Resilience: An investors Ally in volatile markets

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ATHELNEY TRUST – PURPOSE

Provide **long-term capital growth** with the risks inherent in small cap investment minimised through a spread of holdings in **quality small cap companies** that operate in various industries and sectors.

The Fund Manager also considers that it is important to maintain a **progressive dividend record which it has for over 19 years and is top of the AIC's league table of "Next Generation of Dividend Heroes"**.

Current dividend yield: 4.9%.

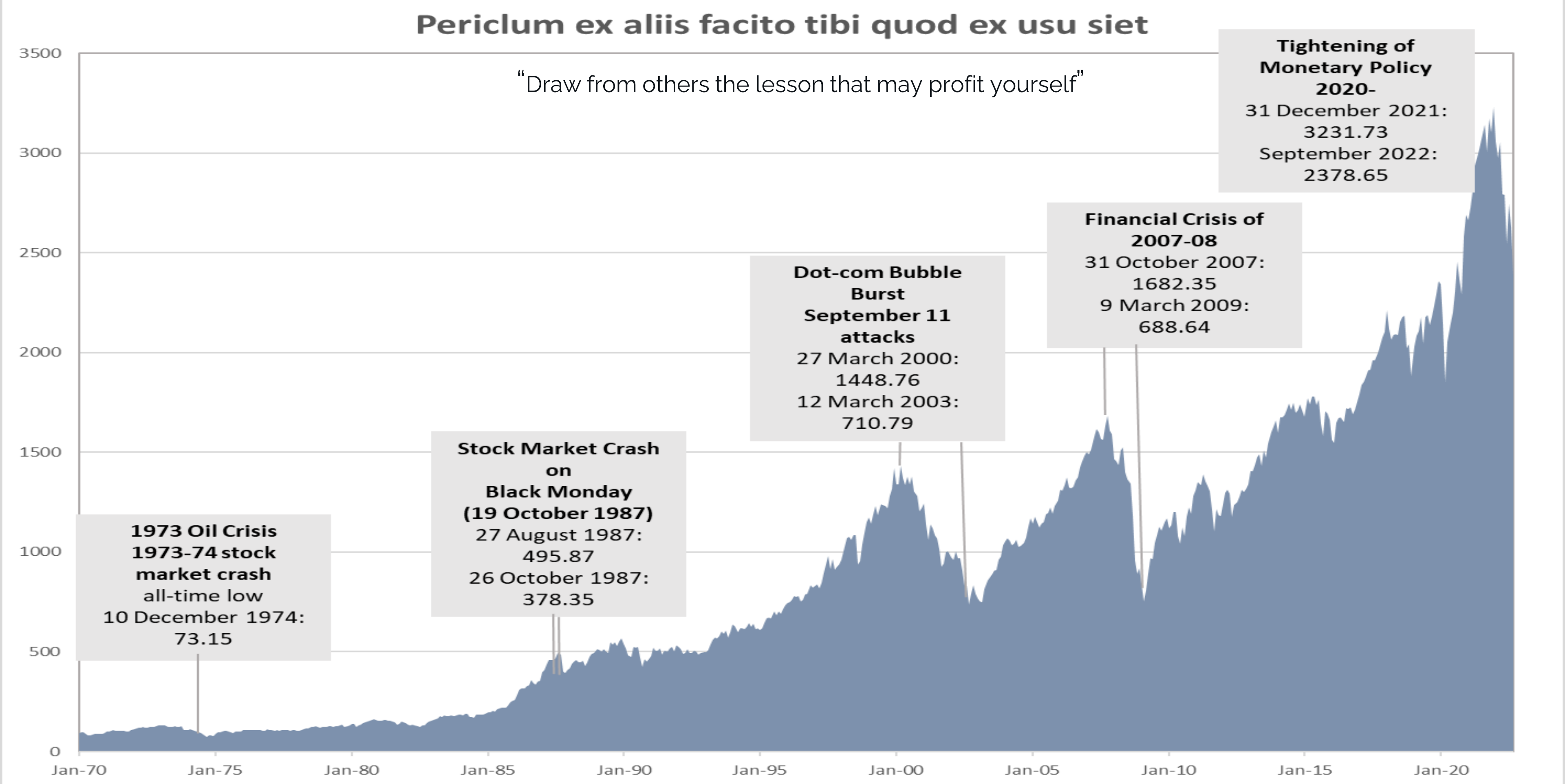
ECP - A LEADING EQUITIES FUND MANAGER

We currently manage -

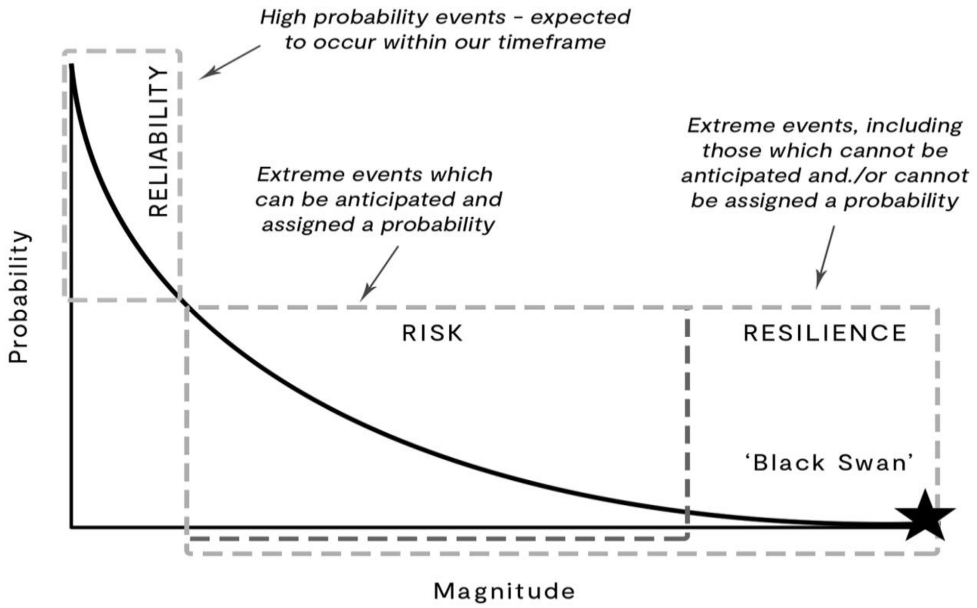
~**AUD$2.3 Billion (£1.3Billion)** in equities.

We invest our money alongside other family offices, pension funds, institutions, and listed investment companies.

1. **Our Purpose.** Our investment process focuses on total return, not only dividend payout.
2. **Alignment of interest**. We have our money invested alongside yours.
3. **Long-term**. We invest for long-term wealth creation. We see ourselves as business owners, not share traders.
4. **Stability and Succession**. Much like our investments, we believe stability and succession in management is key.


Periclum ex aliis facito tibi quod ex usu siet
"Draw from others the lesson that may profit yourself"
3500
3000
2500
2000
1500
1000
500
0
Jan-70
Jan-75
Jan-80
Jan-85
Jan-90
Jan-95
Jan-00
Jan-05
Jan-10
Jan-15
Jan-20
1973 Oil Crisis
1973-74 stock market crash
all-time low
10 December 1974: 73.15
Stock Market Crash on Black Monday (19 October 1987)
27 August 1987: 495.87
26 October 1987: 378.35
Dot-com Bubble Burst
September 11 attacks
27 March 2000: 1448.76
12 March 2003: 710.79
Financial Crisis of 2007-08
31 October 2007: 1682.35
9 March 2009: 688.64
Tightening of Monetary Policy 2020-
31 December 2021: 3231.73
September 2022: 2378.65

The Investment Conundrum



INTERESTING QUOTE FROM THE GFC

“We all !@#$% up… banks, regulators, everybody …and fifty years from now, there’ll be another crisis and it’ll be about some instruments that we’ve never heard of.”

Alan Schwartz (CEO, Bear Stearns) 2010

SO WHAT ARE THE COMMONALITIES?

In times of systemic trauma, financial markets react at lightning speed – LTCM, Bear Sterns, GFC, COVID

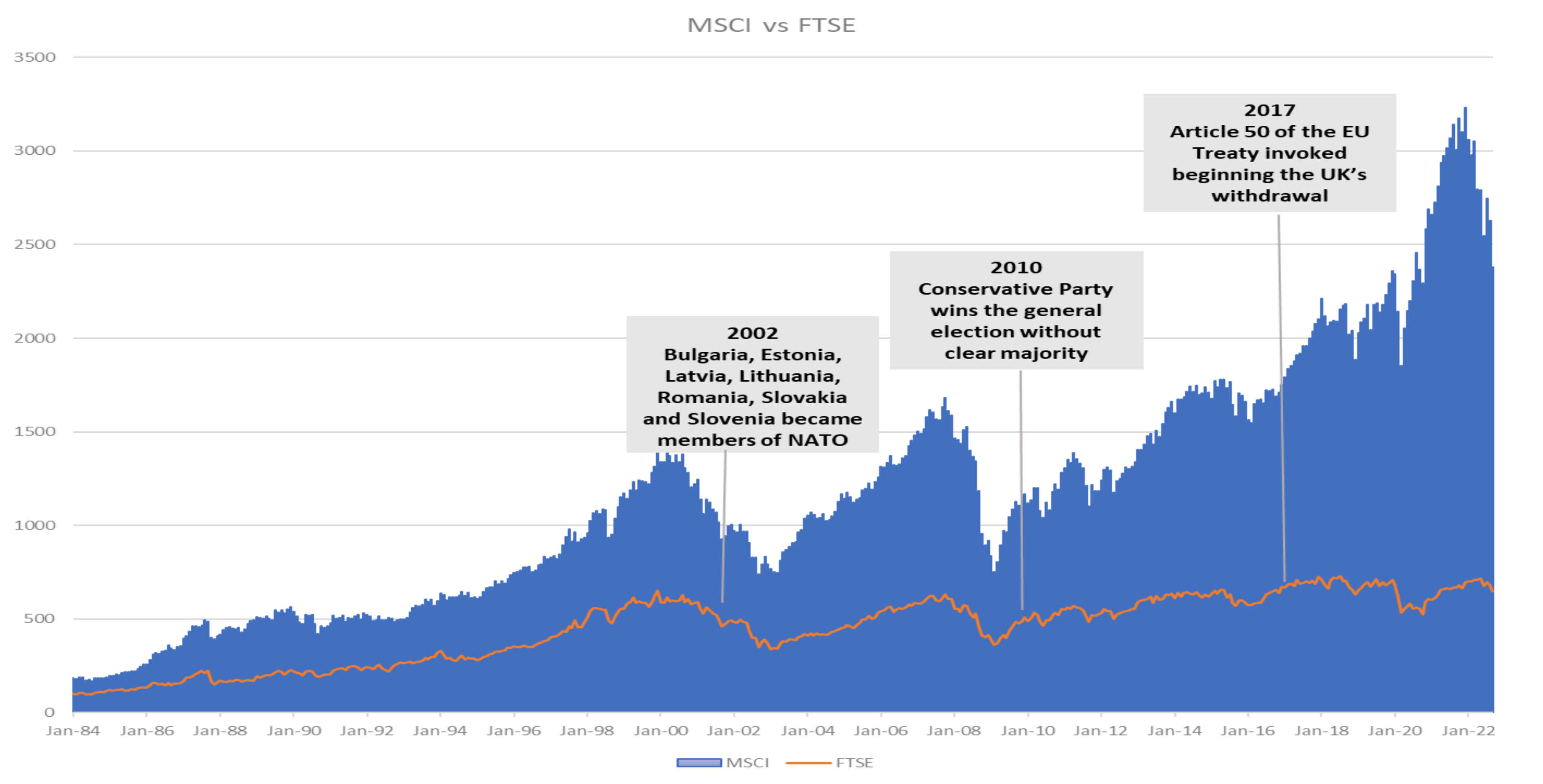
- Previously uncorrelated assets become correlated
- Liquidity disappears immediately
- Equity markets are a source of liquidity – get belted

Risk Management Systems are necessary but not sufficient

- VAR and other risk management systems failed during systemic trauma
- Diversification is not a substitute for due diligence in a crowded space

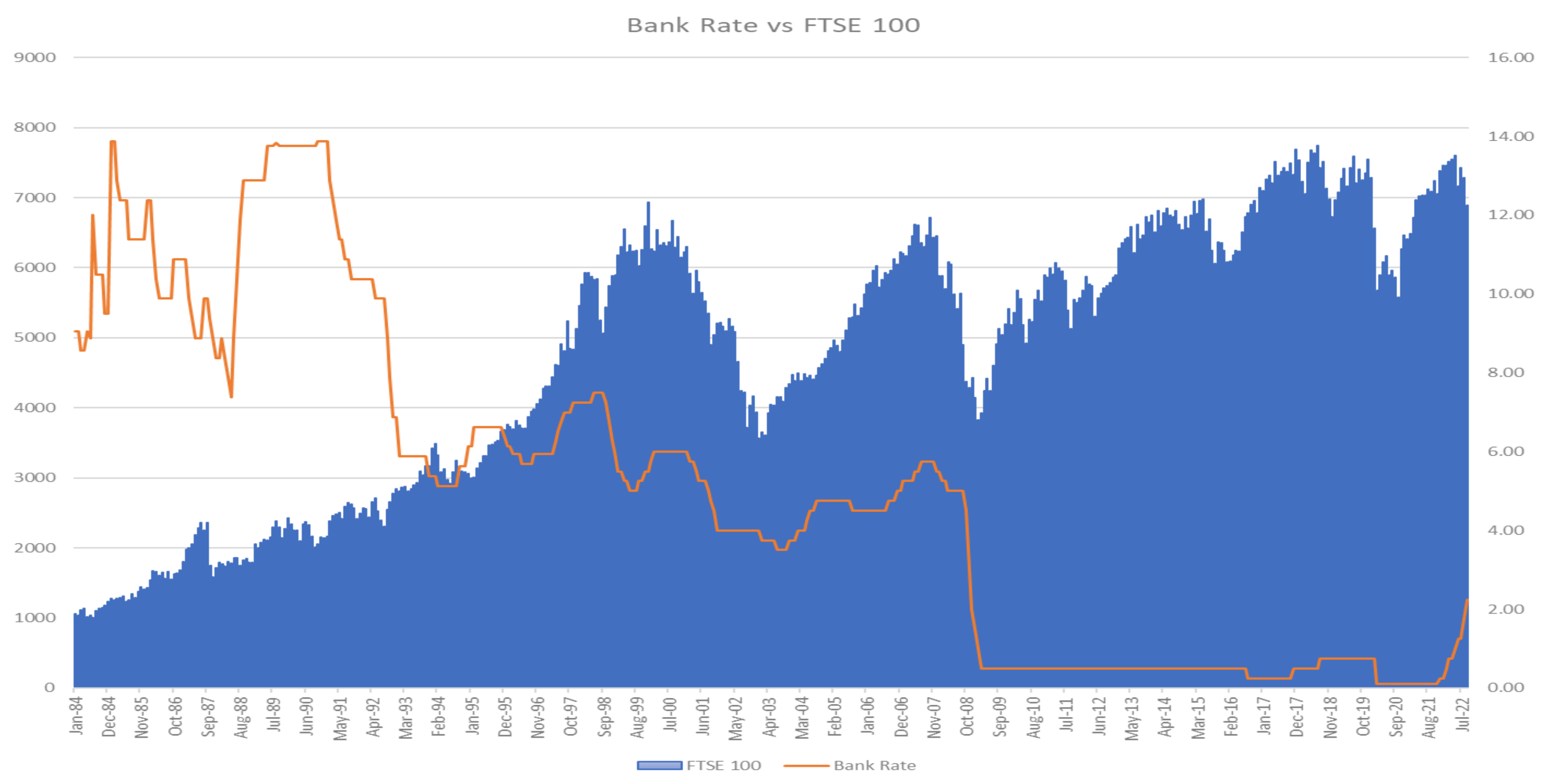
Well run companies with a sound business model and strong balance sheets survive

- Procrastination by management is deadly
- Debt covenants posed a major risk and the details were not usually disclosed
- Operating cash flow is king


MSCI vs FTSE
3500
3000
2500
2000
1500
1000
500
0
Jan-84
Jan-86
Jan-88
Jan-90
Jan-92
Jan-94
Jan-96
Jan-98
Jan-00
Jan-02
Jan-04
Jan-06
Jan-08
Jan-10
Jan-12
Jan-14
Jan-16
Jan-18
Jan-20
Jan-22
2002
Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia became members of NATO
2010
Conservative Party wins the general election without clear majority
2017
Article 50 of the EU Treaty invoked beginning the UK's withdrawal
MSCI
FTSE

THE MORE THINGS CHANGE THE MORE THEY STAY THE SAME

"The Budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed, lest Rome will become bankrupt. People must again learn to work instead of living on public assistance." - **Cicero, 55 BC**


Bank Rate vs FTSE 100
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Jan-84 Dec-84 Nov-85 Oct-86 Sep-87 Aug-88 Jul-89 Jun-90 May-91 Apr-92 Mar-93 Feb-94 Jan-95 Dec-95 Nov-96 Oct-97 Sep-98 Aug-99 Jul-00 Jun-01 May-02 Apr-03 Mar-04 Feb-05 Jan-06 Dec-06 Nov-07 Oct-08 Sep-09 Aug-10 Jul-11 Jun-12 May-13 Apr-14 Mar-15 Feb-16 Jan-17 Dec-17 Nov-18 Oct-19 Sep-20 Aug-21 Jul-22
FTSE 100
Bank Rate

Small to mid-cap investing

CONTRIBUTORS TO SUCCESS

- Substantial growth in earnings from an agile business
- Potential additional re-rating on track record
- Potential additional re-rating on size

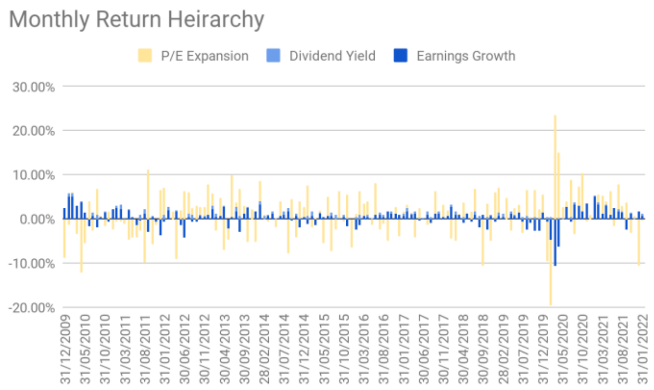
THE STRATEGY PITFALLS

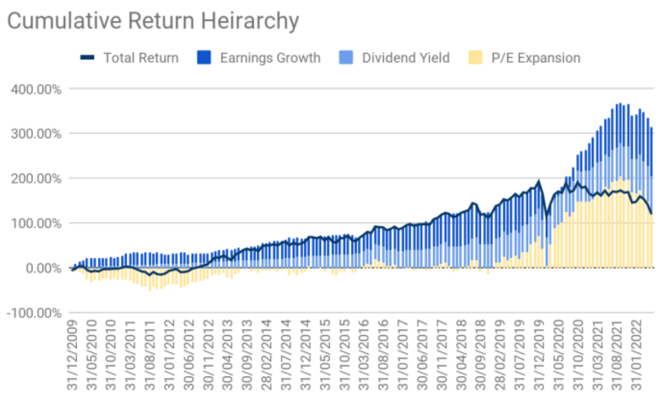
- Liquidity causes a problem when buying or selling
- Key person risk
- Business less systemized
- Less transparency and limited research
- Investors see volatile prices as the proxy for value
- Individual default risk is higher

How do we produce resilient dividend income and avoid default risk

Challenges of Risk Management

We need to focus on the things that matter to us. In the short run multiple compression accounts for the majority of portfolio returns. Over the long run earnings growth and income account for the majority of return profile for the portfolio. Competing tensions of long term accurate forecasts, with short term 'repricings'.

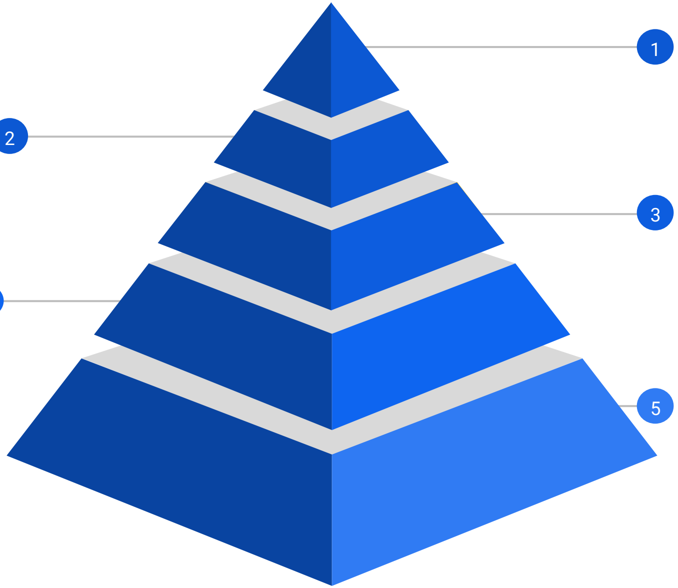




ECP All Cap Strategy. Source: ECP Asset Management

Responsible Investment

ECP is committed to responsible investment . We do this to ensure we meet our investment objectives for our clients



1

Investment Objective

Our **investment objective** is to generate returns 2-4% p.a. above the benchmark over a rolling five year period..

2

Fundamental Analysis

We invest in Quality franchises. Our definition of quality requires a low level of macro-environmental issues, good ESG practices, and Dynamic Capabilities.

3

Exclusionary Screens

We exclude areas from our universe so that we can **avoid risks to the predictability of future business performance**.

4

Investment Universe

We consider all companies as investable, and through our investment process we whittle down this universe **based on our definition of Quality**.

5

Investment Philosophy

Our Investment Philosophy is based on the belief **'the economics of a business drives long-term investment returns'**.

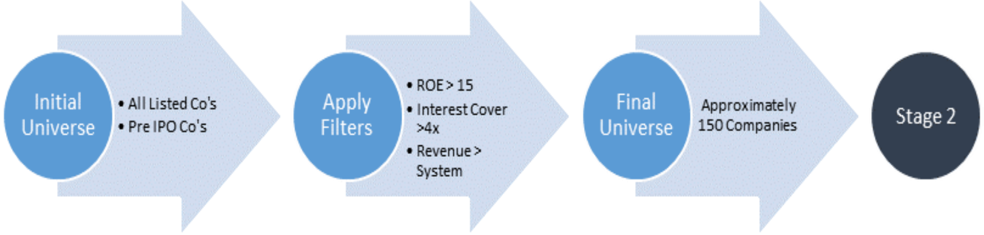
Investment Philosophy

The economics of a business drives long-term investment returns

Investing in **high quality, growth businesses**, that have the ability to generate predictable, above average economic returns will produce superior investment performance over the long-term

- Valuing potential, not just performance
- Choosing high quality growing businesses
- Ignoring temporary market turbulence

Stage 1. Idea Generation



A narrow focus is required

We filter the universe to narrow our focus on an initial set of companies.

Our proxy for quality are those companies that generate high average ROE's (>15%), have superior balance sheet strength (Interest Cover > 4x) and continue to grow their sales (and earnings) above System.

By limiting our search set, we are able to do more detailed work on the companies we own, providing us with the required information advantage which we can exploit.

Stage 2: Investment Selection

There is no substitute for due diligence.

We follow our Pillars of a Quality Franchise framework – the six-pillars the are interrelated and interdependent and provide a holistic assessment.

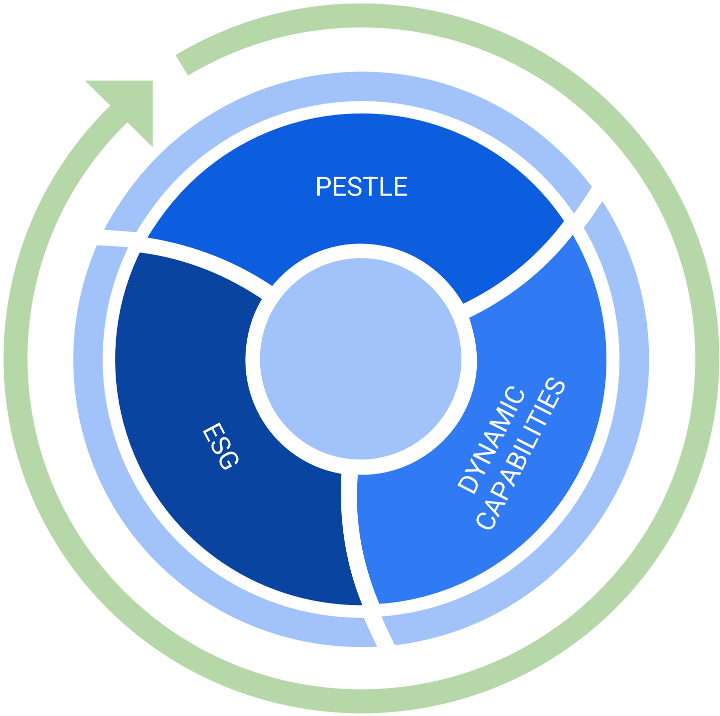
Through in-depth, detailed analysis, we determine as to whether a business is a Quality Franchise – it has a sustainable competitive advantage, is operating in a favourable industry and has the suitable management in place to execute on an appropriate strategy.

Successful active management requires an information advantage - in reality, one has to often trade liquidity for information rights.

Sustainability

We view sustainability holistically. Our Sustainability Pillar encompasses 3 characteristics:

1. The business operates in an industry with a low risk of macro-environmental factors (PESTLE) affecting future operating performance.
2. The business has demonstrated strong ESG practices and holds a capacity to mitigate potential ESG issues.
3. The business holds Dynamic Capabilities that sustainably renews its competitive advantage through time.



ESG & Sustainability

Negative screens avoid the deterioration of system (business) performance.

Our ESG-related exclusions aim to avoid the destruction or degradation of business performance, whether due to organisational, social, or environmental factors.

Our exclusionary principles:

- To avoid risks that may present significant harm to our society and our environment.
- To avoid risks that may limit the industry growth outlook of our investments.
- To avoid ESG-related risks that may impact the predictability of investment performance.

We exclude the following due to ESG-related issues:

Environmental
- ✗ Thermal Coal
- ✗ Petroleum
- ✗ Logging
- ✗ Palm Oil
- ✗ Pesticides

Social
- ✗ Gambling
- ✗ Adult Entertainment
- ✗ Weapons
- ✗ Tobacco

Governance
- ✗ System poor governance
- ✗ Human rights violations
- ✗ Low peace countries

We have a 0% threshold allowance. The scope is based on their direct involvement in the production, manufacture, service and delivery of products in these sectors.

ESG & Sustainability

Sustainable Business is Good Business.

ECP is committed to responsible investment and we believe that ESG factors have a material impact on long-term investment outcomes.

- Signatory to the Principles of Responsible Investment (PRI)
- Supporter of the Task Force of Climate-Related Disclosures (TFCD)
- Ownership Matters Proxy Voting (Research)
- Ongoing commitment ESG & Sustainable Investing practices
  - *Annual Sustainability and Responsible Investment Report*
  - *Climate Active Certification & our own commitment to Net Zero*
  - *Associations/memberships under review (RIAA, Net Zero Asset Managers, Terra Carta)*

Roadmap to Net Zero

It is better to sleep well than to eat well.

2014
- Signatory to Principles of Responsible Investment (PRI)

2019
- Broadened our qualitative research process to specifically consider a Sustainability Pillar - with 40% of our overall assessment being related to Sustainability & Stewardship.
- Climate change considerations increasingly becoming a formal part of our analysis.

2021
- Supporter of the Task Force for Climate-related Financial Disclosures (TCFD).
- Updated Responsible Investment Policy and developed a specific ESG & Sustainability Policy.
- Environmental Negative Screens updated to include Thermal Coal, Petroleum, Old-forest logging, Palm Oil, Pesticides - sectors identified as issued relating to climate change are reviewed annually.

2022
- Member of the Responsible Investment Association of Australiasia (RIAA).
- Publish Roadmap to Net Zero.
- Portfolio-wide engagement on Net Zero and climate change considerations for all investments.

2023
- Climate Active certification for our business operations.
- Formalise the framework to ensure our portfolios target carbon intensity* less than the relevant index for our portfolios.
- Deepen climate-related engagement and establish measurable objectives for companies related to ESG/climate change initiatives and begin to monitor them.

2024
- Work with clients on their decarbonisation targets and how we can assist - establish measurable portfolio objectives to meet decarbonisation targets.
- Introduce portfolio offerings for clients that may assist in limiting carbon exposure.
- Partnerships & Collaboration - Net Zero Asset Management Initiative and the Institutional Investor Group on Climate Change

2025
- Achieve Net Zero for our business operations.
- Target carbon intensity* 25% less than the index across all portfolios.
- Conduct external assurance / independent assessment on ESG and climate related statements.

2030
- Target carbon intensity* 50% less than the index across all portfolios.
- Achieve Net Zero for our business operations - since inception.

2040
- Target carbon intensity* 75% less than the index across all portfolios.

2050
- Achieve Net Zero for our firm operations and across all portfolios.

Climate Change Position Statement

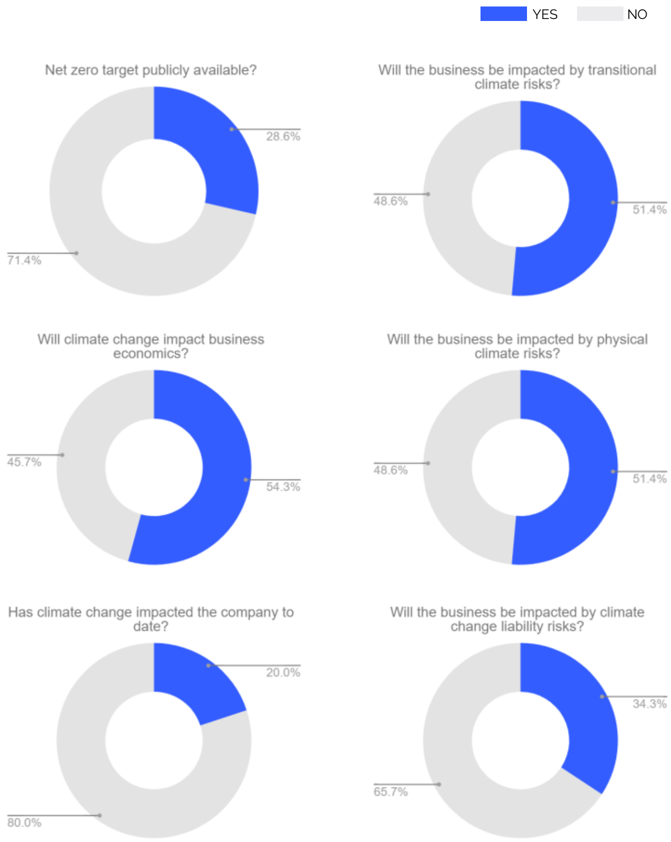
We have a responsibility to minimize our own environmental footprint, as well as to consider the environmental and social impacts of climate change on our investment portfolios.

Climate Change & Net Zero

As part of our Roadmap to Net Zero we have begun to track our portfolio companies and their climate change considerations.

As part of our commitment to achieving Net Zero by 2050, we have set the following targets for our engagement with portfolio companies -

- **2025** - 50% of our investment companies with publicly available net zero targets.
- **2028** - 75% of our investment companies with publicly available net zero targets.
- **2030** - 100% of our investment companies with publicly available net zero targets.



Engagement Overview

Our engagement with companies and their stakeholders is an ongoing part of our investment process.

While our engagement will encompass all aspects of a business (industry impacts, business strategy, competitiveness, financials, etc) we ensure we engage on areas of sustainability.

- ✓ **Macro-environmental factors (PESTLE)** impacting their business model through time. These may include Covid, the Ukraine war, and related macro-economic impacts.
- ✓ **ESG issues or opportunities** that arise and how they are dealt with. These may include stakeholder relations, modern slavery risks, and impact of operations on the environment.
- ✓ **Dynamic Capabilities** that renew, extend, or create resources that continue to drive firm competitiveness (how they sustainably renew their competitive advantage. These include firm culture and ability to change, R&D and innovation, and knowledge or human capital retention.

	Portfolio Engagements	Average Per Company
Company Engagements	214	6
Other Engagements	161	5
Total	375	11

	Portfolio Engagements	Average Per Company
PESTLE	112	3
ESG	65	2
Dynamic Capability	126	4
Total Sustainability	303	9

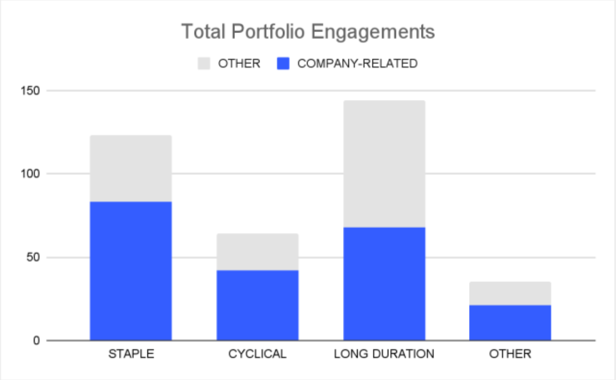
Engagement Breakdown

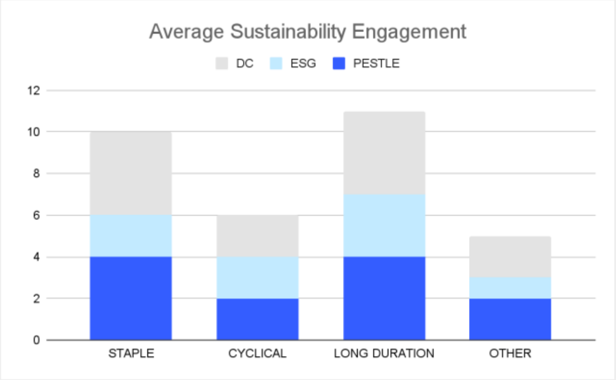
Engagement across areas of sustainability are relevant to the contextual environment.

This past year we have continually engaged with all companies on a relevant issue with 375 meetings across various stakeholders (214 with managements and 161 Other).

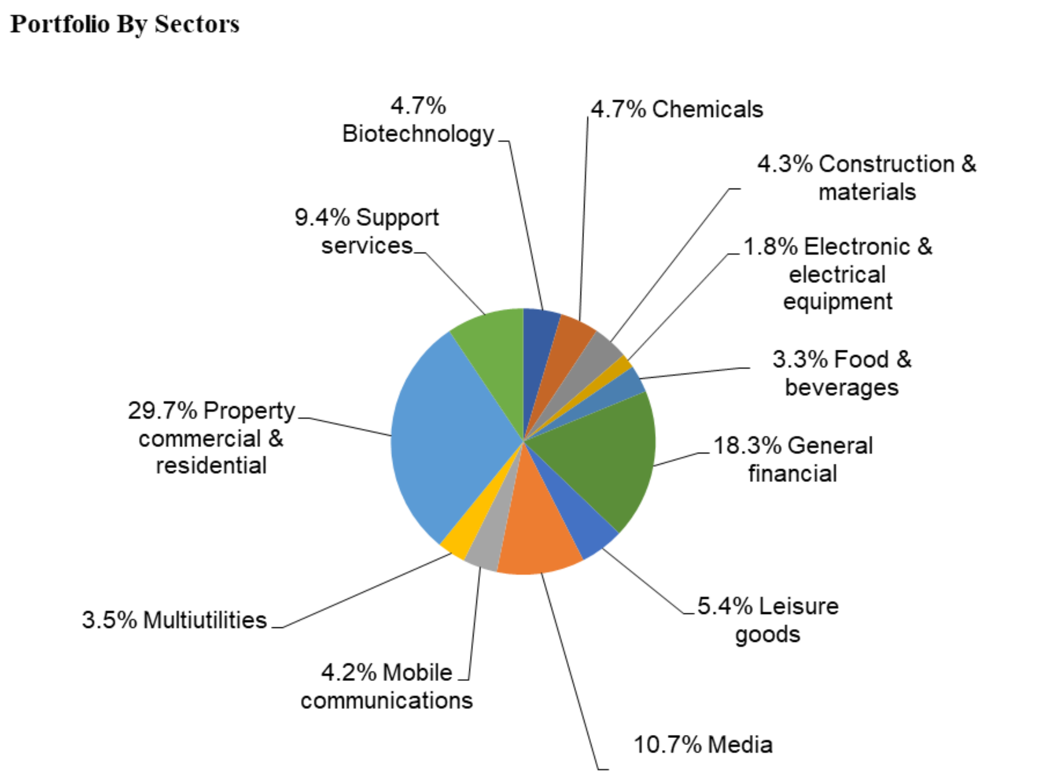
Engagement across the portfolio has been primarily focused on PESTLE and Dynamic Capabilities due to -

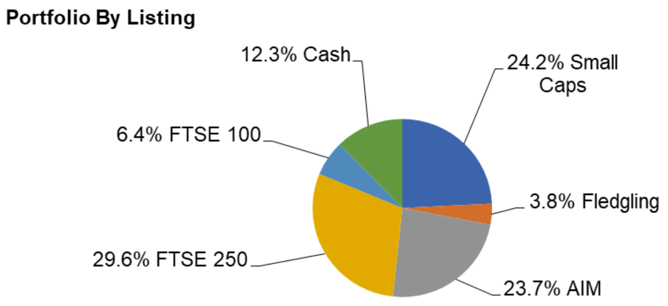
- **Supply chain disruption** - ability to service customers or deliver product. Managing the changing landscape.
- **Labour inflation and availability** - short supply of labour and cost impacts. How this impacted the course of business.
- **Raw materials** - supply and cost inflation. How this has changed the unit economics or value proposition.





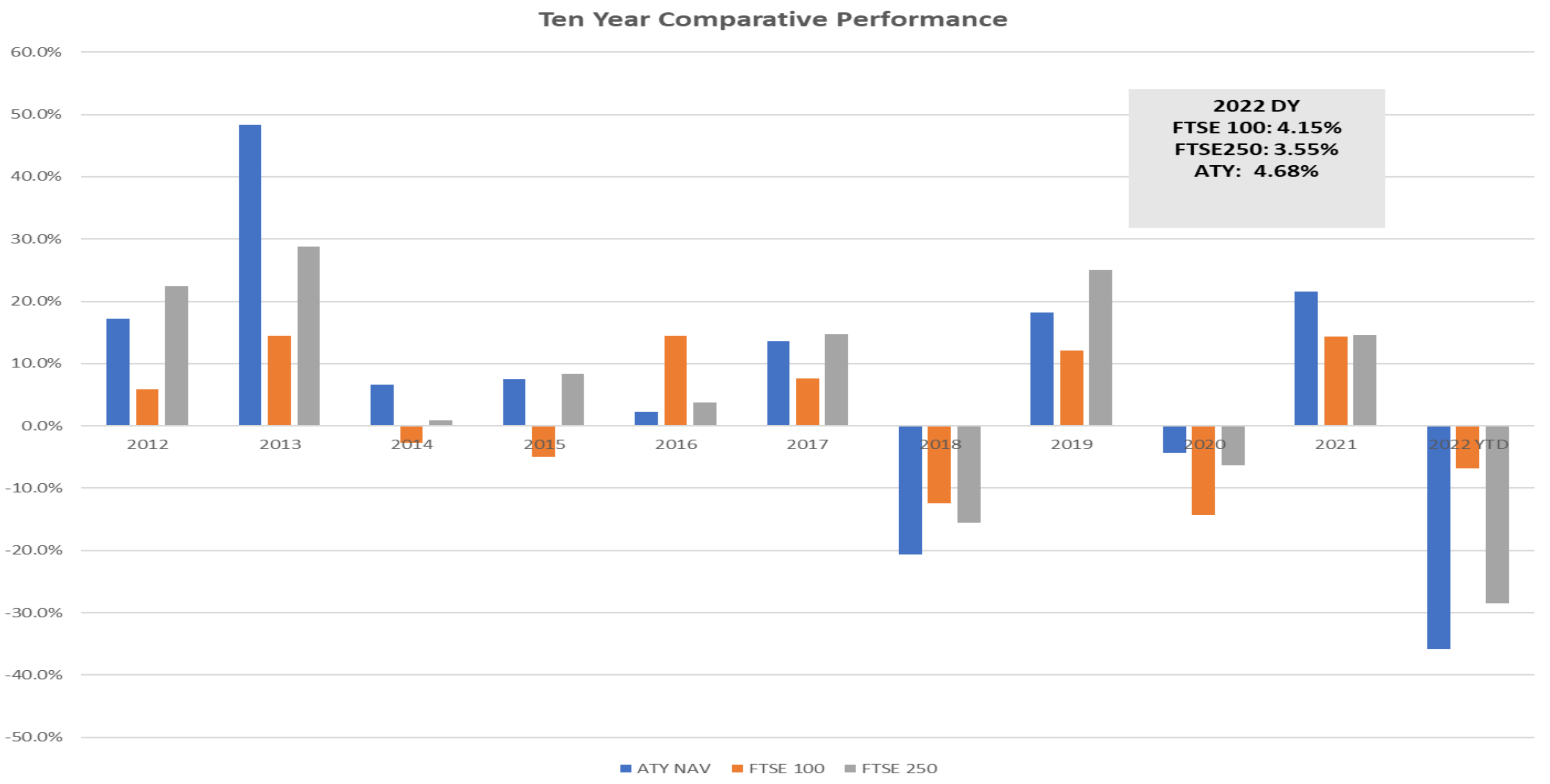
Growth Staples: ALU, ARB, CAR, COH, CSL, DMP, FPH, HUB, IEL, NWL, PWH, RMD, WTC
Growth Cyclicals: CGC, CTD, JHX, LOV, REA, RIO, SEK
Long Duration Growth: AD8, CBR, FCL, MP1, NAN, NEA, NTO, NXL, SKO, SQ2, XRO
Other Growth: CBA, GQG, JDO, LIC, MQG





Stock Selection drives most of the risk in the portfolio. An Ex-Ante tracking error decomposition shows that most of our tracking error is derived through our equity exposure as opposed to market, style or sector allocations.

Our portfolio construction and capital allocation process which is based in the expected IRR for each security is the cornerstone of our process.


Ten Year Comparative Performance
2022 DY
FTSE 100: 4.15%
FTSE250: 3.55%
ATY: 4.68%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
-40.0%
-50.0%
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022 YTD
ATY NAV
FTSE 100
FTSE 250

Resilience of the ATY portfolio

The ATY portfolio was created to participate in **long-term capital growth** by investing in **quality companies** in the UK and while the world may change, the economics of a business will always drive its long-term investment return.

While not purely focused on small-caps, the focus on quality and growth ensure we **generate above-average returns**.

Data for companies in the portfolio (other than REITS) is as follows:

1 year EPS change

+74.7%

4 year compound growth in EPS

+9.1%

4 year compound growth in DPS

+9.5%

Portfolio Metrics	Current (15 October 2022)	At Time of reporting most recent results	4 Years ago
Non REIT PE	25.7	39.6	31.1
REIT DY	6.9%	4.8%	7.8%

Thank you.

Contact us

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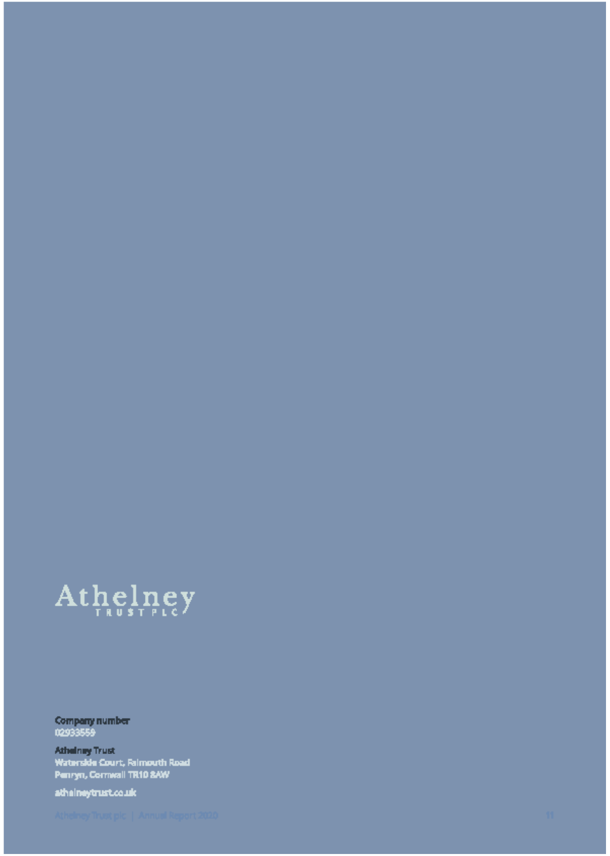

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