

GRESHAM HOUSE STRATEGIC PLC

Q2 FACTSHEET - 30 JUNE 2019

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. The SPE team has managed five consecutive funds since 2003, including GHS plc, following the SPE strategy and these on average have outperformed by 11.5% per annum.¹

KEY FACTS AS AT 31 MARCH 2019

NAV per share: **1,335.7p**
Mid-price: **1165.0p**

Benchmark: Unconstrained
Investment mandate: Strategic Public Equity

Ticker: GHS

FUND INFORMATION

Annual management fee: 1.5%
Performance fee: 15.0% over a 7.0% hurdle
Shares in issue: 3,555,330 (as at 29 March 2019, there are no shares held in treasury)

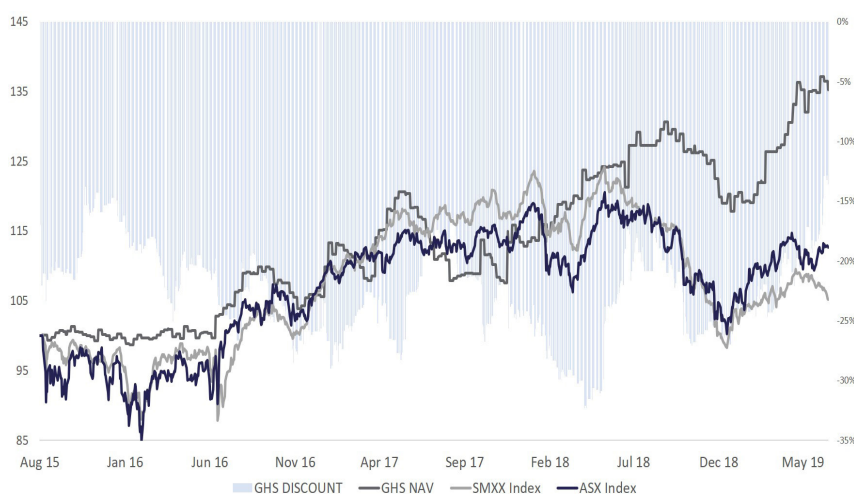
INVESTMENT MANAGERS

Graham Bird,
Fund Manager, Investment Committee Member, 25 years' 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.

Tony Dalwood,
Fund Manager, Investment Committee Chairman, 24 years' investment and operating experience. Tony is the CEO of Gresham House. Established SPE investment at SVG in 2002 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).

NAV PER SHARE RELATIVE PERFORMANCE

17 August 2015 - 30 June 2019 (Appointment of Gresham House and adoption of SPE investment mandate in August 2015).



Top ten shareholdings ⁴	£m	Shareholding in company %	Portfolio NAV %
IMImobile plc	£10.8m	5.0%	22.7%
Augean plc	£8.4m	7.0%	17.7%
Northbridge Industrial Services plc	£6.7m	11.0%	14.1%
Pressure Technologies plc	£3.2m	15.1%	6.8%
Be Heard plc	£3.2m	12.7%	6.7%
The Lakes Distillery Company plc	£2.1m	-	4.4%
Escape Hunt	£1.8m	11.6%	3.8%
MJ Hudson	£1.8m	1.0%	3.8%
Universe Group plc	£1.4m	11.3%	3.0%
Centaur Media plc	£1.4m	2.2%	3.0%
Other investments	£3.7m	-	7.7%
Cash and other working capital items	£2.9m	-	6.2%
Total NAV	£47.5m		

Performance	Q2 2019 ²	Since inception ³	1 yr	3 yrs
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%

The figures shown in the table above relate to past performance. Past performance is not a reliable indicator of future performance and should not be the sole factor in considering whether to invest in a product or strategy.

CAPITAL AT RISK

The value of investments may fall as well as rise and investors may not get back the original amount invested.

Investments in smaller companies may carry a higher degree of risk than investments in larger, more established companies.

INVESTMENT COMMITTEE

Tom Teichman: 30 years' VC and 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. Previously Head of UK Wealth Management at Rothschild Asset Management.

1. Average annual outperformance against FTSE Small Cap (excluding Investment Trusts) Index across 5 funds totalling £221m spanning periods from 2003 to 2019. Performance measured over life of fund/period relevant to the investment team's involvement. For existing funds, performance data is to 30 June 2019

2. 31 March 2019 to 30 June 2019

3. Inception 14 August 2015

4. Top ten holdings shown as at 30 June 2019 using bid-price data. Investments in Northbridge, Be Heard and MJ Hudson include equity and Convertible Loan Notes

INVESTMENT MANAGER

Gresham House Asset Management Ltd (GHAM)

Gresham House Asset Management, the asset management division of Gresham House plc (GHE), manages funds and co-investments across a range of differentiated alternative investment strategies for third-party clients. The company is built around a long-term investment philosophy and applies private equity techniques to due diligence and investment appraisal.

MARKET COMMENTARY

The UK equity markets saw a comparatively muted Q2 (FTSE Small Cap +1.9%) versus the economic and political headlines emanating from the UK or the market performance that preceded them in Q1.

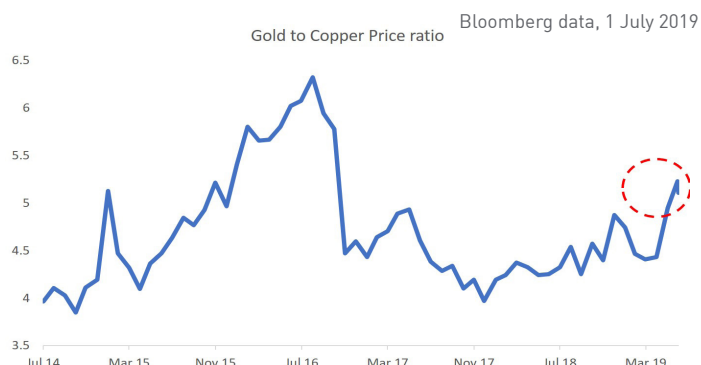
UK economic data and near-term expectations have weakened materially over the past three months, as concerns over Brexit, rising costs, and tougher global trading conditions have risen. The British Chamber of Commerce reported overseas orders hitting a four-year low and the increase in domestic orders its lowest since December 2012. We are also seeing a growing number of dividend reductions or cancellations.¹

Anecdotal evidence also provided cause for concern, with numerous high street brands going into receivership or restructuring, [British Steel](#) collapsing, and the [Ford Welsh engine plant closure announcement](#).

Whilst there are brighter spots - [unemployment at a 44-year low](#)² and the services sector seeing 'modest' order growth - we feel the backdrop of uncertainty supports our cautious approach and value orientation, as we seek companies with undemanding valuations that could be better isolated from any resetting of wider market expectations. In the quarter we saw private equity offers for companies returning to the market (including one of our own, Tax Systems), which has historically been an indicator of a late cycle environment.

We expect the second half of the year to be turbulent domestically, with a new Prime Minister elected and the 31 October Brexit extension deadline reached, set in a global atmosphere of trade tensions and growing investor caution.

We note that gold - an asset historically seen as defensive and a store of value in times of market volatility - reached a six-year high in June, breaking out of a long-term trading range and driving the gold to copper ratio up once more (see chart below). This ratio has traditionally been an indicator of falling market sentiment (copper prices being typically strong at times of economic expansion and weaker in slowdowns, while gold prices are typically strong at times of nervousness and weaker when sentiment is more bullish). We feel this is potentially an indicator of need for a more cautious approach.



INVESTMENT MANAGER'S REPORT

Positive first quarter NAV performance continued into Q2 2019, growing +6.5% from 1253.9p to 1335.7p, providing a pleasing three months of performance for our investors and a strong start to the new financial year.

At the end of the quarter GHS was the best performing UK Small Cap Investment Trust for the past twelve months, and best-placed amongst the 49 open-ended funds in the IA UK Smaller Companies sector.³ This was driven by strong performance from our investments in Pressure Technologies, Augean and IMmobile. There was also significant operational activity in the quarter, with the publication of our [Annual Report](#), the exiting of three investments (Tax Systems, Quarto, ProPhotonix), and two new investments being made, as detailed below:

Pressure Technologies (New Investment - £2.3m equity)

Pressure Technologies (PT) is a specialist engineering business comprising two key divisions:

1. Precision Machined Components - key metallic components, destined for

2. Chesterfield Specialist Cylinders - the design, manufacture and maintenance of high-pressure gas cylinders for military and oil and gas/marine use.

We had been monitoring PT through difficulties for two years before deciding in April 2019 to invest. This followed six months of engagement and due diligence on the new management team's strategy and end-market recovery potential. Our investment thesis is based on earnings growth driven by end-market recovery, and new client wins driven by cultural change and new management and sales teams. Together, we see the potential for this to generate significant returns over five years.

Lakes Distillery (New Investment - £2.1m Convertible Loan Note)

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. The company has already established UK and international sales bases.

Having been introduced to the company via a member of our advisory network, we were brought up to speed with the equity story, before undertaking more detailed DD and deal structuring. This process was concluded over the course of three months, with the issue of a Convertible Loan Note instrument paying 8% cash interest p.a., plus 12% payment-in-kind (PIK) (paid quarterly in new notes). The notes convert into equity upon flotation or a sale at a 2% discount to the flotation price, or are repayable on the third anniversary of issue.

Tax Systems

We were also pleased to see the execution of our takeover thesis for Tax Systems, at a final offer price of 115p. This compares to our entry price of 72p two years ago and delivered an Internal Rate of Return of 26.4% and 1.5x money. This equated to a profit of £0.7m for our investors, a great deal higher than our 15% IRR target. The shares were delisted shortly before our year end and the sale completed in the first week of April.

1. Source: British Chamber of Commerce

2. Source: Confederation of British Industry

3. Data compiled by FE Trustnet and Morningstar for the year to 30 June 2019, 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 6.5%. Since inception in August 2015, GHS has outperformed its benchmark by 13.3%.

CONTACT

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IMPORTANT INFORMATION:

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