

FLIGHT

The Flight and Partners Recovery Fund Limited

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



October 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.

In September, a Guernsey private capital fund was incorporated that will co-invest alongside the Flight Fund on pari-passu terms. The Flight Co-Investment Fund will be governed by the same parties as the existing Fund to manage any potential conflicts of interest.

UK Economic Indicators (figures in brackets are previous quarter)

GDP (Jun to Sep):

0.2% (-0.1%)

Inflation:

6.3% (8.7%)

Unemployment:

4.3% (3.8%)

Bank of England Interest Rate:

5.25% (5.0%)

FTSE (change since last quarter):

1.0% (-1.3%)

Quarterly Summary

High interest rates have started to hold back GDP growth, but it is predicted that the UK will avoid a recession in 2023 and the economy is likely to grow slowly in 2024. Inflation is expected to fall to around 4.5% by the end of 2023 but growth is expected to remain weak as increased fuel prices and interest rates reduce disposable income. GDP growth is forecast at just 0.6% in 2023, rising marginally to 0.7% in 2024, with analysts' forecasts skewed to the downside.

Inflation is falling from its peak and is expected to fall in line with the Bank of England's target of 2% in the second half of 2024. The result is that interest rates have been held at 5.25%, with the MPC expected to consider cuts from Spring 2024. High interest rates continue to pile pressure on companies that are carrying large debt burdens as a result of the Covid pandemic, and many 'mainstream' lenders have tightened credit criteria given the macro-economic uncertainty.

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 strong, and the investment team are actively reviewing opportunities which are expected to complete in Q4. During the period, we completed the acquisition of Bromford Precision Solutions, the Leicester-based aerospace and power generation division of Bromford Group. Bromford Group was placed into administration in March 2023 and continued trading while a buyer was sought. Rcapital agreed strategic partnerships with key customers of the business to secure 81 jobs at the Group's Leicester site.

The portfolio generally has had a solid quarter, providing optimism for the rest of 2023 and 2024:

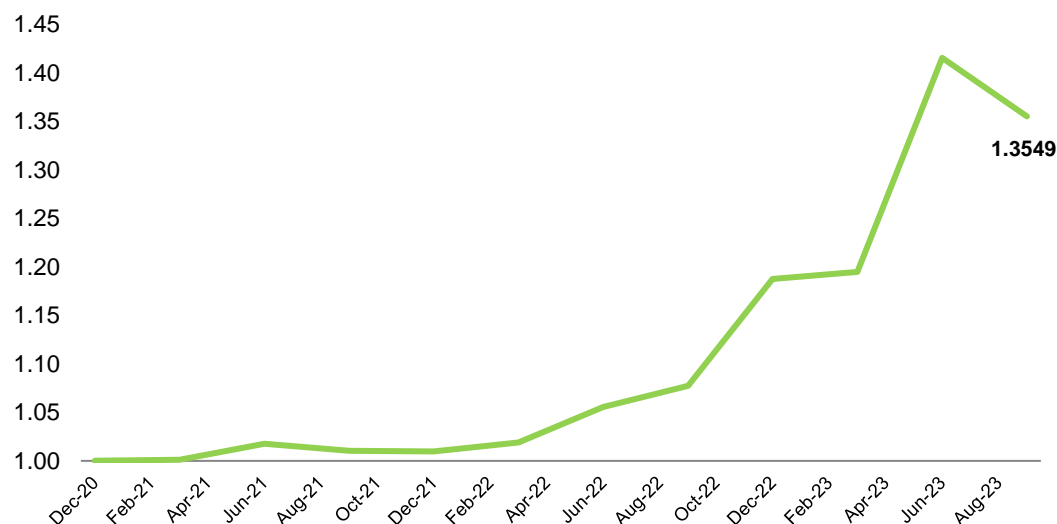
- Avonside is trading in line with expectations, and is starting to see the impact of new building legislation driving more demand for cavity wall insulation in new build homes, despite the fall in volumes of new houses;
- British Corner Shop (BCS) continues to deal with some challenges arising from the pre-pack acquisition whilst the business is preparing for its key trading season through Q4;
- HTSL is trading ahead of budget and recently completed a small bolt-on acquisition. Rcapital and management are now appraising various other potential growth investments;
- Nasmyth Group is trading profitably with a strong order book, albeit is still navigating some recurring challenges with its supply chain;
- Patrick Parsons continues to feel the prolonged impact of the slowdown in the construction market, although has recently put through some cost reduction measures to ensure it is profitable at current revenue levels; and
- Trac is trading very positively and the outlook for 2024 is improving.

Sources: Bank of England, ONS, LSE

Quarterly NAV per A Share since inception

	Q1		Q2		Q3		Q4		YTD
Year	Price	% Change	Price	% Change	Price	% Change	Price	% Change	
2020	-	-	-	-	-	-	1.0000	-	-
2021	1.0009	0.09%	1.0176	1.66%	1.0101	(0.73%)	1.0095	(0.06%)	0.96%
2022	1.0188	0.92%	1.0555	3.60%	1.0594	0.37%	1.1693	10.37%	15.27%
2023	1.1469	(1.92%)	1.3676	19.24%	1.3070	(4.43%)			12.89%

Total Return per A Share (including dividends)



The NAV per A Share as of 30th September 2023 is £1.3070 per share, a decrease of 4.43% from the NAV per share at the previous quarter.

The value of the Fund's equity stakes decreased because of the slower performance in Nasmyth, although this was moderated by the increase in equity value in HTSL and the improved run rate in Trac.

The loan portfolio continues to generate strong levels of interest income. In the last 12 months the Fund has returned 25.8%, including the two dividend payments to shareholders totalling 4.8%, comfortably exceeding the target return of 10-15% per annum and reflecting a more buoyant investment market following a slow period in 2021. An additional dividend was declared in October of 2.5%.

Gross & Net Asset Value attributable to A Shares

NAV Analysis (£m)	Sep-23	Jun-23	Diff
Cash	4.5	6.7	(2.2)
Loans	9.3	7.3	2.0
Equity / Make Good	4.5	5.5	(1.0)
Other Assets	1.4	1.1	0.3
Gross Asset Value	19.7	20.6	(0.9)
Other Liabilities	(0.2)	(0.2)	-
Net Asset Value	19.5	20.4	(0.9)
Shares in issue (000s)	14,947.0	14,947.0	-
NAV per share (£)	1.3070	1.3676	(0.0606)

The gross asset value (GAV) attributable to the A Shares was £19.7m on 30th September 2023, a decrease of £0.9m from the previous quarter.

The value of the loan portfolio increased by £2.0m following the drawdowns to Bromford and HTSL. As a result of the drawdowns and payment of other expenses, the cash balance reduced by £2.2m.

The value of the Fund's equity stakes decreased by £1.0m, because of the slower performance in Nasmyth and stable performance across the remaining portfolio.

Other Assets & Liabilities relate to working capital assets and liabilities of the Fund and varies from quarter to quarter in line with the annual expenditure cycle.

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	1.7%	18.9%
British Corner Shop	E-Commerce	298.9	951.1	4.9%	15.6%
Bromford	Aerospace Engineering	614.0	1,186.0	10.2%	19.8%
HTSL	Supply of Radioactive Isotopes	68.3	231.7	6.8%	23.2%
Nasmyth Group	Aerospace Engineering	291.7	5,208.3	1.3%	23.8%
Patrick Parsons	Property Consultancy	50.3	699.8	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:

1.7% Ordinary Shares

18.9% A Shares

Summary

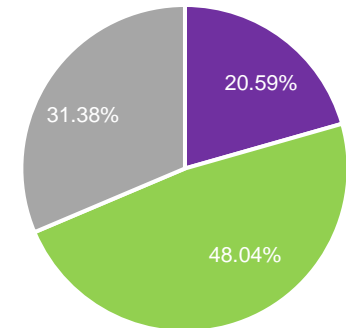
Avonside Energy Limited is the insulation and solar PV service provider of choice for house builders across the UK. Avonside Energy also help businesses save money on energy costs through its commercial-scale solar PV operations.

Headquartered in Leicester, Avonside Energy has a strong national presence with operations in the West Midlands, East Midlands, Glasgow, Leeds, Newcastle, Warrington and Stevenage.

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:

£298,893 Ordinary Shares

£951,108 A Shares

Flight Fund equity stake:

4.9% Ordinary Shares

15.6% A Shares

Summary

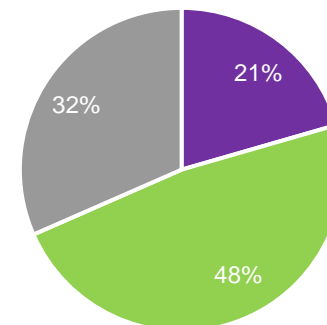
British Corner Shop is an online grocery store targeting British expats and anglophiles around the world. Stocking over 6,000 products from Britain's most loved brands, meaning customers can enjoy British food wherever they are in the world.

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 the Czech Republic, Slovakia, and Hungary.

Ownership Structure



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

Company Name:

Bromford Precision Solutions

Sector:

Aerospace and Power

Description:

Highly engineered component for the Aerospace and Power sectors

Date of Investment:

August 2023

Flight Fund loan:

£613,980 Ordinary Shares

£1,186,020 A Shares

Flight Fund equity stake:

10.2% Ordinary Shares

19.8% A Shares

Summary

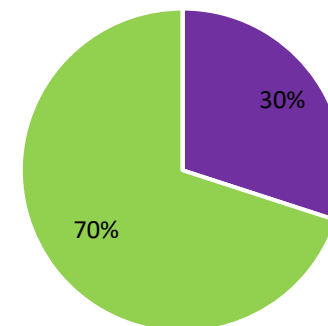
Bromford Precision Solutions Limited is the Leicester-based aerospace and power generation division of Bromford Group. Bromford Group was placed into administration in March 2023 and had continued trading while a buyer was sought.

Rcapital has agreed strategic partnerships with key customers of the business to secure 81 jobs at the Group's Leicester site. Rcapital will focus on making operational improvements to deliver a growth plan and ultimately rescue a strong underlying business that has a reputation for high quality engineering, and a well invested facility.

The business is complementary to both Nasmyth and Trac so there may well be synergies to develop within the portfolio. The immediate focus will be on stabilising the business and returning it to a breakeven position.

Financial reporting will begin in the next quarterly report.

Ownership Structure



- Flight Fund Equity Stake
- Rcapital Equity Stake

Company Name:

High Technology Sources Limited

Sector:

Industrial Instrumentation

Description:

Supply of radioactive isotopes to the medical, industrial and NDT sectors

Date of Investment:

March 2023

Flight Fund loan:

£68,341 Ordinary Shares

£231,659 A Shares

Flight Fund equity stake:

6.8% Ordinary Shares

23.2% A Shares

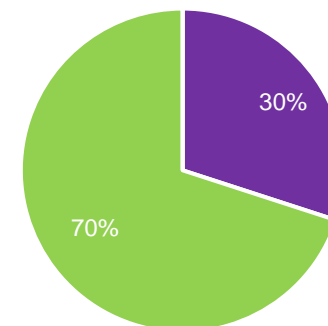
Summary

High Technology Sources Limited (HTSL) provide an extensive range of sealed and unsealed radiation industrial sources that are manufactured to the highest standards and comply fully with applicable national and international standards. They have been one of the UK's leading suppliers of radioactive isotopes for over 20 years, and are the sole supplier in the UK of many of their products.

The isotopes sold by the business are typically inserted into pieces of equipment either for testing or scanning (e.g. medical devices or reviewing welding integrity). The business also provides technical and compliance related services to its customers, and specialist logistics support.

In September, HTSL also announced the acquisition of the Instrumentation Division of JFN. The Instrumentation Division calibrates and repairs portable radiation protection instrumentation used to measure levels and duration of radioactive exposure for workers in the UK. It is based in Deeside, Flintshire and was a profitable division which will continue to be led by Ben Read, Managing Director of HTSL. The business is expected to add c.£2m turnover and 18 employees to the HTSL group.

Ownership Structure



■ Flight Fund Equity Stake

■ Capital 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:

1.3% Ordinary Shares

23.8% A Shares

Summary

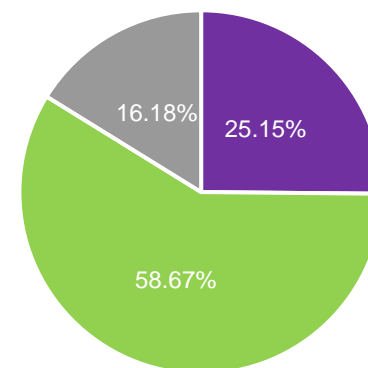
Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

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:

£50,250 Ordinary Shares

£699,750 A Shares

Flight Fund equity stake:

1.5% Ordinary Shares

20.5% A Shares

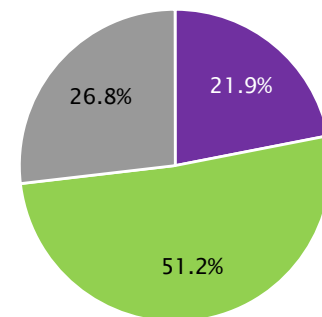
Summary

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 and Geo-environmental. 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 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:

2.1% Ordinary Shares

25.2% A Shares

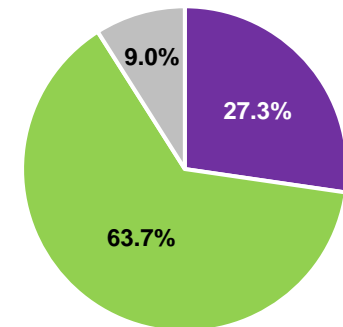
Summary

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 £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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