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Dear

Aberforth's views on the importance of dividends

This letter has been prompted by the impact of Covid-19 on dividends and has been sent to the chairs of all our investee companies. Its applicability varies from company to company, but there is an underlying message that is relevant to all.

As background, the following paragraph is taken from our updated voting policy, which is to be published in the coming months.

"Aberforth expects all companies to pay, or aspire to pay, a dividend to shareholders. It can be argued that dividends are irrelevant to the valuation of a company or even that cash is better retained within a company to be reinvested at superior rates of return. In our experience, however, dividends are a very important aspect of capital discipline – they are a reminder to boards that equity capital has a cost, which can in turn lead to a better stockmarket rating as a reputation for capital discipline is broadly appreciated. Dividend policies should be set with a medium to long-term, through-the-cycle, view rather than being set at a pre-determined proportion of annual earnings. We expect to be consulted well in advance of any proposed negative changes to dividends and believe failure to do so reflects a lack of consideration towards the company's providers of permanent equity capital."

Over the last two months, many companies have chosen to cut, cancel or defer their dividends. This affects the livelihoods of the ultimate beneficiaries of our client funds, such as ordinary savers, pensioners and charities. We recognise that the circumstances in which these decisions have been taken are without modern precedent and that there have been temporary reductions to the remuneration of some executives. We understand that equity ownership entails the assumption of risk, for better or worse. We certainly do not encourage boards to pay dividends should these distributions threaten the viability of the underlying businesses.

However, we suspect that some dividend cuts may prove to have been made too precipitously, rather than with a medium to long term view. Furthermore, it is the case that we have been consulted on very few of these dividend actions.

Moving from what has happened to what is to come, we believe that it is important for companies to return to the dividend register as soon as practicable – we look forward to discussions with boards about the influences on their ability to do so and at what rate. We take note of the language used to describe the cuts, with deferrals implying that a coming twelve month period might see some companies paying three dividends. We see a temporary role for scrip dividends, which would allow shareholders to receive income without compromising the payer's liquidity and whose dilutive effect could be addressed in time as cash flow recovers. In judging the merits of the equity issues to come, we will be interested in the descriptions of dividend strategies. Normally, it would seem incongruous to look for dividends from a company that needs a rights issue, but the unusual circumstances of the current downturn mean that such a discussion may nevertheless be appropriate.

Our position, as described above, is driven by our commitment to long term investment in small UK quoted companies, which is our only business activity. It is in our clients' interests, our own interests and, indeed, the interests of the broader economy, to see a resilient and vibrant small cap sector – for us, dividends continue to play a crucial role in this.

Please get in touch should you wish to discuss any matter raised in this letter.

Yours sincerely