



# CALEDONIA INVESTMENTS

30 September 2023

Share price: 3360p

NAV/share: 5203p

Discount: 35.4%

## About Caledonia

Caledonia is a self-managed investment trust company with net assets of £2.9bn. Our aim is to grow net assets and dividends paid to shareholders, whilst managing risk to avoid permanent loss of capital. We achieve this by investing in proven well-managed businesses that combine long term growth characteristics with an ability to deliver increasing levels of income. We hold investments in both listed and private markets, a range of sectors and, particularly through our listed and fund investments, have a global reach.

## Review

NAVTR for the financial year to date was 3.7%, reflecting positive performance from all three investment pools in the first half of the year. The impact of foreign exchange rate movements was limited, with Sterling weakening by 1.3% against the US dollar and strengthening by 1.3% against the Euro in the period.

The Quoted Equity pool produced a return of 2.8%, reflecting the mixed performance of global public equity markets. The Private Capital portfolio produced a return of 5.9% following the biannual revaluation of our holdings, reflecting the agreed sale of Seven Investment Management and that most of the investee businesses are performing well. The Funds portfolio returned 4.6% based on modest valuation growth across both our Asian and North American funds. Further commentary regarding performance can be found in the NAV and portfolio update released alongside this factsheet.

During the month we invested £18m and realised £15m across our three investment pools. Net debt at the month end was £20m.

## Ten largest holdings

Name	Business	£m
Seven Investment Management	Investment management	248.5
Cobehold	Investment company	178.8
Stonehage Fleming	Family office services	157.0
Air-serv Europe	Forecourt vending	142.5
Liberation Group	Pubs, bars & inns	135.0
Aberdeen US PE Funds	Funds of funds	123.5
Cooke Optics	Cine lens manufacturer	102.3
Axiom Asia Funds	Funds of funds	88.1
Watsco	Ventilation products	73.9
Microsoft	Software	72.3
		1,321.9
Other pool investments		1,533.3
Cash and other items		20.0
Net assets		2,875.2

Caledonia reviews the valuation of its unquoted investments biannually, in March and September.

## Private equity fund valuation dates

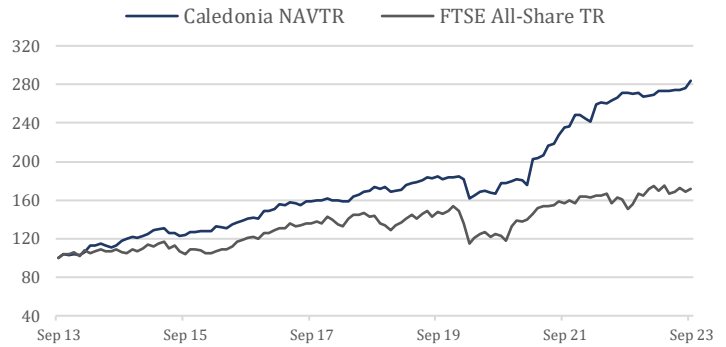
Manager NAV date	£m	%
30 June 2023	958.0	100.0
	958.0	100.0

## Caledonia Investments plc

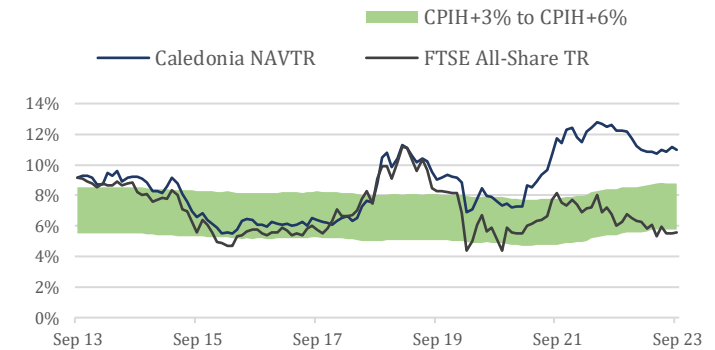
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The price of shares and the income from them may go down as well as up. Past performance is no indication of future performance. Under no circumstances should this information be considered as an offer, or solicitation, to deal in investments.

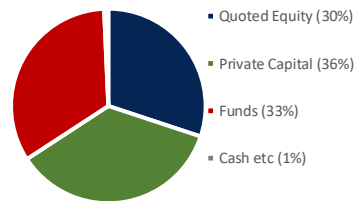
## NAV total return index ten years



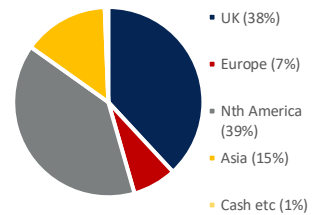
## Annualised ten year rolling performance



## Pool allocation



## Geographic allocation



## Performance to 30 September 2023

	YTD %	1 year %	3 years %	5 years %	10 years %
<b>NAV total return</b>	<b>3.7</b>	<b>4.6</b>	<b>59.4</b>	<b>63.2</b>	<b>183.8</b>
<i>Annualised</i>					
<b>NAV total return</b>	<b>4.6</b>	<b>16.8</b>	<b>10.3</b>	<b>11.0</b>	
CPIH	5.8	5.8	3.9	2.7	
<b>Caledonia vs CPIH</b>	<b>-1.2</b>	<b>11.0</b>	<b>6.4</b>	<b>8.3</b>	
FTSE All-Share Total Return	13.8	11.8	3.7	5.6	
<b>Caledonia vs FTSE</b>		<b>5.0</b>	<b>6.6</b>	<b>5.4</b>	

NAV is calculated on a diluted, cum-income basis.

## Investor information

Sector	Flexible Investment
Fund Type	Investment Trust
Listing	London Stock Exchange (SEDOL 0163992, TIDM CLDN)
Investing	Direct through a broker or financial intermediary
Contact	Cayzer House, 30 Buckingham Gate, London SW1E 6NN +44 20 7802 8080 enquiries@caledonia.com
Website	www.caledonia.com

## Caledonia Investments plc

### Unaudited net asset value and portfolio update

Caledonia Investments plc (“Caledonia”) announces that its unaudited diluted net asset value per share (“NAV”) as at 30 September 2023, calculated on a cum-income basis, was 5203p. This incorporates the biannual revaluation of the Private Capital portfolio.

The NAV total return (“NAVTR”) for the six months to 30 September 2023 was 3.7%. A final dividend of 49.2p per ordinary share for the year ended 31 March 2023 was paid to shareholders on 3 August 2023, amounting to a payment of £27m.

This announcement provides a further update on Caledonia’s portfolio and should be read in conjunction with the factsheet dated 30 September 2023 and released on 6 October 2023, a copy of which is available at [www.caledonia.com](http://www.caledonia.com).

### Summary

All three pools generated good, positive returns in the first half of the year. The impact of foreign exchange rate movements was limited, with Sterling weakening by 1.3% against the US dollar and strengthening by 1.3% against the Euro in the period.

The Quoted Equity pool produced a return of 2.8%, reflecting the mixed performance of global public equity markets. The Private Capital portfolio produced a return of 5.9% following the biannual revaluation of our holdings, reflecting the contractually agreed disposal of Seven Investment Management (“7IM”) and that most of the investee businesses are performing well. The Funds portfolio returned 4.6% based on modest valuation growth across both our Asian and North American funds, although there has been a notable slowdown in the level of fund distributions in the period reflecting reduced market transaction activity.

Performance for the first half is summarised in the table below.

### Caledonia pool performance

Net asset value – Half Year to 30 September 2023

£m	NAV 31/3/23	Net investment /(disposal)	Capital gains / (losses)	Other	NAV 30/9/23	Income	Total Return
Quoted Equity	836.9	16.5	11.5	-	864.9	12.0	2.8%
Private Capital	824.0	156.7	44.2	2.1	1,027.0	11.6	5.9%
Funds	873.8	49.7	39.6	-	963.1	1.6	4.6%
Portfolio	2,534.7	222.9	95.3	2.1	2,855.0	25.2	
Net Cash/(Debt)	221.6	(222.9)	-	(18.8)	(20.1)		
Other assets	41.7	-	-	(1.4)	40.3		
Net assets	<b>2,798.0</b>	-	<b>95.3</b>	<b>(18.1)</b>	<b>2,875.2</b>	NAVTR	<b>3.7%</b>

Caledonia has continued to invest and dispose of assets, in line with our active approach to portfolio management. The movement in net debt in the first half of the year was £243m, largely reflecting net investments made by all three pools and, most significantly, the acquisition of a majority stake in the European division of AIR-serv in April 2023 by Private Capital. The Quoted Equity pool made significant additions to its holdings in three companies, refined positions in a number of others and reduced positions in two high performing stocks, creating a net investment outflow of £17m. The Funds pool has seen an increased level of drawdowns, including the purchase of secondary positions in two Decheng funds at

attractive levels of discount, and only modest fund distributions, resulting in a net cash outflow of £50m in the period.

There was a notable reduction in cash in the first half of the year to support investment activity. However, with the bulk of the company's bank facilities undrawn and the c.£255m proceeds of the 7IM disposal likely to be received in the second half of the year, the total liquidity position remains healthy. Caledonia's £250m banking facilities include £137.5m expiring in November 2027, with the balance of £112.5m expiring in July 2025.

### **Caledonia Quoted Equity** – Capital and Income portfolios (30% of NAV)

The total return on the Quoted Equity pool was 2.8% over the first half of the year. This outcome reflected the mixed performance of major markets during the period with technology stocks being in favour and US indices moving more positively than the UK, together with muted performance in Asia.

The Capital portfolio delivered a return of 4.6%. Key stocks Hill & Smith, Charter Communications, Microsoft, Oracle and Watsco delivered very strong returns ranging from 10% to 30%, in contrast to the first half of the previous financial year. However, these gains were partially offset by notable price reductions for Croda International, Spirax Sarco, Texas Instruments and Thermo Fisher Scientific.

The Income portfolio delivered a return of -2.2% with the majority of holdings recording adverse share price movements. These adverse returns were partially offset by stronger performance from RELX, Watsco and Sabre. The performance of Sabre reflects premium growth following a difficult trading period last year.

Trading activity remained limited, in line with our long-term investment approach, with increases in our holdings in Symrise, Croda International and RELX. We sold down a portion of our holdings in Oracle and Watsco, following a period of strong share price appreciation. Other activity was restricted to refining positions in existing investments resulting in our Income portfolio moving closer to its target of £250m of invested cost.

### **Caledonia Private Capital** (36% of NAV)

Caledonia's Private Capital portfolio is dominated by significant positions in five UK-centric businesses and one private European investment company. These six investments represent over 90% of the pool's value. Investee companies are revalued in March and September each year. The portfolio generated a total return of 5.9% in the first half of the year. The five UK centric businesses are well-established and have strong market positions. With the exception of Cooke Optics, as outlined below, all are growing, profitable and cash generative. Excluding 7IM, the remaining four businesses are valued on an earnings multiple basis, with multiples in the range 9 to 14 times current year earnings. Gearing levels are modest, with net debt of approximately 2 times earnings before interest, tax, depreciation and amortisation (“EBITDA”).

In early September 2023, Caledonia announced that we had agreed terms for the sale of our majority stake in 7IM, a vertically integrated retail wealth management business, to Ontario Teachers' Pension Plan Board. The transaction is subject to change in control approval by the Financial Conduct Authority and is expected to complete in late 2023 or early 2024. Subject to the exact timing of completion, we expect to receive cash proceeds of c.£255m, net of transaction expenses, for the sale of our ordinary and preference shares in 7IM. The valuation at the end of September of £248m, reflects expected cash proceeds less a 3% discount to equity value in recognition of the very limited degree of transaction execution risk. 7IM generated a return of 28.0% in the first half of the year.

Cobepa, the Belgian based investment company, owns a diverse portfolio of private global investments. The majority of the businesses within the Cobepa portfolio continue to develop well, with many delivering strong performance and valuation progression. Two significant disposals, one of which completed in the period, have been agreed which, together with progress from portfolio companies, supported the overall modest uplift in valuation. The valuation of Caledonia's holding of Cobehold, the holding company of Cobepa, was £179m at the end September, a return of 3.1% for the first half of the year.

Stonehage Fleming, the international multi-family office, continues to deliver good earnings growth across both the Family Office and Investment Management businesses. The former has seen a positive combination of new client wins and increased activity levels with existing clients; the latter has felt the benefit of recovering equity markets. Valuation at the end of September was £157m, a return of 11.7% for the first half of the year.

AIR-serv, a leading designer and manufacturer of air, vacuum and jet wash machines, which it provides to fuel station forecourt operators across the UK and Western Europe, was acquired in April 2023. The business is trading well with earnings slightly ahead of expectations and demonstrating good year on year growth. The valuation has been maintained at the equity purchase cost of £143m, generating no return for the period. The position will be reviewed in March 2024.

Liberation Group, an inns and drinks business with a pub estate stretching from Southwest London to Bristol and the Channel Islands, has traded slightly below expectations through the spring and summer. It has been adversely impacted by the cost of living crisis reducing consumer discretionary incomes, sustained cost inflation (particularly UK energy costs) and poor UK weather affecting peak early-summer trading months. However, the integration of the Cirrus Inns business, whilst not complete, has been progressing well. The valuation at the end of September was £135m, a return of 2.3% for the first half of the year.

Cooke Optics, a leading manufacturer of cinematography lenses, has been heavily impacted by the Hollywood writers' strike which started in early May 2023 and the subsequent actors' strike. With film and TV production severely affected, Cooke has seen a subsequent fall in sales and a resulting reduction in earnings. We anticipate that these industrial disputes will be resolved, with the writers' strike appearing to have concluded recently, and product demand will return. However, the timing and nature of a recovery in financial performance is uncertain. This is reflected in our valuation at the end of September of £102m, which includes a 15% equity discount to reflect this matter. The equity return is -22.7% for the first half of the year.

### **Caledonia Funds (33% of NAV)**

The total return on the Funds portfolio was 4.6% for the first half of the year, including a 1% favourable impact from exchange rate movements. Underlying performance reflects modest valuation growth from holdings across the pool in both North America and Asia, with local currency returns of around 4% and 1% respectively.

Caledonia's fund investments are principally in third party managed private equity funds operating in North America and in Asia. The North American based funds invest into the lower-mid market, with a focus on small to medium sized, often owner-managed, established businesses. These funds normally provide the first institutional investment into these businesses, and support their professionalisation and growth, both organically and through M&A activity. The entry pricing levels are relatively modest and there is a deep, robust market for future divestment, either via trade sales or to other, larger private equity funds. The portfolio is a combination of directly owned funds (45% of Funds NAV), with a broad range of managers generally managing funds in the range of US\$250m to US\$500m. The balance is in fund of funds investments (13% of Funds NAV) with HighVista Strategies (formerly Aberdeen) US private equity funds, our largest single manager exposure, over five separate funds.

In contrast, our Asian based funds invest across a wide range of sectors with a focus on businesses in the early years of significant growth, having successfully developed their business model. Whilst focused on local markets, a number, particularly those with a healthcare focus, also invest into the US. The market is less developed than in North America with divestments, in the absence of a mature buyout market, mainly through an IPO or trade sale. The portfolio is a combination of directly owned funds (24% of Funds NAV), with a broad range of managers, some sourced through our fund of funds relationships but mostly through our own knowledge and contacts in the region. The balance (18% of Funds NAV) is invested with Asia Alternatives, Axiom and Unicorn, all fund of funds providers.

During the first half of the year, £52m was invested via drawdowns, £13m was invested in the secondary purchase of two Decheng funds positions and distributions of £15m, evenly balanced between North America and Asia, were received. The level of distributions has declined compared to the last two years, reflecting more challenging market conditions. We anticipate, based on feedback from our managers, something of a recovery in distributions over the next six to eighteen months.

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6 October 2023

## **Notes**

### **Valuation approach and methodology**

The valuation approach utilised for each asset portfolio is summarised below.

*Caledonia Quoted Equity:* all listed companies are valued based on the closing bid price on the relevant exchange as at 30 September 2023.

*Caledonia Private Capital:* the holdings are valued biannually, principally on a normalised EBITDA x market multiple basis (in line with the latest IPEV guidelines). This approach was applied to the majority of significant assets in the portfolio on 30 September 2023. The exceptions to this approach were our holding in Cobehold, where fair value was derived from the external valuation prepared by Cobepa, and 7IM, where the valuation is derived from the contractually agreed disposal announced in early September 2023. In the case of Liberation Group, the earnings derived valuation was supported by the underlying value of the principally freehold pub estate plus the value of the drink production and distribution business.

*Caledonia Funds:* the fund valuations are based on the most recent valuations provided by the fund managers, subject to cash movements from the valuation date. Valuations are received 60 to 180 days from the valuation date.

### **Caledonia Investments plc**

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For additional information on Caledonia, please visit [www.caledonia.com](http://www.caledonia.com).

**END**