ABERFORTH PARTNERS

Engagement and Voting examples

Engagement

Regular engagement with board members of holdings and potential holdings is a fundamental element of Aberforth's investment process. In 2024, Aberforth conducted 334 formal meetings with executives, a number that excludes *ad hoc* interactions by phone or email. In addition to these meetings, Aberforth conducted 146 engagements with the chairs or non-executives of 66 investee companies. Some of these engagements concerned relatively complicated issues that required multiple meetings. In several cases, these engagements are on-going.

In light of the low valuations prevalent among small UK quoted companies, M&A interest remained elevated in 2024. Over the year, 20 companies in the Deutsche Numis Smaller Companies Index (excluding Investment Companies) were subject to a completed takeover, an offer, or an approach. Aberforth clients held positions in eight of these companies. This sustained interest from private equity and trade buyers meant that engagement related to M&A remained a core focus for Aberforth over the year.

Ordinarily, M&A activity presents an opportunity for shareholders. However, valuations in the asset class are depressed, leading to the risk that even sizeable takeover premiums may fall short of intrinsic value. To mitigate this risk, Aberforth encourages boards to consult with major shareholders on significant events well in advance of any decisions being made or announcements issued. In Aberforth's experience, early consultation contributes to better outcomes for its clients. Where appropriate, Aberforth is willing to become an insider for extended periods to support boards and to contribute constructively.

In April 2024, a letter was sent to the chairs of all Aberforth's investee companies. It reiterated the importance of consultation by boards ahead of events such as takeover approaches and changes to dividend policies. In the months that followed, Aberforth held numerous meetings with investee company chairs to discuss the contents of the letter. The communication proved useful and resulted in earlier engagement than might otherwise have occurred.

The following examples illustrate the breadth and depth of these and other engagements undertaken by Aberforth during the year. They are limited to instances where the activity entered the public domain.

Example: Centaur Media

In 2024, Centaur Media announced the unexpected departure of its chair. Aberforth engaged with the board to outline the qualities we felt were necessary in a successor, emphasising experience in strategic reviews given concerns over the company's scale and growth prospects. Another shareholder, already represented on the board, introduced a suitable candidate. While Aberforth typically avoids supporting shareholder-nominated directors owing to potential conflict of interests, the candidate's expertise aligns well with the role. Aberforth's support was conditional on the nominating shareholder's current director stepping down, which occurred upon the new chair's appointment.

Example: Marston's

In early 2024, the chair of UK pub operator Marston's resigned to take up the same role at a larger company. Given Marston's leveraged balance sheet, we recognised the need for an experienced chair to support the executive team. Aberforth engaged with the senior independent director to introduce a candidate who had executed well on behalf of shareholders in other investee companies. Following a thorough search process, Marston's appointed that candidate, Ken Lever, as chair.

Example: Senior

Senior, an aerospace engineer, has intermittently reviewed the potential disposal of its aerostructures assets since 2019. Over the past year, Aberforth engaged with both the chair and executives to discuss aspects of this process. A focus was the use of any disposal proceeds, where Aberforth advocated for their return to shareholders. In our view, this would reinforce financial discipline in M&A and ensure high return thresholds are maintained. We clarified that this would not preclude the company from seeking equity funding for future acquisitions, which we would assess on their merits. As Senior has yet to proceed with a disposal, it remains to be seen whether our engagement will influence the outcome.

Example: Rank Group

Leisure operator Rank suspended dividend payments at the onset of the pandemic. Despite achieving a net cash position by 2022, the company delayed reinstating dividends owing to uncertainty over regulatory changes affecting casinos. We engaged with Rank to assess the scope, objectives, and potential impact of the reforms, as well as the investment needed to capitalise on them. We advocated the resumption of dividends alongside a clear and thoughtfully considered policy. Subsequently, Rank confirmed a dividend at its interim results, and we continue to engage with the company to clarify the definition of its “progressive” dividend policy.

Example: Foxtons

Foxtons has endured depressed trading conditions since the EU referendum. These were complicated by a strategy that was overly focused on cost control and undermined market share. In the face of considerable shareholder agitation, we supported the chair as he changed the board and appointed a new CEO, who has revitalised the business. Amid consolidation within the estate agency market and speculation about Foxton’s own independence, we have continued to support the board, judging that the new strategy can yield further upside and that M&A is unlikely to achieve fair value amid still volatile market demand.

Example: TI Fluid Systems

TI Fluid Systems (TIFS) manufacturers tubes used in cars to convey brake fluid, glycol and fuel. It has managed the transition to electric vehicles (EVs) well, maintaining its average content per vehicle, and coped better than most in 2024 as demand for EVs waned. This resilience attracted the attention of ABC Technologies, which is owned by Apollo private equity. Their 200p bid was recommended by the board. We were disappointed by the terms of the deal, which undervalued the company and took advantage of currently depressed valuations within the car industry. Our engagement with TIFS over the years has addressed the influence of Bain, the private equity house that floated the company in 2017. It has board representation but has reduced its stake consistently, to 28% at the time of the bid. We have been concerned that Bain’s agenda has not always been in the best interests of other shareholders and the circumstances of the bid add to this impression. Notwithstanding our engagement, the bid has been approved. While we acknowledge the board’s strategic and operational progress, we are frustrated that greater patience could have led to a better outcome for shareholders.

Example: Wincanton

In January, logistics provider Wincanton announced it had agreed to a takeover bid from CEVA, a trade competitor, at 450p per share, representing a 52% premium to the prevailing share price. As Wincanton’s largest shareholder, Aberforth was disappointed that the board ignored our request for timely consultation before recommending the offer. We believed the takeover premium was applied to a depressed share price and that the implied valuation multiple of approximately 10x normalised earnings undervalued the company and its future prospects.

Following our engagement, a period of negotiation with the bidder resulted in an improved offer of 480p, which materialised without Aberforth providing an irrevocable commitment to support the revised bid. This demonstrated that had the board engaged with major shareholders earlier, a higher offer might have been secured from the outset. Our active involvement and clients' significant stake in the company played a critical role in securing a superior 605p counteroffer from US logistics peer GXO.

The tactical use of an irrevocable commitment to vote in favour of the GXO deal was a valuable tool in significantly enhancing the final outcome for our clients and other shareholders. The completed transaction crystallised an additional £31 million of value for Aberforth's clients compared to the initial offer.

Example: Card Factory

Card Factory's trading has rebounded strongly in recent years as consumers have returned to physical shopping habits following the pandemic. As a result, cash generation has improved, and the company's balance sheet is now in a significantly stronger position. A key theme of our on-going engagement, which continued in 2024, has been capital allocation, particularly in relation to the company's dividend strategy. Encouragingly, at its full-year results, the board announced a return to the dividend register and a commitment to return surplus capital to shareholders.

Example: Close Brothers

Close Brothers is a merchant bank specialising in niche lending, with around 20% of its loan book exposed to motor finance. In early 2024, the Financial Ombudsman Service ruled in favour of two complainants in a case against lenders regarding discretionary commission payments to motor dealers. This prompted the Financial Conduct Authority (FCA) to launch an industry-wide review of such payments.

Later in the year, the Court of Appeal ruled in favour of three cases brought by claims management companies that argued motor dealers act as credit brokers and therefore owe a fiduciary duty to customers, with Close Brothers among the defendants. The UK Supreme Court is now set to hear the appeal.

Given that the FCA review and the Supreme Court appeal could have significant implications for the broader UK consumer credit sector, we undertook a comprehensive engagement to assess the potential effects and penalties. In addition to engaging directly with Close Brothers, Aberforth met a trade body representing consumer credit companies and sought independent legal advice to explore the legal issues their potential ramifications. We also engaged with other investee companies, both directly and indirectly involved, to build our understanding of the possible indirect effects on other business models. These engagements continued through the end of the year.

Example: Morgan Advanced Materials

Under its outgoing chief executive, Morgan Advanced Materials has enhanced operational performance and addressed its pension deficit. This should lead to structurally higher free cash flow in the future, providing greater flexibility in capital allocation decisions. Aberforth has engaged with the company on capital allocation since the pandemic, having previously expressed concerns that it acted prematurely in rebasing its dividend, which sent mixed signals given the imminent reduction in pension plan cash contributions.

In 2024, we encouraged the new chair to articulate clearly the group's capital allocation priorities, including shareholder returns, organic and inorganic investments, and balance sheet management. We believe the dividend policy should be strengthened to adopt a progressive policy, defined as at least maintaining the dividend and with a target to grow the dividend in-line with earnings through a cycle. Our engagement on this matter continues.

Collective engagement

Working with other shareholders can be an important option in Aberforth's approach to stewardship with its investee companies. In 2024, the investment managers engaged with other shareholders on issues related to several 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: NCC

Soon after the arrival of a new executive team at cybersecurity consultant NCC, market conditions deteriorated sharply. In a meeting with another institutional shareholder, it became clear there was a common concern about executive retention, given profits and the share price had rebased almost immediately following their appointment. Aberforth engaged with the chair and head of the remuneration committee to support adjustments to the incentive plan, ensuring better alignment with the strategic goals of the company and with shareholders' interests. After consultation with Aberforth, changes were implemented, and a new remuneration policy was approved.

Example: Company A

An institutional shareholder approached Aberforth, advocating that the board run a search for a new non-executive director with private equity and capital allocation expertise. This was based on their view that Company A could become an M&A target or alternatively develop a strategy to pursue acquisitive growth. We engaged with the chair on the matter and were reassured that recent board appointments had already taken these skillsets into account.

Example: Company B

During the year, Aberforth was contacted by a large shareholder of an oil and gas producing company seeking support for a board appointment nominated by them. We reaffirmed our independence and typical stance against shareholder-nominated directors. Additionally, we cautioned that board changes could undermine the chair, given the board restructuring that had occurred under his leadership, and possibly jeopardise critical licence extension negotiations in the company's most valuable region. No shareholder-nominated director was ultimately proposed.

Voting

Voting principles

Aberforth:

- Votes to maximise the value of its clients' capital, taking into account all relevant factors, including environmental and social issues.
- Votes on all resolutions put to shareholders.
- Does not automatically follow the recommendations of the board, or of proxy advisers, but aims to engage with the board before voting against or abstaining.
- Believes that abstention – or withheld votes – can be a useful signal in on-going engagement with a company.
- Expects to be consulted on contentious issues before they are brought forward for voting.
- Expects companies to comply with the Corporate Governance Code 2018, and the 2024 Code effective from 1 January 2025, or explain otherwise.
- Retains a flexible and pragmatic approach recognising that the requirements of smaller companies do not always conform with "one-size-fits-all" policies.

Voting	**12 months to 31 December 2024**
Shareholder meetings at which our clients' shares were voted	101
Shareholder meetings at which our clients' shares were voted against or abstained (1)	13
Number of resolutions voted	1,591
Number of resolutions voted against	6
Number of resolutions abstained	15

Notes:
(1) On one or more resolutions

The table above shows the breakdown of how Aberforth voted during 2024. The examples below provide more detail on the rationale behind certain voting decisions. They demonstrate the importance of combining voting decisions with proactive engagement.

Votes AGAINST or ABSTAIN

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.

Example: National World

AGAINST on the re-election of David Fordham, 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. In this case, we were sufficiently concerned as to vote against the appointment of a non-independent non-executive director at National World.

The resolution passed with 75.4% of votes FOR.

Example: Mitchells & Butlers

AGAINST on the re-election of Bob Ivell, chair
ABSTAIN on the re-election of Keith Browne, Eddie Irwin and Josh Levy, non-executive directors

Mitchells & Butlers' chair, Bob Ivell, has served since 2011 and is no longer considered independent, with no clear justification for his extended tenure. Aberforth also has concerns about his previous record as chair of Carpetright. Since the board lacks a majority of independent directors and has three directors representing shareholders, a strong, independent chair is crucial. Aberforth abstained from voting on the re-election of the three Odyzean-nominated directors, in line with our view on the risk of conflicts of interest from shareholder-appointed directors.

The resolutions passed with 70.4%, 96.0%, 93.6% and 77.7% respectively.

Example: Xaar

ABSTAINED on the election of Stuart Widdowson as a non-executive director

Xaar is enduring a difficult period of trading, amid generally weak demand for its digital print heads, particularly from printer companies serving the Chinese ceramics market. Additionally, while the company's significant intellectual property yields many new product opportunities, it has struggled to commercialise these in a timely fashion. These problems have led to greater shareholder engagement, which for Aberforth has focused on regular contact with the chair. One of the other significant shareholders has taken a different approach, demanding a seat on the board. In general, we are uncomfortable with shareholders having board representation since it is not clear to us that the potential conflicts of interest can be appropriately handled. However, we were consulted by the chair in this instance and were persuaded that the shareholder's presence on the board could be helpful to the company. Therefore, we keep the situation under review but pragmatically abstained on the reappointment of the shareholder as a non-executive director.

The resolution passed with 100% of votes FOR.

Example: MJ Gleeson

ABSTAINED on the re-election of James Thomson, chair
ABSTAINED on the re-election of Christopher Mills, a non-executive director

Aberforth typically prefers an independent chair on investee company boards. In the case of MJ Gleeson, we remain concerned that the chair-elect previously served as the company's chief executive officer. Having engaged with the company on this matter in the past and found no specific issues of concern, we took a pragmatic approach and withheld 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 capacity.

The resolutions passed with 97.4% and 96.5% of votes FOR.

Example: Spirent

AGAINST on the re-election of Sir Bill Thomas, chair

Keysight Technologies, a larger US firm in the telecom equipment testing sector, was successful in a competitive bid process Spirent. Keysight's offer surpassed that of rival Viavi by 15%, despite Viavi's bid having been recommended by Spirent's board. In our view, the board was too quick to acquiesce to Viavi's takeover interest. At the recommended price, the valuation fell well short of our assessment of Spirent's intrinsic value, raising concerns about the chair's effectiveness. As a result, we voted against his re-election. Nevertheless, the Spirent bid process ultimately delivered a profitable investment outcome for clients.

The resolution passed with 96.0% of votes FOR.

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: RM

FOR on amendments to the Restricted Stock Plan
FOR the Remuneration Policy

In 2022 RM mishandled an ERP implementation and warehouse consolidation, which affected trading and left the group with too much debt. The chair brought in new executives, but recruitment of able managers risked being hampered by remuneration rules. The specific issue was best practice guidelines that limited share dilution to 10% over 10 years. The board sought shareholders' support for relaxing the dilution limits up to 12.5%. This we gave by voting in favour of the remuneration report and policy, despite a recommendation to vote against by ISS. We were swayed by the fact that much of the potential dilution was unlikely to be triggered since it related to schemes pre-dating the trading problems and share price decline. For us, it was much more important to incentivise the current management team, who are undertaking the turnaround.

The resolutions passed with 97.7% of votes FOR each resolution.

Example: National World

FOR on the re-election of David Montgomery, executive chair

While Aberforth generally prefers an independent chair on investee company boards, there are instances where an executive chair is appropriate. In the case of National World, proxy advisers raised concerns about the chair's executive role. However, Aberforth took a pragmatic approach, recognising that the company's strategy to consolidate legacy UK print titles depended on the chair's influence and industry relationships.

The resolution was passed with 86.3% of votes FOR.

Example: Dialight

FOR the Remuneration Policy
FOR the Value Creation Plan

This designer and manufacturer of industrial-use LED lighting faced trading headwinds and significant litigation in 2024. Previously, Aberforth had led an engagement to introduce an executive chair, who has since assembled a strong team to execute a credible strategy. Given the company's unusual circumstances, ensuring the remuneration policy was fit for purpose and capable of motivating and retaining executives required pragmatism. In the early months of the year, our engagement turned to the design of a Value Creation Plan that would reward participants with a share of the value generated for shareholders. The proxy adviser recommended voting against the proposal, citing concerns over the use of absolute total shareholder return (TSR) metrics and the fact that the plan would vest in full upon a change of control.

The resolutions passed with 96.6% of votes FOR each resolution.

Votes different from proxy adviser recommendation

During 2024 there were 46 resolutions on which Aberforth voted differently from ISS's recommendations. Examples are set out below.

Example: Castings

FOR on the re-election of Andrew Eastgate, a non-executive director – proxy adviser was AGAINST

Castings manufactures and machines castings, mostly for the heavy truck market, in the UK. Its success is reflected in a long record of dividend growth and owes much to its unique culture. Important aspects of this culture include the relative simplicity of the business, a reliance on self-funded investment, with debt never having been used, and a small board. The company's conservatism has served it well, but there is a trade-off – it is often slow to adopt new governance standards. At the present time, there is no woman or person of minority ethnic background on the board, which led to ISS recommending a vote against the chair of the nomination committee. We nevertheless voted in favour of his reappointment. Through our engagement with the company, we are confident that the board takes these diversity rules seriously. Moreover, we believe that pragmatism is important, particularly in the case of small companies whose distinctive corporate cultures have served shareholders well over time.

The resolution passed with 87.6% of votes FOR.

Example: Rank

ABSTAIN on the re-election of Chew Seong Aun, a non-executive director – proxy adviser was FOR

Rank has a controlling shareholder with a c.60% stake in the company. Aberforth abstained on the re-election of the shareholder-nominated director, who also serves as CFO of a subsidiary owned by the shareholder. This reflected potential conflicts of interest while demonstrating pragmatism, given the shareholder's longstanding involvement in the company.

The resolution was passed with 99.9% of votes FOR.

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