



Meeting Management : The Bull and Bear Case

Our investors often ask our thoughts on meeting company management. This should be a straight forward question to answer, however it is a subject which arouses a surprisingly passionate debate. We know of one major fund management group which places meeting management as a central plank of its investment process and will only make an investment once this pre condition is fulfilled. We are also aware of legendary fund managers who have eschewed any contact with the management of companies in which they have invested.

Whenever such a split camp arises, there are convincing arguments which support both sides. Even within Saracen we have differing attitudes towards the value of such meetings.

The case in favour argues that meeting management is a critical component in the process of deciding the merits of investing in any company.

- **Education.** Management can help investors improve their understanding of the business. The report and accounts and other published material should represent the first port of call, however a discussion with people running the business can enhance the knowledge base.
- **Leadership and Strategy.** Management forges a Group's future direction. By having the chance to question a leadership team about strategy, investors should be in a better position to assess a company's future prospects. The opportunity to listen to management should allow investors to make a more informed judgement on whether the team can fulfil its stated targets.
- **Continuity.** By regularly meeting management, investors should be comforted that the reasons they hold the shares remain intact. If the strategy changes or inconsistencies emerge, then it can cast doubt on the original investment case.

In properly regulated markets, management cannot reveal information which is not already publically available. If, however, investors prepare well for meetings, they should be rewarded with a better understanding of a company. There is also a case that 'seeing the whites of management's eyes' can be a crucial element in the qualitative assessment when deciding on a prospective investment.

The alternative argument appeals to the more cynical fund manager, or one who has been burnt by past experiences.

- **Permanent bulls.** Often management teams are the last to see imminent problems. Alternatively, there is a tendency to paint a deliberately glowing picture. Certainly, it is unusual to meet a management team which is pessimistic on future prospects.
- **Glossy presentations.** Management can view meeting investors as an opportunity to inflate the share price. There is a trend for management to tailor the message to what it believes investors want to hear. Advisors will brief management prior to road shows with the intention of presenting the company in the best possible light.

- **A waste of time.** With the regulatory requirement to make information available to all investors at the same time, management presentations have become scripted and evasive. The penalty of falling foul of the rules outweighs any benefit in answering awkward questions or providing added insights. Most companies provide readily available access to webcasts and power point presentations which cover anything that can be shared in a public forum.

Some of the worst investment decisions have been made following a convincing meeting with a silver tongued management team. Fund managers are always looking for the next big idea and can be suckers for a compelling story. Even the most rational of investors can be susceptible to the charms of a smooth talking chief executive. Consequently, such victims have learnt to avoid the temptation of company meetings and trust the conclusions resulting from their fundamental research from the safety of their desks.

As ever, both sides of the argument have merit. At Saracen we have advocates in both camps. As a general rule, we will meet with management. As long as a large dose of sceptical medicine is administered beforehand, such meetings should, on balance, be worthwhile. Often we will learn nothing beyond the most recent press release; however, if we do our homework and are armed with pertinent questions, it should be possible to get some additional insights.

There are many factors which are important before investing in a company. At Saracen, we seek to understand the business model and long term prospects for the industry in which it is operating. We produce detailed financial models which rely on a range of assumptions including the likely effectiveness of management to allocate capital efficiently and set achievable targets. Often economic or industry trends will outweigh the influence a management team can exert over the fate of its business.

The debate will rumble on. Our approach is that company meetings are not an essential part of the investment process. However, they can be helpful in confirming a thesis and adding some colour to the grunt work we undertake when assessing any investment.

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