



BlackRock Throgmorton Trust

Investment companies | Annual overview | 29 November 2022

The strong have only gotten cheaper

Dan Whitestone, manager of BlackRock Throgmorton (THRG), remains steadfast in his commitment to the most-attractive, highest-quality growth opportunities within the UK small cap sector, despite the apparent headwinds facing this strategy.

Whilst THRG has lagged its benchmark and peers recently, having been caught up in the wider growth-stock selloff, the vast majority of Dan's investee companies continue to demonstrate the same fundamental strength and resilient business models, albeit now at much more attractive valuations. In fact, several companies have posted stronger results over 2022, despite the difficult circumstances that they face.

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 traded on 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 among listed UK smaller companies trusts, THRG's portfolio may include a meaningful allocation to short as well as long positions in stocks.

Sector	UK smaller companies
Ticker	THRG LN
Base currency	GBP
Price	625.0p
NAV	627.8p
Premium/(discount)	(0.5%)
Yield	1.7%



The trust was unable to avoid being swept up in the wider market selloff year-to-date

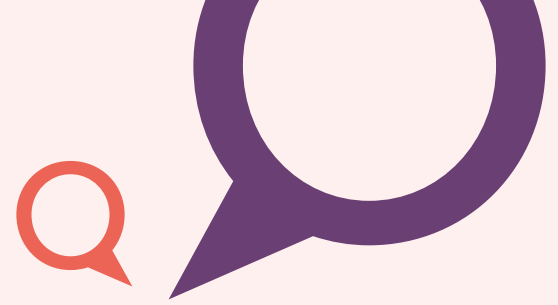


Dan believes that most of the pain has now likely been priced into the UK small-cap market



The value of 'quality' may shine through as the economy slows





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Domicile	England & Wales
Inception date	1 December 1962
Manager	Dan Whitestone
Market cap	632.2m
Shares outstanding (exc. treasury shares)	101.159m
Daily vol. (1-yr. avg.)	231k shares
Net gearing	2.5%

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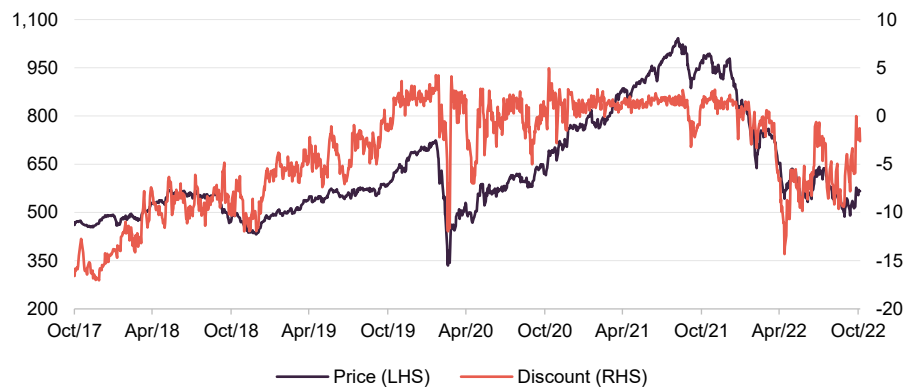


At a glance

Share price and discount

After a few months where THRG's shares traded at a meaningful discount to net asset value (NAV), this has closed and it may be that THRG will return to trading at or above asset value on a consistent basis. THRG's discount remains narrower than the median of the AIC's UK smaller companies sector. We believe that this comparatively narrow discount is in part due to THRG's long term track record.

Time period 31 October 2017 to 25 November 2022



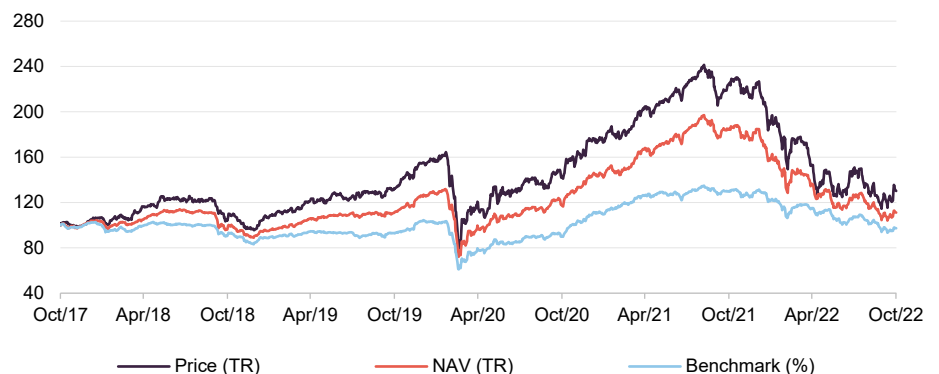
Source: Morningstar, Marten & Co

Performance over five years

THRG's performance has demonstrated a profile that one would expect from a growth-equity strategy: impressive long-term returns which are coupled with heightened volatility and greater market sensitivity, as well as being disproportionately affected by the 2022 market selloff.

Since Dan took over as manager, THRG has generated an NAV total return of 14.0% and a share price return of 29.2%, compared to a 2.6% return for its benchmark.

Time period 31 October 2017 to 31 October 2022



Source: Morningstar, Marten & Co

Year ended	Share price total return (%)	NAV total return (%)	Peer group ¹ average NAV total return (%)	Numis Smaller Co.s plus AIM, ex IC (%) ²	MSCI UK total return (%)
31/10/2018	5.0	(2.6)	(1.9)	(8.8)	(0.9)
31/10/2019	25.8	14.2	7.3	1.7	5.7
31/10/2020	8.1	5.7	(4.7)	(2.6)	(22.2)
31/10/2021	56.7	56.7	50.2	43.5	35.6
31/10/2022	(41.8)	(39.7)	(24.5)	(24.9)	4.3

Source: Morningstar, Marten & Co. Note 1) see page 18. Note 2) see page 5.

Investment summary

The events of 2022 appear to have created a disconnect between the share prices and investment theses of THRG's holdings. As we point out in this note, almost all of THRG's holdings continue to demonstrate the same attractive characteristics in today's market as they did 12 months ago. For example, as we describe on page 12, in the case of Ergomed, a recent entry into Dan's top-10 positions, it continues to have not only the same sector-leading profit margins it did in 2021, but also a comparable level of year-on-year revenue growth, but this has not been reflected in the share price.

The value of 'quality' may shine through as the economy slows

In fact, 2022 may turn out to be the prime example as to why the quality factor is so important when investing in smaller companies. Dan's focus on fundamental business strength, low leverage, and experienced management teams has meant that in his view almost all of his investments are likely to come out of the current market turmoil unscathed. If Dan is correct, this suggests that the retrenchment in the share prices of these companies so far this year may present a rather attractive opportunity to 'buy the dip'.

Performance

Despite the near-term headwinds, THRG has still been able to outperform its benchmark, the Numis Smaller companies plus AIM ex Investment trusts, over a five-year period. THRG has however underperformed over 2022 year-to-date (YTD), having been unable to avoid the wider growth-stock selloff. Furthermore, while THRG's growth bias does come with greater volatility than many of its peers and benchmark, THRG's long-term returns have been strong enough to more than compensate investors.

Figure 1: THRG performance up to 31 October 2022

	6 months (%)	1 year (%)	3 years (%)	5 years (%)
BlackRock Throgmorton price	(14.9)	(41.8)	(1.5)	30.2
BlackRock Throgmorton NAV	(18.7)	(39.7)	(0.2)	11.1
Benchmark	(15.5)	(24.9)	4.9	(2.7)
Peer group median NAV	(16.4)	(29.1)	2.9	3.6

Source: Morningstar, Marten & Co

Discount

THRG was, like its underlying holdings, also caught up in the growth-stock sell off of 2022, with its shares trading at a wider than usual discount over much of the year so far. Fortunately, in recent weeks the discount has narrowed once again. Some thanks for this should go to THRG's board, which, as we show on page 23, has been active, repurchasing 2m shares during the recent crash to help narrow the discount.

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 traded on 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.

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.

UK smaller and mid-capitalisation companies tend to outperform large companies over longer time-frames. In addition, the focus on smaller and mid-capitalisation companies offers exposure to a less-efficient and less-well-researched area of the market, which creates opportunities for an actively-managed fund to add value.

Both long and short positions

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

Uniquely among 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 **CFDs**, both long and short. Under normal market conditions, the net market exposure will account for 100–110% of net assets.

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 Emerging 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 five. All members of the team manage portfolios, and between them they manage or advise on a variety of different funds. The team share research responsibilities between them.

Investment process

When selecting long investments for THRG, Dan focuses on two types of opportunity: high-quality differentiated companies and companies leading industry change.

High-quality differentiated companies

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

- management team;
- product;
- industry; and
- balance sheet/cash flow.

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

Meeting management is a core part of the approach

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. The BlackRock team makes a point of meeting not only the top layer of management, but also other key people within a business. Dan believes that a common reason for growing companies experiencing "growing pains" is if they fail to build the infrastructure and depth of team beneath the top management layer.

Meeting management is a core part of the BlackRock 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, in order to get a diversity of viewpoint.

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 maintains its product's relevance through research and development (R&D).

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.

Dan avoids heavily indebted companies, believing that the chief financial officer (CFO) often ends up managing the company for the benefit of the lending bank rather than the company's shareholders in these situations. He focuses on cash flow measures of value, as these are less easy to manipulate than profits. Dan 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 tend to be shorted.

On average, THRG's long investments trade on higher multiples than the short investments. This reflects a focus on quality and a desire to avoid value traps (stocks that look cheap but are in inevitable decline).

Industry change can provide both long and short ideas

Industry change

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.

ESG

THRG's board acknowledges that environmental, social and governance (ESG) issues can present both opportunities and threats to long-term investment performance. THRG does not have an ESG mandate (and accordingly does not have an ESG or impact focused investment strategy and has not adopted any exclusionary screens) but the manager does take ESG factors into account as part of the investment process.

The manager believes that ESG factors can be useful and relevant indicators for investment purposes and can help its decision-making through identifying potentially negative events or corporate behaviour. The manager works closely with BlackRock Investment Stewardship to assess the governance quality of companies and investigate any potential issues, risks or opportunities.

ESG factor risk is assessed as part of regular portfolio reviews undertaken in conjunction with BlackRock's Risk and Quantitative Analysis (RQA) group.

In conjunction with BlackRock Investment Stewardship, the manager and analysts may engage with portfolio companies on any ESG issues that have been identified.

Portfolio construction

The portfolio will tend to have a high active share

Dan does not consider the benchmark when constructing the portfolio; consequently, the portfolio will tend to have a high active share.

Position sizes are driven by liquidity (how easy it is to buy and sell a company's shares), 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 says that he is ruthless about selling positions when the investment thesis is not working. As an aside, Dan says that historical average daily volume is a misleading indicator of future liquidity for small-cap stocks.

120 positions – about 80 long positions and 40 shorts

The target is to create a portfolio with 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, which 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. Individual short positions (see below) are typically sized at about 0.5%–1.0% of net assets.

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.

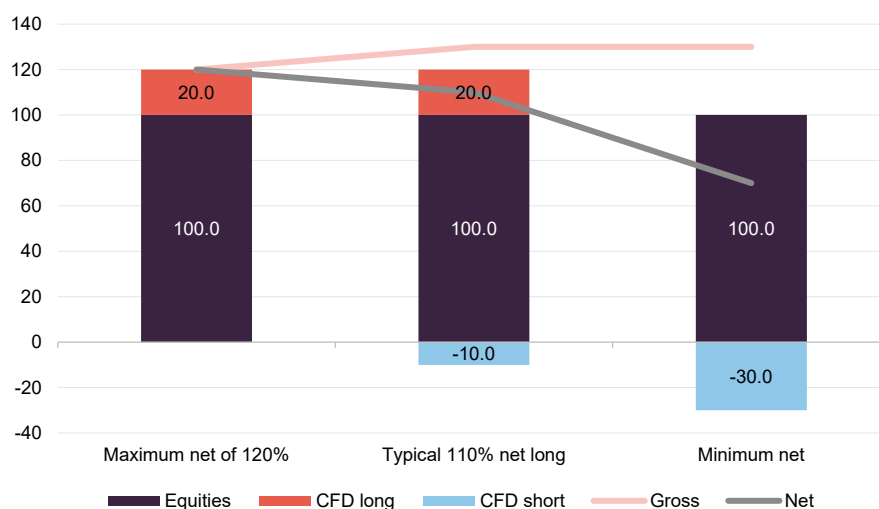
Dan does not believe that mean reversion applies to the types of stocks that he is focused on; winners win big and losers go bust. Therefore, he does not trade stocks based on valuation differentials.

Shorting

About half of short positions represent 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.

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.

Figure 2: Portfolio construction in different scenarios



Source: Marten & Co

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, i.e. a net exposure of 110%.

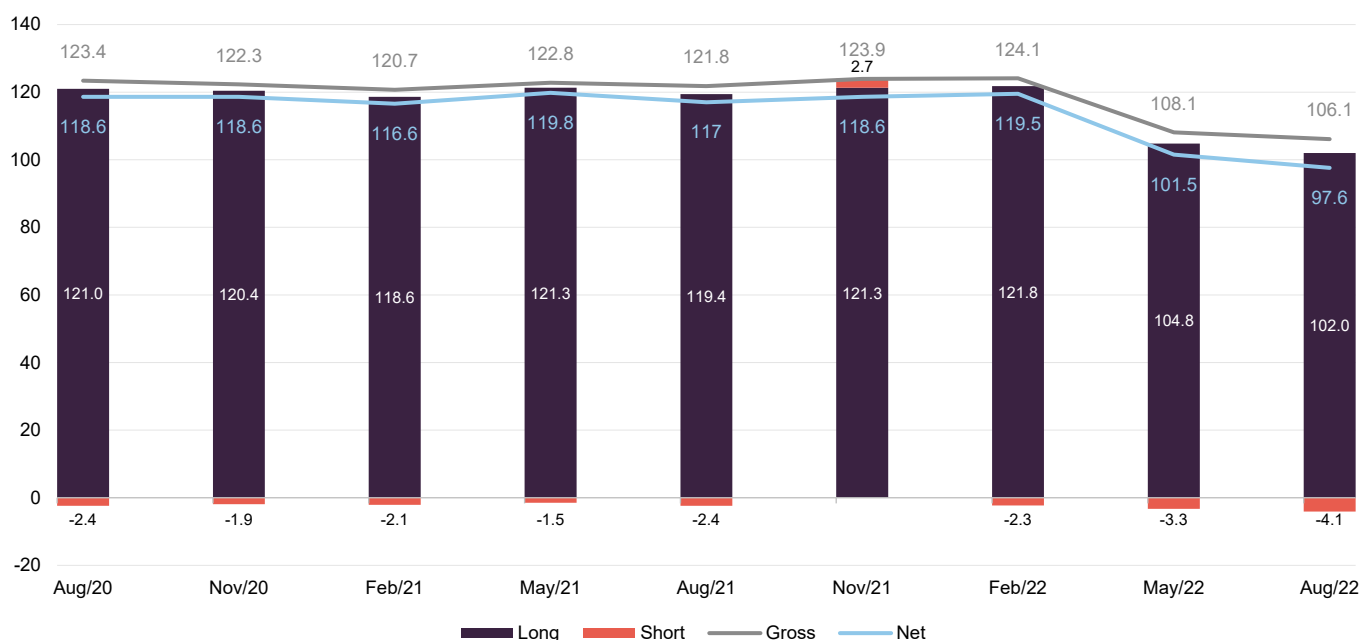
Cash balances are generally kept low and gearing is flexed by adjusting the size of the CFD book; Dan expects to operate within a range of 100% to 110% net long.

Asset allocation

Figure 3 illustrates the sharp reduction in THRG's short exposure over a two-year period, as of 31 August 2022. Dan's exposure has ebbed and flowed with the wider market. Dan sustained a large net position, greater than 120%, throughout 2020 and 2021, aiming to capitalise on what would be one of the strongest bull runs in recent history, with a correspondingly small short position for the same reason.

2022 has, however, seen a clear reversal in Dan's positioning, with him rapidly cutting his long exposure, so as to reduce THRG's market exposure during a market downturn. Whilst Dan has full confidence in the investment cases of his holdings, he concedes that the current market is very bearish and is effectively selling off all risk-assets, irrespective of their long-term outlooks. While Dan has become increasingly risk-off, he does believe that most of the pain has now likely been priced into the UK small-cap market.

Figure 3: THRG quarterly market exposure

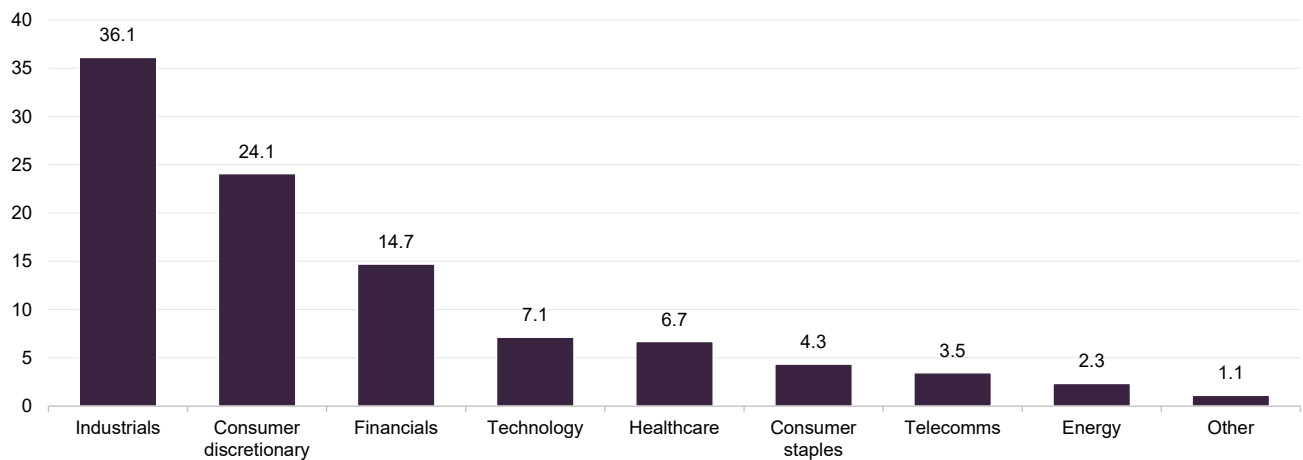


Source: BlackRock Throgmorton Trust

Given that Dan follows an entirely **bottom-up** approach to portfolio construction, his sectoral allocations are a reflection of his confidence in individual companies rather than a reflection on his views around macro-level outlooks. However, bearing in mind Dan's focus on high-growth companies, THRG has ended up with an allocation

which we regard as fairly typical for his style, with overweight exposures to technology and consumer stocks, as well as high-end industrials, all of which are poster children for growth investing. Correspondingly, he has underweight exposures to financials and energy stocks, which are often heavily sensitive to the economic cycle and lower-quality businesses, characteristics that fit poorly with Dan's approach. His relative sectoral positioning at the end of October 2022 is largely consistent with the situation 12 months prior.

Figure 4: THRG portfolio allocation by industrial sector as at 31 October 2022



Source: BlackRock Throgmorton Trust

Top 10 holdings

Given the tumultuous nature of 2022's equity markets there have been several changes to THRG's top 10 holdings since our last note, with four of the previous top 10 holdings having dropped out of the rankings (published on December 2021). This is in part due to Dan's own trading actions, but is also a reflection of the share price fluctuations that have occurred since.

Impax Asset Management, Sigmarco, Integrafín, and Pets at Home have all dropped out of the top 10; replaced by: CVS Group, Ergomed, Diploma, and 4Imprint Group. Note that Electrocomponents changed its name to RS Group in 2022.

Figure 5: THRG's 10-largest holdings as at 31 October 2022

Stock	% of gross assets 31/10/22	% of gross assets 30/11/21	% change	Business focus
CVS Group	3.5	1.9	1.6	Veterinary services and products provider
RS Group	3.4	3.5	(0.1)	Distributor of electrical components
Watches of Switzerland	3.3	3.3	-	Luxury watch retailer
Gamma Communications	3.1	3.1	-	Provider of cloud communications services
Oxford Instruments	3.0	2.7	0.3	Industrial instrumentation and tools
Ergomed	2.9	1.7	1.2	Specialist clinical services provider
4Imprint	2.9	1.5	1.4	Promotional merchandise manufacturer
Diploma	2.6	1.2	1.4	Support services
Auction Technology	2.6	2.7	(0.1)	Online auctions
YouGov	2.4	1.5	0.9	Retail store chain
Total of top 10	29.7			

Source: BlackRock Throgmorton Trust

Figure 6: Impax Asset Management

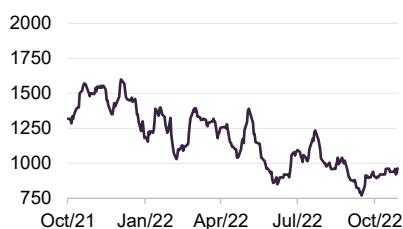


Source: Bloomberg

Impax Asset Management

Impax Asset Management (impaxam.com) has seen its share price decline by just over 50% over 2022, having traded at its all-time high in December 2021. The reasons for this drop are, in our opinion, three-fold. The first is a reversal in the momentum that the stock saw over 2021, where given its high **price/earnings (P/E)** ratio at the end of December, it was amongst the worst hit by the wider market rotation out of highly-rated growth stocks into value. The second reason is that, being an asset management firm, Impax has an inherent correlation to the wider equity market, as when asset values fall so does Impax's Assets under management, and thus the revenues it can generate via investment management fees. Finally, Impax operates as a specialist environmental and ESG asset manager, which is a style of investing that has been increasingly scrutinised over 2022, primarily due to the rising price of energy as well as the outbreak of the war in the Ukraine.

Figure 7: YouGov

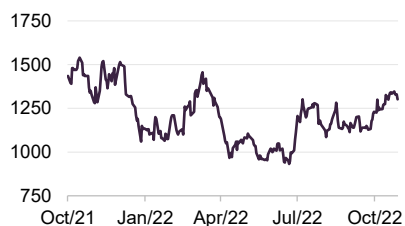


Source: Bloomberg

YouGov

YouGov (yougov.com) the market research and analytics firm, has dipped out and in of THRG's top 10 holdings after being swept up in the wider market selloff over 2022, falling about 40% YTD. This fall does not arguably reflect the true fundamentals of YouGov, certainly in Dan's opinion. YouGov has posted strong year-on-year growth, with its recent full-year results indicating record earnings for the company, with growth that has been uniform across its divisions and geographies, with the firm also growing its profit margins over the past 12 months (up to 16%). YouGov continues to demonstrate all the hallmarks of a high-quality business, having paid down its remaining credit facility over the financial year, and is now operating with a net cash position and no outstanding debt, an enviable position given the current climate.

Figure 8: Ergomed



Source: Bloomberg

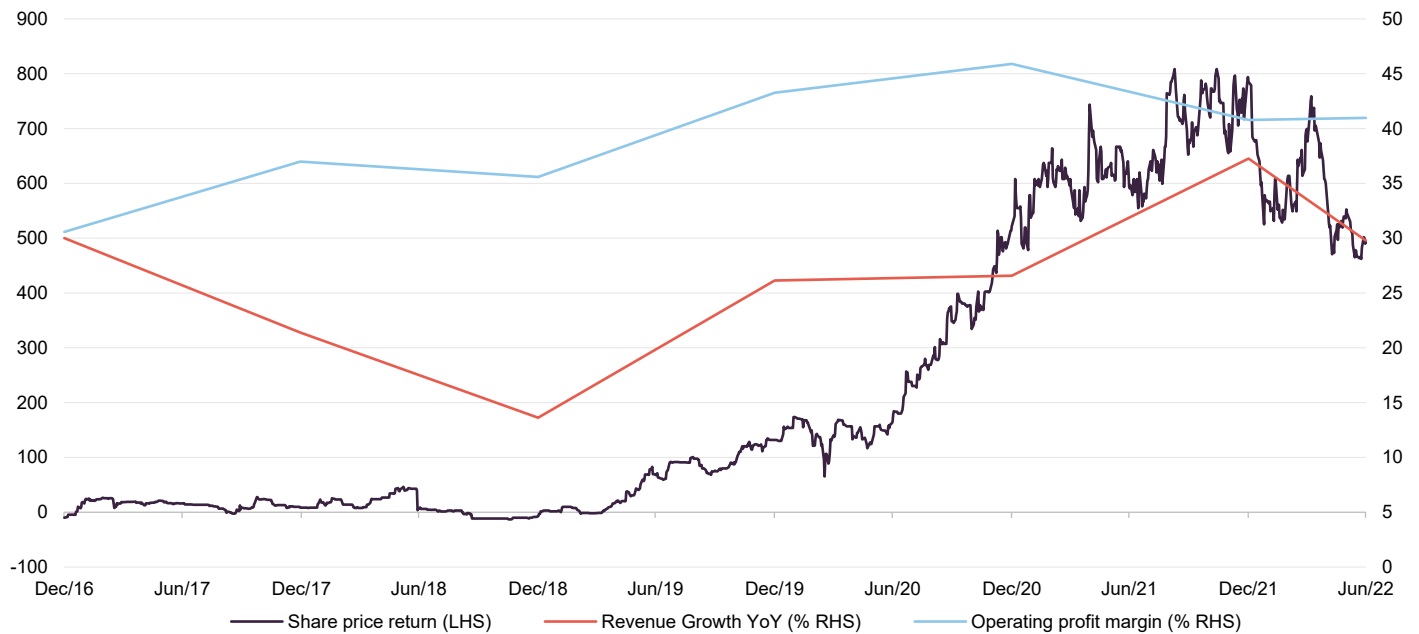
Ergomed

Ergomed (ergomedplc.com) is a specialist clinical services firm, facilitating a full range of clinical research and trials for the biotech and biopharma industry. This allows Ergomed to capitalise on the huge tailwinds behind medical research, be it the increasing need for treatments due to an ageing global population, or the inherent growth in drug development thanks to improving technologies and avenues of research, such as the greater number of mRNA-based treatments now being trialled thanks to its use in the COVID-19 vaccines. However, by effectively being a service provider to the companies developing these therapies, Ergomed does not have the characteristic 'binary outcome' which plagues the biotechnology sector, as it does not live-or-die based on whether a specific treatment is successful or not.

Given Ergomed's attractive positioning, it has, in its recent half-year update, unsurprisingly demonstrated strong growth, both organic and inorganic, with its year-on-year revenues up 24%. The majority of which has been generated over 2022 despite the difficult market conditions. Ergomed has been able to grow its revenues while still sustaining about a 40% profit margin, one of the highest amongst its peers. While a UK listed firm, Ergomed now generates the majority of its revenues from its overseas operations, with two-thirds coming from the US alone. This demonstrates the global leadership UK small- and mid-cap companies are still able to command, with Ergomed's US operations having grown rapidly since 2020 following a successful acquisition.

The growth of Ergomed as a business is an excellent example of not only the dynamism of UK small caps, but also the growth potential for Dan's investments, as well as his ability to add value through bottom-up stock selection. The figures below shows how successful the management of Ergomed have been over a five-year period. Not only have they been able to continuously grow revenues over the periods, but the rate of growth has in fact accelerated since 2018, bucking the general perception that growth slows with company age. This revenue growth has not come at the cost of profitability, though, as Ergomed's management has been able to grow their margins over the same period. This is a difficult task for any company, as aggressive revenue growth can often come at the cost of profitability; it is often easier for management to focus on one over the other.

Figure 9: Ergomed share price performance relative to fundamentals to 30 June 2022

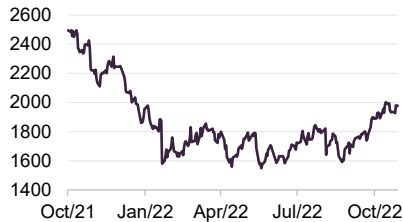


Source: Bloomberg

The ability to simultaneously grow while remaining profitable is also a hallmark of a high-quality company, with Ergomed’s management taking advantages of higher revenues and profits to improve the company’s balance sheet strength. Over the same period, Ergomed also saw its debt fall (with the company now having a strong net cash position), higher free cash flows (with one of the requirements of a high-quality company being able to convert their earnings into cash, which can then easily be either re-invested into profitable opportunities or returned to shareholders) and increasing earnings per share (a metric which reflects the overall profitability of a company). All of these transform Ergomed from a high-growth company into a high-quality one as well, increasing the resilience of its business model and thus its ability to sustain this growth into the future, as well as weather difficult economic periods.

Our comments are, of course, made with the benefits of hindsight, while Dan’s analysis was made with exceptional foresight. He was able to identify the company’s potential before the wider market, first purchasing it for THRG’s portfolio in the third quarter (Q3) of 2019, right at the cusp of its meteoric rise. This was all the more challenging because Ergomed was listed on AIM, which gets far less coverage than most other exchanges. Not surprisingly, Ergomed has a tiny weight in THRG’s benchmark.

Figure 10: CVS Group



Source: Bloomberg

CVS Group

CVS Group (cvsukltd.co.uk), a veterinary services and products provider, has seen a substantial upgrade in its positioning within THRG's portfolio and is now its largest position. In its recent full-year update, CVS posted modest but positive results across the board, with growth in sales, revenues and margins. These results are likely a reflection of the tailwinds supporting the wider pet care industry, with pet care being a defensive (less sensitive to the economic cycle), non-discretionary expenditure for consumers. Not only is CVS materialising on its growth potential, but its overall 'quality' has improved despite the difficult conditions, with net leverage having fallen over its financial years. This places it in an advantageous position, given that it is reducing its dependence on debt financing during a period of rising cost of capital.

Outside of the top 10

Figure 11: Serica Energy



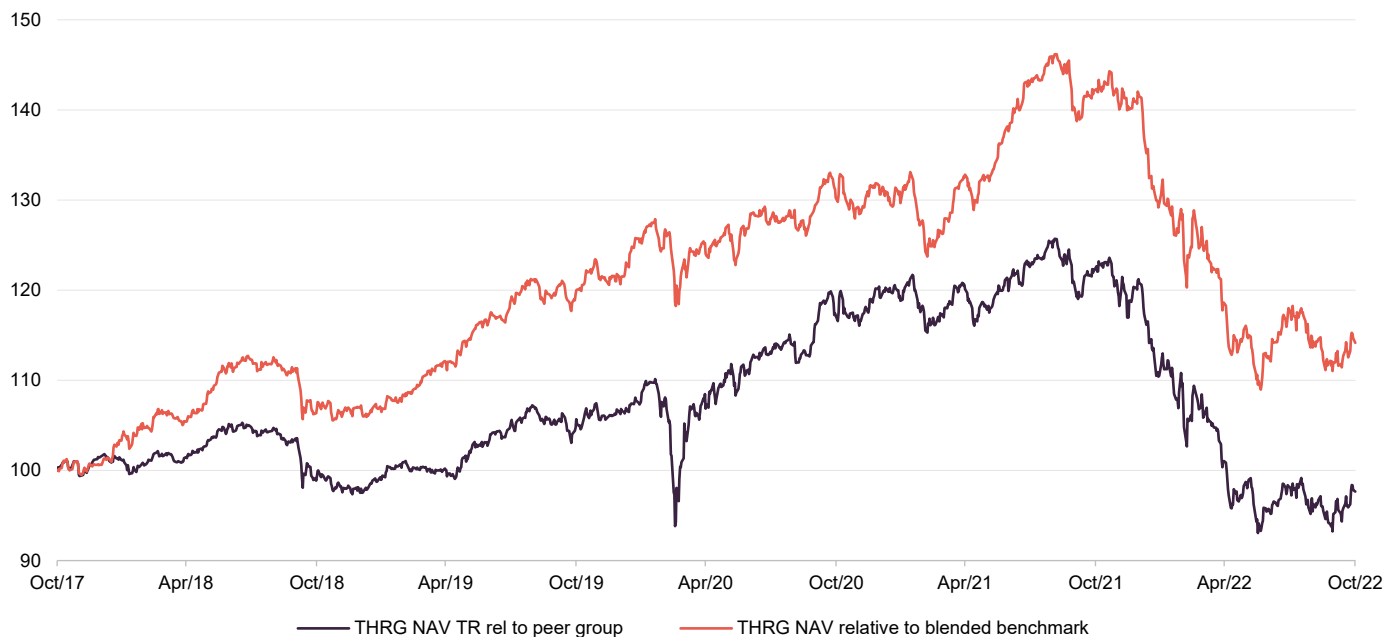
Source: Bloomberg

Serica Energy

Energy is a seldom-found sector within THRG, given the lower-quality nature of many of the companies in the sector, as well as the inferior long-term tailwinds behind the large majority of conventional energy firms. However, Dan's process does not intentionally preclude investment into energy, as he has recently found an opportunity which does satisfy his criteria, Serica Energy (serica-energy.com), an investment which also reduces the risk associated with his substantial underweight to energy. Serica is an oil and gas company whose operations are centred around the North Sea, and is responsible for more than 5% of the UK's domestic gas production. Dan was attracted to the company's free cash flow (of around 45%) as well as its attractive capital structure, having a net cash position. Serica has also recently completed an acquisition of BP's gas sites in the North Sea, further expanding its production capacity during a period of global shortages in energy supply. Serica has done so well recently that Dan has already taken profits; a mere four months after his initial investment.

Performance

Figure 12: THRG NAV total return performance relative to benchmark¹ and peer group² to 31 October 2022



Source: Morningstar, Marten & Co. Note: 1) THRG has a 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, and, between 1 December 2013 and 22 March 2018, the Numis Smaller Companies excluding both AIM and investment companies. Note 2) The peer group is defined on page 18.

Figure 13: Cumulative total return performance over periods ending 31 October 2022

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
BlackRock Throgmorton price	8.2	(12.8)	(14.9)	(41.8)	(1.5)	30.2
BlackRock Throgmorton NAV	4.1	(12.5)	(18.7)	(39.7)	(0.2)	11.1
Benchmark	2.1	(9.5)	(15.5)	(24.9)	4.9	(2.7)
Peer group median NAV	2.8	(12.5)	(16.4)	(29.1)	2.9	3.6
MSCI UK	2.8	(3.6)	(4.1)	4.3	10.0	15.2

Source: Morningstar, Marten & Co

As has been made apparent by the other sections of the note, THRG is ostensibly a growth-focused strategy, albeit one tempered by a focus on high-quality business. This means that THRG's performance has demonstrated a profile that one would expect from a growth-equity strategy: impressive long-term returns which are coupled with heightened volatility and greater market sensitivity, as well as being disproportionately affected by the 2022 market selloff. Whilst Dan has been involved in the running of THRG since March 2015, he has only acted as lead manager since 12 February 2018. Since taking over as manager THRG has generated a NAV total return of 14.0% and share price return of 29.2%, compared to a 2.6% return for the benchmark.

The potential behind Dan's process is, in our view, made clear by the five-year performance of the strategy, which has handily outperformed the wider peer group returns as well as that of its benchmark. We note that THRG's return has been enhanced by Dan's ability to short companies, something which has obviously been a benefit for the trust given the setbacks seen in markets this year.

However, given the high valuations that THRG's holdings trade at, the trust has been unable to avoid being swept up in the wider market selloff year-to-date, with THRG having substantially underperformed over 2022. The start of 2022 marked the period in which the current bear market began, with its impact being reflected in both the one-year and six-month performance figures for THRG – a result of rising global inflation and interest rate expectations (the bane of growth investing). However, the fall in the underlying share prices of Dan's companies has not come with a deterioration in their long-term outlooks or fundamental strength, in Dan's view. This means that for investors who are of a similar, long-term growth-orientated mindset, today's markets are an even more attractive time to buy into growth stocks, given the fact that their investment theses are largely unchanged.

It is important to highlight that THRG's impressive long-term returns have come with a high level of risk, one which we believe is high enough to be unpalatable for certain types of investors. Even over a five-year time period, which is kinder to growth strategies than more recent markets, THRG still has volatility far in excess of its benchmark and that of its average peer. This should come as no surprise however, as one would historically be correct in assuming that combination of growth equities and small caps would only enhance one's risk exposure. Yet in the case of THRG, Dan has been vindicated in his approach over the long-term, as his risk-adjusted return remains in excess of his benchmark and average peer over five years.

Drivers of returns

Figure 14: Largest positive contributions to relative returns, nine months ended 31 August 2022 (long only)

Stock	Average weight in portfolio (%)	Average weight in index (%)	Stock return (%)	Contribution to NAV returns (%)
4Imprint Group	2.1	0.5	36.8	0.9
RS Group	2.1	0.7	(8.9)	0.6
WH Smith	0.1	0.1	7.8	0.5
OSB Group	1.4	0.2	15.4	0.5
Aston Martin Lagonda Global	0.0	0.3	(69.9)	0.4

Source: BlackRock, Morningstar

Dan's commitment to quality companies has meant that THRG's recent performance has not been matched by a deterioration in the fundamental strength of his holdings, with few – if any – of his companies having seen their outlooks materially impacted by the events of recent markets. As one can imagine, this is a key caveat for THRG, as growth investing often demands a long-term horizon, given the huge growth trajectories which growth-stocks can command (reflecting the duration of the sectoral tailwinds underpinning said companies). In Dan's opinion,

Figure 15: 4Imprint Group



Source: Bloomberg

THRG has been caught up in the wider selloff, with the market simply punishing any highly-valued company, rather than penalising THRG's holdings based on stock-specific issues.

4Imprint Group

4Imprint has been one of the best examples of the benefits of the quality factor. Despite the powerful headwinds that the wider UK market has been feeling over 2022, 4Imprint has still been able to grow its margins over the first six months of the year, so these are now higher than their pre-pandemic levels. This comes on top of phenomenal increases in sales and profits over the same period. These results show an ability to capitalise on its dominant market position, increasing its pricing leadership and gaining market share from its competitors (without hampering margins in the process). 4Imprint is largely a US business and is the leader in this highly fragmented market (despite only having about a 3% market share), suggesting that there is a substantial opportunity to grow and consolidate this market.

Despite 4Imprint's strong positioning, it ultimately remains a cyclical business and, as a result, Dan has been taking profits from the position. He wanted to reduce THRG's exposure to a cyclical asset during a period which may turn out to be the start of an economic downturn.

Figure 16: RS Group



Source: Bloomberg

RS Group

RS Group, previously known as Electrocomponents, has shown the resilience of its business model over the past year – growing its revenue base, despite the cost pressure that the electrical components industry is facing. Much like 4Imprint above, RS Group has been able to demonstrate superior pricing power, which, when combined with its discounted cost model, has allowed it to improve its margins. Management has already provided a forward signal that it expects full-year profit to be ahead of consensus. Thanks to the forward-thinking on the part of management, RS Group came into the year with a very strong inventory position, leaving it well positioned to cope with input cost inflation, at least in the near-term.

Figure 17: Largest negative contributions to relative returns, nine months ended 31 August 2022

Stock	Average weight in portfolio (%)	Average weight in index (%)	Stock return (%)	Contribution to NAV returns (%)
Integrafin Holdings	2.1	0.0	(52.2)	(1.0)
Impax Asset Management	2.0	0.1	(51.7)	(0.9)
Watches of Switzerland	2.7	0.2	(42.0)	(0.7)
Dunelm Group	1.6	0.0	(46.5)	(0.5)
Gamma Communications	2.9	0.5	(35.8)	(0.5)

Source: BlackRock, Morningstar

Figure 18: Integrafín Holdings



Source: Bloomberg

Figure 19: Watches of Switzerland



Source: Bloomberg

Integrafín Holdings

Integrafín (integrafín.co.uk/) a trading platform for financial advisors, has been a mainstay of THRG's portfolio since its IPO in February 2018. It has also become one of the rare examples of a stock-specific issue leading to a company's underperformance. Integrafín is still wrestling with the loss of its previous CEO, Ian Taylor, in 2020, who served in the role for 18 years, but is now also dealing with the impact of rising costs on its business model, with costs across various arms increasing by some 25% year-on-year. These cost pressures have been coupled with a fall in revenue due to reduced trading volumes, thanks to the impact of the market downturn on investor wealth. The position has been reduced, but the manager says that THRG's retains a position as Integrafín has a market-leading position and continues to take market share from rival companies.

Watches of Switzerland

Eagled-eyed readers will have noticed that several of the worst contributors over the last nine months were also amongst the top contributors discussed in our last note. This is a reflection of the wider selloff in growth stocks, with many of the previous top-performers having witnessed the strongest momentum behind their share prices, and thus the greatest potential for a reversal when it came. This is certainly the case for Watches of Switzerland, which had seen two consecutive analyst-upgrades prior to 2022, with the market increasingly recognising the advantages that the firm's deep relationships with the major watch suppliers can provide. This has led Watches of Switzerland to trade on a P/E ratio of 16x at the end of 2021, well above the average of 9x for the benchmark.

Dan maintains his commitment to Watches of Switzerland in spite of the selloff, with the company being the third-largest holding in THRG at the end of October 2022. He highlights not only the robust demand for luxury watches, which remains strong despite the increasingly turbulent outlook, but also the increasing backlog of watch orders – a situation which benefits Watches of Switzerland as its strong relationships give it advantages in securing inventory.

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 small market capitalisation (below £50m), Marwyn Value Investors (which has a very different investment approach) and those that focus exclusively on micro-cap companies. A complete list is provided in Figure 20.

Up-to-date information on THRG and its peer group is available on the [QuotedData](https://www.quotedata.com/) website

Figure 20: Cumulative NAV total return performance over periods ending 31 October 2022

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
BlackRock Throgmorton	4.1	(12.5)	(18.7)	(39.7)	(0.2)	11.1
Aberforth Smaller Companies	4.9	(6.2)	(13.0)	(19.1)	2.9	(0.6)
abrdn Smaller Companies Income	3.1	(18.4)	(22.8)	(35.5)	(10.4)	(8.8)
abrdn UK Smaller Companies Growth	2.8	(17.6)	(23.3)	(38.0)	(7.2)	1.2
BlackRock Smaller Companies	4.3	(11.8)	(16.7)	(30.1)	5.9	9.3
Crystal Amber	(0.9)	(8.8)	(11.4)	2.6	(18.4)	(12.5)
Henderson Smaller Companies	1.8	(18.2)	(21.8)	(35.8)	(5.3)	(4.6)
Invesco Perpetual UK Smaller	1.6	(15.9)	(19.8)	(29.1)	(3.0)	4.9
JPMorgan Smaller Companies	4.0	(10.8)	(18.2)	(31.5)	15.4	25.6
Montanaro UK Smaller Companies	4.3	(13.9)	(14.5)	(33.9)	(7.0)	(9.5)
Odyssean	1.3	(9.9)	(6.6)	(3.8)	43.8	n/a
Oryx International Growth	(4.9)	(7.4)	(14.0)	(27.9)	29.0	52.9
Rights & Issues	3.8	(12.9)	(16.4)	(22.6)	10.8	2.2
Rockwood Strategic	0.6	(6.3)	(11.5)	(10.3)	36.6	65.7
Strategic Equity Capital	(1.8)	(13.6)	(15.9)	(17.6)	8.8	6.2
THRG rank	4/15	8/15	11/15	15/15	9/15	4/14

Source: Morningstar, Marten & Co

THRG is set apart from its peers by three distinct qualities: its above-average long-term track record, its ability to short stocks, and its bias to high-growth equities. These factors are, in our mind, interlinked, given the advantages that growth investing can offer to long-term investors along with the potential to generate additional alpha by using shorts. However, Dan's commitment to growth investing is an important distinction, as it contrasts THRG with the wider UK equity market, which has been seen as a haven for discounted opportunities. THRG's high growth bias may diminish its diversification benefit relative to many of its peers, for investors holding non-UK strategies, particularly when combined with US and thematic strategies which tend to have stronger growth biases that are likely to be more aligned with those of THRG's.

THRG has traded on a narrower discount than its average peer for many years, as well as sustaining the longest premium of any investment trust over the past five years. We believe this is the result of THRG's strong past performance, as were one to observe its performance to end December 2021, THRG would have ranked as the best-performing trust in its peer group over multiple time periods.

THRG's market cap of £625m places it above the average of its peers. However, we feel that at its current size, capacity issues are unlikely to be a problem. We do note that fund sizes are generally more pressing for small cap strategies given the inherently lower liquidity of their investee companies.

THRG's ongoing charges ratio is highly competitive, being one of the lowest amongst its peers. Whilst it benefits from its increased scale, there is also the additional complexity and costs associated with using short positions. THRG's ongoing charges would also be competitive when compared to the open-ended sector as well (based on the average of open-ended funds within the Investment Association (IA) UK smaller company sector member).

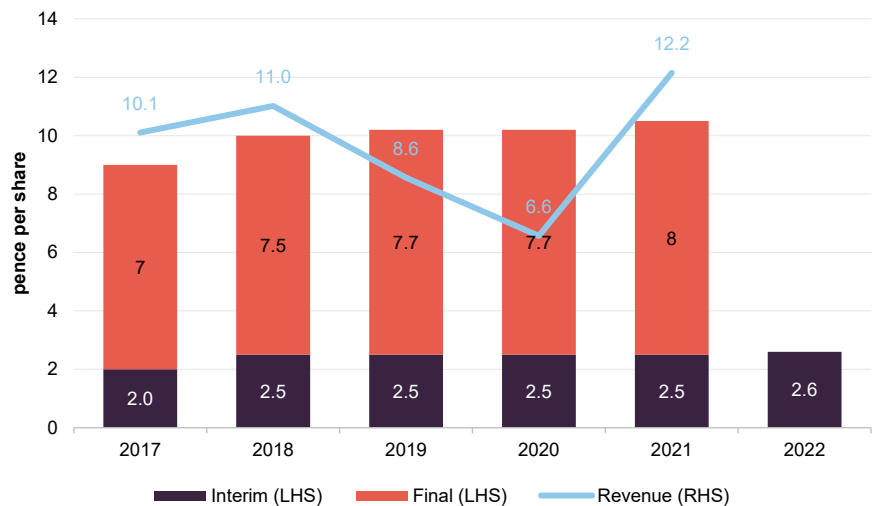
Figure 21: Listed UK smaller companies funds, comparison as at 25 November 2022

	Market cap (£m)	Discount (%)	Dividend yield (%)	Ongoing charge (%)
BlackRock Throgmorton	632	(0.5)	1.7	0.57
Aberforth Smaller Companies	1114	(11.4)	2.7	0.75
abrdn Smaller Companies Income	54	(17.4)	3.9	1.16
abrdn UK Smaller Companies Growth	440	(10.8)	1.7	0.81
BlackRock Smaller Companies	674	(12.7)	2.5	0.69
Crystal Amber	83	(21.0)	20.0	2.08
Henderson Smaller Companies	628	(10.4)	2.9	0.42
Invesco Perpetual UK Smaller	145	(14.9)	5.3	0.92
JPMorgan Smaller Companies	220	(12.5)	2.5	0.99
Montanaro UK Smaller Companies	186	(7.5)	5.8	0.78
Odyssean	183	3.6	0.0	1.45
Oryx International Growth	145	(24.7)	0.0	1.46
Rights & Issues	119	(18.6)	1.8	0.35
Rockwood Strategic	38	0.2	0.0	4.36
Strategic Equity Capital	144	(3.7)	0.7	1.08
THRG rank	3/15	3/15	11/15	3/15

Source: Morningstar, Marten & Co

Dividend

Figure 22: THRG dividends and revenue per share



Source: BlackRock Throgmorton Trust

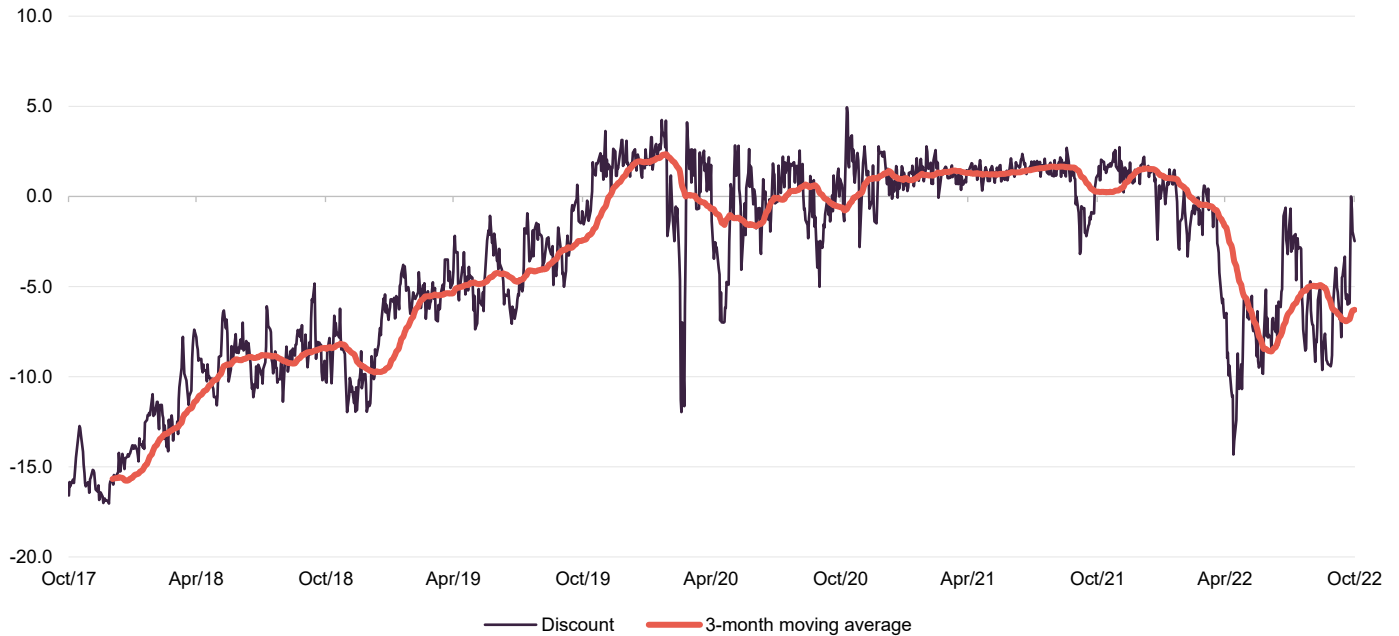
Dividends are a by-product of the investment process and THRG's portfolio is not managed with any income generation objective in mind. Nevertheless, the portfolio may generate reasonable levels of income. The base management fee is charged 25% and 75% to the revenue and capital accounts respectively, while 100% of any performance fee is charged to capital.

Net revenue income rebounded during 2021, with the 2021 dividend being fully covered, reflecting the post-COVID recovery in dividend payments. This has allowed the board to shore up THRG's revenue reserve, which been drawn down in prior years to maintain the dividend. THRG has a current reserve of £8.9m, based on its half-year report, which is an increase on the £5.2m reserve that was reported after the payment of its 2020 annual dividend. We estimate that THRG has a revenue reserve equal to 0.6 times its most recent full-year dividend. THRG currently has a dividend yield of 2.0%. Whilst this is below the 3.2% simple average yield of its relevant peers, it arguably reflects its stronger emphasis on growth investments.

Premium/(discount)

As at 25 November 2022, THRG was trading on a 0.5% discount. Over the 12 months to 31 October 2022, THRG's shares have fluctuated between trading on a premium of 2.7% on 1 December 2021, to a 14.3% discount on 12 May 2022, and on average have traded on a 3.2% discount. This, in our view, reflects the wider ebb and flow in the demand for growth stocks over the same period.

Figure 23: THRG discount over five years to 31 October 2022

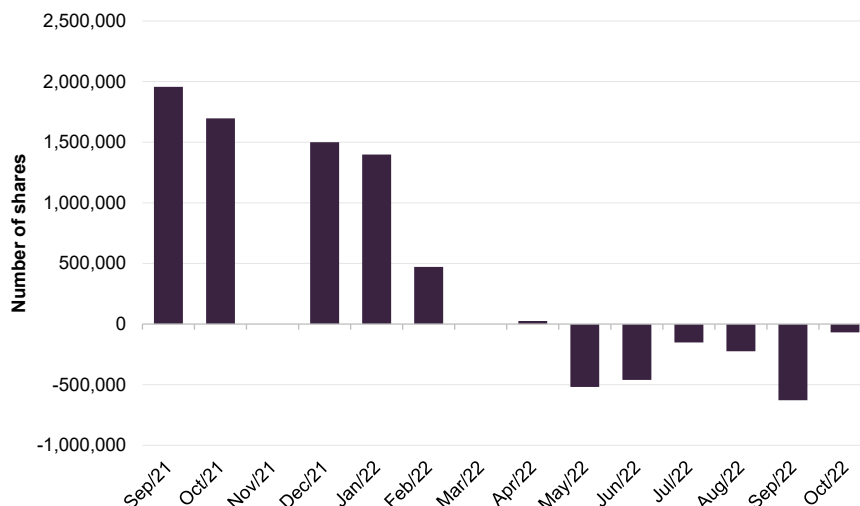


Source: Morningstar, Marten & Co

After a few months where THRG's shares traded at a meaningful discount to NAV, this has closed and it may be that THRG will return to trading at or above asset value on a consistent basis. THRG's discount remains narrower than the median of the AIC's UK smaller companies sector, and is in fact the third-narrowest amongst the peer group we present here. We believe that this comparatively narrow discount was in part due to THRG's phenomenal performance prior to 2022, as well as the market's increased confidence in Dan's ability to run THRG, where his focus on the market's highest-quality growth opportunities was quickly vindicated given THRG's performance in the years following his promotion. It is also worth noting that THRG's discount prior to 2019 may have reflected the general sentiment towards UK small cap investing at that time.

The board has said that it believes it to be in shareholders' interests that the share price does not trade at an excessive premium or discount to NAV. Therefore, where deemed to be in shareholders' long-term interests, it may exercise its powers to issue or buy back shares with the objective of ensuring that an excessive premium or discount does not arise. Consequently, the board asks shareholders at each Annual General Meeting (AGM) for approval to issue up to 10%, and to buy back up to 14.99%, of the THRG's issued share capital.

Figure 24: THRG recent share issuance and buybacks



Source: BlackRock Throgmorton, Marten & Co. note, a negative figure indicates a period of net buyback

Since October 2021, THRG's board have chosen to both buyback and issue shares, which is a reflection of the rapidly changing market environment. The board have been buying back shares since March 2021, with 2,051,000 repurchased and held in treasury as at the date of this report, equal to 2% of the current shares in circulation. Prior to that the board were able to issue some 3.3m shares.

Issuing shares at a premium enhances the NAV for existing shareholders, increases liquidity in the trust's shares and helps to lower the ongoing charges ratio as fixed costs are spread over a wider base, while buybacks are designed to both increase liquidity and to hopefully reduce the discount THRG trades at.

Fees and costs

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 by either side. 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 with an effective cap of 0.9% of average gross assets, resulting in a cap on total management fees of 1.25% over a two-year period.

The ongoing charges ratio (which does not include performance fees) for the year ended 30 November 2021 was 0.57%, marginally lower than the equivalent period for the prior year (0.60%). The biggest increase in expenditure once again appears to have been on stock exchange listing fees. Had performance fees been included in the calculation, the ongoing charges ratio would have been 1.38% (2020: 1.60%).

Capital structure and life

As at 25 November 2022, THRG had 101,158,864 ordinary shares in issue and no other classes of share capital. THRG's board takes powers each year to repurchase up to 14.99% of the trust's issued share capital (excluding treasury 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 are described on page 7.

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

Board

Currently, THRG has six non-executive directors, all of whom are independent of the manager and none of whom sit together on other boards. The size of the board has fluctuated in recent years, but the board felt it important to recruit a sixth director in anticipation of an increased workload as the trust expands.

As we highlighted in our prior note, the board has undergone a substantial change over the past two years. This came on the back of a review of succession planning, to ensure the board remained sufficiently resourced to service the trust, as well as intending to bring onboard a greater diversity of ideas. Jean Matterson stepped down at the AGM on 24 March 2021; Angela Lane joined the board in June 2020; Nigel Burton was appointed a director in December 2020; and most recently, Merryn Somerset Webb became a director in March 2021. The directors are encouraged but not required to own shares in the company.

Figure 25: The board

Director	Position	Appointed	Length of service (years)	Annual fee (GBP)	Shareholding
Christopher Samuel	Chairman	June 2016	6.4	44,000	64,294
Loudon Greenlees	Chairman of the audit committee	March 2014	8.7	35,000	15,000
Louise Nash	Senior independent director	March 2019	3.7	30,000	3,900
Angela Lane	Chair of the remuneration committee	June 2020	2.4	30,000	11,614
Nigel Burton	Director	December 2020	1.9	30,000	16,238
Merryn Somerset Webb	Director	March 2021	1.7	30,000	3,727

Source: BlackRock Throgmorton Trust, Marten & Co

Chris Samuel (chairman)

Chris 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. Chris is a non-executive director of UIL Limited, its subsidiary UIL Finance Limited and Quilter Plc. He is also non-executive chairman of JP Morgan Japanese Investment Trust Plc and Quilter Financial Planning. Chris graduated from Oxford with an MA in Philosophy, Politics and Economics and he qualified as a Chartered Accountant with KPMG.

Loudon Greenlees (chairman of the audit committee)

Loudon 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. Loudon qualified as a chartered accountant in 1974.

Louise Nash (senior independent director)

Louise was a UK small and mid-cap fund manager, firstly at Cazenove Capital and latterly at M&G Investments, which she left in 2015. She now works for family wine business Höpler. She also acts as a consultant to JLC Investor Relations. Louise holds an MA in German and Politics from the University of Edinburgh and the IMRO Investment Management Certificate.

Angela Lane (chair of the remuneration committee)

Angela spent 18 years working in private equity at 3i, becoming a partner in 3i's Growth Capital business managing the UK portfolio. Since 2007, she has held several non-executive and advisory roles for small and medium capitalised companies across a range of industries including business services, healthcare, travel, media, consumer goods and infrastructure. Angela is currently a non-executive director of Pacific Horizon Investment Trust Plc and Dunedin Enterprise Investment Trust Plc, where she is also chairman of the audit committee.

Nigel Burton

Nigel spent over 14 years as an investment banker at leading City institutions including UBS Warburg and Deutsche Bank, including as the managing director responsible for the energy and utilities industries. He has also spent 15 years as chief financial officer or chief executive officer of a number of private and public companies. Nigel is currently a non-executive director of AIM listed companies DeepVerge Plc, Microsaic Systems Plc, eEnergy Group Plc and Location Sciences Group Plc. He was formerly a non-executive director of Digitalbox Plc, Corcel Plc, Modern Water Plc, Alexander Mining Plc, Mobile Streams Plc and chairman of Remote Monitored Systems Plc.

Merryn Somerset Webb

Merryn has significant experience of financial matters through her role as editor-in-chief of MoneyWeek, the UK personal finance magazine, and appears extensively on this subject across radio and television. She brings valuable investment trust-specific experience and is currently a non-executive director of Murray Income Investment Trust Plc, and Netwealth Investments Limited.

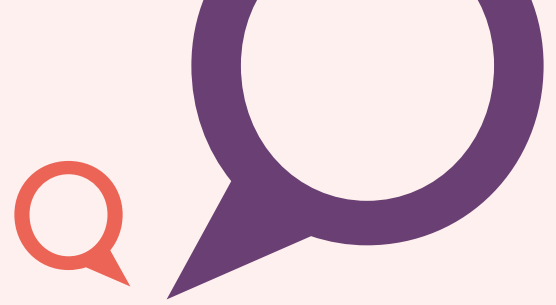
Previous publications

Readers may be interested in our previous publications on THRG, which are listed in Figure 26 below. These are available to read on our website or by clicking the links in the table.

Figure 26: Previous publications

Title	Note type	Publication date
Vision, execution and adaptability	Initiation	11 September 2018
Throg's shorts shine	Update	16 January 2019
Impressive run continues	Annual overview	18 July 2019
Look past the short-term noise	Update	17 December 2019
Separating the wheat from the chaff	Annual overview	10 June 2020
Infectious enthusiasm	Update	14 December 2020
Confidence rewarded	Annual overview	29 September 2021
Powering on	Update	17 December 2021

Source: Marten & Co



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