Gresham House Strategic plc

Q2 Factsheet - 30 June 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 committee. 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, following the SPE strategy and these on average have outperformed by 11.5% per annum.[1]

Key facts as at 30 June 2020

NAV per share: 1,226.2p

Mid-price: 1,075.0p

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

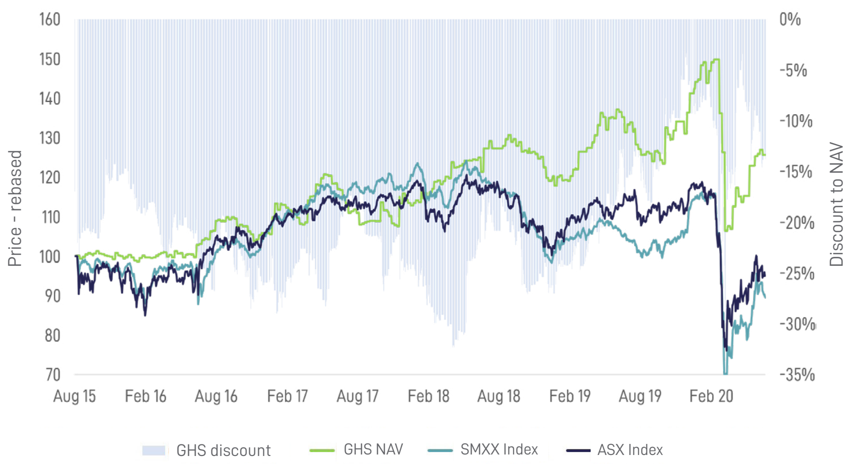
Over 20 years' experience in Public Equity. Previously at Majedie, River & Mercantile (Founder) and Societe Generale.

Tony Dalwood
Fund Manager, Investment Committee Chairman

Started Gresham House Asset Management in 2015. CEO of Gresham House plc. Over 25 years' experience in Public and Private Equity. Previously at PDFM and CEO at SVG Advisers.

NAV per share relative performance

14 August 2015 - 30 June 2020 (Appointment of Gresham House and adoption of SPE investment mandate in August 2015).



Performance	Q2 2020[2]	Since inception[3]	1 yr	3 yrs
GHS NAV Total Return	16.8%	32.1%	-4.0%	22.8%
FTSE Small Cap Total Return	10.5%	3.5%	-12.6%	-21.9%
FTSE All Share Total Return	12.9%	13.9%	-13.7%	-4.6%

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.

Market Commentary

The scale and speed of Central Bank monetary support around the world is unparalleled. The expansion of the Federal Reserve's balance sheet in response to the COVID-19 pandemic will be greater than Quantitative Easing (QE) 1, 2 and 3 combined. Market trust that this is necessary and well calibrated is high and therefore, during the quarter, equity markets recovered some of the prior period's collapse, with pockets of true excitement, such as the Nasdaq Index. Bond yields have been overwhelmingly supressed to historically low levels, with many into negative yielding territory. Governments appear to have struggled with their responses globally; some complacent, others lacking of resources; while the UK's has struggled with conflicting civil service, scientific and medical advice, as well as competing societal demands and concerns. With an apparent desire from the UK Government to please all, we have witnessed a level of policy confusion and a massive fiscal and government stimulus, the final bill for which has yet to arrive. How it is paid for is a different matter.

We are deeply sceptical, indeed concerned, about the apparent newfound belief in deficit and national debt funding in a world of artificially suppressed interest rates without any negative future consequences. Fiscal transfer and inflation risks have surely increased and normalised growth rates will be constrained. Clearly some asset classes are reflecting our unease with Gold recently breaching $1800/oz and demand for inflation-related bonds soaring. The quarter witnessed a massive surge in equity issuance, demonstrating the usefulness of the stock market to those who question its purpose, as capital was deployed to sound businesses, protecting jobs and pensioners. The difficult operating environment for many industries and the hangover of generally high corporate leverage will remain for some time.

We enter the second half of the year cautiously, yet with a full pipeline of potential investments, significant cash and a robust portfolio of undervalued shares.

UK equities were cheap relative to US equities going into COVID-19 and - due to differences in industry sector biases - they have become even cheaper. Small company shares look attractive relative to large companies. We seek to exploit a tendency at this time for marginal investors to focus on near-term uncertainty rather than medium term return profile or valuation of future free cash flow generation.

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 March 2020 - 30 June 2020
3. Inception 14 August 2015 - 30 June 2020

Top ten shareholdings[4]	£m	Shareholding in company	Portfolio NAV
Augean plc	£11.4m	6.1%	26.7%
Northbridge Industrial Services plc	£4.6m	11.8%	10.7%
Be Heard plc	£2.4m	10.6%	5.5%
The Lakes Distillery Company plc	£2.3m	-	5.5%
Pressure Technologies plc	£2.2m	15.1%	5.3%
ULS Technology	£2.1m	6.6%	4.9%
Van Elle Holdings	£1.8m	5.3%	4.1%
Fulcrum Utility Services Ltd	£1.8m	2.5%	4.1%
Universe Group plc	£1.7m	11.6%	4.1%
Flowtech Fluidpower	£1.7m	3.9%	4.0%
Other investments	£6.4m	-	15.0%
Cash and other working capital items	£4.3m	-	10.0%
Total NAV	**£42.7m**		

4. Top ten holdings shown as at 30 June 2020 using bid-price data. Investments in Northbridge and Be Heard include equity and Convertible Loan Notes (CLN)
5. As at 30 June 2020

Investment Manager

Gresham House Asset Management Ltd (GHAM)

The operating business of Gresham House plc, GHAM manages funds and co-investments across a range of differentiated alternative investment strategies for third-party clients. The company is built on a long term investment philosophy and applies private equity techniques to due diligence and investment appraisal.

Gresham House plc (ticker: LON:GHE) is a London Stock Exchange quoted specialist asset manager with c.£3.3 billion[5] in assets under management.

Investment Manager's Report

The portfolio rebounded significantly in the second quarter of 2020 with material NAV recovery of +16.8%. This was ahead of our comparator indices - the FTSE Small Cap returned +10.5% and FTSE All-Share +12.8%. This was particularly pleasing as we performed strongly on a relative basis during the sell-off in Q1 too. The current economic climate our portfolio faces is unprecedented, and we are heavily engaged with all portfolio holdings in this first phase of the crisis and expect to be going forward as longer-term impacts are felt (more detail provided in the annual report).

The outperformance was driven primarily by our investments in Be Heard (bid for), Fulcrum (tender offer), ULS, Van Elle Holdings and Augean. Furthermore, the portfolio has little exposure to indebted companies. We used the crisis to make three new core investments (Flowtech Fluidpower, Van Elle Holdings, Fulcrum Utility Services) and two 'springboard positions' (Bonhill, Ted Baker).

One 'silver lining' of the current crisis is that the pipeline has been transformed overnight for an active, value strategy like ours. However, the length of this crisis and its challenging aftermath will be with us all for some time and therefore we are in no rush to invest; the portfolio will be back to 16% (18% end of Q1) cash once the Be Heard process is completed despite making five investments in the quarter. We are focused on selecting only the very best opportunities, calibrated for the evolving risk environment, during the rest of 2020.

Be Heard plc

We were pleased to see Be Heard receive a takeover from MSQ partners, an LDC backed peer of Be Heard, for 0.5p per share in June. The equity investment has performed poorly for our investors, but we are pleased the CLN we hold will be redeemed in full with its 25% redemption premium as a part of the transaction and this portion of the investment will deliver ahead of target returns, mitigating some of the losses on the equity. Regular readers of this factsheet will know our engaged strategy was put into practice to prevent further losses and recover value on this investment through our significant involvement with the Board and management changes that have led to the stabilisation of the business and eventual sale.

Flowtech Fluidpower plc (new investment)

The violent market correction at the start of the quarter created an opportunity for us to build a 5% stake in Flowtech Fluidpower; a specialist distribution business we had been conducting due diligence on for a number of months pre-COVID. We are targeting significant returns for our investors from a combination of improved operational and financial management, sales recovery and a re-rating of the shares to the levels paid by the private equity market for these sorts of businesses. This process is being overseen by new Chairman Rodger McDowell who sits on the Board of another one of our investments; Augean.

Van Elle Holdings plc (new investment)

We also used the crisis to build a significant 7% stake in Van Elle Holdings; a specialist piling business focused on rail, infrastructure and housebuilding. We are targeting improving returns from a new management team and chairman who are overseeing strategic and operational changes within the business to recover operating margins and revenues. In this instance, these self-help initiatives are supported by a thematic structural trend of anticipated significant infrastructure and construction spend by the UK government over the next five years – we noted the PM's 'build, build, build' speech with interest.

CONTACT

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