

THE FUTURE OF EXTERNALLY MANAGED INVESTMENT MANAGEMENT COMPANIES – THAT IS THE QUESTION

FIDELIO OVERTURE



SMITH SQUARE PARTNERS & FIDELIO CHAIR EVENT

SSP and Fidelio were delighted to recently host a well-attended Chair dinner. We were joined by Chairs and SIDs across a range of REITs and Investment Trusts to explore the challenges facing externally managed investment companies and the role of the Board.

While the mood was convivial, the pressures facing the industry were very clear, including: performance, costs and valuation; shareholder activism; M&A; and increasing demands on the Board. In a frank and open discussion, often focused on the key role of the Chair, the following key themes were explored:

SIX KEY TAKEAWAYS

THE EXTERNALLY MANAGED STRUCTURE CAN STILL DELIVER

1. In general a view prevailed that, despite challenges and headwinds for the sector, externally managed companies remain an attractive vehicle for investment in many circumstances. To ensure continued success Boards are needing to proactively address issues including investment performance, scale/liquidity and management costs, resulting in significantly greater demands on Board Members.

SHAREHOLDER ENGAGEMENT

2. Effective engagement between Boards and shareholders emerged as a theme, with Chairs identifying the importance of having a direct line of communication, not just via investment managers, and noting some reluctance on the part of shareholders until a problem emerges.

INTEREST RATES

3. Higher interest rates had obviously presented major challenges to REITs and infrastructure funds. Although reducing rates are now easing the pressure, there was a view that this alone would be insufficient to close discounts, with more consistent and creative performance enhancement required.

REMUNERATION

4. A recurrent theme of the discussion was remuneration with the question hanging in the air *“what is the appropriate compensation for a NED and a Chair of a REIT?”*. Most present confirmed that the fee was not the primary reason for taking the role, and that serving on an Investment Trust could be interesting and intellectually rewarding. In times of corporate activity, however, the workload and pressure on the Chair could soar. The Chair compensation does not reflect this, although NED fees were seen to be more in line. There remains a pool of NEDs eager to serve, not always with a robust understanding of accountability for the role.

COMPOSITION

5. A key theme of the evening was the need for transformation with implications for the skill mix on Investment Trust Boards. Understanding the structure and underlying asset was paramount; increasingly strong digital skills and effective stakeholder management capability are also in demand, as are transformation skills. Diversity reporting can be lumpy given the small size of Investment Trust Boards but the need to avoid group think was clear.

PERFORMANCE

- 6.** The Chair's role in providing Board leadership was acknowledged. This included guiding the Board through sometimes tough decisions in corporate activity. A core aspect of the Chair role was clearly building the Board and ensuring its performance. Here clear communication and feedback was deemed essential. Chairs flagged that if a NED is not performing, it is not appropriate to simply wait until the end of a three-year term. Under the new Code shareholder focus on Board performance will surely increase.

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Fidelio was delighted to collaborate with Smith Square Partners, a leading independent corporate finance advisory firm with particular experience advising the Boards of investment companies, in hosting this event. If you have any questions about strategic corporate finance advice or M&A, please reach out to [John Craven](#) at [Smith Square Partners](#).

Fidelio's focus is on building high-performing Board and aligning composition to strategy and the needs of the business. [Fidelio Partners](#) has an international track record in advising Chairs, building Boards, creating value for shareholders and stakeholders and effecting change through:

- **Chair Advisory**
- **Board Performance Review**
- **Board & Executive Search**
- **Development & Succession**

For further information about how Fidelio can support your Board, please get in touch.

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