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Initiation | Investment companies

11 September 2018

BlackRock Throgmorton Trust

Vision, execution and adaptability

Dan Whitestone, manager of BlackRock Throgmorton Trust (THRG), has a dual-pronged approach to selecting investments that involves identifying "high-quality differentiated companies"; and companies driving industry change. Dan looks for management teams with vision, the ability to execute according to that vision and a readiness to adapt to changing circumstances. Dan has been sole manager of THRG since February 2018 and his track record to date suggests he exhibits similar attributes.

Both long and short positions in UK small-and-mid-cap companies

THRG aims to provide shareholders with capital growth and an attractive total return by investing primarily in UK smaller companies and mid-capitalisation companies listed on the main market of the London Stock Exchange. It uses the Numis Smaller Companies Index (plus AIM stocks but excluding investment companies) as a benchmark for performance purposes, but the index does not influence portfolio construction. Uniquely, amongst listed UK smaller companies trusts, THRG's portfolio may include a meaningful allocation to short as well as long positions in stocks.

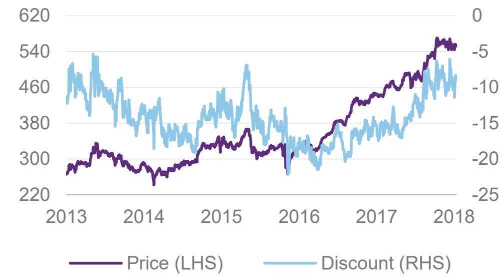
Year ended	Share price total return (%)	NAV total return (%)	Peer group average NAV TR[1] (%)	Numis Smaller Co.s plus AIM, ex IC[2] (%)	MSCI UK total return (%)
31/08/14	9.3	11.9	12.7	10.6	10.1
31/08/15	18.3	16.7	15.2	9.0	(5.9)
31/08/16	0.3	5.6	4.8	3.6	12.8
31/08/17	37.8	36.3	28.3	21.6	13.9
31/08/18	25.2	17.5	10.3	3.7	3.6

Source: Morningstar, Marten & Co. Notes: 1) the peer group is defined on page 11. 2) Between 1 December 2013 and 22 March 2018 the benchmark was Numis Smaller Companies excluding both AIM and investment companies.

Sector	UK smaller companies
Ticker	THRG LN
Base currency	GBP
Price	546.00p
NAV	604.77p
Premium/(discount)	(9.7%)
Yield	1.7%

Share price and discount

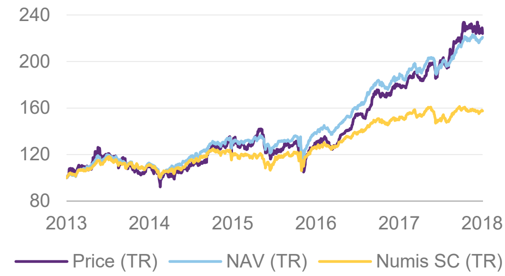
Time period 31/08/2013 to 07/09/2018



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/08/2013 to 31/08/2018



Source: Morningstar, Marten & Co

Domicile	England & Wales
Inception date	1 December 1962
Manager	Dan Whitestone
Market cap (GBP)	399.3m
Shares outstanding	73.13m
Daily vol. (1-yr. avg.)	115,412 shares
Net gearing	7.6%

Contents

Fund profile

Further information about THRG is available at the investment manager's website. **Please click here**

BlackRock Throgmorton Trust (THRG) aims to generate capital growth and an attractive total return, by investing primarily in UK smaller companies and mid-capitalisation companies listed on the main market of the London Stock Exchange. It uses the Numis Smaller Companies Index (plus AIM stocks but excluding investment companies) as a benchmark for performance purposes but the index does not influence portfolio construction.

THRG now has greater freedom to invest in AIM and overseas

For the period between 1 December 2013 and 22 March 2018 the benchmark was Numis Smaller Companies Index excluding both AIM stocks and investment companies. There used to be a restriction on the trust's exposure to AIM companies, but this was removed in March 2018 and, at the same time, the manager was given permission to invest up to 15% of the portfolio in stocks listed on exchanges outside the UK.

Both long and short positions

THRG's unique approach includes taking both long and short positions within the portfolio

Uniquely, amongst listed UK smaller companies trusts, THRG's portfolio may include a meaningful allocation to short as well as long positions in stocks. Up to 30% of the portfolio may be invested in contracts for difference (CFDs), both long and short. Under normal market conditions, the net exposure will account for 100-110% of net assets. We expand upon the approach to shorting on page 6.

The manager

Dan Whitestone has been sole manager of the trust since 12 February 2018

BlackRock Investment Management (UK) Limited was appointed manager of the trust in July 2008. Dan Whitestone, head of the smaller companies team at BlackRock, has been sole manager of the trust since 12 February 2018 (he had been co-manager, alongside Mike Prentis, since March 2015). Dan heads a team of four. All members of the team manage portfolios and between them manage or advise on about £3bn across a variety of different funds. This includes the £175m UK emerging companies fund that Dan manages with an all-cap mandate and permission to hold up to 20% of the fund in international stocks (closely resembling the THRG mandate). The team shares research responsibilities between them.

The UK market

As we explain in the next section, Dan's approach to investment management is to focus on the merits of individual companies and industrial sectors rather than seeking to second guess political and macroeconomic developments. Brexit, sterling weakness, trade wars and political instability may have a short-to-medium term impact on markets, but he believes it is more productive for him to focus on identifying high-quality companies, 'agents of disruptive change' and those affected by them.

Investment process – identifying differentiated quality and change

Since Dan Whitestone took on the management of the trust, he has made some changes but describes this as a process of “evolution not revolution”. When selecting investments for THRG’s long book, he focuses on two types of opportunity; quality, differentiated companies and companies affected by industry change.

High-quality companies

Dan believes that high-quality companies have certain characteristics for long-term success, based on:

- Management team
- Product
- Industry
- Balance sheet/cash flow

The most important factor in driving value creation or destruction is the quality of the management team

In Dan’s view, the most important factor in driving value creation or destruction is the quality of the management team. Its ability to have a vision, execute on strategy and adapt to a changing environment is crucial. Dan and the team make a point of meeting not only the top layer of management, but also other key people within a business. He believes that a common reason growing companies can experience “growing pains” is if they fail to build the infrastructure and depth of team beneath the top manager layer.

Meeting management is a core part of the BlackRock smaller companies team’s approach and between them they probably have around 750 meetings a year. Usually, they try to have as many of the team in a meeting as possible – to get a diversity of viewpoint.

Products need pricing power and persistent demand

Dan looks for companies whose products are not purely competing on price but instead offer solutions to customers’ problems – this gives the company pricing power and persistent demand for its products. It is also important that a company maintain its product’s relevance through R&D.

Industries need structural growth drivers

The industry that a desirable company operates in should have structural growth drivers. It should not be capital intensive nor cyclical. It should be free from regulatory interference and should not be facing competitors with strong financial support.

Avoid heavily indebted companies

Dan avoids heavily indebted companies. He points out that the CFO often ends up managing the company for the benefit of the bank rather than investors in these situations. Dan focuses on cash-flow measures of value as these are less easy to manipulate than profits. He looks for indicators of quality such as the conversion of sales into cash – such companies can establish a virtuous circle whereby excess cash can be recycled into sales efforts. A company trading on 25x cash earnings is preferable in his eyes to one on 10x earnings but with no cash flow. The latter are the types of companies that he tends to short (see page 6).

An analysis of THRG’s long book would suggest that, on average, it trades on higher multiples than the short book. This reflects a focus on quality and a desire to avoid value traps.

Industry change

Disruptive industry change can provide both long and short ideas

Industry change can provide both long and short ideas. Previously in his career, Dan was a strategy consultant. The experience highlighted the impact of disruptive change on industries and has influenced his thinking since. Small-and-medium-sized companies can be a good source of industry disruptors as they need to do something special, or otherwise innovate, if they are to compete effectively.

There are many ways that disruptive change can manifest itself. These include new products, changes to manufacturing that allow products to be sourced more cheaply, vertical integration to improve and extract cost from supply chains, and changes in distribution.

Portfolio construction

Liquidity is a key determinant of position size

Position sizes are driven by liquidity, risk considerations and conviction. Liquidity is important; Dan wants to be able to trade out of a position in the event that something is going against it. He also says that he is ruthless about selling positions when the investment thesis is not working. As an aside, he says that average daily volume is a misleading indicator of liquidity for small cap stocks.

Dan does not consider the benchmark when constructing the portfolio; consequently, the portfolio will tend to have a high active share. This may be the largest change to the investment approach that he has made since taking on the fund from Mike.

Dan is Targeting 120 positions for THRG's portfolio – about 80 long positions and 40 shorts

The number of holdings has been falling. Dan is targeting 120 positions – about 80 long positions and 40 shorts. The number of shorts may seem large but it is important that the short book is diversified. Dan points out that it is perfectly possible to accurately predict that an industry will suffer long-term decline, then select a stock to represent this that is then subject to a bid, quite possibly from a competitor. This is because companies in declining industries frequently see consolidation as a remedy, although this may not work as a strategy in the long term. Nevertheless, being short a stock that becomes subject to a bid can be costly. It is therefore better to own a spread of stocks to represent a theme.

The largest position size that Dan would be comfortable with is 5% – there is nothing in the portfolio that is as big as that now. At the low end, he wants to avoid having a long tail of small positions in the portfolio.

THRG did have an informal policy of selling stocks that were promoted into the FTSE 100 Index. Dan is uncomfortable with this and would prefer the freedom to keep some exposure to companies that he believes will continue to have long-term success. He has asked the board for permission to relax this rule.

Valuation is secondary to the investment thesis

Essentially, Dan is a growth investor. He therefore believes that the portfolio may underperform in an environment where investors are favouring value stocks. Valuation is secondary to the investment thesis, in Dan's opinion, but part of the assessment of the merits of a stock is an attempt to identify whether the market appreciates, and is therefore pricing in, the story. The classic example of this is Fever-Tree Drinks. Its share price began its meteoric climb soon after its IPO (it listed in November 2014 at 165p and today it is priced at 3,831p – a return of 2,221% in under four years) and 'has always looked expensive'. However, Dan thinks that it still has much further to go in terms of sales growth (see page 10).

For stocks, Dan does believe in mean reversion. In his view, Winners win big and losers go bust!

Dan does not believe that mean reversion applies to stocks; winners win big and losers go bust. Therefore, he does not trade stocks based on valuation differentials. He also notes that two of his shorts have seen the underlying companies share prices fall to zero this year.

Shorting

Shorts often express thematic views

About half of the short book represents themes – for example, industries under pressure. Dan cites the examples of pubs and restaurants, and out-of-town retail. These themes are expressed through several stocks in accordance with the approach outlined above. It is not as simple as shorting a basket of stocks in any given industry, however. Even within a struggling sector, there may be companies whose strategy allows them to survive or even thrive; JD Wetherspoon is the example that he points to within the pubs and restaurants industry.

The rest of the book represents idiosyncratic shorts selected for stock-specific reasons. Companies with questionable accounting are a fertile hunting ground for shorts, although Dan says that sometimes these can take a while to come to fruition.

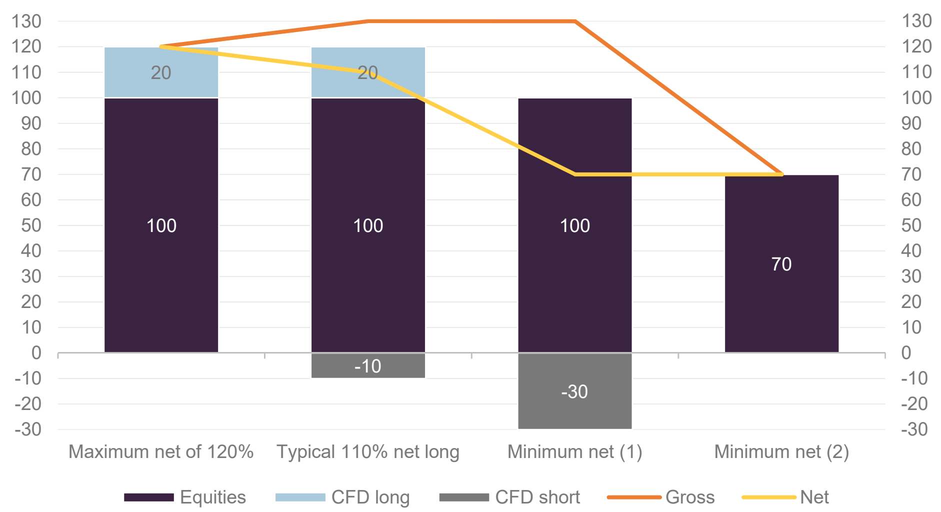
BlackRock has a blanket ban on disclosing shorts

BlackRock has a blanket ban on disclosing short positions and so it is not possible to identify which stocks have been shorted, even if they have a significant impact on performance (positive or negative). We appreciate that some investors will find this frustrating.

The board has set a maximum limit of net gearing of 20% and, in practice, gearing is provided by the CFD portfolio. The fund operates with an upper limit of 130% gross exposure to equities. Typically, this might comprise 100% in equities, 20% in long positions and 10% in short positions, ie a net exposure of 110%.

Cash balances are generally kept low and gearing is flexed by adjusting the size of the CFD book; Dan expects to operate within a range of 100% to 110% net long. The manager has the flexibility to reduce net exposure to a minimum of 70%. This is more likely to be achieved by using shorts rather than holding cash (as illustrated by minimum net (1) rather than minimum net (2) in Figure 1).

Figure 1: Portfolio construction in different scenarios



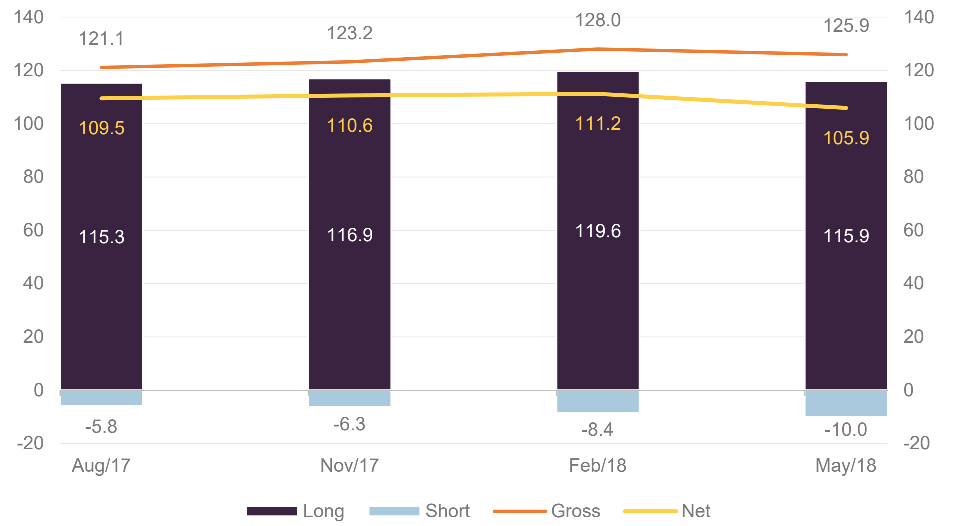
Source: Marten & Co

At the AGM on March 2018, the manager was given permission to invest up to 15% of the portfolio in overseas stocks and a cap on the fund's exposure to AIM companies was removed. Dan does not want to have exposure to unquoted investments within the portfolio (for liquidity reasons).

Asset allocation

Dan's stock-selection decisions may reflect industry themes, but he pays little attention otherwise to macroeconomic shifts.

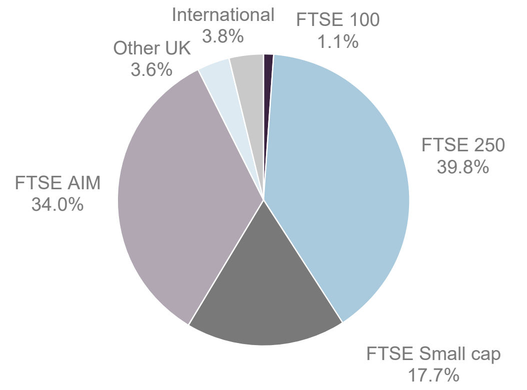
Figure 2: THRG quarterly market exposure



Source: BlackRock Throgmorton Trust

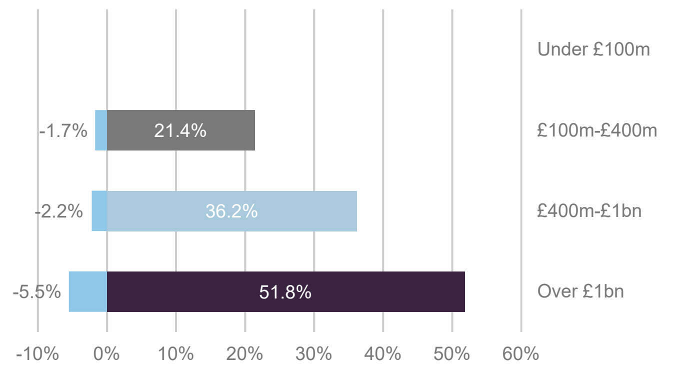
Figure 2 shows that the short book has been expanding steadily in recent months while the net exposure to markets was falling.

Figure 3: Net exposure by index as at 31 May 2018



Source: BlackRock Throgmorton Trust

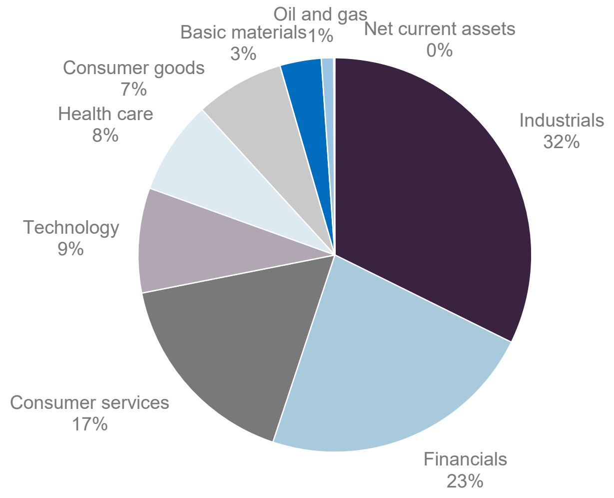
Figure 4: Exposure by market cap as at 31 May 2018



Source: BlackRock Throgmorton Trust

THRG had a small exposure to the FTSE100 Index at the end of May 2018. At that time, Dan had not yet exploited the greater freedoms to increase exposure to AIM and international stocks in a meaningful way.

Figure 5: THRG portfolio by industrial sector as at 31 July 2018



Source: BlackRock Throgmorton Trust

THRG's portfolio tends to have overweight exposures to the consumer services, consumer goods, light industrials, financials, banks, technology and health care sectors relative to market indices. By contrast, THRG will tend to have underweight exposures to oil & gas, basic materials and capital-intensive stocks. The weightings are a product of stock selection but reflect Dan's assessment of the quality of companies available in those sectors and the prospects for their industries. Dan also avoids biotechnology stocks and 'blue-sky' technology companies as they are prone to binary outcomes.

Top 10 holdings

Figure 6 shows the top 10 holdings in the portfolio as at the end of July 2018. All of these stocks featured in the portfolio at THRG's last year end (30 November 2017).

Figure 6: 10 largest holdings as at 31 July 2018

Stock	% of gross assets 31/07/18	% of gross assets 30/11/17	% change	Sector	Business focus
Ascential	3.2	2.0	0.9	Consumer services	b2b media company
Dechra Pharmaceuticals	2.8	3.1	(0.5)	Health care	Veterinary pharmaceuticals
Fever Tree Drinks	2.7	1.2	1.1	Consumer goods	Tonics and mixers
Hiscox	2.6	1.6	1.0	Financials	Insurance
SSP	2.4	1.2	0.8	Consumer services	Transport-related food and beverage outlets
Robert Walters	2.3	2.1	0.1	Consumer services	Specialist recruitment consultancy
Bodycote	2.3	1.7	0.6	Industrials	Heat treatment and thermal processing
Workspace Group	2.3	1.6	0.7	Financials	Temporary office accommodation
4imprint	2.2	2.6	(0.4)	Consumer services	Supply of promotional merchandise in the US
CVS Group	2.1	2.1	0.1	Health care	Veterinary surgeries in UK and Netherlands

Source: BlackRock Throgmorton Trust, Marten & Co

Performance

Figure 7: THRG NAV total return performance relative to benchmark[1] and peer group[2] to 31 August 2018

Source: Morningstar, Marten & Co. Note 1) Note: THRG has a blended benchmark that is the Numis Smaller Companies Index (plus AIM stocks but excluding investment companies) since 22 March 2018 and prior to 1 December 2013. Between 1 December 2013 and 22 March 2018 the benchmark was Numis Smaller Companies excluding both AIM and investment companies. 2) The peer group is defined on page 11.

As illustrated in Figure 7, THRG has demonstrated strong relative performance when compared to both its benchmark and competing funds, particularly over the last couple of years.

Figure 8: THRG performance over periods ending 31 August 2018

	1 month	3 months	6 months	1 year	3 years	5 years
THRG share price TR	(2.1)	1.6	13.4	25.2	73.2	124.0
THRG NAV TR	(0.2)	3.0	12.3	17.5	69.1	120.9
Blended benchmark[1]	(0.1)	1.0	7.3	10.3	48.3	92.4
Peer group[2] avg. NAV TR	(0.4)	(0.4)	5.2	3.7	30.6	57.5
MSCI UK TR	(2.7)	(2.0)	5.1	3.6	33.1	37.9

Source: Morningstar, Marten & Co. Note: 1) THRG has a blended benchmark that is the Numis Smaller Companies Index (plus AIM stocks but excluding investment companies) since 22 March 2018 and prior to 1 December 2013. Between 1 December 2013 and 22 March 2018 the benchmark was Numis Smaller Companies excluding both AIM and investment companies. Note 2) The peer group is defined on page 11.

The manager's report in THRG's interim statement, covering the six months ended 31 May 2018, cited IntegraFin, Dechra Pharmaceuticals and Fever-Tree Drinks as notable positive contributors to THRG's returns over that period. The manager's commentary on THRG's June fact sheet also noted strong returns from CVS Group and Ascential during that month but, over a 12-month period, CVS Group has detracted from returns.

Figure 9: IntegraFin share price

Source: Bloomberg, Marten & Co

IntegraFin

IntegraFin listed in London in March 2018 at 196 pence per share and immediately soared to 268p. Having peaked just above £4, the shares are trading at 354p at the time of publication, an 81% uplift on the IPO price. Dan bought shares for THRG in the IPO and topped up the position soon thereafter. IntegraFin is the owner of the Transact platform, which has been one of the leading investment platforms for financial advisers since it launched in 2000. Transact is also one of the first savings platforms that allowed investors to hold listed investment companies. At the end of June 2018, funds under direction on the platform amounted to £31.8bn.

Dechra Pharmaceuticals

Figure 10: Dechra Pharmaceuticals share price

Source: Bloomberg, Marten & Co

Dechra Pharmaceuticals is a leading developer and manufacturer of veterinary pharmaceuticals. It is expanding its product line both through research and development and by acquisition. A trading statement released in July 2018 revealed that revenue growth for the year ended 30 June 2018 was strong (14% at constant exchange rates). Recent acquisitions of AST Farma, Le Vet and RxVet Limited (renamed as Dechra Veterinary Products New Zealand Limited) were said to be trading in line with expectations. However, as illustrated in Figure 10, the company's share price suffered heavily (a fall of 21.4% on the day, having previously risen 60.4% YTD) following the publication of its preliminary results announcement on 3 September 2018. Whilst their interims were in-line with consensus expectations, the company did flag a small profit impact from sanctions in Iran as well as some increased operational costs relating to contingency planning in the event of a hard Brexit, which resulted in a very modest trim to full-year profit forecasts.

Dechra also discussed the rapid market change they are witnessing as vet practices and distributors consolidate, and also how they are well positioned to respond. Dan says he and the team have spoken to the company post the results and have also discussed the changing industry dynamics over a number of years with management, and share management's view that whilst these are risks that require careful monitoring, Dechra are well placed to adapt and benefit from their geographic diversity, the different market structures in which they operate, as well as their growing product pipeline and M&A potential.

Fever-Tree Drinks

Figure 11: Fever-Tree Drinks share price

Source: Bloomberg, Marten & Co

Fever-Tree Drinks' meteoric rise (the shares have risen by more than 27x since its IPO in November 2014) has continued over the past 12 months; the shares were up 57% over this period. Known for its Fever-Tree tonic waters and mixers, the company has been pushing ahead with its global expansion plan with the launch of a wholly-owned US operation. The shares trade on more than 90x historic earnings, but the company's annualised revenue and earnings per share growth is running at 70% and 82% compound, respectively.

CVS Group

Figure 12: CVS Group share price

Source: Bloomberg, Marten & Co

CVS Group owns and operates the largest network of veterinary surgeries in the UK, with smaller operations in Ireland and the Netherlands. It has been expanding by acquiring independent surgeries and smaller chains. A trading statement published early in August and covering the 12-month period ended 30 June showed like-for-like growth of 4.9%. Combining this with the acquisition of 52 surgeries boosted overall revenue growth to 20.7%. Nevertheless, investors appeared to be disappointed with the rate of profit growth and the shares dropped by almost 25% on the news.

Ascential

Figure 13: Ascential share price

Source: Bloomberg, Marten & Co

Up-to-date information on THRG and its peer group is available at QuotedData

Specialist media and IT company, Ascential's shares were up 14% over the year to the end of August 2018. The shares fell following the release of its interim results in July. Ascential runs awards programmes such as the Cannes Lions, the premier awards for the advertising industry; conferences; and e-commerce analytics tools. Decent revenue growth of 14.4% (organic revenue growth of 6.7%) was offset by costs related to the launch of new products and the withdrawal of a major advertising company from the Cannes Lions Festival.

Peer group

For comparison purposes, we have used a subset of funds in the AIC's UK smaller companies sector. We have excluded split-capital companies, trusts with a market capitalisation of less than £50m, those that focus exclusively on micro-cap companies and Odyssean Investment Trust which is a relatively recent new issue.

Figure 14: Selected UK smaller companies trusts comparison table (data as at 7 September 2018)

	Market cap £m	(Discount) /Premium (%)	Yield (%)	Ongoing charge (%)	Annualised NAV total return performance over 1 year (%)	3 years (%)	5 years (%)
THRG	399	(9.7)	1.7	0.87	15.3	18.3	16.2
Aberforth Smaller Companies	1,222	(12.8)	2.2	0.76	5.6	9.0	10.5
BlackRock Smaller Companies	699	(8.8)	1.7	0.67	12.8	17.5	16.1
Dunedin Smaller Companies	144	(8.1)	2.1	0.77	8.8	13.0	11.0
Henderson Smaller Companies	665	(11.9)	2.1	0.43	11.1	14.7	14.1
Invesco Perpetual UK Smaller	167	(4.4)	4.0	0.82	7.7	14.8	14.1
JPMorgan Smaller Companies	195	(13.1)	1.9	1.11	16.1	12.1	11.3
Montanaro UK Smaller Companies	203	(14.2)	1.9	0.78	6.0	8.6	7.3
Rights & Issues Investment Trust	182	(8.8)	1.4	0.45	3.9	20.3	18.0
Standard Life UK Smaller Co.	386	(5.9)	1.3	1.08	18.3	18.4	15.2
Strategic Equity Capital	152	(13.9)	0.3	1.26	0.9	7.5	14.3

Source: Morningstar, Marten & Co

Figure 15: THRG performance over periods ending 31 August 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
THRG	(0.2)	3.0	12.3	17.5	69.1	120.9
Aberforth Smaller Companies	0.5	(1.2)	7.4	6.0	28.4	70.2
BlackRock Smaller Companies	(1.6)	1.5	8.6	14.2	65.1	118.8
Dunedin Smaller Companies	(0.2)	0.0	9.0	13.0	45.6	75.4
Henderson Smaller Companies	0.3	0.2	10.1	14.4	51.9	102.3
Invesco Perpetual UK Smaller	(0.5)	0.6	6.4	8.2	51.4	96.2
JPMorgan Smaller Companies	(0.6)	1.0	9.3	17.7	45.8	77.0
Montanaro UK Smaller Companies	1.8	0.9	6.6	6.8	28.5	47.2
Rights & Issues Investment Trust	(2.5)	0.7	5.3	4.9	75.2	135.1
Standard Life UK Smaller Co.	0.9	5.3	11.1	18.8	67.7	106.6
Strategic Equity Capital	2.6	0.6	(0.1)	1.1	25.1	95.4

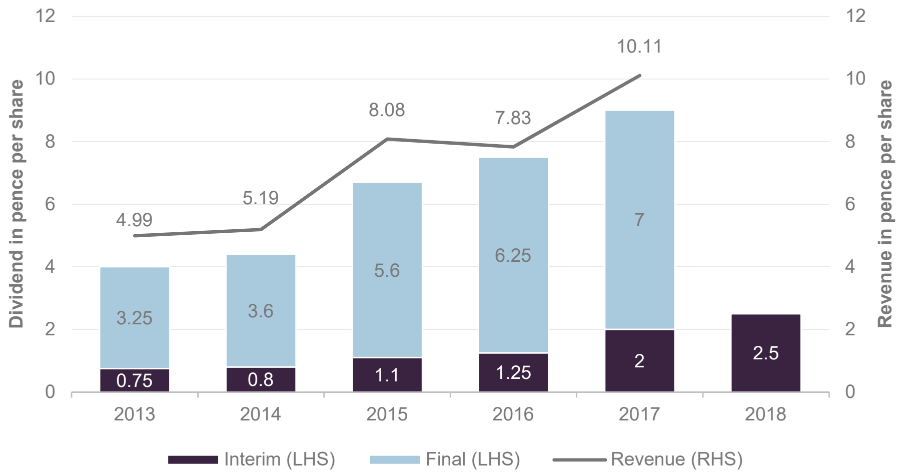
Source: Morningstar, Marten & Co

THRG is one the larger trusts in the AIC's UK smaller companies sector and this is reflected in its competitive ongoing charges ratio (which should fall further under its new charging structure – see page 13). THRG is not managed with the aim of generating a high dividend yield and has not elected to pay dividends from capital. Within this peer group, THRG's discount does not look out of line but, as we explain on page 13, we feel that there is scope for it to narrow.

THRG tops the performance table in Figure 15 over the six-month period ending 31 July 2018 (most representative of the time that Dan has had sole responsibility for the portfolio) and ranks second or third over most other time periods.

Dividend

Figure 16: THRG dividends and revenue per share since 2013



Source: BlackRock Throgmorton Trust

Dividends are a by-product of the investment process and THRG's portfolio is not managed with any income generation objective in mind. Nevertheless, the equity portfolio may generate reasonable levels of income and income may also be generated from the CFD portfolio. The base management fee is charged 25% and 75% to the revenue and capital accounts respectively, while 100% of any performance fee is charged to capital. The management fee changes outlined on page 13 should be supportive of the revenue account (fees fall overall - THRG now has a lower base fee, a lower overall cap on fees but the performance fee is calculated using a higher percentage of outperformance).

THRG has considerable revenue reserves

THRG has also built up a substantial revenue reserve (£11.6m as at 30 November 2017, equivalent to 16p per share) and this is available to supplement current year revenue if the board feels that would be desirable.

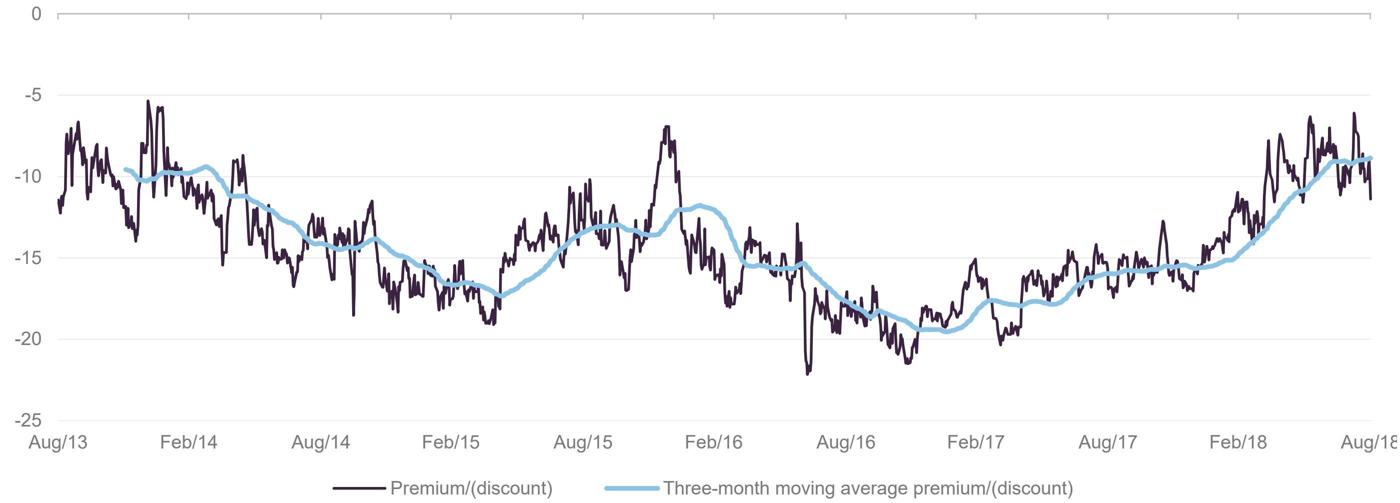
Discount

Over the past couple of years THRG's discount has been on a narrowing trend. Over the five-year period to the end of July 2018, THRG's discount has averaged 14.3%. Over the year to the end of August 2018, the discount moved within a range of 6.1% to 17.4% and, as at 7 September 2018, the discount was 9.7%.

We believe that THRG's discount is anomalously wide given its strong track record

The board is keen that the discount should narrow and believes the best way of achieving this on a long-term basis is for the fund to deliver benchmark and peer group beating returns, and to increase the awareness of the fund. We believe that THRG's discount is anomalously wide given its strong track record and differentiated approach to investing in UK smaller companies.

Figure 17: THRG discount over five years to 31 August 2018



Source: Morningstar, Marten & Co

Fees and costs

THRG's new fee structure has a lower base fee and lower overall fee cap

BlackRock Investment Management (UK) Limited provides THRG with portfolio and risk management services under a contract that THRG has with BlackRock Fund Managers Limited. That contract is terminable on six months' notice. BlackRock Fund Managers' base fee is calculated as 0.35% of gross assets (calculated monthly and paid in arrears). In addition, it can earn a performance fee of 15% of the outperformance of the benchmark index over a two-year rolling period subject to a high watermark and an effective cap of 0.9% of average gross assets in a two-year period.

The ongoing charges ratio for the year ended 30 November 2017 was 0.9% and performance fees totalled 1.3% that year. These were largely based on the previous fee structure which had a higher base fee, a higher overall cap on fees and a performance fee calculated using a lower percentage of outperformance. The net effect of the change (effective 1 August 2017 for the base fee and 1 December 2017 for the performance fee) should be that the ongoing charges ratio falls, performance fees may be higher but overall fees will be lower.

Capital structure and life

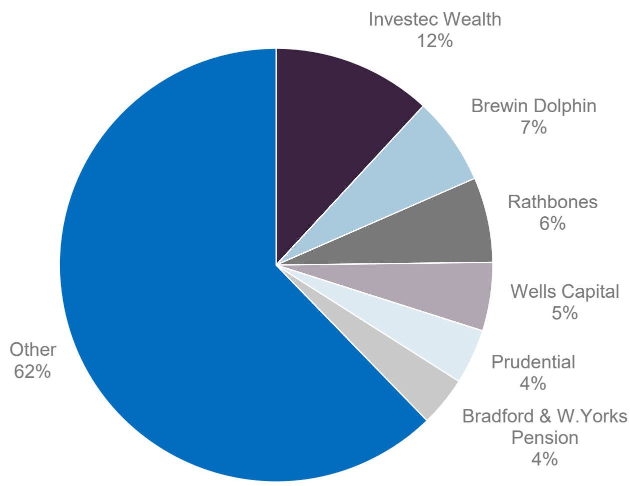
THRG has 73,130,326 ordinary shares in issue and no other classes of share capital. An additional 7.4m shares are held in treasury. THRG's board takes powers each year to repurchase up to 14.99% of the trust's shares and to issue up to 10%. Shares repurchased may be held in treasury or cancelled, at the discretion of the board. No treasury shares will be reissued other than at prices that represent a premium to the prevailing NAV, thereby ensuring that this action does not have any adverse effect on ongoing shareholders.

The board has set a maximum limit of net gearing of 20%. In practice, gearing is provided by the CFD portfolio. The mechanics of this were described on page 3.

The company's year end is 30 November and AGMs are normally held in March.

Major shareholders

Figure 18: Major shareholders as at 30 November 2017



Source: BlackRock Throgmorton Trust, Marten & Co

Board

THRG has five non-executive directors all of whom are independent of the manager and who do not sit together on other boards.

Figure 19: The board

Director	Position	Appointed	Length of service (years)	Annual fee (GBP)	Shareholding[1]
Christopher Samuel	Chairman	Jun 2016	2	36,000	11,000
Loudon Greenlees	Chairman of the audit committee	Mar 2014	4	28,000	15,000
Simon Beart	Director	Mar 2007	9	24,000	48,199[2]
Jean Matterson	Director	Jul 2012	6	24,000	46,000
Andrew Pegge	Director	Nov 2016	2	24,000	2,000

Source: BlackRock Throgmorton Trust, Marten & Co. [1] as at 25 July 2018, [2] including 16,390 shares held by Mrs Beart

Chris Samuel was chief executive of Ignis Asset Management from 2009 until its sale to Standard Life Investments in 2014. He was previously chief operating officer at Gartmore and Hill Samuel Asset Management and was a partner at Cambridge Place Investment Management. He is a non-executive director of the Alliance Trust Plc, JPMorgan Japanese Investment Trust Plc, UIL Finance Limited, UIL Limited, Sarasin Partners LLP and chairman of Defaqto. He graduated from Oxford with an MA in Philosophy, Politics and Economics. He qualified as a chartered accountant with KPMG.

Loudon Greenlees was chief financial officer and chief operating officer of Thames River Capital from 1999 until 2007 and then commercial director until May 2013. Prior to this, he had been group finance director and chief operating officer of Rothschild Asset Management and group finance director of Baring Asset Management. He is a chartered accountant.

Simon Beart is a director of Guardian Security, Spy Alarms Limited, and was previously chief executive of Revenue Assurance and Managed Support Services Plc. Simon qualified as a chartered accountant in 1984 and acted as a financial adviser for a number of UK and US investment banks until 1992, when he co-founded the international packaging supplier Britton Group Plc.

Jean Matterson is a partner of Rossie House Investment Management which specialises in private client portfolio management with particular emphasis on investment trusts. She was previously with Stewart Ivory & Co for 20 years, as an investment manager and a director. She is chairman of Pacific Horizon Investment Trust Plc and a director of Capital Gearing Trust Plc, Herald Investment Management Limited and HIML Holdings Limited.

Andrew Pegge is a fund manager whose funds have often had a strong focus on corporate governance. He started his career with Laurentian Fund Management in London, moving on to Buchanan Partners Limited, one of the first London-based hedge funds in London in 1990. In 1995, Mr Pegge established Regent Kingpin Capital Management, then after a consultancy role at the Isle of Man Financial Supervision Commission, he established Laxey Partners Limited. He is currently on the supervisory board of a Polish listed real estate development company; several fund management firms, several open-ended investment funds, a private commercial property investment group and a hotel business. Mr Pegge holds a BA in Psychology and Cognitive Studies, an MBA and is a chartered financial analyst.

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IMPORTANT INFORMATION