QuotedData

BY MARTEN & CO

INVESTOR

BlackRock Throgmorton Trust

Investment companies | Update | 22 November 2023

Growth in all things

BlackRock Throgmorton Trust (THRG) continues to demonstrate its commitment to UK quality-growth small-and-mid-caps that has long characterised the trust, even in the face of apparent headwinds, such as rising interest rates and lower UK economic growth. While the UK small-and-mid-cap sector has been somewhat out of favour recently, the stock-specific strengths of THRG's holdings have allowed it to pull away from the wider UK small-and-mid-cap market once again, outperforming over both the near and long term (12 months and five years respectively).

Irrespective of their share price movements, many of THRG's holdings have also continued to demonstrate robust/improving fundamentals over the last 12 months, such as robust if not growing earnings. Consequently, many valuations look more attractive today than they did in the post-pandemic-era. THRG's discount of 4.5% adds to its attractions.

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	583.0p
NAV	610.5p
Premium/(discount)	(4.5%)
Yield	1.9%

Over five years, THRG's NAV has outperformed its benchmark, and the peer group by a significant margin

Despite the market headwinds, THRG's discount remains relatively narrow compared to its peers

The UK (and THRG) may offer an attractive valuation opportunity for those who are able to look beyond the near-term noise.

Contents

Domicile	England & Wales
Inception date	1 December 1962
Manager	Dan Whitestone
Market cap	559.2m
Shares outstanding (exc. treasury shares)	95,914,161
Daily vol. (1-yr. avg.)	175k shares
Net gearing	15%

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Click for updated THRG factsheet

Click for THRG's peer group analysis

Analysts

Matthew Read
mr@quoteddata.com

James Carthew
jc@quoteddata.com

David Johnson
dj@quoteddata.com

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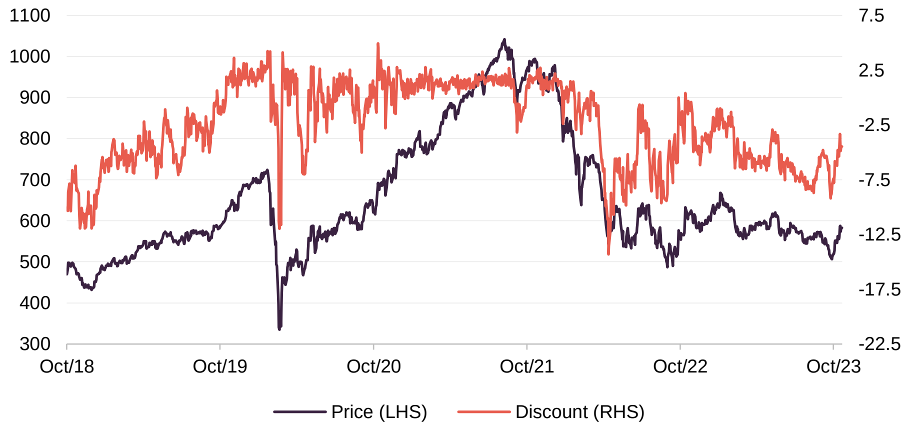
At a glance

Share price and discount

THRG's share price discount to net asset value (NAV), like its performance, reflects the wider market sentiment. Having previously traded at a sustained premium between 2020 and 2022, THRG moved to a discount in early 2022, which matched the wider sell off in global growth stocks; though, like its performance, its discount has begun to narrow from the initial sell off, reflecting the recovery in growth stock performance.

Time period 31 October 2017 to 20 November 2023



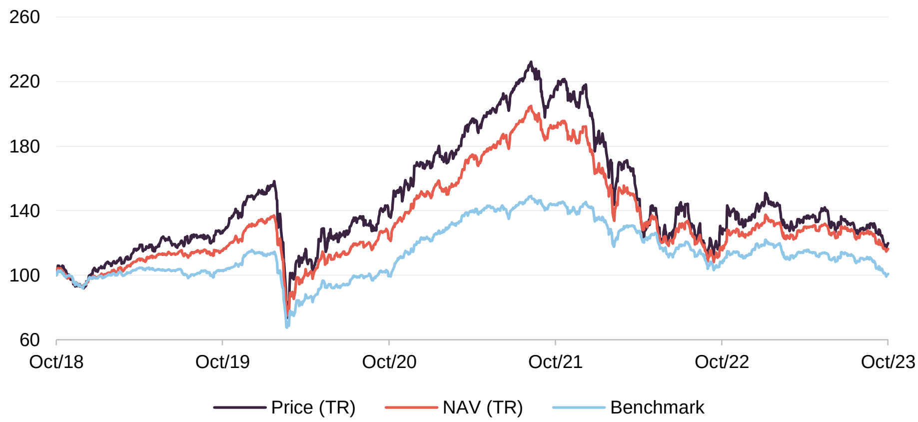
Source: Morningstar, Marten & Co

Performance over five years

Over five years, THRG's NAV has outperformed its Numis Smaller Companies Index (plus AIM stocks but excluding investment companies) benchmark, and the peer group by a significant margin. Successful stock selection has played a large part in that.

The surge in growth stocks that followed the initial COVID-related market panic in 2020 was reversed over the early part of 2022. Thankfully, at least relative to its benchmark, THRG has started to rebound

Time period 31 October 2017 to 31 October 2023



Source: Morningstar, Marten & Co

12 months ended	Share price total return (%)	NAV total return (%)	Peer group average NAV[1] total return (%)	Numis Smaller Companies plus AIM, ex IC (%)
31/10/2019	27.6	15.6	9.2	2.8
31/10/2020	7.7	5.8	(4.8)	(2.8)
31/10/2021	56.7	56.7	50.0	43.5
31/10/2022	(41.8)	(39.7)	(25.1)	(24.9)
31/10/2023	(4.3)	1.1	(8.5)	(5.9)

Source: Morningstar, Marten & Co

Market update

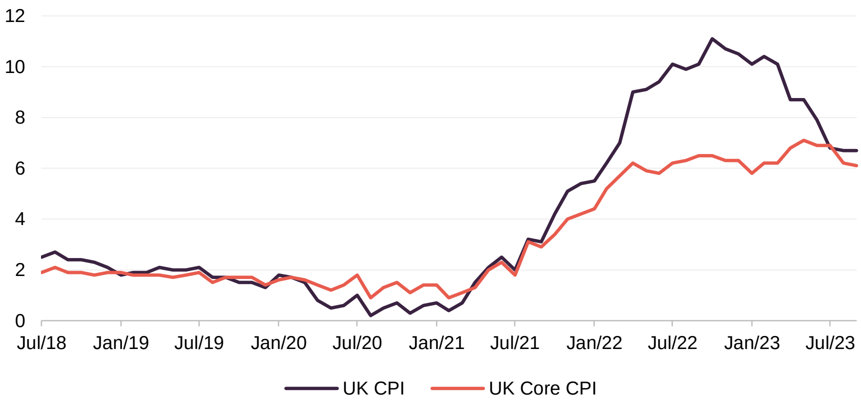
The UK seems to be over the worst of its inflationary pressures

The UK, like other parts of the developed world, can finally start to look forward to an end to interest rate rises as the rate of inflation is slowing. This has been the primary factor in determining interest rate policy and projections. Uncertainties around the future of the UK economy remain. The National Institute of Economic and Social Research (NIESR) said recently that it would take until the third quarter of 2024 for UK output to return to its pre-pandemic peak and that there was a 60% risk of recession in 2024. Generally, the headline issues remain the same as they were in our last note which we published in November 2022, such as the impact of heightened interest rates and lacklustre GDP growth.

Over the peak, finally

Arguably, the most important change since our last note has been the dampening of the UK's inflation outlook. As can be seen in Figure 1, both core and CPI inflation (core inflation excludes the more volatile fuel and food costs) have finally begun to fall. Rampant inflation has been a particularly thorny issue for the UK, as many pundits believed that the UK's inflation would be far stickier than that of North America's or Europe's, citing its tighter labour market and Brexit-related issues as factors driving up costs.

Figure 1: UK inflation



Source: Bloomberg

While a decline in UK inflation expectations could be a watershed moment for the UK market's near-term outlook, the current level of inflation is still far above the Bank of England's (BoE) 2% target. The BoE has recently put a pause to its rate rising policy, having kept its key rate at 5.25% after its most recent monetary policy meeting. However, what matters most are expectations of the persistence of inflation and hence the prospect of higher for longer interest rates being needed to bring it back down to target. The BoE has pushed back against speculation over possible interest rate cuts.

Meteoric rises in interest rates have been the bane of global equity markets, especially for growth stocks like those which make up THRG's portfolio, which have had to adjust to a higher cost of capital.

At the same time, there has been a longstanding aversion to UK equities amongst both international and domestic investors. Brexit and its associated uncertainties seemed to be the main trigger for this but political infighting and the effects of last year's 'mini budget' have also weighed on valuations.

UK equity markets have become cheaper, whereas other developed markets have become more expensive

UK valuations remain repressed relative to their peers. As can be seen in Figure 2, the UK's price-to-earnings (P/E) ratio (one of the most common figures used to assess relative valuations) has declined over the last 12 months, whereas the other major developed markets, US, Europe, and Japan, have all seen theirs creep up. Importantly, this is not due to a weakening of corporate fundamentals, the denominator in the ratio, as corporate earnings have largely remained robust, but rather due to market dynamics and the fact that investors have yet to return to the UK market as they have for other equity regions. It seems that the hangover from previous risk factors still drags on investor sentiment for the UK, which may offer an attractive valuation opportunity for those investors who are able to look beyond the near-term noise.

Figure 2: UK P/E ratio versus the rest of the world

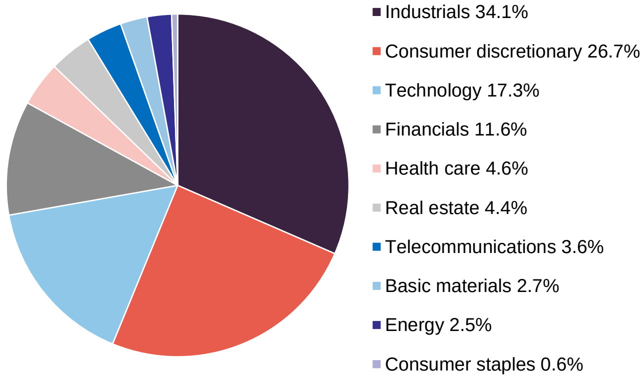
Index	P/E ratio as of 31/10/22	P/E ratio as of 31/10/23	% change
MSCI UK	10.7	10.5	(1.9)
MSCI US	19.0	21.3	12.1
MSCI Europe ex UK	13.0	13.4	3.0
MSCI Japan	14.9	15.6	4.7

Source: Bloomberg

Asset allocation

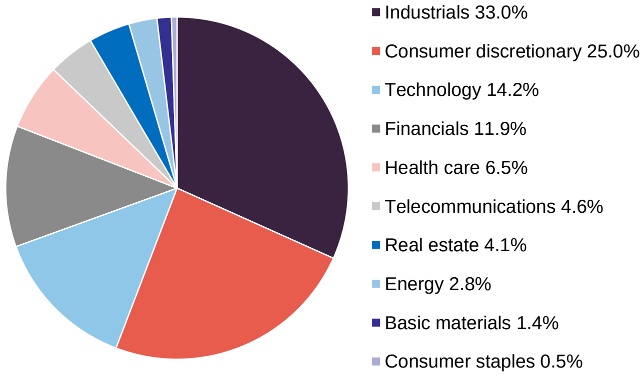
Dan's approach is one of high conviction, bottom-up stock selection rather than a judgment of the current macro-economic environment. Figures 3 and 4 reflect the shift in THRG's portfolio since its last financial year end.

Figure 3: Sector allocation as at 30 September 2023



Source: BlackRock

Figure 4: Sector allocation as 30 November 2022

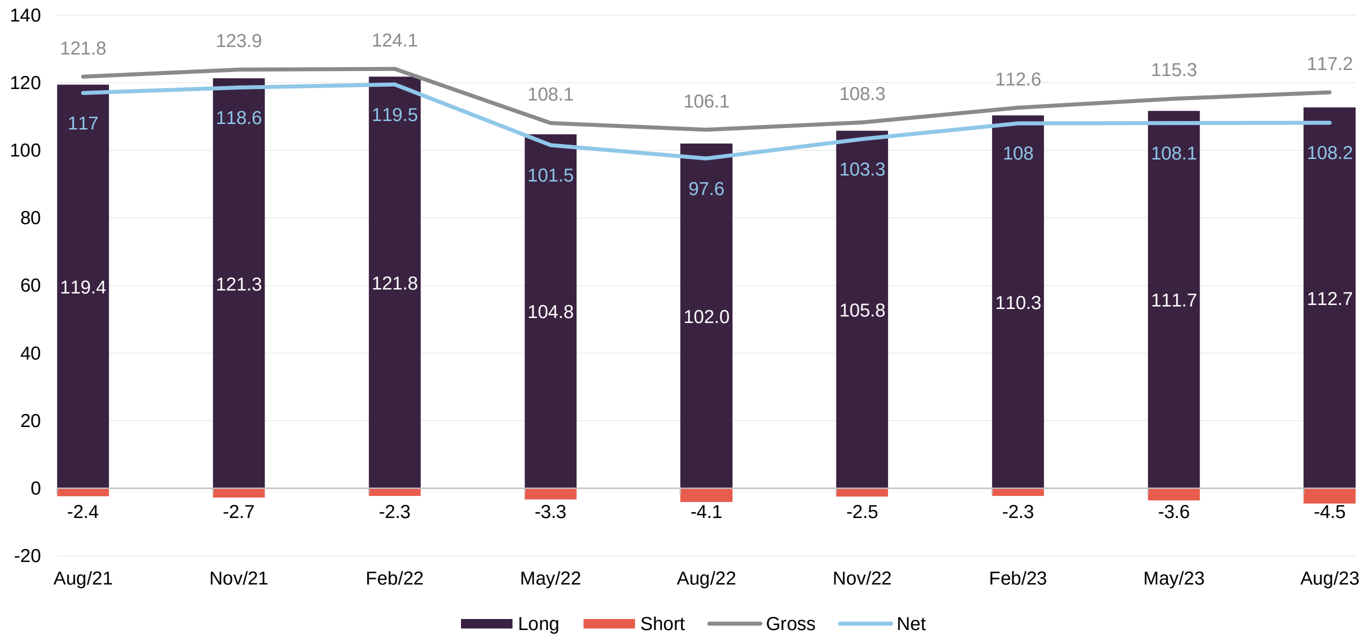


Source: BlackRock

When assessing THRG's total market exposure, investors should be aware of both its long and short positions. As can be seen in Figure 5, THRG has a level of gross market exposure (which adds both long and short position together) commensurate with its previous level, however the total long and short positions have increased in 2023. While THRG's net long position (long exposure less short) has begun to increase, it still remains below its level prior to the rotation out of growth in response to rising interest rates.

Like THRG's long positions, its short positions are simply a reflection of companies the manager believes have a negative outlook, such as weak competitors to his investments, or companies that Blackrock's analysts have highlighted as structurally impaired.

Figure 5: THRG quarterly market exposure



Source: BlackRock

Top 10 stocks

Figure 6 shows the top 10 holdings for THRG, compared to their weightings in our previous note. While we outline the major changes in stocks in the subsequent paragraphs, the general trend of THRG's shifts have been a combination of trading activity but also a rebound of the share prices of some of THRG's more highly-valued investments.

Figure 6: THRG's 10 largest holdings as at 30 September 2023

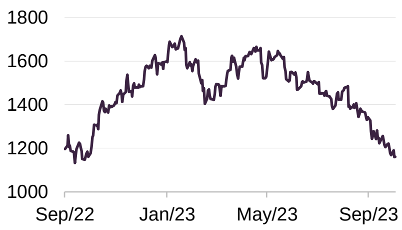
Stock	% of gross assets 30/09/23	% of gross assets 30/11/22	Percentage point change	Business focus
Gamma Communications	3.2	2.8	0.3	Provider of cloud communications services
4imprint Group	3.1	3.1	0.0	Promotional merchandise manufacturer
Grafton Group	3.0	2.1	0.9	Builders merchant
Breedon Group	2.9	2.3	0.6	Construction materials supplier
Wh Smith	2.7	2.6	0.1	Retail store chain
Cvs Group	2.6	2.9	-0.3	Veterinary services and products provider
Rotork	2.5	1.6	0.9	Actuator developer and manufacturer
Oxford Instruments	2.4	3.1	-0.7	Semiconductor design and manufacturing
Computacenter	2.3	1.9	0.3	Technology and services provider
Yougov	2.2	2.5	-0.2	Data analytics company
Total of top 10	29.7			

Source: BlackRock Throgmorton Trust

WH Smith

WH Smith (whsmith.co.uk) is a well-known UK retailer. Although most will know it as a high street news agent, its retail footprint has a much wider reach due to its major presence in the global airport retail business. This exposure to general UK consumer spending as well as global travel meant WH Smith was able to announce a 23% year-on-year (YoY) increase in revenues over the first quarter (Q1) of 2023 in a recent earnings call (in May 2023), with WH Smith's management confident that the company is "very well positioned for further growth" and that " expectations for the full financial year have modestly improved".

Figure 7: WH Smith



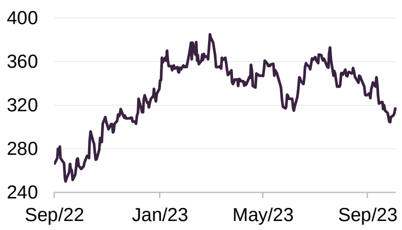
Source: Bloomberg

The obvious catalyst for this bullishness has been the sharp recovery in global travel, given that WH Smith is a direct beneficiary of increased travel numbers. Despite its improving fundamentals, WH Smith's share price has fallen over the last year, as investors are likely still mulling uncertainty around future economic performance, as it is highly sensitive to discretionary consumer spending.

Breedon Group

Headquartered in Leicestershire, Breedon Group (breedongroup.com) is the UK's largest independent construction materials company; it produces cement, construction aggregates, asphalt, ready-mixed concrete, bitumen and other construction materials, with it also having a major role in highway surfacing.

Figure 8: Breedon Group



Source: Bloomberg

In its interim results, Breedon announced an 11% growth in its YoY revenues, and 7% growth in its pre-tax profits (excluding the impact of acquisitions). Its management team highlighted the resilience of its end markets (i.e. the final consumers of its products) and structural drivers (such as the increasing infrastructure spending and housing supply shortage) as major factors in its performance, with the company able to more than increase prices to offset lower volumes.

Since May 2023, Breedon trades on the main market of the London Stock Exchange (LSE), having previously traded on AIM (a sub-market of the London Stock Exchange). While Breedon is a new entrant in the top 10, it is a longstanding position within the portfolio.

Grafton Group

Figure 9: Grafton Group

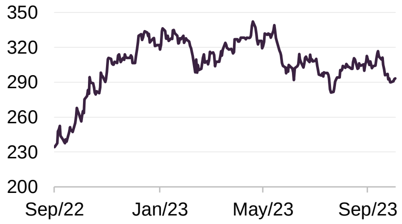
Source: Bloomberg

Grafton Group (graftonplc.com) is a builders' merchants business based in the UK and Ireland, and is Ireland's largest DIY retailer (trading under the Woodie's brand). Despite fears around a possible slowdown in demand, Grafton's earnings in Q1 were robust and in line with management expectations, up 2.8% YoY. Grafton maintains its market guidance, and also announced a share buyback programme worth £50m.

Dan has taken advantage of periods of weakness to top up his holding in the company. Grafton remains hugely depressed from its COVID-19 highs, which Dan believes is simply a reflection of market sentiment rather than a judgment on Grafton's outlook.

Rotork

Figure 10: Rotork



Source: Bloomberg

Rotork (rotork.com) is a world leading developer and manufacturer of actuators (a device that produces motion by converting energy and signals going into a system), and related products and services. Its devices are utilised in the oil and gas, water, chemical, and a wide array of industrial industries.

In its most recent half year results, released in August, Rotork announced that its revenues were up 20% year on year, and ahead of market analyst estimates, while its profits were up 23% year on year, helped by higher margins. These revenue beats were across multiple business lines. The company also announced an interim dividend of 2.55p, well ahead of the 2.4p expected by the market, as well as maintaining its full year guidance.

Computacenter

Figure 11: Computacenter

Source: Bloomberg

Computacenter (computacenter.com) is one the UK's largest technology product distributors, providing both software and hardware from leading brands such as Microsoft, Cisco, and Samsung. It operates globally and services both private companies and government organisations.

In its recent Q3 trading update, Computacenter's management indicated that its performance was in line with their expectations. Computacenter continues to see strong results from its US and German business, though the UK continues to remain challenging.

Computacenter's fundamental growth has been more than matched by the growth in its share price, which is up c.34% over 2023. The steep rise in early September, followed the release of its 2023 interim results, which came in ahead of consensus. Computacenter reported a considerable 23% YoY revenue growth, more than double the market's expectations, as well as generating more the twice the cashflow the market had forecasted. The success of Computacenter has come in the face of the underperformance of its peers and the generally challenging backdrop the IT servicing industry has seen over 2023, a possible reflection of slowing global demand, something which only served to reinforce the quality of Computacenter's mangment team and business practices. We note that Computacenter is one of the largest contributors to THRG's 12 month returns, as we describe on page 12.

Other noteworthy purchases

While Dan's top-ups of Breedon and Grafton are noticeable, given their entrance into THRG's top 10, he also highlights his recent purchases of Gamma Communications, Ergomed, and Morgan Sindall.

Many of his recent purchases have not been new entrants to the portfolio, but rather top-ups of existing holdings, as he capitalised on the broad-based selloff of certain highly-valued companies.

Gamma Communications

Figure 12: Gamma Communications

Source: Bloomberg

Gamma Communications (gammacommunicationsplc.com) is a provider of technology-based communications and software services to businesses in western Europe. Its products range from strategic services like inbound call controls and cloud-based telephone networks to more conventional services like ethernet broadband and phone lines.

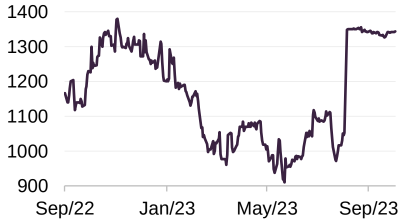
Like many of the other companies listed in this note, Gamma posted another year of growth in its 2022 results, with revenues and gross profits both up 8% on the year prior.

While Gamma, through its own software services as well as by simply being a provider of core internet infrastructure, is a clear benefit of companies' greater integration of digital operations, it has also benefited from good management practices (the 'quality' in 'quality growth').

Gamma continues to acquire new corporate clients and is able to achieve very sticky revenue streams, with 89% of its revenue being recurring, and with high gross profit margins of c.50%. Gamma has, like many of the world's software focused tech stocks, sold off from its peak in the COVID-19 period, and now trades at a share price that is commensurate with its pre-pandemic level, despite its continued earnings growth.

Ergomed

Figure 13: Ergomed



Source: Bloomberg

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, such as the increasing need for treatments for an ageing global population.

Rather than exposing THRG to the perils of the often binary outcomes of medical trials, with failed trails often being the death of small biotechs, Ergomed is a 'picks and shovels' opportunity. This means that it is a service provider to the companies developing therapies, allowing it to directly benefit from the proliferation of medical research without taking on the same binary risks.

We assessed the historic performance of Ergomed, and how it aptly demonstrates Dan's process, in a prior note. In its most recent trading update, for Q1 2023, Ergomed reported another period of robust growth, with 10% revenue growth and a c.10% growth in its orderbook, giving its management team confidence that the 2023 results will be in line with market expectations.

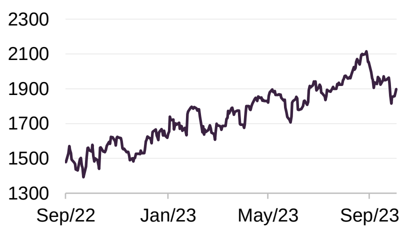
Ergomed's share price soared on 4 September following the announcement of a buyout by private equity group Permira, which offered £13.50 per share, a 30% premium to the prevailing price, valuing the company a £700m. Ergomed's management team backed the takeover, shareholders approved it on 13 October 2023, and the company delisted on 14 November 2023.

Morgan Sindall

Morgan Sindall (morgansindall.com) is a leading construction and regeneration group, servicing public, private, and regulated sectors. The group encompasses eight different companies, each focusing on a different niche of construction or renovation, be it infrastructure or building construction, office design and refurbishment, or mixed-use urban regeneration.

Morgan Sindall reported record H1 results for 2023, with a revenue increase of 14%, and a 10% increase in pre-tax profit, all while retaining a very strong net cash position of £263m (versus a £910m market cap). Its strongest returns came from the office fit-out, infrastructure, and construction divisions which all saw profit growth of 43%, 24% and 6% respectively. Its management seem particularly pleased by its high quality and substantial order book, with £9.1bn in orders logged, up 7% YoY.

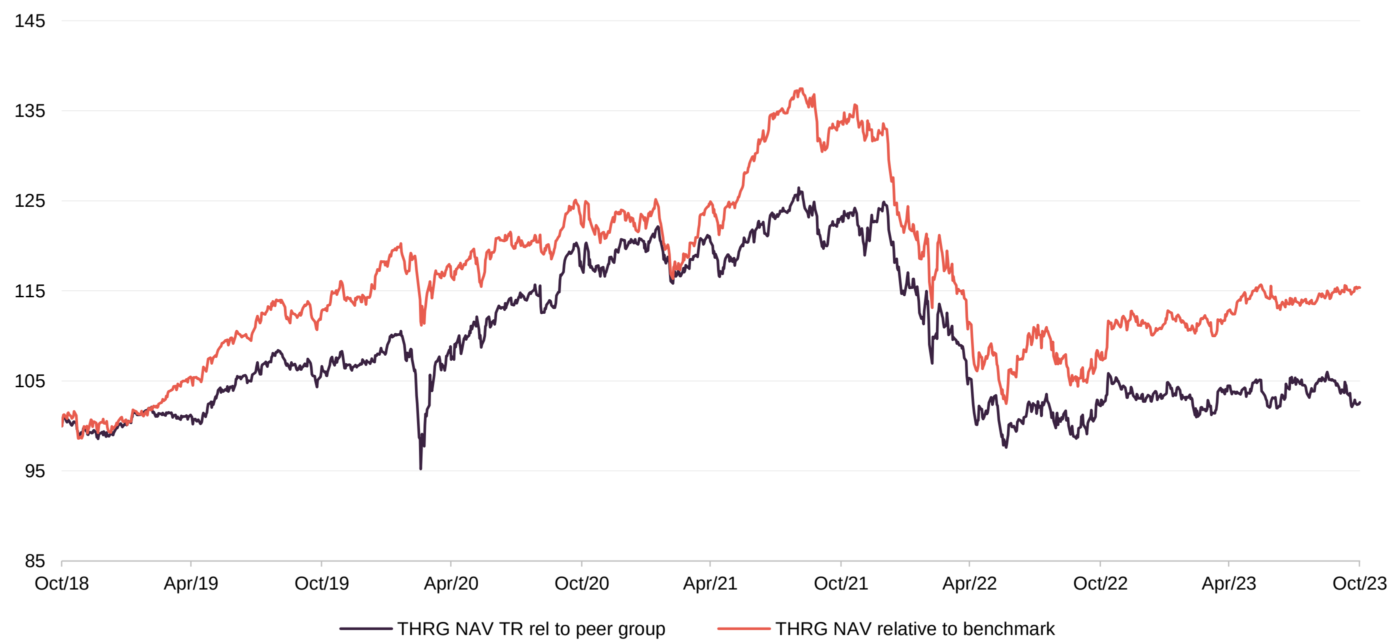
Figure 14: Morgan Sindall



Source: Bloomberg

Performance

Figure 15: THRG NAV total return performance relative to benchmark[1] and peer group[2] to 31 October 2023



Source: Morningstar, Marten & Co. Note: 1) THRG has a benchmark that is the Numis Smaller Companies Index (plus AIM stocks but excluding investment companies). 2) The peer group is defined on page 12.

Figure 16: Cumulative total return performance over periods ending 31 October 2023

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
BlackRock Throgmorton share price	(9.7)	(12.0)	(4.3)	(12.8)	18.6
BlackRock Throgmorton NAV	(9.6)	(10.1)	1.1	(4.5)	15.3
Benchmark	(10.7)	(12.2)	(5.9)	1.4	0.7
Peer group median NAV	(9.4)	(11.4)	(2.9)	4.6	5.5

Source: Morningstar, Marten & Co

In absolute terms, the impediments that the UK equity market has faced over the last five years, such as the lingering impact of Brexit, inflation, and lacklustre GDP growth, have weighed on returns from UK equities relative to other regions.

THRG is a focused small-and-mid-cap quality-growth strategy, and over the long term the underlying success of its portfolio should reflect structural growth trends rather than the prevailing economic climate (such as the increasing proliferation of technology). This should also make it resilient if the UK economy continues to be weak, as these structural tailwinds tend to advance regardless.

THRG has demonstrated both near- and long-term outperformance

Over five years, THRG's NAV has outperformed its Numis Smaller Companies Index (plus AIM stocks but excluding investment companies) benchmark, and the peer group by a significant margin. Successful stock selection has played a large part in that.

The surge in growth stocks that followed the initial COVID-related market panic in 2020 was reversed over the early part of 2022, as rising interest rates drove a rotation away from growth stocks (for the reasons we outlined on page 3). Thankfully, at least relative to its benchmark, THRG has started to rebound.

Hopes that monetary policy may take a more dovish tone in the future are benefitting growth companies. As the portfolio continues to post strong earnings, investors should reappraise growth stocks.

Drivers of returns

Figure 17: Largest positive contributions to relative returns, twelve months ended 30 September 2023 (long only)

Stock	Average weight in portfolio (%)	Average weight in index (%)	Stock return (%)	Contribution to NAV returns (%)
Games Workshop Group	1.8	0.0	49.5	0.8
4imprint Group	2.8	0.6	33.3	0.7
Computacenter	2.1	0.0	30.4	0.7
Dechra Pharmaceuticals	1.3	0.0	41.1	0.6
Grafton Group	2.5	0.0	49.5	0.5

Source: BlackRock, Morningstar

BlackRock kindly supplied us with some attribution data which we reproduce in Figures 17

Figure 18: Games Workshop

Source: Bloomberg

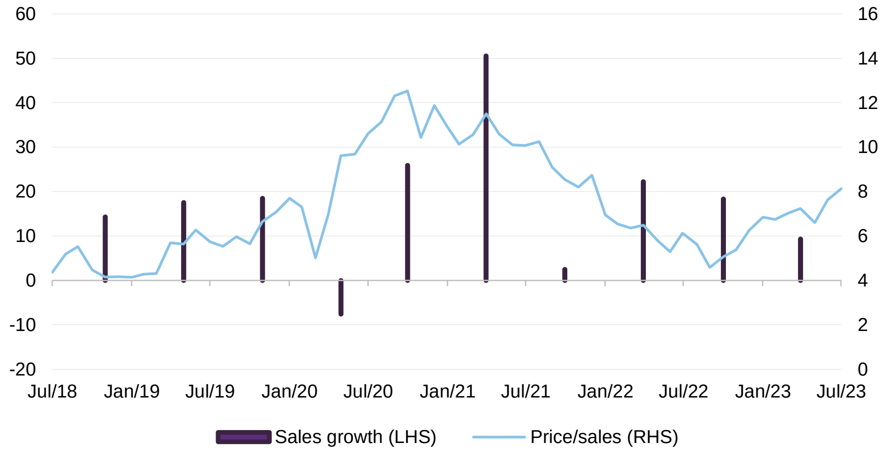
Games Workshop

Games Workshop (games-workshop.com) is based in Nottingham and is the world's leading maker of tabletop war games and miniatures, with its intellectual property having a sizable presence within computer gaming.

Games Workshop had become oversold. As a lockdown beneficiary, fears that it would not be able to sustain its pandemic-level demand, combined with the increased scrutiny around highly valued companies, sent its share price sharply lower over 2021. However, robust earnings figures (the company reported its highest levels of sales and profits for the most recent financial year), Games Workshop has returned to favour and its share price has recovered.

While it is refreshing to see investors looking past macro level uncertainty and recognising the fundamental strength of a company like Games Workshop, the market may still be under-appreciating its potential. Games Workshop has been able to post double digit revenue growth in a post pandemic world, with earnings only plateauing in the six months immediately post pandemic. Despite this, the market still values its earnings potential at the same level it did pre the pandemic.

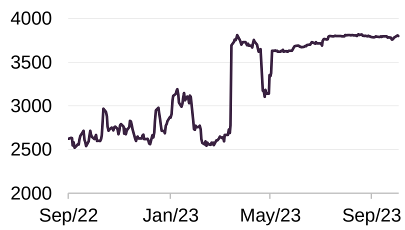
Figure 19: Games workshop sales metrics



Source: Bloomberg

Dechra Pharmaceuticals

Figure 20: Dechra Pharmaceuticals



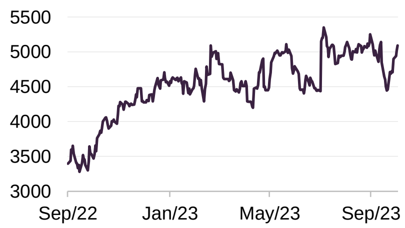
Source: Bloomberg

Dechra Pharmaceuticals (dechra.com) is a developer of veterinary drugs, based in Northwich. As is illustrated in Figure 20, Dechra's share price suffered a heavy retraction, caused primarily by rising interest rates but also from stocking issues by its US operation. However, the opportunity that the selloff presented was spotted by EQT, a Swedish private equity firm, which made a successful bid for the company at £38.75 per share (a 44% premium to its undisturbed share price).

EQT believes it can unlock value using its previous experience in the veterinary pharmaceutical industry.

4imprint Group

Figure 21: 4imprint



Source: Bloomberg

4imprint Group (4imprint.co.uk) is a producer of promotional merchandise, with a strong global footprint. It is also a rare example of a quality growth stock that did not see a material selloff during 2022.

Rather than a rebound story, 4imprint is a prime example of the importance of disciplined, yet forward thinking management. Instead of scaling back expenditure during COVID-19, the company actually increased its marketing budget and shifted to TV and radio advertising, eschewing the old-fashioned techniques of print advertising that was the norm for the industry.

The effects of this have been profound and can clearly be seen in its most recent results. Over the 26 weeks ended 1 July 2023, 4imprint generated a 23% increase in revenue and 48% uplift in earnings per share. In addition, a pension buy-in transaction in June 2023 allowed it to insure substantially all of its remaining pension benefits (reducing the pressure on the company to fund employee retirement) – this is an often-overlooked benefit of the higher rate environment.

There has been a step change in the efficiency of its marketing operations and, having become the largest player in a highly fragmented market, it can achieve economies of scale that its competitors cannot, further increasing it operational efficiency. The company is in a very strong position to grab market share, both through organic growth and by absorbing smaller operators, and has a very long growth runway ahead of it.

Peer group

Up to date information on THRG and its peer group is available on the QuotedData website

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 22.

Against what is a diverse peer group, consisting of many different styles of investing, THRG has outperformed its average peer over one and five years, though it has fallen into the bottom third over three years.

THRG ranks as one of the most growth-focused strategies within the peer group, likely giving it greater exposure to rising interest rates and the market's reaction to it, as well as the market trends during COVID-19.

Figure 22: Cumulative NAV total return performance over periods ending 31 October 2023

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
BlackRock Throgmorton	(9.6)	(10.1)	1.1	(4.5)	15.3
Aberforth Smaller Companies	(7.4)	(7.2)	3.7	48.0	12.9
abrdn Smaller Companies Income	(10.4)	(11.6)	(2.9)	(10.5)	(3.7)
abrdn UK Smaller Companies Growth	(9.4)	(11.6)	(6.0)	(20.8)	(0.3)
BlackRock Smaller Companies	(8.0)	(9.5)	(4.9)	4.6	8.5
Crystal Amber	4.6	3.2	(2.9)	44.1	(28.9)
Henderson Smaller Companies	(12.1)	(17.6)	(6.6)	(8.4)	(5.1)
Invesco Perpetual UK Smaller	(10.3)	(13.5)	(7.7)	(1.5)	2.6
JPMorgan Smaller Companies	(7.2)	(8.6)	(1.1)	2.2	31.2
Montanaro UK Smaller Companies	(10.8)	(11.4)	(2.3)	(12.5)	(2.9)
Odyssean	(6.7)	(11.4)	(4.7)	33.7	n/a
Oryx International Growth	1.4	7.2	16.7	28.1	76.3
Rights & Issues	(11.9)	(13.4)	(8.8)	12.3	(3.6)
Rockwood Strategic	(10.2)	(12.1)	21.2	9.7	8.3
Strategic Equity Capital	(7.5)	(3.3)	14.2	38.2	34.3
THRG rank	9/15	7/15	5/15	11/15	4/14

Source: Morningstar, Marten & Co

Despite the selloff in growth stocks, THRG continues to trade on a narrower discount than its average peer, as it has done for many years. We believe this is the result of the combination of THRG's strong past performance, its ability to short stocks (which is a clear differentiator from its peers), and the possible resurgence in growth stock investing, on the back of dampening interest rate expectations.

THRG's market cap of £527m places it above the average of its peers. However, we feel that at its current size, capacity issues (i.e. the fund being too large for the investment process to work) are unlikely to be a problem. We do note that fund sizes are generally a more pressing consideration for small-and-mid-cap strategies given the inherently lower liquidity of their investee companies. THRG's size may also be another advantage supporting shareholder demand, as it can provide a liquidity advantage for investors versus small peers.

THRG's ongoing charges ratio is highly competitive, being one of the lowest amongst its peers, and also considering the additional complexity and costs associated with using short positions. THRG's ongoing charges are also competitive compared to the open-ended sector (based on the average IA UK smaller company sector member).

Figure 23: Listed UK smaller companies funds, comparison as at 20 November 2023

	Market cap (£m)	Discount (%)	Dividend yield (%)	Ongoing charge (%)
BlackRock Throgmorton	559	(4.5)	1.9	0.54
Aberforth Smaller Companies	1091	(10.4)	3.66	0.8
abrdn Smaller Companies Income	52	(5.6)	9.68	1.34
abrdn UK Smaller Companies Growth	340	(12.7)	2.7	0.95
BlackRock Smaller Companies	632	(9.8)	3.05	0.7
Crystal Amber	52	(37.6)	32.26	1.56
Henderson Smaller Companies	562	(11.0)	3.46	0.44
Invesco Perpetual UK Smaller	137	(9.4)	4.45	0.95
JPMorgan Smaller Companies	206	(12.5)	2.91	1.02
Montanaro UK Smaller Companies	158	(12.8)	4.79	0.9
Odyssean	181	1.7	0	1.45
Oryx International Growth	168	(32.6)	0	1.37
Rights & Issues	107	(13.9)	2.11	0.5
Rockwood Strategic	48	1.9	1.53	2.85
Strategic Equity Capital	151	(6.7)	0.81	1.22
THRG rank	3/15	4/15	11/15	3/15
Sector average	296.3	(11.7)	4.9	1.1

Source: Morningstar, Marten & Co

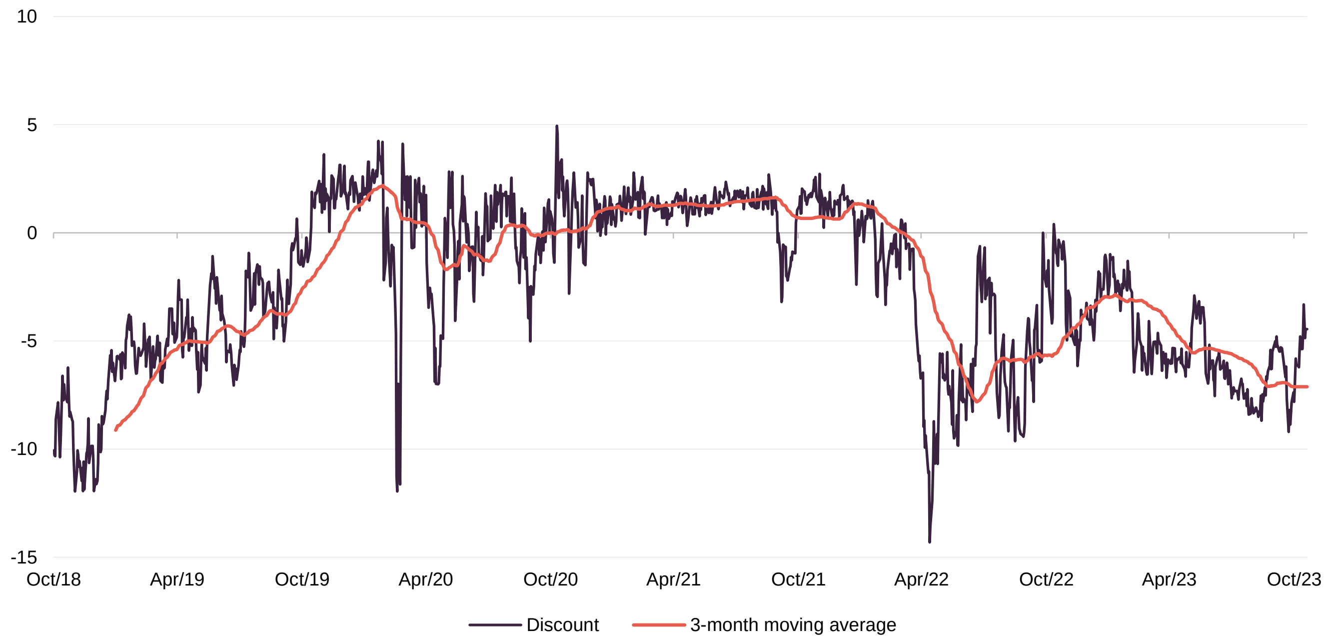
Premium/(discount)

As at 20 November 2023, THRG was trading on a 4.5% discount. Over the 12 months to 31 October 2023, THRG's shares have fluctuated between trading on a premium of 0.4% on 11 November 2022, to a 9.2% discount on 31 October 2023, and on average have traded on a 5.0% discount.

THRG's discount, like its performance, reflects the wider market sentiment. Having previously traded at a sustained premium between 2020 and 2022, THRG moved to a discount in early 2022, which matched the wider sell off in global growth stocks; though, like its performance, its discount has begun to narrow from the initial sell off, reflecting the recovery in growth stock performance.

Despite the market headwinds, THRG's discount remains relatively narrow compared to its peers, as the historic performance of Dan's approach still allows it to justify trading at a premium relative to its average peer.

Figure 24: THRG discount over five years to 20 November 2023

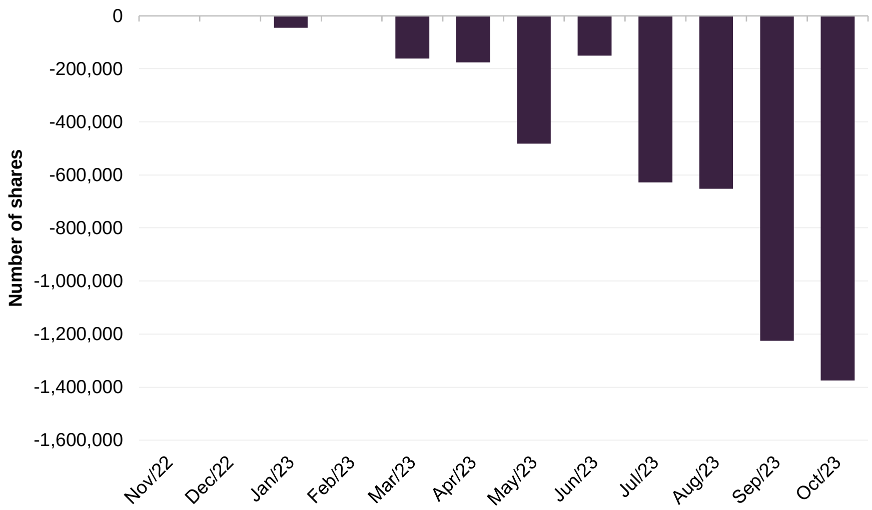


Source: Morningstar, Marten & Co

THRG's discount has been resilient when compared to its peers

The board has said that it believes it is in shareholders' interests that the share price does not trade at an excessive premium or discount to NAV. Therefore, 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 AGM for approval to issue up to 10%, and to buy back up to 14.99%, of THRG's issued share capital.

Figure 25: THRG recent share issuance and buybacks



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

THRG been buying back shares with 4,894,267 repurchased and held in treasury over the 12 months ended 31 October 2023, which is equal to 4.8% of the issued share capital at the end of October 2022.

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 at a discount enhance the NAV, provide liquidity and improve the supply/demand imbalance.

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. Up to 15% of the portfolio can be invested in stocks listed on exchanges outside the UK.

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

UK smaller and mid-capitalisation companies tend to outperform large companies over longer timeframes. 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 by being amongst the first to discover successful companies. When selecting long investments for THRG, Dan focuses on two types of opportunity: high-quality differentiated companies and companies leading industry change.

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.

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
The strong have only gotten cheaper	Annual overview	29 November 2022

Source: Marten & Co

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50 Gresham Street, London EC2V 7AY
0203 691 9430

www.QuotedData.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@quoteddata.com)
Nick Potts (np@quoteddata.com)
Veronica Cappelli (vc@quoteddata.com)
Jemima Grist (jg@quoteddata.com)
Aiman Shaikh (as@quoteddata.com)

INVESTMENT COMPANY RESEARCH:

Matthew Read (mr@quoteddata.com)
James Carthew (jc@quoteddata.com)
David Johnson (dj@quoteddata.com)
Andrew Courtney (ac@quoteddata.com)
Richard Williams (rw@quoteddata.com)