

GRESHAM HOUSE STRATEGIC PLC QUARTERLY FACTSHEET



Q3 – SEPTEMBER 2018

Investment mandate: Strategic Public Equity (SPE) - targeting 15% IRR on investments over the long term.

Gresham House Strategic Plc (GHS) invests in UK smaller public companies, applying private equity style techniques to construct a focused portfolio. The Manager focuses on profitable, cash generative companies that it believes are intrinsically undervalued, aiming for significant engagement with investee company stakeholders in support of a clear equity value creation plan over the long term.

GHS KEY FACTS AS AT 28 SEPTEMBER

NAV per share:
1,264.0p

Share price:
1,000p¹

Benchmark:
Unconstrained

Strategic Public
Equity investment
mandate

Ticker:
GHS

1. Mid-price

FUND MANAGERS

Tony Dalwood Fund Manager, Investment Committee Chairman
23 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 (UBS Asset Management).

Graham Bird Fund Manager, Investment Committee Member
25 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.

TOP TEN SHAREHOLDINGS¹

	£m	Shareholding in company %	Portfolio NAV %
IMImobile plc	£11.0m	4.9%	24.6%
Northbridge Industrial Services plc	£6.0m	10.6%	13.3%
BeHeard	£3.1m	9.0%	6.9%
MJ Hudson	£2.3m	1.3%	5.1%
Centaur Media plc	£1.2m	2.0%	2.6%
Tax Systems plc	£1.7m	2.1%	3.8%
Augean plc	£2.3m	4.4%	5.2%
Escape Hunt	£1.7m	8.1%	3.9%
Private & Commercial Finance Group plc	£1.1m	3.1%	2.5%
Quarto Group	£0.6m	4.4%	1.4%
Other investments	£1.8m		4.0%
Cash & other working capital items	£12.1m		26.8%
Total NAV	£44.9m		

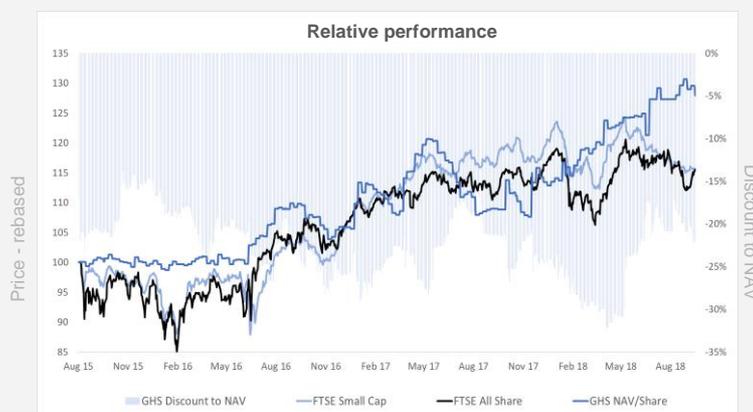
1. Top ten holdings are shown as at 28 September 2018 using mid-price data. Investments in Northbridge, BeHeard and MJ Hudson include equity and convertible loan notes

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 alternative investment strategies. The company is built around a long-term investment philosophy and applies private equity techniques to due diligence and investment appraisal.

SHARE PRICE PERFORMANCE 17 AUG 2015 – 28 SEPT 2018

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



Performance	2018 Q3	Since inception
GHS NAV total return	7.0%	31.5%
FTSE Small Cap total return	-2.1%	26.5%
FTSE All Share total return	-0.8%	29.0%
Relative performance		
vs FTSE Small Cap total return	9.1%	5.0%
vs FTSE All Share total return	7.8%	2.5%

1. To 28 September 2018

2. First NAV released on 17 August 2015 to 28 September 2018

MARKET COMMENTARY

It was another volatile and at times directionless three months for European equity markets, which remained largely range-bound and close to their all-time highs. The summer started strongly largely off the back of a strong Q2 earnings season (especially in the US) and what looked like amicable progress on Brexit. Frustratingly this was all given up in August and early September as the Trump administration ramped up trade rhetoric and uncertainty in Europe increased as Brexit negotiations soured and concerns about Italian sovereign debt re-emerged.

If a Brexit deal can be done, as we continue to believe it can, albeit in the final days after some dramatic posturing from both sides – then the case for UK equities is attractive on relative valuation grounds.

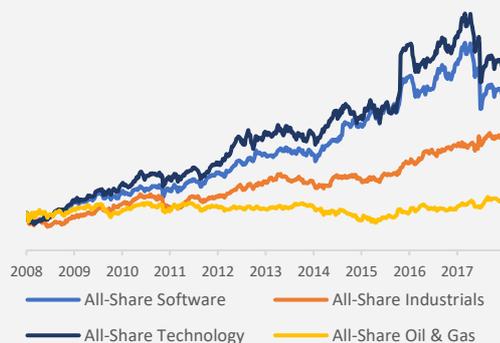
As a result, whilst wary of the stage in the cycle, we remain cautiously optimistic in our outlook for UK equities shorter term, especially when focusing on the UK on a standalone basis. We note with interest that after a spectacular Q1 and Q2 in the US, so far the percentage of companies issuing negative EPS guidance in Q3 has risen to 76% (98 of S&P 500 companies had issued guidance so far at the time of writing), above the five-year average of 71% and the highest since Q1 2016¹.

In the event of a Brexit deal we would expect to see an improvement in consumer confidence (helped by a likely stronger UK currency) as seen in the US over the past six months, and an element of catch up from withheld capital expenditure by businesses during the last two years of uncertainty. We are following developments closely and are engaged with our portfolio investments on their plans either way.

1. Zerohedge, Factset

All of this considered, we are selectively assessing interesting value opportunities, particularly those that offer defensive characteristics against a potential slowdown in global economic growth should trade wars escalate, and those that are not highly rated momentum stocks, a number of which have been propelled to lofty valuations during the current bull market. We are actively seeking differentiated investment opportunities that are already trading on attractive valuations, to provide some downside protection to any economic or market softness; our investment in Augean is a good example of this approach. We note in the chart below both the All-Share Software and Technology indices have recently significantly de-rated, losing much of their premium to Industrials and Oil & Gas sectors, thus validating our approach for the medium term.

This is a pragmatic stance in the light of slowing IMF economic growth expectations for the UK and Europe and an increase in political risks over the summer (namely protectionist economic policies) versus the attractive UK relative valuation argument. We look forward to updating shareholders with further progress early in the new year.



Source: Bloomberg data as at 26 September 2018

INVESTMENT MANAGER'S REPORT

We are pleased to report another three months of strong NAV performance, as the NAV per share reached a new high since GH took on the mandate (1290.7p as at 7 September 2018) within the quarter before retreating slightly. In the three months to the end of September, the NAV increased 5.5% growing from 1198p at the start of the quarter and ending at 1264p against an ongoing back drop of directionless market volatility, as trade war and Brexit uncertainty offset strong earnings performance, especially in the US economy. In the year to 30 September 2018, the NAV per share is up 13.4%, the FTSE All Share and FTSE Small Cap (excluding Investment Trusts) declined -2.2% and -4.4% in the same period respectively.

Following some realisations in Q2 and Q3, we currently hold investments in 15 UK companies (11 >2.0% NAV) with c.25% of the portfolio in cash. We are evaluating some interesting opportunities both in our toehold investments and new ideas pipeline – while remaining cautious at this stage in the cycle.

We feel well positioned for the second half of the financial year as investment theses in some of our holdings start to gain traction; notably in Northbridge, Augean, Tax Systems and IMImobile – with BeHeard seeming like its worst days are behind it.

Augean (AUG)

It was a pleasing summer for Augean as the company began to deliver on elements of our investment thesis, with better than expected cash generation and margin growth. The company released a bullish trading update and a stronger than expected set of interims, citing 36% YoY pre-tax profit growth. Much of this is down to the strategic changes and cost reduction programmes that we subscribed to 12 months ago when we made our investment. Credit should go to the management team for delivery on this. It had become clear that the strategic changes were being well executed and as such we added to our investment over the summer.

The cost savings combined with sales growth announced with the interims indicate that the company will end the year in a net cash position, with better than expected margins.

We look to the full-year results for signs of further progress on the next key catalysts: further progress on the HMRC investigation and additional earnings growth.

BeHeard (BHRD)

It was another eventful quarter for BeHeard. The quarter started with a downgrade to forecasts by the new CFO, Simon Pyper, based on a more realistic approach to forecasting in tougher trading conditions, which are not helped by Brexit uncertainty. This concluded a disappointing nine months for the business. It had become evident in January that change was required to rectify some of the operational issues the business was facing, and significant progress has now been made over the summer. Peter Scott left his position as CEO in August and was replaced by the FD, Simon Pyper as interim CEO, with Ben Rudman stepping up to COO and joining the board.

Simon and Ben have brought a fresh perspective to the operational management of the business, with a greater focus on the integration of BeHeard's divisional business and a new approach to cost and expenditure – both of which we are highly supportive of. The interim results in September flagged £2.0m of identified annualised cost savings which should help underpin the revised numbers – we are encouraged that like-for-like revenue growth was 18% despite the tougher trading environment. This combined with a revised approach to the cost base and budgeting should hopefully provide scope for better EBITDA performance over the coming years.

It was encouraging to see on the roadshow the working relationship that Simon and Ben have already built up as they presented their revised strategy to investors – we note the share price has rallied +40% since the profit warning lows and +20% since the results. It has also been pleasing to see some renewed institutional investor interest following the management changes and management share purchases following the results.

Partially realised investment – IMImobile (IMO)

It would be remiss not to cover IMI again in this factsheet following the significant profitable realisations made for shareholders over the summer. We sold a total 3.94m shares representing 55% of our stake at the end of Q2. The decision to realise some of our investment was driven by portfolio construction considerations – the strong performance of IMI from our 155p cost price, as the investment thesis played out, meant the already significant investment weighting had swelled to over 50% by the summer of 2018. We continue to have a bullish view of the company's future and remain highly supportive.

We sold down our position into strength in two blocks in the quarter to a mixture of new and existing institutions; interestingly both UK and US based, and we were pleased to generate an IRR of 28.6% and a 2.14x Money Multiple on these sales – a profit of £6.9m, well ahead of our target returns.

We retain a material 6.1% stake in the company and IMI now represents a c.25% weighting in the portfolio. We have a healthy reserve of dry powder, offering flexibility as we consider new investment opportunities.

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

Rupert Robinson Managing Director of Gresham House Asset Management Ltd. Former CEO and CIO of Schroders Private Bank Rupert. Previously Head of UK Wealth Management at Rothschild Asset Management.

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CONTACT

Sally Savery
Senior Marketing Manager
s.savery@greshamhouse.com
0203 903 0552

Graham Bird
Fund Manager
g.bird@greshamhouse.com
0203 837 6270

Investment Manager: Gresham House Asset Management Ltd (GHAM)
Annual Management fee: 1.5%
Performance fee: 15.0% over a 7.0% hurdle
Shares in issue: 3,555,330 (as at 28 September 2018, there are no shares held in treasury)
Stock Exchange Ticker: GHS