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Gresham House

Specialist asset management

GRESHAM HOUSE STRATEGIC PLC

JULY 2019

GRESHAM HOUSE ASSET MANAGEMENT LTD

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PRESENTING TEAM

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EXECUTIVE SUMMARY - STRATEGIC PUBLIC EQUITY

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

- **Opportunity to buy** at a 12.8% discount to NAV¹
- **Concentrated portfolio with considerable potential upside, attractively valued**
- **Proven team** - long-term 15-year track record² with strategy delivering an average of 11.5% outperformance per annum
- **Supportive market timing** - focused on undervalued areas (small cap, value) in a market that is increasingly favouring stock pickers³

GHS portfolio metrics vs. indices		
	GHS forecast ⁴	FTSE Small Cap
EV: sales	0.8x	0.9x
EV: EBITDA	4.3x	8.2x
Sales growth	8.9%	1.2%
EBITDA growth	26.3%	N/A
Net debt: EBITDA	-0.2x	1.9x

Source: Bloomberg data as at 30 June 2019. Based on 1165p, uses weighted value of holdings and takes into account the discount to NAV and cash holdings

1. Discount to NAV as at 30 June 2019 and using GHS mid-price of 1165p

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 twelve months

RESULTS HIGHLIGHTS

Investment highlights

- A top-performing UK small-cap fund¹, delivering a market-leading NAV Total Return of 8.0% from 1 April 2018 to 31 March 2019, vs -3.1% Total Return for the FTSE Small Cap Index
- NAV growth driven by the strong performance of several investments
- Realisations of £16.4m generating net profits of £5.4m against cost
- Value recovery plans are underway or currently being prepared in underperforming investments
- A Sharpe Ratio of 1.54 since inception, outperforming its peers² and indicative of an attractive risk reward profile

Operational highlights

- 20.4% total shareholder returns in the year; GHS share price rose from 827p to 970p
- Share price discount to NAV reduced from 30.0% at 31 March 2018 to 22.6% at 31 March 2019
- £1.9m cash returned to GHS shareholders via buyback and dividends
- Significant portfolio construction efforts to create a more balanced portfolio
 - IMImobile weighting reduced from 43% to c.20%
 - Five smaller investments exited
 - New strategic investments built in Augean and Pressure Technologies
- The recently announced Joint Venture between Gresham House and Aberdeen Standard Investments relating to the Strategic Public Equity (SPE) strategy, is expected to deliver significant positive benefits for GHS over the longer term

1. Data compiled by FE Trustnet and Morningstar for the year to 31 December 2018, shows that Gresham House Strategic plc outperformed all open-ended UK smaller companies funds and UK smaller companies closed-ended funds, achieving total NAV Total Returns of 8.9%. Since inception in August 2015, GHS has outperformed its benchmark by 13.3%

2. Data compiled and peer group defined by finnCap as at 21 June 2019

POST-PERIOD END

- Completion of sale of Tax Systems, generating £2.0m proceeds and £0.7m profit
- Announcement of a £2.5m strategic investment into Pressure Technologies, an AIM-listed engineering business, investing alongside other Gresham House funds creating a combined holding in Pressure Technologies in excess of 19%
- Completion in June of a pre-IPO £2.1m strategic investment into Lakes Distillery plc, by means of a fixed-return, secured Convertible Loan Note
- NAV Total Return performance has continued post-period end, up a further 1.4% to 1335.3p in the eight weeks to 30 May 2019, again outperforming the FTSE Small Cap (-0.9%) and the All-Share (-2.2%)

WHAT IS STRATEGIC PUBLIC EQUITY?

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

Influential minority stakes

(5%-25%) and **active management** of investments (including Board introductions, advisory)

Highly engaged strategy

Adding value as an active investor **supporting strong management teams**

Targeting inefficient areas of public markets

Smaller companies (illiquid, under researched, barriers to growth capital)

Focus on profitable, cash generative companies

Which are intrinsically undervalued and can benefit from strategic, operational or management initiatives

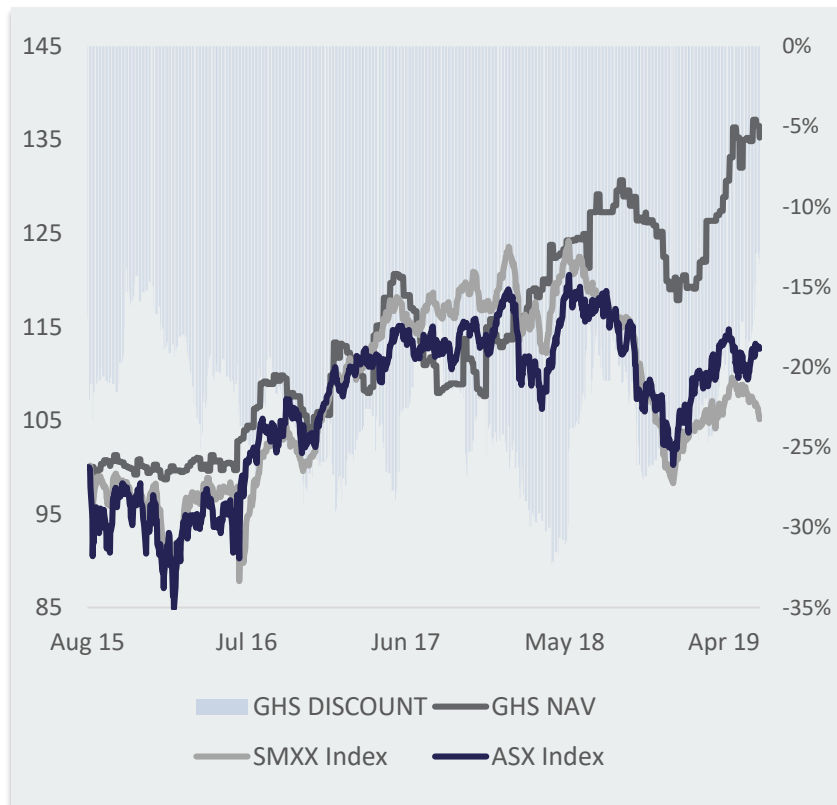
Thorough diligence to identify value creation catalysts

Improved return on capital, profit growth, multiple expansion, debt reduction and cash returns

Flexible mandate up to 30% can be invested in unquoted

Pre-IPO, direct private equity, P2P, preferred positions

PERFORMANCE



Source: Bloomberg as at 30 June 2019

Performance	2019 Q2 ¹	Since inception to 30 June 2019 ²	1 year	3 year
GHS NAV Total Return	8.0%	42.0%	15.5%	38.1%
FTSE Small Cap Total Return	2.5%	19.8%	-7.2%	28.8%
FTSE All Share Total Return	3.1%	30.7%	0.4%	32.1%

1. 31 March 2019 to 30 June 2019

2. Inception 14 August 2015

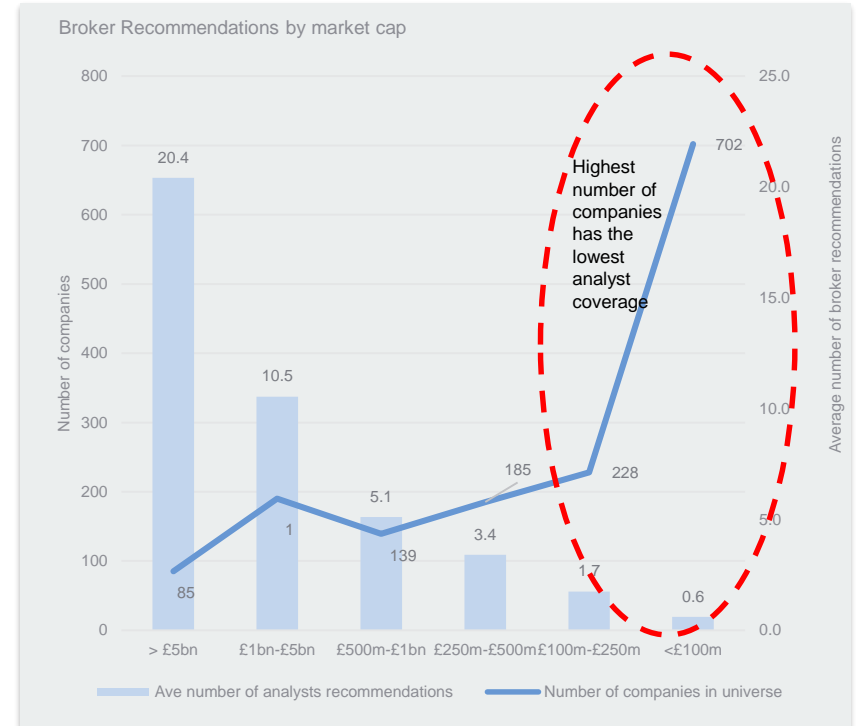
MARKET OPPORTUNITY (i)

Inefficient market

- Lack of research for smaller companies, exaggerated by MIFID II

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
- 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'
- Creates less competition for deals and means more attractive pricing and higher success rate



1. Peel Hunt - *The New World of MiFIDII: Unintended Consequences. Mid and Small-Cap Investor Survey April 2018*

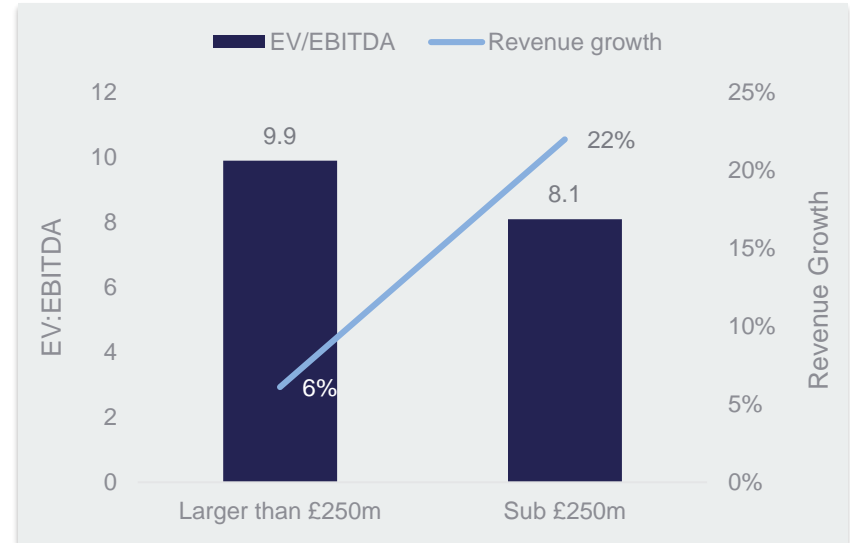
MARKET OPPORTUNITY (ii)

Smaller companies

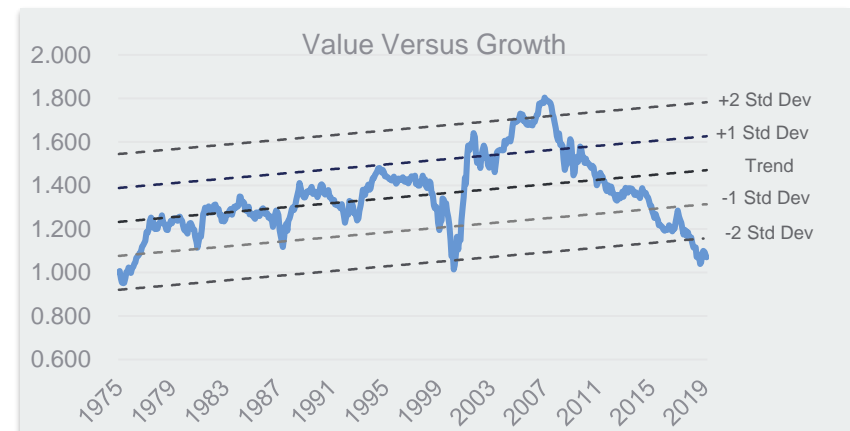
- c.900 companies with market cap <£250m with a combined market cap of >£40bn
- Smaller companies offer higher growth rates at a lower price
- Valuation differences persist between small and large quoted companies and Private Equity multiples
- 'Small' does not mean purely 'UK' - quoted companies have 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'



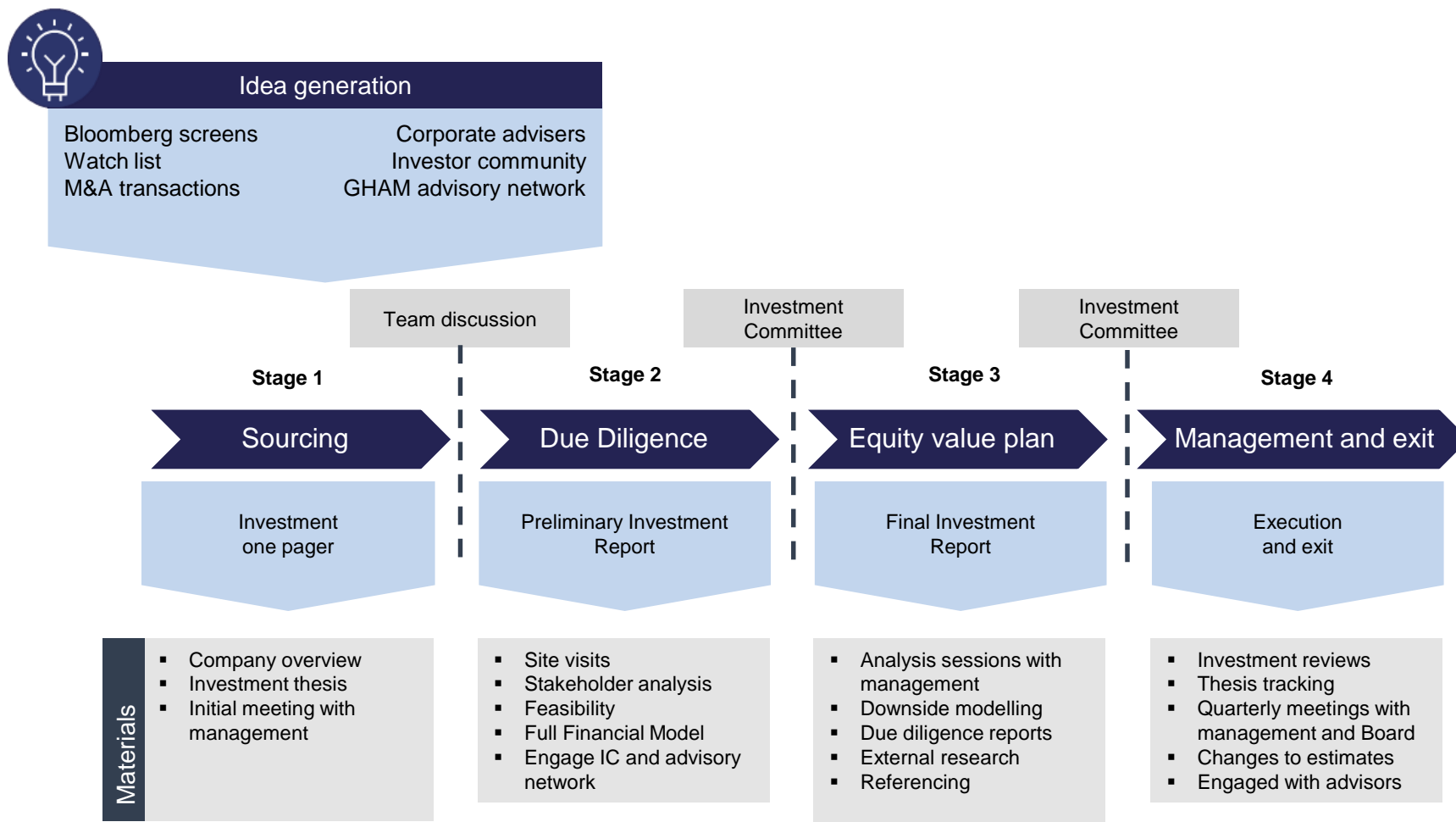
Source: Bloomberg



Source: Bloomberg

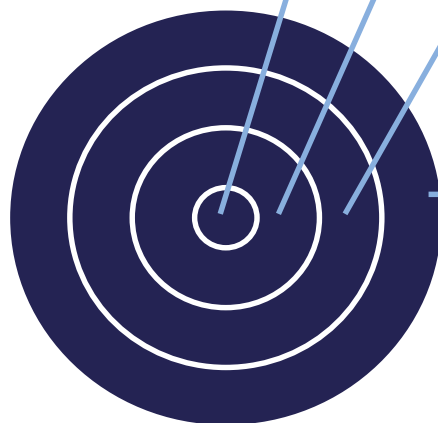
PROCESS (i) - MODELLED ON PRIVATE EQUITY

Four stage investment process, with multiple touchpoints and Investment Committee input.



PROCESS (ii) - QUALIFYING OPPORTUNITIES

- 15+ 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.

PROCESS (iii) - VALUE ENHANCEMENT

- The engaged and active strategy allows the manager to support and advise investee companies
- Aim of achieving catalysts to value creation by improving one or more of:
 - Earnings growth
 - Rating
 - Cash generation /de-gearing

Capital re-structuring

Provide funding source for growth opportunities or to strengthen balance sheet.

Board changes

GH team or advisory network members to increased breadth or depth of boards.

Corporate advisory

Provide advisory support on M&A, strategy, operations, and corporate cultural matters.

Advisory network

Leverage advisory network to introduce useful contacts for business development or advisor.

IR and PR improvements

Improve market communications and press coverage.
Introduce additional brokers and/or research.

GRESHAM HOUSE STRATEGIC PLC - TOP 10 PORTFOLIO HOLDINGS

NAV £47.5m (1,335.7p)¹

	£10.8m	Secondary - growth and re-rating; reinvestment of cash flows		£2.1m	Primary growth capital, Convertible Loan Notes
	£8.4m	Secondary - cash generation, performance recovery and re-rating		£1.8m	Primary growth capital
	£6.7m	Recovery and growth - equity convertible loan note		£1.8m	Pre-IPO growth capital - equity and convertible loan not
	£3.2m	Secondary recovery capital; strategic refocus to drive organic growth and cultural change		£1.4m	Secondary - strategic refocus; stabilisation and re-rating
	£3.2m	Original investment through growth capital - equity and convertible loan note. Now focused on integration, cash generation and organic growth		£1.4m	Secondary - strategic re-focus and operational improvement

Other investments - £3.7m

Cash and cash equivalents - £2.9m

Tax losses - c.£135m

1. NAV per share, cash and holdings value data as of 30 June 2019 using mid-price per share data

£2.1m Convertible Loan Note (CLN) - primary growth capital.

The story

The Lakes Distillery is a leading English distillery with a vision to create one of the prime single malt whiskies in the world. It has an impressive facility in the Lake District with seven income streams to support growth of the brand.

Having been introduced to the company via our advisory network, we got familiar with the equity story, before undertaking more detailed DD and deal structuring. This process was concluded over the course of 3 months with the insertion of a LN; instrument which pays 8% cash interest per annum plus 12% PIK (paid quarterly). The notes convert into equity on a flotation or sale.

Investment thesis - targeting a 20% IRR

Re-rating

IPO would likely allow for a re-rating on the valuation at which our CLN was set, which we could capture if rolled into floatation

Earnings growth

Revenue growth increases scale, also increases likelihood of liquidity event (IPO or bought)

Cash generation

CLN instrument which pays 8% cash interest per annum plus 12% PIK (paid quarterly in new notes)

Value creation to realise intrinsic value



Complete



In progress



To be completed

Growth capital provision via GH led Convertible Loan Note

CAPEX investment to increase output capacity across the distillery to capture growing demand and market opportunity

Release of next edition of single malt

Roll out of revised merchandise branding and designs

Additional longer-term investment in working capital

Working capital inflection point, where revenues from historic stocks surpass costs of investment in new stocks - to be completed

Liquidity event and repayment of GH Convertible Loan Note - IPO, refinancing or sale - to be completed

£2.5m Secondary recovery capital to support strategic refocus.

The story

Pressure Technologies (PT) is a specialist niche engineering business comprised of two key divisions;

1. Precision Machined Components (PMC) supplying key metallic components, that are destined for extreme or hostile environments in mission critical functions.
2. Chesterfield Specialist Cylinders (CSC) - the design, manufacture and maintenance of high-pressure gas cylinders for military and oil and gas/marine use.

The PMC division came under significant pressure in the oil and gas market downturn of 2014-2018, with the CSC division only just keeping the group afloat. We had been monitoring PT through this struggle for two years before deciding in April 2019 to invest after six months of engagement and due diligence on the new management team's strategy and end-market recovery potential.

Investment thesis - targeting a 20% IRR

Re-rating

Recovery from distressed rating to historic average, scope for premium on split and sale of two divisions

Earnings growth

Organic growth strategy delivers operational gearing

Cash generation

Earnings growth to drive significant cash yield relative to Gresham House entry price

Value creation to realise intrinsic value



Complete



In progress



To be completed

Disposal of loss making non-core division, return focus to core offering

Change of broker and advisers

Recruitment of new sales team and implementation of revised sales process and strategy

Management and Board restructuring

Leverage GH advisory network to support execution of organic growth strategy

Market recovery evidenced in company results

Implementation of incentive scheme

Exit opportunity via market or sale to consolidator

CONCLUSION

- **Attractive entry point** - 12.8%¹ discount to NAV
- **Significant potential upside** - realising intrinsic value of portfolio
- **Portfolio approaching ‘fully invested’** - cash weighting reduced to <7% NAV
- **Timing** - compelling case for small vs large and value vs growth
- **Investment team with a strong track record** of delivering long-term absolute returns
- **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
- **Announced final dividend** of 11.1p per share, bringing total dividends for the year to 19.85p, an increase of 15% year-on-year

1. NAV, Cash and holdings value data as of 15 June 2018 using bid price per share data

APPENDIX

GRESHAM HOUSE - INTRODUCTION

- London Stock Exchange quoted specialist alternative asset manager
- Offer funds, direct investment and tailored investment solutions
- Range of differentiated alternative investment strategies
- Committed to building long-term partnerships with clients to help them achieve their financial goals
- Structural provision of discretionary co-investment to larger clients

GRESHAM HOUSE ASSET MANAGEMENT LTD

STRATEGIC EQUITY

STRATEGIC PUBLIC EQUITY



Gresham House
Strategic plc



Strategic Public
Equity LP

OTHER LISTED EQUITIES

- LF Gresham House Micro Cap Fund
- LF Gresham House Multi Cap Income Fund

VENTURE & PRIVATE EQUITY

- Baronsmead VCTs (2)
- Private Assets (1)

REAL ASSETS

Specialist investment opportunities in:

- Forestry
- New Energy
- Housing & Infrastructure

GRESHAM HOUSE INVESTMENT DEPTH, EXPERIENCE, CLIENT SERVICES & RESOURCES

- Gresham House has a team of 47 investment professionals
- A range of other resources are centrally provided by Gresham House to enable the Investment Teams to focus on investment origination and execution
- Gresham House has a team of 51 supporting the ongoing investment activities

	Number of team members	Responsibilities
Technology, Operations and Support	19	Broad based support team to assist across multiple tasks.
Sales and Marketing	8	Investor relations and other client support functions.
Finance, Legal, Risk and Compliance	24	Central support to provide consistent reporting and group management. Central risk and compliance oversight supported by industry expert service providers.

Technology, Operations and Support



19
Full-time team

Sales and Marketing



8
Full-time team

Finance, Legal, Risk and Compliance



17
Full-time team



7
Intern/part-time team



47
Investment Professionals

As at 11 June 2019

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

Over 25 years' experience in Public and Private Equity industry and advisory.
Previously at SVGIM.
Joined Gresham House in 2015.



Laurence Hulse
Investment Manager

Over 4 years' investment experience.
Previously at Rothschild as an intern in the M&A team.
Joined Gresham House in 2015.

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

Over 25 years' experience in Private Wealth and Asset Management.
Previously at Schroders Private Bank.

TRACK RECORD

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 11.5% per annum¹

Fund	Years	Track Record
Gresham House Strategic plc ("Closed Fund II")	2015 - present	NAV per share total return 42.0% since inception ² vs 19.8% for SMXX
Gresham House Strategic Public Equity LP ("LP Fund III")	2016 - present	Money Multiple 1.38X, IRR 17.5% ²
Strategic Equity Capital plc ("Closed Fund I")	2005 - 2010	11% IRR since 2007 ³
Schroder Ventures Strategic Recovery Fund II ("LP Fund II")	2006 - 2011	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%
Schroder Ventures Strategic Recovery Fund I ("LP Fund I")	2003 - 2006	46% net IRR ⁴ (03 Vintage)
Schroder Ventures UK Focus Fund	2003 - 2010	78% total return 2003 - 2010 vs 14% for SMXX ⁶
Philips & Drew (UBS) UK Equity Fund	1999 - 2002	Top Quartile vs CAPS UK Equity Median

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 30 June 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

GRESHAM HOUSE STRATEGIC PLC - SHAREHOLDINGS¹

Shareholders	%
Gresham House plc	22.9%
M&G Investments Management Ltd	12.0%
Smith & Williamson Investment	6.5%
Unicorn Asset Management	5.6%
Hargreaves Lansdown Asset Management	5.2%
Miton Asset Management Ltd	4.9%
Alliance Trust Savings	3.1%
Berkshire County Council	3.0%
Credit Suisse	2.6%
Investec Wealth & Investment	2.5%

1. As at 30 June 2019, most recent Link Asset Services shareholder report and accounting for subsequent TR-1 notifications

GRESHAM HOUSE STRATEGIC PLC HISTORY

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

March 2019: Gresham House announces Strategic Public Equity joint venture with Aberdeen Standard Investments

June 2019: Announced final dividend of 11.1p 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

JOINT VENTURE WITH ABERDEEN STANDARD INVESTMENTS

- Announcement of a **Joint Venture between Gresham House plc and Aberdeen Standard Investments (ASI)**
- Joint Venture targeting the **launch of a new fund** utilising Gresham House's top-performing¹ **Strategic Public Equity (SPE) investment approach**
- Seeking to capitalise on **identifiable opportunity** from;
 - **Inefficiencies and valuation dislocations** in UK / European smaller companies markets
 - **MIFID II regulation and associated lack of research** driving opportunities for superior returns
- Leveraging **proven expertise and successful track record of Gresham House SPE team**¹ alongside **ASI's global distribution and product development capabilities**
- **ASI alignment of interests** through strategic 5% equity shareholding² in Gresham House plc
- Key benefits include **enhancing credibility of Gresham House** as leading alternative asset manager, **growing AUM and broadening the investor base for SPE strategy** plus other investment divisions in future

1. GHS plc the No.1 Smaller Company Fund over 12 months, including all closed and open-ended funds - source FE Trustnet and Morningstar as at 31 December 2018

SPE LP performing strongly, significantly ahead of its target returns

2. 5% of enlarged share capital post subscription

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Simon Thompson December 31, 2018

“How Gresham House Strategic is outperforming

Simon Thompson

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

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, part-funded by a £15m placing at 410p a share, prompting a reassessment.

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Market & Company News

Gresham House Strategic profit almost doubles; NAV up 10.7%

19 June 2018, 14:55

Source - SMM

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Gresham House Strategic plc

Gresham House Strategic plc Report best results so far

Published by greshamhouse 19 Jun 2018

Gresham House Strategic plc (GHE:424p) has today announced its final audited results for the year ended 31 March 2018.

investments November 26, 2018

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Simon Thompson

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The annual report of AIM-traded investment company **Gresham House Strategic** (GHE:424p), a constituent of my **2016 Bargain Shares Portfolio**, is well worth a read. The £39m market capitalisation company runs a portfolio of up to 15 companies and selects them by applying private equity techniques to UK and European smaller public companies with a view to generating a 15 per cent annualised return over the medium term.

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