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 2023, Aberforth conducted 412 formal meetings with executives, a number that excludes *ad hoc* interactions by phone or email. In addition to these meetings, Aberforth conducted 132 engagements with the chairs or non-executives of 77 investee companies. Some of these engagements concerned relatively complicated issues that required multiple meetings. In several cases, these engagements are on-going.

One of the central engagement themes for 2023 related to the increased M&A interest in small UK quoted companies from overseas and private buyers. This trend begun in earnest the year before as confidence returned to financial markets. Ordinarily, this should be an opportunity for shareholders. However, in light of the unusually low valuations prevalent in the asset class today, there is a risk that, despite large takeover premiums, companies are sold at levels far below their intrinsic value. Aberforth does vote against under-priced deals and did so in 2023. Boards can mitigate this risk by consulting large shareholders well in advance of events becoming public. It is Aberforth's experience that consultation can lead to better outcomes for its clients. Aberforth is prepared to be insiders for extended periods to be as helpful as possible to boards.

Another theme of engagement was exploring the capital allocation priorities of companies. Here, boards are showing flexibility and increasing returns to shareholders through increased dividends and share buy-backs, supported by the unusual strength of company balance sheets. This was helped by a further improvement in the funding positions of defined benefit pension schemes. In 2023, several investee companies were able to increase the free cashflow available to shareholders by reducing pension fund contributions.

From a systems perspective, Aberforth's engagements benefited from the first full year of an upgrade to the engagement module, which forms part of Aberforth's proprietary investment database. The module is now integrated with Aberforth's ESG framework and allows engagement objectives to be aligned to the relevant ESG subfactor. Over time, this should enable richer reporting of specific engagement themes and topics.

The following examples illustrate the breadth and depth of engagements conducted by Aberforth during the year.

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.

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.

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.

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.

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.

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.

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 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 2023
Shareholder meetings at which our clients' shares were voted	102
Shareholder meetings at which our clients' shares were voted against or abstained (1)	19
Number of resolutions voted	1,527
Number of resolutions voted against	11
Number of resolutions abstained	18

Notes:
(1) On one or more resolutions

The table above shows the breakdown of how Aberforth voted during 2022. 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: 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

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

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

ABERFORTH PARTNERS

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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