Gresham House
Specialist asset management

Trading Statement

Released : 06/04/2020 07:00

RNS Number : 8115I
Gresham House Strategic PLC
06 April 2020

Gresham House Strategic plc ("GHS" or "the Company") is pleased to announce an update for the financial year ended 31 March 2020.

GHS expects to publish its full-year results in June. The latest factsheet for the period 1 January 2020 to 31 March 2020 will be shortly available at: https://greshamhouse.com/strategic-equity/public-equity/gresham-house-strategic-plc/

Summary

- The Board and Manager retain confidence in our strategy, believe our portfolio is well positioned in the present difficult environment. This confidence is reflected in the decision to retain our commitment to raise the dividend by 15%
- GHS Total Shareholder Return of -5.19% in the year to 31 March 2020 compares to the average IMA Open-ended Fund universe of -17.95% where GHS has outperformed all but one UK Small companies OEICs [1].
- Unaudited 12-month NAV total return performance of -14.3% to 1062.2p [2]/share vs FTSE Small Cap Index total return of -24.7% in the year from 1 April 2019 to 31 March 2020.
- Four-year anniversary of management by Gresham House marked with strong unaudited NAV total return of 31.6% since inception vs FTSE Small Cap Index total return of 13.9%
- £1.6m return of cash to GHS shareholders via a buy-back of 74,446 shares and dividends of £751,900 during year, funded by net profitable realisations of £2.3m and dividend income in the year of £717,000
- Share price discount to NAV reduced from 22.6% 31 March 2019 to 15% at 31 March 2020, having reached a discount of 3.4% in December prior to the recent market sell-off.
- Exciting pipeline of potential investments with COVID-19 related financial stress to generate many new opportunities for capital deployment; situations our specialist investment strategy is made for.
- The Board will continue to consider all opportunities to grow GHS.

Covid-19

Gresham House has robust business continuity arrangements in place and the Investment team have been able to work from home effectively, with full access to all systems. Throughout this unfolding crisis we have been able to maintain business as usual and we are of course in very regular dialogue with all our portfolio holdings.

The portfolio entered the recent market drawdown with c. 16% of assets in cash, which now represents c.19%. Whilst many open-ended small company funds will have to anticipate and manage fund cashflows, our cash is protected and awaiting deployment, either to build existing holdings or take advantage of new investment opportunities that emerge, of which there will be many. Our challenge in a concentrated approach is to then to pick the very best, balanced for both reward and risk.

Overall, the portfolio holdings have strong financial positions going into this period of uncertainty and recession. Many have net cash positions such as Centaur Media, Brand Architekts and MJ Hudson. Others have very low levels of financial leverage such as our holdings in Augean and IMImobile. These holdings will be less impacted than most companies by the effects of the virus on economic activity. Our unlisted convertible bond holdings represent c.15% of the portfolio and these have been providing regular interest income at 8% coupons.[2]

To varying degrees all our portfolio companies will be impacted by the first order and knock-on effects of this enforced economic shutdown which, despite fast and material Central Bank monetary and Government fiscal support, will significantly curtail economic activity and cause bankruptcies, impair end-market demand, extend sales cycles, reduce credit availability, as well as disrupt employees and suppliers. Furthermore, the collapse in the oil price will have additional negative effects on those of our holdings with exposure to this industry. However, the portfolio finishes the year with little direct exposure to the impacted sectors of oil production, travel, leisure, retail or financial industries. We seek to support our portfolio companies more than ever through this difficult period, potentially financially, if prudent to do so, and we will also exploit share prices which are at an even greater discount to intrinsic value. We remain heavily engaged across the portfolio and would highlight the excellent news of the appointment of Sir Roy Gardner as Chairman of Pressure Technologies in January.

Net gain of £7.6m from the profitable realisations in the period included Augean (£1.6m, 162% IRR), Tax Systems (£700k, 26.4% IRR) and IMImobile (£5.3m, 24.5% IRR). As the crisis emerged, we exited small positions in Escape Hunt and PCF Group. New investments were established prior to the recent market sell-off, which has affected small quoted companies more than large, in-line with other significant 'risk-off' periods and across the board. However, we believe these companies offer compelling value and strong business prospects once economic activity recommences and we are confident they will generate the returns we target over our typical 3 to 5 year holding period.

We purchased ULS Technology Plc, the leading digital conveyancing platform for housing transactions. Their new product, DigitalMove, has potentially transformational capabilities for the business, improving the efficiency and speed of the process materially for consumers and advisers alike. We have also taken an initial position in Van Elle Plc, a leading piling and ground engineering specialist for the Construction Industry and a market leader in the Rail sector. Van Elle will benefit from the tsunami of infrastructure spending that we expect in the years ahead. We also doubled our existing position in Centaur Media, where the new CEO's strategy to rebuild margins after significant portfolio restructuring is highly focused on future value creation.

All companies and individuals are striving to predict what lies ahead. The recent crisis demonstrates that often we have an inaccurate sense of certainty or confidence in what the future holds. This is why it is so important to have an understanding of value. With careful analysis, a conservative approach to financial leverage and deep insight into a company's value drivers, a material margin of safety can be created to enable investments into stocks with significant medium-term returns. Near-term outlooks have of course been impaired, but for those that survive this current crisis their market positions may be stronger, the competitive position easier and their cost-bases leaner, primed for profit growth in the future.

We expect the national discussion around 'lives' vs 'livelihoods' to intensify and to see a partial return to work by the Summer. The work on tests for anti-bodies and a vaccine will be successful. Those over-leveraged companies and weaker industry players going into this crisis may not survive, including many of the already loss-making businesses that have been increasingly in vogue in recent years, but the Banking sector is better placed to deal with this stress than when it entered the global financial crisis of 2008-09. The financial requirements of companies due to COVID-19 will generate significant opportunities for capital deployment during the rest of the year. The longer-term repercussions of the use of helicopter money and the level of fiscal stimulus taking government debt to previously unacceptable levels await us all. We believe strongly that our concentrated, engaged, SPE approach and portfolio is well positioned for the challenges ahead.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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Notes to editors

GHS plc applies Gresham House's Strategic Public Equity ('SPE') strategy. The Strategic Public Equity mandate utilises the principles and practices of private equity to invest in influential stakes in UK smaller public and private companies which it believes to be undervalued. As such, the team has an engaged, active style of investing, working closely with management teams, to create shareholder value through strategic or operational initiatives.

[1] Data compiled by FE Trustnet and Morningstar for the year to 31 March 2020, shows the Gresham House Strategic fund outperformed all but one open-ended UK smaller companies' funds. Since inception in August 2015, GHS has outperformed its benchmark by 17.7%. NAV for year-end remains unaudited.

[2] The unaudited NAV per share includes valuations of the Company's unlisted investments as at 31 March 2020. The valuation of all unlisted investments, which comprise approximately 15% of the net asset value, almost all of which are convertible loan notes, will be reviewed for the purposes of the audited financial statements for the year ended 31 March 2020.

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