



ABERFORTH PARTNERS

Compliance with the UK Stewardship Code

This document describes Aberforth's approach to stewardship and its compliance with the UK Stewardship Code in the reporting period to 31 December 2023. Those looking for more information may contact Sam Ford – the investment partner responsible for co-ordinating stewardship issues – by email at stewardship@aberforth.co.uk or by phone on 0131 220 0733.

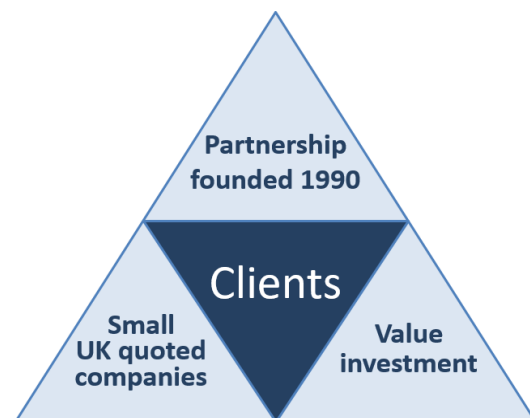
Principle 1

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

Aberforth was established in 1990 and remains wholly owned by partners working at the firm. Since then, its purpose is unchanged and is encapsulated by the accompanying diagram. Specifically, the purpose is to deliver superior long-term investment returns for its clients and, by extension, for the ultimate beneficiaries of its clients' portfolios.

The target client base, detailed in Principle 6, is institutional or wholesale investors that want to give their own clients exposure to small UK quoted companies.



Three central aspects of the firm – partnership, a focus on small UK quoted companies and a value investment philosophy – support the pursuit of this purpose. The features set out below are described in more detail in Aberforth's investment philosophy document, which can be found [HERE](#).

- Aberforth was designed by its founders to be a simple business in the belief that this would improve the investment outcomes for its clients. The firm has remained focused on one asset class and, aided by a self-imposed cap on its assets under management, avoids the complexity and proliferation of strategies that are associated with the asset-gathering model pursued by much of the fund management industry. Aberforth believes that its chosen asset class – small UK quoted companies – is relatively inefficient and, through fundamental analysis, lends itself to the active management of a diversified portfolio of stocks. Aberforth's investment universe is the Deutsche Numis Smaller Companies Index (excluding investment companies) [DNSCI (XIC)], which is the bottom ten percent of the main UK equity market by market capitalisation.



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- All Aberforth's portfolios are managed in accordance with a value investment philosophy. Encouraged by historical evidence, Aberforth believes that this philosophy plays a central role in the achievement of superior long-term returns. Given this unwavering adherence to value investment, Aberforth's primary consideration in any investment decision is, unsurprisingly, valuation. Any matters that affect the valuation of an investee company are relevant to Aberforth's investment process. These matters include environmental, social and governance (ESG) risks and opportunities. The firm believes that discreet engagement with the boards of investee companies – on matters such as governance, capital allocation, environmental impact, and social policies – can improve investment returns, to the benefit of clients.
- Aberforth's success in remaining true to its value investment philosophy and in keeping its business simple has been facilitated by the firm's ownership structure: it is a limited liability partnership, wholly owned by six partners who all work full-time in the firm. The interests of Aberforth and its clients are reinforced by the partners each investing a significant portion of personal savings in the collective funds managed by the firm. The partners' intention is to ensure the perpetuation of the partnership through transition to the next generations. The partners see themselves as guardians of a business at the centre of which are its clients: investment expertise, exceptional service and integrity combine to nurture strong client relationships and thus to extend the longevity of the business beyond the tenure of any individual.

Clients are at the heart of Aberforth's purpose and culture, but successful stewardship of clients' capital can also be of broader benefit. While small companies have a less significant impact than do their larger peers on the economy, the environment and society, that is not a reason for such issues to be de-emphasised. Aberforth expects investee companies and their boards to consider ESG risks and opportunities in their operational and strategic decision-making.

Except when requested by clients, Aberforth does not exclude investments from portfolios on the basis of ESG considerations alone. There is evidence that investment returns can be enhanced by investment in and engagement with companies that face ESG challenges and are already seeking to address them or can be encouraged to do so.

Activity

Aberforth ensures that its investment beliefs, strategy and culture enable effective stewardship by the "vertical integration" of all roles in the investment process. Each investment manager is responsible for several stockmarket sectors. For each holding within the allocated sectors, the investment manager undertakes company analysis, the origination of investment ideas, dealing, engagement and voting. An important advantage of this approach is a coherent stewardship message to the boards of investee companies that is consistent with the initial investment thesis. The controls on this approach are twofold. First, investment decisions are made collegiately by the group of investment managers based on a portfolio approach to capital allocation. Thus, an individual investment manager always receives scrutiny, challenge and assistance when necessary. Secondly, the partnership can review stewardship as implemented by the investment managers through its Stewardship Committee (see Principle 2).



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Outcome

Influenced by the value investment philosophy and a belief that individual directors can have greater effect on the fortunes of a small company, stewardship permeates Aberforth's investment process and culture. This is demonstrated by data provided in the responses to Principles 9, 10, 11 and 12. Aberforth's emphasis on stewardship is reinforced by the fact that its clients, in aggregate, are significant investors within the universe of small UK quoted companies, often holding significant stakes in investee companies. Accordingly, governance considerations and engagement are one of the main topics at Aberforth's investment meetings. Interactions with the directors of investee companies are discussed, as are significant voting issues arising from general meetings. Aberforth directs particular scrutiny toward the competence and performance of the chair since that role is the most important within the UK's governance framework as described in the 2018 UK Corporate Governance Code. Aberforth votes at all shareholder meetings and this is reported to clients. Aberforth regularly reviews strategies for engagement with companies in which its clients own meaningful stakes, and dedicates additional resource to more complex situations, escalating as required. The firm's Engagement and Voting Framework describes in more detail the approach to voting and engagement and can be found [HERE](#).

An assessment of Aberforth's effectiveness in serving its clients and beneficiaries may be conducted with reference to the firm's purpose of delivering superior long-term investment returns. The longest standing client – Aberforth Smaller Companies Trust plc – launched on 10 December 1990. From then until 31 December 2023, it has produced a compound annual NAV total return of 11.8%*. This exceeded the 9.7%* return from small UK quoted companies, as measured by the DNSCI (XIC). Part of the superior return was attributable to the value investment philosophy, as value stocks outperformed the index as a whole*. Over the same period, the total return of larger UK companies, as measured by the FTSE All-Share Index, was 8.1%*. This size premium therefore supports Aberforth's focus on small UK quoted companies.

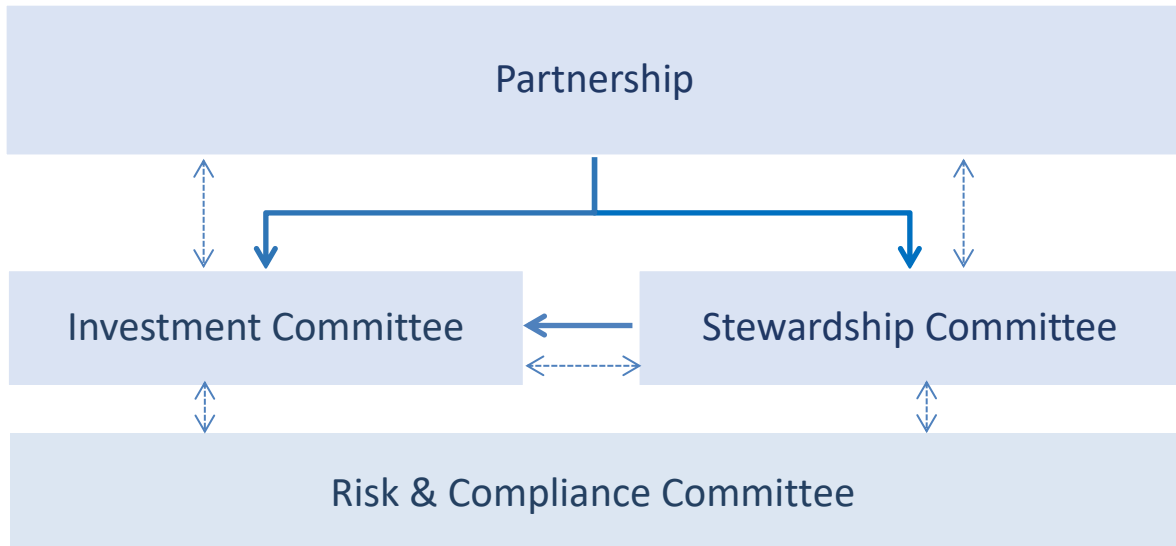
* Sources: Aberforth Partners LLP; FTSE International Limited; Numis/Paul Marsh and Elroy Dimson – London Business School.



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Principle 2

Signatories' governance, resource and incentives support stewardship.



Activity

The organisational structure and processes that support stewardship within Aberforth are inextricably linked. Stewardship starts with the partnership model itself, which places the client at the centre of Aberforth's business, as described in Principle 1. The commitment to stewardship is demonstrated in the leadership by a partner, Sam Ford, for all stewardship activities. He chairs the Stewardship Committee, on which he is supported by three others including the partner responsible for operations and the Head of Sustainability and Investor Relations (S&IR). Aberforth created this role to provide dedicated resource to manage investor requests about sustainability and to ensure that the firm is well prepared for evolving ESG regulations. Having the operations partner as a member provides an additional, diverse perspective, independent from the investment function. As described below, day-to-day stewardship decisions are taken by the investment managers. These decisions are made within a framework set by the Stewardship Committee, which reports to the partnership.



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Among its peers of investment houses addressing small UK quoted companies, Aberforth has a relatively large team of experienced investment professionals. At 31 December 2023, the team comprised seven members, with average industry experience of 23 years. The investment managers have a deep understanding of the sectors and companies they cover. This means that the boards of investee companies, who have a single point of contact at Aberforth, can be more receptive to stewardship engagement. The firm therefore believes that its investment process lends itself well to an integrated approach of stewardship: stewardship decisions are taken by the investment manager responsible for individual investments with input from other members of the investment management team. Further detail on Aberforth's investment philosophy and process can be found [HERE](#).

In implementing its stewardship policies, Aberforth's principal investment is in its investment management team, who conduct their own research, analysis and engagement. The firm recruits experienced individuals, whose diversity of knowledge and experience can contribute to the refinement of its processes. Further training and support are provided to investment managers who wish to strengthen their knowledge of stewardship principles and practices.

To support its investment and stewardship activities, Aberforth has invested in and developed bespoke internal IT systems. A series of proprietary data applications, linked to a SQL database (the Aberforth proprietary database), are tailored to the firm's approach and are integral to its investment process.

To complement these systems, Aberforth takes data and analysis from third-party providers. This includes a relationship with a proxy voting adviser. Where third-party data relationships exist, they are subject to an annual effectiveness review. Experience with third party providers of ESG analysis has remained disappointing to date. The firm has found that the coverage and quality of data relevant to small UK quoted companies remain inconsistent and incomplete.

The structure and ethos of the partnership mean that separate reward structures to incentivise stewardship are not necessary. Aberforth's model is for all its investment managers, and therefore all those with responsibility for enacting stewardship policy, to become partners in the firm. Investment managers are rewarded on the basis of the firm's overall performance, rather than being tied to the investment results of individual sectors or funds. This aligns Aberforth's activities with clients' interests. All operational staff have a specific ESG performance objective as part of their remuneration assessment.

Outcome

Aberforth has consistently applied its approach to stewardship since the foundation of the business in 1990. This task is made easier by the firm's relatively flat hierarchy and by the fact that its principals are directly responsible for implementing the stewardship policy. The Engagement and Voting Framework (found [HERE](#)) and the ESG Integration framework (found [HERE](#)) attest to the rigorous implementation of Aberforth's approach to stewardship.



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Although existing governance structures are established and working, there are ways in which its processes, particularly regarding environmental and social considerations, can be enhanced. Several improvements have recently been or are currently being implemented.

- In 2023, the firm's Engagement and Voting Framework (found [HERE](#)) was reviewed and refreshed. The framework was agreed by the Investment Committee and ratified by the Stewardship Committee.
- Aberforth continues to enhance the ESG module that forms part of its proprietary database. This embeds the integration of the ESG framework for determining the effect of ESG risks and opportunities on investee companies' valuations. As a result of these improvements, Aberforth collects more ESG datapoints in standardised formats, which should offer richer insights as the series build over time.
- The ESG framework and the recording of engagements within the proprietary database is linked. The main benefit is a more integrated view of a company's ESG credentials, engagement activities and voting record. The results contributed to the examples detailed in Principles 9, 10 and 11.
- Aberforth invested in training and resources to enhance knowledge and expertise in stewardship. In 2023, staff attended industry training events and seminars related to ESG. One member of the stewardship committee and a further member of the investment management team have completed the certificate in ESG investing, issued by the CFA Institute.
- The Head of S&IR holds ESG review sessions with the investment managers to improve knowledge and understanding on evolving ESG matters.
- The firm progressed internal diversity and inclusion initiatives to support a productive and healthy work culture. During the year, Aberforth's staff completed online training and a survey on the subject, which benefitted from a high response rate. The results of the survey will aid the firm's response to the forthcoming FCA policy statement.
- The firm progressed its climate related disclosure plans, which are aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This saw the firm quantify its carbon emissions, supported by environmental consultants, and commit to net zero by 2050 for its own operations.



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Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

As an independent limited liability partnership, whose sole specialisation is investment in small UK quoted companies, many of the traditional conflict of interest scenarios faced by larger, more diverse investment management entities do not apply or are less relevant to Aberforth.

The firm has a policy, refreshed annually, for the identification and management of conflicts of interest, with the objective of ensuring that clients are not adversely affected. Any conflict of interest that arises is duly considered by senior management, including the compliance team. The conflict is recorded and managed in a way that ensures that all clients are treated fairly. Where it is impractical to manage such a conflict it will be disclosed to the relevant clients. Aberforth's conflicts of interest policy is shared directly with clients and can also be found [HERE](#).

The policy describes situations in which conflicts of interest may arise. From the stewardship perspective, the most relevant are conflicts that can arise (a) between Aberforth's interests and those of its clients, (b) among its clients or (c) between the interests of the firm's partners or employees and its clients.

Activity

The points below explain how Aberforth has identified and managed conflicts of interest relevant to stewardship.

- In buying and selling shares, the firm only ever deals as agent on behalf of its clients and never as principal on its own account.
- The firm's bespoke order management system is designed to deliver fair allocation of aggregated orders between multiple clients. This is subjected to regular compliance monitoring.
- The firm has controls in place to ensure that mandate restrictions directed by clients are known by investment managers and are reflected in systems.
- The firm's policy on gifts and hospitality prohibits the giving or accepting of gifts that may give rise to a conflict of duties owed to clients or the firm and may otherwise only be accepted where the gift or hospitality is modest and infrequent.
- Aberforth encourages long-term savings and investment by partners and employees. Personal dealings in investments are generally permitted, subject to compliance with the personal dealing policy. That policy requires all personal dealing to be approved by a partner and generally prohibits investment in any company that is a constituent of the investment universe.



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- Private wealth managers, on behalf of their clients, are significant investors in the collective funds managed by Aberforth. Some of these wealth managers are constituents of the investment universe and the firm can invest its clients' funds in them. On such occasions, the investment decisions are taken transparently in a manner consistent with clients' mandates and Aberforth's purpose and investment philosophy, as described in Principle 1.
- Clients' interests are represented directly with the investment managers through the independent boards of the investment trusts, the independent non-executive directors of the unit trust management company (on behalf of the unit trust) and directly by client representatives on behalf of the segregated charity clients.
- Aberforth's partners are not permitted to take board positions at investee companies or to sit on the boards of two investment trusts that the firm manages.
- A conflict may arise should a director of an investment trust managed by Aberforth be invited to join, or already be a member of, the board of a company in which the firm's clients invest. How this situation is addressed is described in one of the examples below as an outcome.

Outcome

Examples of the management of conflicts in practice are noted below. Conflicts of interest do not arise regularly. The historical examples described below are demonstrations of the firm's approach to managing conflicts.

Example: client board conflict

Directors of the boards of the two investment trusts managed by Aberforth may be sought as potential board members of other organisations. This risks potential and/or actual conflicts with the stewardship of clients' capital. When this occurs, it is addressed through consultation and consideration by the director in question, the board's chair and Aberforth. A historical example related to an investment trust director who was also on the board of an investee company that was subject to a potential takeover. The situation was thoroughly assessed and it was concluded that there was no direct conflict of interest. It was also determined that any potential indirect conflicts arising could be managed and mitigated through transparent disclosures and the establishment of safeguards regarding the discussion of the company in question. Historically, there have been instances where the conflict has been considered unacceptable. In one example, an investment trust director was invited to become a director of a company where clients of Aberforth had a significant interest. The risk of a conflict could not be mitigated to an acceptable level and so the director withdrew their candidacy.

Example: client engagement

Aberforth takes time to ensure that its corporate philosophy [HERE](#) and investment approach [HERE](#) are understood when building and maintaining client relationships. During this process, Aberforth seeks to understand clients' stewardship principles and requests. Consistent with this approach, the firm discussed with one client its specific stewardship requirements after the client introduced a 2050 deadline for its investment portfolio to achieve net zero. With a good understanding of these requirements, Aberforth provided additional feedback on how a value investment philosophy could be compatible with these goals. The feedback from the client was supportive and an inaugural environmental report was produced.



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Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

Fundamental research is one of the main components of Aberforth's investment process. Market-wide and systemic risks are directly relevant to the valuation of investee companies and are identified by the investment managers in the course of their industry and company analysis. Additionally, within the bottom-up research process, there is a top-down check in place: two investment managers are charged with keeping abreast of developments in the macro-economy and financial markets. Emerging systemic risks and their impact on companies or industries are discussed at investment meetings. Target valuations for investee companies may be adjusted in light of these discussions, which might lead to changes to holdings and, where appropriate to the investment mandate, to gearing levels. If a market-wide issue has relevance to Aberforth itself, it is discussed by the partners and actions are taken as appropriate.

Aberforth's partners and employees participate in industry forums, both to help identify risks and, if relevant, to influence how the risks are addressed. Such action is undertaken with the aim of improving how financial markets, usually the market in small UK quoted companies, function. During 2023, Aberforth participated in meetings or forums with the Bank of England, The Investment Association, the Association of Investment Companies (AIC), the Financial Reporting Council, the PRI, the International Sustainability Standards Board, the Sustainability Accounting Standards Board and the Financial Conduct Authority. The objectives of engagement with these forums are: (i) identification of industry issues, such as stewardship regulation and regulatory change; (ii) engagement on stewardship and ESG matters, particularly around application to smaller businesses and in the listed small cap sector; and (iii) economic and market conditions, including regulatory responses.

Under Principle 7, more detail is provided as to why Aberforth sees climate change as a systemic risk to economies and financial markets. It takes this into account when assessing the prospects and valuations of individual companies. Aberforth engages with the boards of investee companies when their stances on climate change are affecting their valuation. It has not engaged in public advocacy. This reflects the complexity of the topic, with nearer term economic and social impacts a likely consequence of meaningful remedial action on climate change. The scope of the judgement required here is broad and prioritisation is a matter for broader society as mediated by government. This stance does not shift responsibility from Aberforth: it considers the impact of potential government action on climate change when assessing the prospects and valuation of investee companies.



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The proliferation of climate change regulation and recommendations from governments and other official bodies may itself be a market-wide risk. Any resulting confusion may complicate and delay the implementation of climate change policies by companies, particularly smaller companies with less resource available. This general risk may be a source of individual investment opportunities in companies that are slow but willing to comply. The regular engagement embodied in Aberforth's stewardship model can help identify such companies and help them on their journey.

Outcome

Aberforth's approach to investment, which is based on fundamental analysis, puts it in a good position to identify and assess systemic and market-wide risks. These risks have been considered through the investment process and have, in some cases, led to adjustments to target valuations of investee companies and changes to holdings.

While acknowledging its small size in the asset management industry, Aberforth will continue to engage with other stakeholders on systemic and market-wide risks where such action seems likely to improve the investment outcomes of its clients or, consistent with Principle Five of the FCA's Principles for Businesses, the functioning of the financial system.



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Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

Aberforth's approach to the assurance of its stewardship policies is based on internal review. This approach has been adopted since the small size of the firm and its ownership structure mean that its principals are able to scrutinise and amend stewardship policies and their implementation as appropriate. Providers of external assurance are considered, but it is not yet clear that they would add the value provided by third parties in other areas of the firm's activities, such as the AAF 01/20 framework issued by the Institute of Chartered Accountants in England and Wales.

There are three layers to the internal assurance approach: two are formal – the Stewardship Committee and the partnership as owners of Aberforth – and one informal. The informal layer is a benefit of the firm's size and simplicity. The investment managers, who put stewardship policies into practice, work together in the same room. Contentious issues may be discussed as they arise and with reference to policy, which increases the likelihood of consistent implementation. At the formal level, the Stewardship Committee is charged with formulating the firm's policies and reporting on their implementation through the investment managers' stewardship activities. Important inputs to the Committee's work are dialogue with industry peers and participation in relevant industry forums. The Committee reports to the partnership annually, which gives the ultimate approval to the stewardship policy and its implementation.

An additional level of external assurance is provided by the boards of the collective funds managed by Aberforth. The firm presents its stewardship report, together with voting records, to these boards annually. The boards review and challenge the reports, as well as providing an additional check on whether they are fair, balanced and understandable. Summarised updates to stewardship policies and practices are set out in disclosures in the Annual Report and Financial Statements of Aberforth's collective funds. These are approved by the boards and subject to review by external auditors. Aberforth's other clients benefit indirectly from this scrutiny.

Outcome

The assurance approach described above has resulted in the following recent developments in Aberforth's stewardship policies and processes.

- The stewardship policy is structured around the UK Stewardship Code 2020. It is reviewed and updated annually for relevant examples, current activity and outcomes.
- The Stewardship Committee, which is tasked with the oversight of policies and their implementation by the investment managers, has evolved from a group to a formal committee and strengthened role of stewardship within the firm's system of governance. The committee includes the Head of S&IR, who contributes additional expertise on stewardship and ESG matters.



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- Aberforth conducted a review of its Engagement and Voting Framework (found [HERE](#)) during 2023. The refreshed document gives more prominence to how engagement and voting works in practice. It also clearly sets out Aberforth's expectations of investee companies as well as the firm's stance on specific governance topics.
- As set out in Principle 2, Aberforth's ESG framework is integrated with the engagement module in the proprietary database. This aids consistency of investee company evaluations, which influence the assessment of value. An additional benefit is that all engagement activities are recorded and are aligned to the firm's ESG framework methodology and voting practices.
- Members of the Stewardship Committee participate in industry forums, hosted by the Investment Association, the International Sustainability Standards Board, UN PRI and a variety of professional service firms. Such activities are useful in assessing the effectiveness of Aberforth's policies and practices.
- Aberforth commissioned a sustainability consultant to assist in measuring the firm's own environmental impact and strategy for energy transition. Improvements to the firm's voluntary reporting under the Streamlined Energy and Carbon Reporting framework were made. These included the quantification of Scope 3 greenhouse gas emissions in addition to Scope 1 and 2. This continues to inform the firm's carbon reduction plan and provides a benchmark report for comparability. In 2023, the firm committed to net zero by 2050 for its own operations.



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Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

As described in Principle 1, Aberforth's portfolios are managed in accordance with a value investment philosophy. Historical evidence suggests that this philosophy plays an important role in the achievement of superior long-term returns for clients. The firm believes that effective engagement with the boards of investee companies – on matters such as governance, capital allocation, environmental impact and social policies – can improve investment returns, to the benefit of clients. Where ESG matters impinge upon the investment case, the investment managers engage with investee companies to understand how these issues may be addressed. The investment managers are well placed to undertake this activity, since engagement has always been fundamental to their investment process.

Aberforth's intended clients are institutional or wholesale entities that seek to give their own clients exposure to small UK quoted companies. Aberforth's assets under management are invested entirely in small UK quoted companies. These are companies with a market capitalisation, at the time of purchase, equal to or lower than that of the largest company in the bottom 10% of the main UK equity market or companies in the Deutsche Numis Smaller Companies Index (excluding investment companies). At 31 December 2023, the firm managed four funds: three collectives and one segregated fund for a charity. All four funds are managed in a similar way in keeping with the value investment philosophy, though client specific variations allow classification into sub-strategies: **Standard Value**, **Value and Income** and **Standard Value with Client Restrictions**.

- **Standard Value:** Aberforth Smaller Companies Trust plc (ASCoT) has been a client since its inception in 1990. It is an investment trust listed on the London Stock Exchange, with assets of £1,370m* at 31 December 2023. Its underlying investors are overwhelmingly institutional, primarily private wealth managers. Retail investors, including execution-only platforms or non-discretionary stockbrokers but excluding current partners of Aberforth, represent circa 16%* of the fund. Non-UK investors represent circa 16%* of the fund.
- **Standard Value:** Aberforth UK Small Companies Fund (AFund) has been a client since its inception in 1991. It is an authorised unit trust scheme, with assets of £138m* at 31 December 2023. Its underlying investors are overwhelmingly institutional, primarily private wealth managers. Retail investors, including execution-only platforms or non-discretionary stockbrokers but excluding current partners of Aberforth, represent circa 10%* of the fund. Non-UK investors represent circa 2%* of the fund.



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- **Value and Income:** Aberforth Split Level Income Trust plc (ASLIT) has been a client since its inception in 2017. It is a split capital investment trust listed on the London Stock Exchange, with assets of £215m* at 31 December 2023. Its underlying investors are overwhelmingly institutional. Retail investors, including execution-only platforms or non-discretionary stockbrokers but excluding current partners of Aberforth, represent circa 12%* of the fund. Non-UK investors represent circa 13%* of the Ordinary Shares. This fund has a limited life, with a planned winding-up date of 30 June 2024.
- **Standard Value with Client Restrictions:** Charity A is a segregated fund managed by Aberforth for one of the UK's largest charities. A client since 2002, assets at 31 December 2023 were £279m*.

* Sources: Aberforth Partners LLP; Richard Davies Investor Relations.

Aberforth considers that a long-time horizon, of at least five years, is appropriate to meet the needs of its clients and their underlying beneficiaries. Over a shorter period, there would be a greater risk of volatility from economic and stockmarket cycles. In particular, the value investment philosophy followed by the firm can have prolonged periods out of favour. A longer time horizon also accords with how Aberforth assesses the prospects of the companies in which its funds invest. Several companies have been held by the funds for over a decade, though the average holding period is shorter. This reflects opportunities presented by the stockmarket to realise profits and recycle the proceeds into more attractively valued companies, a process Aberforth terms the “value roll”.

Activity

The three collective funds – ASCoT, ASLIT and AFund – are overseen by boards of directors, who receive detailed quarterly reports and attend board meetings with representatives of Aberforth present. These meetings give the directors the opportunity to scrutinise the firm's chosen approach, its stewardship activities (including a record of significant votes), its stewardship code and investment horizons. Additionally, Aberforth's investment managers meet the funds' largest investors twice a year to explain performance against investment objectives and to set out factors relevant to the investment strategy. Engagement activity with investee companies is addressed, as long as it does not breach confidentiality. During the most recent round of visits in November 2023, the firm conducted 212 meetings with investors, whose combined holdings represented a majority of ASCoT, ASLIT and AFund. This biannual exercise is an opportunity for investors to give feedback and for the investment managers to understand investors' requirements. Appetite for Aberforth's investment offering is formally tested every three years when ASCoT's Annual General Meeting (AGM) contains an ordinary resolution for continuation, with the last occurrence being the March 2023 meeting. In 2023, ASCoT's shareholders approved a resolution to continue the Company. ASCoT's next continuation vote will occur in March 2026. Shareholders are kept informed through annual and interim reports, monthly fact sheets and research produced by Kepler Partners.



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The charity fund receives quarterly reports and meets representatives of Aberforth regularly through the year. Further, Aberforth compiled a second annual ESG report sharing a bottom-up evaluation of investee companies' ESG strategies and disclosures. The report articulates the stock-by-stock risk assessment and investment evaluation of Environmental, Social and Governance factors for the portfolio. This is complemented by examples of Aberforth's engagement. The relationship with the charity, including investment policy, is covered by an investment management agreement. The client does not operate an exclusions list. It is, though, concerned about exposure to fossil fuels and has recently committed to a net zero strategy for its wider investment portfolio by 2050 at the latest. In addition to consulting the client before proceeding with a potentially sensitive investment, Aberforth is engaged with the client to support its journey towards a carbon neutral portfolio.

All relevant reports and disclosures made to clients are reviewed by the Stewardship Committee. At least two members of the group attend all fund board meetings to present progress, consider feedback and understand the client position and needs. Aberforth supported all funds in enhancing their approach on stewardship matters in 2023. Consultation with investors is undertaken each year following publication of the funds' annual report and financial statements. The feedback from investors is shared with the boards routinely during board meetings. Additionally, the chair of both investment trust boards writes to the top twenty shareholders offering a meeting and requesting feedback.

Outcome

Aberforth's approach to taking account of the needs of clients and beneficiaries is founded upon regular reporting, contact and dialogue with the clients and underlying investors in the collective funds. This monitoring is undertaken proactively by the investment managers, through twice yearly shareholder visits, and by the board chairs, through annual meetings and feedback. Given the diverse underlying ownership of the collective vehicles, there is inevitably a range of views on investment strategy and stewardship. The boards of the collective vehicles scrutinise Aberforth's stewardship policy and monitor adherence. In the case of the segregated charity fund, regular consultation with its investment committee has led to potential investments not being made. Over the past year Aberforth has followed its stewardship and investment policies for all its investments and clients.



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Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

Aberforth's investment process encompasses all issues that its investment managers judge to be relevant to a company's valuation. An investee company's journey through the process – from pre-purchase analysis to final exit – is determined by the interplay between Aberforth's valuation of the company and the price attributed to it by the stockmarket. Any environmental, social or governance (ESG) issue could, therefore, be of importance, particularly as the increased profile of ESG has brought greater distortions to stockmarket valuations.

ESG analysis is integrated into Aberforth's investment process alongside all other matters relevant to a company's valuation. Aberforth's approach is rooted in the view that a company's system of governance is crucial to how all risks and opportunities – ESG and otherwise – are identified and managed. If their governance is effective, companies will be well-positioned to manage the increasing number of environmental and social issues.

Aberforth's contention is that the perception of ESG deficiencies can create valuation opportunities, as the stockmarket often under-estimates the ability of small companies to take effective remedial action. Aberforth further contends that valuation discounts related to ESG issues can be challenged through a programme of active engagement to encourage the issues to be addressed. Aberforth is well positioned in this regard: engagement has always been a fully integrated component of the investment process. It is achievable because of the firm's commitment to a high level of dedicated and experienced investment management resource.

Philosophy, policies and practices

The Managers' approach to Stewardship and ESG is available on the Aberforth website in the "About Aberforth" section. The policy framework is set out in the following documents, which are managed by the Stewardship Committee.

- [About Aberforth](#): the background and founding principles of the firm, its core strategic philosophy and nature of the business.
- [Investment Philosophy](#): the investment manager's approach to investing as adopted for Aberforth's clients.
- [Stewardship Policy](#): Aberforth's approach to the stewardship of its clients' capital.
- [ESG Framework](#): the methodology underpinning Aberforth's integration of ESG into the assessment of company value.
- [Engagement and Voting Framework](#): how Aberforth engages and votes, along with what is expected of investee companies.



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- [Examples of Engagement and Voting](#): examples of how the Engagement and Voting framework is put into action, included as part of this response.
- [Governance and Corporate Responsibility](#): Aberforth Partners LLP's approach to Stewardship, which is reported annually.

Activity

Integration of stewardship and investment is straightforward, facilitated by Aberforth's ownership structure, client engagement and portfolio management approach. As described under Principle 2, all investment managers are normally also partners of the firm. This ensures that the importance placed by the firm on issues such as ESG flows directly into company analysis, engagement and the management of clients' portfolios.

ESG integration is supported by a module that forms part of the firm's proprietary database. The module makes use of an enhanced methodology to assess the ESG attributes of investee companies. With the passage of time, it may be possible to draw broader insights on ESG specific issues. That is not yet possible in the context of the dataset, which is in only its fourth year of collection. More information on Aberforth's ESG framework can be found [HERE](#). The decision to use a bespoke solution reflects the heterogeneity of ESG strategies and the varying depths of reporting that are evident among small UK quoted companies.

In practice, the firm divides the stockmarket by sector between its investment managers. Therefore, for the purposes of company analysis and the implementation of stewardship, one manager has lead responsibility for each company. In more complex situations, or when the clients' combined stake in a company exceeds 10%, a second investment manager is appointed to support the lead. A similar approach is taken to client engagement, with each client relationship led by two investment managers (partners). Decision-making, whether at the portfolio management or client engagement level, is undertaken collegiately by the investment managers or, if relevant, by the partners including the operations partner.

Moreover, engagement with clients is also undertaken by the investment managers. This assists in the effective implementation of clients' objectives, time horizons and instructions into the investment process. This degree of integration is possible because of Aberforth's small size, the experience of its investment managers and its relatively flat hierarchy.

2023 was the first year to benefit from an upgraded engagement module that forms part of Aberforth's proprietary database. It allows the recording of engagement objectives for investee companies and the associated stream of interactions. Objectives are ascribed to the relevant ESG subfactor according to the firm's ESG framework. Other details are also recorded, including the format and location of the engagement, how the engagement may have influenced voting, and whether there was collaboration with other shareholders. On the conclusion of an engagement stream, the outcome is recorded and evaluated against the original objective.



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Integration of stewardship into the investment process, including the risk component of the ESG framework, is subject to an annual review by the Stewardship Committee, whose role is set out more fully under Principle 2. In 2023, this involved a refresh of the firm's Engagement and Voting Framework, found [HERE](#). The refreshed document gives more prominence to how engagement and voting works in practice. It also clearly sets out Aberforth's expectations of investee companies as well as the firm's stance on specific governance topics. The framework describes how Aberforth consider environmental and social issues in the investment process.

The stewardship initiatives outlined above have been helped by dedicated resource within Aberforth. The Head of S&IR helps the investment managers with client, firm and investee company matters related to sustainability.

Outcome

Aberforth has a long record of frequent and in-depth engagement with investee company boards, which, together with its voting commitment, demonstrates the importance of stewardship to the investment process.

Given the frequency of engagement, stewardship considerations affect the overwhelming majority of investment decisions, from new purchases to exit decisions. These investment decisions are always taken in the interests of long-term value for clients and investors, though, as described above, benefits to the economy, environment and society are also considered. The examples below pertain to engagement on environmental and social issues with existing holdings in 2023. Engagement examples where governance issues are the major focus are featured in the responses to Principles 9, 10 and 11.

Example: Reach [Social – external stakeholders/ Governance – capital allocation]

Reach is several years into a strategy to grow its digital profits in the face of declining demand for physical newspapers. This task is complicated by external stakeholder liabilities, the largest of which are pension deficits associated with four legacy schemes. An engagement stream has been underway for several years related to the 2019 triennial review for the largest pension scheme in the group, which has been hampered by disagreements on funding levels. Aberforth has been concerned that higher cash contributions might compromise investment to help the business thrive in a digital world. This risk is highlighted by pension deficit recovery payments of more than £350m since 2018, equating to approximately 50% of cumulative EBITA. There was also a concern that management bandwidth was unduly focused on pension scheme negotiations, rather than the digital strategy. Aberforth offered to meet the pension trustees to understand their perspective and to explore their stance on the business covenant. Although this meeting did not occur in 2023, Reach subsequently achieved a funding agreement with the Trustees that gave visibility on contributions through 2028 when the majority of the schemes should be fully funded.



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Example: NCC [Social – employee culture]

NCC's main activity is the provision of cyber security services for enterprises. In 2023, there was a sharp slowdown in technology customers' cyber spending in its largest market of the US. The result was a string of profit warnings and a restructuring programme to lower costs. Aberforth engaged with the executive management to understand the potential and actual effects of the issues on the culture of the company. This acknowledged the fact that NCC's people are its critical asset and that a successful turnaround will be dependent on motivating and retaining the best of its workforce. Our engagement concluded that the steps being taken to rationalise cost were necessary and that the restructuring could also be helpful in consolidating the cultural fiefdoms symptomatic of the company's acquisitive past. The engagement showed that board was focused on managing the risks and opportunities brought about by the restructuring.

Example: Bodycote [Environmental – climate change]

Industrial companies, owing to their carbon emissions, are commonly seen as part of the climate change problem. However, our analysis suggests that many products and services reduce customers' costs and carbon emissions. We have engaged with these companies to encourage them to highlight such benefits. Bodycote, which has long stood out for its thoughtful approach to a range of issues, has explained clearly how its outsourced heat treatment services generate both financial and carbon savings for its customers. Avoided emissions, also known as Scope 4, form part of Bodycote's commercial strategy and thus represent a business opportunity that has emerged from climate change.

Example: Speedy Hire [Environmental – pressure on natural resources]

The construction equipment hire specialist Speedy Hire was the subject of an environmentally focused engagement to understand how demand, costs and investment might evolve with the advent of more sustainable solutions for equipment and tool hire. This involved discussions about the possibility of customer emissions reductions and lower operating costs through a lower use of diesel. Through this engagement, Aberforth has emphasised the importance of financial returns. The engagement continues.

Example: International Personal Finance [Social – product liability and consumer protection]

International Personal Finance provides credit to those who find it difficult to access it from mainstream lenders. It serves a vital social purpose in several countries worldwide by responsibly providing unsecured, affordable credit and value-added services. However, in some jurisdictions, notably Poland, regulations are bringing into question the economic viability of some parts of the business. There is a tension between the interplay of regulation, social purpose and economic return. Aberforth engaged extensively with the company, including a field trip to Poland, to gain further understanding of this tension and the strategic optionality available to the company in a fast-changing regulatory environment.



ABERFORTH PARTNERS

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Context

Aberforth has few third-party service providers in the area of stewardship and has instead chosen to conduct most of these activities internally and directly. The firm has a long-standing relationship with a proxy voting adviser.

All other third-party services such as custodianship, audit, IT and cyber risk management are covered by wider company policies and risk management documentation.

Activity

Relationships with external data provider relationships are subject to formal annual review but in practice are assessed continually throughout the year based on the timeliness and quality of their individual reports.

To date, the proxy voting service has been satisfactory. Further information on Aberforth's voting policy can be found [HERE](#).

Aberforth previously contracted with a provider of carbon data. The contract with this provider was not renewed for 2024. TCFD reporting has allowed the direct collection of carbon data from the annual and sustainability reports of investee companies. As such, the provision of further carbon data from a third party was not required.

Other third-party providers of ESG information and data are kept under periodic review and may prove useful in the future to improve the firm's sustainability analysis and disclosures.

Outcome

While Aberforth employs the services of a proxy voting adviser, investment managers are under no obligation to follow its recommendations and on many occasions take a different view. The response to Principle 12 shows examples where this was the case in 2023. It is also the case that interaction with companies on issues raised by the proxy adviser can lead to a change in the investment manager's original voting decision.

As in previous years, the review of external ESG data providers has contributed to Aberforth's view that the measurement and evaluation of relevant factors cannot reliably be outsourced to a third-party. This is because of the lack of consistent methodology and inadequate coverage of the small UK quoted companies amongst the data providers. This informed Aberforth's decision to design a bespoke ESG module as part of its proprietary database, which makes use of a revised methodology for the evaluation of ESG risks and opportunities. Population of the ESG module is informed by engagement with companies and by investee companies' annual reports and sustainability reports.



ABERFORTH PARTNERS

Principles 9, 10 and 11

Signatories engage with issuers to maintain or enhance the value of assets.

Signatories, where necessary, participate in collaborative engagement.

Signatories, where necessary, escalate stewardship activities to influence issuers.

Context

Aberforth's policy on engagement can be found on its website in the [Stewardship & ESG section](#). Responses to Principles 9, 10 and 11 have been combined to avoid repetition and to reflect the related nature of the three components.

Engagement is an essential element of Aberforth's investment philosophy and process. The investment managers regularly engage with executives and boards of investee companies in an open and constructive manner. Aberforth engages directly and believes that its clients and investee companies benefit from a policy of discretion on live engagements. The firm's experience is that ill-timed disclosure and public confrontation hinders the chances of successfully effecting change.

A flexible approach to engagement is important. This reflects the diversity of business models and differing specific circumstances facing individual businesses, particularly within the universe of small UK quoted companies. Moreover, Aberforth is conscious that the broader economy benefits from a thriving smaller companies sector and that this may be stifled by a one-size-fits-all engagement policy.

While determined to encourage high standards of stewardship and corporate behaviour, Aberforth does not wish to burden small company boards unnecessarily with engagement guidelines that can appear to have been designed for larger companies. This, for example, might mean taking a pragmatic view on compensation in acknowledgment of the considerable competition for executive talent.

Activity

Aberforth's clients in aggregate often hold significant stakes in investee companies. The investment managers tend, therefore, to have good access to executive and non-executive directors. The preference is for face-to-face meetings, particularly when addressing sensitive topics. Meetings at the firm's Edinburgh office makes it easier for several members of the investment management team to participate. In practice, much of Aberforth's engagement is conducted through video calls, conventional phone calls and e-mail.



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Aberforth reviews and prioritises planned engagements at its weekly investment committee, or on an ad hoc basis in response to events. Engagement is conducted by the investment managers. Their number and experience allow multiple engagements to occur at any given time. The investment manager with responsibility for the company presents the investment case to the investment committee and, if necessary, proposes an engagement strategy. The ensuing discussion, which takes into account the holding size and the ability to influence, results in the agreement of an engagement strategy and objectives. In common with the context and activity outlined in Principles 1 and 6, the objective of this engagement will be to either preserve or enhance value for clients. This way of operating is consistent across all Aberforth's client mandates.

As part of on-going due diligence and appraisal of the investment universe, Aberforth typically meets executive directors of each investee company at least twice a year. The format for meetings is normally in-person at Aberforth's Edinburgh office, but the investment managers also travel to companies' headquarters. These meetings address operational and financial performance, competitive positioning in the context of broader industry developments, outlook, strategy and capital allocation, all of which might involve environmental, social and governance issues. The outputs from these engagements are used to inform a view on a company's underlying value, which allows it to be considered in the broader capital allocation process.

Interaction with executives helps to understand a company and the issues affecting it, but the chair's role is pre-eminent within the UK's governance regime. The chair has oversight of the executives and is responsible for strategy and capital allocation. Accordingly, Aberforth's engagement approach emphasises contact with the chair. The frequency and depth of engagement with the chair increases proactively as the stake held by the firm's clients rises and reactively should the investment case deviate from its expected path. Aberforth also values engagement with the senior independent non-executive director and other non-executives. This becomes particularly relevant when the chair's performance is in question. In addition to the topics raised in executive meetings, engagement with non-executives can address upcoming votes, remuneration, executive performance, board succession, corporate strategy and culture, environmental commitments, and capital allocation.

As part of its engagement approach, Aberforth operates a formal "significant stakes" process, which commences when clients' collective interests exceed 10% of the voting rights in an investee company. This triggers a review of the investment case and engagement requirements, though becoming a "significant stake" is not in itself a reason to escalate engagement. An additional investment manager is assigned to the company. That manager may participate in meetings with directors and provides additional rigour and challenge to the existing investment case. "Significant stakes" are reviewed collectively and formally at least once per year. The upper limit for a "significant stake" is 25% of a company's shares in issue. Such a stake brings great influence, though Aberforth does not seek board positions. Rather, its *modus operandi* is to work with and through the company's executives and independent non-executives.



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Since Aberforth's clients are often large holders of investee companies, the investment managers are usually able to engage directly and effectively with board members. There are, however, instances when a collective approach to engagement may be appropriate. These collective engagements can occur when Aberforth considers the cumulative holdings of the firm's clients insufficient to effect change. The firm's interaction with other investors is influenced by the terms of the Takeover Code. Beyond specific engagements, Aberforth sees value in the sharing of views with other industry practitioners and in participation in industry forums.

Aberforth typically escalates its engagement when an investment thesis starts to stray from the expected path. The escalation process exists to protect the interests of Aberforth's clients. The weekly investment meeting is the forum for formal consideration of the status and effectiveness of live engagements. The investment manager responsible for the company in question leads the discussion, which involves analysis of the situation and the progress made to date. Together with the rest of the investment management team, an escalation plan is formed. The plan seeks to address the concerns of Aberforth and propose how, and in what time frame, they might be remedied. The first move in an escalation is usually to engage with the chair, but, if the chair is considered part of the problem, the focus turns to the senior independent director. Aberforth may also contact the company's advisers and other investors to inform them of concerns. Other options include a formal letter expressing concerns and expectations to the board, as well as the requisition of general meeting. In practice, the "significant stakes" process described above often overlaps with, and forms part of, an escalation plan.

Outcome

Aberforth continues to refine its approach to engagement and invest in systems to support its effectiveness. In 2023, Aberforth benefited from the first year of an upgraded engagement module within its proprietary database. The new module improves recording of individual engagements, linking those that form part of longer-term objectives. It also improved recording of *ad hoc* engagement.

Aberforth also performed a comprehensive review of its Engagement and Voting Framework (found [HERE](#)). The framework majors on the firm's pragmatic approach to stewardship, which befits the asset class. That pragmatism positions Aberforth, whose clients can become significant owners of investee companies, to be helpful to boards and advisers ahead of events that are material to shareholders. Aberforth expects to be consulted by investee company boards, and this expectation is a central theme of the framework.

Over the course of 2023, Aberforth conducted 412 executive level meetings and 135 non-executive meetings with companies. These numbers compare with 398 and 137 respectively during 2022.



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A notable theme of engagement for the year related to the reduction of companies' pension liabilities because of higher interest rates. Aberforth sought to understand the options that might be available to remove these liabilities from company balance sheets and to reduce or eliminate pension contributions. To aid these discussions, the investment managers consulted a bulk annuity insurer and a pensions consultant to understand both the process and company specific considerations that might need to be addressed.

Previous years saw heightened interest in takeovers of small UK quoted companies, which was a result of low valuations on the public markets. 2023 was another busy year of M&A activity despite higher funding costs for acquirers. Consistent with its Engagement and Voting Framework, discussed above, Aberforth asks that chairs consult about incoming M&A interest well before announcement of a formal takeover offer. Timely consultation can enable Aberforth to support a board in rejecting an approach that under-values an investee company. There were six investee companies subject to a board recommended offer in 2023. Aberforth did not support all offers, the votes associated with which are discussed in the response to Principle 12.

Engagements with a focus on environmental and social issues are discussed in the response to Principle 7. All engagement streams were conducted with the common goal of unlocking shareholder value.

The examples below describe a selection of the engagements that occurred in 2023.

Example: Genel Energy

Genel Energy is an oil producer with assets in a single region, Kurdistan. Operating as an autonomous state within Iraq, the Kurdistan Regional Government (KRG) has been exporting oil via a pipeline to Turkey since 2014. The pipeline was closed in March 2023 after an international court ruled that exports were unauthorised by Iraq. The ensuing dispute between Turkey, Iraq and the KRG has meant Kurdish oil producers are unable to export. Aberforth sought to understand the board's view on the longevity of the production curtailment. This informed our view that it would be right not to cut the dividend until more was known about the duration of the issue. Nevertheless, Genel Energy abandoned its dividend policy at the interim results. The results described a growing desire to diversify the group's production into new countries, which introduced new risks related to the execution of M&A. This updated capital allocation framework was influential in our decision to exit the investment.



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Example: Videndum

Videndum was badly affected by the Hollywood writers' and actors' strikes. As trading deteriorated through 2023, it became clear that the balance sheet was coming under pressure. We engaged with the board and advisers to understand the extent of the problem and how it could be addressed. With the banks unwilling to commit additional funds, an equity raise became necessary. Our clients supported the raise, increasing their aggregate stake in the company. In parallel, we also engaged in the process to appoint a new chair – it was important to us that any capital raising and the subsequent turnaround was overseen by an experienced individual in whom we had confidence. Stephen Harris, with whom we have worked through investments in Bodycote, met those criteria.

Example: Foxtons

Foxtons boasts a strong brand in the London market and data-rich IT systems. It suffered in the wake of the EU referendum, as demand fell and market share was lost. The current chair initiated a turnaround and appointed a new CEO. The latter has made a good start in revitalising Foxton's brand and proposition, with investment generating market share gains and further strengthening the lettings business. Notwithstanding this progress, the board is under pressure from some shareholders to sell the business. We have engaged to understand their rationale. We acknowledge the on-going consolidation of the UK estate agency market. However, we worry that a precipitous sale process might not result in appropriate value being realised. Accordingly, we continue to support the board in the execution of the present strategy. We expect to be consulted should the company attract corporate interest.

Example: Zegona Communications

Zegona invests in under-performing telecom assets. It aims to turn them around and then realise value. The management team have a strong record and have successfully completed two investments in Spain, leaving the company as a cash shell ahead of a third foray. We remained engaged with the team through this fallow period in order to keep on top of potential investment opportunities. Through the second half of 2023, Zegona agreed to buy Vodafone's Spanish business. Our interactions with management allowed us to determine that this was an attractive opportunity and that the funding structure offered significant upside. Our indicative support for the transaction helped secure debt financing. Our clients went on to back an equity raise at a premium to the prevailing share price.

Example: Topps Tiles

During 2023, both the chair and senior independent director approached nine years of service on this tile retailer's board. Aberforth proactively engaged both about the appointment of a new chair and to ensure that broader succession planning was being thoughtfully considered. We became insiders on the final shortlist for a new chair after consultation with the senior independent director. The board's preferred candidate was an individual with whom we have worked successfully before. Aberforth supported the appointment.



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Example: De La Rue

2023 was a challenging year for banknote printer De La Rue. In our judgement, the main cause of its poor performance was the banknote printing cycle, which is outside the board's control. During the year, another shareholder called a general meeting to propose the removal of the chair and the appointment of the shareholder's nominee. We were concerned that De La Rue's ability to retender and win new contracts could be affected by the public dispute between the company and the shareholder. Aberforth supported the appointment of a new independent chair. We continue to believe that the current strategy will deliver value for shareholders over time and remain engaged with the board.

Example: Dialight

Dialight manufactures and markets LED lighting solutions for a broad range of industrial end markets. Their products reduce customers energy usage and lower costs. Like many industrials, Dialight has endured a difficult trading environment and contended with supply chain disruption and inflation of its cost base. The former chair left abruptly in December 2022, creating a leadership vacuum at a time of need. Aberforth moved quickly to identify a reputable and capable replacement. We introduced a preferred candidate to the board. The board agreed with our proposal and his appointment was announced in March.

Example: Ricardo

Ricardo is shifting its consultancy business to focus on environmental and energy transition solutions. The portfolio is comprised of distinct business units, some of which are unlikely to fit this strategy and could be strategically valuable to third parties. The company may have opportunities to use funds from asset sales to accelerate its strategy via acquisitions or to increase shareholder returns. Aberforth's engagement focused on the quantum, timing and implications of possible asset sales, as well as the most appropriate use of any cash proceeds. This engagement stream continues.

A second engagement stream related to the remuneration policy. The board consulted on a proposal to increase the LTIP for the executive management team. Aberforth's engagement contributed to modifications to the proposed award to ensure its payout was aligned with sufficiently stretching financial targets.

Example: Morgan Advanced Materials

Morgan Advanced Materials has been on a journey of operational transformation. Good progress has been made, resulting in higher sales growth, improved profit margins and better cash generation. The upshot has been reduced financial leverage, which the company has used to address the historically problematic pension deficit. Aberforth's engagement has focused on the group's capital allocation framework. We believe that the board was too quick to reset the dividend during the pandemic, ending a record of progressive dividend growth. The company has since firmed up its commitment to a sustainable dividend that should continue to grow as earnings improve.



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Example: City of London Investment

The City of London Investment Group is an asset manager specialising in emerging markets and closed-end funds. It merged with Karpus Investment Management in 2020, which left Karpus' founder the largest shareholder. Along with close associates, the founder's controlling shareholder group owns a c.36% stake in the company. A merger agreement restricts the controlling shareholder group's voting rights to no more than 24.99%.

Since leaving the board of directors in July 2023, this shareholder group has become concerned that the board is not sufficiently commercial, which culminated in a vote against the appointment of non-executive directors. Aberforth engaged with the chair to understand this group's concerns and discuss what options might exist to address them. Our engagement continues.

Example: Jupiter Fund Management

It has been a challenging period for active asset managers, particularly in the UK, and Jupiter Fund Management has not been an exception. Aberforth increased engagement in response to concerns about the board's overall effectiveness in light of strategic missteps, poor acquisitions and loss of key personnel. Aberforth has engaged with the new chair and made our concerns known to other shareholders. These discussions are ongoing.

Example: Gem Diamonds

Gem is a diamond miner with a single large mine in Lesotho. We have engaged on capital allocation – specifically the future mine plan. The company could either continue open pit mining or pursue an expensive and risky underground project. Aberforth would prefer the mine be transitioned into run-off and the cost base of the operations be reduced significantly. While this strategy has a finite life, the financial returns would be more predictable, and we believe the net present value for Gem Diamonds' shareholders would be greater. Government relationships complicate the feasibility of this plan. Our engagement is on-going.

Example: Wincanton

UK logistics provider Wincanton had historically been encumbered with a large pension obligation but in 2023 the deficit was almost entirely closed. Aberforth anticipated that the company's cash generation would improve materially once it could eliminate its onerous pension contributions. From March we engaged with the board about their priorities for use of the additional cashflow. We expressed our preference that Wincanton should prioritise growth investments and shareholder returns. We favoured buy-backs given the very low valuation of Wincanton's shares. In September Wincanton announced that it had reached agreement with its pension trustees that no further top-ups would be required, and in November we were pleased to see the new capital allocation policy, which included a modest buy-back.



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Collective engagement

Working with other shareholders can be an important option in Aberforth's approach to stewardship with its investee companies. In 2023, the investment managers engaged with other shareholders on issues related to 17 investee companies. Topics of engagement included remuneration policy, capital allocation priorities, board composition and succession, and strategic options for companies. Some of these engagements are sensitive in nature and disclosure at this time would be counterproductive to the objectives.

Example: Avon Protection

Shortly after initiating our investment, Aberforth was contacted by a shareholder of Avon Protection. The shareholder proposed a strategic review of the company and a possible sale of the company. We felt the arguments correctly reflected historical strategic missteps. However, they failed to acknowledge the strategic reset that was occurring under a new chair and executive management team. We signalled our support for the board and the strategy. The other shareholder has since reduced its investment.

Example: Senior

In 2021, Senior's board unanimously rejected a possible offer of 200p on the basis that it fundamentally undervalued the company. We subsequently engaged on remuneration policy to ensure that the hurdles on financial metrics are aligned with the board's view on the valuation. Ahead of the 2023 AGM, Aberforth engaged with the chair and the head of the remuneration committee to transmit our views that the EPS threshold targets were not sufficiently stretching and did not appear compatible with the board's view on the company's value. We met another significant shareholder to make the case for more stretching financial targets for the LTIP. They too saw an issue and were embarking on their own engagement on the matter. The engagement ended when the board agreed to increase the EPS threshold for the maximum LTIP award to a significantly higher level.

Example: NCC

In 2023, the cyber security services provider NCC was in its second year of a new strategy. However, cyclical pressures stemming from technology customer spend caused a sharp fall in earnings. Notwithstanding this headwind, Aberforth felt that good strategic progress was being made. Our concern was that despite this progress, cyclical headwinds may mean financial targets for remuneration are not achieved, leaving the leadership team demotivated. Our engagement with the chair and the head of the remuneration committee encouraged a fresh look at the remuneration policy to ensure the executive remained aligned. This involved discussions with another institutional shareholder who agreed that change was required. The engagement ended when the company made a one-off increase to the proposed 2024 LTIP award. This involved the setting of suitably stretching financial targets to align the executives with shareholder value creation.



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Example: Company A

After the unexpected resignation of Company A's chair, Aberforth introduced to the board an independent candidate for their replacement. Aberforth met with another significant shareholder to outline our case for the proposal and shared our views on their credentials and described how Aberforth has worked well and successfully with the individual historically. The candidate has subsequently become the chair and received high levels of support from other shareholders.



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Principle 12

Signatories actively exercise their rights and responsibilities.

Context

There are three main methods by which Aberforth exercises its rights and responsibilities.

- The investment managers engage with the boards of investee companies in order to understand strategy and governance and, if necessary, to effect change. The ability to engage is improved by Aberforth's willingness to take meaningful stakes in investee companies on behalf of its clients. On most occasions, issues of board structure, dividend policy, remuneration and share issuance permissions will have been discussed, and potentially changed, before these issues are put to shareholders for approval at a General Meeting.
- Voting is a fundamental right for shareholders and is an important means by which Aberforth exercises stewardship on behalf of its clients. The firm's policy is to vote on every resolution put to shareholders at a General Meeting. Aberforth voted on all items at all general meetings over the past year, in line with its policy. Because of the depth and frequency of engagement with the boards of investee companies, Aberforth will have had the opportunity to influence important issues before they are put to shareholders at a general meeting. This results in fewer votes against the board or abstentions than might otherwise be expected.
- The third method is to sell a holding – a basic concept but one that sets listed equities apart from some other asset classes. When an investee company encounters operational difficulties, Aberforth typically engages to understand if a change of strategy or of personnel on the board might plausibly contribute towards an improvement in the company's prospects. If that does not appear forthcoming, Aberforth will typically exercise its right to sell the holding.

Aberforth manages four client funds, as described under Principle 6. Three of the funds follow the firm's voting policy, with the firm exercising the voting rights. The segregated charity account retains its own voting rights and, while it receives voting advice from Aberforth, may choose to override Aberforth's policy. Aberforth's three collective funds do not engage in stock lending. The segregated charity fund may do so.

Research from Aberforth's proxy adviser, ISS, is considered, but the firm does not automatically follow ISS's recommendations. Aberforth takes a pragmatic, rather than a prescriptive one-size-fits-all approach, which has proven beneficial over time. This acknowledges the heterogeneous nature of the universe of small UK quoted companies and the proportionately greater governance burden on the typical small company.

Further information on Aberforth's engagement and voting framework can be found [HERE](#).



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Activity

Votes were cast on all resolutions in respect of all shares held under Aberforth's voting control. No voting decisions were taken by another entity on behalf of these shares. Shareholdings and voting rights are monitored through in-house fund accounting systems and ISS, which are reconciled with custodians' records.

| | For | Against | Abstain |
|----------------------------|------------|----------------|----------------|
| Aberforth Partners | 1,498 | 11 | 18 |
| ISS Voting Guidance | 1,490 | 34 | 3 |
| Aberforth Partners | 98.1% | 0.7% | 1.2% |
| ISS Voting Guidance | 97.6% | 2.2% | 0.2% |

The above table summarises Aberforth's voting statistics during 2023 and compares them with ISS voting guidance. Of the 1,527 resolutions voted, Aberforth was for 1,498, against 11 and abstained on 18. Consistent with the explanation above, Aberforth's lower proportion of votes against or abstentions compared to ISS' guidance reflects the regular dialogue with investee companies. This often results in Aberforth being consulted on major issues and being able to influence them before they are put to a vote. In 2023, Aberforth voted at 102 meetings, of which 84 were general and 14 special, for 87 portfolio companies.

Outcome

Votes AGAINST or ABSTAIN are purposeful and planned. Aberforth views voting against as an important tool when engagement is unable to facilitate change, while abstain votes can be a useful signal in on-going engagements. Intentions to vote either against or abstain are usually communicated to the boards ahead of time. Notable examples of votes against and abstentions are provided below. Votes that are consistent with prior year engagement examples are not redescribed.



ABERFORTH PARTNERS

Example: Lookers

AGAINST on the resolutions related to the sale of the company

In the second quarter of 2023, Alpha Auto Group (AAG), a Canadian peer, bid for Lookers, a car retailer. AAG secured a recommendation from the board, along with irrevocables and letters of intent from shareholders covering 42% of the shares. Although the board made Aberforth an insider on the terms of the transaction, it was clear that they had already made a decision to support it. Aberforth viewed the bid as highly opportunistic and believed that its terms under-valued the company, whose share price had been affected by familiar concerns about the UK economic outlook.

Consequently, we worked to stop the deal. We engaged with the largest shareholder, which then withdrew its letter of intent and indicated it would vote against the 120p deal. This outcome caused AAG to revise its original bid up from 120p to 130p, plus a 1p dividend. Aberforth felt that the revised offer still undervalued Lookers and we voted against the transaction. Ultimately, our efforts were unsuccessful and the transaction completed. Nonetheless, this crystallised a successful investment where Aberforth was able to leverage its clients' stake to improve the terms of the original offer.

The resolutions passed with 91.0% of votes FOR

Example: XPS Pensions

AGAINST on the re-election of Alan Bannatyne, a non-executive director

Aberforth expressed concern over the appointment of an existing non-executive director to the position of chair because the individual was an executive director of another listed company. Our concern centred on his ability to devote sufficient time to both companies. Aberforth's view was shared with another institutional shareholder. Despite Aberforth's opposition, the board proceeded with the appointment and Aberforth voted against it at the AGM. Although the chair's appointment was ratified at the AGM, the resolution a significant vote against. This engagement continues.

The resolution was passed with 64.6% of votes FOR

Example: Centaur Media

ABSTAINED on the election of Richard Staveley, a non-executive director

Aberforth does not seek non-executive director positions and does not normally support shareholder-nominated directors. Such appointments risk conflicts of interest, which require careful management. This contributed to our decision to withhold our votes against the appointment of a non-independent non-executive director at Centaur Media.

The resolution passed with 100.0% of votes FOR



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Whilst voting FOR a management proposed resolution or voting AGAINST a shareholder requisitioned resolution does not usually merit explanation, there are circumstances in which such votes are significant. The example below demonstrates the importance of combining voting decisions with proactive engagement.

Example: Topps Tiles

AGAINST shareholder requisitioned resolutions to appoint two non-executive directors and to remove the chair

Aberforth was approached by another shareholder who was seeking support to remove the chair at a vote at the company's AGM. The shareholder also wanted two of its representatives to be appointed as non-executive directors. Aberforth supported the company and voted against the requisitioned resolutions, which did not pass at the AGM.

The requisitioned resolutions failed with 62.5%, 63.5% and 63.5% of votes AGAINST

Votes different from proxy adviser recommendation

During 2023 there were 57 resolutions on which Aberforth voted differently from ISS's recommendations. Examples are set out below.

Example: MJ Gleeson

ABSTAINED on the re-election of two non-executive directors, James Thomson and Christopher Mills – proxy adviser was FOR

Typically, Aberforth's preference is for an independent chair on investee company boards. In the case of MJ Gleeson, we were concerned that the chair-elect was previously the chief executive officer of the company. Our engagement yielded no specific concerns and so pragmatically we reached a decision to withhold our votes for his re-election.

Separately, Aberforth does not seek non-executive director positions and does not normally support shareholder-nominated directors. Such appointments risk conflicts of interest, which require careful management. This contributed to our decision to withhold our votes against the appointment of a non-independent non-executive director at MJ Gleeson. This case was complicated further by the individual's numerous other directorships, which raised concerns about their capacity.

The resolutions passed with 92.8% and 94.2% of votes FOR



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Example: Vistry

FOR the remuneration report and an amendment to the remuneration policy – proxy adviser was AGAINST

The board proposed making changes to previously agreed long-term incentive plans that were scheduled to vest at the conclusion of the 2023. The changes were focused on the earnings per share (EPS) metric, and a move from evaluating cumulative EPS over three years to an absolute hurdle at the end of 2023. The board justified the changes based on the pandemic's impact on the business. Without changes being made, the award would have lapsed. After deliberation and consultation with the company, we chose to exercise pragmatism and vote FOR the amendments. We felt changes might be necessary to retain and motivate the existing executive team.

The resolutions passed with 52.9% and 54.8% of votes FOR

Example: Dialight

Voted FOR the election of Neil Johnson as a non-executive director – proxy adviser was ABSTAIN

Aberforth introduced to the board an independent chair candidate following the resignation of the incumbent. After a period of due diligence, the individual was appointed by the board. The proxy adviser recommended withholding votes for his election on the grounds that he may not be able to commit appropriate time to the Dialight role because of other public market directorships. This was not a view shared by Aberforth and we voted in favour of his election.

The resolution passed with 99.9% of votes FOR

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