



# Odyssean Investment Trust PLC

Q2 2020 Update

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# Executive Summary – Q2 2020



## Double digit NAV per share growth over the period

- Double digit NAV growth in period as markets rebounded from fall in Q1
  - NAV Total Return per share +12.2%<sup>1,2</sup> in the period, less than the NSCI +AIM ex IC index (“Comparator”) rise of 19.2%<sup>2,3</sup> giving back some of the outperformance in Q1
  - YTD NAV Total Return per share of -11.9%, vs Comparator decline of -19.8%
  - Capital deployed through the period into one new position and further investments into positions initiated in the prior quarter
- NAV Total Return per share since inception +3.5%<sup>1,2</sup>. Comparator -16.7%<sup>2,3</sup>
  - Average cash weight 30% since inception
- No portfolio companies have had to raise equity to repair their balance sheets in light of COVID disruption
- Significant uncertainty remains in outlook for company earnings, dividends and ratings
- Net cash reduced from 15% (including Huntsworth stake) to c.10% over the quarter
- OIT’s shares ended the period trading at c.5% discount to NAV of 101.8p
- Buy back of 275,000 shares in a block during May at 83p, in line with discount control policy

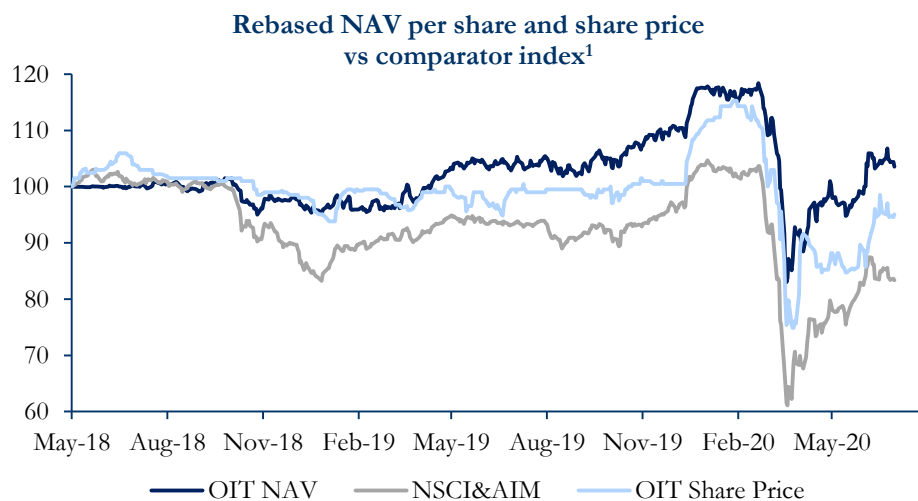
# Performance update



## NAV growth lagged rebounding markets, but outperformance year to date remains

Performance	%			
	Q2-20	FY20 YTD	LTM	Since inception
NAV Total Return Per Share <sup>1</sup>	+12.2%	-11.9%	-0.4%	+3.5%
Share price return <sup>3</sup>	+7.2%	-14.6%	-4.5%	-3.5%
NSCI + AIM ex IC Total Return <sup>3</sup>	+19.2%	-19.8%	-10.7%	-16.7%
Average cash balance <sup>2</sup>	12%	11%	11%	30%

- NAV per share rose 12.2% in quarter as markets rallied strongly from Q1 lows
  - Portfolio lagged rebound in markets, giving up some of the outperformance in Q1
  - This is neither atypical of our investment approach, nor unexpected
  - Outperformance YTD and over the last twelve months remains strong



- NAV growth since inception is positive compared with a fall in the comparator index of almost 17%
- Shares traded at a c.5% discount to NAV at period end

As at 30th June 2020. Performance measured from COB 1/5/18, share performance since inception assumes IPO price of 100p. Source: <sup>1</sup>Link Asset Services, Bloomberg, Odyssean Capital; Numis Smaller Companies plus AIM ex Investment Companies Total Return Index. Rebased to start NAV <sup>2</sup>Link Asset Services, Odyssean Capital <sup>3</sup>Bloomberg. YTD – Year to Date; LTM = Last 12 months Past performance is no guarantee of future performance and the value of investments can go up and down

# Our impressions of the last quarter

## Market movements



- Data appears to show the market recovery has been driven by price momentum and higher rated growth stocks, with some recoveries in the prices of more cyclical companies (see charts included in appendix)
- Certain sectors very expensive (tech in particular), we assume due to monetary stimulus/low cost of borrowing. Companies trading in these sectors can trade at significant premia to comparative M&A
- June appeared to see more lowly rated companies perform better vs growth/momentum
- From what we can glean, no material outflows from UK Smaller Company OEICs during the quarter
  - With the IHT Portfolio Service capital being sticky, there does not appear to have been a run of “hot money” out of the UK smaller companies sector
- Relative stability of capital in quoted UK Smaller Companies sector has led to a technical rebound in prices, as there are few forced sellers

# Our impressions of the last quarter

## Equity fundraisings



- To date, there have been three categories of equity fundraises
  - “nice to have” raises for firepower
  - “emergency” – running out of cash/facilities
  - balance sheet repair required to continue to execute existing strategy
- Equity has been raised often via 20% placings with “soft pre-emption”, in line with the temporary FCA policy guidance from 8<sup>th</sup> April. Non-holders have typically received a very small allocation of their orders
  - A number of these companies now have their shares trading at a discount to the post-money/TERP where equity was raised in Q2
- Few of the emergency raises have been priced on a distressed basis
- We have looked at many fundraisings, but only participated in two, which we felt offered attractive risk/reward balance
- A number of companies which have raised equity may need to raise more capital

# Performance drivers in Q2

## Key stock contributors – only two negative contributors in the period



### Largest positive contributors

- Business well placed to weather COVID headwinds with strong balance sheet and minimal disruption to services from shift to working from home
- FY19 and Q1 FY20 trading in-line with market expectations with continued growth. Demonstrates robustness of model

- Entered the period with shares weak on concerns that COVID would slow end market demand, plus concerns on gearing
- A positive trading update demonstrated limited COVID impact, with shares further supported by attractive new licensing agreement

- Delivered strong set of interim results prompting upgrades.
- Defence focused end markets seeing little COVID impact and business continues to deliver strong new wins

### Largest negative contributors

- Shares weak with earnings downgraded as COVID impacts volume and value of dividend payments they process, timing of corporate actions and interest rate outlook

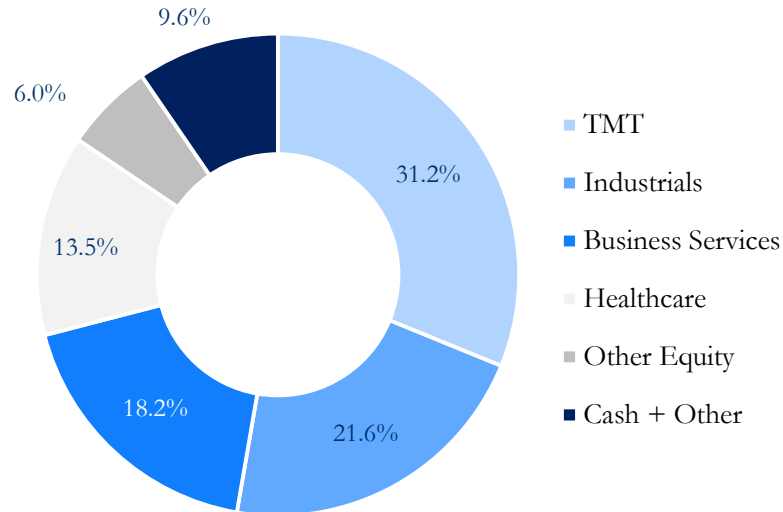
- Shares largely flat across the period.
- Trading update demonstrated volume growth as consumers stocked up on necessities as lockdowns began, but concerns remain driven by potential shutdowns impacting customer demand levels

# Portfolio update

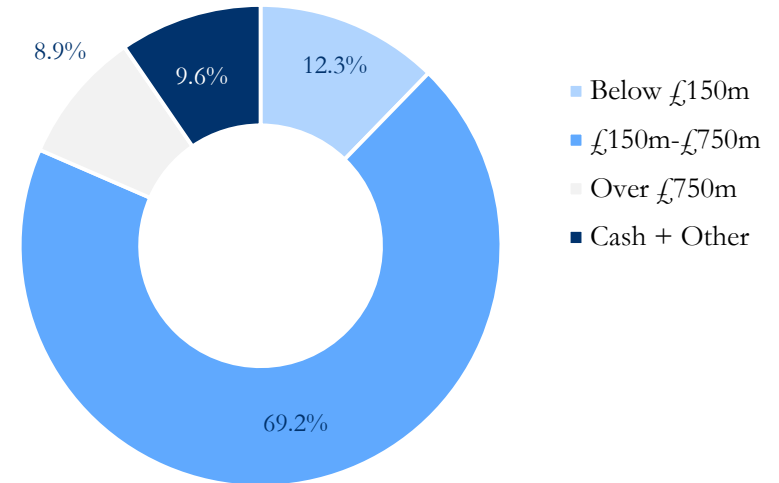
Focused on our core sectors and core market cap range



Holding by sector <sup>1</sup>



Holding by market cap <sup>1</sup>



- Exposure weighted towards ‘core focus’ sectors – TMT, Industrials, Business Services and Healthcare

- 77% of invested exposure in core target market cap range of £150m-£750m
- Holdings outside of core range are either specific, compelling opportunities, or investments which have moved out of core range since initial investment

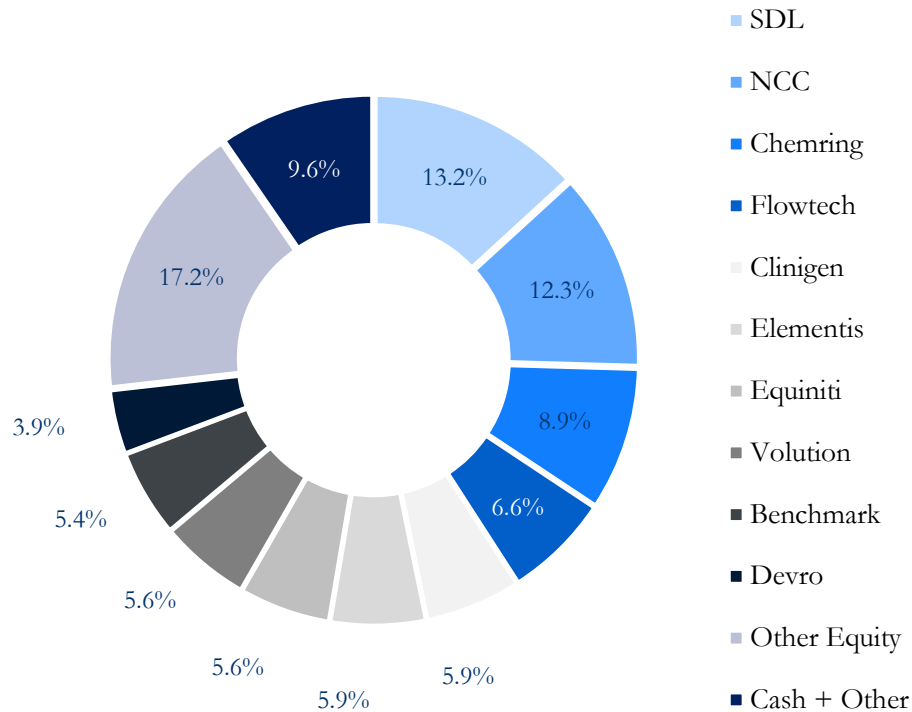


# Portfolio

## High conviction portfolio



Top portfolio holdings<sup>1</sup>



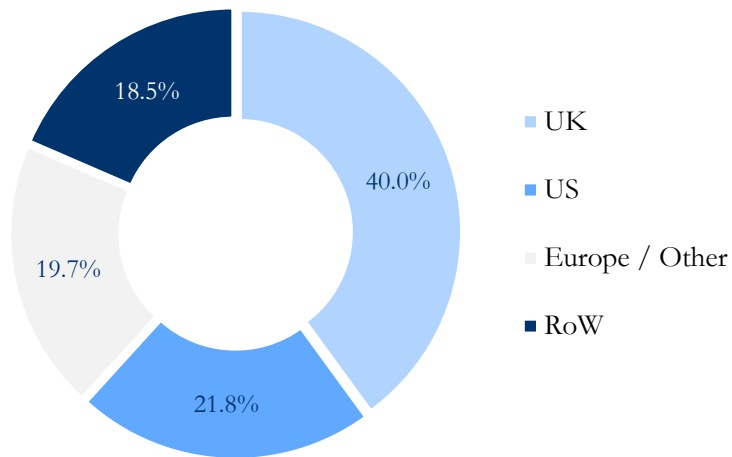
- Top 10 holdings account for 73% of NAV
- Added more exposure to cyclicals over the quarter, albeit the top three holdings remain largely a-cyclical
- Two of top six holdings added since February 2020

Source: <sup>1</sup> Odyssean Capital LLP, Link. as at 30 June 2020. <sup>2</sup> FactSet company filings

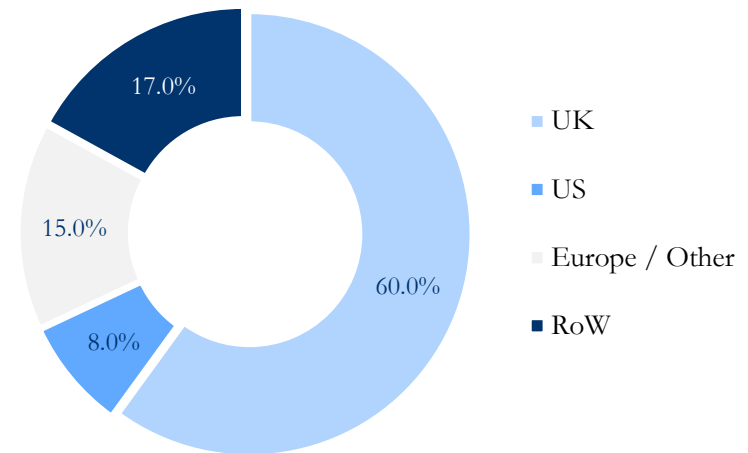


Portfolio has higher proportion of international earnings than the FTSE Small Cap

Revenue exposure of portfolio<sup>2</sup>  
(NAV weighted exc. cash)



Revenue exposure of FTSE Small Cap Index<sup>3</sup>  
(% sales)



- Investing in UK smaller companies does not have to mean investing in the UK economy
- OIT's portfolio overweight North American and underweight UK vs FTSE Small Cap – i.e. ceteris paribus beneficiaries of a strong US\$

# Portfolio development over the period



- None of our existing portfolio companies have had to raise equity to repair/strengthen their balance sheets. Our current expectation is that none will need to, albeit one or two may raise equity for M&A/growth purposes
- Portfolio development generally in-line with guidance from Q1 2020 presentation (cash balance; nature of new investments)
- Higher than average portfolio turnover, alongside reduction in net cash position
- Two positions exited in the period
  - Huntsworth - Completion of private equity backed takeover announced in Q1
  - JTC – Delivered strong performance since initial investment. Concerns on rating given risk for organic growth for 2021 to be downgraded
- One new investment made in the quarter, taking total to four in 2020 to date
  - YTD £17.2m deployed in market purchases, £1.8m in fundraisings
- New investments made during 2020 account for 15.8% of portfolio at end June – above normal trend
  - Only one top 10 holding added in 2020 which is a “beaten up” cyclical – Elementis
- Closing net cash position in June 2020 of just under 10%, vs 15%\* at end March 2020

\* Includes Huntsworth holding which was subject to an agreed bid

# New Investment Case Study: Elementis



## Overview

ELEMENTIS

Market Cap: £390m  
Enterprise Value: £580m  
Sector: Industrials  
% NAV : 5.9%

### Background:

- Elementis is a global specialty chemicals producer focused on products for the coatings, personal care and talc markets
- The group is vertically integrated operating mines, processing raw materials, formulating end products and selling directly to customers as well as through distributors
  - The group owns high quality talc and hectorite clay mines with significant value in many decades worth of mineral reserves

### Price / Book



Source: Factset as at 7<sup>th</sup> July 2020 <sup>1</sup> SOTP – Sum of the Parts

### Quality

#### Qualitative

- Unique mineral assets supporting 90+ years of production
- Leading player in niche markets growing at GDP+ levels
- Diverse customer base, well spread by industry and geography

#### Quantitative

- Well invested asset base with high expected cash conversion
- Geared following M&A but expected to de-lever rapidly and with a supporting banking syndicate

### Value

#### Static

- Oversold through C-19 crisis, trading significantly below long run valuations on price / book
- Attractive free cash flow yield – potential LBO candidate
- Significant discount to our view of SOTP<sup>1</sup> value

#### Dynamic

- Organic growth with market and expanding talc sales in N. America
- Margin opportunity driven by new low cost Indian AP facility
- On-going cash generation
- Re-rating as group de-levers

### Engagement

- Opportunity to enhance IR materials and strengthen register in what is an under owned stock
- Potential to crystallise value through disposal of non-core operations
- Continue to deliver on self help actions and drive synergies from legacy M&A

# New Investment Case Study: Elementis



## Key calls

### Key questions on Elementis

- Raw materials price exposure
- Near term end market demand through COVID
- Balance sheet and level of gearing
- Mid-term



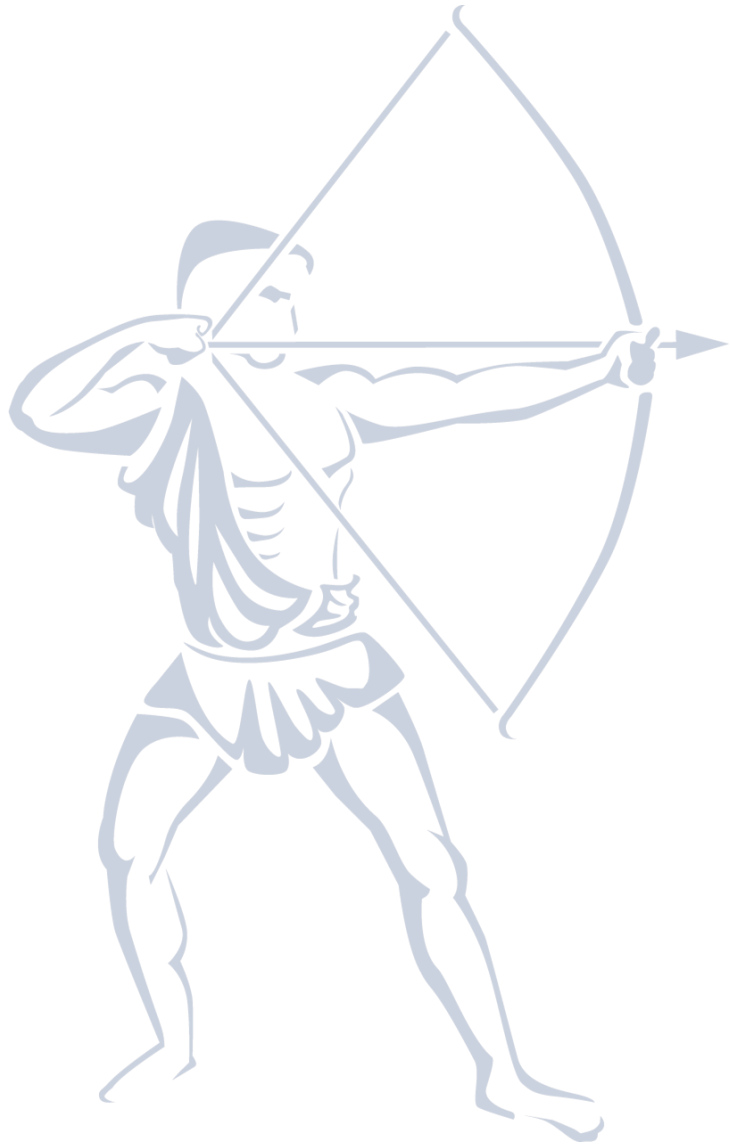
### Our views

- Focus on specialty chemicals not reliant on commodity prices
- Diverse customer base with significant exposure to more stable, personal care markets dampens possible near term revenue drops from chromium
- Significant headroom in amended debt facilities
- Business expected to generate material free cashflow even with planned current year capex of £45m
- Working capital neutral – unlikely to see significant cash absorption through recovery
- Minimal pension issues
- The group owns high quality talc and hectorite clay mines with significant value in many decades worth of mineral reserves

# Portfolio company voting record over Q2



		<b>Comment</b>
Number of meetings	5	Flowtech, SDL, Equiniti, Devro, 1 other
Number of resolutions	79	
Number voted	79	
Voted with management	75	
Voted against management	4	<ul style="list-style-type: none"><li>• Issuance of &gt;10% of capital without pre-emption rights</li><li>• Authority to allot shares &gt;10% of issued share capital where there is no immediate need to do so</li><li>• Political donations. NB This resolution was voted down by investors. The new Chairman has subsequently communicated to us that this resolution will not be put to investors again</li></ul>



# Outlook & Data



## Market and valuation views

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- Market Outlook
  - High ratings of growth stocks are reliant on continued accommodative monetary policy
  - Recovery stocks risk some share price retrenchment as guidance is re-introduced, and companies with December year ends report interim results over the summer
  - Some companies pricing in a V shaped recovery risk disappointing if the recovery is more U shaped
  - Risk of COVID-19 second wave leading to a return to lockdowns, albeit less widespread. Not expecting widespread return to 2019 levels of earnings by 2021
- Portfolio
  - Only one portfolio company which is likely to have had permanent value destruction from the COVID-19 crisis
  - We see limited risks that equity fundraisings will be required
    - Cash generation augmented by some non-core disposals should lead to significant de-leveraging in the more geared companies
  - We continue to wait for more attractively priced equity fundraisings
  - We have a watch list of more cyclical companies where the current share prices are assuming a relatively rapid rebound in earnings, which we believe is too optimistic
  - Anticipate net cash balance 3-10% by end September 2020

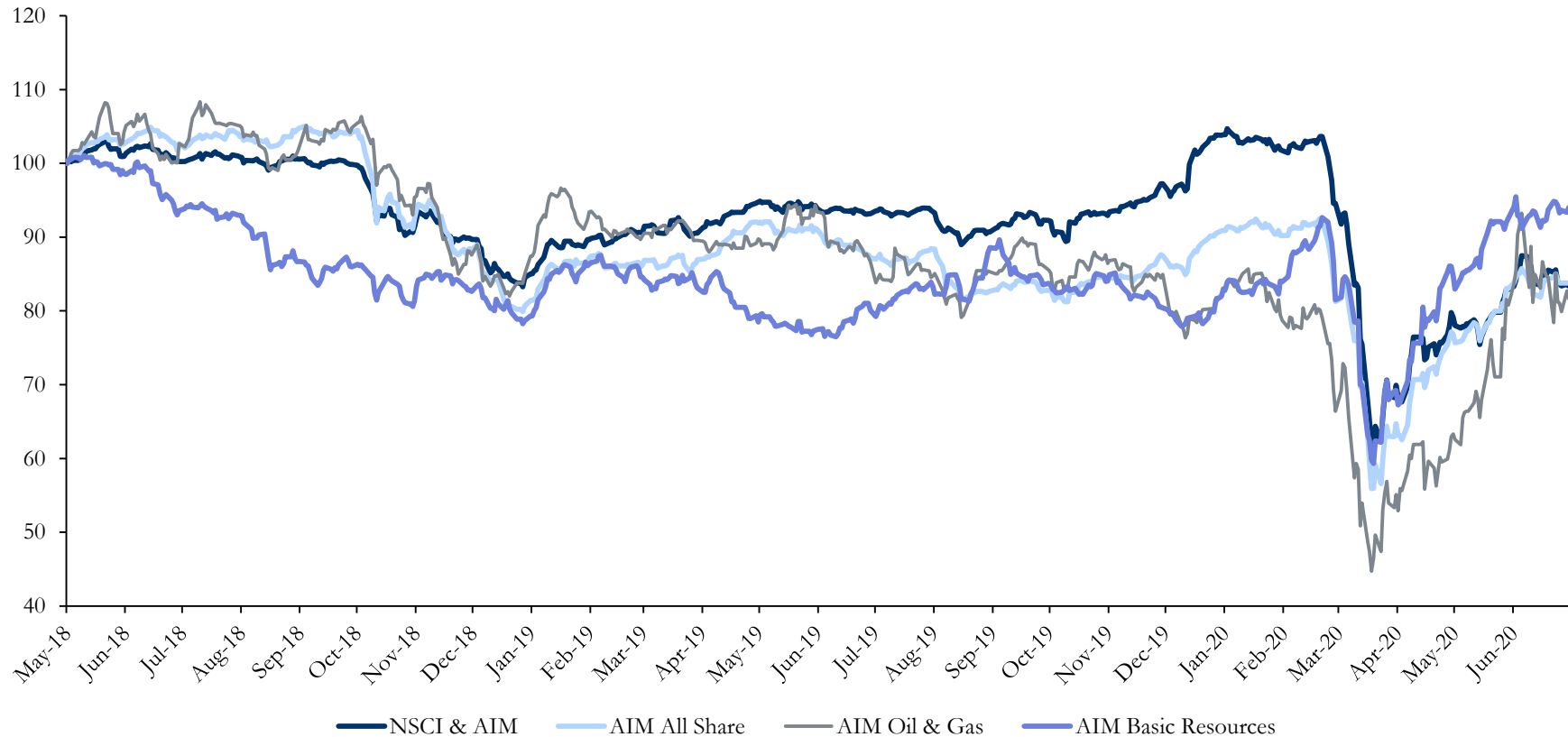


# Resource sectors have performed inline or better than NSCI & AIM



Avoiding these sectors has provided no discernible tailwind to OIT's relative performance

Rebased indices performance since OIT IPO



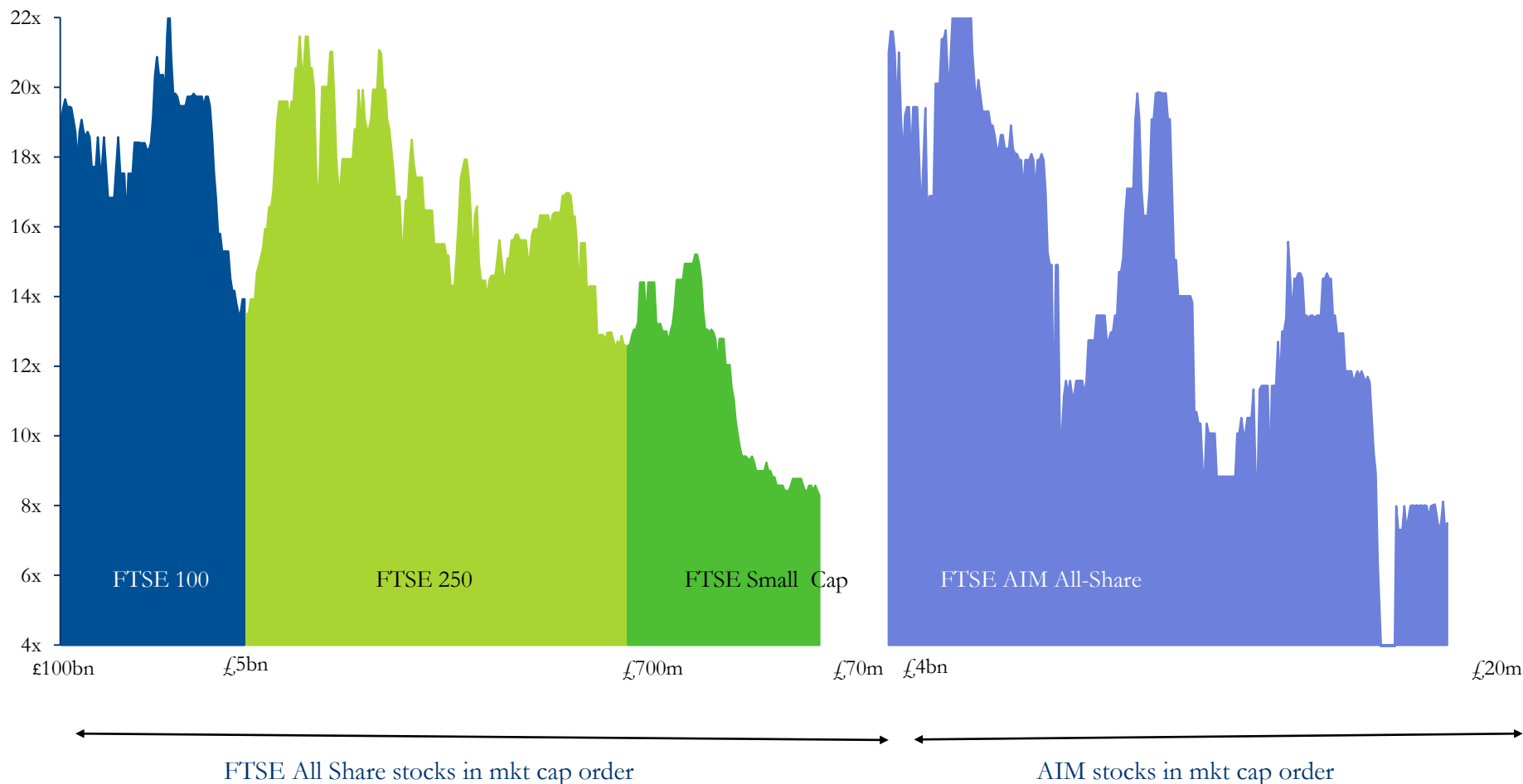
Source: Factset, Odyssean Capital as at 7<sup>th</sup> July 2020. Total indices

# Full list UK Smaller Companies trade at material discounts



Steep drop away in ratings <math>\pounds 250\text{m}</math> market cap for Full List companies

12m forward rolling median P/E – largest to smallest

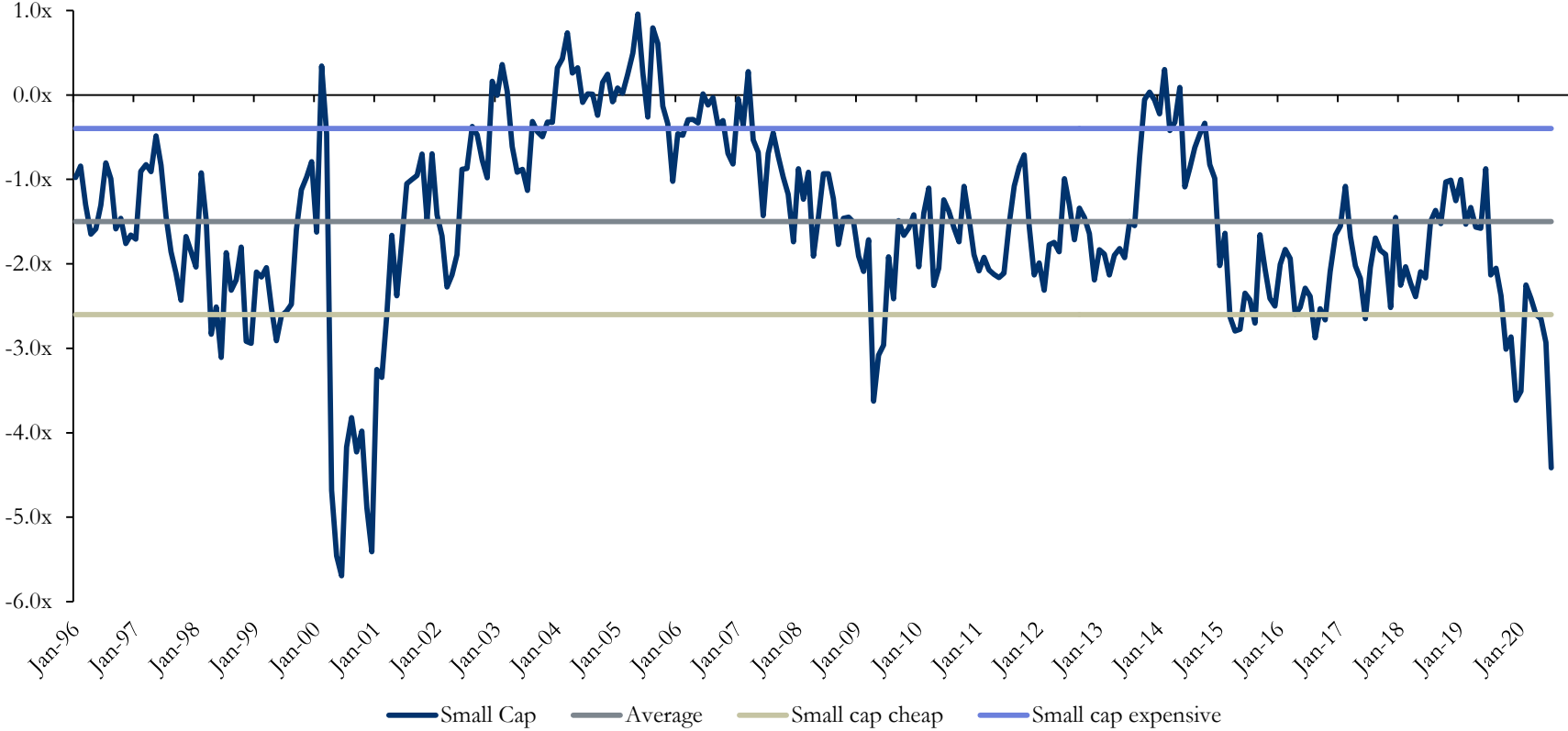


# FTSE Small Cap companies attractive vs Mid Caps?

Implies more bargains in small caps



“Small Cap Discount” – Median SC P/E relative to the FTSE 250



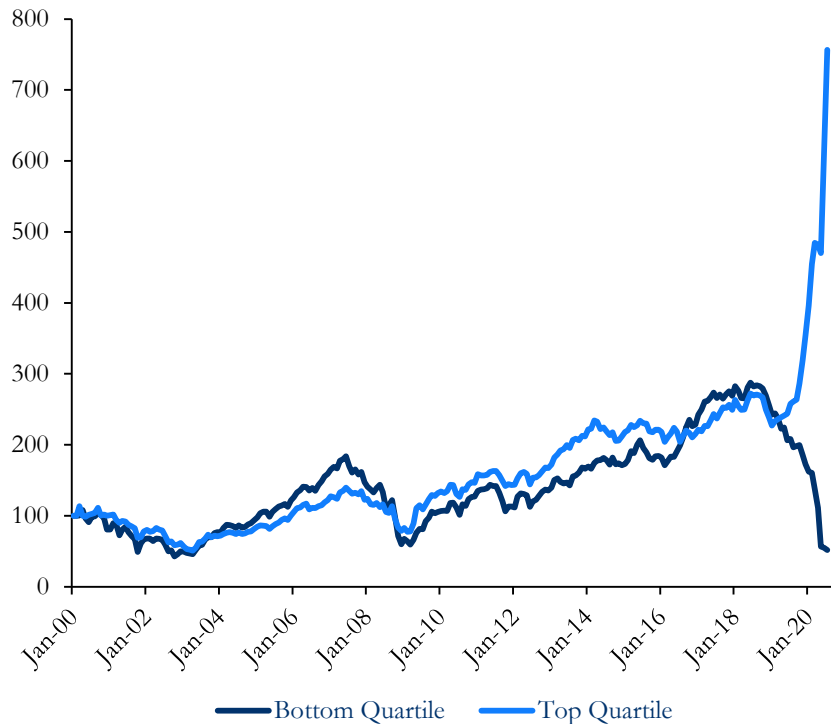
Source: Liberum Capital as at 1 July 2020

# Momentum seems to have been driving the FTSE 350

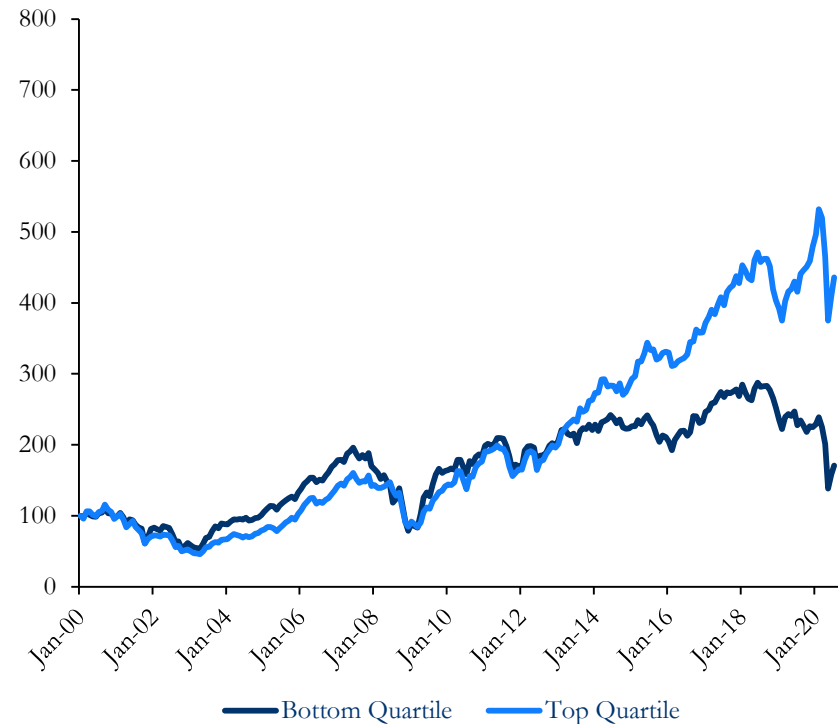
Astonishing data for price momentum since mid 2019



Returns to price momentum buckets, rebalancing every month



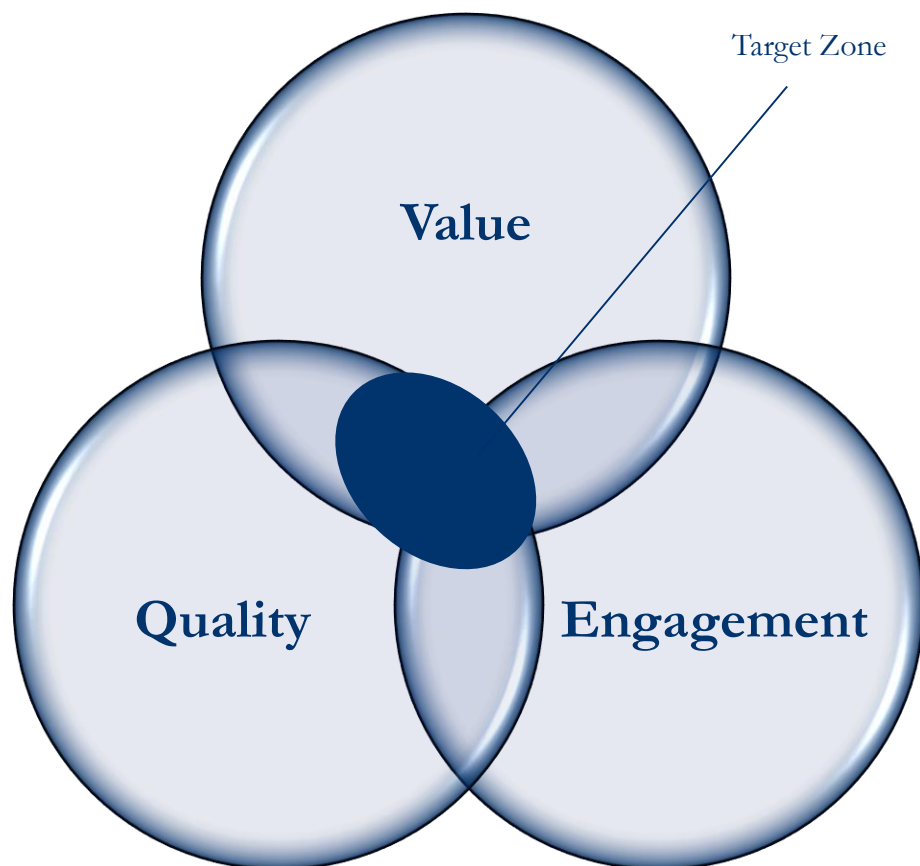
Returns to eps momentum buckets, rebalancing every month



Rebalancing – monthly rebalancing of stocks which have shown best price or earnings momentum over the preceding month

# Investment strategy

Based on 3 pillars: Value, Quality and Engagement



## Quality

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- Strict quality overlay to complement value focus
- “Great companies”
- Limit downside

## Value

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- Invest at a significant discount to owners valuation
- Look for businesses with multiple drivers of equity value growth
- “Make money”

## Engagement

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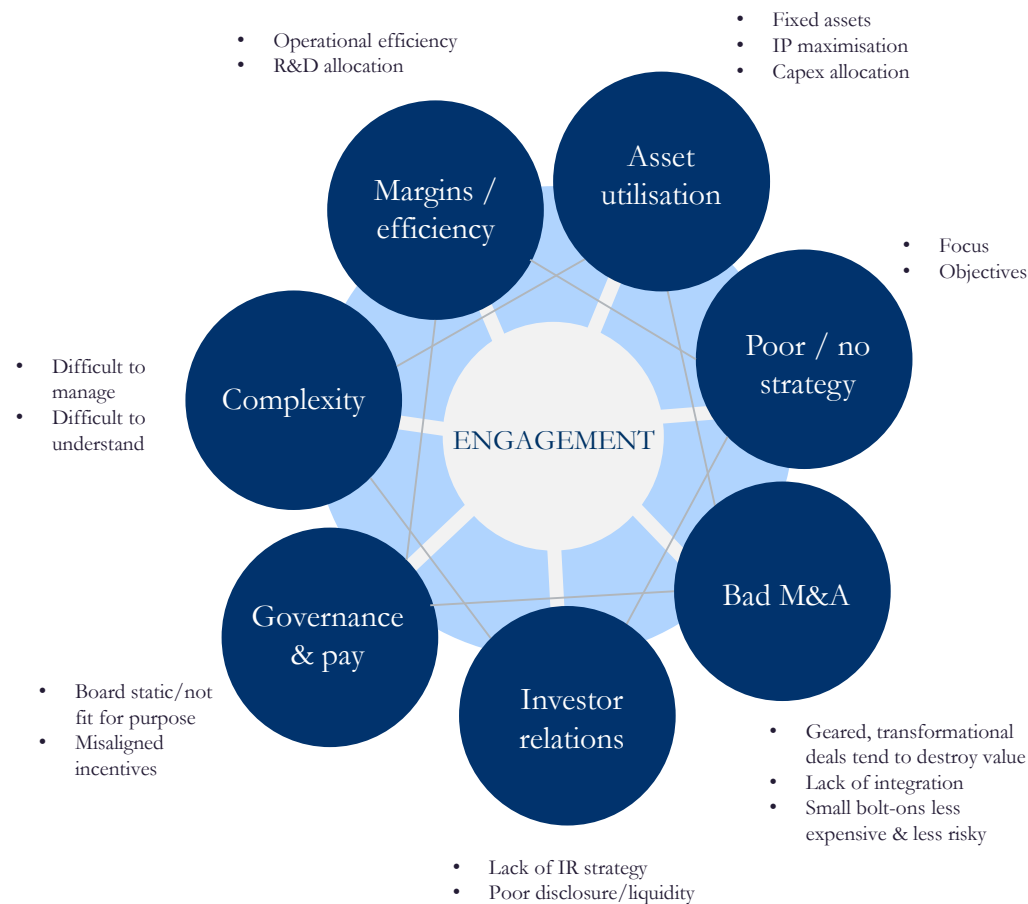
- Seek out “self-help” situations
- Integrated
- Proactive not reactive
- Tend to engage anyway as a Top 5 shareholder

# Corporate Engagement

## Goal to augment returns from stock selection



- We use engagement to create, defend or recover value and to deliver differentiated returns
- The investment team has more than 15 years experience engaging with smaller companies
- Historic focus on governance/financial performance/IR
- Scope for engagement and plan is identified prior to investment
- Our principles
  - Not “messianic” – first objective is to make money
  - We do not invest using negative screens
  - Aim to see companies improve during our period of ownership
  - Engage in private, with other stakeholders
  - Aim for “win-win”



# Sectors we focus on

We focus on four key sectors we know well



- We believe the best investment decisions are made from a base of knowledge and experience
- We focus on sectors where the team has expertise and where we have successfully made money
- Our core sector focus is driven by our investment approach
  - TMT: software managed services and niche electronics
  - Services: Higher value-add “white collar” and tech enabled services
  - Healthcare: Services, not speculative pharma/biotech
  - Industrials: Niche, high IP products
- Companies with the following characteristics best suit our investment approach:
  - Low cyclicality
  - B2B focus
  - High/improving ROCE/cash margins
  - In-house sector expertise

## Odyssean: view of main sectors

	Low cyclicality	B2B focus	High ROCE/cash margins	Sector expertise
TMT	●	●	●	●
Services	●	●	●	●
Healthcare	●	●	●	●
Industrials	◐	●	◐	●
Financials	◐	◐	●	◐
Consumer	◑	○	◐	◐
Property	◑	◐	◑	◐
Resources	○	◐	◑	○

Sectors we focus on

# Portfolio construction

Our strategy is more similar to Private Equity than other Public Equity funds



	Typical Long Only	Odyssean Strategy	Typical Private Equity
Number of positions	50-100	Up to 25	10-15
Typical position size	1%	3-8% at cost, max 20%	10%
Typical holding period	Variable	3-5 years	3-5 years
Due diligence	Light to Medium	Medium to High	High/Forensic
Typical target ownership	0.5-3%	2-20%	Majority/Supermajority
Sectors	Own most/All	Focus on a few	Focus on a few
Control	No control	Influencing stake	Full control
Approach to risk	Diversification & tracking error	Focus & due diligence	Focus & due diligence
Investment mindset	Outperform index	Absolute return	Absolute return
Engagement	Negligible	Medium/High	Medium/High
Typical cash balance	0-5%	8-12%	n/a



# Odyssean Investment Trust - key company facts

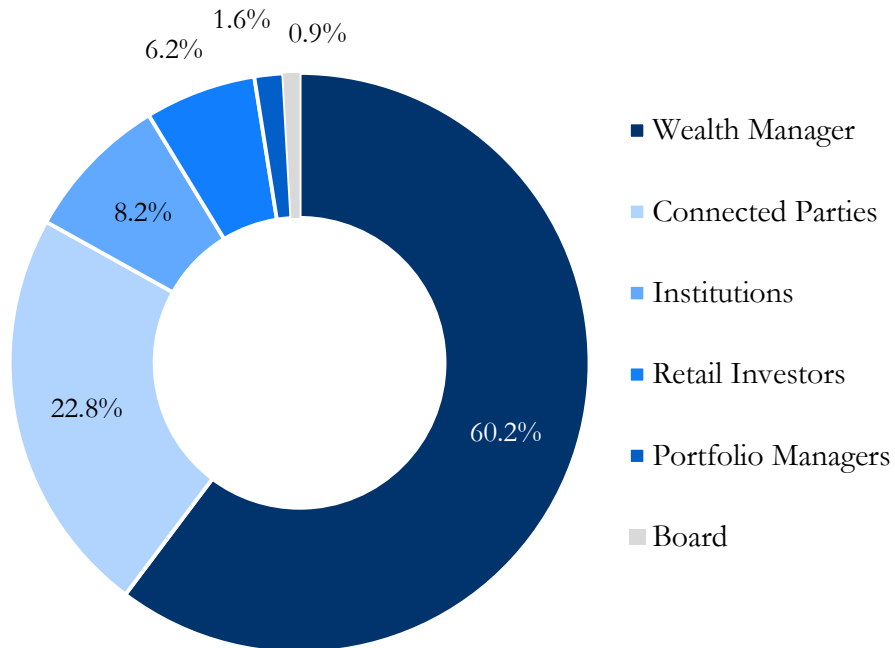


NAV	£90m
Shares in issue	87,982,211
Domicile	UK Full listing, London Stock Exchange
Board	Fully independent. Owns c.1% of issued share capital. Will use all fees, post tax, to buy shares
AIFM	Internally managed small scope UK registered AIFM. Portfolio Management delegated to Odyssean Capital
Discount control/realisation opportunity	Opportunity for shareholders to rollover or realise all of their investment at NAV less costs, every 7 <sup>th</sup> year post IPO (May 2018) 50% of profit from takeovers to be used to buy back shares if the average discount exceeds 5% for 60 days prior to exit
Gearing	No structural gearing envisaged. Ability to gear up to 10% for short term liquidity purposes. Net cash balances likely to be maintained to enable agile purchases of blocks of stock
Fees	Management fee lower of 1.0% of net assets/market capitalisation. Performance fee 10% of NAV TR outperformance vs (comparator index +1% p.a.) on a rolling three year basis with a high water mark. 50% of performance fees paid in shares/used to buy shares if at a discount
Comparator index	Numis Smaller Companies ex Investment Trusts plus AIM index <sup>1</sup>
Ticker	OIT
ISIN	GB00BFFK7H57

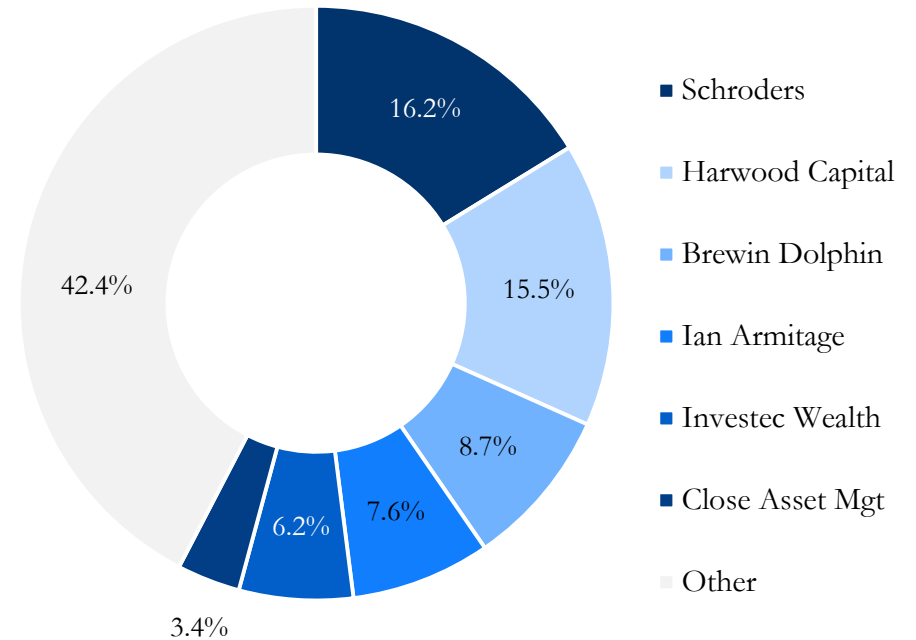
# OIT shareholder base



Shareholder base by investor type  
(as at 30<sup>th</sup> June 2020)<sup>1</sup>



Disclosable shareholders  
(as at 30<sup>th</sup> June 2020)<sup>1</sup>



Source: <sup>1</sup> Equiniti as at 30<sup>th</sup> June 2020, Odyssean Capital LLP



## Portfolio Manager

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From mid July 2020, Frostrow Capital will also be supporting distribution of OIT

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