Gresham House Strategic plc

Q1 Factsheet - 31 March 2020

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 process is based on private equity disciplines including a team approach and an investment committe. 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 2020

NAV per share:
1,062.0p

Mid-price:
902.5p

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

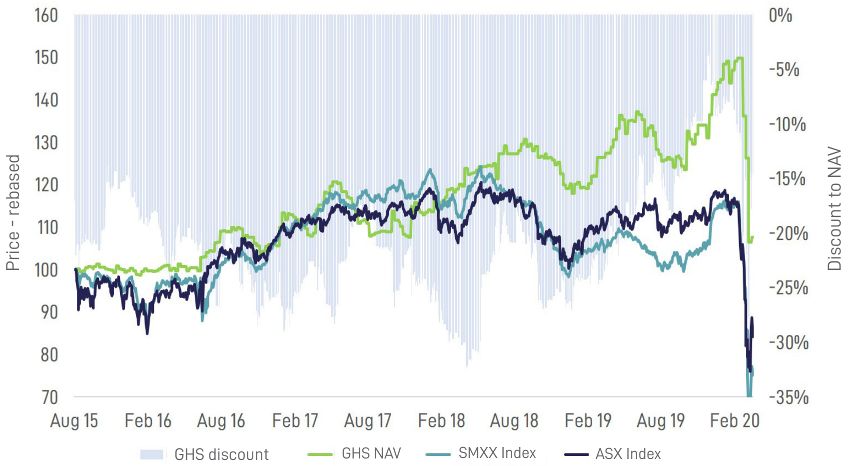
Over 20 years' experience in Public Equity. Previously at Majedie, River & Mercantile (Founder) and Societe Generale.

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 PDFM and CEO at SVG Advisers .

NAV per share relative performance

17 August 2015 - 31 March 2020 (Appointment of Gresham House and adoption of SPE investment mandate in August 2015).



Performance	Q1 2020[2]	Since inception[3]	1 yr	3 yrs
GHS NAV Total Return	-25.2%	13.0%	-14.3%	4.1%
FTSE Small Cap Total Return	-34.1%	-13.7%	-26.9%	-26.2%
FTSE All Share Total Return	-25.3%	-0.2%	-22.7%	-15.3%

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.

Market Commentary

Emerging confidence in the UK outlook post-election was abruptly erased as the COVID-19 virus pandemic took hold. Our previously highlighted general caution regarding high levels of corporate debt provides the backdrop for the huge global and domestic economic disruption. It is times like these when the true lessons of excess leverage risk are learnt. Governments and Central Banks are of course aware of the debt within the system and are now forced into the next phase of monetary and fiscal support to try and prohibit the world economy from careering into a long depression. Markets have also had to contend with the collapse in oil prices following the Saudi decision to increase production and improve market share at the expense of higher cost producers, of which the US is most vulnerable. The length of the lock-down is critical and therefore during the next quarter an intense debate will arise over 'lives vs livelihoods'. The corporate liquidity effects of the enforced collapse in demand and output requires financing. Governments are attempting to back-stop this but cannot save all. Banks are much better capitalised to suffer the inevitable defaults than during the Financial Crisis but will err on the side of caution regarding new lending. Equity and Corporate Bond markets will need to fill the gap and discretionary corporate cashflows will be severely curtailed, such as Dividends and Buy-backs. It is difficult to judge the pace of any post lock-down return to 'normality'. For certain industries there will be permanent structural change. The best cure for low oil prices is low oil prices. The burden of debt on certain companies and Governments post-crisis will have longer term effects on fiscal policy and spending priorities and, unless monetised, will impede growth. We suspect that monetisation is inevitable and therefore medium-term inflationary risks are rising. UK equities were cheap relative to US equities prior to COVID-19, and due to differences in industry sector biases, they are now even cheaper. Small company shares, as in all periods of significant market weakness, have performed worse than large companies. As a result, the portfolio opportunities pipeline is growing considerably.

For professional investors only.

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 than risk that 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. 31 December 2019 - 31 March 2020
3. Inception 14 August 2015 - 31 March 2020
4. Top ten holdings shown as at 31 March 2020 using bid-price data. Investments in Northbridge and Be Heard include equity and Convertible Loan Notes (CLN)

Top ten shareholdings[4]	£m	Shareholding in company	Portfolio NAV
Augean plc	£8.6m	7.0%	23.3%
Northbridge Industrial Services plc	£4.2m	11.8%	11.2%
Pressure Technologies plc	£2.5m	15.1%	6.7%
The Lakes Distillery Company plc	£2.2m	-	6.0%
IMImobile plc	£2.1m	2.0%	5.6%
Be Heard plc	£2.0m	10.6%	5.5%
MJ Hudson	£1.8m	2.4%	4.9%
Centaur Media plc	£1.5m	4.9%	4.2%
ULS Technology	£1.5m	11.6%	4.0%
Brand Architekts Group plc	£1.0m	5.4%	2.8%
Other investments	£2.5m	-	6.5%
Cash and other working capital items	£7.1m	-	19.3%
Total NAV	**£37.0m**		

4. Top ten holdings shown as at 31 March 2020 using bid-price data. Investments in Northbridge and Be Heard 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.
GHE is a London Stock Exchange quoted specialist asset manager with c.£3 billion in assets under management.

Investment Manager's Report

The portfolio was significantly impacted by the outbreak of COVID-19 and ended Q1 with material NAV declines of -25.2% (Small Cap index: -32.7%). Whilst some comfort can be taken from the fund continuing to significantly outperform the indices on short, medium and long-term bases, the losses are unprecedented, as is the economic situation itself, and we are heavily engaged with all portfolio holdings. More detail will be provided on this in our annual report.

Outperformance was driven primarily by our timely decision to reduce positions in IMImobile and Augean between November and February, meaning cash was running at over 18% as COVID-19 concerns escalated. Furthermore, the portfolio has little exposure to debt, an average Net Debt:EBITDA ratio of 0x vs 3.2x for the Small Cap market; a stronger position than many. We sold 1.6m IMImobile shares in the past 5 months for a total consideration of £5.8m (23.9% IRR), and 925k Augean shares for a total consideration of £2m (106.1% IRR).

A 'silver lining' of the current crisis is that the pipeline has been transformed overnight. Equity markets are now in a situation for which our investment philosophy was designed: distressed companies, ignored by many investors due to size, that need engaged shareholder support, trading at very low valuations. We have made initial investments into UK infrastructure focused Van Elle (increased at the start of Q2 as part of an equity placing), and upweighted our position in Fulcrum Utility Services and ULS Technologies in March. However, the length of this crisis and its challenging aftermath will be with us for some time and therefore we are in no rush to invest, focused on selecting only the best opportunities, calibrated for the evolving risk environment.

Centaur Media plc (CAU)

In late 2019, we significantly upweighted our initial holding in CAU to 5% NAV as the valuation become increasingly attractive. The thesis centres on the new CEO Swag Mukerji's ability to improve margins in the refined group structure post a number of disposals last year – the MAP22 plan. We believe the management team's skillset leaves them well placed to achieve this margin accretion plan; the CEO has been extensively referenced via our Head of Talent and the business is clearly more focused on financial performance now that it has completed the disposal of non-core assets. The core catalysts for this margin accretion are within the company's sphere of influence and include: central overhead rationalisation, increasing proportion of recurring revenues driven by 'The Lawyer', and improved digital sales. We look forward to updating investors in the annual report.

Pressure Technologies plc

For most of the year Pressure Tech had been one our top performing investments since we built our stake 12 months ago, driven by execution on the majority of the catalysts in our investment thesis, including in Q1 2020. We were delighted to see Sir Roy Gardner announced as Chairman of the company and Tim Cooper announced as NED in January. This drew the raft of changes over the past 18 months to a close and we are now engaged with the board on investment thesis execution - recovery of earnings and cash generation. We were also pleased to see a timely realisation of £2.1m of cash in February as a tranche of the Greenlane disposal consideration was crystallised, supporting the balance sheet. Finally, the Health and Safety case (predating current exec team) came to a sombre conclusion as the company was found guilty and fined by the HSE; this will be paid over the next two years. Efforts are now trained on operational improvements which are now taking shape.

IMImobile plc (IMO)

As highlighted, we have made further realisations of IMImobile over the past five months, locking in material profits as we approach the end of the fourth year of the investment thesis. As a reminder, the thesis was centred around IMO's re-rating potential, it was valued on 7x EBITDA vs domestic sector peers of 13-15x, and higher outside the UK. We believed this was based on the company's equity story being misunderstood back in 2015 and that there was also scope for the earnings to steadily grow, driven by the structural growth in its end markets: mobile communications with consumers. We worked with the company on catalysts, including capital structure, investor communications and board composition. The company (pre-COVID) traded at multiples between 11x and 14x and we have been reducing our stake accordingly. As at Q1 end, the investment was tracking at 23.9% IRR (realised and unrealised gains) and over the past five months we sold 1.6m shares at an average price of 350p vs our entry level of 145p in August 2015.

CONTACT

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