ODYSSEAN
INVESTMENT TRUST PLC

ODYSSEAN INVESTMENT TRUST PLC
(the "Company", the "Trust" or "OIT")

LEI: 213800RWVAQJKXYHSZ74

Annual Report and Financial Statements for the Period from 21 December 2017 (Date of Incorporation) to 31 March 2019

The full Annual Report and Financial Statements and the Notice of the AGM can be accessed via the Company's website at www.oitplc.com or by contacting the Company Secretary on 01392 477500.

Highlights

- Successful launch and IPO in May 2018, raising gross proceeds of £87.5m from a high-quality list of shareholders.
- Portfolio Manager has built a portfolio of 15 investments (representing 78.6% of NAV) in line with the Company's investment strategy and objective.
- NAV performance ahead of comparator index since IPO. NAV per share declined 2.1% in the period from IPO to the end of March 2019, ahead of a 9.0% decline in the NSCI ex IT plus AIM Index. The Board and Portfolio Manager are of the opinion that significant further value potential exists in the current portfolio.
- Share price trading at 3.1% premium to NAV at the period end. The Board is keen to see a sustainable increase in the size of the Company over time.

Financial Summary

Results for the period	As at 31 March 2019
Shareholders' funds	£85.0m
NAV per ordinary share	96.3p
Share price per ordinary share	99.3p
Share price premium to NAV	3.1%

	Period from IPO on 1 May 2018 to 31 March 2019
Revenue return per ordinary share*	(0.6)p
Capital return per ordinary share*	(1.4)p
Total return per ordinary share*	(2.0)p

* Based on the weighted average number of shares in issue during the period.

High/low		Period from IPO on 1 May 2018 to 31 March 2019
NAV	- high	99.8p
	- low	93.4p
Share price	- high	107.5p
	- low	95.3p
Share price premium to NAV	- high	9.7%
	- low	(1.3)%

Performance	Period from IPO on 1 May 2018 to 31 March 2019
NAV Total Return	(2.1)%
NSCI ex IT plus AIM Index Total Return*	(9.0)%

* Source: Bloomberg.

Cost of running the Company	Period from IPO on 1 May 2018 to 31 March 2019
Annualised ongoing charges*	1.6%

* See glossary below.

Past performance is not a guide to future performance.

Investment objective and policy

The full text of the Company's investment objective and policy is set out in the full Annual Report and Financial Statements.

Strategic Report

Chairman's Statement

Introduction

I am pleased to present the first Annual Report and Financial Statements for Odyssean Investment Trust PLC ("OIT") which covers the period from its incorporation on 21 December 2017 to 31 March 2019.

OIT was successfully launched in May 2018, raising gross proceeds of £87.5m. This demonstrated strong investor appetite for its concentrated, long-term, smaller company focused strategy. As I said in the interim results, we are extremely proud of the list of shareholders who have backed the Company and on behalf of the Board, thank them all for their continued support.

Performance

Since the launch of the Company, the Portfolio Manager has built a portfolio which matches the Company's investment strategy and objectives. The team has worked hard to review a large number of opportunities, completing over 130 meetings with more than 75 companies, and carrying out detailed due diligence to identify the most attractive investments.

This thoughtful, measured process has led the Portfolio Manager to deploy capital progressively over the year. At the end of the period, the Company was 78.6% invested in 15 quality quoted smaller companies, all apart from one being quoted in the UK. This rate of deployment is broadly in line with expectations at the time of launch. The Portfolio Manager remains focused on finding the best opportunities and will maintain adequate cash balances to allow flexibility to exploit them.

In the period from IPO to the end of March 2019, the Company has seen the NAV per ordinary share decline by 2.1%, a creditable performance through a challenging period for UK smaller companies which saw the comparator index, the NSCI ex IT plus AIM, decline by 9.0%. Data contained in the Portfolio Manager's review indicates that the approach and its execution has added value over and above maintaining a cash balance in challenging markets.

Discount and premium management

The share price has remained resilient since IPO and at the period end was trading at a 3.1% premium to NAV, compared to a sector discount of 4.4%. The Board has been mindful of premium management and has issued a further 800,000 shares since the IPO to satisfy market demand. The Board, supported by the views of our shareholders, is keen to see a progressive and sustainable increase in the size of the Company over time.

The Board

We have an excellent Board of independent non-executive Directors. They have demonstrated their commitment to the investment strategy by undertaking to reinvest their Directors' fees (net of applicable taxes) into the Company, thus aligning their interests with its shareholders.

The Portfolio Manager signifies its long-term commitment to its shareholders by reinvesting 50.0% of any performance fee due, on top of its team's considerable investment at IPO. 26.0% of the Company is currently held internally, which demonstrates the Portfolio Manager's commitment to the strategy.

Portfolio Manager update

We announced on 26 March 2019 that Stuart Widdowson would be taking three months' compassionate leave from Odyssean Capital LLP. Ian Armitage, Chairman of the Portfolio Manager, has been and will continue to provide additional support during this period. The Board is confident that the measures put in place, based on the foundations and processes that the Portfolio Manager built prior to the Company's IPO, will ensure that the portfolio will be managed in accordance with the same principles and investment strategy.

Outlook

Uncertainty in markets and geopolitics is ever with us. Nevertheless, the best long-term returns in equities tend to be delivered by smaller companies. The quoted smaller company investment market is much less perfect than for larger companies. A properly executed investment strategy at a point where valuations are not stretched, augurs well for shareholders. Indeed, often the most rewarding long-term investments are made when there is uncertainty and a lack of broad market confidence.

The Portfolio Manager uses a well-defined, highly selective investment process, detailed due diligence and ongoing monitoring as tools to add value to shareholders. The concentrated nature of the portfolio gives sufficient time to conduct an in-depth analysis and consideration of each new investment and to monitor those investments on an ongoing basis. With the portfolio close to being fully invested, the Portfolio Manager is likely to devote more time towards engagement. This has the potential to deliver non-market driven returns over the medium term.

The initial portfolio includes a number of interesting companies with seemingly good opportunities, where returns can be improved through management actions. A conservative balance sheet offers shareholders some protection against extreme market volatility, as demonstrated in late 2018, as well as resources to invest with agility in what can be an illiquid asset class.

Whilst the well-honed investment approach will never guarantee that every investment performs to plan, there is a good likelihood of the investment approach delivering attractive and differentiated long-term returns to patient shareholders.

Jane Tufnell
Chairman

23 May 2019

Portfolio Manager's Report

The investment approach

Our investment approach was formed following more than 30 years' combined experience investing in quoted and unquoted smaller companies. This experience has allowed us to see the strengths and benefits of both the disciplines and develop our own approach, applying the core elements of the private equity investment philosophy – highly focused, long-term, engaged 'ownership' style investment – to public markets. We believe that well executed, this approach can offer attractive, differentiated, risk-adjusted returns.

Our differentiated investment approach creates a portfolio unlike that of many typical public equity funds and one closer in nature to a private equity portfolio. We believe that the key differences in our approach to other public equity funds are:

- **Highly concentrated portfolio**: We look to build a highly concentrated portfolio of no more than 25 investee companies. Similar to a private equity fund, we carry out intensive diligence on every opportunity and then only invest behind our highest conviction ideas. We believe that great investment opportunities are rare, take time and effort to identify and quality not quantity is the key to sustainable, superior long-term returns.

- **Narrow focus**: Firstly, we are focused on smaller companies typically too small for inclusion in the FTSE 250 index. Smaller companies offer significant opportunities to public market investors due to poorer market coverage driving opportunities for mis-pricing. More fundamental than this however is the stage of life cycle of many companies in our core size range. It is here that you can find proven, profitable businesses of a size which can attract high quality management teams, but which are nimble enough to deliver rapid growth.

  Secondly, within our focused size range, we will make the majority of investments in a small number of industry sectors which we and our advisors, know well (TMT, Services, Industrials and Healthcare). We believe the best investment decisions are made from a base of knowledge and experience, that allows better pricing of risks and opportunities. Fundamentally, we prefer to be narrow and deep rather than broad and shallow in our focus.

- **Targeting long-term holding periods**: We will evaluate each investment opportunity over a three to five-year investment horizon and would expect to hold positions for this period, or longer, where the prospect for future returns exceeds our target threshold. We have structured our business to reflect this belief and do not intend to run any capital which is redeemable over short time periods. We see opportunity in managing long-term capital which leaves us able to exploit irrational behaviour by other investors in the market more exposed to 'hot' money flows. We believe we should invest your capital as if we were long-term 'owners' of our investee businesses.

- **Building influencing stakes**: Our investment approach is focused on an engaged investment style. We particularly like investing in companies which, whilst good, are underperforming their potential. We see the opportunity for constructive corporate engagement to be used to help focus investee companies on this improvement potential and unlock enhanced returns for all stakeholders. In order to effect this approach, we will typically look to build larger stakes in our investee companies and build relationships with management teams by being well informed and supportive shareholders.

  The Company's investment objective is to deliver long-term capital growth, rather than to outperform a specific index. Our differentiated investment approach, the concentrated nature of the portfolio and our narrower sector focus, is likely to lead to periods of NAV per share performance materially different to those of the broader peer group and comparator indices. We fully anticipate this potential short-term performance variance and will focus on comparative investment performance over a rolling three-year basis.

The absolute return mentality of the strategy, allied with the desire to avoid being a forced seller, may lead to net cash balances being held over the long term. We anticipate a core range of 8.0-12.0% over the long term. Net cash balances will not be used as an attempt to market time, but to enable us to invest where blocks of stock are available rather than being required to sell a less liquid holding on short notice.

Implementing the investment strategy

There are three key factors we look for when we analyse a potential investment: i) a valuation opportunity; ii) in a higher quality company; and iii) with improvement potential. Our view is that buying at a fair price and supporting improved performance generates capital growth, while our quality filters mitigate losses in the event of unexpected headwinds.

Valuation

We look for two factors in every investment. Firstly, what we refer to as "static value" - does the company trade at a discount to its current value? This is not only judged by traditional public market ratios, we also seek to model every company through the lens of a private equity buyer. In addition, we evaluate whether an asset is attractive to a trade buyer and what price they would be prepared to pay to control it. This analysis includes valuing companies on a break up/sum of parts basis.

Secondly, we are looking for companies which can grow their value over time – "dynamic value". We particularly look for situations where there are as many as possible of the following drivers of value growth present, specifically i) organic growth; ii) margin growth driven by specific management action, not merely operational gearing; iii) free cash generation and dividends; and iv) increased rating. We believe seeking multiple value drivers makes an investment case more secure and less exposed to single areas of uncertainty or misjudgement. As a result, very few highly rated growth/momentum investments pass our criteria. We have a strong preference for reasonably priced growth, recovery and
self-help situations.

Quality

We assess every potential investment against qualitative and quantitative criteria, as well as providing a "Litmus test" of whether we would be happy owning the whole company for the mid to longer term. The quality assessment is important to mitigate the risk of permanent capital destruction from investments which fail to achieve their value potential, or alternatively, experience a period of short-term earnings weakness or under-management. In our experience, if changes are required at board level, it is far easier to attract high calibre individuals and teams to an underperforming high-quality business, than an averagely performing poor quality company.

Improvement potential and engagement

We particularly like companies which are in some way underperforming relative to their potential and where the current valuation does not price in improvement potential. Once invested with a meaningful stake, constructive corporate engagement can help to unlock value, prevent it from being destroyed and recover it if it is temporarily diminished. Our mantra is to buy into good businesses and sell excellent businesses. The spectrum of areas which can be improved is broad and includes operating performance, asset utilisation, overly complex business structures or organisations, strategic direction, poor M&A, investor relations and lastly, governance and pay.

Finally, one of the benefits of having a fixed amount of capital to manage is that we, like many of our portfolio companies, are capital constrained. This means that once an investment no longer looks as attractive as it used to on a risk/reward basis, or alternatively, to the rest of the portfolio or other investments, we move it on. The downside of this is the risk of taking profits too early. The upside can be having the discipline to exit whilst there is still liquidity and "something in it for the next investor".

Market background since launch

The period from IPO on 1 May 2018 until the end of March 2019 has witnessed considerable global and domestic political uncertainty. This uncertainty has led to market volatility through the period and increased investor wariness, especially of UK equities. This coincided with what we perceive to be a gradual further decline of the quality of sell-side research for smaller quoted companies, as we anticipated at the time of IPO. Whilst markets were ebullient at the time of the Company's IPO, ratings have fallen considerably, bottoming out at the end of December 2018 at levels not seen since 2012.

Progress since launch

These changing market conditions have suited our investment approach well. We had always anticipated deploying capital progressively, rather than quickly. Our selective investment style, and the high levels of research we do on each company, would typically lead to four to six new investments being made per annum. As a result, we are pleased to have built an initial portfolio with 15 holdings, representing 78.6% of NAV,all of which fulfil our investment criteria.

Capital deployment into these holdings has been mostly in small blocks, driven by liquidity and individual stock pricing, rather than any attempts to market time. The increased market and stock specific volatility throughout the period has meant that the timings of some purchases have ended up being extremely opportune, and others perhaps less so in the short term. However overall, the data suggests that our approach has added value over and above just buying the market.

Performance review

Since IPO, the NAV of the Company decreased by 2.1%. This return is stated after all costs, including the costs of purchasing the holdings, and administration charges, such as the portfolio management fee. In comparison, the NSCI ex IT plus AIM Index, which we use as a comparator but not a benchmark, fell by 9.0%. The portfolio was on average 44.8% invested over the period.

Our calculations suggest that had we bought the market on the same days and deployed the same amount of capital as we have spent purchasing investee companies, the NAV would have declined 5.6% since IPO. As a result, whilst it is disappointing to end the first period with a NAV slightly below launch, we believe that the investment strategy and its execution have added value.

The investment process has continued to be developed, reflecting the decisions of the investment team which also draws on opinions and experiences of the Panel of Advisors and the Portfolio Manager's own non-executive directors. We had continued meeting with existing and potential portfolio companies. As at the end of March 2019, we have undertaken over 130 meetings with over 75 companies, including one-on-one meetings with executives, non-executives, site visits and capital markets days since December 2017.

As well as the invested portfolio, we have also built up a qualified watchlist of new potential investments, which for any number of reasons we do not judge to be appropriate to
invest in today.

Portfolio

At the end of the period under review, the portfolio comprised 15 companies operating in the TMT, Business Services, Industrials, Healthcare and Consumer sectors. We typically focus more on the first three sectors and these account for c.68% of the NAV.

Our largest positions are SDL, Equiniti, NCC and Chemring. The backgrounds of all except NCC were detailed in the 2018 Interim Report.

From an operating perspective, SDL and Equiniti are performing in line with expectations. SDL's shares have performed well over the period and the investment is sitting at a reasonable premium to cost. We continue to believe that good absolute and relative upside exists. Equiniti remains very lowly rated, reflecting concerns over short-term integration issues with its recent US acquisition. The fundamental trading performance of the business has been solid and we believe that further profit improvement

opportunities identified by management support good further potential value growth in the medium to long term.

Chemring's operational performance has continued in line with the guidance given following the site accident detailed in the Company's 2018 Interim Report. However, the shares have been de-rated as the market became more sceptical of a rapid recovery in earnings. This has been disappointing and the most material drag on the NAV across the period. If the company can deliver the earnings recovery, from a very depressed level, and growth from recently secured US contracts, the shares should perform well over the medium to long term. Further, the company has announced the exit of the lower quality elements of its energetics division. Once completed, we believe that the company is priced extremely attractively relative to recent multiples paid for very similar assets.

The largest new position built during the period was in NCC, a leading providing of cyber security and software escrow services. The cyber security division provides technical expertise to support corporates in building, testing and rectifying breaches in IT security. This is a fast-growing market with structural tail-winds. We believe NCC has built a leading portfolio of expertise and is one of the few independent players of scale, with global footprint and capability, in a market which continues to consolidate. The escrow business effectively provides an 'insurance' service for customers of software vendors, storing and verifying source code to ensure critical software systems are supportable should a vendor fail. NCC created and dominates the mature UK market for these services and has a fast-growing position in the more highly fragmented US market.

NCC was built through M&A with cash generated in the highly profitable, software escrow business recycled into the faster growing cyber security division. Poor M&A integration led to a challenging period in 2016/17 and a new executive team has now been installed with the aim of driving operational improvement and much better cashflow conversion. We see significant self-help opportunity for the group via better integration of legacy M&A, roll-out of group wide back office systems, a more sophisticated approach to sales, and focus on cashflow management. Management have targeted a 200bps margin improvement in the next three years and we see ultimate potential significantly above these levels.

We built our initial stake of c.4% of NAV through November 2018 following meetings with management and the new Chairman. The interim results in February 2019 saw very small earnings downgrades and a temporary decline in cash conversion, which led to what we perceived to be a disproportionate and swift de-rating. Having carried out further due diligence in short order, we felt that this was a great opportunity to increase the stake at very depressed levels and almost tripled the existing holding.

We have made six mid-sized investments in Volution, Wilmington, Devro, Flowtech Fluid Power, Benchmark and Hill & Smith Holdings.

The backgrounds to Volution, Wilmington, Devro and Benchmark were detailed in the 2018 Interim Report. All have performed as expected operationally to date, with varying short-term responses from their share prices. Volution and Wilmington have management change underway, with a new CFO and CEO, respectively, being sought. One of our investment theses with Devro was that it was under-broked to investors and as a result, the shares were trading at a material discount to their fair value. We introduced a third-party investor relations professional to the company in late 2018 who has been working to help increase the profile of the company, with some initial success. We believe that this, combined with clear intent and actions by the management team to improve returns, augurs well for future performance.

Benchmark's shares have been volatile over the period. We believe that the underlying assets of the business are worth considerably more than the current market valuation. However, the journey to sustainable cash generation is taking longer than most shareholders have the patience for and this has led to limited institutional interest in investing. A new Chief Scientific Officer should help improve the efficacy of R&D. We welcome the appointment of representatives from FERD, the largest shareholder with 19.0%, to the board to represent the voice of the shareholder. With appropriate management execution and changed investor sentiment, it could offer some of the best potential long-term upside of all of the portfolio companies.

Flowtech is a niche value added distributor of fluid power components and products. The company is the leading player in the UK, acting as a master distributor sitting between the large global manufacturers and the fragmented base of small local distributors. Its broad stock range, high service level and unique market position allow it to generate attractive margins, and its weighting towards MRO parts reduces its cyclical exposure. Shares in the company de-rated sharply following a poorly handled set of interim results in Autumn 2018 and a surprise CEO transition, dropping the market cap below £100m. We saw the de-rating as an attractive entry point. The company retains some challenges, but the business model is attractive, there are significant self-help opportunities in the cost base and working capital, due to the business being built through un-integrated M&A. Whilst some cyclical risk exists, the shares trade on a very low rating and it operates in a consolidating sector.

Hill & Smith Holdings is a diversified industrial group, manufacturing metal infrastructure and road products and providing galvanising services. We built our position following a share price decline through the summer of 2018 as an unsustainable rating unwound on the back of a disappointing interim trading update. We viewed the issues identified in the trading update as temporary in nature and the subsequent sell-off an overreaction with shares offering material value when we built our position.

The group is a leader in galvanising in the UK, US and Europe and generates highly attractive margins (especially in the highly structured US market). Demand for galvanising, although cyclical, is exposed to structural growth in the US where it is increasingly replacing painting as the preferred form of corrosion protection. In its manufacturing operations, the group has a leading position in the production of crash barriers and other road furniture in the UK, a sector exposed to positive midterm trends in road investment, and in the broader infrastructure manufacturing operations we see significant opportunity to improve margins. In the UK, it also owns and operates a fleet of own-manufactured temporary crash barriers, which generates c.12% of group profits and has highly attractive unit economics. The management team have a strong track record of delivering attractive ROCE and accretive M&A and we believe they are well placed to continue to do so. The shares have re-rated more quickly than anticipated and this has tempered our enthusiasm to add to the position.

The remaining five investments represent between c.2% and 3.0% of NAV. None are especially cyclical. Two operate in the trust and corporate services sector, a part of the market well known to one member of the Panel of Advisors. All five investments offer considerable scope to scale, subject to further due diligence and pricing remaining attractive.

Portfolio valuation metrics ex Benchmark Holdings[1]

	Trailing 12m	**Next 12m forecast**		**Forecast growth rates Next 12m**
EV/Sales	1.8x	1.6x	Sales	6.0%
EV/EBITDA	9.7x	8.4x	EBITDA	10.0%
EV/EBITA	12.0x	10.4x	EBITA	11.0%
P/E	14.9x	12.7x	EPS	12.0%
Dividend yield	2.9%	3.1%	DPS	8.8%
Net debt/EBITDA	1.2x	0.9x	Reduction in net debt	-13.0%

[1] As at 31 March 2019. Source: Factset consensus data and estimates. Portfolio data prepared on a weighted average basis. Benchmark Holdings (BMK) excluded as transitioning from loss making and data skews averages materially. Past performance is no guarantee of future performance and the value of investments can go up and down.

As demonstrated by the table above, we believe that the portfolio valuation metrics appear attractive in absolute terms given what we perceive to be the quality of the portfolio holdings, as well as their growth potential. A PEG ratio of c.1x indicates, in our view, good value. In addition, the portfolio in aggregate is modestly geared and forecast to pay down debt through free cashflow.

We have continued to focus on companies which have improvement potential in their profit margins and cashflow generation, where this improvement can be delivered by management action, and is not reliant on end markets improving. As a result, provided end markets remain benign, we believe that there is significant earnings potential from the portfolio. If end markets become more challenging, there are

more "levers" for management teams to pull to defend current earnings levels. If end markets surprise on the upside some of the investments could deliver exciting profit growth.

As at the end of the period, trailing operating margins, excluding Benchmark, were c.15%, and forecast to rise to 16.0% by March 2020. We believe that the underlying operating margin potential of the portfolio is 18.0-20.0%, indicating substantial earnings upside. In the case of Benchmark, we believe that their two profitable divisions have significant further margin upside and the loss-making healthcare division should be moved into profitability soon.

83.6% of the invested portfolio is invested in companies within the core market capitalisation range of £150-£750m. 41.6% of the portfolio's aggregate sales are derived from the UK. The most important overseas market is the US (23.4%). Europe ex UK (18.6%) and the Rest of World (16.4%) are relatively similar. We believe that FTSE small cap index has a much higher exposure to UK sales. As a result, domestic challenges and Sterling weakness is relatively positive for the portfolio asset value, and vice-versa.

Outlook

At the time of writing, markets appear benign with ratings having rallied almost 10.0% from the depressed levels at the beginning of 2019. However, UK equities appear to be relatively cheap in absolute terms compared to other international equity markets. It seems that they are shunned by international investors, despite many UK Companies having very international earnings.

It seems that the current domestic and international political conditions are making investors extremely uncertain about the prospects for markets and the underlying companies. Allied to this uncertainty, the spectres of an ever-lengthening period of economic growth and increasing debt levels seem to continue to temper investor risk appetite.

In some situations, and with some companies, this cautious approach is probably well founded. However, we strongly believe that the market turmoil is presenting attractively priced medium to long-term investment opportunities within our target market. Where these quoted companies have significant self-help potential to improve margins, regardless of the state of demand in their end markets, and are rated modestly, we become very excited. These situations tend to offer a very good risk/reward ratio for patient investors.

There is no doubt in our minds that, properly executed, selective constructive corporate engagement can aid or accelerate some of this self-help. We believe that plenty of scope for engagement exists amongst our portfolio holdings and look forward to spending more time in this area now that the initial portfolio is largely complete.

We anticipate some further capital deployment and then managing the portfolio with a cash balance of between 5% and 15%, to enable opportunistic purchases of blocks of stock, without being forced sellers. Whilst this balance sheet approach is more conservative than the broader peer group with highly diversified portfolios, we believe that over the long term it suits our selective and differentiated investment approach well.

Odyssean Capital LLP
Portfolio Manager

23 May 2019