GVQ

INVESTMENT MANAGEMENT

GVQ UK Focus Fund

Q2 Update 2019

Morningstar Rating 10 Year ★★★★

FE ALPHA MANAGER 2019 JAMIE SEATON

CITYWIRE GOLD

INVESTMENT WEEK FUND MANAGER OF THE YEAR 2015 HIGHLY COMMENDED UK Growth

Risk considerations

KEY RISKS ASSOCIATED WITH THE GVQ UK FOCUS FUND ("Fund") – The general risk factors set out under the heading **Risk Factors** of the Prospectus and the Supplement to the Prospectus apply to the Fund. In addition, Shareholders should note the following factors:

Objective Risk – There can be no assurance that the Fund will achieve its investment objective. An investor should consider his personal tolerance for an investment based upon global equity securities before investing in the Fund.

Management Risk – The ability of the Fund to meet its investment objective is directly related to the Investment Manager's investment strategies for the Fund. If the Investment Manager's investment strategies do not produce the expected results, the value of your investment could be diminished or even lost entirely and the Fund could underperform against other funds with similar investment objectives.

Key Personnel – The performance of the Fund will depend on the skill and expertise of the Investment Manager. The loss of key personnel could affect the performance of the Fund.

Equities Risk – As the Fund will invest primarily in equity securities, the value of the Fund's underlying investments may fluctuate in response to activities and results of individual companies, as well as in connection with general market conditions.

Legal and/or Regulatory Risk – Legal and Regulatory (including taxation) changes could adversely affect the Company. Regulation (including taxation) of investment vehicles such as the Company is still evolving and therefore subject to change. The effect could be substantial and have adverse consequences on the rights and returns of Shareholders.

Availability of Suitable Investment Opportunities – The Fund will compete with other potential investors to acquire assets. Certain of the Fund's competitors may have greater financial and other resources and may have better access to suitable investment opportunities. There can be no assurance that the Fund will be able to locate and complete investments which satisfy the Fund's rate of return objectives or that the Fund will be able to invest fully its committed capital. If no suitable investments can be made then cash will be held by the Fund and this will reduce returns to Shareholders.

Limited Number of Investments – The Fund anticipates that it will be diversified. However, in the event of a material demand for redemptions, the Fund could be forced to sell liquid positions resulting in an over-weighting in a small number of illiquid investments. In such circumstances, the aggregate return of the Fund may be substantially and adversely affected by the unfavourable performance of a single investment. The Fund's restriction of redemptions of Shares in excess of ten per cent of the total Net Asset Value of the Fund on any one Dealing Day will mitigate this risk to an extent should these circumstances arise.

The Fund could take its charges from capital of the Fund if insufficient income is generated to cover the charges and accordingly there is the potential for capital erosion. Capital erosion may have the effect of reducing the level of income generated in the future.

These are not all the risks of an investment in the Fund. For a full list of the Fund's risks, please see the Prospectus. Investors should take advice from their own independent professional financial advisers before making an investment decision and are responsible for ascertaining any income tax or other tax consequences which may affect their acquisition of any investment.

You should remember that the value of investments and the income from them may go down as well as up and is not guaranteed, and investors may not get back the amount invested. Past performance cannot be relied on as a guide to future performance.

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Morningstar: 10 year rating of ★★★★ as at 30th June 2019

Contents

Introduction

Executive summary

- June was a solid month for the Fund delivering a total return of 3.6%, placing it in the top quartile versus its IA UK All Companies peers

- This capped what was ultimately a strong, yet volatile, quarter. The Fund delivered a total return of 5.8% in Q2, outperforming the FTSE All Share index by 2.5%. YTD the Fund has now delivered a total return of 17.2%

- We read with interest an article in the FT highlighting Private Equity ("PE") groups have a record level of dry powder (i.e. funds for deployment). The figure globally currently stands at c.$2.5tn (and continues to grow)

- Unlike public markets which are obsessed with short term performance, PE can afford to take a long term, measured view. The opportunity set afforded to them by certain parts of the UK market, we believe, is almost unprecedented. A key challenge for board's of PLC's will be attempting to get fair value for their shareholders

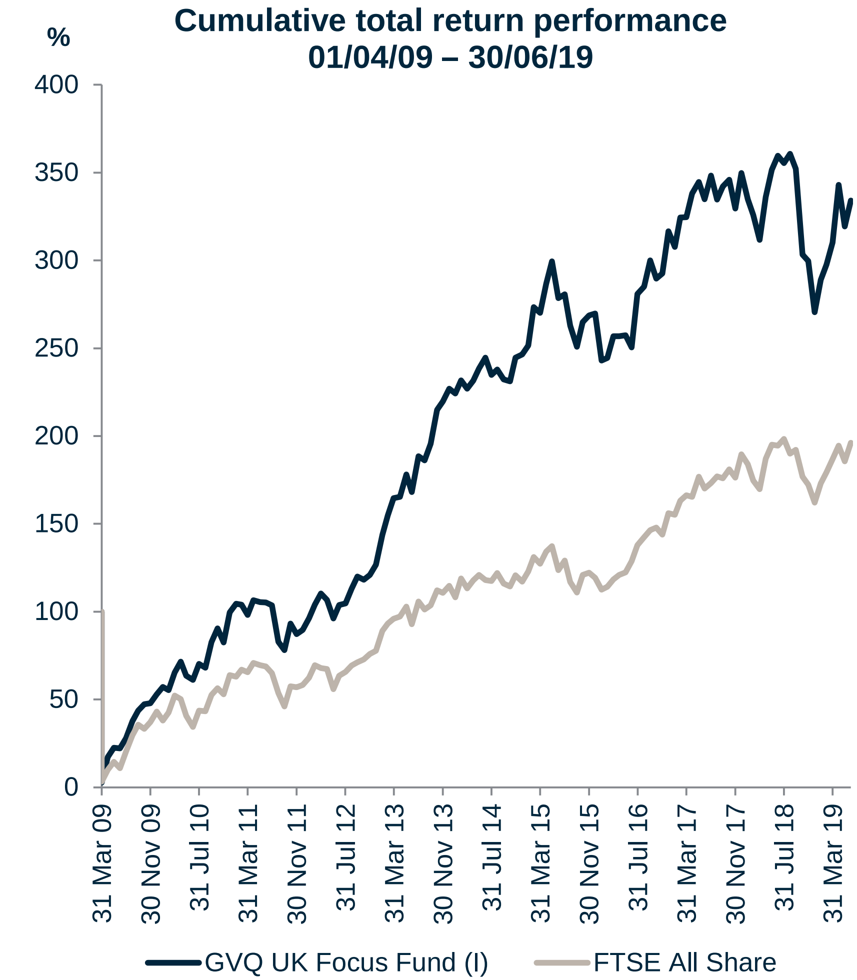
- To note, the Fund went ex-dividend on 1 July paying an interim dividend equivalent to 2.0% of the NAV

We believe this entry point provides a similar, arguably better, opportunity for the Strategy, than 2009. Fortune favours the brave. We believe this is a time to be brave; the Fund's metrics continue to support this view

As at 30th June 2019
Sources: GVQIM, Bloomberg
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Performance analysis

GVQ UK Focus Fund; Manager track record[1]



Highlights

- Outperformed its benchmark, the FTSE All Share index, by more than 138 percentage points over a 10.25 year period, with average annualised total returns of 15.4%
- Average outperformance of its benchmark of 4.3% per annum
- An independent survey by FE Trustnet highlighted the GVQ UK Focus Fund as having one of the most consistent track records in its IA UK All Companies peer group over the last decade outperforming peers in 8 of the last 10 calendar years
- For the second year in succession in 2018, GVQ Investment Management was short listed by Citywire for their 'UK All Companies Group of the year' award. The ratings are calculated based on seven year risk adjusted performance, over which period the Manager held their coveted 'AAA' rating for an unbeaten (in the All Companies space) 40 consecutive months
- The Fund also has one of the best relative capital preservation records in its peer group. Since the end of the financial crisis the index has delivered negative returns in 53 discrete months; the Fund has outperformed in 39 of them
- External awards:

Morningstar Rating 10 Year ★★★★

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INVESTMENT WEEK FUND MANAGER OF THE YEAR 2015 HIGHLY COMMENDED UK Growth

GVQ UK Focus Fund has delivered a cumulative total return of 334.2% versus a cumulative total return of 196.2% from its benchmark, the FTSE All Share index, with a strong history of relative capital preservation

As at 30th June 2019
Source: 1. GVQIM
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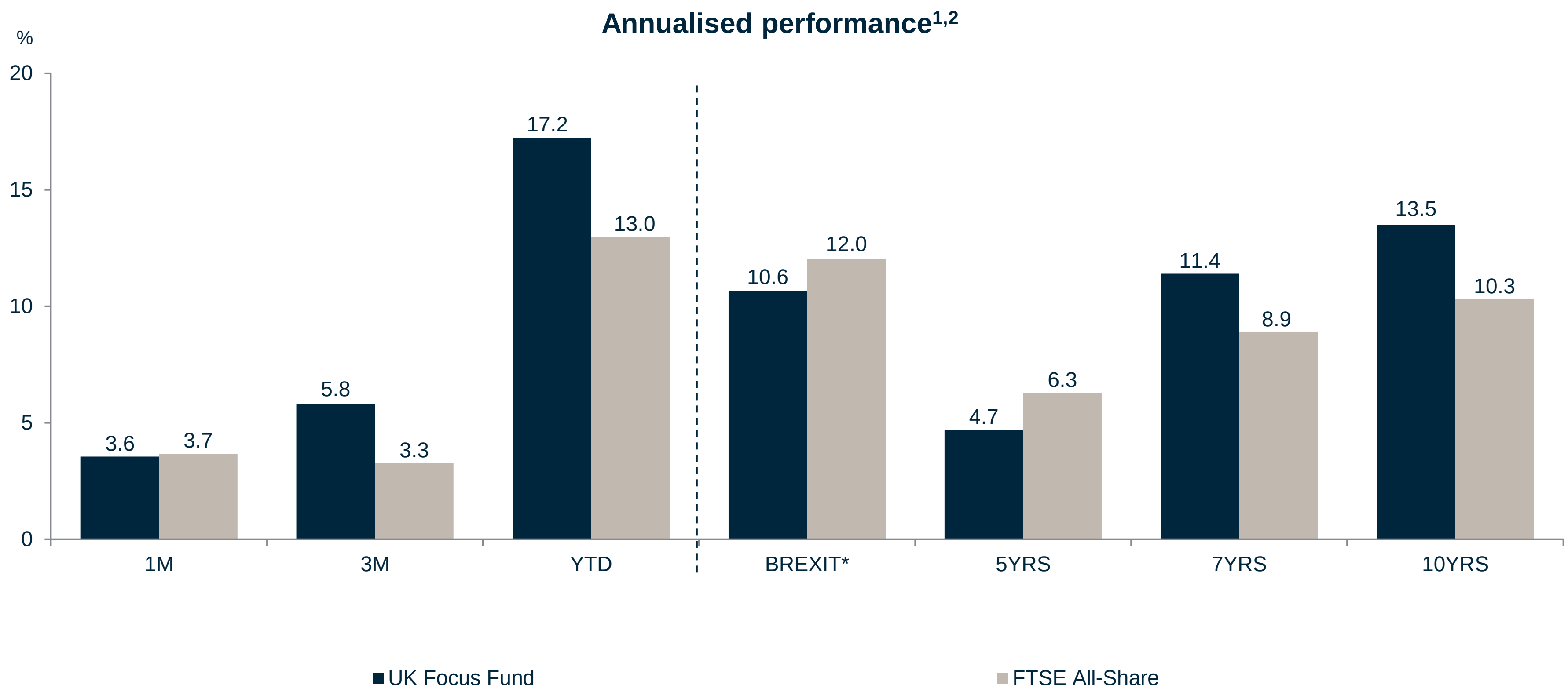
Fund performance vs benchmark



Following a strong Q1, the Fund continued to outperform in Q2 delivering a total return of 5.8% vs 3.3% for the FTSE All Share index. YTD the fund is now 17.2% vs the index at 13.0%

As at 30th June 2019
Sources: 1. Northern Trust 2. GVQIM. Note: *27th June 2016 via Bloomberg
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Q2 attribution analysis

Positive attribution (top five)	bps	GVQIM comment
WPP	198	Q1 2019 results reiterated FY2019 and medium term guidance, with additional positive news with the confirmation of exclusive discussions with Bain for the sale of Kantar
SLA	122	Good progress made in the quarter on monetising the listed stake of HDFC Life. SoTP analysis still suggests the core asset management business is meaningfully undervalued
Jupiter	82	Evidence of outflows ceasing, with the Dynamic Bond Fund (the source of the majority of the outflows seen in 2018) returning to net inflows in the period
Equiniti	63	Positive AGM statement and completion of separation from Wells Fargo. Shares remain materially undervalued in our view
Schroders	62	Q1 results broadly in-line; Capital Markets Day highlighting growth strategy in Asia and in UK Wealth Management was well received
Negative attribution (bottom five)	**bps**	**GVQIM comment**
Wilmington	-16	In-line pre-close trading update. Appointment of new CEO
Imperial Brands	-37	Negative sentiment towards the tobacco market intensified during the quarter, with potential US legislation on a maximum tobacco standard in the news again. Heavy market selling driven in part by known forced redemptions
Medica	-48	In-line AGM statement. Appointment of new CEO
ITV	-59	Q1 trading update. ITV Family Share of viewing +4%, online viewing +16%. Results second half weighted as guided in the full year results
Babcock	-61	Capital Markets Day guiding to 3-5% top line CAGR over the next 5 years with constant margins and continued deleveraging with potential additional capital returns to shareholders

By and large, a solid reporting period for our portfolio companies

As at 30th June 2019
Sources: Northern Trust, GVQIM
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PORTFOLIO ANALYSIS

Changes to top 10 holdings

Top 10 Q1 2019

Company	% of portfolio
Babcock	9.6
Equiniti	8.7
WPP	7.5
Standard Life Aberdeen	7.1
ITV	6.6
Jupiter	5.1
BAE Systems	5.0
Clinigen	4.8
Tyman	4.8
Savills	4.8

Top 10 Q2 2019

Company	% of portfolio
Babcock	9.7
Equiniti	8.6
WPP	8.3
Standard Life Aberdeen	7.7
ITV	5.4
BAE Systems	4.9
Jupiter	4.8
Savills	4.7
Tyman	4.7
Clinigen	4.6

No change to the constituents of the Top 10 over the quarter

As at 30th June 2019
Sources: Northern Trust, GVQIM
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Top 10 thesis summaries

Company	GICS Sector	% of portfolio	GVQIM thesis
Babcock	Industrials	9.7	Strong history of double digit growth and cash generation, with 20 years of consecutive dividend growth. Suffered as part of a sector wide de-rating of lower quality support services companies
Equiniti	Business Services	8.6	Delivery of organic growth and cash flow leading to strong degearing profile. Integration of WFSS acquisition. Discount to precedent transactions
WPP	Consumer Discretionary	8.3	Strong history of growth both organically and through acquisitions. Scope for increased cash returns to investors. Transaction multiples; Bain Capital acquisition of ADK for >17x EV/EBITDA
Standard Life Aberdeen	Financials	7.7	Strong balance sheet and cash generation bolstered by refocusing business as an asset manager; scope for increases in cash returns over time, furthered by expected realisation of value of stakes in listed subsidiaries. Significant self help, and growth potential both organically and through acquisitions to drive re-rating over the medium term. M&A
ITV	Consumer Discretionary	5.4	Unique asset with a dominant market position in a highly coveted sector. Demonstrable track record of growth and strong cash generation. M&A interest
BAE Systems	Aerospace & Defence	4.9	Diversified defence and security business with a high level of revenue and earnings visibility. Strong cash generation. Currently trading on multi-year lows
Jupiter	Financials	4.8	Strong brand and market position; medium term growth prospects. Balance sheet strength and excellent cash generation. Commitment to return excess cash to shareholders. M&A
Savills	Real Estate Services	4.7	A global asset, typically misrepresented, with only 8% of revenues from UK residential transactions. Very well diversified by geography and product line, conservative balance sheet
Tyman	Industrials	4.7	Market leader. De-gearing and earnings growth; US recovery; bolt on deals; self help through site consolidation and automation in USA
Clinigen	Health Care	4.6	Above market (structural) growth, capital light cash generator, consolidation of pharma services businesses etc.

The fund has NO exposure to expensive perceived ‘quality / defensive growth’

As at 30th June 2019
Sources: Northern Trust, GVQIM
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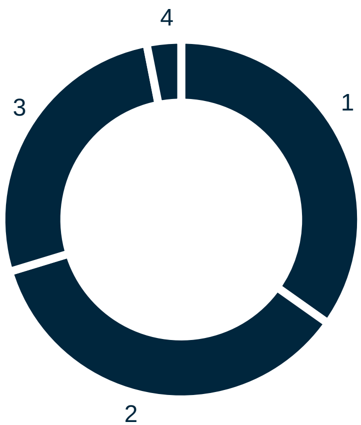
Index exposure

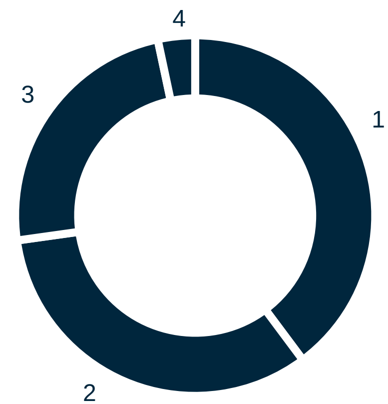
GVQ INVESTMENT MANAGEMENT

Q1 2019 index exposure



GVQ UK Focus Fund		%
1	FTSE 100 Index	34.8
2	FTSE 250 Index	35.5
3	Smaller Companies & Other[1]	26.6
4	Cash	3.1

Q2 2019 index exposure



GVQ UK Focus Fund		%
1	FTSE 100 Index	39.8
2	FTSE 250 Index	33.0
3	Smaller Companies & Other[1]	23.9
4	Cash	3.3

Fund retains strong liquidity with an average market capitalisation in the portfolio of £2.1bn

As at 30th June 2019
Sources: Northern Trust, GVQIM
Note: 1. Includes FTSE Small Cap and AIM
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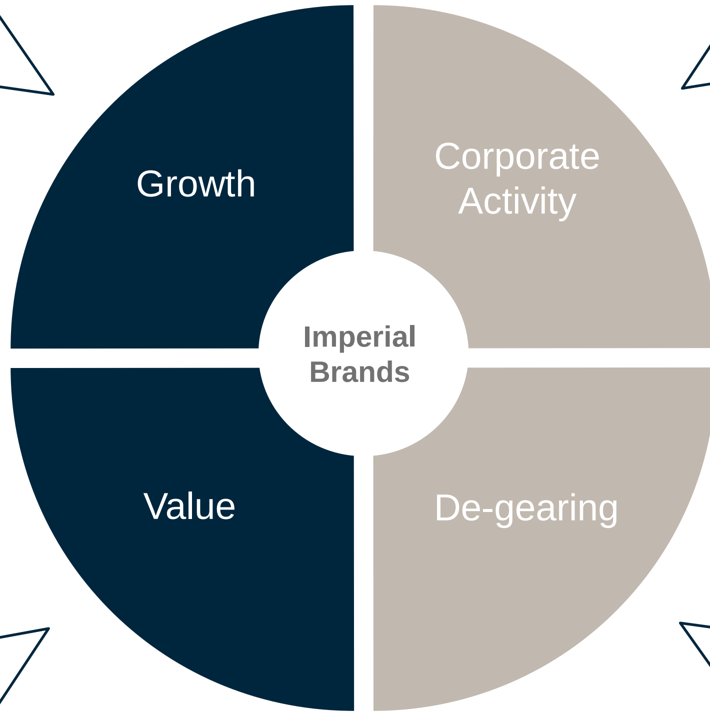
Imperial Brands - investment case

Imperial Brands – A diversified tobacco company offering stable cashflows, alongside a significant growth opportunity

- While declining volumes of tobacco sales have long been a feature of the industry, Imperial Brands have consistently been able to offset this with pricing growth, and from consolidating their portfolio into their most differentiated, premium-priced brands
- Alongside ongoing cost-cutting programmes, this has led to growth in GVQ cash of **4.2%** per annum over five years, and **5.1%** per annum over ten years
- In the medium term, Imperial foresee significant additional growth to come from their Next Generation Products portfolio

- There are examples of large cap M&A in the tobacco industry, with significant synergies achievable; the current significant discount to other listed peers that Imperial Brands trades on (c. 40% on a P/E basis, and c. 20% on an EV / EBITDA basis) could provide larger peers with an opportunity to create a significant amount of shareholder value via a takeout
- Imperial Brands also have a strong track record of delivering value by rationalising their portfolio, both via disposals and via internal reorganisations



- While the concerns around the decline of tobacco volumes have not fed through to Imperial's financial results, they have clearly weighed on the rating of the business; the business currently trades on just c. **7x** P/E, and a c. **12%** GVQ cash yield. This represents a significant discount, on all bases, to peers, and its own trading history
- Even with no re-rating from these historically low multiples, the business delivers a c. **14%** annual return from degearing alone; a re-rating to the average peer multiple delivers a > **20%** total annual return

- The starting dividend yield of c. **10%**, and a progressive dividend policy of growing DPS in-line with earnings, gives a forecast return from dividends alone of more than **10%**
- The payout ratio of c. 70% gives a further degearing of c. 0.2x net debt / EBITDA per annum, equivalent to a return to equity holders of c. **4%** per annum over the forecast period, giving a **14%** per annum total return
- Accelerated degearing is likely from the sale of their cigar business, with a total of **£2bn** of disposal proceeds earmarked by mid-2020

Strong, multi-year track record of shareholder returns, available at close to an all-time low multiple

As at 30th June 2019
Sources: GVQIM, Company Reports
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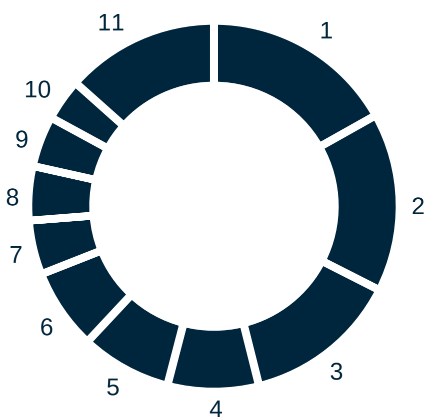
Industry exposure

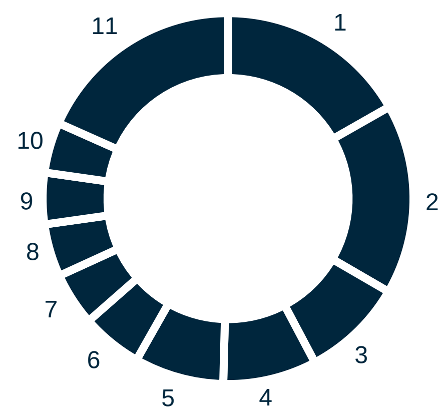
GVQ INVESTMENT MANAGEMENT

Q1 2019 top ten industry exposure



GVQ UK Focus Fund		%
1	Aerospace & Defence[1]	17.4
2	Asset Managers	16.9
3	Software & Computer Services	11.1
4	Pharmaceuticals	8.4
5	Media Agencies	7.5
6	Broadcasting & Entertainment	6.6
7	Building Materials & Fixtures	4.8
8	Real Estate Investment & Services	4.8
9	Investment Banks / Brokers	4.2
10	Internet Retail	3.7
11	Other (inc. cash)	14.6

Q2 2019 top ten industry exposure



GVQ UK Focus Fund		%
1	Aerospace & Defence[1]	17.1
2	Asset Managers	16.9
3	Software & Computer Services	9.1
4	Media Agencies	8.3
5	Pharmaceuticals	8.0
6	Broadcasting & Entertainment	5.4
7	Real Estate Investment & Services	4.7
8	Building Materials & Fixtures	4.7
9	Investment Banks / Brokers	4.6
10	Consumer Staples	4.5
11	Other (inc. cash)	16.7

Eight portfolio holdings involved in M&A since BREXIT lends strong support to our sector positioning

As at 30th June 2019
Sources: Northern Trust, GVQIM
Notes: 1 Babcock sector reclassified by FTSE Russell during Q1 2019 from Support Services to Aerospace & Defence – we adjust historical data for like-for-like comparison
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Consensus portfolio valuation

	GVQ UK Focus Fund Weighted Average[1]	FTSE All-Share Total Return Index[2]
No of holdings	24	-
Market cap (£bn)	5.1	-
Price to earnings	**11.1**	12.8
Dividend yield (%)	4.8	4.3
Price to book	2.2	1.7
Price to sales	1.9	1.1
GVQ cash flow yield* (%)	**11.4**	-
Return on equity	15.8	-
Operating margin	15.9	-
Net Debt/EBITDA	**0.5**	1.1
Forward earnings growth (%)[3]	**6.7**	7.1

Portfolio continues to look highly attractive on a GVQ cash yield and earnings basis; solid growth; modest leverage

As at 30th June 2019
Sources: 1. GVQIM, 2. Bloomberg, 3. FactSet
* GVQ cash flow yield = (EBITDA – maintenance capital expenditure) / Enterprise Value
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Outlook

Bear market checklist

	Start of Proper Bear Markets Mar-00	Oct-07	Now
Global Equity Valuations			
Trailing PE	33	17	18
Fwd PE	24	14	15
DY	1.3	2.1	2.5
CAPE	48	30	24
Global Equity Risk Premium	1.0%	3.3%	4.6%
US Yield Curve (10Y minus 2Y)	-0.5	0.0	0.2
Sentiment			
Global Analyst Bullishness (std dev)	1.7	1.0	0.5
US Panic Euphoria Model	1.09	0.42	-0.07
Global Equity Fund Flows (3y as % of Mkt cap)[1]	2.9%	0.7%	0.2%
Corporate Behaviour			
Global Capex Growth (YoY)	8% (1999)	11% (2007)	5% (2019e)
M&A (Previous 6m as % of Mkt cap)	11.4%	8.1%	4.8%
IPOs (Previous 12m as % of DM Mkt cap)	0.70%	0.40%	0.2%
Profitability			
Global RoE	12.2%	16.1%	13.1%
Global EPS ($, % from previous peak)	35%	117%	15%
Balance sheets / credit markets			
Asset/Equity (US Financials)	16x	16x	10x
Net Debt/EBITDA (US ex Fins)	1.8x	1.4x	1.6x
US HY Bond Spread	600bp	600bp	457bp
US IG Bond Spread	175bp	175bp	130bp
# of sell signals	17.5/18	13/18	4/18

Red = worrying, Amber = perhaps, White = not worrying

Updated bear market checklist with only 4 out of 18 sell signals continues to support buying the dips

As at 4th July 2019
Source: Citi Research
Note: 1. Consensus.
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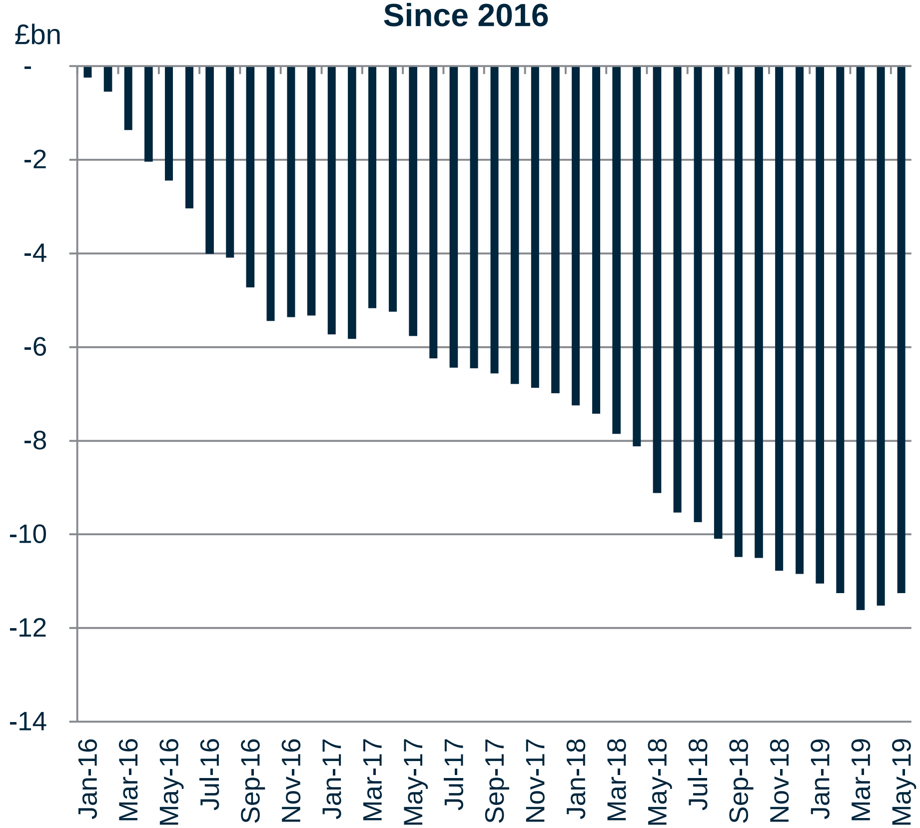
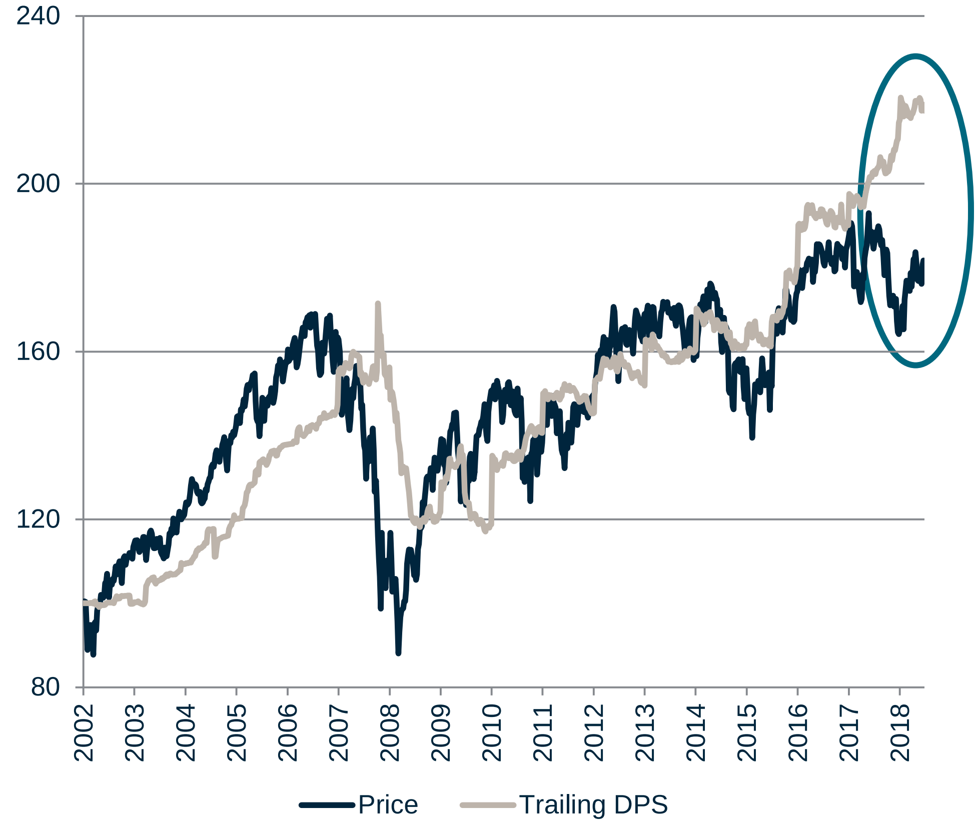
UK continues to be deeply unloved

UK All Companies Sector - Cumulative Flows Since 2016



Price and trailing DPS of UK MSCI index over time



Highly negative view of UK equities reflected in c.£11bn of net outflows from UK All Companies sector since 2016 and widespread 'underweight' allocation. Creation of a multi-year valuation opportunity? We believe so

As at 30th June 2019
Sources: Investment Association/Numis Securities
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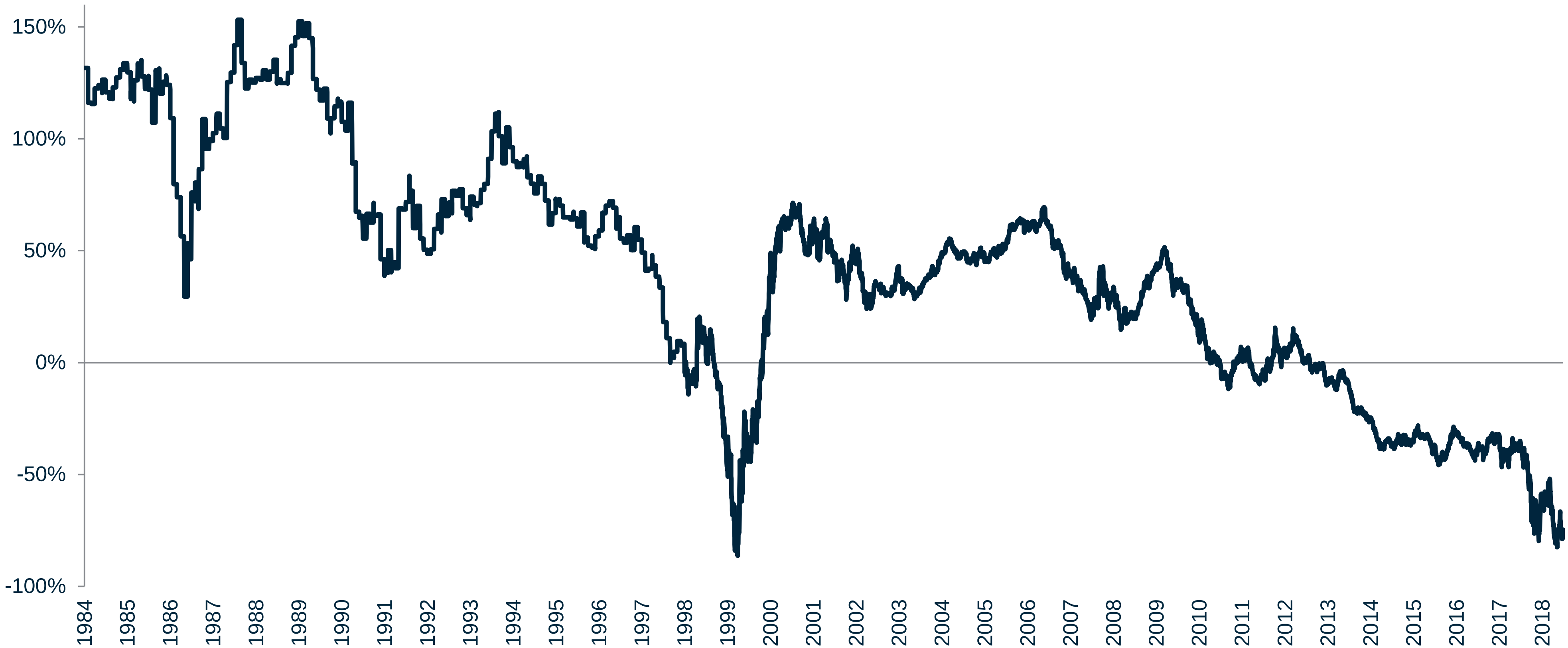
Value is hated

Rolling ten year over/under performance of MSCI Global Value Index vs. MSCI Global Growth Index



Value has not been this unloved since the tech boom. We believe this presents an outstanding investment opportunity albeit 'value' is not where you might necessarily expect it. A summary of our Top 5 holdings follows on p.22-26

As at 30th June 2019
Sources: Bloomberg/GVQ
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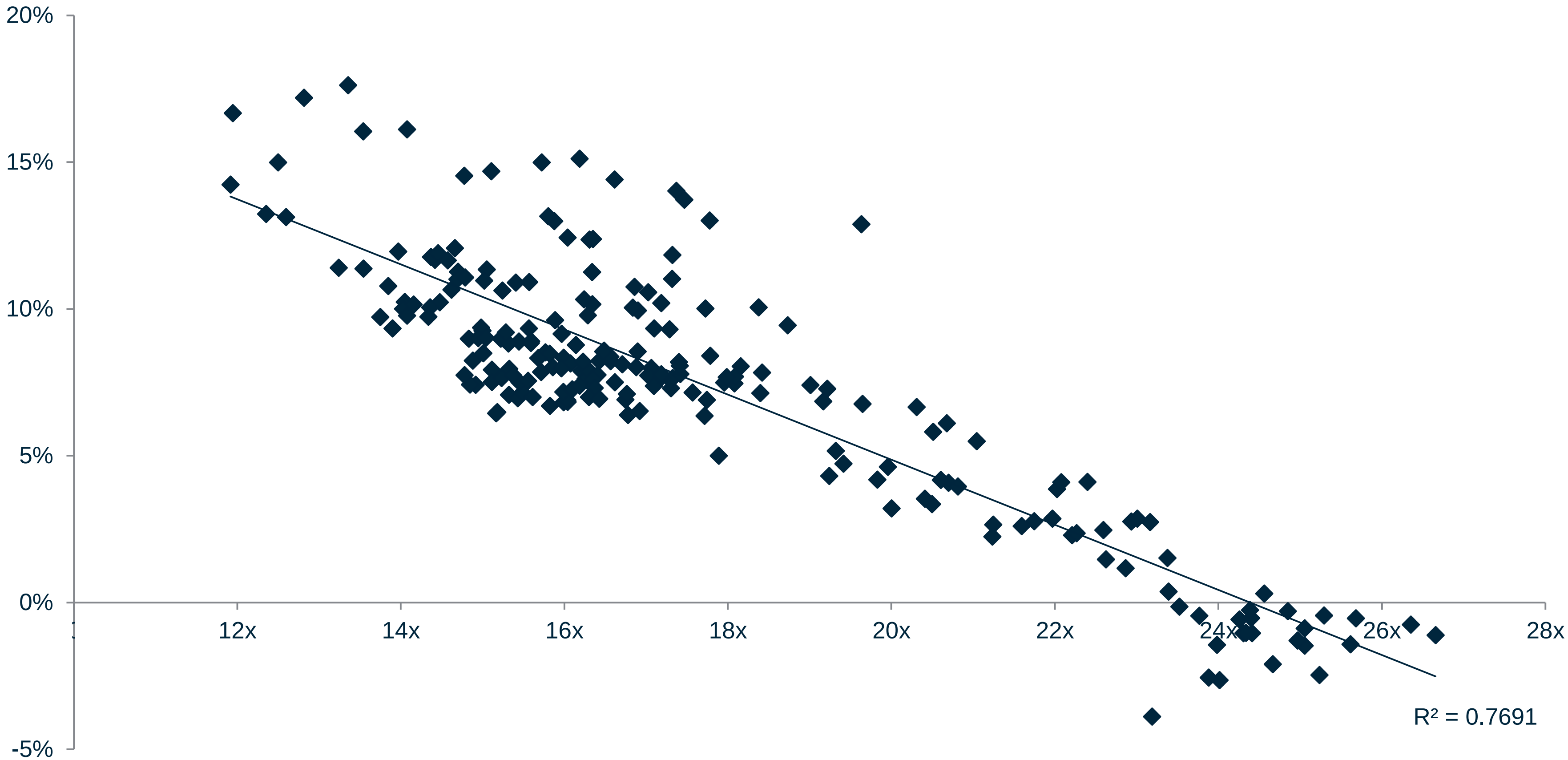
Why valuation matters

Forward P/E ratios and subsequent 10-year annualised total returns[1]



To those following a 'this time it's different approach', we simply say, caveat emptor

As at 30th June 2019
Source: Bloomberg data
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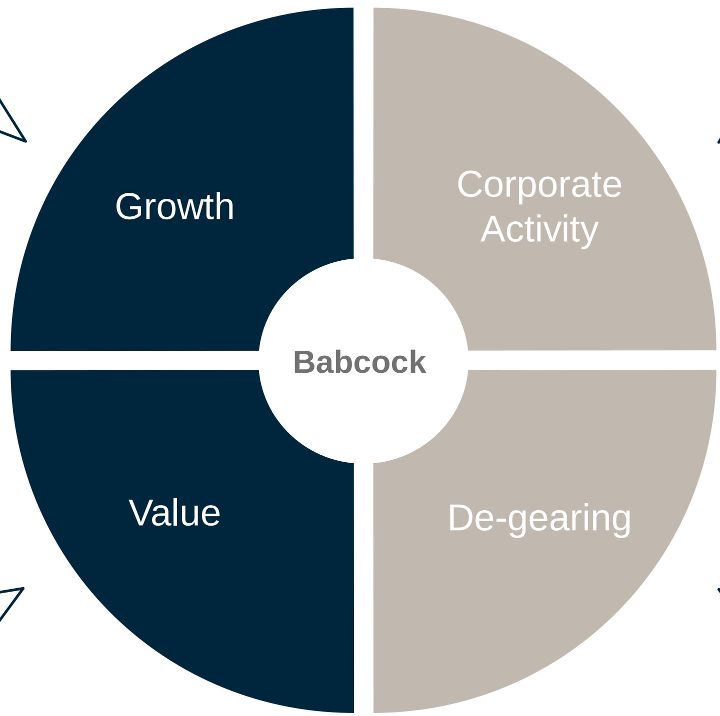
Babcock - investment case

Babcock - the UK's leading engineering support services organisation

- Strong history of delivering double digit growth which we believe will return as significant new UK marine equipment come into service
- It is not cyclical – at its worst, organic revenue declined by -1% in 2009/10
- It has an excellent rebid win rate of 90% and a new bid win rate of 40% with first class revenue visibility with c.94% next year and c.67% for the year after (inc. rebids)

- Strong cash flow and balance sheet provides optionality for future acquisitions. We believe Babcock's historic M&A has been successful
- EBIT Margins have increased substantially since 2007 from c.6% to c.11%, largely due to this successful M&A
- We note the CEO's comment in the Financial Times "We are the most undervalued business in the stock market at the moment"



- The majority of its services are unique & it owns natural monopoly like assets – no one else can, or does, the same
- At period end Babcock traded on a P/E of c.6x and a dividend yield of >6%, 3x covered by cash
- Re-rating to historical levels would return c.20% p.a. Our required return of 15% IRR is met irrespective of this

- The company continues to degear, with 1.4x net debt to EBITDA as at 31st March 2019 and further degearing expected in 2020 - providing a very strong balance sheet and scope for increased returns to shareholders in the medium term
- Forecast annual return from degearing (inc. dividend) of c.13%, substantially meeting our investment hurdle rate without growth or re-rating

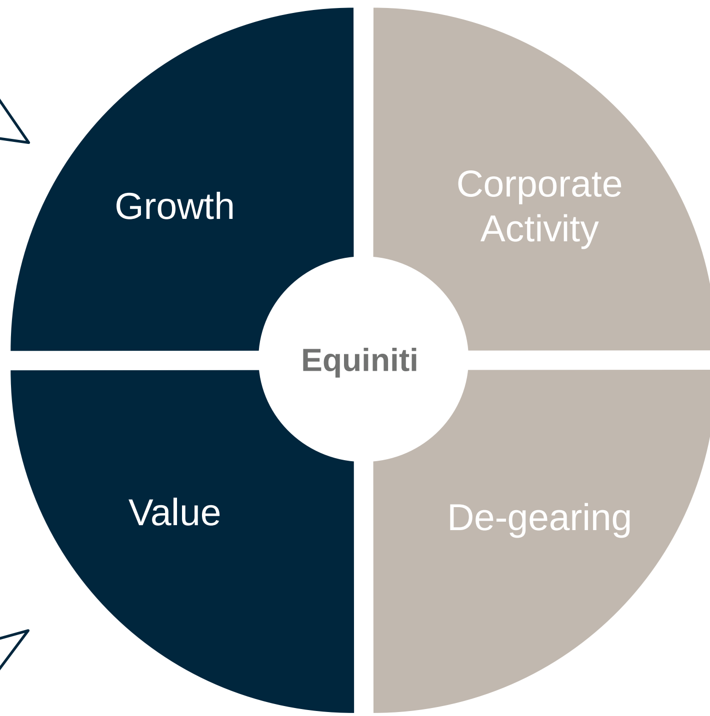
Babcock offers a combination of strong cash flow and growth at an attractive valuation

As at 30th June 2019
Source: GVQIM
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Equiniti - investment case

Equiniti – a market leading specialist technology and business process outsourcer

- Customers include 70% of FTSE 100 companies and 70% of newly listed companies
- Opportunity to sell increasing suite of services into core customer base. Target mid-single digit organic growth p.a., consistent with recent history
- Integration of WFSS business and ongoing off-shoring of cost base provides further underpin to forecast double digit annual EPS growth before increase in base rates



- High value on the strength of cash flows and structural growth drivers to both PE and trade:
  - Permira acquired Tricor for 15x EV/EBITDA in October 2016,
  - Link acquired CAS for 13x EV/EBITDA in June 2017,
  - Computershare acquired Equitex for 19x EV/EBITDA in May 2018
- Equiniti trades on 8.1x EV/EBITDA
- ‘Bolt-on’ M&A continues to provide growth opportunities into ‘sticky’ customer base

- Trades at discount to lower growth support services peers
- High single digit GVQ cash yield and below market PE (11.5x) for a stable highly cash generative business
- Acquisition of WFSS provides entry to world’s largest capital market
- Implied impact of re-rating of low single digits p.a.

- Well invested business with low ongoing capex requirements
- Forecast to de-gear by c.0.5x of EBITDA p.a. representing c.5% of market capitalisation
- Forecast dividend yield of c.2.7% giving total prospective cash return of c.7.7% p.a.

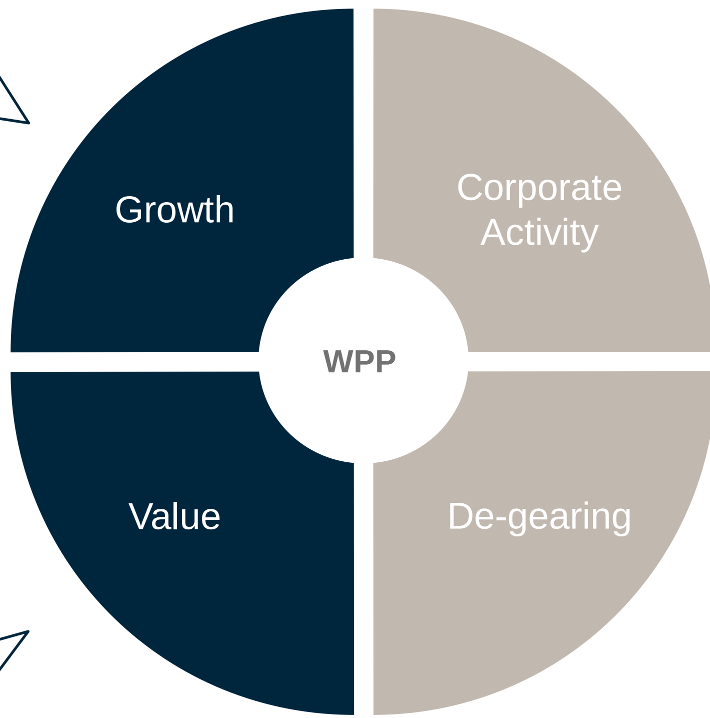
Equiniti is a high quality unique asset offering a rare combination of growth with cash flow in a stable industry and is trading at a discount to the market, peers and recent take-outs of comparable businesses

As at 30th June 2019
Source: GVQIM
Past performance is no guarantee of future performance and the value of investments can go down as well as up

WPP - investment case

WPP – The leading global communication services provider

- WPP has historically grown revenue organically in-line with, or excess of, global GDP growth, while in periods of limited organic growth, WPP has a strong track record of profitable growth via acquisitions
- Strong historical correlation between advertising spend and brand growth. Following a period of underinvestment by large spenders on advertising in 2017-18, medium term outlook for spend appears supportive
- Clear strategy for returning to organic growth outlined at December 2018 strategy day



- Evidence of appetite in the space, with Vivendi recently acquiring a majority stake in WPP’s listed peer Havas, and Accenture undertaking a number of advertising agency acquisitions
- There has also been recent private equity interest in the space, with Bain acquiring Japanese agency Asatsu AK, at a multiple implying some 100% upside to WPP’s current price
- WPP are in exclusive talks with Bain Capital around a $4bn sale of Kantar, their Data Management unit, with the possibility of WPP retaining a minority stake

- WPP trades at a material discount to its long term average rating
- Currently trading on a c. 10x P/E, compared to an average over the last decade of c. 15x
- WPP also trades at a discount to its listed peers, despite the scale and margin advantage it enjoys

- Despite strong cash conversion, WPP’s commitment to share buybacks, a progressive dividend policy and growing the business via acquisitions means that the business has shown limited ‘pure’ de-gearing; this is now being prioritised, with the share buyback being paused until leverage falls below 1.75x
- Including returns from dividends, a total return from de-gearing of c. 13% per annum is forecast

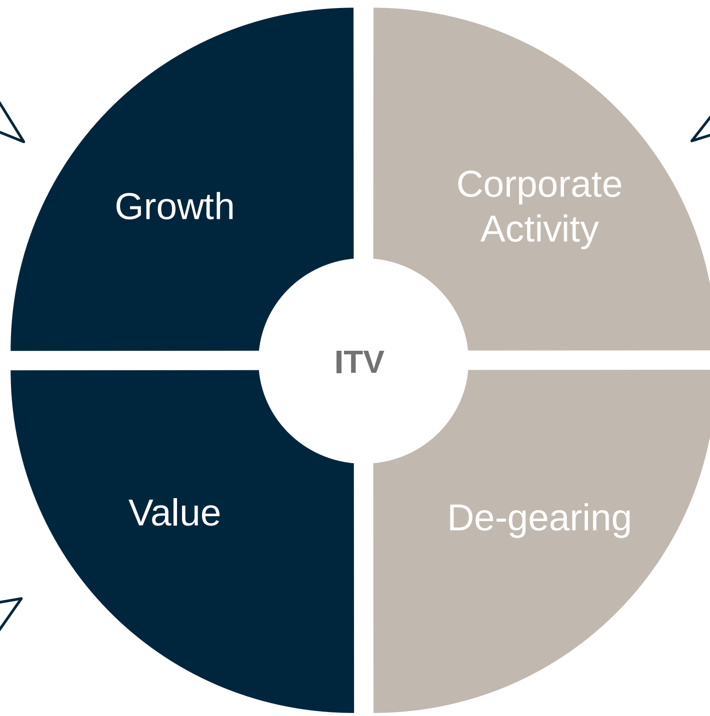
A global leader with a strong track record of growth and shareholder returns, trading on a significant discount to long term multiples

As at 30th June 2019
Source: GVQIM
Past performance is no guarantee of future performance and the value of investments can go down as well as up

ITV - investment case

ITV - the UK's leading commercial broadcaster

- Despite declines in live TV viewing ITV has continued to grow thanks to very strong, double digit, organic growth in online viewing via the ITV Hub combined with mid-single digit organic growth from the Studios business
- This growth is supported by major sporting events: Rugby World Cup (2019) & UEFA Euro Football (2020)
- And supported by potential growth in Britbox subscriptions



- Unique asset in highly coveted sector
- Significant speculation surrounding ITV being a takeover target – particularly given Liberty Global's 9.9% shareholding combined with the recent sterling devaluation. Liberty paid est.13x EBITDA for its second stake in ITV vs its current multiple of 7.7x 2019F EBITDA
- Multiple recent deals in TMT sector at large premiums (Disney / Fox / Comcast / Sky)

- High quality asset:
  - In 2018 ITV delivered 98% of all commercial audiences over five million and 96% of all commercial audiences over three million
  - ITV grew its share of viewing to its highest in 10 years at 23.2% in 2018
  - ITV Studios is truly global supplying over 234 channels in 10 countries
- Trades at a significant discount on 8.5x 2019F EPS vs 13.3x historical average

- Strong balance sheet; net debt / EBITDA c.1x
- Averaged 99% cash conversion since 2006
- Since 2011 the Group has returned £2.8bn in dividends equivalent to 107% of its market cap at the start of 2011
- Implied total degearing return (inc. dividend) of 12% p.a.

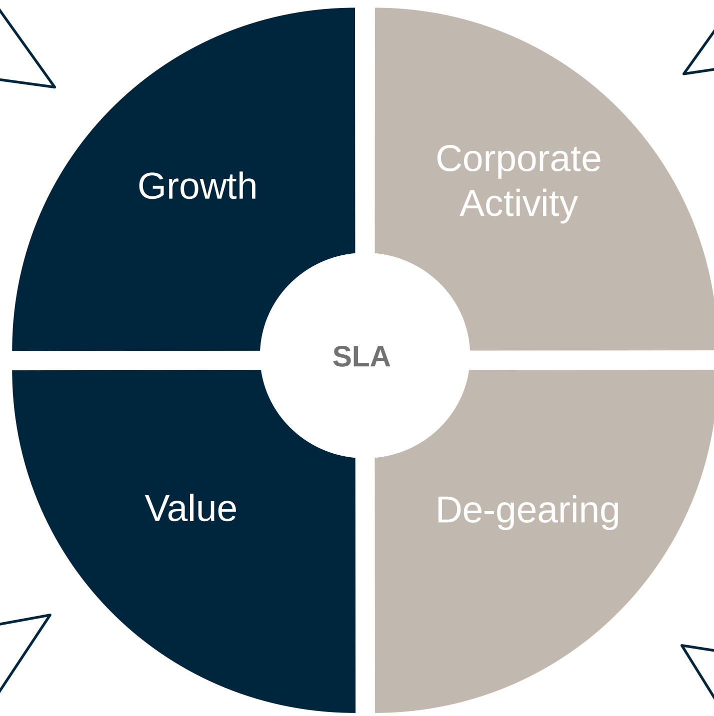
A high quality, unique integrated broadcaster with unparalleled commercial audience reach and global growth

As at 30th June 2019
Sources: 1. Bloomberg 2. GVQIM
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Standard Life Aberdeen - investment case

Standard Life Aberdeen – A global asset manager with a strong track record of value creation

- Assuming flat revenues, along with the stated medium term target of a 60% cost:income ratio (which appears achievable when compared to peers and the detailed quantum of identified cost savings, comparing to a 2018 figure of c. 70%), implies growth in GVQ cash flow of c. 7% per annum
- We believe flat revenues are a conservative assumption; we assume net outflows continue at c. 7% per annum, offset by a blended market return of 4%, and further growth via internally funded M&A and winning of new mandates



- Standard Life Aberdeen owns significant minority stakes in three listed businesses; an Indian life insurer, and asset manager, and Phoenix, the UK listed life insurance consolidator. The market value of these stakes currently accounts for some 65% of the Group market capitalisation
- In Q1 and Q2 of 2019, SLA has begun to realise the value of the largest of these holdings, via a sale in the market (at a small discount to the prevailing price), with further realisations planned

- Considering the business on a sum-of-the-parts basis, when the value of the listed stakes is subtracted, the core asset management business trades on a c. 6x trailing P/E (equivalent to a c. 18% GVQ cash yield); a c. 40% discount to listed peers and the trading history of both Aberdeen and Standard Life
- We believe a more focused, capital-light asset management business should deserve a premium rating compared to where the assets have traded historically, albeit no re-rating is required to meet our 15% IRR hurdle

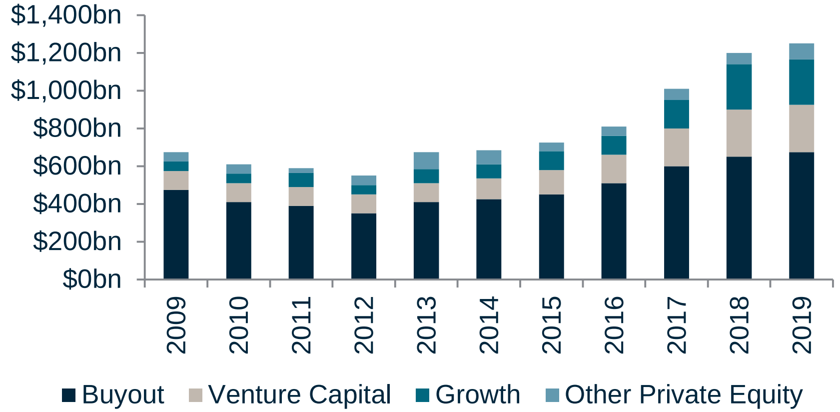
- Starting dividend yield of c. 8%; significant amounts of excess capital and cash to support this, and prior to the merger both Standard Life and Aberdeen increased their dividend in each of the preceding ten years
- Our forecasts imply further degearing of c. 5% per annum, giving a total cash return of c. 13% per annum
- Following the sale of the insurance business, the capital requirement of the business is significantly smaller; some c. £1.5bn has been returned to shareholders via a share buyback and B share scheme with a further **£0.3bn** to be returned

A strong record of successful M&A execution and capital returns, trading on a significant discount to long term multiples

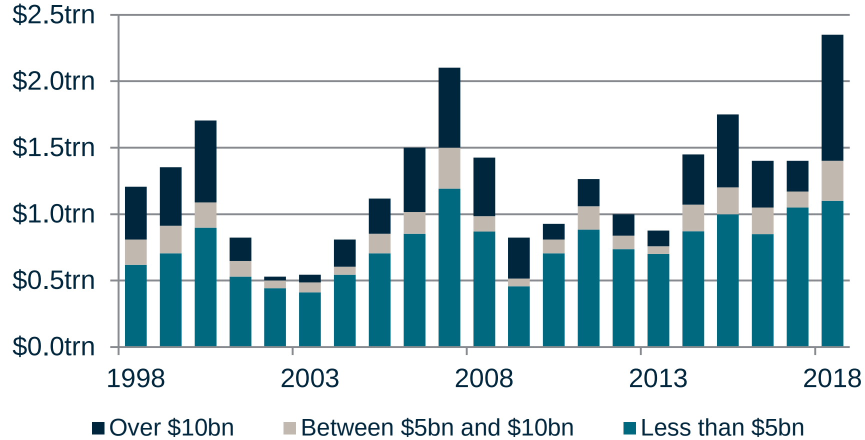
As at 30th June 2019
Sources: GVQIM, Company Reports
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Global private equity dry powder levels at record highs

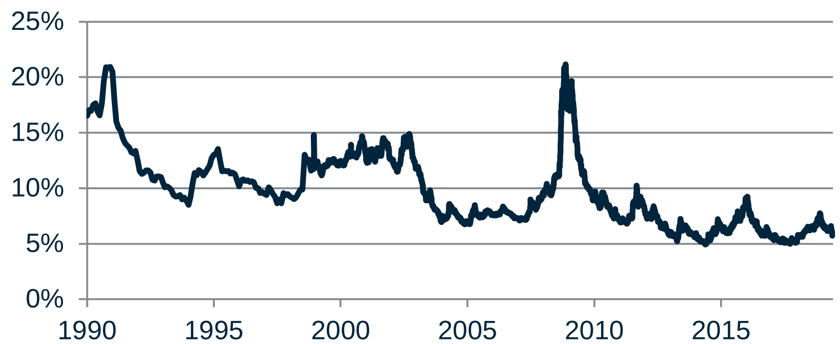
Private Equity Dry Powder by Fund Type, 2009 – Q1 2019



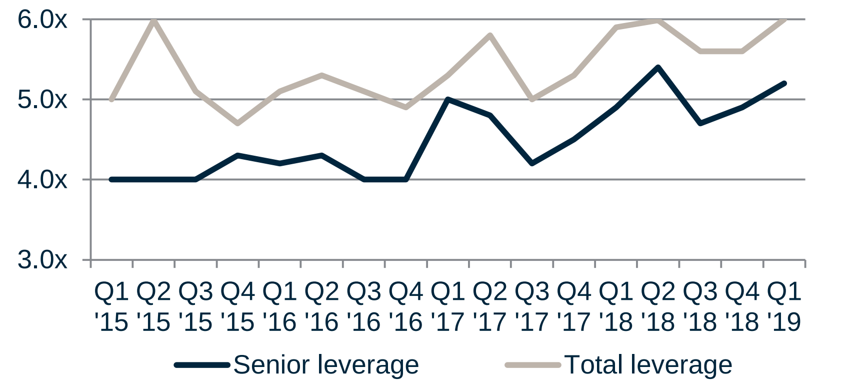
Worldwide M&A volumes in H1, 1998 - 2018



HY bond yields over time (Bloomberg global high yield bond index)



Net debt / EBITDA of mid-market M&A deals



The level of private equity dry powder (capital that has been raised, but not yet deployed) has continued to climb; global dealmaking hit an all-time record in H1 at $2.5tn eclipsing the previous high set in H1 2007; the cost of debt remains both generationally low, and widely available

Latest data available. Note: [1]YTD June 2019
Source: Preqin Private Equity Online, William Blair, Bloomberg, Thomson Reuters
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Given the acute current valuation anomaly, we expect further M&A going forward

GVQ INVESTMENT MANAGEMENT

WIRELESS GROUP PLC

Lavendon Group plc

e2v Bringing life to technology

sky

UBM

Aberdeen

Shire

RPC

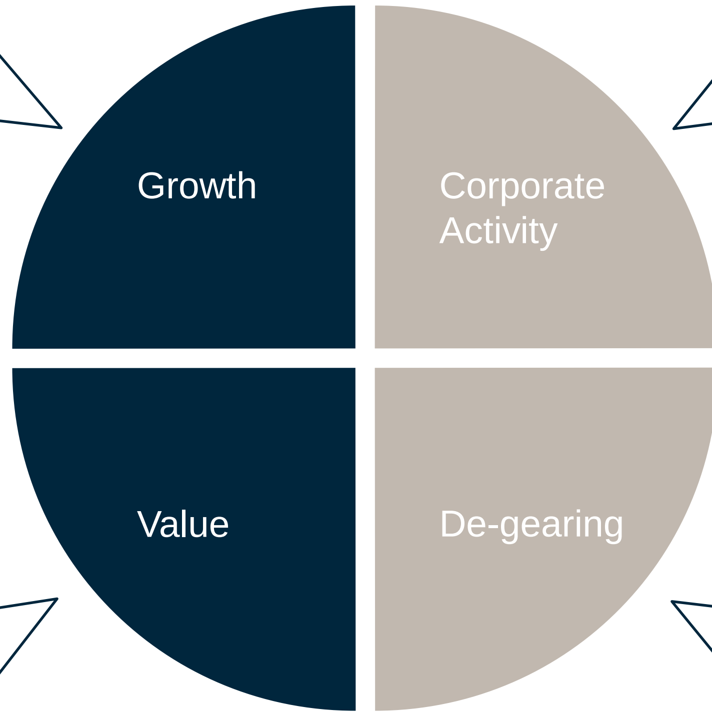
Fund has shown strong participation in this M&A cycle; 8 holdings to date since BREXIT; average bid premium on takeout >50%

As at 30th June 2019
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Earnings growth, cashflow and M&A to drive portfolio returns over the medium term

- Forecast mid / high single digit earnings growth for the portfolio
- Portfolio leverage continues to fall at 0.5x Net Debt / EBITDA and below the market on a weighted average basis

- Since BREXIT eight portfolio holdings have been subject to M&A activity. Believe indicative of the value in the portfolio
- Expect further cross-border M&A as overseas companies take advantage of the sharp depreciation in sterling



- Portfolio valuation highly attractive on a weighted average GVQ cash yield of 11.4%
- Fund P/E multiple of 11.1x also a discount to the market
- Conservatively assume negligible re-rating for many portfolio companies

- Portfolio de-gearing at 9% p.a.
- Of which 4.8% dividend yield

We continue to anticipate double digit annualised returns from the portfolio over the medium term

As at 30th June 2019
Source: GVQIM
Past performance is no guarantee of future performance and the value of investments can go down as well as up

CONCLUSION

Conclusion

- It is hard to recall a time when UK equities have been so universally hated as the here and now. The only exception to this being expensive ‘defensives / quality growth’, to which investors have migrated toward in their droves, particularly over the last twelve months on an accelerated basis, for their perceived safety and oft used term associated with them, ‘compounding returns’

- We think and act long term; compounding is core to our approach, but it is not unique to the aforementioned subset of companies

- We also have a stringent focus on valuation, a discipline that many have chosen to either forget, or ignore. Long term investment history would suggest this path is fraught with danger, and rarely has a happy ending

- ‘Investing in quality’ has become the investment slogan of this cycle, typified by the once maligned FMCG space. The lights, in our opinion, are flashing very red in this area right now. Profit warnings in Q1 from Kraft-Heinz, and Beiersdorf, are maybe the tip of the iceberg?

- Our expectation going forward, a two way elevator. On the one side (largely populated by defensives / quality growth) we believe a very real risk (and contrary to widespread opinion given the weight of money in this area) of material capital downside in anything other than the long term; at best, muted total returns going forward for a significant number of years

- On the other side, selectively, a spectacular investment opportunity. Brexit has helped create extreme anomalies on both sides

Rarely, in our opinion, has the risk / reward profile of the Fund looked more attractively skewed than today

As at 30th June 2019
Sources: GVQIM, Bloomberg
Past performance is no guarantee of future performance and the value of investments can go down as well as up

APPENDIX

How we identify value in potential investments

Main focus of most
PUBLIC EQUITY INVESTORS

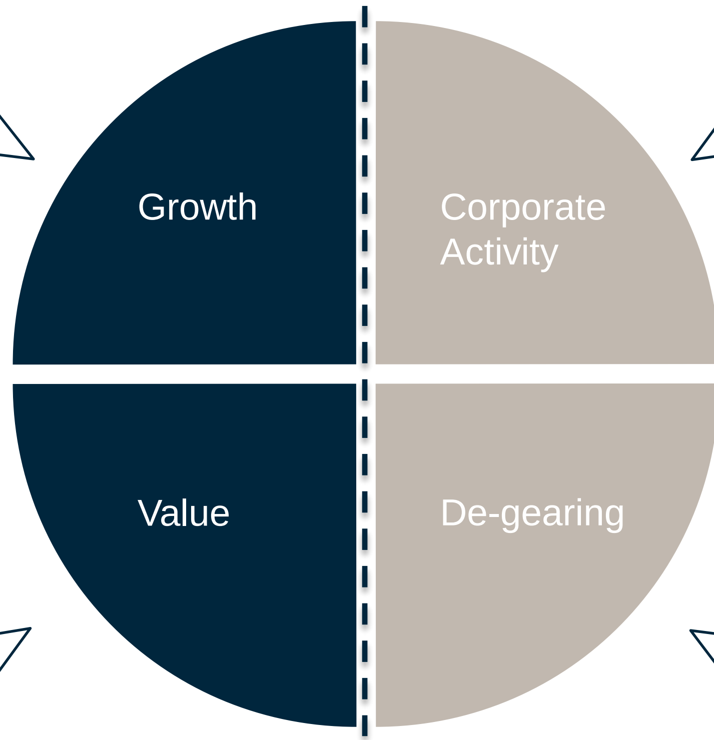
Main focus of most
PRIVATE EQUITY INVESTORS

All investments undergo in-house, **prospective cash-flow and historical modelling**

Focus on growth in operating cash flow

All investments are valued using an in house **leveraged buy-out model**

Focus on recent relevant trade and private equity transaction multiples



All investments are valued using an in-house **re-rating model**

Focus on GVQ cash yield*

* Enterprise value to operating cash less maintenance capital expenditure

All investments are valued using an in-house **de-gearing model**

Focus on transfer of value from debt to equity holders over investment period

We focus on four key drivers of shareholder value creation to maximise the chance of success

Source: GVQIM

Past performance is no guarantee of future performance and the value of investments can go down as well as up

There are strict criteria for inclusion in our funds

GVQIM's research process aims to identify high quality coveted assets with attractive cash flows

Note: 1. Growth at a reasonable price
Past performance is no guarantee of future performance and the value of investments can go down as well as up

How we identify coveted assets

We look for characteristics which GVQIM believes potential acquirers value highly

Qualitative	Quantitative
• Niche market leaders • Orderly end markets, with some growth • Sustainable business model/franchise/uniqueness • Overseas earnings • Able to pass on price increases • Intellectual property • Operational know-how • High barriers to entry	• High and/or improving ROCE • Strong cash conversion • Limited capex or working capital investment needed to finance growth • Recurring revenues/profits/cashflows • Ideally achieving, or has potential to achieve double digit operating profit margin • Realisable surplus tangible fixed assets and/or working capital

We believe coveted assets retain value even in tough times, and are more likely to be acquired

Our Black List screens out companies with fundamental business risks

Operational

- Excessive reliance on a single product, customer, supplier or distributor
- The primary driver of profitability cannot be influenced by management (e.g. resources)
- Inherently low margins
- Structurally declining markets

Financial

- Poor accounting systems or controls
- Weak cash flows – especially when reported profits look good!
- Excessive gearing

Governance

- Controlling shareholder with misaligned interests
- Below average/deteriorating governance practices
- Stakeholders unwilling to engage constructively

We have learnt what to avoid from previous experiences

Research Committee ensures consistency of approach

	Idea generation	Investment Memorandum	Preliminary Investment Recommendation	Final Investment Recommendation	Monitoring & review
Materials	• Watch list • M&A transactions • Cash flow screen • Yield screen • Four drivers screen • LBO screen • Directors dealing	• Company description • Investment thesis • Cash flow model • LBO model	• Company meeting • Management analysis • Stakeholder analysis • Qualitative financial analysis • Feasibility	• Counterparty analysis • Due diligence verification • Bespoke research • Forensic accounting • Management referencing	• Progress against original investment thesis • Proposed changes to target price • Changes to consensus estimates
Debate	• Are we focusing on the right stocks/sectors? • What is happening in trade and private equity?	• Is there are credible case for investment? • Does the company meet our basic criteria?	• Peer group review • Work together to identify key due diligence questions and investment risks	• Have we properly answered all of the key questions?	• Automatic review against thesis every 12 months or earlier as required
Output	• New idea	• Initial Target Price	• Due diligence questions	• Final Target Price	• Watch list

Industrial Advisory Panel involvement

Multi-stage research process; fully documented and scrutinised using a variety of methods and people

Discrete annual performance

Annual performance[1]	YTD	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
%	17.2	-17.7	8.0	12.7	6.7	6.0	44.2	19.6	-5.0	30.5	52.2
Quartile[2]	1	4	4	2	2	1	1	1	1	1	1

Established track record of successfully employing private equity techniques in the quoted market

As at 30th June 2019
Sources: 1. GVQIM and Northern Trust, 2. Trustnet
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Fund facts – GVQ UK Focus Fund

Manager	GVQ Investment Management	**Management charge**	0.75% per annum (I class) 1.25% per annum (A class)
Share classes	I class and A class	**Initial charge**	None
ISIN	IE 0033377494 (I class) IE0033377502 (A class)	**Bloomberg-ticker**	SVIUKFI (I class) SVIUKFA (A class)
Sedol	3337749 (I class) 3337750 (A class)	**Minimum initial investment**	£1,000 for both share classes
Benchmark	FTSE All Share Total Return Index	**Fund leverage**	Zero
Currency	GBP (for all payments)	**Fund size**	£239.9m (As at 30th June 2019)
Legal structure	Dublin listed OEIC	**Liquidity**	Open-ended fund; daily liquidity
Launch date	5th August 2003	**Dividend frequency**	Semi- annual
Listing	The Irish Stock Exchange	**Dividend yield (trailing)**	2.6%

Contact details

For Fund subscriptions and redemptions please visit the GVQIM website for an APPLICATION FORM or contact:

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