



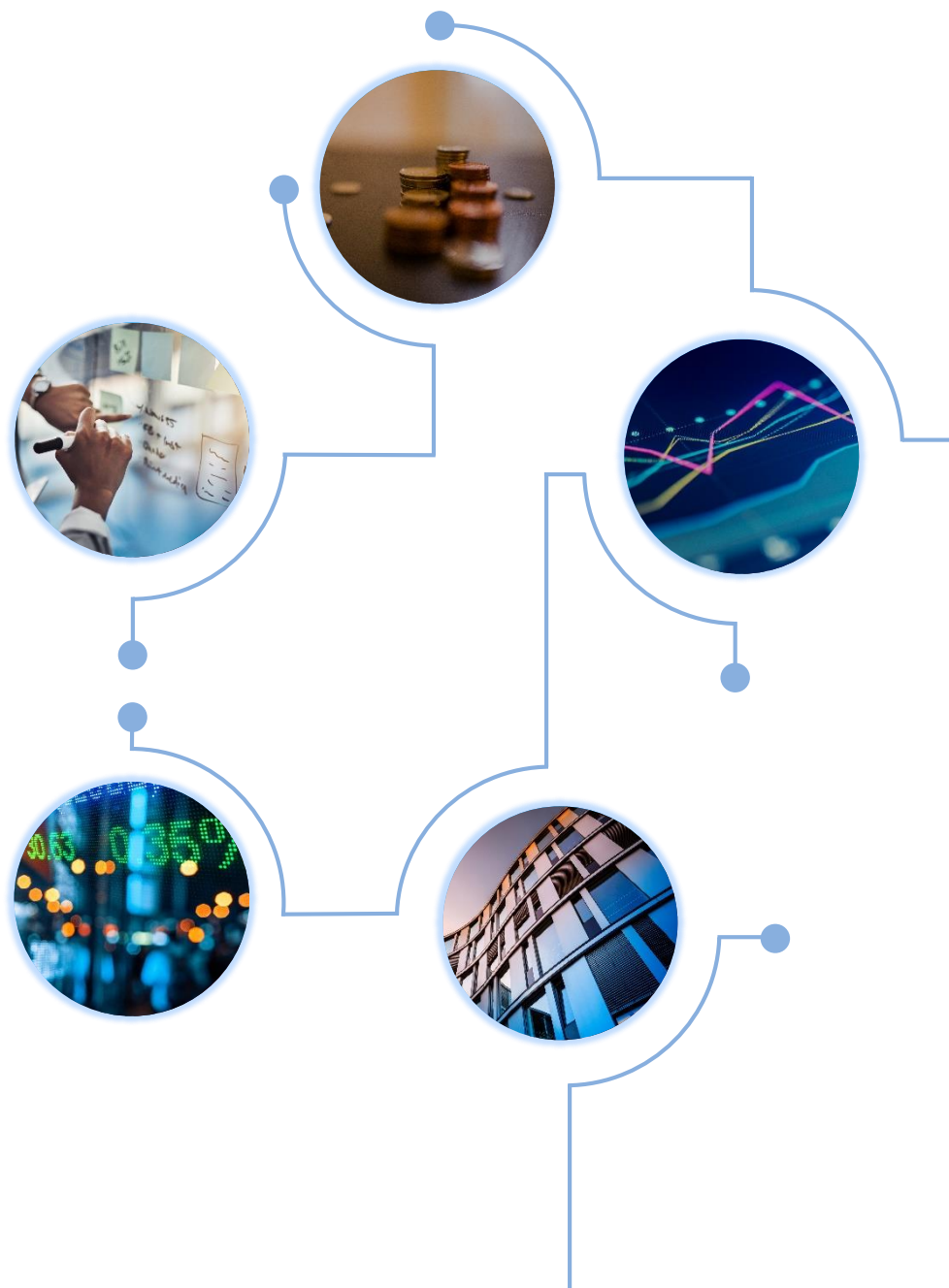
**Gresham House**  
*Specialist asset management*

# Gresham House Strategic plc

(GHS.LN)

## An overview

March 2020



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# GRESHAM HOUSE STRATEGIC PLC

Specialist equity fund targeting 2xMM (15% IRR) over the medium term, in undervalued UK smaller companies.

- Differentiated strategy with concentrated and engaged approach
  - Target 15-20 holdings, 5-25% stakes
- Proven team with a long track record
  - +11.5% outperformance<sup>1</sup>
- Small-cap specialists with significant public and private expertise and resource
- Very attractive current investment opportunity
- Overlooked opportunity set
  - Significant hidden value, structural factors supportive
- Truly aligned Manager and Team with capacity to grow



1. See *Strategic Public Equity - Track Record* slide

# OUR TEAM



**Tony Dalwood**

Fund Manager

- Started Gresham House Asset Management in 2015
- CEO of Gresham House plc
- 25 years' experience in public and private equity
- Previously CEO of SVG Advisers and SVGIM



**Richard Staveley**

Fund Manager

- Over 20 years' experience in public equity
- Previously at Majedie Asset Management, River & Mercantile Asset Management (Founder) and Société Générale Asset Management



**Paul Dudley**

Corporate Finance

- Over 24 years' corporate finance experience
- Previously at HD Capital Partners (Founder), WH Ireland, Sigma Capital plc and PwC
- Joined Gresham House in 2020



**Laurence Hulse**

Investment Manager

- Over 6 years' investment experience
- Previously at Rothschild as an intern in the M&A team
- Joined Gresham House in 2015

## Wider Strategic Equity team

139 years' combined experience

Bevan Duncan  
Ken Wotton  
Brendan Gulston  
David Leahy  
Steve Cordiner

Thomas Makey  
Maya Ward  
James Hendry  
Mackenzie Travers  
Henry Alty



# INVESTMENT COMMITTEE



**Tony Dalwood**

*Investment Committee Chairman*

- Started Gresham House Asset Management in 2015
- CEO of Gresham House plc
- 25 years' experience in public and private equity
- Previously CEO of SVG Advisers and SVGIM



**Graham Bird**

- Over 25 years' experience in public and private equity fund management and advisory
- CFO at Escape Hunt
- Previously at Gresham House and SVGIM



**Ken Wotton**

- Over 22 years' experience in AIM and other listed investments
- Fund Manager for Gresham House UK Micro and Multi Cap funds
- Previously at Livingbridge



**Tom Teichman**

- 30 years' experience in VC and banking
- Co-founder of The Garage
- Previously CEO of Gresham House Strategic plc (formerly Spark Ventures)



**Bruce Carnegie-Brown**

- Over 30 years' experience in private equity
- Chairman of Lloyd's of London
- Previously at Banco Santander, Aon UK Ltd, and Catlin Group Ltd

# PERFORMANCE



Source: Bloomberg as at 31 March 2020

Performance	Since inception <sup>1</sup>	1 year	3 year
<b>GHS NAV Total Return</b>	<b>13.0%</b>	<b>-14.3%</b>	<b>4.1%</b>
FTSE Small Cap Total Return	-13.7%	-26.9%	-26.2%
FTSE All Share Total Return	-0.2%	-22.7%	-15.3%

Source: Bloomberg as at 3 April 2020

- ✓ Strong long-term track record
- ✓ Discount narrowed significantly under Gresham House
- ✓ Maturing investment thesis driving performance

1. Inception 14 August 2015

*Past performance is not necessarily a guide to future performance.  
Portfolio investments in smaller companies typically involve a higher degree of risk.*



# WHAT IS STRATEGIC PUBLIC EQUITY?

*An alternative investment strategy that applies private equity investment processes to public companies.*

Highly engaged strategy driving strategic, operational or management initiatives

Targeting inefficient areas of public markets

Thorough due diligence to identify value creation catalysts

Influential minority stakes

Focus on intrinsically undervalued, cash generative companies.  
A “value approach”

Flexible mandate:  
Up to 30% can be invested in unquoted



# PHILOSOPHY - VALUE & VALUE ENHANCEMENT

*We invest in companies at a discount to their intrinsic value.*

## Value creation

- Profit recovery, accelerating earnings growth
- Opportunity for rating expansion
- Accelerated cash generation/de-gearing
- Catalysts for de-risking

GHS portfolio metrics vs. indices

	GHS current	FTSE Small Cap
EV: sales	0.6x	0.8x
EV: EBITDA	3.6x	9.0x
Sales growth	7.8%	7.0%
EBITDA growth	21.8%	N/A
Net debt: EBITDA	0.4x	3.2x

## Enhanced by

### Capital re-structuring

Provide funding source for growth opportunities or to strengthen balance sheet.

### Board changes

GH team or advisory network members to increase breadth or depth of boards.

### Corporate advisory

Provide advisory support on M&A, strategy, operations, and corporate cultural matters.

### Advisory network

Leverage advisory network to introduce useful contacts for business development or as advisor.

### IR and PR improvements

Improve market communications and press coverage.  
Introduce additional brokers and/or research.

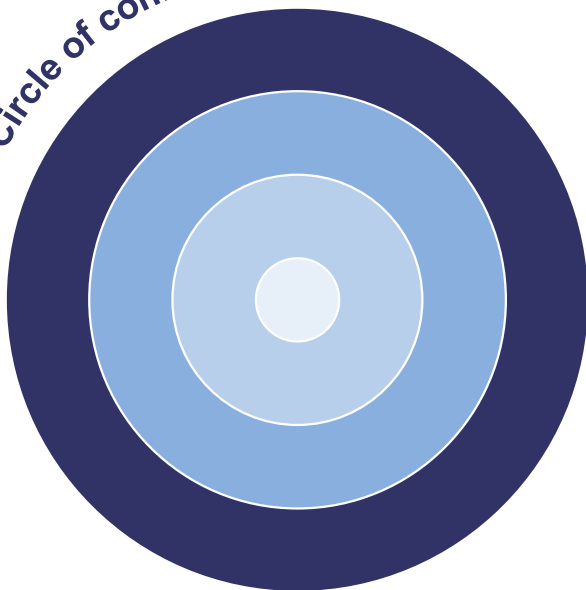
Source: Bloomberg data as at 31 March 2020

Based on 1,062.0p, uses weighted value of holdings and takes into account the discount to NAV and cash holdings.

# PROCESS - QUALIFYING OPPORTUNITIES

*High proportion of deal opportunities are 'created' by the manager as a result of strong relationships.*

Circle of confidence



## **'Smart entry point'**

- Self-originated or influenced transactional entry point
- Typically an equity issue (primary) or 'block trade' (secondary)
  - e.g. Northbridge

## **Clearly identified investment thesis**

- Valuation vs PE transactions, peer group and history
- Capital structure and profit growth analysis

## **Engagement and influence**

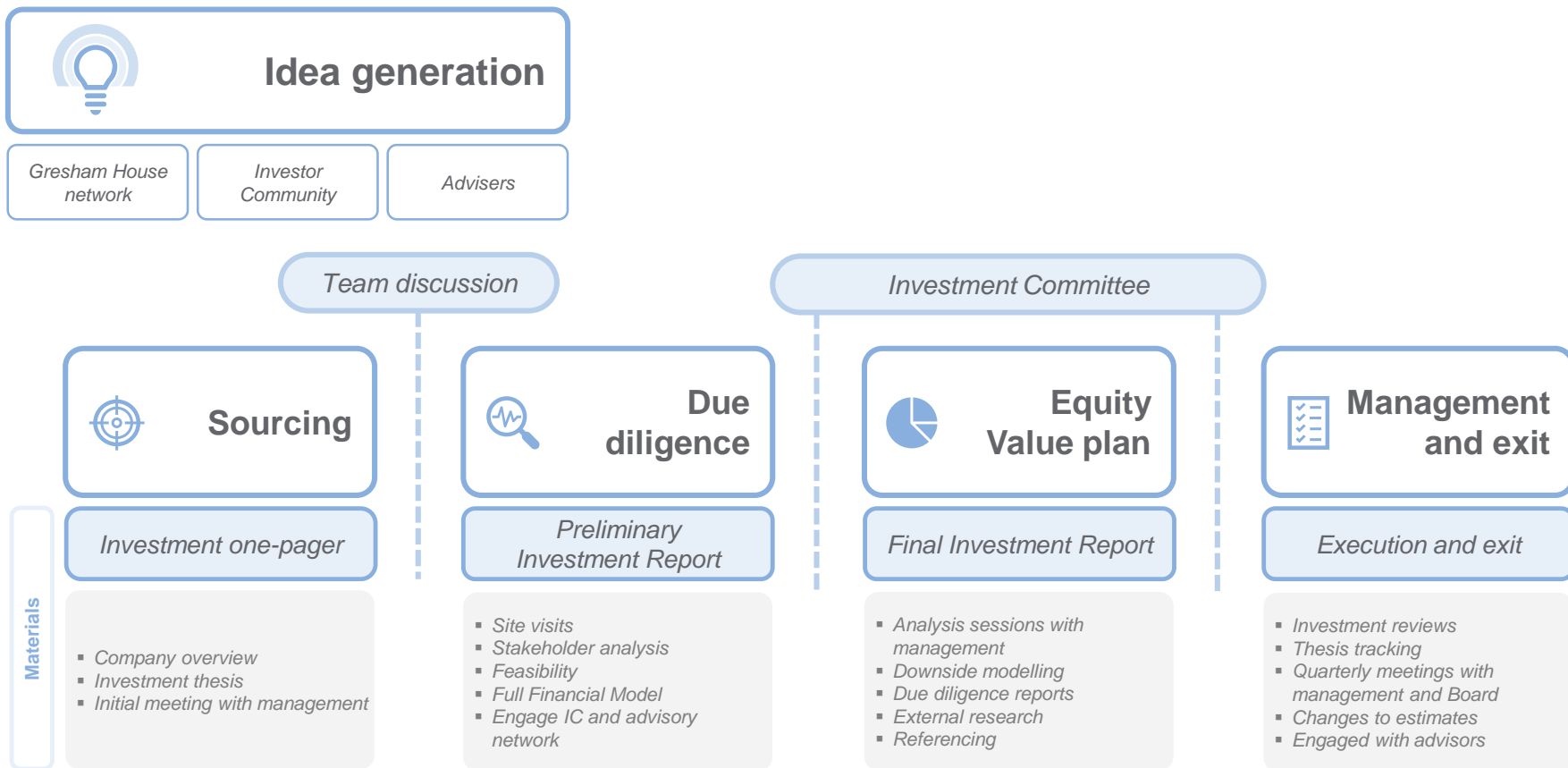
- Regular management and Board dialogue, pre- and post agreed plan
  - e.g. Pressure Technologies

## **Catalysts and exit identified**

- Catalysts that can be supported by a strategic investor
- Agreed with management teams pre-deal
  - e.g. IMI Mobile

# PROCESS - MODELLED ON PRIVATE EQUITY

*Four stage investment process, with multiple touchpoints and Investment Committee input.*



# COVID-19

*“Taking the opportunities of a lifetime, in the lifetime of the opportunities.”*

- Business as usual, ex-physical due diligence
- Huge short-term and medium-term economic impact
- Material small company re-financing requirement - a generational investment opportunity
- Significant further small-cap de-rating
- Lives vs. livelihoods
- Medium-term behavioural effects probably meaningful
- Explosion in 2020 of opportunity set - the basis for future fund returns

# WHY INVEST?

*“Be greedy when others are fearful and fearful when others are greedy” - Sir John Templeton*

The biggest determinant of future returns is entry valuation

*UK Equities are very cheap relative to history  
and other market/assets*

The small companies ‘size’ effect is significant

*The ‘size’ discount for UK small cap  
is large vs history*

Value factor is out of favour; underperformance stretched vs history

*Returns should mean-revert to long-term averages,  
implying significant outperformance of the factor*

Structural factors supporting the strategy have intensified

*Market focus on smaller companies deteriorated  
further post MiFID II*

Significant market dislocation

*Investment pipeline ramping up*

We have the resource and capacity in place to scale the strategy

*Nimble Fund and well-resourced Investment Team*

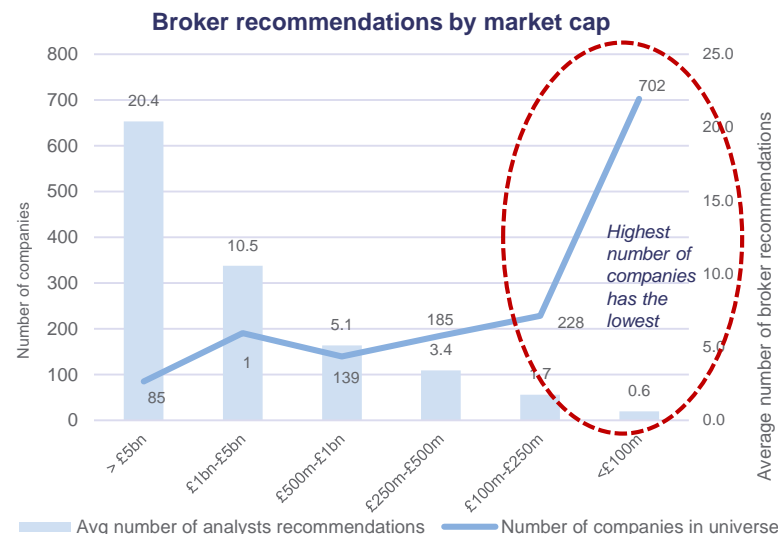
April 2020 Outlook

*Portfolio conservatively positioned, no rush to deploy cash,  
asymmetric returns focus*

# THE MARKET OPPORTUNITY

## Inefficient market

- Lack of research for smaller companies, exaggerated by MIFID II
- Regulation and 'Woodford' is focusing some institutions up the market-cap scale; RDR, liquidity needs, 'client suitability'



## Value vs growth

- Extended low interest rate environment has driven investors to high-growth companies
- Record distortion in the performance of 'value' style vs 'growth'
- 'Growth' style dominates leaving recovery situations stranded - a 'minority sport'

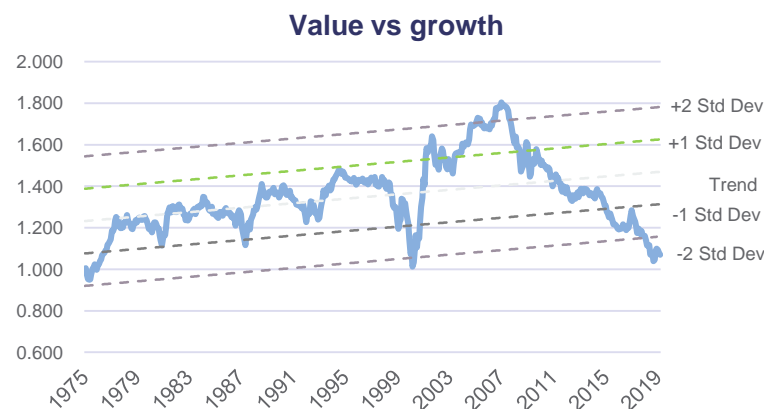


Chart 1 source: Peel Hunt - The New World of MiFID II: Unintended Consequences. Mid and Small-Cap Investor Survey April 2018

Chart 2 source: Bloomberg

# GRESHAM HOUSE STRATEGIC PLC - TOP 10 PORTFOLIO HOLDINGS

NAV £37.0m (1,062.0p)<sup>1</sup>

	£8.6m	Secondary - cash generation, performance recovery and re-rating		£2.0m	Original investment through growth capital - equity and CLN. Now focused on integration, cash generation and organic growth
	£4.2m	Recovery and growth - equity and Convertible Loan Note (CLN)		£1.8m	Pre-IPO growth capital - company floated onto AIM December 2019
	£2.5m	Secondary recovery capital; strategic refocus to drive organic growth and cultural change		£1.5m	Secondary - strategic refocus, operational initiatives
	£2.2m	Primary growth capital, CLNs		£1.5m	Secondary growth capital; product roll out, re-rating and improved communications
	£2.1m	Secondary - growth and re-rating; reinvestment of cash flows		£1.0m	Secondary growth capital; strategic refocus

Other investments - £2.4m

Cash and cash equivalents - £7.1m

Tax losses - c.£135m

1. NAV per share, cash and holdings value data as of 31 March 2020 using mid-price per share data



# PRESSURE TECHNOLOGIES - NEW INVESTMENT

*£2.5m secondary recovery capital to support strategic refocus. (Ownership 19.6%)*

## The story

- Pressure Technologies (PT) is a specialist niche engineering business comprising two key divisions:
  - Precision Machined Components (PMC) - supplying key metallic components destined for extreme or hostile environments in mission critical functions
  - Chesterfield Specialist Cylinders (CSC) - the design, manufacture and maintenance of high-pressure gas cylinders for military and oil and gas/marine use
- The PMC division came under significant pressure in the oil and gas market downturn of 2014-2018, with the CSC division only just keeping the group afloat
- We had been monitoring PT through this struggle for two years before deciding in April 2019 to invest after six months of engagement and due diligence on the new management team's strategy and end-market recovery potential

## Investment thesis Targeting a 20% IRR

### Re-rating

Recovery from distressed rating to historic average, scope for premium on split and sale of two divisions

### Earnings growth

Organic growth strategy delivers operational gearing

### Cash generation

Earnings growth to drive significant cash yield relative to Gresham House entry price

### Value creation to realise intrinsic value



*Case studies selected for illustrative purposes only to demonstrate investment strategy and are not investment recommendations.*

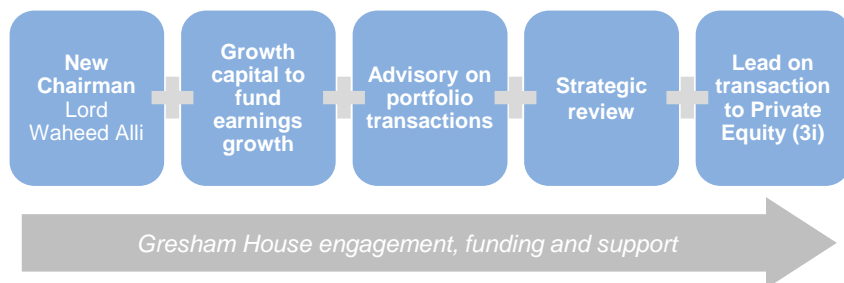
# CHORION - HISTORIC INVESTMENT

*Initial primary growth capital followed by a Public to Private delisting.*

## The story

- The Investment Manager identified Chorion as a suitable opportunity in 2003 after it was demerged from the nightclubs business, Urbium.
- A new chairman, Lord Alli, was brought in with an ambitious agenda for growth and a strategy to build the portfolio of intellectual property rights
  - PE multiples suggested 8-12x EBITDA for children's IP rights; Chorion on 6x
  - Agatha Christie and Enid Blyton businesses generated recurring income which was not valued
- SVG invested at a discount by participating in a capital raise to fund growth
- Became apparent that the public markets would not attribute full value for the business and the team engaged with the board to promote taking the business private. 3i was introduced and completed a P2P transaction

### Value creation to realise intrinsic value



## Investment thesis

### Re-rating

*Private transaction multiple  
arbitrage opportunity*

Apparent that the public markets would not attribute full value for the business, evident that private equity at the time was paying higher prices than those being achieved in the public markets (6x to 8-12x)

### Earnings growth

*Driven by larger portfolio funded  
with growth capital*

Investment in TV and Film opportunities plus overseas sales. Support a capital raising to invest in properties and to acquire new properties to expand the portfolio through an underwriting and subscription

### Cash generation

*ROCE dynamics misunderstood  
by the market*

Earnings growth to drive significant cash yield relative to Gresham High return on capital achievable was masked by a delayed return on investment, use of debt entry price

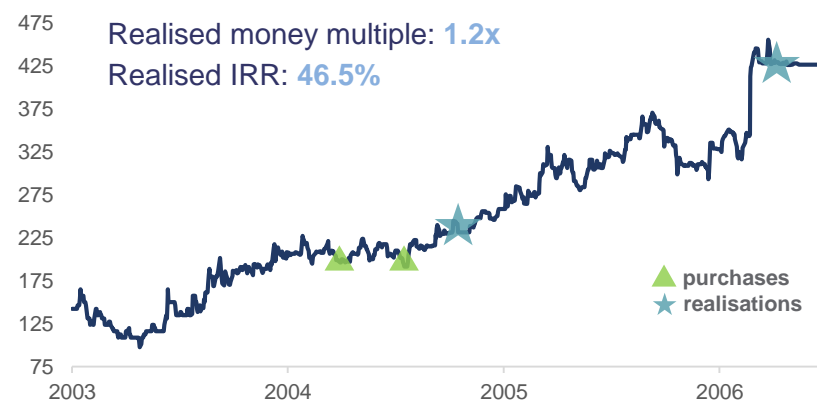


Chart source: Bloomberg, as at 30 November 2019

**Case studies selected for illustrative purposes only to demonstrate investment strategy and are not investment recommendations.**

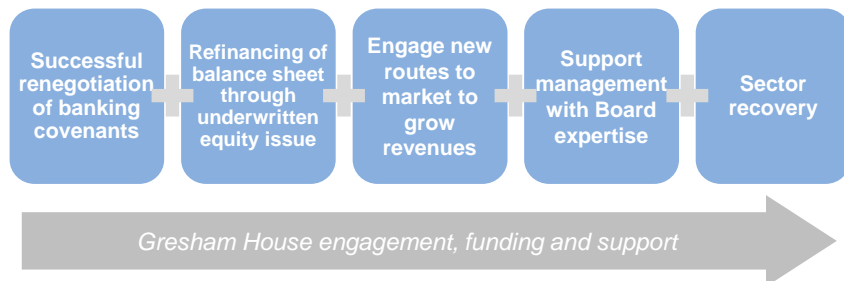
# NORTHBRIDGE - CURRENT INVESTMENT

Equity and Convertible Loan Notes<sup>1</sup>. Recovery and growth capital investing alongside management.  
(Ownership 13%+)

## The story

- Northbridge manufactures specialist industrial equipment for sale and rental and is a leading global supplier of load banks. The company's key markets are oil and gas and power generation
- The business came under pressure at start of the downturn in the oil and gas sector as E&P activity as well as wider capital spending (shipbuilding, power generation and construction) significantly reduced. As the market begins to recover we expect the business to strengthen in line with our investment horizon
- Gresham House spent six month+ engaging with the management team to support the next phase of the company's growth plan

### Value creation to realise intrinsic value



## Investment thesis

### Re-rating

Recovery from stressed rating as market improves

Underpinned by realisable assets - attractive entry point at 60% of net asset value. Multiple expansion - entry EV/EBITDA at 4.8x representing a >60% discount to peers and a low point compared to the preceding two years' trading range<sup>2</sup>

### Earnings growth

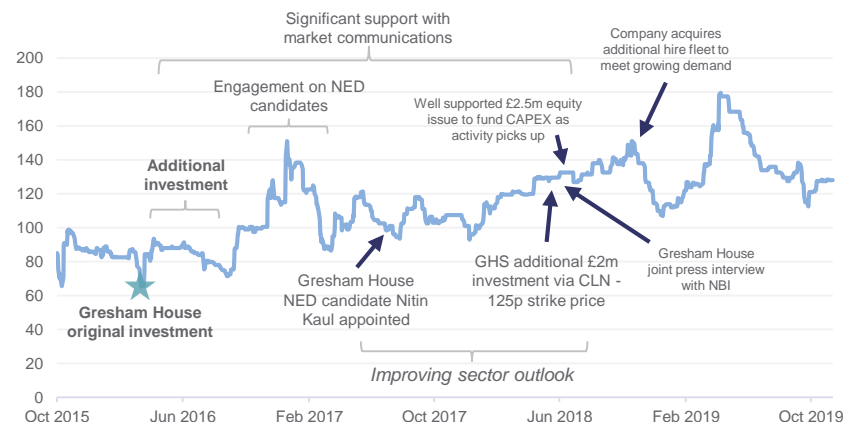
Cost reductions and trading conditions improve

Investment in TV and Film opportunities plus overseas sales. Support a capital raising to invest in properties and to acquire new properties to expand the portfolio through an underwriting and subscription

### Cash generation

Cash generation and significant reduction in capex

Earnings growth to drive significant cash yield relative to Gresham High return on capital achievable was masked by a delayed return on investment, use of debt entry price



**Case studies selected for illustrative purposes only to demonstrate investment strategy and are not investment recommendations.**

Chart source: Bloomberg.

1. CLN has an exercise price of 125p and is three year three month term paying an 8% coupon

2. Bloomberg data

3. Free cashflow yield Gresham House 2017 forecasts (operating cashflow after interest and tax, less maintenance capex. EV based on fully diluted number of shares at 75p and forecast net debt)

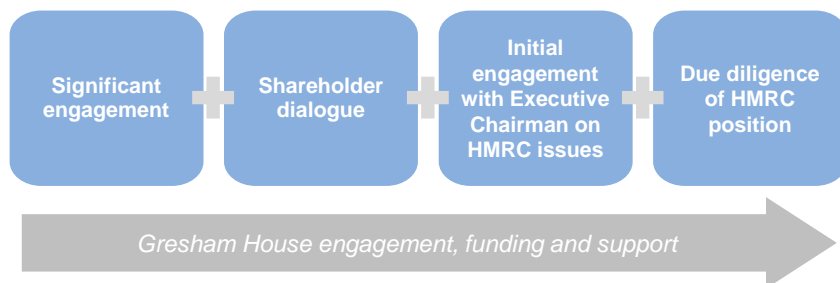
# AUGEAN - GHS SHAREHOLDING

Secondary - recovery and cash generation. (Ownership 7%)

## The story

- Augean is a specialist hazardous waste management group. The share price became distressed following an HMRC announcement of an investigation into the quantum of tax paid by the company over the past four years. Augean had been on our watchlist for some time, and the share price weakness gave the Investment Team an opportunity to reconsider it at a more attractive valuation
- Gresham House spent three months understanding the company's situation and meeting management, before making an initial investment. This position has been increased over time as we developed our understanding of the HMRC investigation and how the company would respond - allowing greater conviction

### Value creation to realise intrinsic value



## Investment thesis

### Re-rating

Recovery from distressed rating as HMRC concluded

Visibility and conclusion of tax investigation will allow business to be valued on an EV basis. Underpinned by tangible assets (waste sites)

### Earnings growth

Cost reductions and trading conditions improve

Margin recovery as loss making divisions sold or mothballed. Significant cost base adjustments grow margin

### Cash generation

Cash generation and significant reduction in capex

Cash generation from improved margins. Resolution of HMRC offers potential of return of cash to shareholders if charge is below cash reserves built by that point

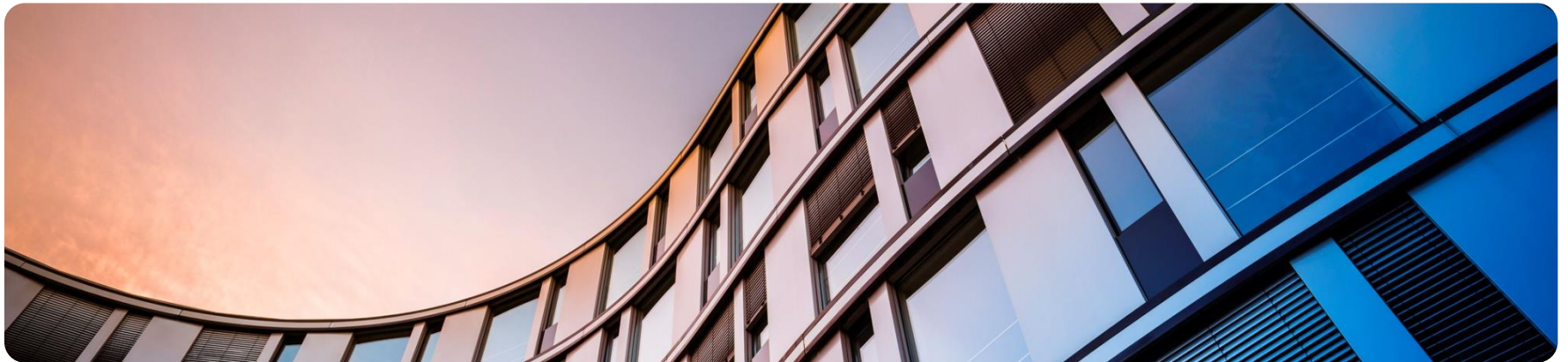


Chart source: Bloomberg, as at 30 November 2019

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# CONCLUSION

- Alignment - Gresham House plc and team members own >20% of the Fund<sup>1</sup>
- Experienced Investment Team with a strong track record
- Significant potential upside - from existing portfolio
- Investment timing attractive - compelling case for small vs large and value vs growth
- Specialist equity fund targeting 2xMM (15% IRR) over medium term



1. As at 31 December 2019, most recent Link Asset Services shareholder report and accounting for subsequent TR-1 notifications



# APPENDIX

# FUND OVERVIEW

Gresham House Strategic plc	
Legal structure	Closed End Investment Company
Domicile	UK
Fund listing	AIM
Ticker	GHS.LN
Strategy inception	August 2015
NAV frequency	Weekly
Financial year end	31 March
Directors	David Potter (Chairman), Charles Berry, Ken Lever, Helen Sinclair
Investment policy	Up to 30% private, typically 10-20 holdings
Fees	Annual management fee: 1.5%   Performance fee: 15.0% over a 7.0% hurdle
Market cap	£31.2m (as at 6 April 2020)
Website	<a href="http://www.ghsplc.com">www.ghsplc.com</a>



# SPECIALISTS IN ALTERNATIVES

Gresham House is a London Stock Exchange-quoted specialist alternative asset management group (GHE.LN), providing funds, direct investments and tailored investment solutions, including co-investment.

- Specialists in five areas of alternative investment
- Growing organically and through acquisition, expanding our shareholder base, and developing our investment pipeline
- Committed to operating responsibly and sustainably, building long-term value across our portfolio

## Strategic Equity



### Public Equity

- Gresham House Strategic plc
- Gresham House Strategic Public Equity Fund LP
- LF Gresham House UK Micro Cap Fund
- LF Gresham House UK Multi Cap Income Fund
- LF Gresham House UK Smaller Companies Fund

£0.3bn



### Private Equity

- Baronsmead Venture Trust plc
- Baronsmead Second Venture Trust plc

£0.4bn

£0.7bn



### Forestry

- Gresham House Forestry Fund LP
- Forestry Partnership LLP
- Managed Accounts
- FIM Sustainable Timber & Energy LP (STELP)
- FIM Forest Fund I LP
- FIM Timberland LP

£1.3bn



### New Energy

- Gresham House Energy Storage Fund plc (GRID)
- Gresham House Renewable Energy VCTs 1 & 2 plc
- FIM Solar Distribution LLP
- FIM Windfarms 2 LP
- Wind Energy LP
- Managed Accounts

£0.6bn

£2.1bn



### Housing & Infrastructure

- Gresham House British Strategic Investment Fund (BSIF) strategy
  - Gresham House BSI Infrastructure LP
  - Gresham House BSI Housing LP

£0.2bn

£2.8bn

# STRATEGIC EQUITY

*Targeting superior long-term returns in a range of public and private equity investments.*



## Public Equity **£283m AUM**

Applies a private equity approach to quoted equity.



## Private Equity **£425m AUM**

Offers access to entrepreneurial, high growth, earlier stage and lower mid-market private companies.

### Division AUM

---

**£708m**

**+20% YoY**

### Revenue

---

**£13.2m**

**+355% YoY**

# INVESTMENT DEPTH, EXPERIENCE, CLIENT SERVICES & RESOURCES

*Across the Gresham House Group*

- Team of 65 investment professionals
- A range of other resources are centrally provided by Gresham House to enable the Investment Teams to focus on investment origination and execution
- Gresham House has a team of 62 supporting the ongoing investment activities

	Team members	Responsibilities
Technology, Operations, HR and Support	28	Broad based support team to assist across multiple tasks.
Sales and Marketing	12	Investor relations and other client support functions.
Finance, Legal, Risk and Compliance	22	Central support to provide consistent reporting and group management. Central risk and compliance oversight supported by industry expert service providers.

Technology, Operations and Support



**28**  
Full-time team

Sales and Marketing



**12**  
Full-time team

Finance, Legal, Risk and Compliance



**21**  
Full-time team



**1**  
Intern/part-time team



**65**  
Investment Professionals

*As at 5 March 2020*

# TRACK RECORD

*Twenty years of investment experience, over 15 focused on ‘Strategic Public Equity’ (SPE) investing.*

Five consecutive funds following the SPE strategy have outperformed by an average of 11.5% per annum<sup>1</sup>

Fund	Years	Track Record
Gresham House Strategic plc ("Closed Fund II")	2015 - present	NAV per share total return 50.5% since inception <sup>2</sup> vs 31.2% for SMXX
Gresham House Strategic Public Equity LP ("LP Fund III")	2016 - present	Money Multiple 1.55X, IRR 13.2% <sup>2</sup>
Strategic Equity Capital plc ("Closed Fund I")	2005 - 2011	11% IRR since 2007 <sup>3</sup>
Schroder Ventures Strategic Recovery Fund II ("LP Fund II")	2006 - 2011	6% net IRR <sup>4</sup> (06 Vintage). Remaining equity investments distributed to LPs in specie <sup>5</sup> : E2V plc +78%, Journey Group plc +34% and Lavendon Group plc +12%
Schroder Ventures Strategic Recovery Fund I ("LP Fund I")	2003 - 2006	46% net IRR <sup>4</sup> (03 Vintage)
Schroder Ventures UK Focus Fund	2003 - 2010	78% total return 2003 - 2010 vs 14% for SMXX <sup>6</sup>
Philips & Drew (UBS) UK Equity Fund	1999 - 2002	Top Quartile vs CAPS UK Equity Median

Blue highlighted rows represent funds in the SPE Strategy.

**Past performance is not necessarily indicative of future results, and there can be no assurance that the fund will have comparable results or that the fund will be able to implement its investment strategy or achieve its investment objective.**

1. Average annual outperformance against FTSE Small Cap (Excluding investment trusts) Index across 5 funds totally £221m spanning periods from 2003 to 2019. Performance measured over life of fund/period relevant to the Investment Team's involvement

2. Gresham House/ Fund administrators calculations to 31 December 2019, based on the last set of accounts received from the Administrator

3. Gresham House Asset Management Limited calculations excluding dividends 7 year IRR from 2007 when SEC became fully invested to 2014, including period subsequent to the departures of Graham Bird (February 2009) and Tony Dalwood who left SVG in March 2011 having stepped down from the SEC Plc Investment Committee, moving to non-executive Chairman of SVGIM on 30 September 2010

4. GVQIM website

5. Bloomberg data (total return since 30 July 2013 when SRF II wound up through to 30th July 2015) - SEC Plc continues to follow an SPE style of investment and demonstrates the success of the strategy over the investment cycle

6. Bloomberg data - total return. Tony Dalwood left SVGIM in March 2011 therefore data tracked for UK Focus Fund from August 2003 (July inception) - 31 December 2010

# GRESHAM HOUSE STRATEGIC PLC - SHAREHOLDINGS

Shareholders	%
Gresham House plc	23.0%
Hargreaves Lansdown Asset Management	6.3%
Unicorn Asset Management	6.2%
Smith & Williamson Investment	5.9%
James Sharp & Co	5.9%
Miton Asset Management Ltd	5.0%
Interactive Investor	3.5%
Investec Wealth & Investment	3.2%
Berkshire County Council	3.0%
River & Mercantile Asset Management	2.3%

*As at 31 December 2019, most recent Link Asset Services shareholder report and accounting for subsequent TR-1 notifications*