

# GRESHAM HOUSE STRATEGIC PLC

## Q3 FACTSHEET - 30 SEPTEMBER 2019



**Gresham House**  
Specialist asset management

**Investment mandate:** Strategic Public Equity (SPE) targets 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.<sup>1</sup>

### KEY FACTS AS AT 31 MARCH 2019

NAV per share:	Mid-price:
<b>1,245.0p</b>	<b>1,070.0p</b>
Benchmark:	Investment mandate:
Unconstrained	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  
Over 25 years' experience in Public and Private Equity industry and advisory. Previously at SVGIM.

**Richard Staveley**  
Fund Manager  
20 years' experience in Public Equity. Previously at Majedie Asset Management, River & Mercantile Asset Management (Founder) and Societe Generale Asset Management.

**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.

### NAV PER SHARE RELATIVE PERFORMANCE

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



Top ten shareholdings <sup>4</sup>	£m	Shareholding in company	Portfolio NAV
Augean plc	£8.0m	7.0%	18.0%
IMImobile plc	£7.5m	3.1%	16.9%
Northbridge Industrial Services plc	£6.2m	11.0%	14.1%
Be Heard plc	£2.8m	10.6%	6.2%
Pressure Technologies plc	£2.7m	15.1%	6.1%
The Lakes Distillery Company plc	£2.1m	-	4.8%
MJ Hudson	£1.9m	1.0%	4.3%
Brand Architekts Group plc	£1.6m	5.4%	3.7%
Escape Hunt	£1.5m	11.6%	3.4%
Universe Group plc	£1.4m	11.6%	3.3%
Other investments	£3.0m	-	6.8%
Cash and other working capital items	£5.5m	-	12.4%

**Total NAV** **£44.3m**

Performance	Q3 2019 <sup>2</sup>	Since inception <sup>3</sup>	1 yr	3 yrs
GHS NAV Total Return	-5.5%	32.3%	0.6%	20.8%
FTSE Small Cap Total Return	-1.2%	16.6%	-7.8%	9.3%
FTSE All Share Total Return	1.2%	32.4%	2.6%	21.6%

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 Lloyd's of London, 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 - 2019. Performance measured over life of fund/period relevant to the investment team's involvement. For existing funds, performance data is to 30 September 2019

2. 30 June 2019 - 30 September 2019

3. Inception 14 August 2015 - 30 September 2019

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 operating business 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

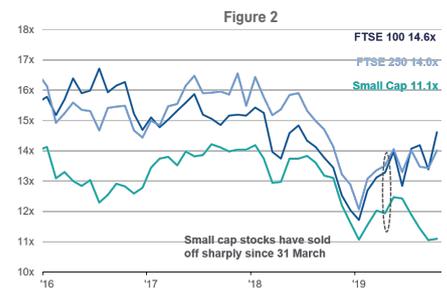
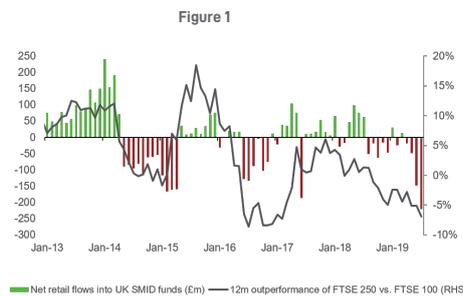
The UK small-cap markets turned sour over the quarter (FTSE AIM ALL SHARE -5%, FTSE SMALL CAP -2.1%) as they faced myriad inter-related issues:

- 1. Weakening global and domestic economic data** - industrial production in both developed and the Chinese economy has been contracting for a number of months now and has continued declining through the quarter. Of particular note for UK small-cap investors is the declining PMI scores in European and UK industrial and construction surveys.<sup>1</sup>
- 2. Political & 'Brexit' uncertainty** - the political backdrop has been equally soft, with central banks struggling to respond effectively to the signs of a slowdown, and trade tensions escalating both between the US and China and now the US and the EU too. Domestically, the change of Prime Minister has brought with it significant volatility as the 31 Oct deadline approached and the chances of a No-Deal Brexit and related uncertainty increased.

- 3. Growing number of profit warnings** - 2019 is tracking well ahead of 2013-2018 in terms of the number of profit warnings from UK listed companies, reflecting the impact of points 1 and 2 and adding to the pressure on the indices.
- 4. Accelerating withdrawals** - partly driven by the previous points, as well as other structural shifts, UK small and mid-cap funds have witnessed substantial withdrawals over the last few months which have compounded weakness in small caps by creating sales pressure.

We cited in our last Factsheet that we expected the second half of the year to be turbulent, noting the signals from the gold market, and the 'small-cap discount' (FTSE Small Cap vs 250 & 100) has widened significantly over the summer (see Fig.1), highlighting the headwinds UK smaller companies and investment portfolios are facing at the moment.

1. Liberum UK Strategy Monthly September 2019 (also source of Figures 1 and 2)



## INVESTMENT MANAGER'S REPORT

In tandem with the above market backdrop, the NAV performance of the third quarter of 2019 was also poor versus the strong first half of the year, with the NAV contracting -6.3% from 1335.7p to 1251.4p. This provided a frustrating three months of performance for our investors, negating the strong first half of the calendar year.

The attribution of this fall-back over the quarter has been broad-based, led by BeHeard (-35%), Northbridge (-7.5%), Pressure Technologies (-14%), Hydrodec (-85%), Escape Hunt (-17%), Augean (-6%). Whilst some of these weaknesses were stock-specific and are described later in this report, there has also been widespread decline across financial markets.

### Northbridge Industrial Services plc

The company announced an encouraging set of interim results and commentary in September - the most positive since our initial investment in February 2016. The commentary in the statement cited an accelerating recovery in their traditional Australian oil & gas markets, supplemented with ongoing growth opportunities in new areas such as data centres and renewable energy projects.

Together these have driven revenue and profit growth for the first half of the year - the company generated its first profit after tax since 2014 and brokers upgraded their revenue and PAT expectations for the full year. The investment is trading according to our investment thesis, albeit perhaps twelve months behind our original schedule, as the market recovery started nine months later than we had anticipated. As per our investment strategy, we remain engaged with the Management and Board on various corporate initiatives, both short and long term. We are currently supporting the company on IR initiatives and the next three-year plan for the business as it returns to earnings growth and de-leveraging.

### Centaur Media

It has been a busy summer for Centaur as the company completed the divestment programme of non-core assets and refocused the business toward cash generation and return to shareholders. The divestment programme generated gross cash of £22m vs a market cap at the time of £70m, which allowed the company to announce a £5m return of cash to shareholders for October, with a likely further special dividend mooted for next year.

The re-sized business is now focused on margin improvement and cash generation, with central cost base resizing the first key initiative in this process. Given this approach, the company's Finance Director, Swag Murkerji, who has a background in business optimisation and cost management, has been promoted to CEO to lead these efforts.

### Augean plc

Following some portfolio rebalancing over the summer, Augean plc is now the largest holding in the fund. At the start of the quarter, the company promptly reported half-year earnings again ahead of expectations that were broad-based across all operating divisions; though radioactive and landfill were the standout performers. Revenue increased 40% in H1 2019 and a number of contract renewals have increased earnings visibility on a two-year view and this has again enabled brokers to upgrade forecasts for the current year - profit before tax estimates are now +45% vs. the start of the year. The strong trading performance means our engagement efforts have been focused around the conclusion of the HMRC investigation and liability issue.

## CONTACT

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