EXECUTIVE SUMMARY - STRATEGIC PUBLIC EQUITY

Specialist equity fund targeting 2x MM (15% IRR) over medium term through investment in inefficient areas of UK/European smaller companies markets.

- **Compelling opportunity to buy** at a 22.6% discount to NAV\(^1\)
- **Concentrated portfolio with considerable potential upside, attractively valued** and tracking in line with Investment Manager’s thesis
- **Significant cash holding** - ability to take advantage of any opportunities/market distortion
- **Proven team** - long-term 20-year track record\(^2\)
- **Right timing** - focused on undervalued areas (small-cap, value) in a market that is increasingly favouring stock pickers\(^3\)

### GHS portfolio metrics vs. indices

<table>
<thead>
<tr>
<th></th>
<th>GHS forecast(^4)</th>
<th>FTSE Small Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>EV: sales</td>
<td>0.6x</td>
<td>1.0x</td>
</tr>
<tr>
<td>EV: EBITDA</td>
<td>3.5x</td>
<td>11.8x</td>
</tr>
<tr>
<td>Sales growth</td>
<td>7.3%</td>
<td>6.3%</td>
</tr>
<tr>
<td>EBITDA growth</td>
<td>21.1%</td>
<td>N/A</td>
</tr>
<tr>
<td>Net debt: EBITDA</td>
<td>-0.2x</td>
<td>2.1x</td>
</tr>
</tbody>
</table>

Source: Bloomberg data as at 31 March 2019. Based on 970p, uses weighted value of holdings and takes into account the discount to NAV and cash holdings.

---

1. Discount to NAV as at 31 March 2019 and using GHS mid-price of 970p
2. See the “STRATEGIC PUBLIC EQUITY - TRACK RECORD” slide
3. “Stock pickers are poised to reap gains from falling correlations” Cormac Mullen, Bloomberg, 4 August 2017
4. GHS forecast values strip out two investments that are private companies and do not have public forecasts and exclude investments in convertible loan notes. Metrics take into account the discount to NAV and are calculated at a portfolio level including an allocation of portfolio level debt. Forecasts are calendarised to December year-end. Forecast represents 2019. Market ratios based on rolling 12 months.
### PERFORMANCE

1. 31 December 2018 to 31 March 2019
2. Inception 14 August 2015

Source: Bloomberg as at 31 March 2019

<table>
<thead>
<tr>
<th>Performance</th>
<th>2019 Q1$</th>
<th>12 months to 31 December 2018</th>
<th>12 months to 31 March 2019</th>
<th>Since inception to 31 March 2019$</th>
</tr>
</thead>
<tbody>
<tr>
<td>GHS NAV total return</td>
<td>5.5%</td>
<td>8.9%</td>
<td>8.0%</td>
<td>31.4%</td>
</tr>
<tr>
<td>FTSE Small Cap total return</td>
<td>5.1%</td>
<td>-13.8%</td>
<td>-3.1%</td>
<td>16.9%</td>
</tr>
<tr>
<td>FTSE All Share total return</td>
<td>9.4%</td>
<td>-9.5%</td>
<td>6.3%</td>
<td>26.8%</td>
</tr>
</tbody>
</table>

1. 31 December 2018 to 31 March 2019
2. Inception 14 August 2015
Inefficient market

- Lack of research for smaller companies, exaggerated by MiFID II, creates information anomalies

  The evidence¹:
  - 70% of Fund Managers think MiFID II will result in less research being produced on small- and mid-cap companies in the future, and nearly half (48%) already see less research being produced in these companies
  - 45% think that MiFID II will result in lower quality research on small- and mid-cap companies
  - 54% believe that MiFID II will negatively impact liquidity in small- and mid-size companies. Only 16% think this will be positive

- This creates a market opportunity in which active managers can spot value opportunities
- Regulation has forced some institutions up the market cap scale; RDR, liquidity needs, ‘client suitability’
- This has combined to create less competition for deals and means more attractive pricing and higher success rate

1. Peel Hunt - The New World of MiFIDII: Unintended Consequences. Mid & Small-cap investor survey April 2018
MARKET OPPORTUNITY (ii)

**Smaller companies**
- c.900 companies with market cap <£250m with a combined market cap of >£40bn
- Smaller companies offer higher growth rates at a lower price, delivering long-term outperformance
- Valuation differences persist between small and large quoted companies and Private Equity multiples
- ‘Small’ does not mean purely ‘UK’ - quoted companies have the majority of their revenue derived from outside the UK

**Value vs growth**
- Argument for a return to ‘fundamentals’ after a decade of low interest rate driven momentum
- Record distortion in the performance of ‘value’ style vs ‘growth’
WHAT IS STRATEGIC PUBLIC EQUITY?

An alternative investment strategy that applies private equity investment processes to public companies:

- Targets strong returns (IRR of 15% over 3-5 years) from investing in undervalued UK and European smaller public and private companies
- Identifies and takes influential (5-15%) stakes in profitable, cash-generative smaller companies
- Applies thorough due diligence to identify catalysts which can potentially increase company value
- Takes an active, long-term and engaged approach - to effect strategic, operational or management enhancements
- Applies private equity techniques to realise company value
- Example strategies include:

**Provision of primary growth / development capital**
- Opportunity to support M&A, organic investment, working capital requirements or strengthen the balance sheet and reduce debt

**Supporting change of culture / strategic focus**
- Includes operational improvement initiatives / turnaround
- Disposal of non-core businesses / re-focus of capital allocation
- Often includes a change in chairman / other management

**Taking businesses off the market**
- Includes initiation of a process which follows recognition that the company is not suited to the public markets in its current form
- Partnering with private equity
- Sale to trade

**Off-market private deals**
- Using relationships to structure attractive deals and minimise competitive dynamic
- Leveraging links into the PE investment community
Four stage investment process, with multiple touchpoints with Investment Committee input.

Idea generation
- Bloomberg Screens
- Corporate Advisers
- Watch List
- Investor Community
- M&A Transactions
- GHAM advisory network

Stage 1: Sourcing
- Investment one pager

Stage 2: Due Diligence
- Preliminary Investment Report

Stage 3: Equity value plan
- Final Investment Report

Stage 4: Management and exit
- Execution and exit

Materials
- Company overview
- Investment thesis
- Initial meeting with management
- Site visits
- Stakeholder analysis
- Feasibility
- Full Financial Model
- Engage IC and advisory network
- Analysis sessions with management
- Downside modelling
- Due diligence reports
- External research
- Referencing
- Investment reviews
- Thesis tracking
- Quarterly meetings with management and Board
- Changes to estimates
- Engaged with advisors

PROCESS (i) - MODELLED ON PRIVATE EQUITY
PROCESS (ii) - QUALIFYING OPPORTUNITIES

- 20+ years of experience has refined the strategy and deal focus
- Developed a circle of confidence around targeted criteria which increase likelihood of enhanced returns and reduce execution risk
- Criteria focus on ensuring:
  - Practical likelihood of a meaningful position at an attractive price
  - Value creation thesis understood
  - Ability to influence outcome; strong relationships
  - Route to exit

‘Smart entry point’
- Self-originated or influenced transactional entry point
- Typically an equity issue (primary) or ‘block trade’ (secondary)
- e.g. Northbridge, Chorion, Hampson Industries, RPC

Clearly identified investment thesis
- Valuation vs PE transactions and peer group/historic
- Capital structure and Profit growth analysis
- Investment committee process

Engagement and influence
- Regular management dialogue
- Management plan agreed
- e.g. Hampson, RPC, Journey Group

Catalysts and exit identified
- Catalysts that can be supported by a strategic investor
- Agreed with management teams pre-deal
- e.g. IMI Mobile, 4Imprint

High proportion of deal opportunities are ‘created’ by the manager as a result of strong relationships.
The engaged and active strategy allows the manager to support and advise investee companies. The aim of achieving catalysts to value creation by improving one or more of:

- Earnings growth
- Rating
- Cash generation /de-gearing

<table>
<thead>
<tr>
<th>Capital re-structuring</th>
<th>Board changes</th>
<th>Corporate advisory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide funding source for growth opportunities or to strengthen balance sheet.</td>
<td>GH team or advisory network members to increased breadth or depth of boards.</td>
<td>Provide advisory support on M&amp;A, strategy, operations, and corporate cultural matters.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Advisory network</th>
<th>IR and PR improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage advisory network to introduce useful contacts for business development or advisor.</td>
<td>Improve market communications and press coverage. Introduce additional brokers and/or research.</td>
</tr>
</tbody>
</table>
### GRESHAM HOUSE STRATEGIC PLC - TOP 10 PORTFOLIO HOLDINGS

<table>
<thead>
<tr>
<th>Company</th>
<th>Value (m)</th>
<th>Description</th>
<th>Other Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMI mobile</td>
<td>10.4</td>
<td>Secondary - growth and re-rating; reinvestment of cash flows</td>
<td>£2.0m</td>
</tr>
<tr>
<td>Augean PLC</td>
<td>6.9</td>
<td>Secondary - cash generation, performance recovery and re-rating</td>
<td>£1.7m</td>
</tr>
<tr>
<td>NORTHBRIDGE</td>
<td>6.2</td>
<td>Recovery and growth - equity convertible loan note</td>
<td>£1.2m</td>
</tr>
<tr>
<td>BeHeard</td>
<td>3.3</td>
<td>Original investment through growth capital - equity and convertible loan note. Now focused on integration, cash generation and organic growth</td>
<td>£1.2m</td>
</tr>
<tr>
<td>MJ Hudson</td>
<td>2.5</td>
<td>Pre-IPO growth capital - equity and convertible loan note</td>
<td>£1.1m</td>
</tr>
</tbody>
</table>

**NAV £44.6m (1,253.9p)**

**Other investments - £4.0m**

**Cash and cash equivalents - £4.1m**

**Tax losses - c.£135m**

1. NAV per share, cash and holdings value data as of 31 March 2019 using mid-price per share data
1) Northbridge over gears at top of the oil and gas cycle, P&L and B/S both come under pressure

2) Company appears on screens team begin desktop DD and engagement with advisors

3) Site visits, third party reports and financial modelling confirm investment case

4) IC discussion agrees with thesis. GH give presentation to management on funding options that a strategic investor could provide

5) GH underwrites equity issue at 75p to inject capital alongside management in a primary self-originated deal

6) GH provides further primary funding through exclusive convertible loan note issue to consolidate banking relationships and provide flexibility to invest for growth

Full case study available in the appendix of this slide deck
Company on watchlist for 1yr+, price weakness gave the team an opportunity to reconsider it at a more attractive valuation.

Team undertakes DD to understand the complex HMRC situation, before making an initial investment of 3m shares at 26p in September 2017.

Position increased as we further developed our understanding of the investigation and the company’s response - generating greater conviction. Position increased between July and November 2018 at an average of 47p.

>10% fund weighting achieved at an average price of 38p.

Company currently trading at 95p\(^1\) per share, delivering unrealised returns of 2.8x MM and 132% IRR.

Full case study available in the appendix of this slide deck.

1. Price as at 31 March 2019
Twenty years of investment experience, over 15 focused on ‘strategic equity’ investing.

- Five consecutive funds following SPE strategy have all outperformed by an average of 10.7% per annum\(^1\)

<table>
<thead>
<tr>
<th>Fund</th>
<th>Years</th>
<th>Track Record</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gresham House Strategic plc (&quot;Closed Fund II&quot;)</td>
<td>2015 - present</td>
<td>NAV per share total return 30.8% since inception(^2) vs 16.9% for SMXX</td>
</tr>
<tr>
<td>Gresham House Strategic Public Equity LP (&quot;LP Fund III&quot;)</td>
<td>2016 - present</td>
<td>Money Multiple 1.31X, IRR 15.8%(^2)</td>
</tr>
<tr>
<td>Strategic Equity Capital plc (&quot;Closed Fund I&quot;)</td>
<td>2005 - 2010</td>
<td>11% IRR since 2007(^3)</td>
</tr>
<tr>
<td>Schroder Ventures Strategic Recovery Fund II (&quot;LP Fund II&quot;)</td>
<td>2006 - 2011</td>
<td>6% net IRR(^4) (06 Vintage). Remaining equity investments distributed to LPs in specie(^5): E2V plc +78%, Journey Group plc +34% and Lavendon Group plc +12%</td>
</tr>
<tr>
<td>Schroder Ventures Strategic Recovery Fund I (&quot;LP Fund I&quot;)</td>
<td>2003 - 2006</td>
<td>46% net IRR(^4) (03 Vintage)</td>
</tr>
<tr>
<td>Schroder Ventures UK Focus Fund</td>
<td>2003 - 2010</td>
<td>78% total return 2003 - 2010 vs 14% for SMXX(^6)</td>
</tr>
<tr>
<td>Philips &amp; Drew (UBS) UK Equity Fund</td>
<td>1999 - 2002</td>
<td>Top Quartile vs CAPS UK Equity Median</td>
</tr>
</tbody>
</table>

Blue highlighted rows represent the funds in the SPE Strategy.

Past performance is not necessarily indicative of future results, and there can be no assurance that the fund will have comparable results or that the fund will be able to implement its investment strategy or achieve its investment objective.

1. Average annual outperformance against FTSE Small Cap (Excluding investment trusts) Index across 5 funds totally £221m spanning periods from 2003 to 2019. Performance measured over life of fund/period relevant to the investment team’s involvement
2. Gresham House/ Fund administrators calculations to 31st March 2019
3. Gresham House Asset Management Limited calculations excluding dividends 7yr IRR from 2007 when SEC became fully invested to 2014, including period subsequent to the departures of Graham Bird (February 2009) and Tony Dalwood who left SVG in March 2011 having stepped down from the SEC Plc Investment Committee, moving to non-executive Chairman of SVGIM on 30 September 2010
4. GVQIM website
5. Bloomberg data (total return since 30 July 2013 when SRF II wound up through to 30th July 2015) – SEC Plc continues to follow an SPE style of investment and demonstrates the success of the strategy over the investment cycle
6. Bloomberg data - total return. Tony Dalwood left SVGIM in March 2011 therefore data tracked for UK Focus Fund from August 2003 (July inception) - 31 December 2010
INVESTMENT TEAM & INVESTMENT COMMITTEE

Investment team

Tony Dalwood  
Fund Manager  
Investment Committee (Chairman)

Started Gresham House Asset Management in 2015. CEO of Gresham House plc. Over 23 years’ experience in Public and Private Equity. Previously at SVG Advisers and SVGIM.

Graham Bird  
Fund Manager  
Investment Committee


Laurence Hulse  
Investment Manager


Investment Committee

Tom Teichman  
Investment Committee

30 years’ experience in VC’ and Banking. Co-Founder of The Garage. Previously CEO of Gresham House Strategic (formerly Spark Ventures).

Bruce Carnegie-Brown  
Investment Committee

Over 30 years’ experience in Private Equity. Currently at Lloyd’s Banking Group. Previously at Banco Santander, Aon UK Ltd, and Catlin Group Ltd.

Rupert Robinson  
Investment Committee

CONCLUSION

▪ **Investment team with a strong track record** of delivering long-term absolute returns

▪ **Attractive entry point** - 22.6\%\(^1\) discount to NAV

▪ **Significant potential upside** - realising intrinsic value of portfolio

▪ **Flexibility to take advantage of opportunities** - successful realisations have provided cash to reinvest

▪ **Timing** - compelling case for **small** vs large and **value** vs growth

▪ **Alignment** - Gresham House plc and team members owning >20% of the Fund

▪ **Portfolio investments compare favourably to the indices** on valuation, growth forecasts and gearing

▪ **Proposed dividend policy** - 15% per annum growth for each of the next three years paid via interim and final dividends

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1. NAV, cash and holdings value data as at 31 March 2019 using mid-price per share data
APPENDIX
THE SPECIALIST ALTERNATIVE ASSET MANAGER

- Specialist in five areas of alternative investment
- Focused on assets with long-term investment horizons and stable recurring management fee income
- Healthy pipeline for growth: Organic through structural increase in alternative asset allocations; Acquisitions alongside management value-add in terms of distribution, central functions and product development

**STRATEGIC EQUITY**

**PUBLIC EQUITY**
- Gresham House Strategic plc
- Gresham House Strategic Public Equity Fund LP
- LF Gresham House UK Micro Cap Fund
- LF Gresham House UK Multi Cap Income Fund

**PRIVATE EQUITIES**
- LMS Capital plc
- Baronsmead VCT plc
- Baronsmead Second VCT plc

**REAL ASSETS**

**FORESTRY**
- Gresham House Forestry Fund LP
- Forestry Partnership LLP
- Managed Accounts
- FIM Sustainable Timber & Energy LP (STELP)
- FIM Forest Fund I LP
- FIM Timberland LP

**NEW ENERGY**
- Hazel Renewable Energy VCT 1 & 2 plc
- FIM Solar Distribution LLP
- FIM Windfarms 2 LP
- Gresham House Energy Storage Fund (GRID) plc
- Wind Energy LP
- Managed Accounts

**HOUSING & INFRASTRUCTURE**
- Gresham House British Strategic Investment Fund (BSIF) LP

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<table>
<thead>
<tr>
<th>PUBLIC EQUITY</th>
<th>PRIVATE ASSETS</th>
<th>FORESTRY</th>
<th>NEW ENERGY</th>
<th>HOUSING &amp; INFRASTRUCTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gresham House Strategic plc</td>
<td>LF Gresham House UK Micro Cap Fund</td>
<td>Gresham House Forestry Fund LP</td>
<td>Hazel Renewable Energy VCT 1 &amp; 2 plc</td>
<td>Gresham House British Strategic Investment Fund (BSIF) LP</td>
</tr>
<tr>
<td>Gresham House Strategic Public Equity Fund LP</td>
<td>LF Gresham House UK Multi Cap Income Fund</td>
<td>Managed Accounts</td>
<td>FIM Solar Distribution LLP</td>
<td>-</td>
</tr>
<tr>
<td>Gresham House Strategic Public Equity Fund LP</td>
<td>LF Gresham House UK Multi Cap Income Fund</td>
<td>FIM Sustainable Timber &amp; Energy LP (STELP)</td>
<td>FIM Windfarms 2 LP</td>
<td>-</td>
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<td>LF Gresham House UK Micro Cap Fund</td>
<td>LF Gresham House UK Multi Cap Income Fund</td>
<td>FIM Forest Fund I LP</td>
<td>Gresham House Energy Storage Fund (GRID) plc</td>
<td>-</td>
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<td>FIM Timberland LP</td>
<td>Wind Energy LP</td>
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<td>Managed Accounts</td>
<td>Managed Accounts</td>
<td>Managed Accounts</td>
</tr>
</tbody>
</table>

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1. As at 31 December 2018

- c.£0.6bn
- c.£1.7bn
- £2.3bn

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1. As at 31 December 2018
DEPTH & BREADTH OF EXPERIENCE BEYOND THE CORE TEAM

**UK equities investment teams**
Covering quoted and unquoted investments

12

**Wider Investment capabilities**
Cover new energy, infrastructure, real assets

33

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**Gresham House Advisory Network**
Investment Committee’s, Industry experts

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**UK Equities Network**
Gresham House and Livingbridge network of former colleagues, advisors and peers
# Gresham House Strategic PLC - Shareholdings

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gresham House plc</td>
<td>22.9%</td>
</tr>
<tr>
<td>M&amp;G Investments Management Ltd</td>
<td>12.0%</td>
</tr>
<tr>
<td>Smith &amp; Williamson Investment</td>
<td>6.5%</td>
</tr>
<tr>
<td>Unicorn Asset Management</td>
<td>5.6%</td>
</tr>
<tr>
<td>Hargreaves Lansdown Asset Management</td>
<td>4.8%</td>
</tr>
<tr>
<td>Miton Asset Management Ltd</td>
<td>3.7%</td>
</tr>
<tr>
<td>Berkshire County Council</td>
<td>3.0%</td>
</tr>
<tr>
<td>Alliance Trust Savings</td>
<td>2.8%</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>2.6%</td>
</tr>
<tr>
<td>Investec Wealth &amp; Investment</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

1. As at 31 March 2019, most recent Link Asset Services shareholder report and accounting for subsequent TR-1 notifications
PARTIAL INVESTMENT EXIT - IMIMOBILE

The story

IMImobile provides software and services centred around mobile data and consumer engagement, helping enterprise clients engage and transact with their customers more efficiently through mobile devices. It was one of Gresham House’s initial holdings for GHS.

1. Undervalued, misunderstood, Gresham House developed a strong understanding of the operating model and IP
2. Market leader in a sector driven by macro mega-trends
3. Clearly defined catalysts
   a. Improved governance and clarity on board management structure
   b. Improved market communications strategy and share register restructure
   c. Simplified capital structure
   d. Deployment of balance sheet resources to increase scale

Original investment thesis

<table>
<thead>
<tr>
<th>Re-rating</th>
<th>Trading at a discount to peers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Re-rating to peer group average (peer group remains on premium)</td>
<td></td>
</tr>
<tr>
<td>• Company has a history of being misunderstood - now improving</td>
<td></td>
</tr>
<tr>
<td>• Use of channel partners and resellers to accelerate growth</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Earnings growth</th>
<th>Organic with proven M&amp;A capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increasing exposure to higher margin areas and geographies</td>
<td></td>
</tr>
<tr>
<td>• Significant structural growth drivers - global trend towards digital communications and engagement via mobile devices</td>
<td></td>
</tr>
<tr>
<td>• Significant operational gearing - clear target to grow EBIT margin</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash generation</th>
<th>Track record of strong cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Business is highly cash generative which supports reinvestment for growth and improving return on capital</td>
<td></td>
</tr>
<tr>
<td>• 86% cash: EBITDA conversion</td>
<td></td>
</tr>
<tr>
<td>• 94% revenues are recurring</td>
<td></td>
</tr>
</tbody>
</table>

Partial realisation summary

| Original value of realised stake £m: | £11.4m |
| Cost price:                          | 155p   |
| Date of original investment:         | August 2015 |
| Realised IRR:                        | 27%    |
| Realised profits                     | £8.6m  |
| Realised money multiple:             | 1.8x   |

We have been reducing our investment in IMI for three key reasons:

- Portfolio construction, IMI’s strong performance has swelled the weighting in the portfolio
- Achievement of many investment thesis catalysts and outcomes
- Significant liquidity opportunity in the secondary market

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1. IMImobile plc preliminary results 27 June 2018
2. Company interim results presentation 30 September 2017

Source: Bloomberg as at 31 March 2019
INVESTMENT - NORTHBURIDGE - GHS SHAREHOLDING
10.6% + £2M CONVERTIBLE LOAN NOTES

Recovery and growth capital investing alongside management.

The story

Northbridge manufactures specialist industrial equipment for sale and rental and is a leading global supplier of load banks. The company’s key markets are oil and gas and power generation.

The business came under pressure at start of the downturn in the oil and gas sector as E&P activity as well as wider capital spending (shipbuilding, power generation, construction). As the market begins to recover we expect the business to strengthen in line with our investment horizon.

Gresham House spent over six months engaging with the management team to support the next phase of the company’s growth plan.

Investment thesis

Re-rating

Recovery from stressed rating as market improves

- Underpinned by realisable assets - attractive entry point at 60% of net asset value
- Multiple expansion - entry EV/EBITDA at 4.8x representing a >60% discount to peers and a low point compared to the preceding 2 years’ trading range

Earnings growth

Cost reductions and trading conditions improve

- Margin recovery - profit growth as margins recover to long-term average
- Significant costs taken out of the business during the downturn
- Capacity taken out of the market during the downturn - company positioned for pricing power in an upturn

Cash Generation

Cash generation and significant reduction in capex

- Inherently strong cash flow generation from operations - free cash-flow yield of >20% at GH entry price
- Paying down debt to increase equity value

Value creation to realise intrinsic value

Successful renegotiation of banking covenants
Refinancing of balance sheet through underwritten equity issue
Engage new routes to market to grow revenues
Support management with board expertise
Sector recovery

GH engagement, funding and support

1. CLN has an exercise price of 125p and is 3yr 3m term paying an 8% coupon
2. Bloomberg data
3. Free cashflow yield GH 2017 forecasts (operating cashflow after interest and tax, less maintenance capex. EV based on fully diluted number of shares at 75p and forecast net debt)

Source: Bloomberg, as at 31 March 2019
Be Heard's strategy is to create a mid-size digital marketing network providing more flexibility than holding groups and greater scale than digital specialists can achieve.

Growth will be achieved through acquiring smaller, niche complementary businesses in the UK, US and Europe and organically developing capability.

Following an investment thesis breach, Gresham House has become increasingly engaged with company to recover shareholder value. This has included management changes and a revised approach to the cost base and strategy. These efforts have already begun to recover shareholder value.

**The story**

**Original investment thesis**

**Re-rating**

Scope for re-rating as business achieves scale

- Valuation arbitrage - larger companies in the sector currently in excess of >12x EV/EBITDA²
- If proven management team can repeat previous success market likely to re-rate the business as the growth story is realised

**Earnings growth**

Proven buy & build strategy led by sector leaders

- Track record of successful acquisitions provides scope for further M&A
- Adding new services to existing platform offers earnings accretion, cross-selling opportunities and margin improvement
- Significant revenue and cost synergies available from buy and build strategy

**Cash generation**

Opportunity for high-margin income once at scale

- Strong cash flow generation from operations and earnings growth expectation

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1. CLN has an exercise price of 3.5p and is 4yr term paying a 7% coupon
2. Bloomberg data for M&C Saatchi and Next Fifteen plc as of 29 September 2017 sourced from Bloomberg

Source: Bloomberg, as at 31 March 2019
AUGEAN - GHS SHAREHOLDING 7.0%

Secondary - recovery and cash generation.

The story

Augean is a specialist, hazardous waste management group operating through five divisions: energy and construction, radioactive waste services, industrial, incineration and drilling waste. The share price became distressed following an HMRC announcement of an investigation into the landfill tax paid by the company over the past four years (different types of waste processed by AUG are subject to differing tax brackets). Augean had been on our watchlist for some time, and the share price weakness gave the investment team an opportunity to reconsider it at a more attractive valuation.

GH spent three months understanding the company’s situation and meeting management, before making an initial investment. This position has been increased over time as we developed our understanding of the HMRC investigation and how the company would respond - allowing greater conviction. The company is fighting the investigation as it believes there is no liability, and in the meantime has undertaken a full strategic review to reduce costs and increase cash generation.

Original investment thesis

Re-rating

- Recovery from distressed rating as HMRC investigation concluded
- Visibility and conclusion of the tax investigation will allow the business to be valued on an EV basis
- Underpinned by tangible assets (waste sites)

Earnings growth

- Significant cost reductions and rationalisation of business divisions
- Margin recovery as loss-making divisions are sold or mothballed
- Significant cost-base adjustments grow margin

Cash generation

- Driven by cost-base adjustments
- Cash generation from improved margins
- Resolution of HMRC offers potential for return of cash to shareholders if charge is below cash reserves built up by that point

Value creation to realise intrinsic value

- Significant engagement
- Shareholder dialogue
- Initial engagement with Executive Chairman on HMRC issues
- Due diligence of HMRC position

GH engagement, funding and support

Source: Bloomberg, as at 31 March 2019
2009: Realisation strategy adopted

August 2015: Appointment of GHAM; realisation strategy ended, adoption of SPE investment policy

December 2015: Name change to Gresham House Strategic plc

August 2016: Launch of new ‘sister’ fund - Gresham House Strategic Public Equity Fund LP

April 2017: Maiden dividend (15p per share) and share buy-back totalling £900,000

July 2018: 17.25p dividend plus £1m buyback

September 2018: Three-year anniversary, strong returns ahead of benchmarks; realisations significantly ahead of targets

September 2018: Significant profitable realisation of 55% IMI holding

December 2018: Maiden interim dividend of 8.75p per share
RISK MANAGEMENT

Pre-deal
(typically 6 month lead-in time)

- Extensive due diligence and deal structuring
- Sessions with key management and Board
- Third party research and DD
- Referencing
- Investment Committee discussion and debate
- Leveraging advisory network contracts
- Downside modelling and sensitisation
- ‘Value’ investment orientation

Post-deal
(entry to exit)

- Advisory’ shareholder relationship
- Execution of identified catalysts
- Regular engagement with management
- Board representation
- Investment reviews with IC
- Thesis monitoring
- Ongoing market and product referencing
- Portfolio construction of diversified sectors and deal types

Mitigated risk
How Gresham House Strategic is outperforming

Simon Thompson

Gresham House Strategic surges as it cashes in some of its stake in IIMobile

Gresham House makes game-changing acquisition

I included shares in specialist asset manager Gresham House (GHE:424p) in my 2016 Bargain Shares portfolio at 312p and last rated them a buy at 410p, with a target of 460p ('On the earnings beat’, 5 March 2018). The company has since made an important acquisition, partly funded by a £15m placing at 410p a share, prompting a reassessment.

Small UK equity trust thrashing big name rivals revealed

Gresham House Strategic NAV Outperforms Benchmark In First Half

LONDON (Alliance Beresford) - Gresham House Strategic PLC on Thursday reported a year-on-year rise in...

Gresham House Strategic profit almost doubles; NAV up 10.7%

More on Investments

Throgmorton trust manager cuts number of investments

Source: SIMW

More on Simon Thompson

Seeking ‘value’ opportunities

Gresham House Strategic makes hay with IIMobile stake sale

More on Simon Thompson

Throgmorton trust manager cuts number of investments

More on Simon Thompson

Seeking ‘value’ opportunities

Gresham House Strategic plc Report best results so far

Gresham House Strategic plc (GSE.L) has today announced its first audited results for the year ended 31 March 2018.
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