

FLIGHT

The Flight and Partners Recovery Fund Limited

Adviser's Quarterly Report for the
Quarter ending 30th June 2023



June 2023

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Fund Overview

The Flight and Partners Recovery Fund Limited (the “Fund” or the “Flight Fund”) is a Guernsey-domiciled closed-ended investment company listed on The International Stock Exchange (“TISE”). The Fund aims to achieve attractive risk-adjusted returns over the economic cycle through investment in stressed and distressed small to medium-sized UK businesses that offer strong prospects for recovery through effective restructuring and operational turnaround.

The Fund invests in transactions that are originated, executed and managed by Rcapital Partners LLP (“Rcapital” or the “Investment Adviser”). Rcapital aims to use its financial restructuring and operational turnaround capabilities to improve the performance of the acquired businesses.

The Fund's investments are made in the form of loans that are secured against the underlying assets in the investee company. Loans are provided at a minimum interest rate of 10% or 6% over base rate, whichever is higher. The Fund typically also receive an equity stake in the investee company at zero or nominal cost.

The Fund's investments are valued in accordance with the International Private Equity and Venture Capital valuation guidelines (“IPEV”). Equity interests in investee companies are reviewed with the Auditors and, where they are deemed to have value, this is included in the net asset value of the Fund.

In January 2021 the Fund issued £14.9m of new redeemable preference A Shares (the “**A Share(s)**”). At the same time, investors in the existing share class (the “**Ordinary Share(s)**”) holding 3.1m of shares with an NAV of £5.6m voted to retain their holdings. The combined share classes therefore had a net asset value of £20.5m as at 6th January 2021. The A Shares are now investing in new transactions alongside the continuing investors in the Ordinary Shares, pro-rata to the amount of cash available in each share class.

UK Economic Indicators (figures in brackets are previous quarter)

GDP (Mar to Jun):

-0.1% (0.1%)

Inflation:

8.7% (10.1%)

Unemployment:

3.8% (3.7%)

Bank of England Interest Rate:

5.0% (4.25%)

FTSE (change since last quarter):

-1.3% (2.4%)

Quarterly Summary

It appears increasingly likely that the UK economy will escape a recession in the short term. Driven by a stable outlook for energy prices, a more resilient global environment, and continued tightness in the labour market. However, growth is expected to remain weak, with real GDP forecast at just 0.3% in 2023, rising to 1.1% in 2024, with analysts' forecasts skewed to the downside.

Inflation is falling from its peak – but is doing so at a slower pace than anticipated. Forecast headline inflation is expected to moderate to 5% by Q4 2023, averaging 7.7% in 2023 and 2.9% in 2024. The result is that interest rates have been increased further to 5.0%, with further increases expected. This is putting increasing pressure on companies that are carrying large debt burdens as a result of the Covid pandemic.

In terms of sectors, the UK services sector is a consistent performer with relatively robust growth, while manufacturing sectors have been harder hit by cost inflation and supply chain issues.

The new deal pipeline at Rcapital is healthy, and the investment team are actively reviewing opportunities which are expected to complete in the near future. The portfolio generally seem to be navigating the economic challenges reasonably well and resilience continues to provide encouragement:

- Avonside is trading ahead of expectations, with a strong pipeline, despite the slowdown in development of new build housing, given the drive for more energy efficient homes and commercial buildings;
- British Corner Shop is working through the execution of its 100-day plan following acquisition and the business is generally trading in line with forecasts;
- Nasmyth Group is trading profitably with a strong order book, albeit still navigating some challenges with its supply chain;
- Patrick Parsons has felt the prolonged impact of the slowdown in the construction market, but has recently put through some cost reduction measures to ensure it can trade profitability at current revenue levels; and
- Trac has a strong pipeline for the remainder of 2023 and a very healthy balance sheet.

Sources: Bank of England, ONS, LSE

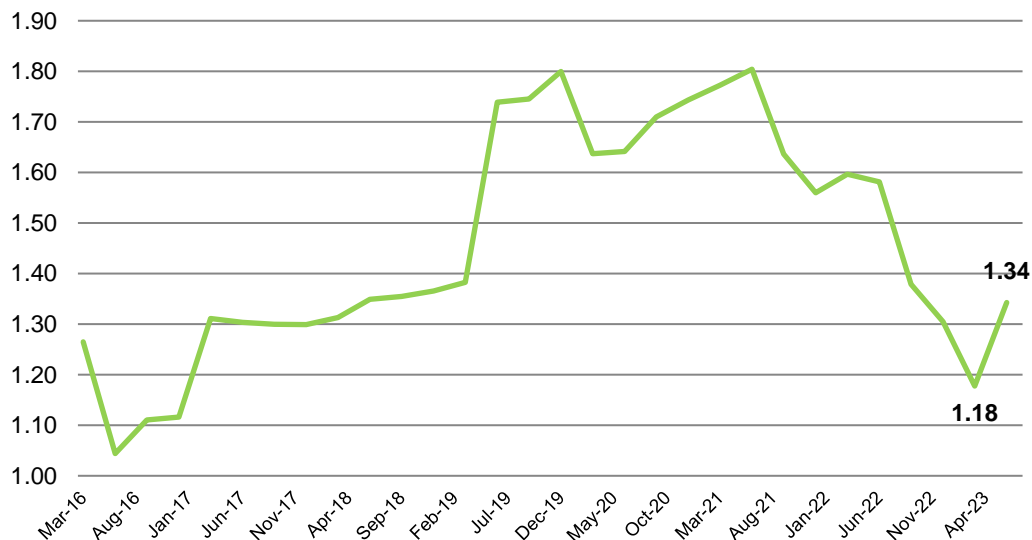
Quarterly NAV per Ordinary Share since inception

	Q1		Q2		Q3		Q4		YTD
Year	Price	% Change	Price	% Change	Price	% Change	Price	% Change	
2016	1.2651	25.00%	1.0438	(17.49%)	1.1105	6.39%	1.1160	0.49%	14.39%
2017	1.3108	17.46%	1.3037	(0.54%)	1.2998	(0.30%)	1.2989	(0.06%)	16.55%
2018	1.3129	1.07%	1.3488	2.73%	1.3546	0.43%	1.3653	0.26%	5.03%
2019	1.3653	0.53%	1.7391	27.38%	1.7452	0.35%	1.7999	3.14%	30.54%
2020	1.6368	(9.06%)	1.6411	0.26%	1.7100	4.20%	1.7434	1.95%	(2.65%)
2021	1.8853	8.14%	1.9166	1.66%	1.6365	(14.62%)	1.5595	(4.70%)	(10.54%)
2022	1.5966	2.38%	1.5812	(0.96%)	1.3789	(12.80%)	1.3050	(5.36%)	(16.74%)
2023	1.1774	(9.75%)	1.3428	14.05%					4.30%

The NAV per Ordinary Share as at 30th June 2023 is £1.3428 per share, an increase of 14.05% from the previous quarter.

The value of the Fund's equity stakes significantly increased due improvement in performance of Nasmyth, Avonside and the assignment of value to the assets held by JFN Group. This was marginally offset by a reduction in the value of Patrick Parsons and Trac.

7 Year Historical NAV per Ordinary Share



Gross & Net Asset Value attributable to Ordinary Shares

NAV Analysis (£m)	Jun-23	Mar-23	Diff
Cash	3.5	2.6	0.9
Loans	1.5	2.0	(0.5)
Equity / Make Good	0.6	0.2	0.4
Other Assets	0.4	0.4	-
Gross Asset Value	6.0	5.2	0.8
Other Liabilities	(1.8)	(1.5)	(0.3)
Net Asset Value	4.2	3.7	0.5
Shares in issue (000s)	3,101.4	3,101.4	-
NAV per share (£)	1.3428	1.1774	0.1654

The gross asset value (GAV) attributable to the Ordinary Shares was £6.0m at 30th June 2023, an increase of £0.8m from the previous quarter.

The value of the Fund's equity stakes increased by £0.4m, as a result of improved performance across the portfolio. Cash increased following the repayment of the loan from JFN.

Other Liabilities principally relate to the payments owing to redeeming shareholders. Further payments are expected following the receipt of deferred payments on the sales of Independent Group and Richard Irvin in 2024 and 2025.

FLIGHT

Portfolio Update



Summary of Portfolio Holdings by Share Class

Portfolio Company	Business Overview	Flight Fund Loan (£k)		Flight Fund Equity	
		Ordinary	A Shares	Ordinary	A Shares
Avonside Energy	Energy Efficient Building Products	12.5	137.5	2.3%	25.7%
British Corner Shop	E-Commerce	286.9	913.1	4.9%	15.6%
JFN Group	Nuclear Energy Engineering	-	-	6.8%	23.2%
Nasmyth Group	Aerospace Engineering	291.7	5,208.3	1.2%	20.7%
Patrick Parsons	Engineering Consultancy	10.1	140.0	1.5%	20.5%
Trac Precision Solutions	Specialist Engineering	77.9	922.1	2.1%	25.2%

Company Name:

Avonside Energy

Website:

<https://www.avonsidegroup.co.uk/>

Sector:

Construction Services

Description:

Installation of Insulation and Solar Panels

Date of Investment:

September 2022

Flight Fund loan:

£12,473 Ordinary Shares

£137,527 A Shares

Flight Fund equity stake:

2.3% Ordinary Shares

25.7% A Shares

Summary

Avonside Energy Limited is the insulation and solar PV service provider of choice for house builders across the UK. Avonside Energy also help businesses save money on energy costs through its commercial-scale solar PV operations.

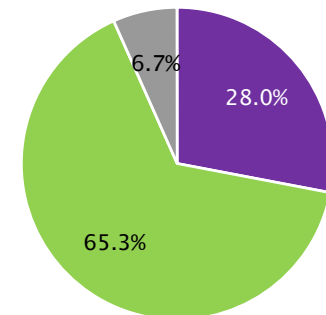
Avonside Energy was a standalone division of the Avonside Group that had fallen into administration due to issues in its other divisions.

Headquartered in Leicester, Avonside Energy has a strong national presence with operations in the West Midlands, East Midlands, Glasgow, Leeds, Newcastle, Warrington and Stevenage. This transaction will ensure the preservation of over 100 jobs across the country.

Avonside Energy will generate revenue of over £20 million this year and is profitable and cash generative. It employs over 100 skilled workers and is a key part of the new build supply chain, with major customers including Barratt Homes, Taylor Wimpey, Persimmon Homes, Redrow and Miller Homes.

The Fund provided a loan of £825k to finance the acquisition of the Company and working capital. £675k of this loan has already been repaid due to the healthy financial position of the business.

Ownership Structure



- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Company Name:

British Corner Shop Limited

Website:

<https://www.britishcornershop.co.uk>

Sector:

E-Commerce

Description:

Online retailer of iconic British food brands to overseas consumers

Date of Investment:

March 2023

Flight Fund loan:

£286,937 Ordinary Shares

£913,063 A Shares

Flight Fund equity stake:

4.9% Ordinary Shares

15.6% A Shares

Summary

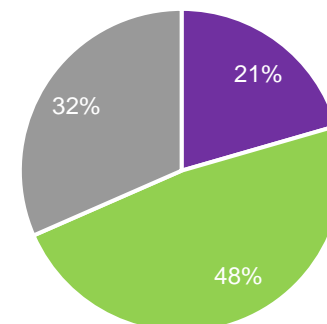
British Corner Shop is an online grocery store targeting British expats around the world. Stocking over 6,000 products from Britain's most loved brands, meaning customers can enjoy British food wherever they are in the world.

The deal funds British Corner Shop's ambitious growth plans for its global direct-to-consumer ecommerce business, thereby consolidating its market-leading position. British Corner Shop has already served 600,000 customers, and with five million British expats around the world, the opportunity for growth is huge.

British Corner Shop operates a state-of-the-art distribution centre in the Netherlands from which it supplies its growing customer base globally. Its product, sales, marketing, and customer service teams are based in the UK.

In addition to strong sales in Europe, British Corner Shop is already seeing growth in North America, with emerging demand in markets such as Australia, Singapore, Israel, and India, and interest from new markets such as Czechia, Slovakia, and Hungary.

Ownership Structure



- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Company Name:

JFN Group

Sector:

Nuclear Energy Engineering

Description:

Engineering services related to the decommissioning of Nuclear Power stations

Date of Investment:

March 2023

Flight Fund loan:

£0 Ordinary Shares

£0 A Shares

Flight Fund equity stake:

6.8% Ordinary Shares

23.2% A Shares

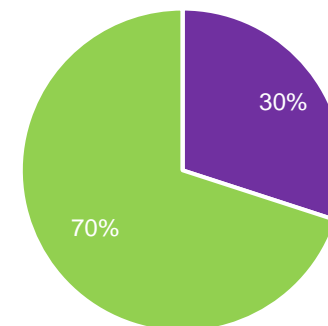
Summary

JFN is an established supplier of specialist engineering, manufacturing and technical services for applications within challenging, high integrity, environments.

Headquartered in Preston, the business operates from six locations around the UK, as well as having a presence close to the decommissioning sites of live projects such as Sellafield and Dounreay. JFN employs over 240 highly skilled workers across the sites.

At the time of investment, JFN had foreseen a healthy forecast pipeline thanks to the scale of the nuclear decommissioning task ahead. The Nuclear Decommissioning Authority estimates that it will take more than 100 years to complete the UK nuclear clean-up and waste management programme and has a planned expenditure for 2023 of £3.65 billion across its 17 sites.

Financial commentary will commence following the completion of a restructuring programme in 2023.

Ownership Structure

■ Flight Fund Equity Stake

■ Rcapital Equity Stake

Company Name:

Nasmyth Group Limited

Website:

<https://www.nasmythgroup.com/>

Sector:

Aerospace Engineering

Description:

Manufacturer of precision engineered components for the aerospace industry

Date of Investment:

February 2022

Flight Fund loan:

£291,729 Ordinary Shares

£5,208,271 A Shares

Flight Fund equity stake:

1.2% Ordinary Shares

20.7% A Shares

Summary

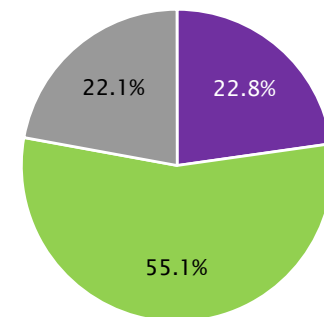
Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

The business is headquartered in the Midlands with international operations in the US, Philippines and India. The Group achieved sales of over £80m pre-COVID but was negatively impacted by the dramatic drop in demand for passenger air transport during the pandemic.

Following a competitive and complex transaction process, Rcapital acquired the business in February 2021, providing the business with £20m in new long term debt facilities from a senior bank and the Flight Fund.

The long-term trends in air travel globally remain strong, and this investment will enable Nasmyth to take full advantage of opportunities within the market as aviation volumes return. Working alongside the existing management team, Rcapital will remain actively involved to support management, driving performance improvement and acting as a catalyst for growth.

Ownership Structure



- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Company Name:

Patrick Parsons

Website:

www.patrickparsons.co.uk

Sector:

Business Services

Description:

Engineering consultancy to the built environment

Date of Investment:

March 2021

Flight Fund loan:

£10,050 Ordinary Shares

£139,950 A Shares

Flight Fund equity stake:

1.5% Ordinary Shares

20.5% A Shares

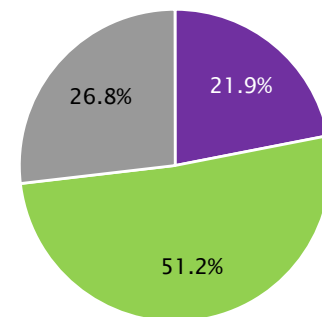
Summary

PPCP Limited ("Patrick Parsons") is a full service multi-disciplinary engineering consultancy to the built environment.

The group is headquartered in Birmingham with 3 further UK offices and 100 engineers, generating annual turnover of c.£10million.

The business offers a one-stop solution of engineering disciplines: Civils, Structural, Geo-environmental and Mechanical & Electrical. The company serves a range of blue-chip clients in the construction, infrastructure and house-building industry, with many under framework contracts.

The Flight Fund provided a £750k loan facility (of which £150k is currently drawn) to finance the acquisition of the company and support growth in the business and has taken an equity stake alongside Rcapital.

Ownership Structure

- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Company Name:

Trac Precision Solutions

Sector:

Specialist Engineering

Description:

Supplier of precision engineered parts to the aerospace, defence and power generation sectors

Date of Investment:

November 2022

Flight Fund loan:

£77,932 Ordinary Shares

£922,068 A Shares

Flight Fund equity stake:

2.13% Ordinary Shares

25.17% A Shares

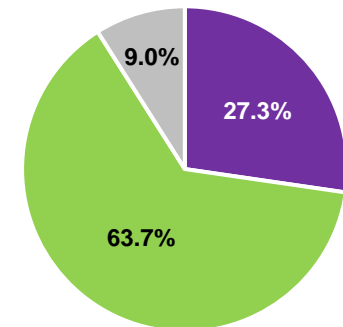
Summary

Trac designs and manufactures precision engineered parts that maximise engine performance, efficiency and reliability within the aerospace, defence and power generation sectors.

Trac is based in Crewe and employs approximately 50 people. The business has a number of blue chip clients (e.g. Rolls Royce, GE, Siemens & Safran) who rely on Trac for critical components.

The business was acquired for consideration of £1m which was funded by a loan from the Fund. The Fund also received an equity stake of 27.3% in the company.

Ownership Structure



- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake



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