understand that this means that there may be occasions when we will choose NOT to engage with an investee company, primarily because the cost of so doing will outweigh the benefit. What this means is that, in practice, we will engage constructively with company management via a variety of channels (as explained below), but will not engage for engagement's sake. We are wary of what we may describe as 'tokenism', especially where this involves the expense of voting at times when the casting of that vote is highly likely to be totally ineffective. We will not be involved with what might be described as tick-box exercises in order to create a veneer of pointless engagement, the costs of which will ultimately be borne by our clients.

We view voting as likely to be the engagement of last resort. It is our practice instead to engage with companies via direct discussion with management, the company's brokers, our public relations agency (where the company does not employ a broker).

The size of Hawksmoor Investment Management means that there are few situations where the casting of votes will either make a material difference or influence management. It is most likely that this will arise with investment trusts (and investment companies), as discussed below, or with companies held in as part of our AIM Portfolio Service. In these instances, where our shareholding is material, we would expect to have already engaged directly with management. The casting of votes against a company should be taken as an indication that a) our decision to have invested in that company is likely to have been wrong and that b) all other means of engagement have been exhausted.

In 2020 we have found company management on the whole to be receptive to engagement, especially with regard to issues surrounding ESG. In many cases, this is likely to be out of self-interest. Current evidence suggests that ESG factors have become a material influence on a company's cost of capital and it is patently in the best interests of management to seek to improve their ESG credentials. We view this as being highly positive and is quickly leading to improved corporate (and ultimately financial) performance.

As one example of this, we have engaged with the board of one of the companies held within our AIM Portfolio Service to explain the benefits of promoting its role in improving home energy efficiency. A wider understanding of the company's ability to reduce domestic energy consumption ought to reduce the discount of its shares to its larger, and more ESG proactive, peers.

This section of the report summarises our engagement activity in 2021 as shareholders of investment trusts (and investment companies) on behalf of our clients.

As we outlined in last year's report, we were extremely active in engaging with Boards of investment trusts coming out of the pandemic. The efforts of this engagement bore fruit in 2021 and resulted in a lower need for pro-active engagement or activism in 2021 (as a reminder we do not enter into investments knowing heavy engagement is required to generate our required rate of return).

On a few occasions in 2021 we have remained engaged with Boards where we initiated heavier engagement in prior years. One example included ensuring a higher level of share buybacks and alignment of the Board with shareholders via increased Board ownership. Indeed, this engagement ultimately resulted in a dedicated pool of capital being made available specifically for the purpose of share buybacks while it was accretive to do so.

We continue to encourage our peer shareholders across the industry to proactively vote (e.g. via the press). Voter turnout remains low. HFM voted all our proxies in the year.

Engagement with brokers has continued – and it has been particularly pleasing to see terms at IPO improve (partly as a result of our engagement). Indeed in 2021 we participated in several investment trust IPOs as a result (typically we dislike buying at IPO).

As we stated in 2021, it remains our view that investment trusts and investment companies are excellent ways of accessing less liquid asset classes. However, governance standards of these trusts and companies is highly variable and it is our responsibility to engage appropriately to ensure a greater likelihood of strong shareholder returns. 2021 saw improvement in governance of the trusts we own and industry practices across the board have gently improved also.

More recently, we have become concerned with the calculation of fund-of-funds OCFs – as guided by our industry body, the investment association (IA). We are encouraging the Boards of investment trusts to raise their knowledge of this issue, as it could potentially result in the divestment of investment trusts by funds keen to keep their OCF low for commercial reasons, and this could widen discounts and narrow premiums. Ben Conway has led a campaign to raise awareness of this issue and, via our Funds' authorised corporate director, Maitland Institutional, engage with the IA and FCA and in early 2022 will be invited by a mainstream broker to talk to an audience of investment trust Boards specifically on this issue.

Please note we do not publicise the trusts with whom we have engaged with or are in engagement with. Please contact Hawksmoor for more information.