BlackRock Throgmorton Trust

Kepler GROWTH RATING

THRG's high net exposure reflects the manager's bullishness about the opportunity set in UK small caps...

Update
27 July 2021

Summary

BlackRock Throgmorton Trust (THRG) invests primarily in UK small and mid caps, with lead manager Dan Whitestone able to allocate to both long and short positions. Typically running gross portfolio exposure of c. 120–130%, with ordinary anticipated net exposure of c. 100–110%, the manager seeks to use the short book as an extra source of active stock differentiation.

As we discuss under **Performance**, THRG's returns have been exceptionally strong in both the short term and over the past five years. Indeed, they are currently the strongest in the peer group over five years on a share price basis (and second strongest on an NAV total return basis). Perhaps as a result, THRG trades on a premium (as discussed under **Discount**). The board has been active in issuing shares to help to manage this whilst also growing the trust.

Presently THRG has net exposure of 119.8% (long positions minus short positions), which is above the typical anticipated operating range. As discussed under **Portfolio** and **Gearing**, this in part reflects Dan's reluctance to short stocks into a generalised market rally such as that seen in the recovery from the sharp market contraction in Q1 2020. However, he believes the COVID-19 crisis has boosted pre-existing trends which will lead to increasing and accelerating divergences in fortunes amongst companies and he anticipates widespread 'corporate Darwinism'. Accordingly, he expects to increase short exposure in the coming months on the expectation that the market will increasingly recognise the fundamental weaknesses of many companies which are being disrupted or are in financially straitened conditions.

Although the investment strategy is focussed on capital growth, the board has increased or maintained **dividends** every year for the past 11 financial years.

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Analyst's View

THRG's shareholders have enjoyed outstanding returns in recent years, with astute stockpicking (shown by the consistently positive information ratio) and timely adjustments to net exposure seemingly the primary drivers. The decision to run elevated net exposure into a generalised market rally, and to avoid running significant short exposure at a time when many share prices were rallying on sentiment rather than fundamentals, has proven strongly beneficial, as has the pre-existing focus on 'disruptors'. THRG saw a period of relative consolidation following the announcement around COVID-19 vaccines as value outperformed, a possibility we had warned about in our **previous research note**. However, absolute returns remained strong and THRG's relative return profile has started to accelerate ahead of peers and the market once again as constituent companies continue to report. We also note that the manager is extremely bullish on his opportunity set, as shown by his high net exposure. Furthermore, Dan argues that the COVID-19 pandemic and lockdown policy responses are likely to leave many companies in a weakened position operationally. He believes this should offer shorting opportunities in due course, which THRG is notably better able to take advantage of in comparison to the broader peer group.

As government stimulus is withdrawn, we think companies with the balance sheet strength and ability to take the sort of market leadership which Dan insists on seem likely to prosper operationally. Meanwhile, the extensive resources available within the BlackRock team suggest to us that idea generation should remain fertile. The long/short structure and dynamic shifts to net exposure continue to see THRG offering a differentiated product, and it has been reassuring that the trust remained at a premium even as value styles came cyclically into favour over the end of 2020 and start of 2021.

BULL
Very strong track record of absolute and relative performance
Highly exposed to long-term industry change and secular trends which are accelerating as a result of COVID-19
Focus on balance sheet strength provides exposure to accelerated 'corporate Darwinism'

BEAR
Periods of 'value' outperformance and rallies in cyclicals remain likely to prove a stylistic headwind
Net market exposure tends to be in excess of 100%, exacerbating downside as well as amplifying upside
Currently trading on a premium to NAV

Portfolio

BlackRock Throgmorton Trust (THRG) aims to provide shareholders with long-term capital growth and an attractive total return through investment primarily in UK smaller and mid-cap companies, though up to 15% of the portfolio can be invested overseas. Managed by Dan Whitestone, who leads the broader BlackRock emerging companies team, THRG holds both long and short positions in a variety of UK companies meeting the team's investment criteria (or which notably fail to meet them in the case of short positions).

Uniquely within the AIC UK Smaller Companies peer group, THRG aims to seek positive returns from shorting stocks, as well as from going long. Dan looks for shorts to be a differentiated source of alpha for the trust, and looks for opportunities in companies within two broader categories: 1) industries which are under severe pressure from disruptive forces, where structural changes will see some companies fall victim to changing operational models and product offerings; and 2) more stock-specific opportunities, usually reflecting financial weakness (i.e. companies with too great a level of debt and debt servicing, and insufficient cash flow).

As discussed under Gearing, THRG will therefore invest within a gross range of 100–130% of assets, with net market exposure operating within a range of 70–115%. We would anticipate gross equity exposure of between 120% and 130%, and net exposure of 100–110% to represent the typical operating range. At present, THRG has gross exposure of 122.8% and net exposure of 119.8% (as at 31/05/2021), the large net positions reflecting the manager's positive outlook for the companies he has identified within the UK market.

The net market exposure of THRG is effectively the total long positions minus the total short positions, whilst the gross is the total long positions plus the total short positions. THRG presently has long exposure of 121.3% and short exposure of 1.5%; this gives it reported net exposure of 119.8% (121.3% – 1.5%, with rounding impact), and gross exposure of 122.8% (121.3% + 1.5%).

Both short and long exposures are designed to be reflective of the opportunity set Dan and the team are identifying at any particular time from a bottom-up stock perspective. Thus, the relatively elevated net exposure (119.8% against an anticipated usual operating range of 100–110%) reflects the depth and breadth of stock-specific opportunities the team have identified, as opposed to being a specific call on the UK market. Similarly, the relatively low level of short exposure (1.5%) represents a reduced flow of attractive shorting opportunities. This does not mean that there are few companies which the manager does not deem to be at risk of disruption, but instead that he has been reluctant to run significant short exposure into what has been a generalised market recovery following the very significant drawdown of Q1 2020.

AIC UK Smaller Companies: R^2 To MSCI Uk Small Cap Growth Index, To 31/05/2021

TRUST	12 MONTHS	3 YEARS	5 YEARS
BlackRock Throgmorton Trust	0.95	0.94	0.94
Henderson Smaller Companies	0.9	0.94	0.94
Aberdeen Smaller Companies Income	0.91	0.94	0.93
Standard Life UK Smaller Companies	0.72	0.92	0.93
BlackRock Smaller Companies	0.90	0.91	0.93
Invesco Perpetual UK Smaller Companies	0.86	0.91	0.92
JPMorgan Smaller Companies	0.91	0.92	0.92
SVM UK Emerging	0.72	0.91	0.92
Montanaro UK Smaller Companies	0.81	0.91	0.91
Athelney Trust	0.65	0.85	0.84
Strategic Equity Capital	0.84	0.83	0.83
River & Mercantile UK Micro Cap	0.87	0.83	0.83
Aberforth Smaller Companies	0.6	0.81	0.81
Rights & Issues Investment Trust	0.78	0.86	0.78
Oryx International Growth	0.47	0.77	0.76
Miton UK MicroCap	0.62	0.71	0.73
Chelverton Growth Trust	0.15	0.48	0.44
Crystal Amber	0.20	0.42	0.42
Marwyn Value Investors	0.04	0.24	0.34
Worsley Investors	0.50	0.35	0.33
Gresham House Strategic	0.02	0.04	0.04
Aberforth Split Level Income	0.65	0.83	N/A
Odyssean Investment Trust	0.75	0.77	N/A
Downing Strategic Micro-Cap	0.85	0.83	N/A
Average	**0.65**	**0.75**	**0.74**

Source: Morningstar. Past performance is not a reliable guide to future returns.

Dan's approach is stylistically very much focussed on 'growth', with the primary consideration being a company's prospects for operational expansion over the longer term. In this regard, we observe that THRG has displayed the highest R^2 to the MSCI UK Small Cap Growth Index amongst the AIC UK Smaller Companies peer group over one-, three- and five-year periods – although we would note that it is one of a cluster of trusts to have very similar and very high numbers over the two longer periods.

Dan looks to build long positions after identifying companies where growth drivers arise from one of two thematic buckets. These will either be companies which he believes are 'disruptors' and are driving and leading industry change, or high-quality companies which have differentiated products and service offerings that can drive long-term outperformance.

These themes are perhaps felt particularly acutely just now, as Dan believes we remain in the midst of a period of 'corporate Darwinism'. Such periods of corporate consolidation, as financially extended, poorly managed, and/or companies with outdated business operations find themselves forced into insolvency or subjugated by industry leaders, typically follow periods of economic trauma such as that seen over much of 2020. As market conditions normalise, he believes it will become more apparent in share prices as regards which companies the market deems to be ill-equipped to manage the sea-change in operating environment that COVID-19 has catalysed.

Meanwhile, capital-light and data-heavy businesses with strong balance sheets are in his opinion well placed to extend their advantages, take greater market share and accelerate revenue and earnings growth. Such companies fit in with the typical profile which Dan is looking for in prospective long positions and are likely to be found in precisely the types of sectors the team prefer to be invested in anyway. Highly cyclical and capital-intensive industries, such as energy or materials, are not sectors which the team focus on in either the long or short book. Where 'materials' exposure exists at present, it is through companies in higher-quality, less cyclical areas of the market, such as chemicals. Instead, Dan prefers to have THRG invested in companies in industries where he believes the team's analysis will help identify endogenous drivers of the likelihood of a company's success or failure.

Whilst long positions in either thematic consideration may have differentiation as regards the drivers of returns, the manager looks to ensure certain characteristics are present in all holdings. Dan and the team will assess companies with a view to ensuring or understanding that: 1) high-quality management are in place, and that they have a strong corporate strategy for growth; 2) the company has a truly differentiated product or service; 3) an assessment of the industry's structural drivers will be made, 4) the company has good conversion of earnings to cash; and 5) the company is in robust financial health, with a strong balance sheet and financial position.

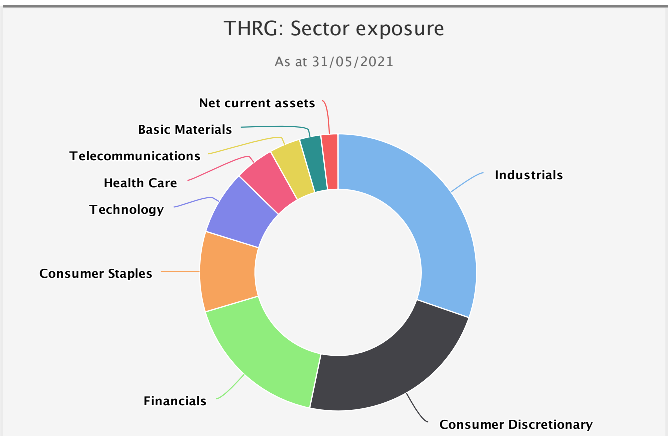
Meetings with company management teams are considered key to understanding most of these considerations, and the broader BlackRock emerging companies team target meeting a minimum of 750 management teams a year (although they note that they typically exceed this). Dan notes that these meetings often serve to stimulate new ideas for potential additions, not simply due to achieving a better understanding of the company they are meeting but also through gaining a better understanding of the relative position of competitors or other companies in related industries.

This can in particular serve to highlight disruptive influences to industries. 'Industry change' companies are those which are deemed to be causing such disruption, often through methods such as the deployment of new technology, to give them industry-leading growth trajectories. More effective utilisation of technology tends to see them able to generate sales at a lower cost and ensures they enjoy a cost advantage over more established peers, whilst management teams are typically flexible and receptive to changes in consumption models and trends. As noted above, these are usually capital-light operational models where Dan believes management retain significant flexibility to redirect cash flows internally in order to most effectively execute corporate strategy.

Dan notes that such companies in many ways benefitted from the disruption to traditional business models thanks to the COVID-19 pandemic and associated lockdown policies. In this regard, he believes that traditional valuation metrics are less relevant at this time than understanding which companies will emerge as the beneficiaries from structural changes to the economy and consumption and production habits.

Long stock positions continue to be sized based upon conviction, with the highest-conviction positions typically attracting a c. 3% weighting. These are then resized on an ongoing basis back to their target weights to manage

Fig.1: THRG: Sector Exposure



Source: BlackRock

stock-specific risk. Starting at a 3% default position, Dan then looks to trim the position size until he qualitatively assesses that any business risks to the company have been adequately accounted for.

THRG: Top ten long holdings as at 31/05/2021

HOLDING	%
Gamma Communications	3.2
Impax Asset Management	2.8
Electrocomponents	2.7
YouGov	2.6
Watches of Switzerland	2.6
Moonpig	2.4
Oxford Instruments	2.2
Pets at Home	2.1
Breedon	2.0
Games Workshop	2.0
Total	**24.6**

Source: BlackRock

Aside from disruptive influences, THRG also contains significant exposure to 'quality differential' names. Typically, these are holdings where Dan and the team believe the company has a very strong competitive position, with products or services that offer tangibly superior outcomes to consumers than those offered by industry competitors. Whilst financial strength is considered to be imperative, the team are not merely looking for companies with the financial clout to dominate on pricing alone, but where a strong balance sheet position affords management additional optionality to execute the business strategy. Typically, these companies enjoy strong brand loyalty, which lends itself to reliable cash flows which assist management teams in planning strategies.

Gearing

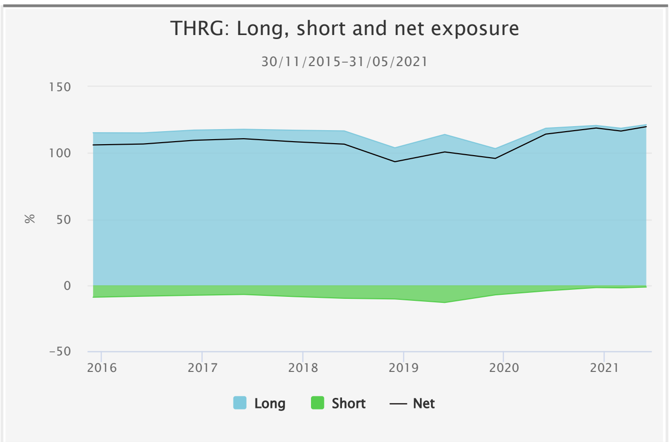
As at 07/07/2021, THRG had gearing equating to c. 22% in place (Source: The AIC). However, this cannot be understood in the context of a typical long-only equity portfolio as it comprises a mixture of long and short positions. As at 31/05/2021 (the most recently available breakdown), the short book amounted to c. 1.5%. Net market exposure was 119.8% at 31/05/2021; this represents the long exposure minus the short exposure. If gearing is to be interpreted as additional exposure to market beta above that of assets, we think this reflects a better understanding of the geared positioning of the trust.

Accordingly, an increased gearing ratio does not necessarily denote a likely increased market beta; if the gross market exposure is increased (via gearing) to increase the short exposure, it is more likely to reduce downside participation. Structurally, THRG operates with a net exposure (i.e. long position weightings minus short position weightings) of between 70 and 115%, with 100–110% net exposure likely to be the typical range of operations. At the gross level THRG operates within a structural range of 100–130% of assets, with 120–130% likely to be an ordinary range.

Gross in this sense denotes the absolute exposure via both the short book and the long book (i.e. the values of short positions are considered positive). For example, if 110% of the trust's assets were held long and 20% short, this would result in a 130% gross position and a 90% net position.

The last reported net market exposure of 119.8% can thus, in our opinion, be considered reflective of the manager's positive outlook at this time as it represents a greater-than-typical level of net exposure. Similarly, the most recently reported net short exposure of c. 1.5% represents a level below what might be typically expected to be seen, as discussed further under **Portfolio**.

Fig.2: THRG: NET, Long And Short Exposure



Source: BlackRock, as at 31/05/2021

The structural ranges THRG will operate in are a reflection of board-level policy restrictions on gearing. These limit gearing through the trust's derivatives exposure to 30% of net assets (in line with the 70% lower bound range for net market exposure). Net gearing is limited to a level of 20% at the point of drawdown.

Gearing is undertaken through contracts for difference (CFDs).

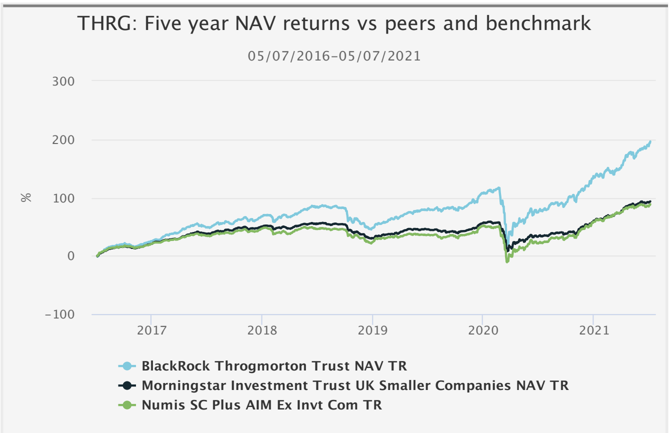
Performance

THRG has been under the sole management of Dan Whitestone since 12/02/2018. He had also previously served as co-manager since 2015.

Over the five years to 05/07/2021, THRG has delivered NAV and share price total returns of c. 196.3% and c. 277.7% respectively. A sharp narrowing of the discount has proven a further benefit to shareholder returns on top of already strong NAV total returns.

These are the strongest share price total returns amongst the AIC UK Smaller Companies peer group over this period, and the second-strongest NAV total returns. Unsurprisingly, this has therefore represented significant outperformance of the benchmark Numis Smaller Companies plus AIM (excluding Investment Companies) Index, which generated total returns of c. 88.6%. Meanwhile, the peer group saw weighted average NAV and share price total returns of c. 93.4% and c. 114.4% respectively.

Fig.3: THRG: Five-Year NAV Returns Relative To Peers And Benchmark



Source: Morningstar.

Past performance is not a reliable guide to future returns

THRG's outperformance appears to us to have been driven by a mixture of astute adjustment of net market exposure (as evinced in part by the decision to reduce the short book in mid 2020 on the outlook that a probably generalised market rally following a significant drawdown would reduce the efficacy of stock-specific input) and strong stock selection. We do not identify particular stylistic drivers in our analysis (despite the strongly growth-aligned strategy of the trust, as discussed under Portfolio). A relatively consistently geared position into a rising market will also have helped over this period, as will a move towards less than 100% net exposure in late 2018 (through an increasing of the short exposure).

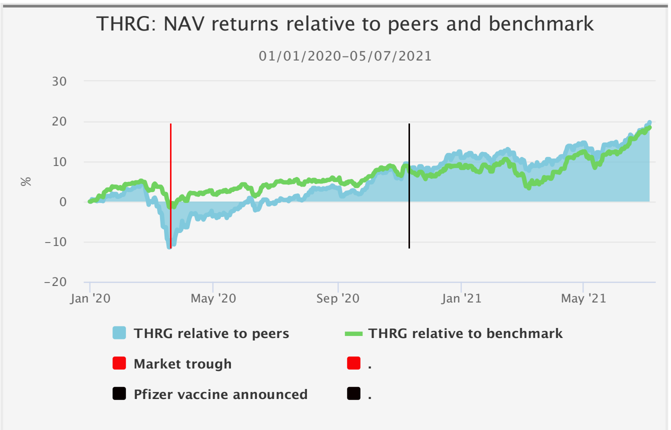
In the market sell-off seen in Q1 2020 as the pandemic hit, the indiscriminate nature of the sell-off and previous outperformance of THRG's book seems to have counted against it, with the trust underperforming as the market declined. We understand that the short book contributed positively in this period in a relative sense, however, with the aggregated short positions underperforming the wider market.

THRG saw a rapid rebound as the market recovered, with the focus on structural growth opportunities such as Games Workshop and YouGov proving beneficial. These were companies in which Dan had built positions prior to the COVID-19 crisis, but where typically the operational advantages of the business became more tangibly appreciated by the market when lockdown policies were implemented.

Despite THRG's structural eschewal of highly cyclical sectors such as oil & gas and basic materials, the trust has managed to continue to outperform in recent months. Positive operational updates have helped drive returns in stocks such as Treatt and Watches of Switzerland, whilst holdings such as Scapa have been subject to takeover bids. We would attribute this in part to prudent management of the net market exposure (and subsequent gearing into a rising market), but we again note that this seems likely to have been a marginal contributor. Instead, stock-specific drivers seem to us to have been the main contributors, with R^2 over the 12 months to 30/06/2021 of below 0.5 to growth, quality and value factor indices.

As a result, from the start of 2020 to 05/07/2021 THRG has strongly outperformed. Over this period, THRG has delivered NAV and share price total returns of c. 43.4% and c. 40.7% respectively, significantly outperforming the peer group NAV (c. 23.5%) and share price (26.5%) average over this same period. This has also represented significant outperformance of the benchmark index, which has gained c. 24.9% over this same period.

Fig.3: THRG: NAV Returns Relative To Peers And Benchmark



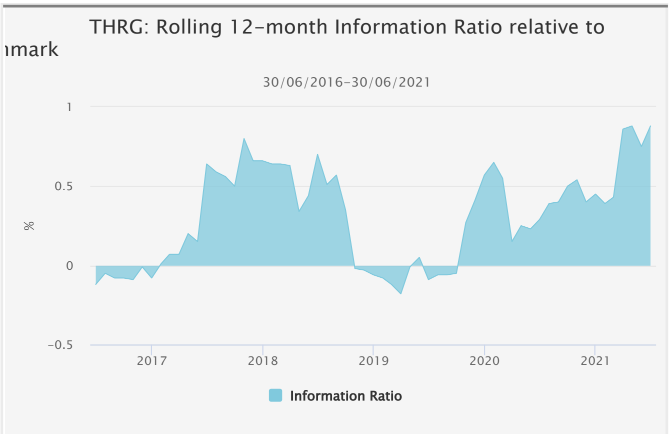
Source: Morningstar.

Past performance is not a reliable guide to future returns

Of note, we think, is the consistently positive information ratio (showing excess returns divided by the tracking error) generated relative to the benchmark index. The graph below shows the rolling 12-month information ratio over the previous five years; as this data is trailing, it encompasses the entirety of Dan's tenure. THRG has displayed a positive information ratio to the Numis index on c. 70% of occasions (using monthly data). Given a positive figure indicates excess returns have been generated over the previous 12 months, and that these are divided by the divergence from index returns, we believe this suggests positive and consistent input from the stock selection process and management of gearing, further to the cumulative impact highlighted above.

THRG: Rolling 12-month information ratio

Fig.4: THRG: Rolling 12-month information ratio



Source: Morningstar, Kepler calculations.

Past performance is not a reliable guide to future returns

Dividend

THRG paid a dividend of 10.2p per share in financial year (FY) 2020, equating to a historic yield of c. 1.1% based on the current share price (as at 07/07/2021). This was in line with the FY 2019 dividend despite a sharp reduction in revenue returns per share to 6.57p per share for FY 2020 (a decline of c. 23.2% for the 12 months ending 30/11/2020 from the previous 12-month period). This decline in revenue returns per share is perhaps somewhat overstated, however, given the sizeable share issuance over this period (as discussed under **Discount**). Similarly, maintaining the dividend per share on a notably higher share count has meant an increase in the actual dividends paid out (we estimate the total level of distributions from THRG rose by c. 12.7% over FY 2020 compared with FY 2021).

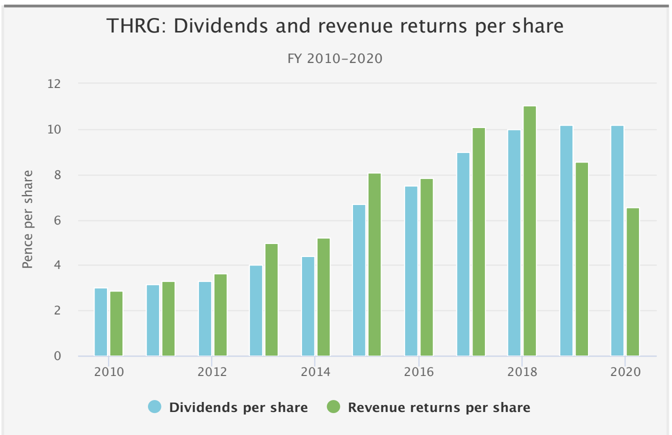
Whilst the trust targets long-term capital growth and attractive total returns, dividends can and will form a part of the total return profile for shareholders of THRG itself. However, the underlying investment mandate does not require the manager to seek income generation from the constituent companies.

Net notional income from derivatives contracts, through which the short book is predominantly constructed, is assigned to the income account. This will typically mean the trust incurs negative carry from derivatives positions in relation to the income account as a result of the cost of holding short positions. However, the impact of this is dependent on the net market exposure taken with the derivatives positions and will not necessarily be negative; we also note that the notional income generated from long derivatives positions outweighed the notional expense from short positions and the interest expenses on these contracts. Over FY 2020, we estimate that derivatives positions contributed c. 0.34p per share to the income account. This compares to our estimate of a negative carry of c. 1.5p per share in FY 2019, and is in part reflective of the more positive outlook of the managers and the reduced short exposure. However, we also think this reflects the superior ability of long positions within THRG to maintain their dividends in the challenging backdrop of 2020 when compared to the short positions.

The board has acknowledged the attraction of regular dividends to shareholders, yet is cognisant of the manager's investment approach and the variable nature of income generation amongst highly growth-focussed smaller companies such as those likely to make up THRG's portfolio. Given the manager's current outlook (as we discuss in the Portfolio section), it is unlikely his usual investment process would typically lead him to a portfolio of companies returning significant levels of cash to shareholders instead of looking to deploy free cash flow into either (or both) internal and inorganic expansion opportunities.

At THRG's most recent annual report (30/11/2020), it reported revenue reserves of c. £8.8m. When we account for the expanded share base, the subsequent payment of the final dividend of 7.7p per share, and the reported difference in ex- and cum-income NAVs, we estimate that THRG retains revenue reserve cover of c. 0.73x the FY 2020 dividend.

Fig.5: THRG: Dividend And Revenue Return Per Share



Source: BlackRock.

Past performance is not a reliable guide to future returns

THRG has raised or maintained its dividend every year since FY 2009. Even after holding the dividend flat in the previous financial year, over the past ten financial years to FY 2020 the dividend has increased by an annualised rate of c. 13%. Over this same period, revenue returns per share have climbed by c. 8.7% p.a. despite the challenges of income generation in FY 2020.

Management

Previously THRG was managed with a structure consisting of two separate portfolios, with a long-only book and a long/short book (with the latter run by current manager Dan Whitestone). This was amended in early 2018, and the two portfolios were combined. After this change Dan, who had been co-manager alongside Mike Prentis from 2015, took full responsibility for the portfolio.

Dan is the head of the BlackRock emerging companies team, who oversee nine open-ended, closed-ended and hedge fund products. As well as managing THRG, Dan also manages the BlackRock UK Emerging Companies Hedge Fund and the BSF UK Emerging Companies Absolute Return Fund. Dan has been at BlackRock since 2013; prior to this he worked for UBS, where he was the head of the UK small- and mid-cap sales desk.

Dan is supported by the BlackRock emerging companies team, which consists of five investment professionals. The team have a vast amount of experience, and through this they have significant familiarity with the underlying investment universe.

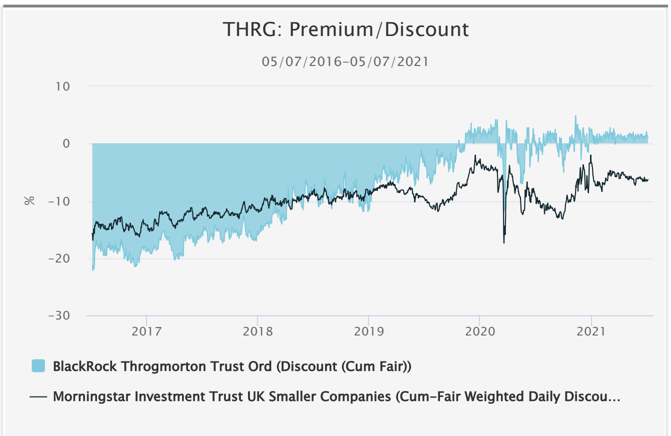
Discount

THRG trades on a premium to NAV of c. 1.8% as at 14/07/2021, having commonly traded at a premium to NAV since the start of 2020. This has been in stark contrast to the wider sector. THRG did move briefly to a discount amidst the market sell-off of March 2020. We note that this was not uncommon amongst trusts at this time, with a dearth of ready buyers (and with market makers constrained from occupying this role by internal risk departments) seeing often mild selling pressure resulting in disproportionate mark-downs in share prices.

In recent months THRG has consistently traded at a narrow premium, giving the board the opportunity to issue equity and grow scale. Having seen the discount narrow sharply over 2019, likely in part due to market appreciation of the strong NAV return profile at this time, but also improving sentiment towards the UK market (as seen by the general narrowing in discounts seen within the sector). This reversed sharply in the market drawdown of Q1 2020, with THRG's discount widening sharply. The opportunity to buy at a discount proved fleeting, however, and the trust rapidly reverted to a narrow premium. This was despite the sharp bounce in NAV at this time, with an even sharper rebound in THRG's share prices seemingly reflecting market enthusiasm for the trust as a way to play a market recovery.

With THRG trading at a consistent premium to NAV in recent months, the board has looked to issue further shares to add further economies of scale and build the strategy. So far in the current financial year (i.e. from 01/12/2020 to 05/07/2021), the board has issued a further 7.3m shares at a weighted average premium of c. 1.4%. We estimate that this extra equity has raised further capital totalling c. £60.5m. The trust already comprises over £1.1bn in assets. Dan's preference for stocks in the larger end of his universe and ability to invest overseas, however, helps increase the ability to accommodate expanding assets.

Fig.6: THRG: Discount/Premium



Source: Morningstar

Charges

Currently THRG has an OCF (excluding performance fees) of 0.59%; this is currently amongst the cheapest in the AIC UK Smaller Companies sector, where the unweighted average is 1.09% (Source: JPMorgan Cazenove). THRG's OCF includes a management fee of 0.35%. A performance fee of 15% of the outperformance of the benchmark is also applicable, calculated on an annualised rolling two-year basis with a maximum annual fee of 0.9% of the two-year rolling average month-end gross assets. A cap on the total fees, including the performance fee, has been put in place at 1.25% of average gross assets over two years.

The KID RIY for the trust is 2.78%, in comparison to the sector weighted average of 1.37% (according to JPMorgan Cazenove), although we would caution that different managers use differing methodologies to calculate this figure.

ESG

Dan sees environmental, social and governance (ESG) analysis as a natural extension of the investment process which is, in any event, embedded into THRG's stock analysis. There is a strong focus with stock selection on ensuring strong governance and good management, with long-term growth prospects and the ability to protect and develop market leadership being key considerations.

The focus on 'disruptive' companies, with technology considered a leading driver of such disruptive capabilities in many instances, will typically as an output lend itself to a portfolio of companies which screen well quantitatively on ESG screens. However, this is a by-product, and not a target, of the investment process.

It would seem fair to us to say this is true of ESG factors within THRG in general. THRG likely meets the criteria of many ESG-minded investors, but this is not a result of a conscious effort to do so. Instead, it is more reflective of an alignment between the factors considered important long-term drivers of returns by the analytical team, and of the factors generally considered within ESG screens. The portfolio currently scores 'average' on Morningstar Sustainalytics.

Governance is an area of particular interest to Dan, and he works alongside the BlackRock Investment Stewardship (BIS) team to assess this. Financial-statement integrity is a key focus, and the BIS team will look at a range of systematic measures to highlight companies' accounting ratios in their assessment of balance-sheet and earnings-quality risks. For other areas of governance (like audit quality or executive pay), the BIS team use their internal research to flag potential risks, including regulatory filings announcements and public newsfeeds. Environmental and social factors are assessed using third-party data from MSCI. The team will examine this data to determine whether specific environmental and/or social exposure exists, and if so, to determine how well such exposure is being managed.

Under the auspices of BlackRock, one of the world's largest asset managers, as well as the sizeable suite of products they themselves manage, Dan and the rest of the THRG team enjoy significant access to company management. This enables them to engage with corporate management teams to ensure that what they consider to be good governance remains in practice.

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