

March 2020

COVID-19: Communication to Baronsmead shareholders from Gresham House Asset Management

In these challenging times it is important to provide Baronsmead shareholders with an update on the COVID-19 crisis in terms of the impact on and implications for the VCT portfolios.

Above all we wish all our shareholders and your families good health as we all navigate this uncertain period. We will strive to clearly communicate the actions we are taking as Fund Manager to evaluate and mitigate the impact on our portfolio companies as well as the support we can offer them to ensure that as many of them as possible are able to grow and thrive as we emerge from the current crisis.

Gresham House team

The well-being of our employees and their families is paramount and we are taking steps to ensure they remain safe and healthy. All Gresham House staff are able to work remotely and continue to operate business as usual to ensure that our client service is not impacted. We are able to conduct meetings via video or telephone conference and remain committed to the same processes and procedures as normal.

While COVID-19 presents an unprecedented challenge to the country and economy, we are well prepared and able to continue in our role as investment managers. We remain focused on delivering for our clients and ensuring investments continue to be managed to our usual high standards.

Quoted market volatility

The primary initial impact for Baronsmead investors has been exposure to falling equity markets through the direct portfolio of AIM listed holdings as well as the indirect exposure through the investments in the Gresham House Equity Funds.

Driven by fear and uncertainty about the impact of COVID-19 on the global economy, equity markets across the world have experienced the most rapid bear market in history, exceeding even the Global Financial Crisis of 2008 in speed and severity.

Our direct AIM investments and our Equity Fund portfolios have seen a material reduction in share prices since mid-February reflecting deteriorating sentiment and uncertainty about the economy, corporate earnings and in some cases balance sheet resilience. However, it is important to make the distinction between short term unrealised paper losses that can recover over time and any fundamental impact on the financial health and future prospects of the underlying portfolio companies. Our primary focus is on the latter.

The health of the majority of the Quoted portfolio companies continues to be sound. These companies are typically profitable, cash generative businesses with low levels of financial gearing and good long-term growth prospects. There will be a small number of investee companies that struggle to navigate the situation and we will act tactically to mitigate losses or to offer assistance on a case by case basis. Whilst many portfolio companies will see a temporary disruption to trading due to the current situation most have strong balance sheets and will survive and potentially emerge stronger relative to less robust competitors.

These challenging times also create opportunities to make long-term investments at attractive valuations. Our portfolios contain substantial cash resources that can be deployed selectively to support our portfolio companies and to find new prospects with the potential for long term value creation.

Portfolio company engagement

Gresham House have undertaken a thorough risk review of the Baronsmead portfolio companies and identified those where we believe decisive action is required. We have engaged with the management teams of these businesses proactively to understand the pressures they are facing and to offer guidance as well as operational and financial support.

We are working actively with our Unquoted portfolio companies to help them develop short term plans to mitigate the impact of the current crisis. In the case of some of our consumer businesses this may be rapid action to reduce costs and preserve cash to weather the storm. For some of our technology and healthcare businesses this might be providing resources to help them take advantage of new opportunities that arise from the crisis.

We have also engaged with the management teams of our Quoted portfolio companies. We are in a unique position to offer them valuable insight due to the size of our portfolio of both public and private companies. Where appropriate we can also introduce them to people within our network who can help them to navigate the current uncertainty.

Industry lobbying activity

As a founder member of the VCT Association (“VCTA”) we have been actively involved, alongside our industry peers, in lobbying Government to provide practical support to VCT backed small businesses. Together the VCTA support over 600 high growth small businesses across the UK, with 80,000 employees, £16bn of sales, across multiple industries. The VCT industry represents an efficient existing mechanism to provide support to small businesses through this crisis alongside other Government support measures.

Outlook

The COVID-19 situation is unprecedented and has created challenges for the Baronsmead portfolio companies and the UK economy as a whole. At Gresham House we are committed to active engagement with our portfolio companies to ensure they are as prepared as they can be for the impact to their businesses. We have cash and resource to deploy to support our portfolio companies where needed. We believe that the majority of our investees will emerge in good shape and be able to take advantage of their growth opportunities. The current market dislocation will also produce opportunities to make long term-investments at more attractive prices. We will continue to provide updates on our website and through electronic communication with shareholders when there are material changes.

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