GRESHAM HOUSE STRATEGIC PLC

Q4 FACTSHEET - 31 DECEMBER 2019

Since 1857
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.[1]

KEY FACTS AS AT 31 DECEMBER 2019

NAV per share:
1,406.4p

Mid-price:
1,275.0p

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: 3,532,249 (as at 31 December 2019, there are no shares held in treasury)

INVESTMENT MANAGERS

Richard Staveley
Fund Manager

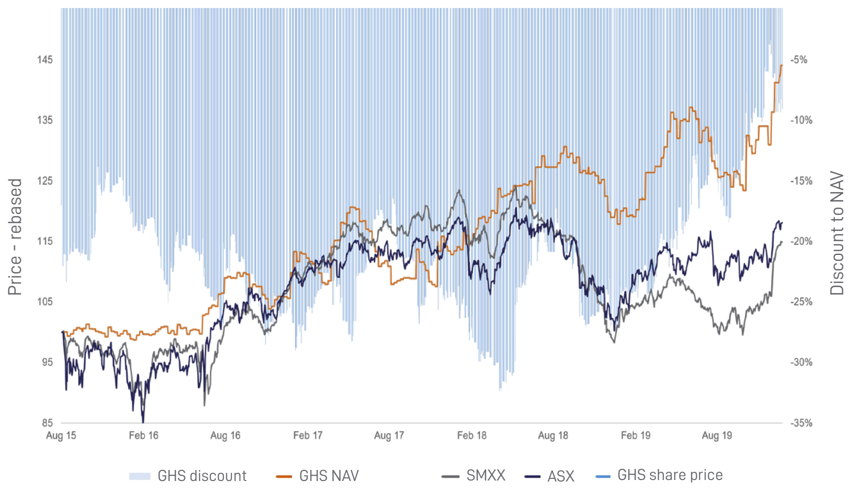
Over 20 years in Public Equity. Previously at Majedie Asset Management, River & Mercantile Asset Management (Founder) and Societe Generale Asset Management.

Tony Dalwood
Fund Manager, Investment Committee Chairman

Started Gresham House Asset Management in 2015. CEO of Gresham House plc. Over 24 years' experience in Public and Private Equity. Previously at SVG Advisers and SVGIM.

NAV PER SHARE RELATIVE PERFORMANCE

17 August 2015 - 31 December 2019 (Appointment of Gresham House and adoption of SPE investment mandate in August 2015).



Performance	Q4 2019[2]	Since inception[3]	1 yr	3 yrs
GHS NAV Total Return	12.9%	50.5%	19.4%	40.8%
FTSE Small Cap Total Return	12.2%	31.2%	17.7%	17.2%
FTSE All Share Total Return	4.2%	38.3%	19.1%	21.9%

Top ten shareholdings[4]	£m	Shareholding in company	Portfolio NAV
Augean plc	£15.8m	7.0%	31.9%
Northbridge Industrial Services plc	£6.1m	11.8%	12.2%
IMImobile plc	£5.0m	2.0%	10.1%
Pressure Technologies plc	£3.3m	15.1%	6.6%
Be Heard plc	£2.5m	10.6%	5.0%
Centaur Media plc	£2.5m	4.9%	5.0%
MJ Hudson	£2.3m	2.4%	4.7%
The Lakes Distillery Company plc	£2.2m	-	4.4%
Universe Group plc	£1.5m	11.6%	3.1%
Brand Architekts Group plc	£1.4m	5.4%	2.8%
Other investments	£3.6m	-	7.2%
Cash and other working capital items	£3.5m	-	7.1%
Total NAV	**£49.6m**		

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.

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 31 December 2019.
2. 30 June 2019 - 31 December 2019
3. Inception 14 August 2015 - 31 December 2019
4. Top ten holdings shown as at 31 December 2019 using bid-price data. Investments in Northbridge, Be Heard and MJ Hudson include equity and Convertible Loan Notes (CLN)

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 rebounded strongly during the fourth quarter (FTSE All Share +3.3%, FTSE Small Cap +11.3%) driven primarily by the clear UK general election outcome and some progress with US/China trade talks. We believe that the positive momentum generated by the Conservative election win will carry through into H1 2020.

Boris Johnson's majority should enable confident leadership both on domestic policy and EU negotiations and this is expected to unlock pent-up consumer demand, capital investment and corporate decision-making, supported by looser fiscal policy. The 'tail-risk' of a hard-left government has been removed and the taxation outlook for corporates and individuals should now be stable.

Negotiating the UK's EU departure remains a source of uncertainty, but the size of the Conservative majority will ensure the ability to influence events by other political parties, lobby groups and internal factions is reduced significantly, suggesting negotiations will be less compromised by the weak Parliamentary maths of recent times. It will be in the interests of the Government and the EU to conclude a satisfactory and presumably 'soft' outcome as soon as possible.

Loose monetary policy conditions, following renewed monetary support from the Federal Reserve and the ECB, have contributed to a stabilisation of macro-economic data and expectations for the global economy after a lacklustre 2019. Credit conditions remain benign. These two factors have underpinned the progress of equity markets to all-time highs. We remain cautious, however, as inflationary indicators and fiscal largesse suggest interest rates should finally be bottoming out.

Corporate profitability, best illustrated through profit margins, is high relative to history. Market expectations for significant earnings progress in 2020 appear optimistic. Corporate debt, to be serviced and repaid by these profits, has reached elevated levels. 'Noise' surrounding the US electoral cycle will be unavoidable in 2020, but we enter a new decade with equities looking very good value when compared with bonds, and UK shares looking even better value when compared with global and, in particular, US equities. The UK market is also looking attractive compared to history. Further upside is available by accessing smaller UK equities, valued at additional discount to larger UK companies, despite improved profit growth prospects in many cases.

The 'value' factor has started to perform but still has huge upside relative to 'growth' when considering any mean-reversion to long-term factor returns. The 'Woodford' debacle, weak UK IPO market in 2019, and on-going MiFID II effects have created a rich hunting ground for our focused, engaged approach to the thinly researched UK small-cap market.

Figure 1

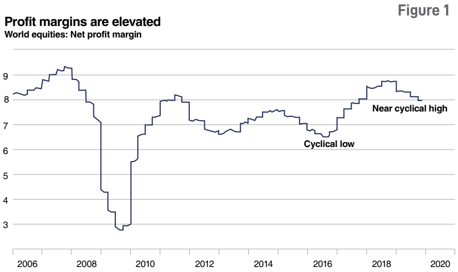
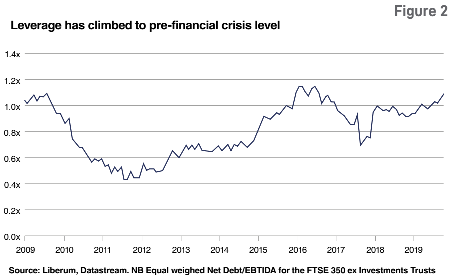


Figure 2



INVESTMENT MANAGER'S REPORT

The portfolio ended Q4 with material NAV gains of +12.9%. This takes NAV performance well into positive total shareholder return for the fund's financial year, significantly outperforming the indices and cementing attractive rolling 12-month performance of +19.4%. The team were satisfied to see >50% of quarterly gains occur before the election result (and associated 'Boris bounce' in UK markets) - the majority of our investments are performing on stock-specific catalysts as well as re-rating with the rest of the market.

This positive performance was driven primarily by our larger holdings: Augean +99.1%, Pressure Technologies +19.5% and PCF +29.6%. The company share price has also delivered for our shareholders, ending 2019 at an all-time high under GHAM management of 1275p, +19.2% in Q4.

The pipeline continues to develop after a refreshed sourcing approach, utilising a dynamic quantitative screen that provides an unbiased foundation for in-depth investment appraisal. In the quarter we made new initial investments into Fulcrum Utility Services in November (1% NAV) and ULS Technologies (2% NAV) and increased our position in Centaur Media to 5% of the portfolio.

Augean plc

The largest holding was the top performing investment in the quarter, driven by clear catalysts and strong trading. The company issued an early trading update in October informing the market that due to strong group performance in Q3, profits for the year would be materially ahead of consensus expectations (adjusted PBT of £16.5m). Activity has benefited from a 20% increase in landfill volumes across all waste types, improved landfill pricing by a further 20%, and improved performance across the rest of the group (North Sea, Radioactive). This was followed in December by growing transparency around the HMRC situation per our investment thesis, as the company was able to organically pay a worst-case scenario on the liability, creating a simpler investment case and removing downside risk on the final settlement, without agreeing to the claim. Significant cash generation is turning heads. The valuation attractions of these rarely-permissioned hazardous waste assets remain on a discount to industry transactions, despite the share price move. Their long-term future was secured during the period, through an adjacent purchase of land. We conducted an investment review during Q4 to reconfirm our investment thesis and associated portfolio weighting.

MJ Hudson plc

In December, our pre-IPO investment (equity and CLN) converted into shares in the newly listed MJ Hudson plc as the company floated on the AIM market, at an attractive uplift to our initial investment and ahead of our 15% IRR target returns. The investment offers a good case study on how our investment strategy generates access to opportunities and returns that cannot be captured by traditional public equity funds. The flotation was impressive, executed at a post-money valuation of £100m on the day of the UK general election in what has been a dire year for flotations. MJ Hudson is a legal and associated services business focused on the alternative investment sector, advising private equity and asset management businesses.

Northbridge

Northbridge announced positive interim results early in Q4, continuing to support our investment thesis. Revenue and cash from operations were both up by a third and the outlook commentary was positive. The company are starting to see the benefits from the recovery in the oil and gas markets across both operating divisions and the company's operational gearing is also now beginning to have a significant beneficial impact on cash generation. Encouragingly, the results were followed by share purchases by both the CEO and FD. However, disappointingly, the shares still trade on an EV/EBITDA of 5.5x at the time of writing, well behind its peer group average. As per our engaged investment strategy, we are now working closely with the company on how to ensure the improving performance and intrinsic value is reflected in equity value and we look forward to updating on various initiatives in 2020 once complete.

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