Gresham House Strategic plc

Q4 Factsheet - 31 December 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 9.8% per annum.[1]

Key facts as at 31 December 2020

NAV per share: 1,436.3p

Mid-price: 1,375.0p

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: 3,480,884 (as at 31 December 2020, 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.

Laurence Hulse
Investment Manager

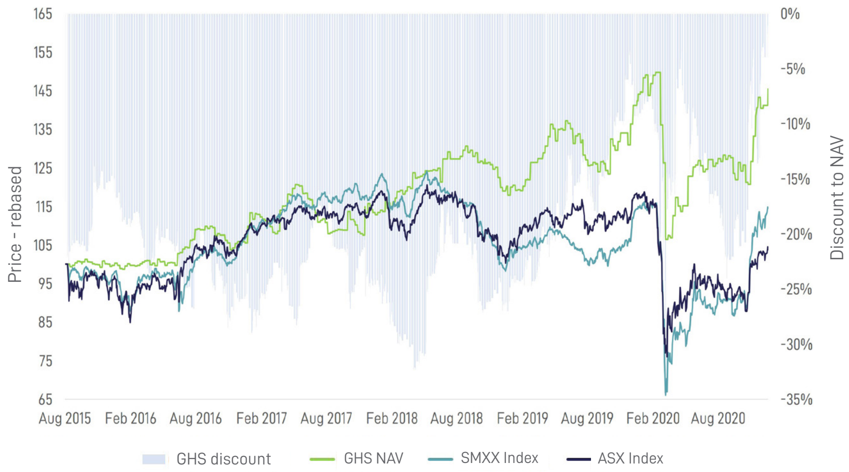
Over 7 years' investment experience. Previously at Rothschild as an intern in the M&A team.

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



Performance	Q4 2020[2]	Since inception[3]	1 year	3 years	5 years
GHS NAV Total Return	18.8%	54.3%	3.8%	34.9%	53.9%
FTSE Small Cap Total Return	30.7%	33.0%	1.7%	3.1%	34.1%
FTSE All Share Total Return	12.6%	24.5%	-9.7%	-2.7%	28.5%
AIC UK Smaller Companies Sector Rank	-	-	7/26	4/27	11/26

Source: Bloomberg and AIC.co.uk (NAV TR) as at 31 December 2020, net of fees and costs

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

Despite the pervasive gloomy media narrative, it can surely be said that Q4 2020 was one of the most uplifting quarters we have witnessed. Not only did the brilliant intellect and creativity of the pharmaceutical industry announce the development of multiple highly effective vaccines to tackle the debilitating COVID-19 virus, but the much-derided UK government managed to avoid a "no-deal" Brexit outcome eliminating this 'tail risk'. Perhaps most importantly, however, markets rediscovered the investment power of 'Value'. The outperformance of 'Value' over 'Growth' was marked, in fact one of the starkest phases ever. In spite of many 'Growth' investors hoping this will be another temporary blip, we expect them to be sorely disappointed this time. Why? It is clear to us that treasury yields are now in a rising trend. This will be the kryptonite to the fanciful and often ludicrous valuations ascribed to barely, if at all, profitable stocks (especially in the US) which have been leading the herd ever higher. Inflation expectations too are rising. Indeed, the outlook for economic recovery has now strengthened. The 'Value' move barely registered on the charts and does not even make up for the rest of the year's underperformance. A lot more to play for. In this context, the UK stock market appears to be among the best value globally. M&A is inevitably picking up (G4S, RSA, Signature Aviation, Entain) in large cap, smaller companies will surely follow. Monetary conditions remain ultra loose, supporting equity markets, and it seems unlikely the rug will be pulled in 2021. This time last year I flagged the likelihood of helicopter money in the next phase of easing. Congress has now signed off no strings attached cheques of $2000 to citizens. Hopefully, this won't become a habit. We start 2021 with most listed companies having raised sufficient liquidity to make it to post vaccine normalisation and an outlook of accelerating economic activity.

1. Average annual outperformance against FTSE Small Cap (excluding Investment Trusts) Index across 5 funds totalling £221m spanning periods from 2003 - 2021. Performance measured over life of fund/period relevant to the investment team's involvement. For existing funds, performance data is to 15 January 2021
2. 30 September 2020 - 31 December 2020
3. Inception 14 August 2015 - 31 December 2020

Top ten shareholdings[4]	£m	Shareholding in company	Portfolio NAV
Augean plc	£13.3m	6.1%	26.6%
Northbridge Industrial Services plc	£5.6m	12.4%	11.2%
Pressure Technologies plc	£4.6m	13.8%	9.2%
RPS Group plc	£4.1m	2.1%	8.1%
ULS Technology	£3.4m	6.6%	6.8%
Flowtech Fluidpower	£3.2m	5.8%	6.5%
Van Elle Holdings plc	£2.7m	6.2%	5.3%
The Lakes Distillery Company plc	£2.5m	-	5.1%
Centaur Media plc	£2.4m	5.9%	4.9%
Fulcrum Utility Services Ltd	£2.2m	2.8%	4.4%
Other investments	£6.4m	-	12.8%
Cash and other working capital items	(£0.4m)	-	(0.8%)
Total NAV	**£50.0m**		

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.£3.3bn[5] in assets under management.

4. Top ten holdings shown as at 31 December 2020 using bid-price data. Investments in Northbridge include equity and Convertible Loan Notes (CLN)
5. As at 30 June 2020

Investment Manager's Report

The portfolio delivered a standout quarter overall for the NAV and Share price, with GHS finishing 2020 in and around the top of the AIC UK Smaller Companies sector on a three year shareholder returns basis. As noted, sentiment toward UK equities improved materially, and NAV grew to 1436.3p, +18.8%, with the discount narrowing to 4.3% and shares trading at an all-time high of 1375p. Our investments in RPS, Pressure Tech, ULS, Bonhill and Northbridge significantly outperformed in the quarter, with strong returns seen across the portfolio.

In previous factsheets, we highlighted the current crisis transforming the pipeline overnight for this active, value conscious, medium-term strategy. This trend has only intensified. We have also been busy with marketing efforts, including a Vox Markets podcast and featuring in Wall-Street legend Jim Grant's Interest Rate Observer. Our latest slide deck, which contains detailed portfolio information, can be found on our website.

ULS Technology plc

ULS achieved a key strategic milestone in Q4, disposing of its CAL division for £27.3m; more than 75% of the market cap at the time of announcement. This allows the business to focus on and invest in its growth opportunities within the eConveyancer and Digital Move products, which already generate £5m EBITDA, with disposal proceeds providing firepower to accelerate this. The company announced a new CEO to drive this next chapter for the business, and we were delighted to see Jesper With-Fogstrup join from HSBC. The company also released its interim results, revealing the expected material impact of lockdown 1 to mortgage applications but a material bounce back to above pre-COVID levels since. We are now engaged with the team on capital deployment and strategy after a very pleasing disposal process.

Pressure Technologies plc

Pressure Technologies secured an oversubscribed capital raise of £7.5m to provide growth capital for an accelerating energy storage and transportation opportunity in the hydrogen market for its high-pressure cylinder technology. The company has an exciting pipeline with household names in the sector and hydrogen has emerged as a key clean energy source for 'heavy load' transportation and industrial processes. We look forward to further updates from the company on this opportunity and signs of stability and strategic progress in the Oil & Gas division which has been heavily impacted by COVID-19.

The Lakes Distillery (CLN in Private Company)

Regular readers and longer-term shareholders will recall we hold a convertible loan note instrument in The Lakes Distillery generating an 8% cash coupon and 12% roll up to create a 20% p.a. return. As our only investment exposed directly to hospitality, there had initially been concerns, but the business has traded admirably through the pandemic with revenue down only 9.8% YoY despite the distillery site being closed for half of the year (tour, gift shop, bistro revenues lost) and a core end market of hospitality also being severely disrupted. Digital marketing and online sales have really stepped up. Tim Farazmand (GH adviser) has now been appointed Chair and we are delighted that Alan Rutherford OBE will be retaining links with the business after a huge contribution as chair through the nascent years. Lost cash flow from operations was more than made up for with a growth capital raise to fund future stock lay-down and capex supported by existing and new investors.

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 of risk than that investments in larger, more established companies.

CONTACT

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