

# Aberforth Partners LLP

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## Presentation to AFUND Investors November 2022

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ABERFORTH PARTNERS

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Aberforth Partners LLP is authorised and regulated by the Financial Conduct Authority

Aberforth Unit Trust Managers Limited is authorised and regulated by the Financial Conduct Authority



- A consistent investment approach deployed by a well resourced team
  - Small UK quoted companies with a value investment philosophy
  - Fundamental analysis backed up by stewardship and engagement
- Prioritising our existing clients
  - Ceiling on the business: 1.5% of the NSCI (XIC)'s market cap to give over £300m capacity
    - Aberforth Smaller Companies Trust (ASCoT) £1,207m
    - Aberforth Split Level Income Trust (ASLIT) £191m
    - Aberforth UK Small Companies Fund (AFund) £126m
    - Charity £233m

Bias towards closed end funds

# Total returns to 31 October 2022



Total Return %	YTD	CAGR			AFUND inception
		3 Year	5 Year	10 Year	
FTSE All-Share	-5.0	2.3	2.4	6.2	7.5
FTSE 250 (XIC)	-23.7	-3.0	-1.1	6.3	9.8
FTSE SmallCap (XIC)	-23.4	4.5	0.9	8.6	6.9
NSCI (XIC)	-22.9	0.6	-0.6	7.0	8.9
AFUND	-16.8	0.7	-0.2	7.8	11.0
ASCoT NAV	-17.7	0.9	-0.2	8.1	*
ASCoT share price	-18.2	-0.9	0.4	8.6	**
Inception date for AFUND was 20/03/1991				* ASCoT NAV from inception 10/12/1990	11.6
				**ASCoT Share price from inception 10/12/1990	11.3
				NSCI (XIC) from ASCOT inception 10/12/1990	9.5

- Year-to-date mid caps have borne the brunt, with large caps more resilient
- AFUND poor absolute returns but ahead of the NSCI (XIC), helped by the value style
  - Market adjusting to inflation and higher interest rates
- Positive long term absolute and relative returns

# Winners and losers – year to date



- Attribution is the contribution to *relative* performance in basis points

10 Best winners		Total return (%)	Attribution (bp)
Rank	Company		
1	RPS Group	80	235
2	Go-Ahead Group	132	136
3	Brewin Dolphin Holdings	44	94
4	EnQuest	44	90
5	Wilmington	39	89
6	Micro Focus	33	77
7	FirstGroup	4	65
8	Aston Martin Lagonda Global Holdings	-79	59
9	McKay Securities	25	55
10	Petropavlovsk	-100	48

10 Worst losers		Total return (%)	Attribution (bp)
Rank	Company		
1	Reach	-65	-128
2	RM	-86	-82
3	Rank Group	-66	-71
4	QinetiQ Group	38	-64
5	Plus500	41	-58
6	Euromoney Institutional Investor	57	-56
7	ContourGlobal	39	-53
8	Telecom Plus	36	-52
9	Provident Financial	-51	-46
10	TP ICAP Group	28	-43

Not held in portfolio

- Losers: a mix of holdings oriented to the domestic economy and non holdings
  - Trading updates from the domestics are starting to reflect economic slowdown
- Winners: M&A is the main theme, with help from the de-rating of growth stocks

# Purchases and sales – year to date



Top 10 Purchases		
Rank	Company	£m
1	Energean	2.0
2	Bodycote	1.0
3	Fisher (James) & Sons	0.9
4	Go-Ahead Group	0.7
5	Helical	0.7
6	Mitchells & Butlers	0.7
7	Moneysupermarket.com	0.7
8	Petrofac	0.7
9	Rank Group	0.6
10	Micro Focus	0.6

Top 10 Sales		
Rank	Company	£m
1	Brewin Dolphin Holdings	7.3
2	Micro Focus	4.1
3	Go-Ahead Group	4.0
4	McKay Securities	3.0
5	Stagecoach Group	3.0
6	Rathbones Group	2.2
7	FirstGroup	2.1
8	Keller Group	2.1
9	Hollywood Bowl Group	1.8
10	Medica Group	1.6

 New Holding or Total Sales

- \*Aberforth 10 month annualised turnover: 16%
- “Value roll”: sale of relatively expensive stocks and reinvestment into cheaper stocks
  - M&A gave more opportunity to roll capital
  - In the period, \*Aberforth average 2023 EV/EBITA of sales 9.2x vs. 6.3x for purchases

# Politics have rendered the UK a “special situation”



- Fundamentals obscured by poor management of common issues
  - A large open economy with laws and a governance regime supporting asset ownership
  - The UK’s debt to GDP ratio is lower than that of most major economies
  - A free floating currency can take the strain and support sterling return on capital
  - A well financed corporate sector and banking system
  - Resilient small companies
- Extreme stockmarket conditions create more opportunities
  - Fund managers’ exposure to UK equities back to 20 year lows (BofA)
  - Analyst coverage of small and mid caps -18% over five years
  - Numerous “fallen angels” likely to enter the NSCI (XIC) 1 January 2023
  - UK cheapest versus RoW since mid 1990s (JPM)
  - Small cap PE relative to large: 0.79 against average of 0.90 since 1990

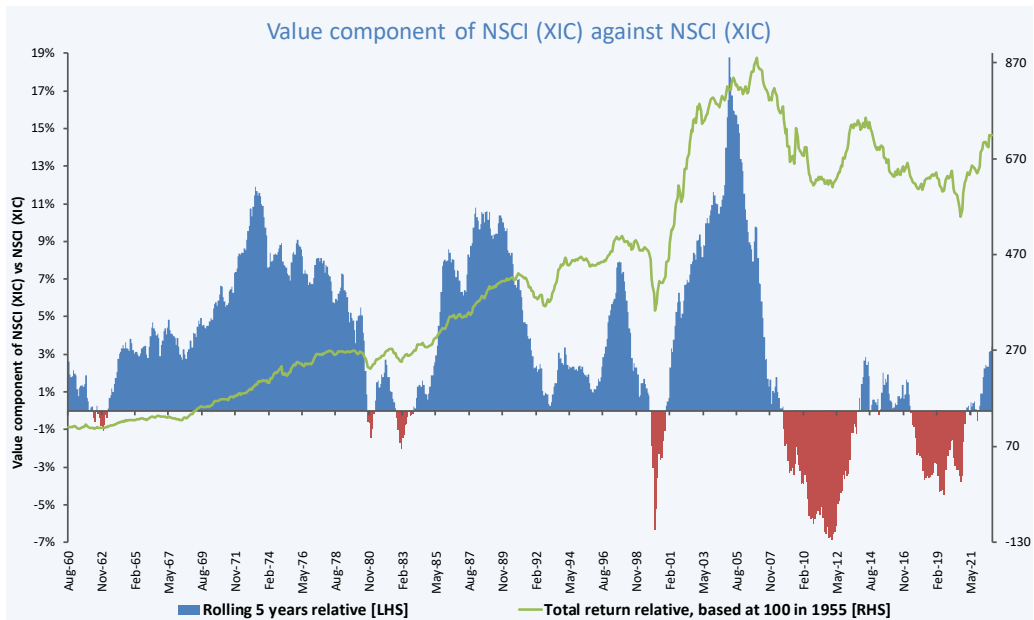
# The opportunity for the portfolio



<i>Value</i>	<i>Size</i>	<i>Recession &amp; recovery</i>	<i>UK "special situation"</i>
Value stretch still wide in a historical context	High exposure to smaller small companies	Small cap cyclicality	Political uncertainty
Rotation to value - inflation & rising interest rates	Still wide valuation discounts for small size	Resilience under-estimated	c.50% portfolio sales generated in the UK
A more level playing field for style from here?	Catalysts - M&A, management actions, passage of time	Downturn largely reflected in valuations	Sterling assets very cheap in the global context
Consistent value investment philosophy to deliver a <b>VALUE PREMIUM</b>			
Company analysis backed up by active engagement			
Well resourced and experienced investment team			

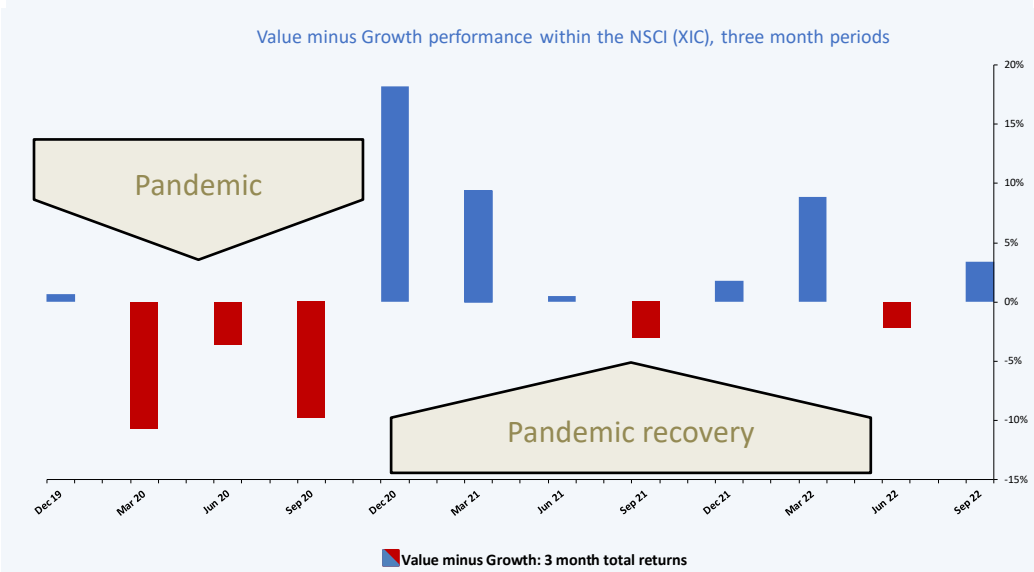
- Portfolio weighted upside to our targets of **100%**
  - Not a forecast!
  - Share price target plus two years of dividends

# Value – a tailwind



## ■ The 66 year perspective

- NSCI (XIC) value premium since
  - Index's inception: +3.3% p.a.
  - Aberforth's inception: +1.8% p.a.
- Value premium reasserting itself
- The ZIRP equilibrium since the financial crisis is being questioned

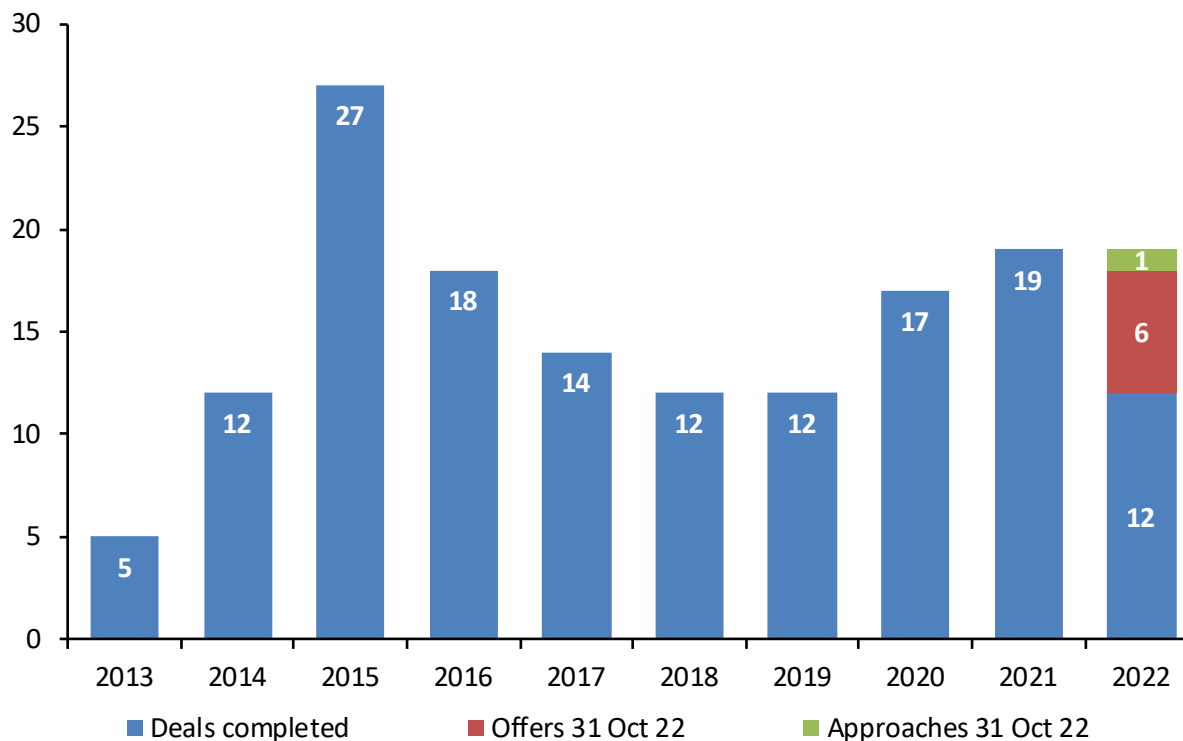


## ■ The 3 year perspective

- US 10 year bond yields: 1.9% to 4.0%
- Stickier than expected inflation
- Value has out-performed
  - The theory is playing out
  - Despite fears about recession



# M&A – a busy year



- 18 M&A deals announced within the NSCI (XIC) so far in 2022
  - A lull is likely: macro uncertainty and debt markets hindering private equity
- Portfolio: Brewin Dolphin, McKay, Go-Ahead, Stagecoach, RPS, Micro Focus
  - Given low stockmarket valuations, Aberforth does not support all approaches

# RPS – an excellent outcome through M&A



- Opportunity A good business, respected by its peers  
Valuation affected by cyclicality and governance doubts

Buyer: Tetra Tech

Multiple bids from Tetra Tech and its rival WSP

Price: 222p

90% premium

Valuation: 19.4x 2022 EV/EBITA

Above industry average acquisition multiple of 15.4x

## *Attributes of Aberforth's process*

- Patience A long-standing portfolio holding, initiated in 2009
- Discipline to average down Taking advantage of economic and stockmarket cycles
- Regular engagement Confidence to support a placing at 44p in 2020
- Experience in sub sector Consolidation – takeover always seemed the end game
- Responsible stewardship Consulted by the board and insiders for over 3 months
- Significant stake Able to leverage clients' 17% stake in the equity

# EV/EBITA – low portfolio valuation

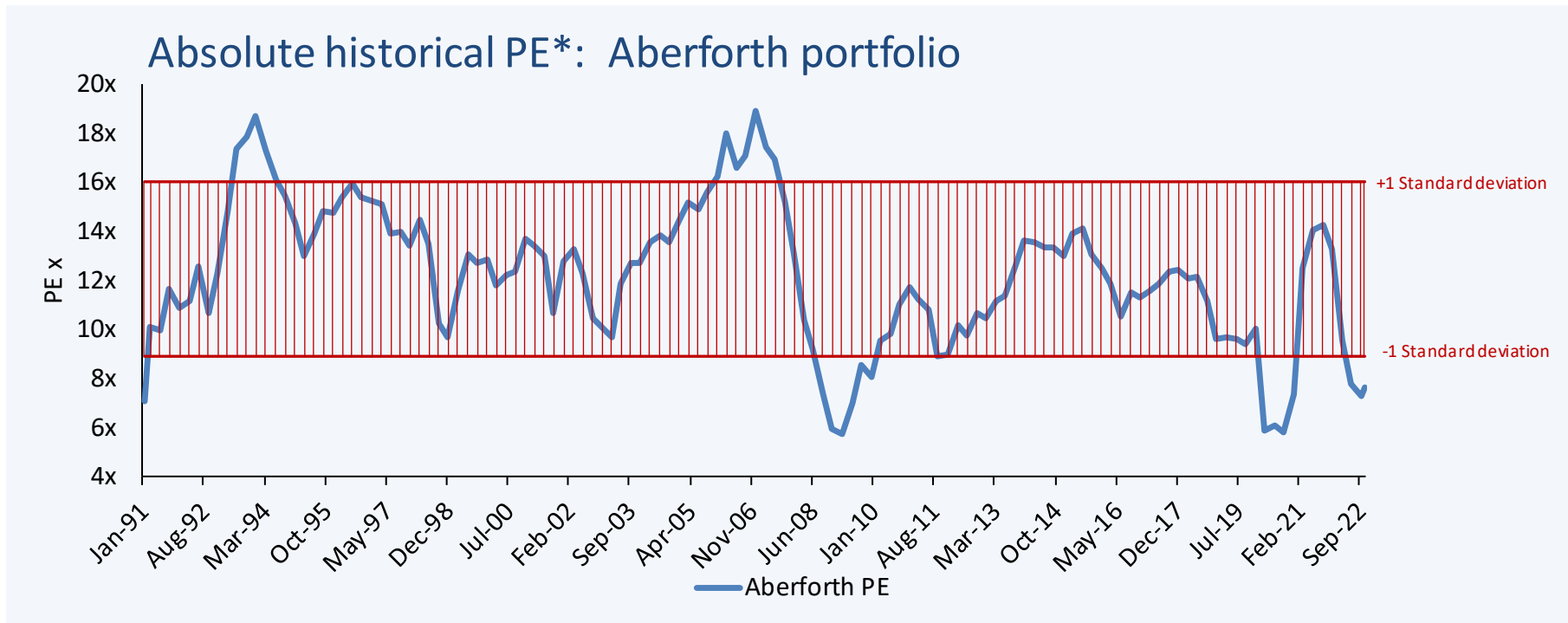


- Discounts of 27% to Tracked Universe and 51% to growth stocks in 2022
  - Portfolio helped by size positioning – 66% weight in smaller smalls
- The portfolio also stands out against 2022 M&A multiples
  - Average 2022 EV/EBITA multiple of NSCI (XIC) deals 14x

EV/EBITA	Number of stocks	2021	2022	2023	2024
AFUND	78	7.1x	6.4x	5.5x	5.0x
Tracked Universe	225	9.3x	8.7x	7.5x	6.7x
<i>Growth stocks</i>	42	13.7x	13.1x	10.4x	8.9x
<i>Other stocks</i>	183	8.6x	8.1x	7.0x	6.3x
<i>Stocks &lt; £600m market cap.</i>	160	6.8x	6.8x	6.2x	5.6x
<i>Stocks &gt; £600m market cap.</i>	65	12.0x	10.8x	8.7x	7.8x

- We expect recession and we know that estimates will decline
  - But there is a margin of safety in these valuations

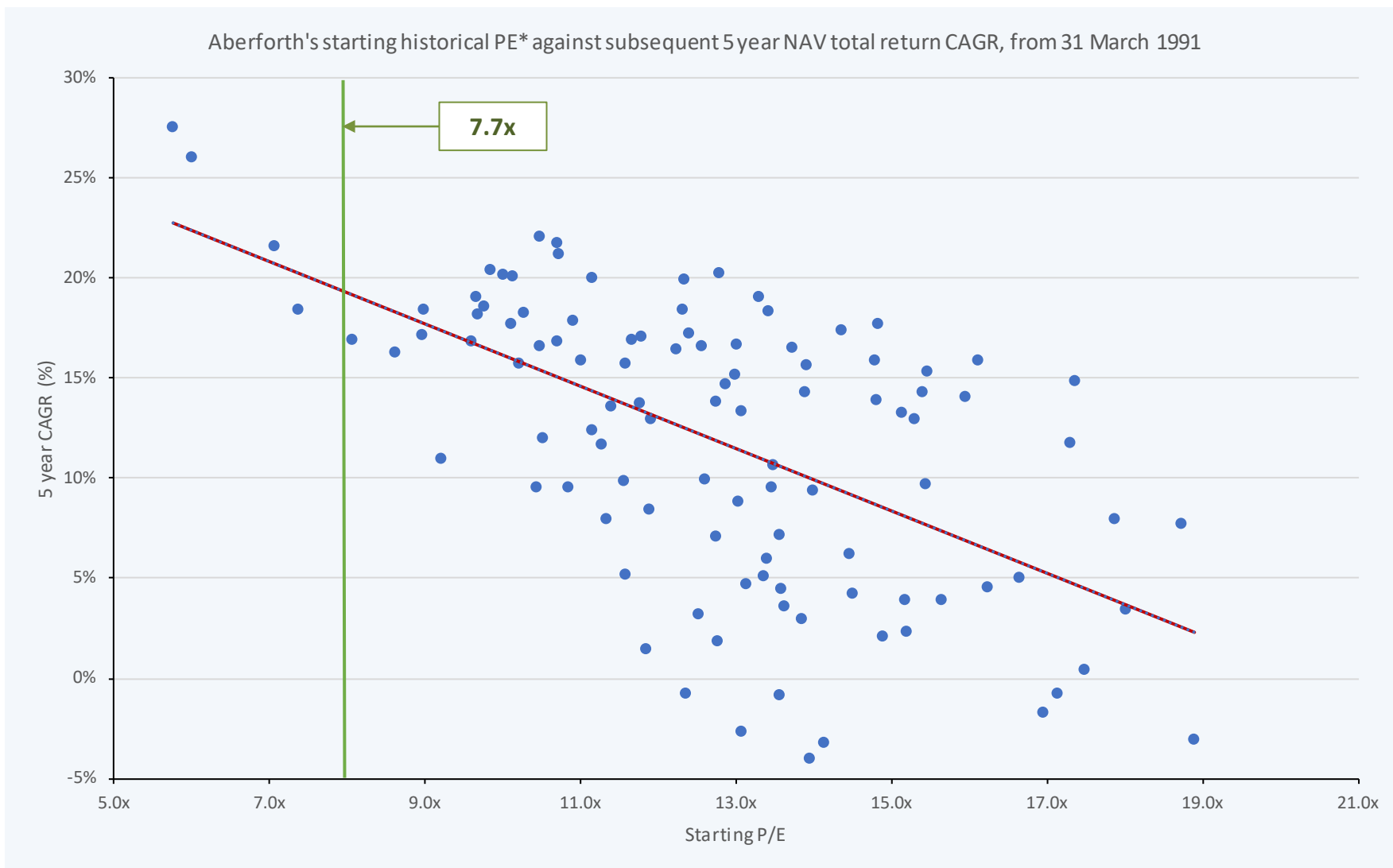
# Valuation context – historical PE



\*The chart uses ASCoT's PE for a long term perspective

- Historical PE at 31 October: 7.7x
  - Likely to move lower: earnings boosted by pandemic recovery are still being reported
- Earnings declined by c.30% in the early 1990s recession (over 3 years)
  - A repeat would imply a forward PE of 11.0x against 11.5x long term average
- A 7.7x historical PE has usually been a good starting point ...

# Starting valuations and prospective total returns

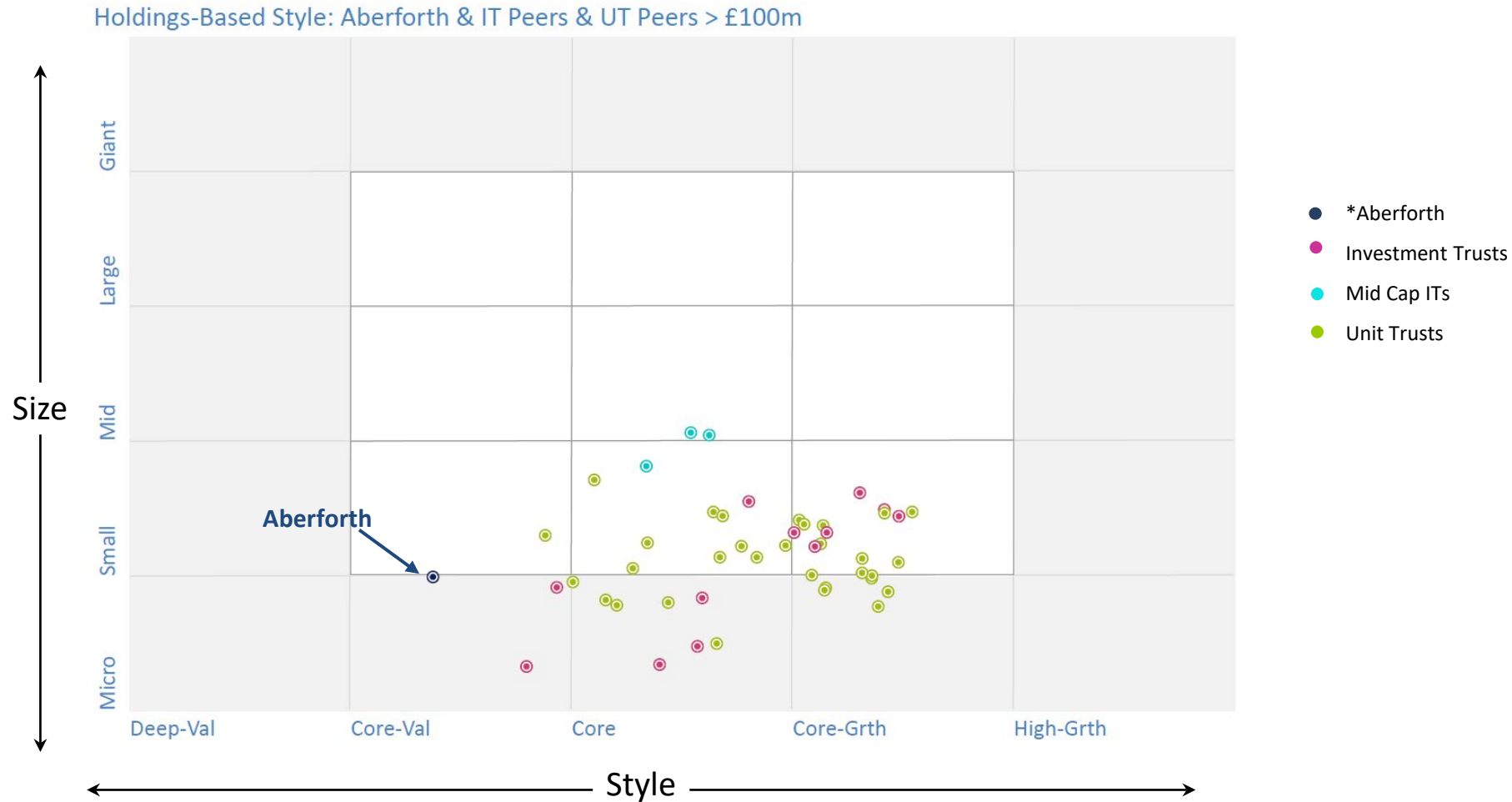


\*The chart uses ASCoT's PE for a long term perspective

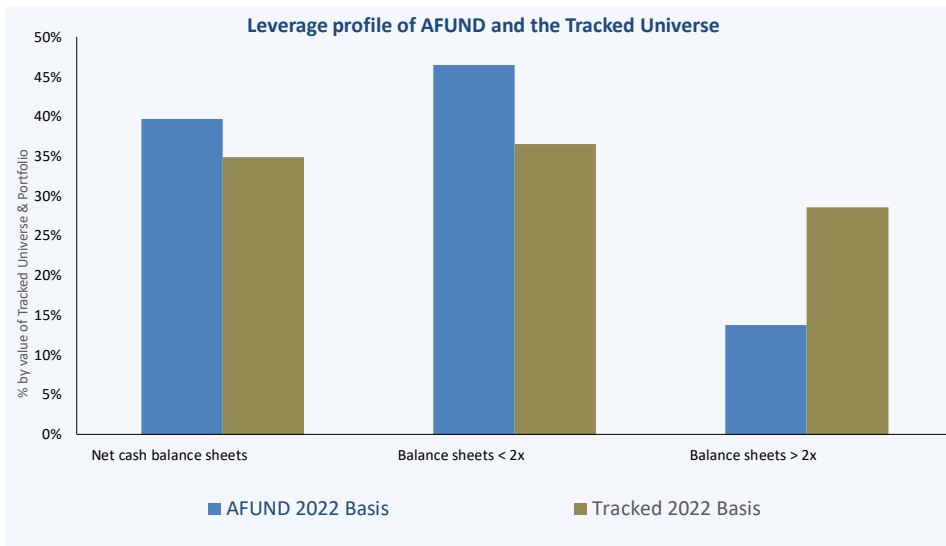
# Aberforth's differentiation



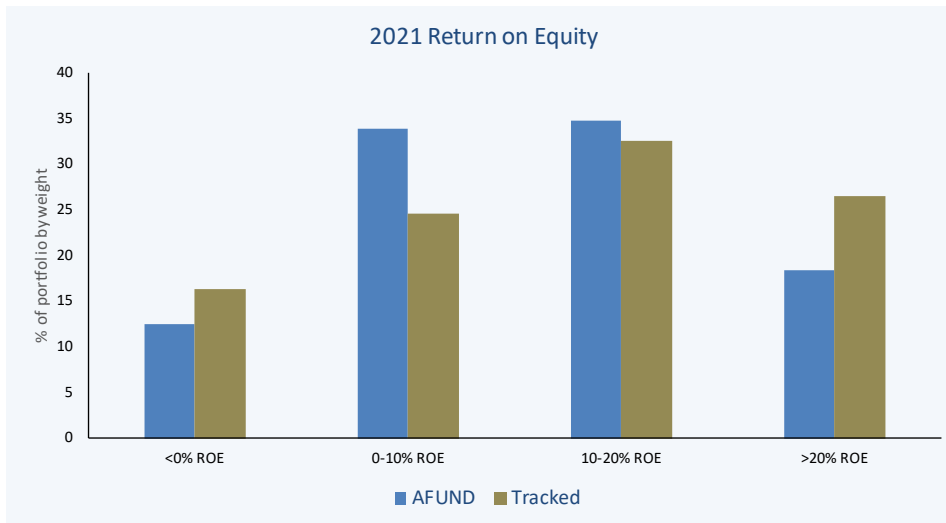
- The pricing basis of financial markets has changed as interest rates rise
  - But style positioning among peers has changed little



# Resilience – the portfolio owns good businesses

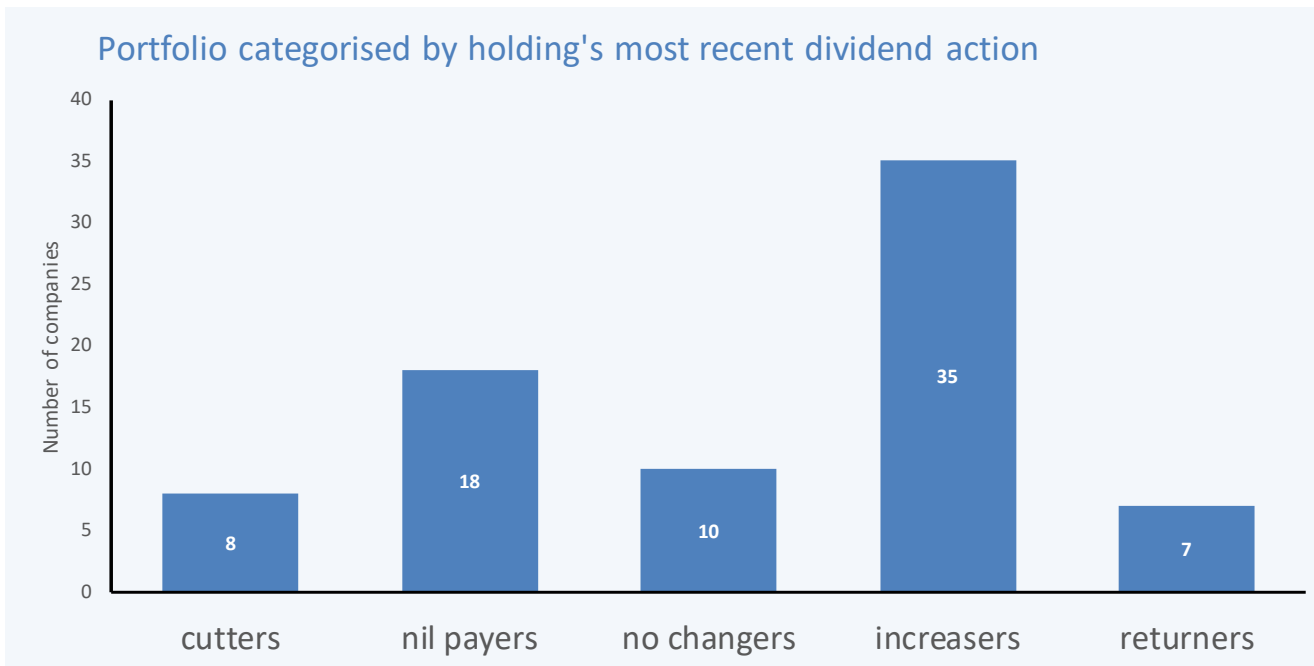


- Strong balance sheets
  - Both portfolio and index
  - Unusual at this stage in the cycle
  - Strongest since 2014
  - Many buy-backs on-going
    - 14 in the Aberforth portfolios



- RoE recovering from the pandemic
  - Weighted average RoE in 2021
    - Portfolio 13%, Tracked 13%
  - Boards with proven records of managing costs and capital

# Income growth from the portfolio



- Portfolio dividend experience remains strong
  - Tailwind from reinstated dividends
  - Boost from special dividends in 2022
    - 6 holdings declared specials so far
- Portfolio yield and dividend cover: 3.6% and 3.6x
  - Some offset to economic headwinds





- Portfolio – well positioned
  - Balance sheets are unusually strong; valuations are very attractive
  - Income resilience contrasts with the weakness of share prices
  - Macro developments have been favourable to the value style
  - Plentiful opportunities for the value investor, particularly in the UK
  
- Overall – a differentiated proposition
  - Its benefits are so far evident in recent relative performance
  - Our outlook is for positive absolute returns over the next 3 years



# Appendix

# ESG integration – update

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- Early adopters of the FRC Stewardship Code 2020
  - Confirmed again as a signatory in 2022
- We launched our enhanced ESG database module in 2022
- Our framework analyses company specific risks and opportunities against a sector determined risk score
  - **Environmental:** climate change, pressure on natural resources, pollution and waste
  - **Social:** employee culture, health and safety, stakeholders, product liability and consumer protection
  - **Governance:** board composition and succession, effectiveness, remuneration and alignment, capital allocation, ethics
- We believe that everything flows from good governance
- Value remains at the core of our process
  - No exclusions unless directed by the client
  - We see improved ESG performance as a means of value creation
    - Sustainability of profits and a catalyst for re-rating

# Top 20 holdings



Rank	Company	Activity	Total portfolio (%)
1	RPS Group	Energy & environmental consulting	5.9
2	FirstGroup	Bus & rail operator	3.7
3	EnQuest	Oil & gas exploration and production	3.0
4	Videndum	Photographic & broadcast accessories	2.8
5	Redde Northgate	Van rental	2.7
6	Wincanton	Logistics	2.7
7	Wilmington	Business publishing & training	2.7
8	Rathbones Group	Private client fund manager	2.5
9	Robert Walters	Recruitment	2.3
10	Morgan Advanced Materials	Manufacture of carbon & ceramic materials	2.3
11	Centamin	Gold miner	2.2
12	Senior	Aerospace & automotive engineering	2.2
13	Energiean	Oil & gas exploration and production	2.1
14	Reach	UK newspaper publisher	1.8
15	SIG	Specialist building products distributor	1.8
16	Bakkavor Group	Food manufacturer	1.8
17	Ecora Resources	Natural resources royalties	1.8
18	Lookers	Motor vehicle retailer	1.8
19	Vesuvius	Metal flow engineering	1.7
20	CMC Markets	Financial derivatives dealer	1.7
Top 20			49.6
21 - 30			14.6
31 - 78			35.8
Actively managed portfolio with an active share of 74%			100.0

# AFUND – sector exposure



Sector	NSCI (XIC) weight	AFUND weight	Relative weight	Significant holdings
Technology	7.8%	2.5%	-5.3%	
Telecommunications	1.7%	0.0%	-1.6%	
Health Care	2.3%	1.3%	-0.9%	
Financials	18.1%	14.2%	-4.0%	International Personal Finance, Just Group, CMC Markets, Rathbones Group
Real Estate	6.5%	2.0%	-4.5%	
Consumer Discretionary	14.9%	24.0%	9.1%	First Group, Lookers, Reach, TI Fluid Systems, Wilmington
Consumer Staples	4.7%	3.6%	-1.1%	Bakkavor
Industrials	27.4%	37.2%	9.8%	Morgan Advanced Materials, Robert Walters, RPS Group, Senior, Vesuvius, Wincanton, SIG, Redde Northgate, Videndum
Basic Materials	5.4%	8.3%	2.8%	Centamin, Ecora Resources
Energy	8.2%	7.0%	-1.2%	EnQuest, Energean
Utilities	3.1%	0.0%	-3.1%	

# 2022 growth stocks



## Securities

4imprint Group	JTC
AJ Bell	Kin and Carta
Alfa Financial Software Holdings	Made Com Group
Allied Minds	Molten Ventures
Alphawave IP Group	Moonpig Group
AO World	Network International Holdings
Aptitude Software Group	Oxford Biomedica
Arix Bioscience	Oxford Instruments
Aston Martin Lagonda Global Holdings	Pensionbee Group
Baltic Classifieds Group	Pod Point Group Holdings
BATM Advanced Communications	Porvair
Bytes Technology Group	PPHE Hotel Group
Clarkson	PureTech Health
Clipper Logistics	Sanne Group
DEV Clever Holdings	SolGold
discoverIE Group	Telecom Plus
DP Eurasia	The Gym Group
FDM Group Holdings	Trainline
Genuit Group	Treatt
Gresham Technologies	Trustpilot Group
HeiQ	Volution Group
Hilton Food Group	XP Power
IP Group	Zotefoams

See slide "Valuation - EV/EBITA" for context

- The annual list of growth stocks as defined by Aberforth
  - Designated at the January index rebalance and retained for the full year

# 3 collective investment vehicles



	Aberforth Smaller Companies Trust (ASCoT)	Aberforth UK Small Companies Fund (AFUND)	Aberforth Split Level Income Trust (ASLIT)
Inception	December 1990	March 1991	July 2017
Structure	Closed-end	Open-end	Closed-end
Gearing	Tactical = 4.3%	N/A	Structural (ZDPs) = 28%
Size (AUM)	£1,207m	£126m	£191m
Number of investee companies	78	78	66
Benchmark	NSCI (XIC)	NSCI (XIC)	N/A
Investment philosophy	Value	Value	Value/Income
Management fees ( <i>ongoing charges</i> )	70 bps* (75 bps)	75 bps* (77 bps)	102 bps* (121 bps)
Performance fee	No	No	No
RDR: platforms	>20	>15	>20
RDR: clean price	N/A	Yes	N/A
Authority: share buyback	Yes	N/A	No
Authority: dividends from capital	No	N/A	No
Chairman	Richard Davidson <a href="mailto:Richard.Davidson@aberforth.co.uk">Richard.Davidson@aberforth.co.uk</a>	N/A	Angus Gordon Lennox <a href="mailto:Angus.GordonLennox@aberforth.co.uk">Angus.GordonLennox@aberforth.co.uk</a>

\* For a full explanation of the fee structure and ongoing charges, please refer to the Fund's Annual Report or visit [www.aberforth.co.uk](http://www.aberforth.co.uk)



## Aberforth Smaller Companies Trust plc (ASCoT)

### Ordinary shares

85,444,605

- next continuation vote in March 2023 and every 3 years thereafter
- authority to buy back up to 13,108,495 shares in the calendar year granted at AGM
- cumulative shares bought back for cancellation since inception = 13,365,183

### Gearing

- as at 31 October 2022 actual was 4.3%
- potential for up to £130m or 10.5%

### Dividends

Based on the following historic actuals:

2022

- interim paid August 2022 (12.05p)

2021

35.20p

- final paid March 2022 (24.25p)
- interim paid August 2021 (10.95p)

2020

33.30p

- final 2021 paid March 2021 (22.90p)
- interim paid August 2020 (10.40p)

2019

36.00p

- final paid March 2020 (22.00p)
- special paid March 2020 (4.00p)
- interim paid August 2019 (10.00p)

Note: Further details available in the Fund's Annual Report and from [www.aberforth.co.uk](http://www.aberforth.co.uk)





## Aberforth UK Small Companies Fund (AFUND)

As 31 October 2022	Issue Price	Cancellation Price	Units in Issue
Accumulation Units	£265.08	£259.52	324,878
Income Units	£181.55	£177.74	226,456

### Limited issue fund with Accumulation and Income units

- value at cancellation price: £125m
- no entry or exit charged; dealing spread 2.1% (mid-basis)
- yield on Income units: 3.3%
- current distribution period ended 30 June 2022; paid 31 August 2022
- previous distribution period ended 31 December 2021; paid February 2022
- annual management fee: 0.75%; no performance fee
- 5/8 of management fee allocated to capital

### Daily subscriptions and redemptions

- deals can be placed each business day prior to 4.30pm
- dual priced fund; prices calculated using closing prices each business day
- “forward pricing”

Note: Further details available in the Fund’s Annual Report, Prospectus and Key Investor Information Document and from [www.aberforth.co.uk](http://www.aberforth.co.uk)

# Investment trust



## Aberforth Split Level Income Trust plc (ASLIT)

Ordinary shares  
190,250,000

- all net income, plus all net assets on a winding up – after ZDP entitlements met

Zero Dividend Preference  
(ZDP) shares  
47,562,500

- no dividends, but final capital entitlement of 127.25p on planned winding up date

Life

- planned winding up date: 1 July 2024

Gearing

- structural gearing via the ZDP shares

Dividends

Based on the following historic actuals:

2022  
4.55p

- first interim paid March 2022 (1.51p)
- second interim paid August 2022 (2.79p)
- special paid August 2022 (0.25p)

2021  
3.05p

- first interim paid March 2021 (0.92p)
- second interim paid August 2021 (2.13p)

2020  
4.22p

- first interim paid March 2020 (1.51p)
- second interim paid August 2020 (2.71p)

Note: Further details available in the Fund's Prospectus and from [www.aberforth.co.uk](http://www.aberforth.co.uk)

# Glossary – Aberforth Funds



- **Aberforth's investment philosophy and putting it into practice is explained further at [www.aberforth.co.uk/about-Aberforth/](http://www.aberforth.co.uk/about-Aberforth/)**
- **Aberforth Standard Value** refers to The Aberforth Smaller Companies Trust plc, Aberforth's longest standing client.
- **Accumulation Units:** units not receiving a cash payment representing income; rather, income will be included in the value of the units.
- **Active Share** is calculated by summing the absolute differences between a portfolio's weight in a stock and an index's weight in a stock for all the stocks in the portfolio or index. The total is then divided by two to give a ratio between 0% and 100%.
- **AGM:** An annual general meeting (AGM) is a mandatory annual assembly of a company's executives, directors, and interested shareholders
- **AUM:** Assets Under Management.
- **CAGR:** Compound Annual Growth Rate is the annualised rate of growth over the specified time period.
- **Cancellation** refers to the cancellation of units by the Trustee.
- **Discount** is the amount by which the stockmarket price is lower than the Net Asset Value, or NAV, per Ordinary Share. The discount is normally expressed as a percentage of the NAV per Ordinary Share. The opposite of a discount is a premium.
- **DPS:** Dividend Per Share.
- **ESG:** Environmental, Social and Governance.
- **EV/EBITA:** Enterprise Value divided by Earnings Before Interest, Tax and Amortisation.
- **EV/EBITDA:** Enterprise Value divided by Earnings Before Interest, Tax, Depreciation and Amortisation.
- **Funds:** **ASCoT** – The Aberforth Smaller Companies Trust plc; **ASLIT** – Aberforth Split Level Income Trust plc; **AFUND** – Aberforth UK Small Companies Fund.
- **Gearing** is the use of debt to increase capital.
- **Issue** refers to the issue of units by the Trustee.
- **Hurdle rate** is the rate of capital growth per annum to return a stated amount per share at the planned winding-up date.
- **Income Units** entitle the holder to a cash distribution representing the net income attributable to that unit at each income allocation date.
- **IPO:** Initial Public Offering.
- **Leverage** is a measurement of the use of debt.
- **M&A:** Mergers and Acquisitions.
- **Net Asset Value (ZDP Share)** is the value of the entitlement to the ZDP Shareholders.
- **Net Asset Value:** Net Asset Value (NAV) per share is the net value of an investment fund's assets less its liabilities, divided by the number of shares outstanding

# Glossary – Aberforth Funds



- **NSCI (XIC):** The Numis Smaller Companies Index (excluding Investment Companies).
- **PE:** The price-earnings ratio (P/E ratio).
- **Redemption Yield (Ordinary Share)** is the annualised rate at which projected future income and capital cash flows (based on assumed future capital/dividend growth rates) is discounted to produce an amount equal to the share price at the date of calculation.
- **Redemption Yield (ZDP Share)** is the annualised rate at which the total discounted value of the planned future payment of capital equates to its share price at the date of calculation.
- **Retained Revenue:** the accumulated income that has not been distributed.
- **RoE:** Return on equity (ROE) is the measure of a company's net income divided by its shareholders' equity
- **RoW:** Rest of the world
- **Rump** is the Tracked Universe, adjusted to exclude the growth stocks.
- **Share buy backs:** A share buyback, also known as a share repurchase, is when a company buys its own outstanding shares to reduce the number of shares available on the open market.
- **Terminal NAV (Ordinary Share)** is the projected NAV per Ordinary Share at the planned winding-up date at a stated rate of capital growth in the company's investment portfolio after taking into account the final capital entitlement of the ZDP Shares, future estimated costs charged to capital and estimated winding-up costs.
- **Tracked Universe** refers to those constituents of the NSCI (XIC) that Aberforth follows closely and whose financial characteristics are aggregated on internal systems.
- **Total return:** capital appreciation plus reinvested dividends.
- **Turnover** is calculated by summing the lesser of purchases and sales and dividing by the average portfolio value.
- **Unit:** an equal portion representing part ownership of a unit trust fund.
- **Value style:** the strategy by which all Aberforth's portfolios are invested.
- **Value Premium:** the relative out/(under) performance of the value investment style.
- **ZDP:** Zero Dividend Preference shares are a share class that receive no dividends. Instead, holders receive a fixed capital payment on the redemption date.
- **ZIRP:** A zero interest rate policy (ZIRP) is when a central bank sets its target short-term interest rate at or close to 0%



# Important information

# Important information



- Throughout this presentation references to: SMALL COMPANIES mean constituents of the Numis Smaller Companies Index (Excluding Investment Companies) which are referred to as “NSCI (XIC)”; LARGE COMPANIES mean constituents of the FTSE All-Share Index which are referred to as “FTAS”; total return means with dividends reinvested (prior to 2.7.97 with gross dividends reinvested thereafter with net dividends reinvested); and Aberforth clients’ portfolio characteristics use one of Aberforth’s “Standard Value” clients as representative unless otherwise stated.
- Sources of data used in the presentation are detailed on the relevant pages. Source references to London Business School refer to Numis/Paul Marsh and Elroy Dimson – London Business School.
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# Risk warnings

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- An investment in the Fund is only suitable for investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise from such an investment (which may be equal to the whole amount invested). Such an investment should be regarded as long term in nature and complementary to existing investments in a range of other financial assets and should not form a major part of an investment portfolio.