



Since 1857

**Gresham House**

*Specialist asset management*

A close-up, shallow depth-of-field photograph of several stacks of coins on a dark, reflective surface. The coins are in sharp focus in the foreground, while the background is blurred.

# **GRESHAM HOUSE STRATEGIC PLC**

## **INTERIM RESULTS**

For the six months to 30 September 2018

**GHS invests primarily in UK and European smaller public companies, applying private equity techniques and due diligence alongside a value investment philosophy to construct a focused portfolio expected to be comprised of 10-15 companies.**

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### **Strategic Public Equity**

*A Private Equity approach to quoted companies*

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**The Investment Manager aims for a considerably higher level of engagement with investee company stakeholders, including management, shareholders, customers, suppliers and competitors, with the aim of identifying market pricing inefficiencies and supporting a clear equity value creation plan and targeting above market returns over the longer-term.**

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## HIGHLIGHTS

### INVESTMENT MANAGEMENT HIGHLIGHTS

- Three-year anniversary of management by Gresham House marked with strong NAV growth of 31.5% since inception and operational milestones achieved
- Portfolio significantly re-balanced: IMImobile stake reduced by 57% generating £7.3m realised profit
- Strong share price performances in key investments; Northbridge, IMImobile, Augean and Tax Systems
- £1.6m return of cash to shareholders via £1m buy back and £0.6m dividend (17.25p per share; versus 16.0p per share in 2017)

### FINANCIAL HIGHLIGHTS

- Share price total returns of 22.9% in the period and 34.3% since inception<sup>1</sup>
- NAV per share total return of 8.1% in the first half of the year following the 10.1% NAV per share total return in the six months to 31 March 2018
- NAV per share total return of 31.5% since inception<sup>1</sup> – outperforming comparator indices<sup>2</sup> by 5.0% and 2.5% respectively
- Realised profits of £7.9m in the period:
  - Profitable partial realisation of investment in IMImobile, generating a 28.3% IRR and 2.1x Money Multiple
  - Successful exits from Miton and Revolution Bars generating money multiples of 1.6x and 1.5x and IRR's of 26% and 144% respectively
- NAV discount to share price reduced from 30.2% at 31 March 2018 to 20.9% at 30 September 2018
- The Board has determined to propose a minimum 15% per annum dividend increase (from cumulative retained profits) over each of the next three years with an initial interim dividend of 8.75p per share (payable on 21 December 2018 to shareholders on the register on 30 November 2018) and future policy for returns to shareholders under review

### POST-PERIOD END HIGHLIGHTS

- Redeployment of capital commenced including two new initial investments post-period end

<sup>1</sup> Measured from 14 August 2015, the date of the first NAV publication after Gresham House Asset Management became Investment Manager

<sup>2</sup> FTSE Small Cap total return (excluding investment trusts) and FTSE All Share total return

# HEALTHY ABSOLUTE AND STRONG RELATIVE INVESTMENT RETURNS



**DAVID POTTER CHAIRMAN**

Dear Shareholder,

I am pleased to present the interim results for the six months to 30 September 2018.

The strategic public equity strategy has always maintained that it is a longer-term investment approach and I am pleased, that after only three years under the Gresham House investment management team, we have generated healthy absolute and strong relative investment returns.

The NAV and Share Price performances relative to the FTSE All Share and FTSE Small Cap total return indices were all positive, with NAV total return outperforming the FTSE Small Cap total return (excluding investment trusts) Index by 3.3%. The discount to NAV which stood at 30.2% on 30 March had reduced to 20.9% by 30 September, which is a reflection of various Manager and Company initiatives. A significant decision during the period was to reduce the IMImobile position. At 30 March, IMImobile represented 44.5% of the portfolio and at 30 September it had been reduced to 24.5%. The partial sale of IMImobile shares realised £13.8m cash proceeds and £7.3m realised profit with the result that our cash balance on 30 September was £12.1m. Notwithstanding this portfolio rebalancing, the Manager and Board remain strongly committed to IMImobile which has proved very successful to date.

The Manager is confident that the large cash balance will be deployed appropriately in due course, however recognises the fragility of the financial and geo-political markets and is therefore comfortable that the cash position will not represent a significant opportunity cost at this juncture.

During the period under review we used £0.9m of shareholders' funds for buy backs, which led to an increase of 0.6% in NAV per share, but more significantly, the reduction in the discount to net asset value during the period between the announcement of the buyback and its conclusion led to an increase in shareholder value as measured by the Company's market capitalisation as a result of the narrower discount of £3.8m.

The partial sale of IMImobile has prompted the Board to review our "returns to shareholders" policy. Three years ago, we launched the strategy with Gresham House with a stated policy of returning 50% of net realised profits from the sale of investments by way of dividends or share buy backs. After consultation with a number of shareholders we are considering whether to evolve our distribution policy to reflect a more regular and predictable approach and the realised profits from IMImobile provides flexibility for us to do this.



## CHAIRMAN'S STATEMENT

Initially, the Board has determined that we should set aside realised profits to enable a minimum 15% per annum dividend increase (from cumulative retained profits) over each of the next three years paid via an interim and final dividend split approximately 45%:55. On this basis, our maiden dividend in 2017 of 15.0p will have risen by 2021 to at least 26.2p representing an absolute increase of 75% over four years. Together with the buy back conducted in the current year, this will result in the return of approximately 43% of the year to date realised gains, substantially fulfilling our historic commitment whilst leaving scope for modest further returns from these realised gains in future. The next step towards achieving this is that we propose to pay an interim dividend of 8.75p per share to shareholders who are on the register on 30 November 2018. The dividend will be paid on 21 December 2018. As noted above, the Board is considering changing the future "returns to shareholders" policy which will be confirmed at the year end.

The Board will continue to review the efficacy of further buy backs set against the consideration that our fundamental objective is to drive shareholder value by growing funds under management alongside improvements in NAV per share, notwithstanding the proposed progressive dividend policy noted above.

The Manager's report gives more detail of the portfolio and movements therein. While we are keen on full and open disclosure, the Board felt that the half-year report was becoming too lengthy and so this year we have endeavoured to be more concise, we hope, without diminishing the information that shareholders need to assess their investment. Shareholders should also note that the Manager regularly provides video updates on the portfolio and performance on the Company's website and we would encourage investors to make use of this facility.

I should note that one consequence of the strong NAV performance is that the NAV per share at 30 September 2018 exceeded the hurdle at which the Investment Manager would be entitled to a performance fee at 31 March 2019 as set out in the circular to shareholders dated 21 July 2015 (a copy of which can be found on the Company's website). We have fully provided for this performance fee as though it was 31 March 2019. The amount of the performance fee provision, if any, fluctuates with movements in the net asset value per share and the impact of any changes is fully accounted for in the weekly net asset value notified through the London Stock Exchange.

The much-anticipated cooling of the bull run that we have seen since 2008 seemed to manifest in October. However, we believe that within hundreds of small cap companies, there remain opportunities to find and develop value. Whatever the final outcome of Brexit negotiations, the resulting greater certainty of "what the future holds" may well give a boost to the markets. The growing confidence in our Manager's ability to find value whilst the various dislocations emerge in company valuations continues to excite an Investment Team who have a track record of over 20 years of outperformance.

I would like to thank shareholders for their continued support.

**DAVID POTTER**  
CHAIRMAN GRESHAM HOUSE STRATEGIC PLC

21 November 2018

## INVESTMENT MANAGER'S REPORT

### INTRODUCTION

We are pleased to be able to report to shareholders on what has been a productive first half of the financial year for Gresham House Strategic plc ("GHS"). Supported by the Gresham House platform and wider resource, the Investment Team has delivered on a number of operational and investment initiatives in line with our investment philosophy both in the first half of the year and post period-end. It was particularly pleasing to mark our three year anniversary of managing GHS with strong NAV performance figures (30.8% three year NAV total return as at 17 August 2018) and a profitable partial realisation of IMImobile ("IMO") shares. These and other initiatives are detailed throughout this Manager's report. The key investment management highlights include:

- Significantly profitable partial realisation of investment in IMImobile, generating a 28.3% IRR, 2.1x Money Multiple and £7.3m profit
- Continued strong NAV performance, total return of 8.1% in the first half of the year following the 10.1% NAV total return in the six months to 31 March, helped by 'value' holdings
- NAV total return of 31.5% since inception<sup>3</sup> – outperforming comparator total return indices by 5.1% and 2.5% respectively
- Share price total returns of 22.9% in the period and 34.3% since inception<sup>3</sup>
- Significant portfolio re-balancing progress within the period and post period-end
- Meaningful return of capital to shareholders via buy back of £1.0m and dividend of £0.6m
- The Company had a c.30% cash weighting at the end of the period (26.8% net of other working capital items) which we are looking to deploy with caution, taking advantage of opportunities arising following market volatility since the period end
- Investment theses playing out, leading to strong share price performances in key investments; Northbridge, IMImobile, Augean and Tax Systems
- Material operational support and turnaround efforts with BeHeard and Quarto as we seek to recover value for our shareholders

In this Investment Manager's report, we write to shareholders about our high-level views of the UK economy and equity markets, summarise the NAV performance, portfolio and major dealing activity in the first half of the year. The report ends with our outlook for the rest of the year.

### MARKET COMMENTARY

It was another volatile and often directionless six months for equity markets in the reporting period, with markets remaining range-bound close to their all-time highs. Sentiment has moved between a more positive global growth narrative and bearish political concerns; most notably President Trump's trade policies, which repeatedly came into focus, and the possible impact of Brexit. The summer started positively, 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. Monetary tightening and rising interest rates added to the nervousness with concerns about Italian sovereign debt growing. This weakness towards the end of the period continued into October and developed into a more significant market correction as technology, bond proxies and momentum stock valuations de-rated; something we alluded to being increasingly likely in our Q3 investor factsheet. The AIM market and Russell 2000 suffered particularly heavy declines. However, for the purposes of the interim results we will focus on the reporting period in question.

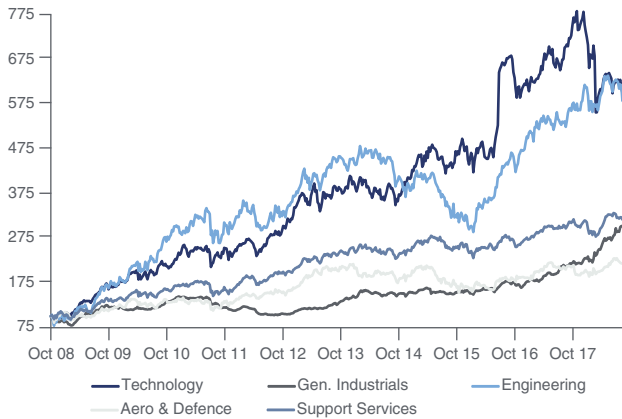
As we commented in our two most recent factsheets, while wary of the stage in the cycle and market valuations relative to historic ranges, we remain cautiously optimistic in our outlook, especially when focusing on the UK. Taking an objective view of the global economy and UK markets, there remains much to be positive about. As we have argued consistently in our market commentary over the past 12 months, we feel UK markets are well positioned to capitalise on any sustained growth of the global economy and progress on Brexit in the medium term.

If one puts the noise of Brexit and the recent market volatility to one side and looks at UK equity markets with a calmer mindset, some interesting moves and potential opportunities can be found. We have taken a particular interest in a few of these as we consider options for redeploying capital over the next six to 12 months. In our view, equity markets have been overdue a correction for some time, and underlying economic data, especially in the US and UK is stronger than many would have predicted 24 months ago as the Brexit process began and Trump was elected President.

<sup>3</sup> Measured from 14 August 2015, the date of the first NAV publication after Gresham House Asset Management became Investment Manager

## INVESTMENT MANAGER'S REPORT

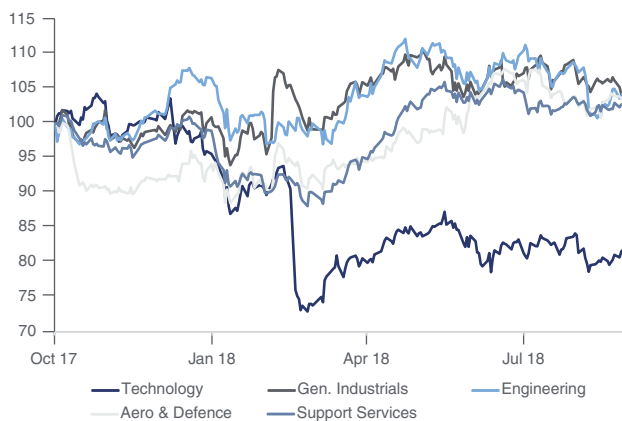
**Chart 1 – FTSE All-Share Sub-sectors 10 year performance (rebased to 100)**



Source: Bloomberg, as at 30 September 2018

There is clearly an element of sector rotation occurring within UK equities as the charts 1 and 2 illustrate – technology stocks which have been the top performers over the past decade have significantly de-rated over the past 12 months. Interestingly, more traditional companies, often those which have a value bias, have started to perform better on a relative and absolute basis. Standout performers over the past 12 months include general industrials and engineering, while technology is the laggard<sup>4</sup> at the time of writing. Anecdotally, we have seen a similar trend in our portfolio, which we comment on in a later section of this Manager's report.

**Chart 2 – FTSE All-Share Sub-sectors 1 year performance (rebased to 100)**



Source: Bloomberg, as at 30 September 2018

These two charts show investment opportunities; there are likely to be fundamentally good technology companies that have reduced in price over the past 12 months and therefore potentially offer value, at least on a relative basis. But it would also appear that more traditional sectors are going through a period of resurgence and are therefore likely to offer value on an absolute basis currently.

<sup>4</sup> Bloomberg data as at 30 September 2018

**Chart 3 – Russell 1000 Growth-Russell 1000 value Historic Spread**

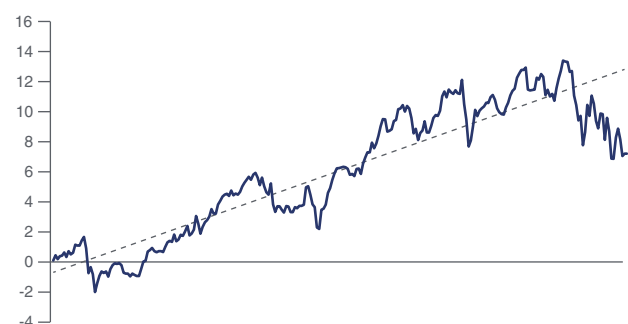


Source: Bloomberg, as at 07 November 2018

As value investors we find both of these phenomena interesting as we look to deploy capital and examine pipeline opportunities in an environment of rising interest rates. We have frequently communicated to our shareholders about the theme of value vs. growth; both in factsheets and previous reports. Picking up on some of the recent dynamics discussed above, some analysts are finally starting to call a rotation out of 'growth' stocks and a return to 'value' investments. Chart 3 above highlights just how out of favour value stocks have become, exceeding the extremes seen in the dotcom bubble as the spread between value and growth performance reached an historic high.

What is potentially exciting for our investment approach and shareholders, is focussing on the same metrics over the past 12 months. Chart 4 shows the same metrics over 12 months, with an improvement in the performance in value relative to growth, a clear break in the trend line is evident as growth stocks suffered during the market volatility of September and October. Whilst the evidence is only preliminary at this stage, in an environment of monetary tightening, moderate economic growth and significant corporate debt levels, there is arguably an environment where a reversion from growth stocks and increased appetite for value may finally be brewing. We have started to see similar anecdotal evidence within our portfolio, as we will now go on to discuss.

**Chart 4 – Russell 1000 growth, Russell 1000 value 1 year spread**

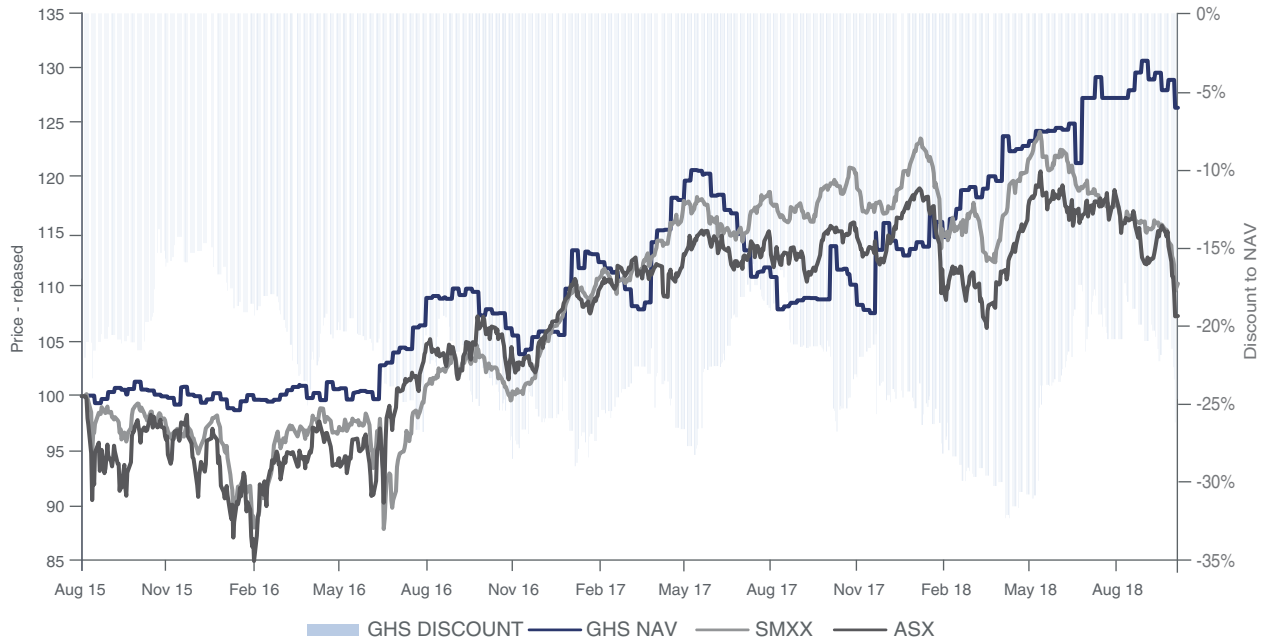


Source: Bloomberg, as at 07 November 2018

## INVESTMENT MANAGER'S REPORT

### PORTFOLIO PERFORMANCE

#### Relative Performance



Source: Bloomberg, as at 30 September 2018

| Performance (all indices are ex investment trusts) | H1 2018<br>Mar – Sept | Q2 2018<br>Mar – Jun | Q3 2018<br>Jul – Sep | Since inception<br>(Aug 2015) |
|--|-----------------------|----------------------|----------------------|-------------------------------|
| <b>GHS NAV total return</b>                        | 8.1%                  | 1.0%                 | 7.0%                 | 31.5%                         |
| <b>FTSE Small Cap total return</b>                 | 4.8%                  | 7.0%                 | -2.1%                | 26.5%                         |
| <b>FTSE All Share total return</b>                 | 8.2%                  | 9.1%                 | -0.8%                | 29.0%                         |
| <b>Relative performance</b>                        |                       |                      |                      |                               |
| <b>vs FTSE Small Cap total return</b>              | 3.3%                  | -6.0%                | 9.1%                 | 5.0%                          |
| <b>vs FTSE All Share total return</b>              | -0.1%                 | -8.1%                | 7.8%                 | 2.5%                          |

Against this backdrop of somewhat directionless and volatile indices, our value-oriented portfolio delivered strong returns for investors. Q2 saw a recovery by the markets following a weak March when our NAV outperformed strongly. Q3 saw continued positive NAV performance countering the retraction of the markets and the NAV has held up admirably post period-end as equity markets globally entered correction territory as “risk off” mentality swept over investors. The NAV per share grew from 1186.3p to 1264.0p in the period at one point reaching an all-time high of 1290.7p. Post-period end, it has contracted to 1246.9p<sup>5</sup> following the global market volatility in October – holding up well under the circumstances.

We were also able to return capital to shareholders via a buy back and dividend, which when combined with portfolio performance, created a NAV per share total return of 8.1% for

the period. While performance did weaken post-period end, we outperformed comparator indices materially as markets experienced greater volatility than our portfolio, resulting in outperformance of 6.7% against the FTSE Small Cap (excluding investment trusts) total return index and 5.3% against the FTSE All Share total return index between 31 March 2018 and 26 October 2018.

We currently hold investments in 15 UK companies (9 of which are over 2.0% of portfolio NAV) with c.30% of the portfolio in cash, offset by various provisions and accruals to leave net cash representing 26.8% of NAV.

<sup>5</sup> As at 26 October 2018



## INVESTMENT MANAGER'S REPORT

|  | £m            | Shareholding<br>in company<br>% | Portfolio<br>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%              |
| <b>Total NAV</b>                       | <b>£44.9m</b> |                                 |                    |

**Top 5 contributors to returns:**

| Investment                             | Total<br>Contribution | Uplift<br>to NAV |
|--|-----------------------|------------------|
| IMI Mobile plc                         | £5,613,405            | 12.9%            |
| Augean plc                             | £753,825              | 1.9%             |
| Northbridge Industrial Services plc    | £617,462              | 1.4%             |
| Tax Systems plc                        | £312,130              | 0.7%             |
| Private & Commercial Finance Group plc | £206,500              | 0.5%             |

**Top 5 detractors from returns:**

| Investment         | Total<br>Contribution | Detraction |
|--------------------|-----------------------|------------|
| Quarto Group Inc.  | -£701,093             | -1.6%      |
| Be Heard Group plc | -£590,061             | -1.4%      |
| Centaur Media plc  | -£368,529             | -0.9%      |
| SpaceandPeople     | -£347,875             | -0.8%      |
| Universe Group plc | -£168,288             | -0.4%      |

As the major holding in the portfolio, IMImobile was a significant contributor to NAV performance in the first half, increasing NAV per share by 12.9%. The share price rallied strongly to a high of 376p before settling at 349p by the end of September, a rise of 33% over the period. The strong share price performance followed the announcement of the acquisition of Canadian-based Impact Mobile on 3 July 2018. The deal provides an attractive entry point to the US market and is expected to provide a significant enhancement to earnings in future. The share price rose strongly benefitting our NAV per share accordingly.

It was pleasing to see a number of key catalysts identified in our investment thesis being achieved and the share price starting to reflect them, re-rating nearer to peer group averages which was a core pillar of our 'value' argument for IMImobile.

As we highlighted to investors in the Q3 factsheet and an RNS, we opted to reduce our holding during the period. This was an opportunity not only for some portfolio management for GHS (the rise in the IMO share price had resulted in IMO representing more than 50% of our NAV in early August) but it also enabled us to crystallise some of the strong performance from our 155p cost price. The share placing also allowed a number of new institutions onto the IMO share register which we believe will benefit the company in future. In total we sold shares representing 57% of our holding at 31 March 2018. The sales generated an IRR of 28.3% and a 2.1x Money Multiple and a profit of £7.3m, well ahead of our target returns. We retain a material 6.1% stake in the company reflecting our ongoing support. IMO now represents a 24.5% weighting in the portfolio.

On the other hand, BeHeard and Quarto remained the two more problematic investments in the first half of the financial year and they were the two biggest detractors to NAV performance, eroding 1.4% and 1.6% of NAV respectively.

It was another eventful six months for BeHeard, and we have become increasingly engaged with the Board and strategic direction of the business. The summer was dominated by a downgrade to forecasts by the new CFO, Simon Pyper, based on what we believe to be a more prudent and realistic approach to forecasting in tougher trading conditions. This concluded a disappointing nine months for the business. As we previously reported, it had become evident to us back in January that change was required to focus on integrating the acquisitions and improving the financial controls and forecasting. Significant progress has now been made to this end, notably since the arrival of Simon. Peter Scott left his position as CEO in August and was replaced by Simon Pyper as interim CEO, with Ben Rudman stepping up to COO and joining the Board.

We believe this new management team will bring a fresh perspective to the operational management of the business, with a greater focus on the integration of BeHeard's divisional businesses and a new approach to expenditure, both of which will be beneficial to the group. 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.

The profits warning created significant share price weakness, although we did see some recovery from the low point by the end of the period. However, this was still significantly down on the price at the start of the financial year (2.10p), creating a 1.4% negative contribution to the NAV.

## INVESTMENT MANAGER'S REPORT

Quarto's share price was equally weak in a dramatic six months that saw a shareholder revolt and weaker trading combine to drive the share price down from 150p to 73.5p, creating a -1.6% contribution to the NAV. Much like BeHeard, we have been heavily engaged with the company and its new major shareholder and interim CEO, C K Lau. Testament to our level of engagement was our introduction of Andy Cumming who joined the Board as a NED in January, and was appointed Chairman over the summer having been the only Board member to survive the shareholder revolt. The business continues to face a number of significant challenges created by the high debt levels, but we take significant comfort from the fact that Andy Cumming is involved, allowing the company to benefit from his significant banking and restructuring experience and background. Andy has played a significant role in negotiations with the banks and we were delighted to see the announcement on 1 November that Quarto has successfully extended its facilities for a further two years to August 2020. We continue to work hard for shareholders to recover value on our weakest performer in the portfolio and we look forward to providing more information in our Q4 factsheet.

Earlier in this report we highlighted traditional value investments that have driven performance and two good examples of this beyond IMLmobile are our holdings in Northbridge (+18.4%) and Augean (+79.6%) which uplifted NAV by 1.4% and 1.7% respectively.

We started the financial year by completing on a significant new investment into Northbridge Industrial Services ("NBI"), which we announced in April and had been working on for four months as we sought to help the company renew/refinance its banking facilities. GHS invested c.£2m into a £4m Convertible loan note ("CLN") alongside other Gresham House managed vehicles and co-investors allowing the company to repay one of its syndicate banks in full and negotiate more attractive terms from its lead banker. This represented an excellent example of the value add that the Strategic Public Equity (SPE) strategy can deliver to investee companies and thereby, to our investors. The deal was instigated, negotiated and delivered by us, providing attractive returns for our investors whilst offering the company the flexibility it needed. The key terms are an 8% coupon, 3-year 3 month term and a 125p conversion price. The CLN is convertible at any time on our instigation and we note the CLN is already trading 'in the money' with NBI shares currently at 142.5p<sup>6</sup>, while delivering an attractive yield to our investors. Our timing proved diligent as the recovery story, the lynchpin of our investment thesis, really began to take hold shortly after the announcement of the deal. The Oil and Gas market started to demonstrate green shoots of recovery and enquiries moved to orders at Tasman (oil tools division of NBI), crucially in Australasia and Malaysia where the company has a strong market position.

This increased activity has led to stronger demand for NBI's loadbanks and oil tools, but also the shares. The company took advantage of this demand and issued £2.5m of equity to fund accelerated CAPEX and to repay a final instalment of deferred consideration. The company subsequently announced encouraging interim results in September, supporting the share price and leaving Northbridge as one of our top performing investments in both percentage and monetary terms. The strong performance has continued post-period end.

Augean too had a strong six months as some key areas of our investment thesis began to play out, 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% year-on-year 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 to us that the strategic changes were being well executed and as such we added to our investment over the summer. The share price increase and further investment has now made Augean one of the larger positions within our portfolio which we continue to hold with conviction.

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 and notably further progress on the HMRC investigation.

Aside from the partial realisation of IMLmobile, the major realisation in the reporting period was our exit from our investment in Miton Group in April. Miton was one of Gresham House's initial investments for GHS, where we identified that the company was materially undervalued on an absolute and relative basis. A strong trading update at the end of March saw the share price trade up from around 38p to 43p+, above our target price which was based on the achievement of certain milestones we had identified. This effectively brought our thesis to a close; the majority of the milestones we identified have been achieved, including the demonstration of operational gearing, improved margins and capital management, reversal of the decline in AUM and a simplification of the Board and management structures. As a result, we capitalised on some significant liquidity in the secondary market. Our exit resulted in a total IRR on the investment of 25.9% and a 1.6x money multiple, contributing meaningfully to NAV growth over the past 3 years.

<sup>6</sup> Bloomberg data as at 29 October 2018

## INVESTMENT MANAGER'S REPORT

Other significant contributions to the NAV over the past six months include the following investments and we look forward to providing investors with further detail on these in the annual report and upcoming factsheets:

- Tax Systems grew the NAV by 0.7%
- PCF grew the NAV by 0.5%
- Centaur Media reduced the NAV by 0.9%
- SpaceandPeople reduced the NAV by 0.8%

### OUTLOOK

Equity markets remain volatile and many indices entered correction territory post-period end, validating our cautious approach to deploying the increased cash position we have built over the past six months. That said, we feel this volatility has and will continue to generate interesting opportunities for stock pickers and active managers, especially those adopting a value approach; we are building a substantial pipeline of strategic investment opportunities as UK smaller companies find it harder than ever to access capital and valuations become more fluid. As we noted in our Q3 factsheet, we are actively seeking differentiated investment opportunities that are already trading on attractive valuations, to provide some downside protection to any further economic or market softness. Our investment in Augean is a good example of this approach. We note in the charts shown above that both the All-Share Software and Technology indices have recently significantly de-rated, losing much of their premium to Industrials and Oil & Gas sectors, validating our approach for the medium term.

We have a growing pipeline of opportunities to deploy the cash generated from our recent realisations and expect to have some new investments by the end of the financial year. We look forward to updating investors on progress in our Q4 factsheet.

### GRESHAM HOUSE ASSET MANAGEMENT LIMITED INVESTMENT MANAGER

21 November 2018

# UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS TO 30 SEPTEMBER 2018

|   | Note | Six months to<br>30 September<br>2018<br>£'000<br>Unaudited | Six months to<br>30 September<br>2017<br>£'000<br>Unaudited | Year to<br>31 March<br>2018<br>£'000<br>Audited |
|---|------|---|---|---|
| <b>Continuing operations</b>  |      |   |   |   |
| <b>Gains on investments at fair value through profit or loss</b>  |      |   |   |   |
| Realised gains  | 5    | <b>7,894</b>  | 816   | 1,277   |
| Unrealised (losses)/gains in the period   | 5    | <b>(2,949)</b>  | 212   | 4,285   |
|   |      | <b>4,945</b>  | 1,028   | 5,562   |
| <b>Revenue</b>  |      |   |   |   |
| Bank Interest income  |      | <b>4</b>  | —   | 2   |
| Loan note interest income   |      | <b>308</b>  | 117   | 324   |
| Portfolio dividend income   |      | <b>209</b>  | 128   | 162   |
|   |      | <b>521</b>  | 245   | 488   |
| <b>Administrative expenses</b>  |      |   |   |   |
| Salaries and other staff costs  |      | <b>(67)</b>   | (67)  | (138)   |
| Performance fee provision   |      | <b>(1,645)</b>  | —   | —   |
| Investment management fees  |      | <b>(401)</b>  | (371)   | (741)   |
| Other costs   |      | <b>(265)</b>  | (255)   | (494)   |
| <b>Total administrative expenses</b>  |      | <b>(2,378)</b>  | (693)   | (1,373)   |
| Profit before taxation  |      | <b>3,088</b>  | 580   | 4,677   |
| Withholding tax expense   |      | —   | (8)   | (8)   |
| <b>Profit and total comprehensive income for the financial period</b>   |      | <b>3,088</b>  | 572   | 4,669   |
| <b>Attributable to:</b>   |      |   |   |   |
| – Equity shareholders of the Company  |      | <b>3,088</b>  | 572   | 4,669   |
| Basic and Diluted earnings per ordinary share for profit from continuing operations and for profit for the period (pence) | 7    | <b>86.00p</b>   | 15.64p  | 127.70p   |

There are no components of other comprehensive income for the current period (Sep 2017: £Nil, Mar 2018: £Nil).

# UNAUDITED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

OVERVIEW

FINANCIAL STATEMENTS

|  | Note | 30 September<br>2018<br>£'000<br>Unaudited | 30 September<br>2017<br>£'000<br>Unaudited | 31 March<br>2018<br>£'000<br>Audited |
|--|------|--|--|--------------------------------------|
| <b>Non-current assets</b>                                    |      |  |  |                                      |
| Investments at fair value through profit or loss             | 5    | 32,938                                     | 33,570                                     | 40,449                               |
|  |      | <b>32,938</b>                              | 33,570                                     | 40,449                               |
| <b>Current assets</b>  |      |  |  |                                      |
| Trade and other receivables                                  |      | 166  | 35   | 71                                   |
| Cash and cash equivalents                                    |      | 13,868                                     | 6,693                                      | 3,044                                |
|  |      | <b>14,034</b>                              | 6,728                                      | 3,115                                |
| <b>Total assets</b>  |      | <b>46,972</b>                              | 40,298                                     | 43,564                               |
| <b>Current liabilities</b>                                   |      |  |  |                                      |
| Trade and other payables                                     |      | (435)                                      | (1,039)                                    | (209)                                |
| Provision for performance fee                                |      | (1,645)                                    | –  | –                                    |
| <b>Total liabilities</b>                                     |      | <b>(2,080)</b>                             | (1,039)                                    | (209)                                |
| <b>Net current assets</b>                                    |      | <b>11,954</b>                              | 5,689                                      | 2,906                                |
| <b>Net assets</b>  |      | <b>44,892</b>                              | 39,259                                     | 43,355                               |
| <b>Equity attributable to the shareholders of the parent</b> |      |  |  |                                      |
| Issued capital   |      | 1,788                                      | 1,915                                      | 1,837                                |
| Share premium  |      | 13,050                                     | 13,060                                     | 13,060                               |
| Revenue reserve  |      | 19,217                                     | 13,574                                     | 17,670                               |
| Capital redemption reserve                                   |      | 10,837                                     | 10,710                                     | 10,788                               |
| <b>Total equity due to Ordinary shareholders</b>             |      | <b>44,892</b>                              | 39,259                                     | 43,355                               |
| <b>Net asset value per ordinary share</b>                    |      | <b>1,262.66p</b>                           | 1,074.41p                                  | 1,186.34p                            |
|  |      | <b>Number<br/>'000</b>                     | <b>Number<br/>'000</b>                     | <b>Number<br/>'000</b>               |
| Ordinary shares in issue                                     |      | 3,555                                      | 3,810                                      | 3,655                                |
| Shares held in Treasury                                      |      | –  | (156)                                      | –                                    |
| Shares in issue for net asset value per share calculation    |      | <b>3,555</b>                               | 3,654                                      | 3,655                                |

These financial statements were approved and authorised for issue by the Board of Directors on 21 November 2018. Signed on behalf of the Board of Directors.

**DAVID POTTER**  
CHAIRMAN

**CHARLES BERRY**  
DIRECTOR



## UNAUDITED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS TO 30 SEPTEMBER 2018

|  | Note | Six months to<br>30 September<br>2018<br>£'000<br>Unaudited | Six months to<br>30 September<br>2017<br>£'000<br>Unaudited | Year to<br>31 March<br>2018<br>£'000<br>Audited |
|--|------|---|---|---|
| <b>Cash flow from operating activities</b>                 |      |   |   |   |
| Cash flow from operations                                  | a    | (616)   | (97)  | (928)   |
| <b>Net cash outflow from operating activities</b>          |      | <b>(616)</b>  | <b>(97)</b>   | <b>(928)</b>                                    |
| <b>Cash flows from investing activities</b>                |      |   |   |   |
| Purchase of financial investments                          |      | (3,313)   | (8,501)   | (12,539)  |
| Sale of financial investments                              |      | 16,094  | 3,015   | 4,355   |
| Dividends received   |      | 209   | 120   | —   |
| <b>Net cash inflow/(outflow) from investing activities</b> |      | <b>12,991</b>   | <b>(5,366)</b>  | <b>(8,184)</b>                                  |
| <b>Cash flows from financing activities</b>                |      |   |   |   |
| Dividends paid   |      | (613)   | (548)   | (548)   |
| Share buy backs  |      | (938)   | (283)   | (283)   |
| <b>Net cash outflow from financing activities</b>          |      | <b>(1,551)</b>  | <b>(831)</b>  | <b>(831)</b>                                    |
| Change in cash and cash equivalents                        |      | 10,824  | (6,294)   | (9,943)   |
| Opening cash and cash equivalents                          |      | 3,044   | 12,987  | 12,987  |
| <b>Closing cash and cash equivalents</b>                   |      | <b>13,868</b>   | <b>6,693</b>  | <b>3,044</b>                                    |

### NOTE

#### a) Reconciliation of profit for the period to net cash outflow from operations

|   | £'000          | £'000        | £'000        |
|---|----------------|--------------|--------------|
| Profit before tax                       | 3,088          | 580          | 4,669        |
| Gains on investment                     | (4,945)        | (1,028)      | (5,562)      |
| Portfolio dividends and interest        | (209)          | (128)        | —            |
| <b>Operating results</b>                | <b>(2,066)</b> | <b>(576)</b> | <b>(893)</b> |
| Change in trade and other receivables   | (199)          | 162          | 18           |
| Change in trade and other payables      | 1,650          | 317          | (53)         |
| <b>Net cash outflow from operations</b> | <b>(616)</b>   | <b>(97)</b>  | <b>(928)</b> |

# UNAUDITED STATEMENT OF CHANGES IN EQUITY

## SIX MONTHS TO 30 SEPTEMBER 2017

|  | D shares<br>£'000 | Ordinary<br>Share<br>Capital<br>£'000 | Share<br>Premium<br>£'000 | Revenue<br>Reserve<br>£'000 | Capital<br>Redemption<br>Reserve<br>£'000 | Total<br>Equity<br>£'000 |
|--|-------------------|---------------------------------------|---------------------------|-----------------------------|---|--------------------------|
| <b>Balance at 31 March 2017 (audited)</b>            | <b>10</b>         | <b>1,922</b>                          | <b>13,063</b>             | <b>13,829</b>               | <b>10,693</b>                             | <b>39,517</b>            |
| Profit and total comprehensive income for the period | —                 | —                                     | —                         | 572                         | —   | 572                      |
| Share buy back                                       | —                 | (17)                                  | (3)                       | (280)                       | 17  | (283)                    |
| Dividends paid                                       | —                 | —                                     | —                         | (547)                       | —   | (547)                    |
| <b>Balance at 30 September 2017 (unaudited)</b>      | <b>10</b>         | <b>1,905</b>                          | <b>13,060</b>             | <b>13,574</b>               | <b>10,710</b>                             | <b>39,259</b>            |

## YEAR TO 31 MARCH 2018

|  | D shares<br>£'000 | Ordinary<br>Share<br>Capital<br>£'000 | Share<br>Premium<br>£'000 | Revenue<br>Reserve<br>£'000 | Capital<br>Redemption<br>Reserve<br>£'000 | Total<br>Equity<br>£'000 |
|--|-------------------|---------------------------------------|---------------------------|-----------------------------|---|--------------------------|
| <b>Balance at 31 March 2017 (audited)</b>          | <b>10</b>         | <b>1,922</b>                          | <b>13,063</b>             | <b>13,829</b>               | <b>10,693</b>                             | <b>39,517</b>            |
| Profit and total comprehensive income for the year | —                 | —                                     | —                         | 4,669                       | —   | 4,669                    |
| Share buy back                                     | —                 | (17)                                  | (3)                       | (280)                       | 17  | (283)                    |
| Dividends paid                                     | —                 | —                                     | —                         | (548)                       | —   | (548)                    |
| Treasury share cancellation                        | —                 | (78)                                  | —                         | —                           | 78  | —                        |
| <b>Balance at 31 March 2018 (audited)</b>          | <b>10</b>         | <b>1,827</b>                          | <b>13,060</b>             | <b>17,670</b>               | <b>10,788</b>                             | <b>43,355</b>            |

## SIX MONTHS TO 30 SEPTEMBER 2018

|  | D shares<br>£'000 | Ordinary<br>Share<br>Capital<br>£'000 | Share<br>Premium<br>£'000 | Revenue<br>Reserve<br>£'000 | Capital<br>Redemption<br>Reserve<br>£'000 | Total<br>Equity<br>£'000 |
|--|-------------------|---------------------------------------|---------------------------|-----------------------------|---|--------------------------|
| <b>Balance at 31 March 2018 (audited)</b>            | <b>10</b>         | <b>1,827</b>                          | <b>13,060</b>             | <b>17,670</b>               | <b>10,788</b>                             | <b>43,355</b>            |
| Profit and total comprehensive income for the period | —                 | —                                     | —                         | 3,088                       | —   | 3,088                    |
| Share buy back                                       | —                 | (49)                                  | (10)                      | (928)                       | 49  | (938)                    |
| Dividends paid                                       | —                 | —                                     | —                         | (613)                       | —   | (613)                    |
| <b>Balance at 30 September 2018 (unaudited)</b>      | <b>10</b>         | <b>1,778</b>                          | <b>13,050</b>             | <b>19,217</b>               | <b>10,837</b>                             | <b>44,892</b>            |

## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Gresham House Strategic plc (the "Company") is a company incorporated in the UK and registered in England and Wales (registration number: 3813450). The information set out in these unaudited interim financial statements for the periods ended 30 September 2018 and 30 September 2017 does not constitute statutory accounts as defined in section 435 of Companies Act 2006. Comparative figures for 31 March 2018 are derived from the financial statements for that year. The financial statements for the year ended 31 March 2018 have been delivered to the Registrar of Companies and contain an unqualified audit report, did not contain a statement under emphasis of matter or statements under section 498(2) or (3) of the Companies Act 2006. These unaudited interim financial statements have been prepared in accordance with the AIM rules.

### 2. BASIS OF ACCOUNTING

The annual financial statements are prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. The principal accounting policies adopted in the preparation of the financial information in these unaudited interim financial statements are unchanged from those used in the Company's financial statements for the year ended 31 March 2018 and are consistent with those that the Company expects to apply in its financial statements for the year ended 31 March 2019. This report does not itself contain sufficient information to comply with IFRS. These unaudited interim financial statements have been prepared based on IFRSs in issue that are effective at the Company's annual reporting date as at 31 March 2018.

### 3. ESTIMATES

The preparation of the unaudited interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation were the same as those that applied to the Company financial statements as at and for the year ended 31 March 2018.

### 4. FINANCIAL RISK MANAGEMENT

The Company's financial risk management objectives and policies are consistent with those disclosed in the Company financial statements as at and for the year ended 31 March 2018.

### 5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OF LOSS

|   | Value at<br>31 March<br>2018<br>£'000 | Additions<br>£'000 | Disposals<br>£'000 | Realised<br>gains<br>£'000 | Revaluations<br>£'000 | Value at<br>30 September<br>2018<br>£'000 | Value at<br>30 September<br>2017<br>£'000 |
|---|---------------------------------------|--------------------|--------------------|----------------------------|-----------------------|---|---|
| Investments in quoted companies                                   | 36,283                                | 1,484              | (15,994)           | 2,802                      | 2,035                 | 26,610                                    | 31,346                                    |
| Other unquoted investments  | 4,166                                 | 2,154              | (100)              | —                          | 108                   | 6,328                                     | 2,224                                     |
| <b>Total investments at fair value<br/>through profit or loss</b> | <b>40,449</b>                         | <b>3,638</b>       | <b>(16,094)</b>    | <b>2,802</b>               | <b>2,143</b>          | <b>32,938</b>                             | <b>33,570</b>                             |

Total realised gains in the period amounted to £7,894k, of which £5,092k related to previously recognised unrealised gains and £2,802k which related to further gains arising in the period. Further unrealised gains in the period amounted to £2,035k, offset by the reclassification of £5,092k of unrealised gains, which have now been realised.

'Investments in quoted companies' have been valued according to the quoted bid share price as at 30 September 2018.

'Investments in other unquoted investments' represent the following:

- Investments in MJ Hudson ('MJH') Convertible Bonds which were purchased on 4 November 2016 and further investments in MJH Convertible Bonds purchased on 9 August 2017 and 30 September 2017. These are valued at fair value, which approximates to cost plus premium interest.
- An investment in MJH Equity which was purchased on 8 August 2017 and is valued at fair value which approximates cost.
- An investment in Hanover Equity Partners II LP that was purchased on 11 July 2017, which is valued at fair value as disclosed in the NAV of the fund.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OF LOSS continued

- An investment in Be Heard Group plc (Bond) that was purchased on 28 November 2017, which is valued at cost.
- An investment in Northbridge Industrial Services plc (Bond) that was purchased on 10 April 2018, which is valued at fair value which approximates cost plus the “in the money” value of the conversion right.

The revaluations above are shown on the face of the statement of comprehensive income, as realised and unrealised gains or losses on investments, at fair value through profit or loss.

### 6. DIVIDENDS

The Company paid £613,294 during the period which represents a final dividend for the year ended 31 March 2018. A final dividend for the year ended 31 March 2017 (£548,175) was paid in July 2017.

### 7. EARNINGS PER SHARE

|   | Six months to<br>30 September<br>2018<br>£'000 | Six months to<br>30 September<br>2017<br>£'000 | Year to<br>31 March<br>2018<br>£'000 |
|---|--|--|--------------------------------------|
| <b>Earnings</b>   |  |  |                                      |
| Profit for the period   | <b>3,088</b>                                   | 572  | 4,669                                |
| <b>Number of shares ('000)</b>  |  |  |                                      |
| Weighted average number of ordinary shares in issue for basic and diluted EPS | <b>3,591</b>                                   | 3,658  | 3,656                                |
| <b>Earnings per share</b>   |  |  |                                      |
| Basic and diluted EPS   | <b>86.00p</b>                                  | 15.64p   | 127.70p                              |

Between May and June 2018 Gresham House Strategic PLC underwent a share buy-back exercise during which the Company bought 99,174 of its own shares and then cancelled them. This decreased the Company's total number of issued ordinary shares from 3,654,504 to 3,555,330.

### 8. RELATED PARTY TRANSACTIONS

The related parties of Gresham House Strategic plc are its Directors, persons connected with its Directors and its Investment Manager.

Details of related party transactions between the Company and of non-salary related transactions involving Directors are given below.

During the half year to 30 September 2018, Gresham House Strategic plc was charged management fees of £401k (2017: £371k) by Gresham House Asset Management Limited (GHAM). As at 30 September 2018, the Company had a balance of £68k (2017: £118k) owing to GHAM.

The Company has also made a provision of £1,645k for performance fees. Under the terms of the Investment Management Agreement, the Company will pay the Investment Manager a performance fee in respect of each performance fee period in which the Net Asset Value per Ordinary Share on the last business day of such performance fee period exceeds both a compounding hurdle growth in Net Asset Value per share of 7 per cent per annum (compounding weekly, the 'Hurdle Net Asset Value per share') and the highest Net Asset Value per share at which a performance fee was previously paid (the 'High Watermark'). The performance fee shall be calculated at a rate of 15 per cent of the amount by which the Net Asset Value per share exceeds the High Watermark (or if no previous Performance Fee has been paid, the Net Asset Value per share on 7 August 2015), multiplied by the time weighted number of shares in issue during such performance fee period, provided that the Performance Fee payable will be reduced to ensure that the Net Asset Value per share after the payment of such Performance Fee does not fall below the Hurdle Net Asset Value per share. To date, no performance fees have been paid since Gresham House Asset Management was appointed as Investment Manager.

Up to 50 per cent of any performance fee may (at the Board's discretion) be satisfied by the issue of Ordinary Shares.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 8. RELATED PARTY TRANSACTIONS continued

The provision represents the Company's estimate of what would have been payable had the Net Asset Value per share as at 30 September 2018 been the Net Asset Value per share on 31 March 2019, being the next date on which a Performance Fee may become payable and is calculated with reference to the expected Hurdle Net Asset Value per share on 31 March 2019.

As at 30 September 2018, the following shareholders of the Company, that are related to GHAM, had the following interests in the issued shares of the Company:

|                            |         |                 |
|----------------------------|---------|-----------------|
| A L Dalwood                | 27,597  | Ordinary shares |
| G Bird                     | 22,651  | Ordinary shares |
| Gresham House Holdings Ltd | 812,913 | Ordinary shares |

The Company signed a co-investment agreement with Gresham House Strategic Public Equity Fund LP ("SPE Fund LP"), a sister fund to the Company launched by Gresham House Asset Management Ltd ("GHAM") on 15 August 2016. Under the agreement, the Company undertook to co-invest £7.5m with the SPE Fund LP.

GHS's commitment under the co-investment agreement remains at £7.5m as at 30 September 2018. To date, 73% of the commitment had been fulfilled leaving a residual commitment of £2.0m. All investments held pursuant to the co-investment agreement are held directly by the Company.

There are no other related party transactions of which we are aware in the six months ended 30 September 2018.

### 9. SUBSEQUENT EVENTS NOTE

There were no material events after the statement of financial position date that have a bearing on the understanding of these unaudited interim financial statements.



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## CORPORATE INFORMATION

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**DIRECTORS**

D R W Potter (*Chairman*)  
C R Berry  
K Lever  
H R Sinclair

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# **STRATEGIC PUBLIC EQUITY**

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