

## **Massimo Pedrazzini: «These companies tend to be less prepared»**

Friday, 4 August 2023 10:20

---



**Activist funds identify companies undervalued by the market and determine the best levers to pull in order to implement changes and make them appreciate again on the stock exchange. *finews.com* spoke with Massimo Pedrazzini, President of Sterling Active Fund.**

Sterling is one of the most experienced activist investors in Europe: for 24 years it has invested in small and mid-caps companies listed on major European stock exchanges.

The firm positions its «long only» and «high conviction» strategies with the aim of enhancing the value of companies through a committed approach that aligns the interests of shareholders and management.

***Massimo Pedrazzini, which are the most common issues in small and mid-caps?***

## **Massimo Pedrazzini: «These companies tend to be less prepared»**

Friday, 4 August 2023 10:20

---

Small and mid-cap companies can be more fragile and exposed to economic cycles particularly if they do not have a product or service that places them in a dominant or niche position or that allows them to grow and protect their profitability.

Many of them also have weak corporate governance, necessitating more frequent reviews of their strategies and their implementation, particularly in cases where Management and Board are on their own, without being able to count on the support of an institutional and active shareholders' base.

«Activists can help companies to solve many of these problems, generating value for all stakeholders»

These companies tend to be less prepared in terms of investor relations than large caps, paying less attention to these aspects, having less experience in communicating with the market and sometimes not focusing on the right messaging.

In addition, they tend to have fewer analysts following these stocks, which has been exasperated post MIFID II which led to the reduction of financial research spending budgets.

### ***Are European small and mid-caps therefore an opportunity?***

In these companies there is a lot of room for improvement: activists can help companies to solve many of these problems, generating value for all stakeholders.

«The situation was already critical»

This is why during the last 24 years Sterling has been concentrating on this market segment, generating added value for companies and their investors (average net return of 9.6 percent per annum over 24 years) adopting a constructive and industrial activist approach, instead of the short-term financial activism that often fills the front pages of newspapers.

### ***Why do you think that corporate governance in European small and mid-caps has***

## **Massimo Pedrazzini: «These companies tend to be less prepared»**

Friday, 4 August 2023 10:20

---

### ***worsened in recent years, especially with reference to shareholders' meetings?***

Shareholders can make their voices heard outside of individual meetings with Management and the Board only on the occasion of the general meeting, which has become an exercise in pure style after the pandemic. The situation was already critical. The pandemic has only made things worse.

Although companies have returned to holding physical meetings, investors have now become accustomed to not attending and limiting themselves to voting by proxy. In many cases not even having carefully examined the proposals or taken the time to do so given that the deadlines for convening meetings have been reduced.

«This prevents shareholders from discussing before and during the meetings»

For many English companies, we are talking about 14 days, but generally about 20 days depending on the applicable legislation when the proxy vote must be exercised, for technical reasons, at the latest 10 days before the meeting.

This prevents shareholders from discussing before and during the meetings. Even companies set to review proposals in the interests of sound corporate governance, such as ISS and Glass Lewis, fail to deliver their recommendations in time.

### ***How is the investment process of your fund structured?***

The fund invests in listed European small and mid-cap companies that have a strong market position and/or a good product or service but which have one or more stress factors that may make them temporarily less attractive and undervalued on the stock exchange.

Our activity as an involved shareholder aims to facilitate the necessary changes to improve the market value of those companies. Our analysis is very similar to what Private Equity companies do, but it is based only on public information. This explains the limited number of investments (between 10 and 12) in the portfolio.

### ***How are ESG issues integrated into your investment process?***

## **Massimo Pedrazzini: «These companies tend to be less prepared»**

Friday, 4 August 2023 10:20

---

Sterling is a recognized leader in corporate governance with over 24 years of history and about 60 investments to its credit, of which 90 percent with positive results in terms of financial performance. In governance processes, we make management aware of the need to adapt to other aspects of sustainability as well as monitor their progress.

### ***How is the activist strategy implemented?***

You need to be extremely flexible and adapt your strategy and approach to the characteristics of the case and the people involved, whether at Board, Management or Investors level.

If the problem is the Management or the Chairman, who needs to be replaced, the strategy consists in highlighting the reasons why the change is necessary, first by discussing the issue with the Board and/or the Management and then, if necessary, with other shareholders. Experience shows that this strategy in the vast majority of cases is successful without the need for a «public campaign».

«This requires in-depth knowledge of the business»

If the problem is the company's strategy, focus and sale of non-synergistic assets, or expansion with a «buy and build strategy», the Board of Directors must be presented with these arguments to reach the same conclusion. This requires in-depth knowledge of the business, a detailed analysis of the competition, patience and the ability to communicate effectively with all stakeholders.

In the event that the problem is the quotation, the company must be convinced to be proactive in finding the «best owner», and if necessary, an involved shareholder needs to facilitate discussions with possible buyers.

Faced with a problem due to the capital structure and specifically excessive debt, we actively support the issuance of new shares.

In the event that communication with investors or in the ESG area needs to be improved, we offer assistance directly to the company which generally does not have internal resources with the same level of experience.

---

## Massimo Pedrazzini: «These companies tend to be less prepared»

Friday, 4 August 2023 10:20

---

### **A recommendation to investors**

- *Do not underestimate the importance of companies' annual general meetings and of the issues to be resolved,*
- *accept discussions with other shareholders (often rejected because there is an unjustified fear of being accused of ending up in «acting in concert»),*
- *oppose the reduction of the terms for convening the meeting, so as not to transform the general meeting into a mere formality.*

---

**Massimo Pedrazzini** is currently Chairman of [Fidinam Group](#), [ST Group Holding](#), [ST Real Estate Holding](#), and the [Sterling Active Fund](#). In 1985 he started his career at the Lugano-based law firm Tettamanti Spiess & Associati (later renamed Brunoni Pedrazzini Molino Mottis) where he became a Partner in 1993 until 2005 with a focus on contract law, M&A, corporate, and international tax and financial law. During this period he advised industrial and financial companies in cross border joint-ventures and M&A transactions in Europe, Asia and America. He holds a Degree in Law from the Geneva University. He is a Swiss-Italian dual citizen.