

The Flight and Partners Recovery Fund Limited

Adviser's Quarterly Report for the Quarter ending
31st December 2024

 Rcapital

FLIGHT

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Introduction

Transforming and growing businesses by seeing potential in complex situations

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 and value 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 receives 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 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 2023, a Guernsey private capital fund, Flight Co-Investment Fund Limited (the “Co-Invest Fund”), was incorporated that will co-invest alongside the Flight Fund on pari-passu terms. The Co-invest Fund will be governed by the same parties as the existing Fund to manage any potential conflicts of interest.



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Market Update

Whilst overall signs are cautiously optimistic, the upcoming budget has created short-term challenges in some sectors

UK Economic Indicators *(figures in brackets are previous quarter)*

GDP Growth (Sep to Dec):

0.0% (0.5%)

Inflation:

3.5% (2.2%)

Unemployment:

4.75% (4.0%)

Bank of England Interest Rate:

4.75% (5.00%)

FTSE (change since last quarter):

-0.8% (0.9%)

The UK economy had a mixed end to 2024, with signs of weakness emerging after a stronger start to the year. GDP growth slowed to 0.0% in Q3 2024, and indicators suggest that this trend continued into Q4. Consumer sentiment declined sharply in anticipation of the new government's first budget, with the GFK consumer confidence index falling from -13 in August to -21 in October. Rcapital continued to see the slow pace in business investment activity driven by the messaging following the budget announced in October. The services sector, which had been driving growth earlier in the year, saw its expansion slow to 0.2% in Q3.

Analyst forecasts for 2025 suggest a measured recovery, characterised by modest growth and moderating inflation. Inflation is expected to stabilise closer to the Bank of England's target range, with projections ranging from 2.2% to 3.0%. The monetary policy landscape indicates potential interest rate cuts, with forecasts suggesting the base rate could decrease to between 3.25% and 4.00% by the end of 2025. This anticipated monetary easing may stimulate some economic activity but is subject to the continued challenges posed by geopolitical uncertainty.

The upcoming increases in living wage and NIC taxes for businesses are also likely to create challenges for some companies that employ large numbers of low paid staff and are likely to restrict growth and investment.

At Rcapital, the new investment pipeline is healthy with several opportunities being reviewed. The sustained effort to explore carve-out opportunities throughout 2024 paid off as we completed the acquisition of engineering subsidiary **GT Emissions Systems** from Knorr-Bremse in January 2025. We were also very pleased to complete the sale of Trac Precision in December 2024, delivering an outstanding return for the Fund over a 2-year investment period.

The medium-term outlook for the portfolio remains healthy:

- **Avonside's** insulation and newbuild PV businesses are performing well and generating consistent profits, while commercial PV should see a strong end to the financial year given its project pipeline;
- **Bromford** has continuing support from key customers who are backing the management team to deliver the turnaround plan;
- **FGP** has achieved a significant increase in turnover driven by operational improvements, price adjustments and a strengthened leadership team;
- **HTSL** continues to exceed budget and has strengthened its management team to support the integration of bolt-on acquisitions. One further bolt-on acquisition is expected to complete imminently;
- **Nasmyth Group** has improved delivery and quality, secured price increases and further work packages from its largest customer, and expects strong, profitable performance in 2025 with high customer demand and cost focus;
- **STI** ended the year positively, having implemented numerous improvements to the operating model throughout 2024, Q4 delivered particularly encouraging profitability and performance. Improving operational output and new contract wins supports increasing confidence in achieving its healthy 2025 EBITDA target.

Fund Performance – A Shares

The NAV per A Share as of 31st December 2024 was £1.5243 per share, an increase of 1.49% from the previous quarter.

Commentary

The value of the Fund's equity stakes decreased as a result of the disposal of Trac, but the continued strong performance of Avonside, HTSL and STI, led to the promising increase in valuations. The exit of Trac produced an excellent return of over 5x money invested. The outlook for the Fund for 2025 is positive given trading performance in the portfolio companies.

In the last 2 years the Fund has generated a CAGR of 17.8%, including four dividend payments to shareholders totalling 10.5%. This exceeds the target return of 10-15% per annum and reflects the value being created in the portfolio.

Quarterly NAV per A Share since Inception

Year	Q1		Q2		Q3		Q4		YTD
	Price	% Change							
2020	n/a	n/a	n/a	n/a	n/a	n/a	1.0000	0.00%	n/a
2021	1.0009	0.09%	1.0175	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%	1.3069	(4.44%)	1.4462	10.66%	23.55%
2024	1.4840	2.61%	1.5705	5.83%	1.5020	(4.36%)	1.5243	1.49%	5.56%

Total Return per A Share since Inception (including Dividends)



NAV Analysis – A Shares

The net asset value (NAV) attributable to the Ordinary Shares was £22.8m at 31st December 2024, an increase of £0.3m from the previous quarter.

Commentary

The value of the Fund's equity stakes decreased by £3.5m because of Trac is no longer included within these numbers and due to slower performance at Nasmyth although this was mitigated by good performance in HTSL, Avonside and STI with consistent performance across the remainder of the portfolio. The loan balance has decreased by £1.1m due to the repayment of the Trac and Charnwood loans and part repayment of the STI facility. There is significant latent value in the investments which is expected to be reflected in the NAV in 2025.

The cash balance increased by £6.4m, whilst other Assets & Liabilities relate to working capital assets and liabilities of the Fund and vary from quarter to quarter in line with the annual expenditure cycle.

Gross & Net Asset Value attributable to Ordinary Shares

NAV Analysis (£m)	Sep-24	Dec-24	Diff.
Cash	4.2	10.6	6.4
Loans	9.2	8.1	-1.1
Equity / Make Good	8.0	4.5	-3.5
Other Assets	1.3	0.4	-0.9
Gross Asset Value	22.7	23.6	0.9
Other Liabilities	-0.3	-0.8	-0.5
Net Asset Value	22.5	22.8	0.3
Shares in issue (000s)	14,947	14,947	-
NAV per share (£)	1.5020	1.5243	0.0223

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Portfolio Update

Portfolio Summary

Summary of Portfolio Valuations by Share Class

£000s	Avonside	Bromford	FGP	HTSL	Nasmyth	STI
Loan Balance						
Ords	12.5	562.8	843.8	0.0	291.7	223.3
As	137.5	1,087.2	1,406.3	0.0	5,208.3	223.3
Co-Invest	0.0	0.0	2,250.0	0.0	0.0	446.6
Total Flight Loans	150.0	1,650.0	4,500.0	-	5,500.0	893.3
Equity Share per share class						
Ords	1.7%	10.2%	5.6%	5.5%	1.3%	7.5%
As	18.9%	19.8%	9.4%	18.5%	23.8%	7.5%
Co-Invest	0.0%	0.0%	15.0%	0.0%	0.0%	15.0%
Total Flight Equity	20.6%	30.0%	30.0%	24.0%	25.1%	30.0%

Avonside Energy

Insulation and Solar PV (Photovoltaic) service of choice across the UK



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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

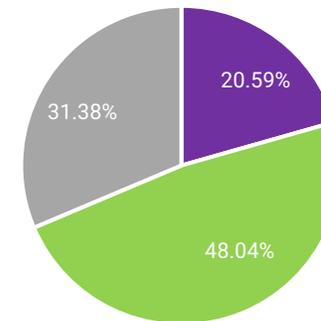
Avonside Energy Limited is the insulation and solar PV service provider of choice for house builders across the UK. Avonside Energy also help businesses save money on energy costs through its commercial-scale solar PV operations.

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 is forecast to generate revenues in excess of £30 million this financial year and remains 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



Bromford Precision Solutions



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Highly engineered components for the Aerospace and Power sectors

Company Name:
Bromford Precision Solutions

Sector:
Aerospace and Power

Description:
Highly engineered components for the Aerospace and Power sectors

Date of Investment:
August 2023

Flight Fund loan:
£562,815 Ordinary Shares
£1,087,185 A Shares

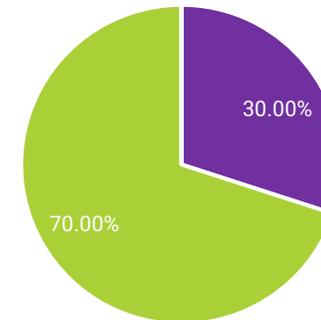
Flight Fund equity stake:
10.2% Ordinary Shares
19.8% A Shares

Summary

Bromford Precision Solutions Limited is the Leicester-based aerospace and power generation division which was acquired from the Bromford Group.

Rcapital has agreed strategic partnerships with key customers of the business to secure 81 jobs at the Group's Leicester site. Rcapital continue to 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.

Ownership Structure



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



FGP Systems



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Precision engineering company offering solutions for the aerospace and other sectors

Company Name:
FGP Systems Limited

Website:
<https://fgpltd.co.uk/>

Sector:
Precision Engineering

Description:
Engineered and manufactured solutions for the aerospace and defence sectors

Date of Investment:
January 2024

Flight Fund loan:
£843,750 Ordinary Shares
£1,406,250 A Shares
£2,250,000 Co-Invest

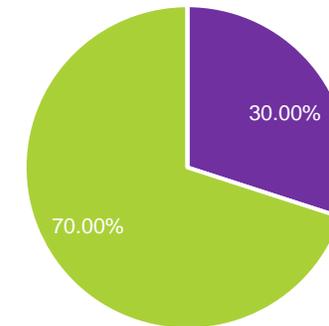
Flight Fund equity stake:
5.6% Ordinary Shares
9.4% A Shares
15.0% Co-Invest

Summary

The FGP Group comprises Weymouth based FGP Systems Limited, a precision engineering business which provides very high tolerance machining, turning and fabrication services to blue chip aerospace and defence customers, and FGP Lufton Ltd which is based in Yeovil and manufactures a portfolio of parts for the aerospace sector. The Group also includes a successful surface treatments and coatings business.

FGP boasts a number of blue-chip customers, including Honeywell, Collins Aerospace, Martin Baker and Curtis Wright. It also participates in several flagship aerospace programmes including Airbus A350 and A320, Boeing 737 and 787, as well as major defence platforms including the Eurofighter and F35.

Ownership Structure



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

High Technology Sources

Providing radiation industrial sources and specialised logistics support



FLIGHT

Company Name:
High Technology Sources Limited

Sector:
Industrial Instrumentation

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

Date of Investment:
September 2023

Flight Fund loan:
n/a

Flight Fund equity stake:
5.5% Ordinary Shares
18.5% A Shares

Summary

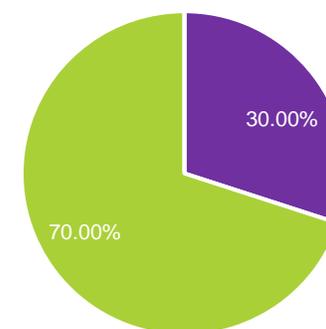
High Technology Sources Limited (HTSL) provide an extensive range of sealed and unsealed radiation industrial sources that are manufactured to the highest standards and comply fully with applicable national and international standards. HTSL have been one of the UK's leading suppliers of radioactive isotopes 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 2023, HTSL announced the acquisition of the Instrumentation Division of James Fisher Nuclear. The Instrumentation Division calibrates and repairs portable radiation protection instrumentation used to measure levels and duration of radioactive exposure for workers in the UK.

Furthermore, in November 2023 HTSL announced the acquisition of Phoenix Dosimetry Limited, one of the UK's leading providers of radiological detection systems, radiotherapy dosimetry, and associated services. These two acquisitions are expected to be highly complementary to HTSL's existing business and creates an exciting platform in the UK nuclear sector.

Ownership Structure



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

Nasmyth Group

National complex precision engineering solution provider



FLIGHT

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

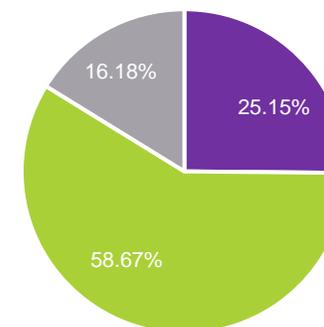
Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

The business is headquartered in the Midlands with international operations in the US 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

Surface Technology International



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Manufacturer of Circuit Boards and Specialty Electronics to the Defence Sector

Company Name:

Surface Technology International

Website:

www.sti-limited.com

Sector:

Electronics Manufacturer

Description:

Manufacturer of complex circuit boards and related services to the medical, defence and aerospace sectors

Date of Investment:

October 2023

Flight Fund loan:

£223,316 Ordinary Shares

£223,316 A Shares

£446,632 Co-Invest

Flight Fund equity stake:

7.5% Ordinary Shares

7.5% A Shares

15.0% Co-Invest

Summary

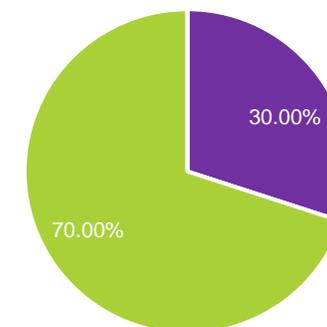
Surface Technology International (“STI”) is an electronics manufacturer headquartered in Hampshire. From its two facilities in the UK, STI provides complex printed circuit board assembly and box build services for critical applications across the Defence, Aerospace, Medical and Industrial sectors.

Rcapital acquired STI in October 2023 from Integrated Micro-electronics, Inc (“IMI”).

IMI sought to divest of STI following a strategic review and Rcapital was selected as the preferred acquiror because of its deep expertise in delivering corporate carve out transactions. An additional factor was the sector expertise developed having made several investments into businesses that serve the Aerospace and Defence sectors.

Rcapital has introduced a sector focussed CRO who is leading a strategic review and subsequent turnaround programme. During Q4 2024, a process was initiated to recruit permanent members of the management team, including a CEO and CCO to help ensure continuity and sustained growth.

Ownership Structure



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

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