

Quarterly Factsheet

Q3 – July 2016



Investment mandate: Strategic Public Equity (SPE) – targeting above market returns over the long-term

Gresham House Strategic plc (GHS) invests in UK smaller public companies, adopting the SPE investment strategy which applies private equity style techniques to construct a focused portfolio. The manager aims for significant engagement with investee company stakeholders in support of a clear equity value creation plan.

GHS – KEY FACTS

NAV per share:

1018p*

Benchmark: Unconstrained
Ticker: GHS

Share price:

775p**

Strategic Public Equity
investment mandate

* As of 1 July 2016.

** Mid price as of 1 July 2016.

FUND MANAGERS

Tony Dalwood **Fund Manager and Chairman Investment Committee**
20 years of investment and operating experience. Established SVG Investment Managers and launched Strategic Equity Capital plc and the Strategic Recovery Funds. Former CEO of SVG Advisers (Schroder Ventures London). Previous member of the UK Investment Committee at PDFM.

Graham Bird **Fund Manager**

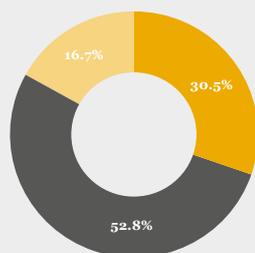
20 years of investment, advisory and operating experience. Previously Executive Chairman of paybyphone (a subsidiary of paypoint plc), Director of Strategic Investments at SVGIM and a Director within the Corporate Finance department at JP Morgan Cazenove.

SIGNIFICANT SHAREHOLDINGS*

	£m	% shareholding in Company	% of portfolio NAV
IMI Mobile	17.7	17.7	47.1
Be Heard Group	2.3	11.1	6.1
Northbridge Industrial Services	2.1	9.3	5.6
Quarto Group Inc.	2.1	4.6	5.6
Miton Group	1.1	2.9	2.9
SpaceandPeople	0.9	10.6	2.4
Net Cash and Other Assets	11.4		30.3
Net Asset Value	37.6		

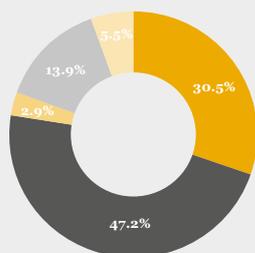
* As of 1 July 2016.

Mkt Cap breakdown



■ Cash and other net assets
■ £50 - £100m
■ £0 - £50m

Sector analysis



■ Cash and other net assets
■ Software and Computer Services
■ Financial Services
■ Media
■ Industrials and Engineering

SHARE PRICE PERFORMANCE 14 AUGUST 2015 – 14 JUNE 2016

Appointment of Gresham House and adoption of SPE Investment mandate in August 2015



Performance	Since appointment ¹ – Year end 31 March 2016	Since appointment ¹ – 1 July 2016	2016 – ytd ²
GHS NAV	1.03%	3.06%	2.78%
FTSE Small Cap (ex IT)	(2.76%)	(7.06%)	(5.41%)
FTSE All Share (ex IT)	(5.44%)	(0.94%)	3.33%
Relative performance			
Relative FTSE Small Cap (ex IT)	3.80%	10.12%	8.19%
Relative FTSE All Share (ex IT)	6.47%	4.00%	(0.55%)

1 14 August 2015 – First release of NAV since GHAM appointment as Investment Manager to GHS.

2 Performance run through to 1 July 2016.

MANAGER MARKET COMMENTARY

The FTSE All-share and Smaller Companies indices started the year with a continuation of the uncertainty and volatility that characterised Q4 2015. We saw a rebound into Q2 as fears of a rate rise dissipated following dovish rhetoric in the US and further central bank intervention. This was short lived with Brexit resulting in heightened risk aversion with Sterling falling significantly, down 11% against the Euro¹ and 11.7% against the US Dollar¹. The FTSE small-cap and FTSE 250 indices have been hit materially falling 6.4% and 9.2% on the day before recovering, ending down 2.8% and 7.8% by 8 June 2016¹.

We commented in factsheets earlier this year that the market average valuation was towards the upper end of historic

ranges (FTSE small-cap trading on c.16x PER, yielding 3%). This is against a backdrop where it will be tough to generate meaningful earnings growth given a slowing global economy, low inflation and operating margins nearing peak levels, a result of unprecedented low cost of capital following periods of quantitative easing. GHS therefore maintained a significant cash weighting in the portfolio.

Since then, and post 'Brexit' we have seen an element of market correction. However, indices are an average and hide dispersions and the increasing bifurcation of the market with larger growth and momentum stocks being favoured by investors to the detriment of smaller companies with 'value' characteristics that tend to face barriers to accessing growth

capital (see the *Gresham House H2 Investment Perspectives*). We believe this dislocation will continue as the premium placed on liquidity and the ability to sell at short notice increases. We continue to see significant opportunity to generate long-term superior returns by focusing on those areas of the market where inefficiencies can lead to valuation dislocation. This opportunity can be addressed by investing in smaller companies in support of a longer-term value creation plan with an identified catalyst(s) or exit in mind. We believe this requires significantly higher levels of engagement with investee management teams and Boards and more thorough due diligence, applying techniques typical of private equity.

INVESTMENT MANAGER REPORT

The Gresham House Strategic plc (GHS) NAV has been resilient, rising 3.1% since Gresham House Asset Management (GHAM) was appointed, outperforming the FTSE Small-Cap index by more than 10%. NAV increased 2% in Q2 2016.

At present we hold six companies in the portfolio with a medium term target which would see between 10 and 15 stocks representing more than 80% of the portfolio. The current holdings are attractively valued, with strong cash generation characteristics. Taking into account cash in the portfolio and the current share price discount to NAV per share, the portfolio is trading on an implied EV/EBITDA multiple below 5x², which is approximately half the average market rating, and offers estimated EBITDA growth prospects in excess of 10%, also twice the market average. We have an exciting pipeline, including private opportunities, which may potentially be pre-IPO, and we look forward to updating shareholders in due course.

A number of our portfolio holdings reported positive news flow in Q2. IMImobile announced solid final results on 5 July showing double digit organic revenue and gross profit growth, strong cash generation ahead of expectations and an increase in monthly recurring revenues now in excess of 90% of the group's total revenue. We continue to believe the stock is undervalued relative to its quoted peer group and also with reference to private market transactions. The company has good growth prospects both organic and with developed opportunity for selective acquisitions. Quarto Group commented on Q1 trading alongside its AGM in May confirming the business is performing in-line with expectations with respect to growth and debt reduction. This follows a strong set of final results announced in March which were slightly ahead of market expectations with good earnings growth and strong cash generation as a result of organic growth and the highly successful acquisition of Ivy Press. In April, Be Heard Group announced the completion of its acquisition of MMT and a new issue of shares raising £8m in new growth capital, cornerstoned by GHS and well supported by existing and new institutional investors.

We increased our holding to 11%. David Pountney (well known to the GHS team) was appointed as a new non-executive director in June. We invested in Northbridge Industrial Services plc in May initially taking an 8% stake investing alongside the management team and backing a recovery and growth strategy. There were no surprises in the AGM statement released later that month on 26 May and we have increased our holding up to 9% since.

We had disappointing news from both SpaceandPeople plc (SAL) and Miton Group (MGR) in Q2. SAL while reiterating that its core UK and German retail business was performing well warned that its S&P+ division was underperforming due to the loss of an anticipated contract post Brexit. The management team at that point decided to close the division. This has resulted in a downward revision to earnings and we now expect the company to deliver flat profits on last year. We continue to work closely with the management team and the Board. MGR announced the departure of two key fund managers in April. We continue to believe the company is attractively valued (almost half the share price is reflected in cash on the balance sheet) and are encouraged by the appointment of Andrew Jackson to manage the Value Opportunities fund. The management team's focus should now be on defending assets and returning the group to industry average operating margins. The MGR share price has more recently been impacted by Brexit.

The GHS team has made three new significant investments in 2016 all of which offer a mix of growth, recovery and consolidation opportunities and in all cases we are supporting strong management teams to deliver a 3-5 year value creation plan. Having written about Be Heard Group and Quarto in earlier factsheets, I cover Northbridge in more detail below.

Following extensive engagement with the management team to craft an appropriate transaction, we made an investment in **Northbridge Industrial Services (NBI)** in April. NBI hires and sells specialist electrical and oil & gas related equipment in a range of international markets, including the UK, US, Europe and Australasia. End markets include utility

companies, oil & gas, shipping, construction, data centres and medical facilities. Loadbank and transformer components are assembled by the group at its manufacturing facility in Burton-on Trent. The group has grown organically and through acquisitions, most recently by the acquisition of Tasman Tools which was completed in 2014. We initially engaged with the company's management team in H2 2015, exploring ways in which we could support the recovery and long term growth strategy. After a number of constructive discussions and due diligence, in April we acquired an 8% stake in the business through a primary issue of new shares. Significantly we participated as a cornerstone investor in the placing investing £1.5m of the £4.5m total and underwrote the £1.1m Open Offer. Throughout the investment appraisal process, we conducted site visits, and leveraged third party sector experts within our advisory network in addition to conducting independent research. We acquired shares at what we believe to be an attractive entry price representing a 40% discount to tangible net asset value and an estimated 4.8x EV/EBITDA multiple³. The equity issue has substantially reduced the company's debt and we believe further value can be created through debt pay down, given the strong cash generation and ability to reduce capital expenditure, plus a recovery of margins towards more normalised levels over the medium term. Importantly investor focus has switched from balance sheet concerns over debt covenant headroom to recovery and growth and the company is now well placed to exploit advantageously priced bolt on acquisitions.

Outlook

Market uncertainty following 'Brexit' has resulted in a reduction of institutional interest in new equity issues for small companies, and our view is that management teams are increasingly eager to engage with investors who are able to take a longer term view and who are willing to engage with the company's strategy. Many small companies can be viewed as 'private companies with a quote'. Consequently, we remain optimistic for the prospects and the returns from GHS which employs a private equity approach to quoted markets.

Graham Bird, Fund Manager, GHAM

1 Bloomberg data, 23 June 2016 – 8 July 2016. 2 Excluding cash and the holding in Be Heard Group plc where there are no live broker forecasts. 3 Gresham House calculation.

FUND INFORMATION

Investment Committee

Tom Teichman

30 years VC & banking experience having founded SPARK Ventures in 1995. Former Investment Committee member at Brandt's, Credit Suisse, Bank of Montreal and Mitsubishi Finance London. Start-up investor/director of lastminute.com, mergermarket.com and Chairman of notonthehighstreet.com

Bruce Carnegie-Brown

Chairman of Moneysupermarket.com Group plc. He is a non-executive director of Santander UK plc. He was previously a Managing Partner of 3i QPE plc, a Managing Director of JP Morgan and CEO of Marsh Ltd.

Rupert Robinson

Former CEO and CIO of Schroders Private Bank Rupert was previously Head of UK Wealth Management at Rothschild Asset Management.

Gresham House Asset Management

The asset management division of Gresham House plc (GHE).

It specialises in managing assets on behalf of third party clients focused on funds and co-investments across a range of differentiated and illiquid alternative investment strategies. The company is built around a long-term value investment philosophy and applies private equity techniques to due diligence and investment appraisal.

Investment Manager: Gresham House Asset Management Ltd (GHAM)

Annual Management fee: 1.5%

Performance fee: 15% over a 7% hurdle

Shares in issue: 3,687,504 (excluding shares held in treasury)

Stock Exchange Ticker: GHS

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