

## Massimo Pedrazzini: «We invest in companies showing signs of stress»

Thursday, 17 August 2023 06:52

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**The takeover tussle over the Swiss fund house GAM is an impressive illustration of how persistently activist investors are influencing companies to achieve added value. Is the effort worth it? *finews.com* discusses this with Massimo Pedrazzini, president of ST Group, whose founding goes back to Ticino financier Tito Tettamanti.**

The investment advisors of the Sterling Active Fund are domiciled in Monaco. But the threads come together in Lugano, where the fund was launched by Ticino financier **Tito Tettamanti** some 25 years ago. Since then, under the aegis of a ten-strong team, the fund has invested in small- and mid-cap companies listed on European stock exchanges.

***Mr. Pedrazzini, how would you describe your activity in a few sentences?***

We pursue various strategies to increase the value of companies that appear undervalued to us

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on the stock market by actively intervening as an investor. We do this by realigning the interests of shareholders and management.

### ***What are the biggest challenges?***

Small and mid-sized companies are more at the mercy of economic cycles than large companies unless they have a product or service with which they can establish a dominant or niche market position.

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### ***«These companies offer an enormous amount of scope for strategic change»***

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Coupled with the fact that many SMEs have weak corporate governance, investors need to monitor strategy and its implementation much more frequently and closely. This is especially true when management and the board of directors are on their own and cannot count on the support of an institutional and active shareholder base.

### ***Can you explain this in a little more detail?***

For the most part, these companies don't maintain such intensive relationships with their shareholders compared to large companies. This is because they pay less attention to these aspects more easily. They communicate too little with market participants because often they haven't sufficiently worked out their messages.

### ***Nevertheless, you have been advocating activist investments in the same kind of companies for decades. Why?***

These companies offer an enormous amount of creative freedom for strategic change and improvement. Against this backdrop, activists can help such companies address and solve the issues at hand, resulting in value-for-all participation.

### ***In theory, this sounds convincing. But what does it look like in practice?***

Sterling added significant value to companies and their investors over the past 24 years in the small- and mid-cap segment. The average net return over the past 24 years has been 9.6 percent per year.

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### ***«However, many of these occasions have degenerated into mere tokenism since the pandemic»***

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We achieved this by pursuing constructive and industrial activism, rather than indulging in the kind of short-term, noisy financial activism that's so often the order of the day.

### ***Why has corporate governance in European small and mid-caps hardly improved in recent years?***

Outside of one-on-one meetings with management and the board of directors, shareholders can only make their voices heard at annual general meetings. Since the pandemic, many of these events have degenerated into mere token exercises.

### ***Why?***

Many companies have returned to physical meetings, to be sure. But investors have become accustomed to no longer being physically present and increasingly to voting by proxy. In many cases, they no longer even review proposals carefully, or are unable to take sufficient time to do so, as the deadlines for convening meetings have been significantly shortened in some countries.

### ***What does that mean in concrete terms?***

For many UK companies, we are talking about a 14-day deadline in individual cases, or 20 days at best in other countries, depending on the applicable law. This prevents many shareholders from communicating with the appropriate parties before and during the meeting.

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### ***«These are companies that are considered unattractive on the stock market and at the same time are undervalued»***

Even companies that are supposed to review proposals in the interest of sound corporate governance, such as ISS and Glass Lewis, often barely manage to make their recommendations on time.

### ***How do you do better?***

We invest in companies with one or more «stress symptoms.» These are considered unattractive on the stock market and at the same time are undervalued. Our activity is aimed at initiating and implementing the necessary changes so that valuations rise again.

Our approach is similar to that of private equity companies but is based only on publicly

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available information. This also explains the limited number of investments - between ten and twelve - in our portfolio.

### ***Sustainability and ESG aspects are currently a very big topic in the investment world. What role do these criteria play for an activist investor like you?***

As part of our governance processes, we make companies aware of the need to consistently take sustainability criteria into account. We also monitor the relevant progress or, in the worst case, intervene.

### ***Broadly speaking, what are the cornerstones of your activist investment strategy?***

Above all, we have to be flexible, both in terms of corporate strategy and management. If the problem is at the executive level or on the board of directors, the appropriate people need to be replaced.

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### ***«Experience shows that we are successful with this approach in the vast majority of cases»***

If the strategy is outdated, we have to derive the reasons for a transformation by first discussing the issue with the board of directors and operational management, and then addressing it with other shareholders if necessary. Experience shows we're successful with this approach in the vast majority of cases without the need to go public or to the media.

But any required change demands a thorough knowledge of the company, detailed analysis of the competition, patience, and the ability to communicate and collaborate effectively with all stakeholders.

### ***What are other items on the to-do list?***

If the problem is ownership, the company must be convinced to actively seek the best owners. If necessary, a significant shareholder must initiate discussions with potential buyers.

With a weak capital structure, often due to excessive debt, we support the issuance of new shares. And if there's insufficient communication with investors or in the ESG area, we offer our direct support to those companies that don't have the appropriate internal resources.

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***Massimo Pedrazzini is Chairman of the Sterling Strategic Value Fund, Luxembourg, founded***

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*by Tito Tettamanti, and of the Fidinam Group in Lugano. He chairs the ST Group, among others. He began his career in 1985 at the Lugano-based law firm Tettamanti Spiess & Associati, where he was a partner from 1993 to 2005, focusing on contract law, M&A, corporate law, and international tax and finance law. During this time, he advised industrial and financial companies on cross-border joint ventures and M&A transactions in Europe, Asia, and the Americas. He holds a law degree from the University of Geneva.*