

Nurturing a non-exec portfolio



Exactly a year ago, after 33 years in the City, I decided to leave Numis, the investment bank and stockbroker that I helped build, to ‘go plural’ with a portfolio of non-executive directorships.

I was determined to leave in a bull market, singing and dancing, not weeping and wailing in a bear market. I had already been a non-executive director on two trusts – an investment trust and a venture capital trust – and, after 17 years at Numis, and as a main board executive director for the majority of that time, I thought I had the right level of experience and skill set to do the job.

According to the Institute of Directors, non-executive directors are appointed to bring independence, impartiality, wide experience, special knowledge and personal qualities to the board. In addition, an effective non-executive director is expected to: contribute to the strategic direction of the company; solve problems that arise efficiently;

communicate with third parties; ensure all the audit requirements are satisfied; decide the remuneration of the executive directors; and appoint the board of directors.

So far, so obvious – but, to me, the job centred on four key areas:

strategy, performance, risk and

people. To take those in turn: Strategy

– my job would be to challenge constructively and contribute to developing strategy; Performance – I would scrutinise management performance in achieving goals and objectives, as well as in monitoring and, where necessary, removing people; Risk – I would need to satisfy myself that financial information was accurate and that financial controls and systems of risk management were robust and defensible; People – I would try to benefit the company’s and board’s effectiveness through outside contacts and opinions.

The catastrophic collapse of Carillion reflects the failure to adhere to these four pillars: to adopt a strategy where major infrastructure contracts were won on price and lost money; to prioritise bonuses and dividends on the back of underperformance, and even as the firm neared collapse; to fail

to address the lack of cash generation and constant need for external financing and massive squeezing of contractors; to ignore the outside world’s dire view and the hedge funds heavily shorting the stock. In short, the directors vastly overstretched the company and grossly mismanaged its affairs. As Charlie Munger, Warren Buffett’s business partner, has said, show me the incentives and I will show you the outcome.

The challenge for me was to find the right media companies. By right, I meant businesses with a leading market position, good operating margins, management with skin in the game and a strong balance sheet with little or no debt. I reckoned, that way, shareholders could be assured of above-average top-line growth, robust cost control and rising dividends, with cash generation not diverted to servicing bank debt.

Management with something to lose would not waste precious equity making expensive acquisitions or valuable cash flow buying back stock at the top of the market, but would instead focus on cost control and organic growth – real owners, who would steal market share instead of paying through the nose for it.

I also wanted a small, mid- and large-cap company, as the shareholder base would be different

across the size spectrum. Like everything in life, Lady Luck played her hand and three vacancies came along in three companies that met all my criteria. Small-cap agency (M&C Saatchi); a mid-cap B2B player (Euromoney Institutional Investor); and a large-cap online business (Rightmove).

Then, being a sucker for brands, along came a fourth non-executive opportunity that I couldn’t resist – Finsbury Growth & Income Trust, an FT 250 investment trust, with a concentrated 25 stock portfolio of leading global consumer and media brands. It is managed by the legendary Nick Train, who is famously “busy doing nothing” and producing a performance that has been second to none for decades. He has mastered the Zen-like ability to be ‘right and sit tight’. I am hoping it will rub off.

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