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# STRATEGIC EQUITY CAPITAL PLC

Q3 Update 2018

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# Risk considerations

*Risk Factors for Strategic Equity Capital plc (the Company)* – The general risk factors set out under the heading “D.1.Key Risks” of the Prospectus apply to the Company. In addition, potential investors should note the following factors:

- There can be no guarantee that the investment objective of the Company will be achieved and neither capital nor income is guaranteed.
- You may not be able to sell your shares in the Company easily or you may have to sell at a price that significantly impacts on how much you get back.
- The share price may trade at a discount to the Net Asset Value of the Company.
- The amount that you have invested is not protected so in some unfavourable circumstances you could lose all of your investment.
- The Company may borrow money which can be used to make further investments (gearing). In a rising market, this “gearing” can magnify the gains or in a falling market, the losses on your investment.
- The Company invests in a smaller number of companies and sectors than the market, creating concentration risk.
- There is some liquidity risk, as a significant level of investment is made in companies too small for inclusion in the FTSE 250 Index. These are likely to have a low level of liquidity in some circumstances.
- The Company may invest in companies that are not listed or admitted to trading upon any recognised stock exchange. These investments can be riskier and may be illiquid and difficult to realise and more volatile than investments in larger, longer-established businesses.
- The performance of SEC will depend on the skill and expertise of the Investment Manager. The loss of key personnel could affect the performance of the Company.
- Stock market investments should be regarded as long term. The Company’s strategy, and therefore level of risk, can change over time. Economic factors, such as interest rates, inflation and supply and demand can affect all investments. Tax rules can change and the value of any benefits will depend on personal circumstances.
- Charges and expenses are taken from capital and this increases the chances of the capital value falling

These are not all the risks of an investment in the Company. For a full list of the Company’s risks, please see the Prospectus and Supplement to the Prospectus, in the section entitled “Risk Factors”.

Investors should take advice from their own independent professional financial advisers before making an investment decision and are responsible for ascertaining any income tax or other tax consequences which may affect their acquisition of any investment.

You should remember that the value of investments and the income from them may go down as well as up and is not guaranteed, and investors may not get back the amount invested. Past performance cannot be relied on as a guide to future performance.

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## **Risk considerations:**

You should remember that the value of investments, and the income from them, may go down as well as up, and is not guaranteed, and investors may not get back the amount of money invested. Past performance cannot be relied on as a guide to future performance. Exchange rate changes may cause the value of overseas investments or investments denominated in different currencies to rise or fall.

In addition, there is no guarantee that the market price of shares will fully reflect their underlying net asset value and it is not uncommon for the market price of such shares to trade at a substantial discount to their net asset value.

The unconstrained, long term philosophy and concentrated portfolios resulting from GVQIM’s investment style can lead to periods of significant short term variances of performance relative to comparative indices. GVQIM believes that evaluating performance over rolling periods of no less than three years, as well as assessing risk taken to generate these returns, is most appropriate given the investment style and horizon. Properly executed, GVQIM believes that this investment style can generate attractive long term risk adjusted returns.

These are not all the risks of an investment in Strategic Equity Capital Plc shares (“Strategic Equity Capital” or “SEC”). Investors should take advice from their own independent, professional financial advisers before making an investment decision and are responsible for ascertaining any income tax or other tax consequences which may affect their acquisition of any investment.

Morningstar 5 Year Rating of ★★★ as at 30<sup>th</sup> September 2018

Money Observer: Rated Fund as at 30<sup>th</sup> September 2018

**Runner Up 2017 and 2016, Winner 2015, Highly Commended 2014:** Money Observer Trust Awards. Category: Best UK Equity Trust

**Highly Commended 2016, Winner 2015, Highly Commended 2014:** Moneywise Investment Trust Awards . Category: UK Smaller Companies

**Winner 2015 and 2014:** What Investment Trust Awards . Category: Best UK Investment Trust

**Winner 2015:** Investment Adviser 100 Club Awards . Category: UK Smaller Companies

**Winner 2015:** Grant Thornton Quoted Company Awards . Category: Fund Manager of the Year

**Winner 2014:** PLC Awards . Category: Fund Manager of the Year

**Winner 2014:** Investment Week, Investment Company of the Year Awards . Category: UK Smaller Companies

**Highly Commended 2012:** Money Observer Trust Awards . Category: Best UK Smaller Companies Trust

**Winner 2011:** Investment Trust Magazine. Category: Best Small Companies Trust

## Q3 Update 2018

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**Q3 UPDATE 2018**

- Solid quarter; net assets per share increased by 1.0%. The FTSE Small Cap ex IT index (the “index”<sup>1</sup>) decreased by 2.1%
- Sentiment towards the UK remains very poor with over £10 billion withdrawn from UK funds since the EU referendum and investor confidence at its lowest level since 1995
- On balance, interim and full year results reporting from companies paints a more positive picture with good fundamental progress
- Over 40% of portfolio company sales are international (p13). Where companies are UK focused, these are not in consumer discretionary sectors, rather generating less macro-exposed repeatable revenues based on long term established and embedded customer relationships
- Whilst share price gyrations are likely to continue across the market, fundamental asset valuations in the portfolio are appealing. In addition, strong financial positions, with over half<sup>2</sup> of the underlying portfolio forecast to have net cash balance sheets, provides further confidence

**Solid quarter. Positive medium term outlook supported by attractive valuations, strong cash characteristics and strategic progress at many portfolio companies**

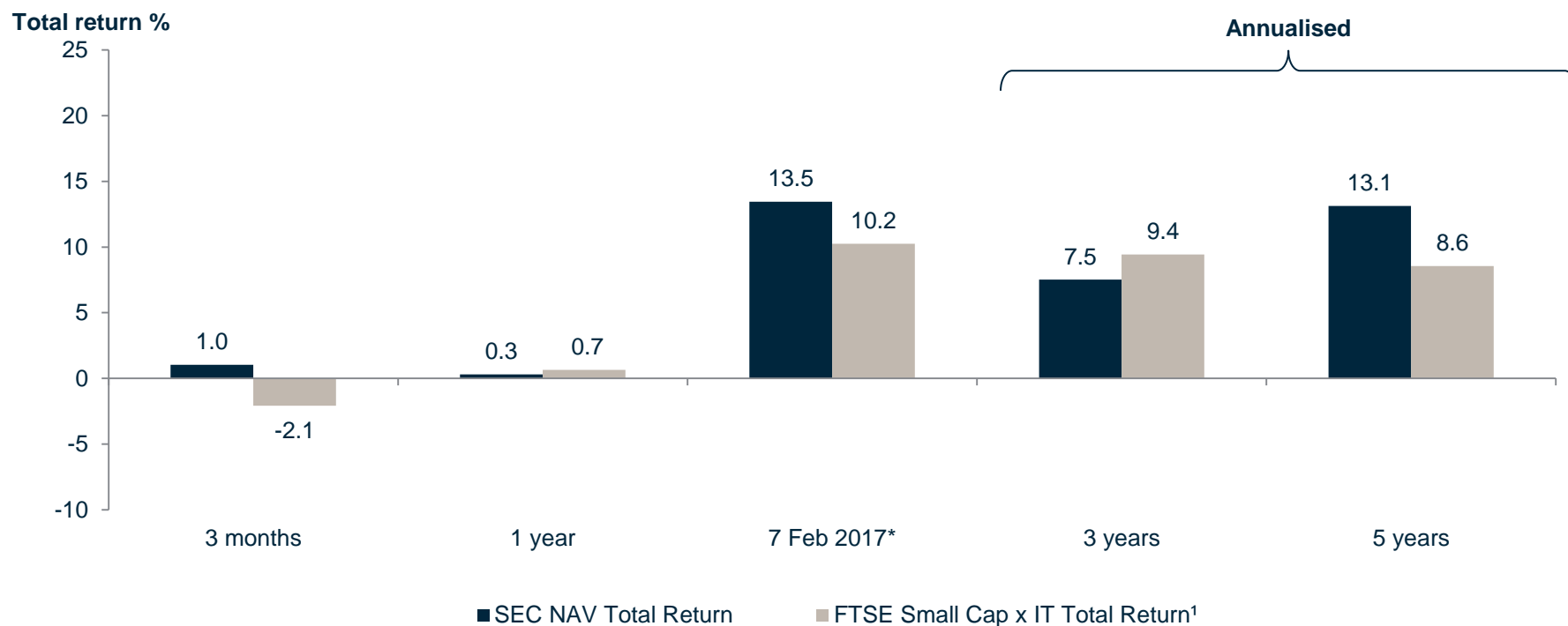
As at 30th September 2018

1. On a total return basis 2. Portfolio companies, constituting 57% of the NAV of the invested portfolio, are forecast to have net cash balance sheets over the next twelve months

Source: GVQIM, Hargreaves Lansdown, PATAC, FactSet, Investment Association statistics

Past performance is no guarantee of future performance and the value of investments can go down as well as up

## SEC NAV performance against comparator index<sup>1</sup>



Average Net Cash	6.6%	7.9%	8.7%	10.3%	10.2%

**Market continues to be volatile over the short term<sup>2</sup>. Performance driven by consistent application of established process**

As at 30<sup>th</sup> September 2018. Source: Unaudited Bloomberg, PATAC, GVQIM. Notes: 1. Comparator index FTSE Small Cap ex Investment Trusts Total Return 2. YTD18 has seen the index move +/- 1% from the previous day on 7.4% of trading days compared to 2.4% for the whole of 2017

\* Management change

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# Q3 Attribution analysis

Positive attribution (top five)	bps	GVQIM Comment
4imprint	131	Strong interim results. Good early indications from the new marketing initiatives and core business growth lead to earnings upgrades
Equiniti	115	Record interim results. Further market share gains and organic growth. Full year results expected to be towards the top end of expectations. Well received capital markets day addresses concerns of some in the market
Medica	99	Interim results with another period of high teens organic growth and paying down of remaining debt
EMIS	99	Good interim results with a return to organic growth and strong cash performance
Tribal	66	Very good interim results with contract wins and further development of the cloud platform
Negative attribution (bottom five)	bps	GVQIM Comment
Clinigen	-30	In-line full year results. Announces acquisitions of CSM and IQone to further broaden the international platform
Ergomed	-45	In-line interim results and new CFO starts. Encouraging growth in backlog in the pharmacovigilance division
Numis	-55	Full year trading statement. Increased hiring activity from competitors impacts full year profits. Anders Povlsen builds stake to 22%
Alliance Pharma	-113	Additional compliance costs and stocking lead to low single digit profit downgrades and weakness in share price following strong performance in first half of the year. Xonvea for nausea in pregnancy launched in the UK post quarter-end
Wilmington	-221	Profit downgrades owing to slower organic growth, primarily in the healthcare division. New Chair and CFO to undertake full review of the portfolio

**On balance, a generally positive period of company interim and full year reporting**

As at 30<sup>th</sup> September 2018

Source: Attribution estimates based on FactSet Portfolio Analysis and GVQIM

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# Changes to top 10 holdings

## Top 10 Q2 2018

Company	% of portfolio
Tribal Group	8.7
Wilmington	8.5
Equiniti Group	8.2
IFG Group	7.7
Clinigen Group	7.2
4imprint Group	6.9
EMIS Group	6.9
Tyman	6.5
Medica	5.1
Harworth Group	4.5

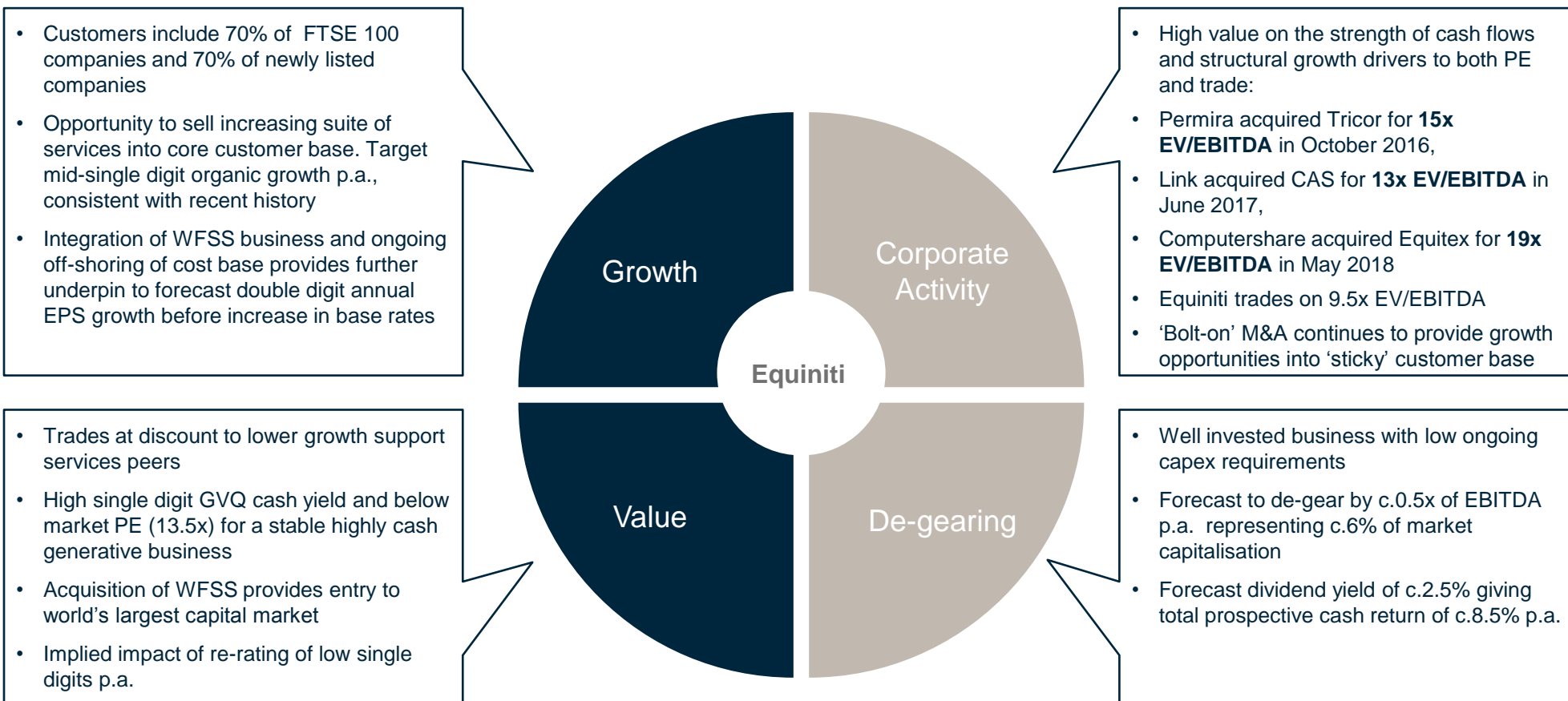
## Top 10 Q3 2018

Company	% of portfolio
Equiniti Group	12.1
Tribal Group	8.4
4imprint Group	8.1
IFG Group	8.1
Tyman Group	6.9
EMIS Group	6.7
Wilmington	6.4
Medica	6.1
Clinigen Group	5.5
Proactis	4.6

**Beneficiaries of capital included Equiniti and Proactis on share price weakness. Funded through top slicing of portfolio positions which re-rated and existing cash balance**

# Equiniti – a reminder of the thesis

## Equiniti – a market leading specialist technology and business process outsourcer



**Equiniti is a high quality unique asset offering a rare combination of growth with cash flow in a stable industry and is trading at a discount to the market, peers and recent take-outs of comparable businesses**

# Observations from Equiniti's interim results and CMD

- Customer retention in Equiniti's core UK share registration business is 100%. Revenue visibility at the start of a financial year is c.90%
- In a traditionally stable market, Equiniti has continued to win clients from competitors, including Dunelm, National Grid, Hiscox and Segro
- Equiniti has won the mandate for 70% of new company listings this year
- Equiniti continues to grow year one client sales by a factor of 4x over the following 3 years. For their 'key accounts', this has grown from 5.0x at the time of IPO to 6.3x today
- Boudicca Proxy Services, acquired in April, has already been sold to 18 registration clients
- Despite the all-in price of shareholders being higher in North America, that business currently makes only 1/3 of the margins of the UK business
- There are 4,800 banks in North American which under the previous owner, could not be serviced
- Over the past four years, Equiniti has generated a 33% post-capex ROCE on acquisitions made and increased the product suite to sell to UK and North American clients

# Top 10 holdings<sup>1</sup>

Company	Vintage	Sector	GVQIM Funds % of company	Progress vs thesis	GVQIM CF yield <sup>3</sup> NTM <sup>4</sup>	Net debt/ EBITDA NTM <sup>4</sup>	Investment thesis	Market leader <sup>2</sup>
Equiniti Group	2016	Support Services	>5%	Ahead	8.7%	2.2x	Delivery of organic growth and cashflow. Integration of WFSS acquisition	Yes
Tribal Group	2014	Technology	>5%	In line	7.5%	-1.4x	Delivery of operational improvements; new platform development; contract wins M&A	Yes – UK/Aus
4imprint Group	2006	Support Services	>3%	Ahead	7.3%	-0.6x	Continued US growth; new marketing strategy; enhanced cash returns	Yes – US niche
IFG Group	2015	Financials	>5%	Behind	13.0%	-1.8x	Structural growth; self-help; M&A; strategic review; new mgmt team	#2 in high end SIPPs
Tyman	2009	Industrials	>5%	In line	11.3%	1.5x	Integration of acquisitions; growth and de-gearing	Yes – niche
EMIS Group	2014	Technology	>3%	In line	7.6%	-0.5x	Organic growth; operational restructuring; new CEO; balance sheet; M&A	Yes - UK
Wilmington	2010	Media	>5%	Behind	12.4%	1.3x	Organic growth; de-gearing; M&A; New Chairman and CFO; portfolio review	Yes – UK
Medica	2017	Technology	>5%	Early	7.4%	-0.4x	Organic growth; cashflow; expansion of offering	Yes
Clinigen Group	2014	Healthcare	>3%	In line	7.9%	1.2x	Organic growth; degearing; development of technology platform	Yes - niche
Proactis	2017	Technology	>5%	Early	10.9%	1.5x	Organic growth; M&A; cashflow	Yes - niche

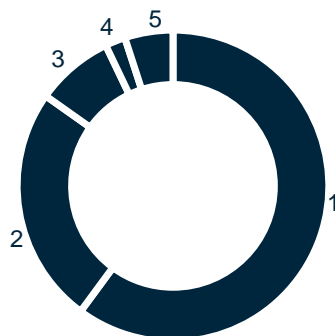
## Returns derived from combination of growth and re-rating underpinned by strong cash flow

As at 30<sup>th</sup> September 2018. Source: GVQIM analysis and PATAAC

Notes: 1. Top 10 holdings representing c.72% of NAV. 2. In the opinion of GVQIM. 3. GVQIM cashflow yield: (12m forward Cash EBITDA minus maintenance capex)/(market capitalisation plus 12m forward net debt). 4. NTM: Next Twelve Months; negative number indicates net cash

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# International exposure of the portfolio

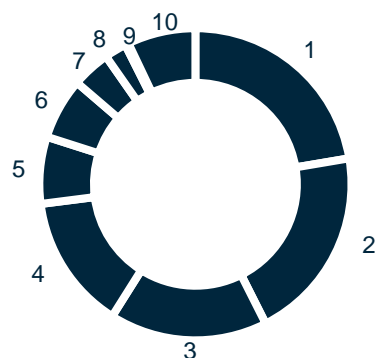


End market sales	Portfolio Companies
1 UK	59.8% Equiniti, IFG Group, Tribal, EMIS, Medica, Harworth
2 North America	24.6% 4imprint, Tyman, Clinigen, Proactis
3 Europe	8.1% Clinigen, Proactis, Ergomed
4 Asia	2.1% Alliance Pharma
5 RoW	5.4% Tribal

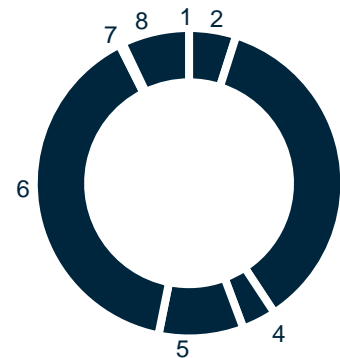
- A significant number of portfolio companies have greater international than domestic sales (e.g. 4imprint, Tyman, Clinigen, Proactis, Alliance Pharma)
- Where portfolio companies have end market sales in the UK, these are not in 'consumer discretionary' sectors. There are no companies in the banking, housebuilding, retail or consumer discretionary industries
- UK exposure is largely in companies with long term, client-embedded, repeatable and often non-discretionary services (e.g. Equiniti, EMIS, Tribal, Medica)
- In addition, UK based companies have limited trading activities (imports and exports) and generally have international bases
- Exposure to Continental Europe is at its lowest level in recent history<sup>1</sup>

**Over 40% of portfolio company sales are international. Where companies are UK focused, these are not in consumer discretionary sectors, rather have less macro-exposed repeatable revenues based on long term established and embedded customer relationships**

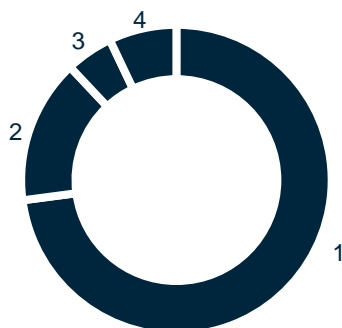
# Highly concentrated and unconstrained portfolio



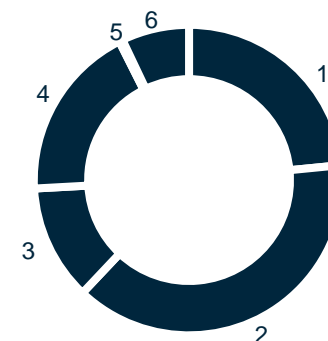
Sector exposure by value		
1	Technology – software & services	22.34%
2	Support Services	20.23%
3	Healthcare	16.39%
4	Financials	14.03%
5	Industrials	6.94%
6	Media	6.36%
7	Property	4.00%
8	Electronics	2.29%
9	Unlisted	0.36%
10	Net cash	7.06%



Value by market cap band		
1	<£50m	0.0%
2	£50m - £100m	4.9%
3	£100m - £200m	35.8%
4	£200m - £300m	3.6%
5	£300m - £500m	8.9%
6	> £500m	39.4%
7	Unlisted	0.4%
8	Net cash	7.1%



Concentration		
1	Top 10	72.3%
2	Rank 11 - 15	15.0%
3	Smaller holdings	4.9%
4	Net cash	7.1%



Value by index membership		No. Holdings	
1	FTSE Small Cap	23.4%	4
2	Aim	38.6%	9
3	FTSE 250	12.1%	1
4	Other <sup>1</sup>	18.5%	3
5	Unlisted	0.4%	1
6	Net cash	7.1%	

**A highly concentrated portfolio with focus on smaller companies. Believe this part of the market remains under-researched, accentuated by MiFID II, with good opportunities for active managers**

As at 30<sup>th</sup> September 2018

Source: GVQIM

Note: 1. "Other": UK listed companies which are not eligible for inclusion in indices either due to liquidity or dual listed with only standard list on the LSE, with market cap. of £150-£350m

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# Portfolio valuation<sup>1</sup>

	SEC weighted average	SEC median	FTSE UK Small Cap ex investment trusts
Number of securities	16	16	160
Market cap (£m)	448	177	304
Consensus EV/EBITDA FY1	10.2x	9.1x	6.9x
Consensus price earnings FY1	16.1x	14.6x	12.1x
Consensus FY1 earnings growth	16.0%	15.3%	9.3%
Consensus dividend yield FY1	2.1%	1.6%	3.4%
Price/sales FY1	2.1x	1.9x	0.7x
Price/cash flow	19.1x	18.8x	13.9x
GVQIM cash flow yield FY1 <sup>2</sup>	9.3%	9.7%	-
Net Debt/EBITDA	-0.0x	-0.5x	1.8x
Overseas sales as %	41.4%	44.0%	-

**Attractive cash characteristics. Forecast growth profile (and PE valuation) favourable relative to the broader market which, in our view, contains lower quality sectors (resources, retail, construction). A significant proportion of the portfolio have net cash positions**

As at 30<sup>th</sup> September 2018

Source: FactSet portfolio analysis, Bloomberg, FTSE Russell

Notes: 1. Harworth Estates & Vintage excluded from analysis. 2. GVQIM cash flow yield: (12m forward Cash EBITDA minus maintenance capex)/(market capitalisation plus 12m forward net debt) 15

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# OUTLOOK



# Bear market checklist

	Start of Proper Bear Markets		
	Mar-00	Oct-07	Now
<b>Global Equity Valuations</b>			
Trailing PE	33	17	18
Fwd PE	24	14	15
DY	1.3	2.1	2.4
CAPE	48	30	25
Global Equity Risk Premium	1.0%	3.3%	3.1%
<b>US Yield Curve (10Y minus 2Y)</b>	-0.5	0.0	0.2
<b>Sentiment</b>			
Global Analyst Bullishness (std dev)	1.7	1.0	1.1
US Panic Euphoria Model	1.09	0.42	0.39
Global Equity Fund Flows (3y as % of Mkt cap) <sup>1</sup>	2.9%	0.7%	0.4%
<b>Corporate Behaviour</b>			
Global Capex Growth (YoY)	8% (1999)	11% (2007)	8% (2018e)
M&A (Previous 6m as % of Mkt cap)	6.1%	4.2%	2.7%
IPOs (Previous 12m as % of DM Mkt cap)	0.70%	0.40%	0.2%
<b>Profitability</b>			
Global RoE	12.2%	16.1%	12.8%
Global EPS (\$, % from previous peak)*	35%	117%	10%
<b>Balance sheets / credit markets</b>			
Asset/Equity (US Financials)	16x	16x	10x
Net Debt/EBITDA (US ex Fins)	1.8x	1.4x	1.6x
US HY Bond Spread	600bp	600bp	350bp
US IG Bond Spread	175bp	175bp	109bp
<b># of sell signals</b>	17.5/18	13/18	4/18

Red = worrying, Amber = perhaps, White = not worrying

**Updated bear market checklist with only 4 out of 18 sell signals continues to support buying the dips**

As at 3<sup>rd</sup> October 2018

Source: Citi Research

Note: 1. Consensus

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# Portfolio investment themes

## DIVERSIFIED PHARMA

Demographic and population changes increase need for treatments

Access to medicines. 80% of the world's population has limited or no access to right medicines

Diversified portfolios of pharmaceutical brands. Not dependent on binary outcomes

Clinigen  
Alliance Pharma  
Ergomed

## DIGITAL HEALTH

Digital maturity agenda; replacement of legacy IT systems with modern care management systems

Converged care agenda; integrated health journey to encourage a joined up approach to case management

Remote healthcare to address shortage of clinicians and improve patient care; 'Telemedicine'

EMIS  
Medica

## REGULATION AND COMPLIANCE

Increasing compliance and regulatory burden

Need for information and reliable, auditable and cost effective technology driven solutions; 'RegTech'

Examples include MiFID II, financial crime and KYC

Equiniti  
Wilmington  
Ergomed

## PENSIONS AND SAVINGS

Increase in complexity and need to 'self-manage' investments and seek advice

Ageing populations with increased longevity of investments

IFG  
Brooks Macdonald

## INFRASTRUCTURE AND BUILDING

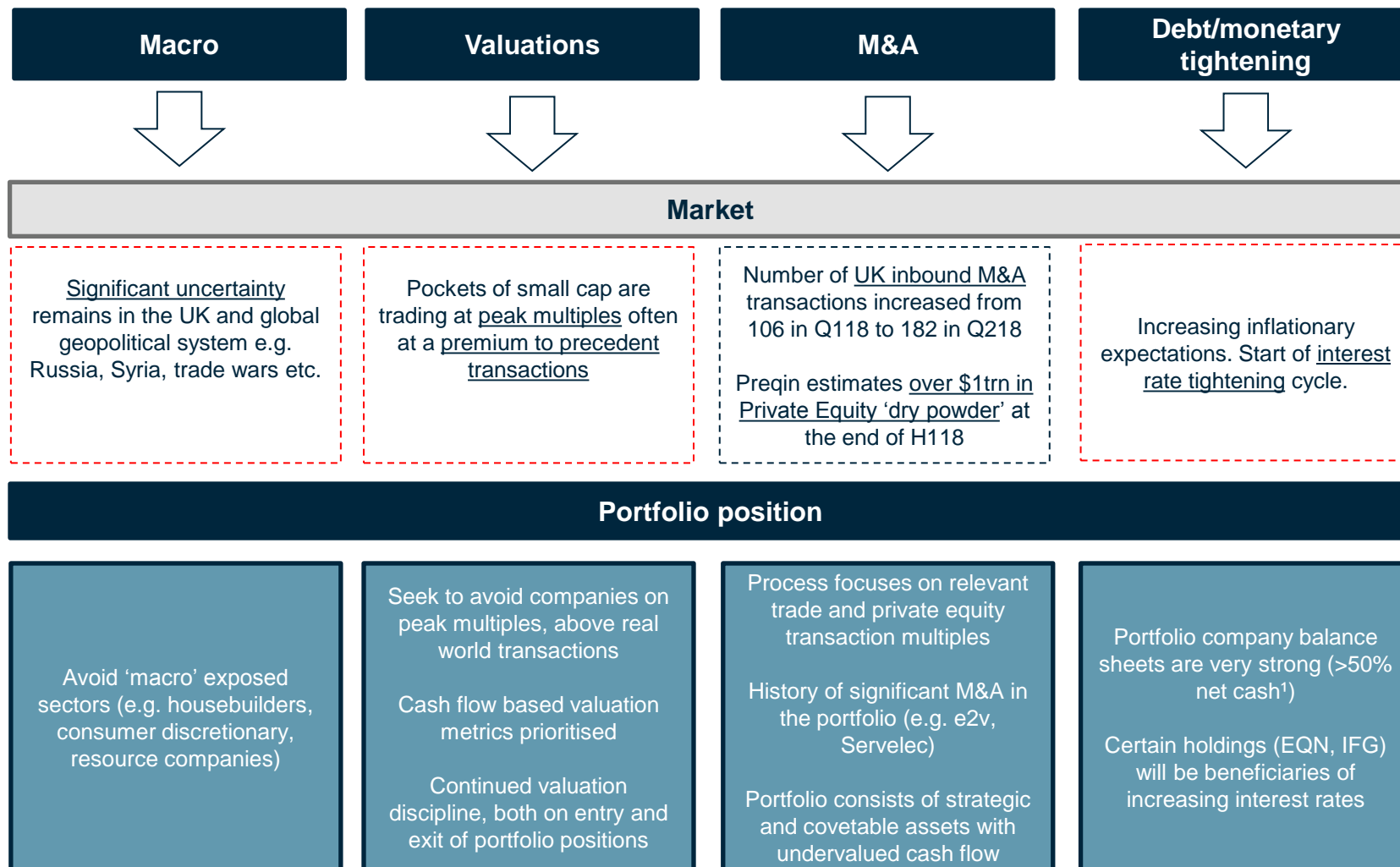
US single family housing activity remains behind long term levels. 2.5 new homes per thousand inhabitants compared to c.60 year average of 4 new homes

Increasing demand for well-connected industrial and logistics space and regeneration of brownfield sites for housing development in the UK

Tyman  
Harworth

**We target companies with strong positions in markets supported by long term structural growth**

# Market outlook and portfolio position

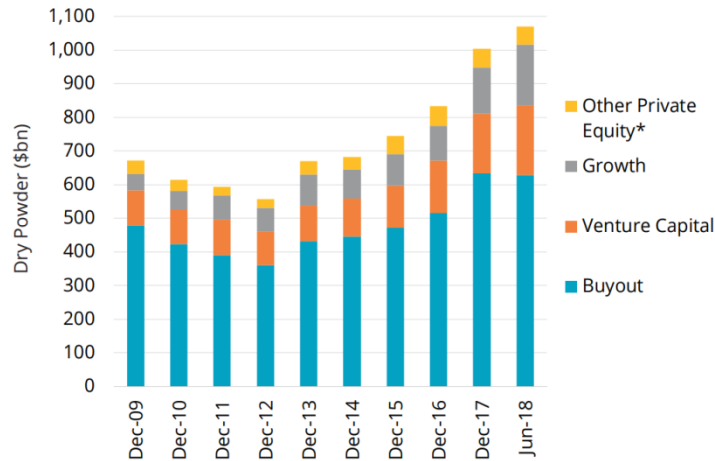


Source: GVQIM, Preqin, ONS

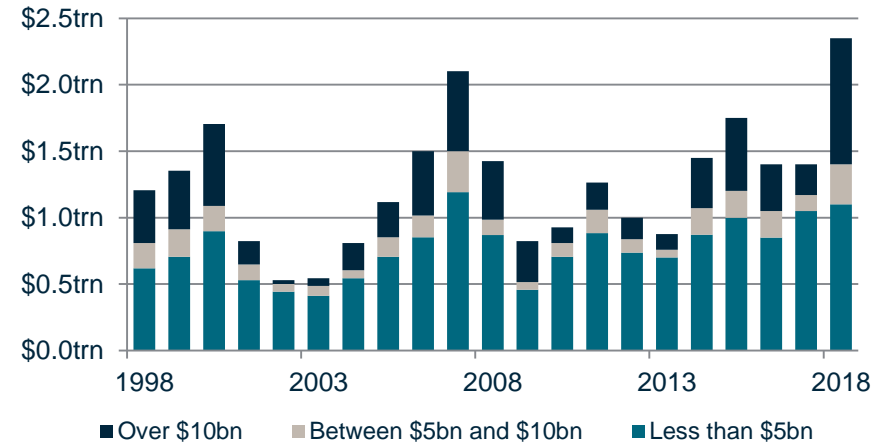
1. Portfolio companies, constituting 57% of the NAV of the invested portfolio, are forecast to have net cash balance sheets over the next twelve months

# Global private equity dry powder levels at record highs

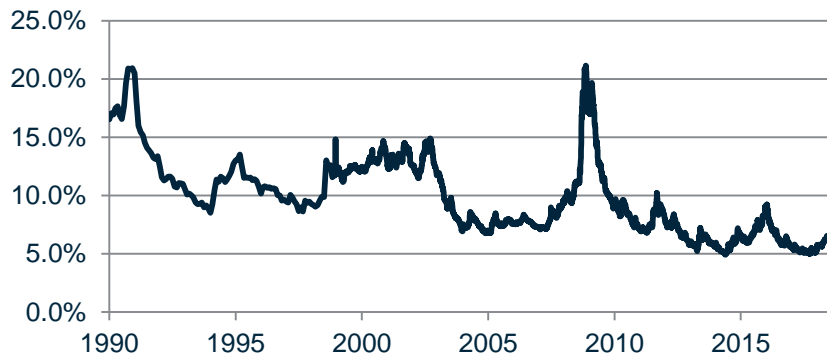
**Private Equity Dry Powder by Fund Type, 2009 - 2018**



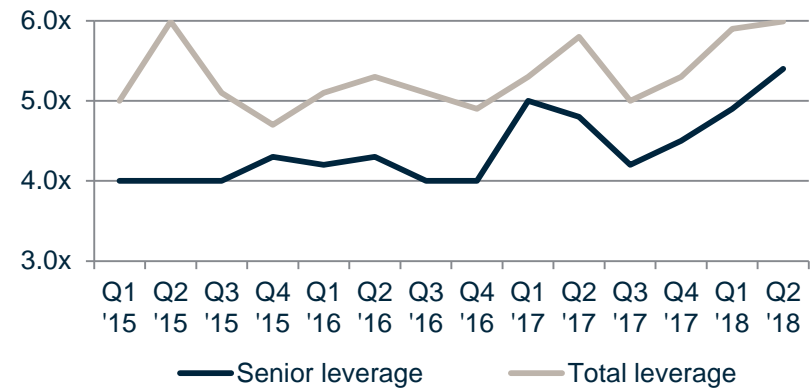
**Worldwide M&A volumes in H1, 1998 - 2018**



**HY bond yields over time (Bloomberg global high yield bond index)**



**Net debt / EBITDA of mid-market M&A deals**

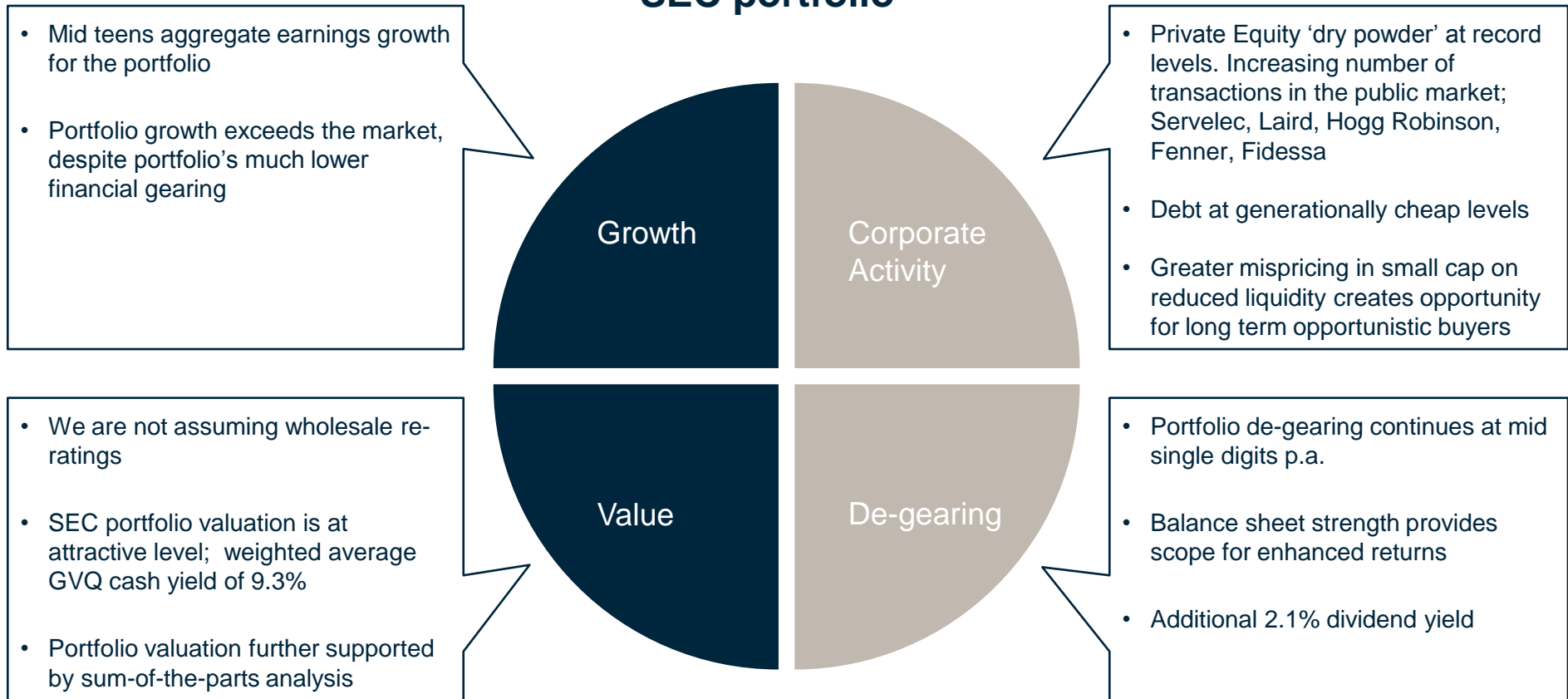


**The level of private equity dry powder (capital that has been raised, but not yet deployed) has continued to climb; global dealmaking hit an all-time record in H1 2018 at \$2.5tn eclipsing the previous high set in H1 2007; the cost of debt remains both generationally low, and widely available**

Source: Preqin Private Equity Online, William Blair, Bloomberg, Thomson Reuters  
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# Earnings growth, cashflow and M&A to drive returns

## SEC portfolio



**We continue to target double digit annualised returns from the portfolio over the medium term**

As at 30<sup>th</sup> September 2018

Source: GVQIM, Preqin

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# MiFID II could exacerbate a number of well documented issues in small cap markets

## Impact of MiFID II on Small Caps

- Decreasing resources (and therefore effectiveness) on the 'sell-side' for small caps. Limited traditional 'broking' of stocks
- Decrease in the dissemination of sell side research. Certain brokers no longer provide estimates to 3<sup>rd</sup> party compliers of consensus



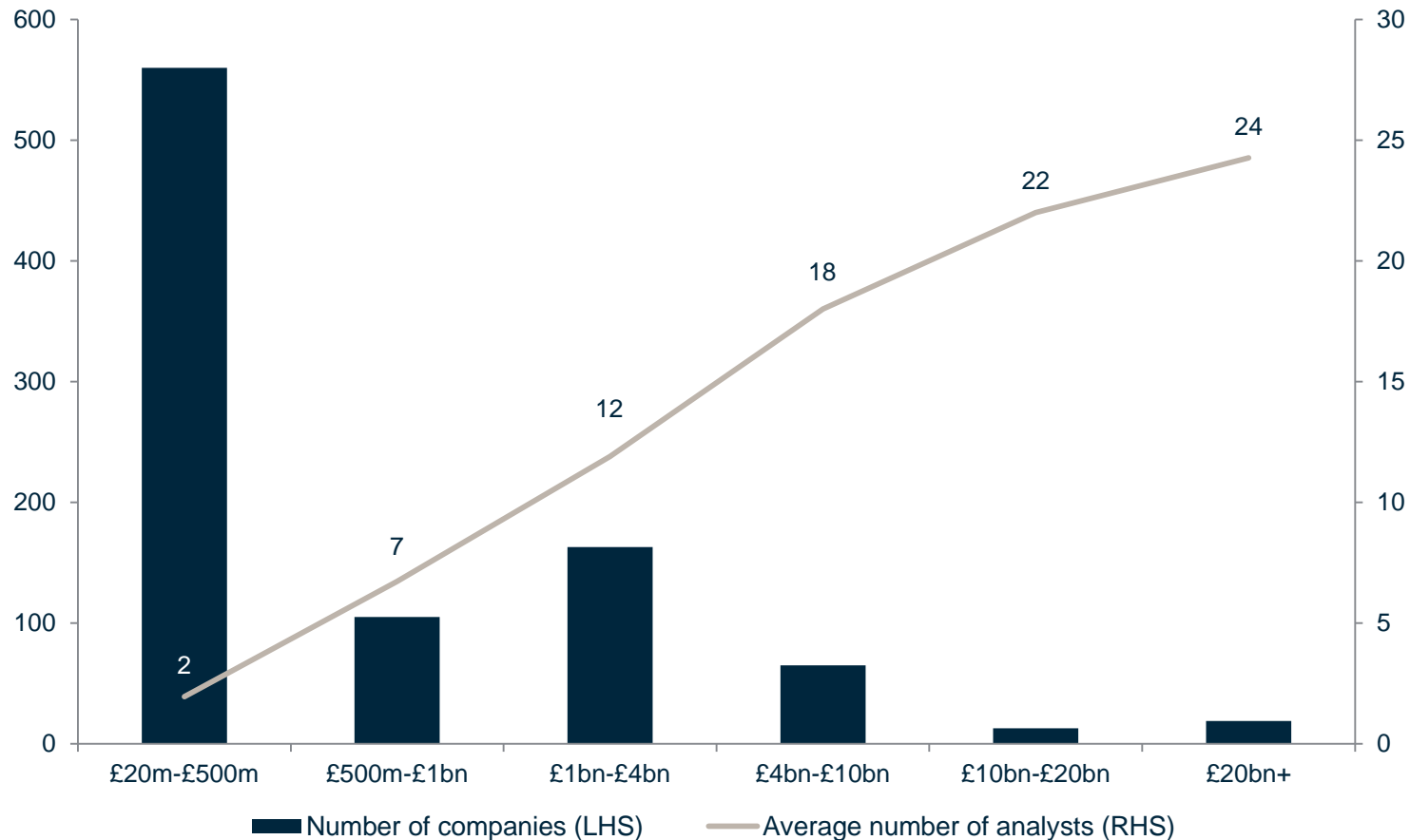
- Heightened volatility on low volumes, and often in response to low level (or no) news flow. Prices potentially driven by retail investors?
- Pricing anomalies can take a long time to correct
- Price discovery is difficult; 'true' prices are opaque. Often little or no volume available at the price on the screen
- Greater vulnerability to opportunistic acquirers?

## Implications for SEC and Portfolio

- For portfolio companies: Increasing importance of proper investor relations, corporate broking, market guidance and focus of the Board on shareholder value creation
- Our engagement approach: Proactive engagement with portfolio companies is essential
  - Chair / Board engagement or personnel change, e.g. **WIL, IFG, MGP**
  - Engagement with management to maximise financial and operating efficiency, e.g. **EMIS, WIL, IFG, PHD**
  - IR / broking / analyst introductions, e.g. **MGP, IFG**
  - Interactions with other shareholders to build consensus, and increase knowledge of the company, e.g. **EMIS, WIL, IFG, TYMN**
  - Sharing best IR practices, e.g. **IFG, MGP, WIL, PHD**
- Research implications: High value of GVQ proprietary research platform including primary research (e.g. customer / industry references, product demos, site visits), 6 member research committee and access to Industry Advisory Panel
- Investment opportunities: Permanent capital, cash balance and in-house research capability enables SEC to deploy capital opportunistically in quality companies that trade at a discount to intrinsic long term value

**We remain focused on the long term, fundamental, 'real world' valuation of businesses. We continue to invest on this basis, and are engaging proactively to ensure the potential of portfolio holdings is realised**

# Covering sell-side analysts by Market Capitalisation



**There are a large number of smaller companies with limited sell-side analyst research. We expect this to worsen as coverage becomes less economic post the changes resulting from MiFID II**

As at 31<sup>st</sup> March 2018

Data relates to the FTSE All Share ex-Investment Trusts

Source: Liberum

Past performance is no guarantee of future performance and the value of investments can go down as well as up

# CONCLUSION



- Solid quarter; net assets per share increased by 1.0%. The FTSE Small Cap ex IT index (the “index”<sup>1</sup>) decreased by 2.1%
- Whilst mindful of macro risks, we seek to avoid investing in cyclical companies whose fortunes are closely linked to the economy and geopolitical events. Over 40% of portfolio sales are international and UK focused companies are not in consumer discretionary sectors, rather provide crucial services with longstanding repeatable business
- Post the introduction of MiFID II, external information and analysis is diminishing, leading to greater volatility and potential mispricing of assets. Whilst over the short term this can have an impact, it provides great opportunity for the longer term investor. We remain patient and cerebral
- Approach is underpinned by valuation as one of our four drivers of equity returns. Where companies de-rate to what we view as a discount to intrinsic value, we will seek to identify these opportunities and deploy capital in the expectation that over time, there will be a re-rating. That, or valuation anomalies will close by way of a transaction, as has been demonstrated over recent and historical periods
- Given the valuation, financial strength and quality of the portfolio, our medium term outlook remains positive

**Solid quarter. Positive outlook supported by attractive valuations, strong cash characteristics and strategic progress at many portfolio companies**

As at 30th September 2018

1. On a total return basis 2. Portfolio companies, constituting 57% of the NAV of the invested portfolio, are forecast to have net cash balance sheets over the next twelve months

Source: GVQIM, Hargreaves Lansdown, PATAC, Bloomberg, FactSet, Investment Association statistics

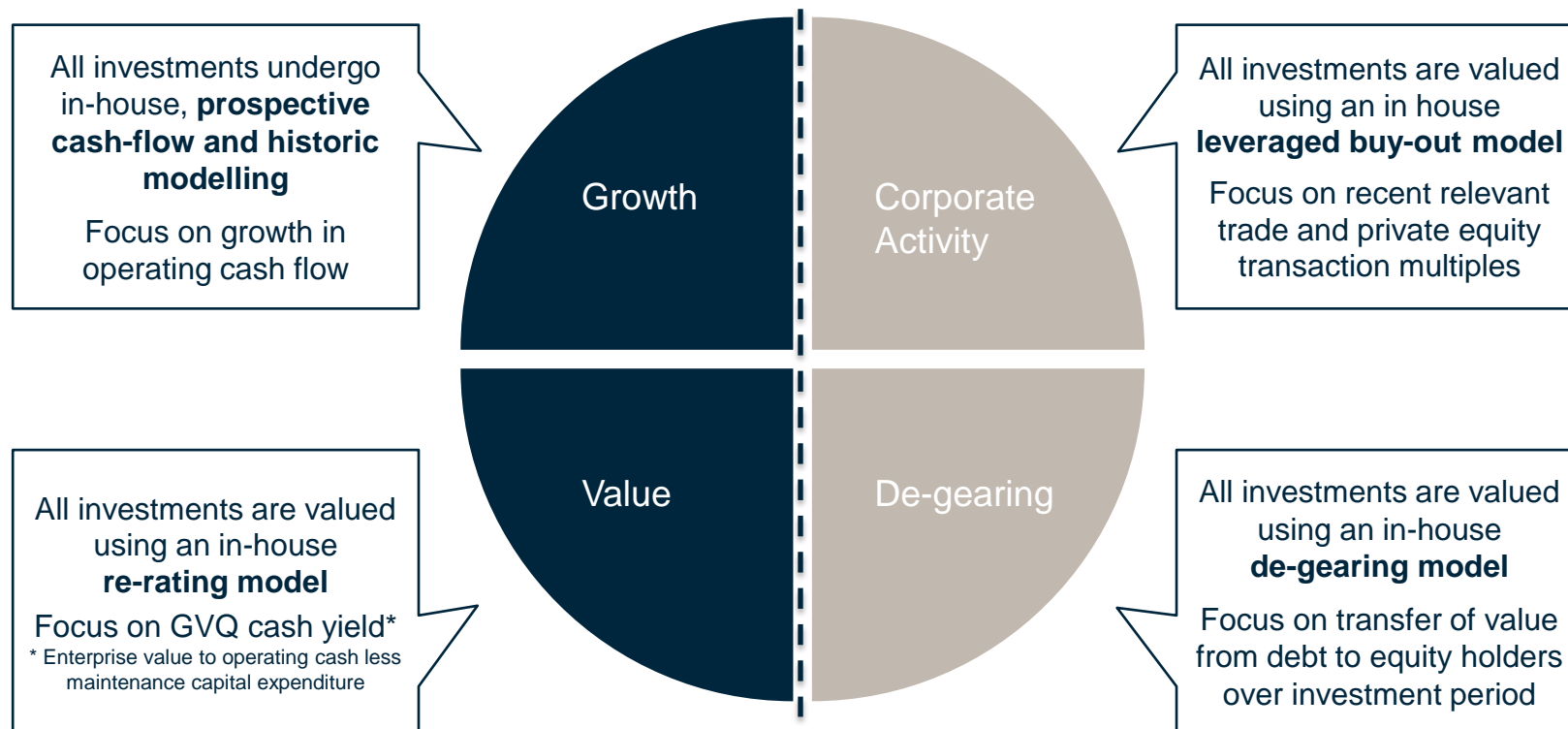
Past performance is no guarantee of future performance and the value of investments can go down as well as up

# APPENDIX

# How we identify value in potential investments

## Main focus of most PUBLIC EQUITY INVESTORS

## Main focus of most PRIVATE EQUITY INVESTORS



**We focus on four key drivers of shareholder value creation to maximise the chance of success**

# There are strict criteria for inclusion in our funds



**GVQIM's research process aims to identify high quality coveted assets with attractive cash flows**

Source: GVQIM

Note: 1. Growth at a reasonable price

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Past performance is no guarantee of future performance and the value of investments can go down as well as up

# How we identify coveted assets

## We look for characteristics which GVQIM believes potential acquirers value highly

Qualitative	Quantitative
<ul style="list-style-type: none"><li>• Niche market leaders</li><li>• Orderly end markets, with some growth</li><li>• Sustainable business model/franchise/uniqueness</li><li>• Overseas earnings</li><li>• Able to pass on price increases</li><li>• Intellectual property</li><li>• Operational know-how</li><li>• High barriers to entry</li></ul>	<ul style="list-style-type: none"><li>• High and/or improving ROCE</li><li>• Strong cash conversion</li><li>• Limited capex or working capital investment needed to finance growth</li><li>• Recurring revenues/profits/cashflows</li><li>• Ideally achieving, or has potential to achieve double digit operating profit margin</li><li>• Realisable surplus tangible fixed assets and/or working capital</li></ul>

## We believe coveted assets retain value even in tough times, and are more likely to be acquired

# Our Black List screens out companies with fundamental business risks

## Operational

- Excessive reliance on a single product, customer, supplier or distributor
- The primary driver of profitability cannot be influenced by management (e.g. resources)
- Inherently low margins
- Structurally declining markets

## Financial

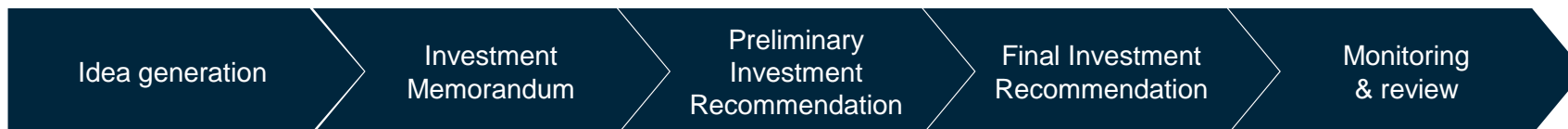
- Poor accounting systems or controls
- Weak cash flows – especially when reported profits look good!
- Excessive gearing

## Governance

- Controlling shareholder with misaligned interests
- Below average/deteriorating governance practices
- Stakeholders unwilling to engage constructively

## We have learnt what to avoid from previous experiences

# Research Committee ensures consistency of approach



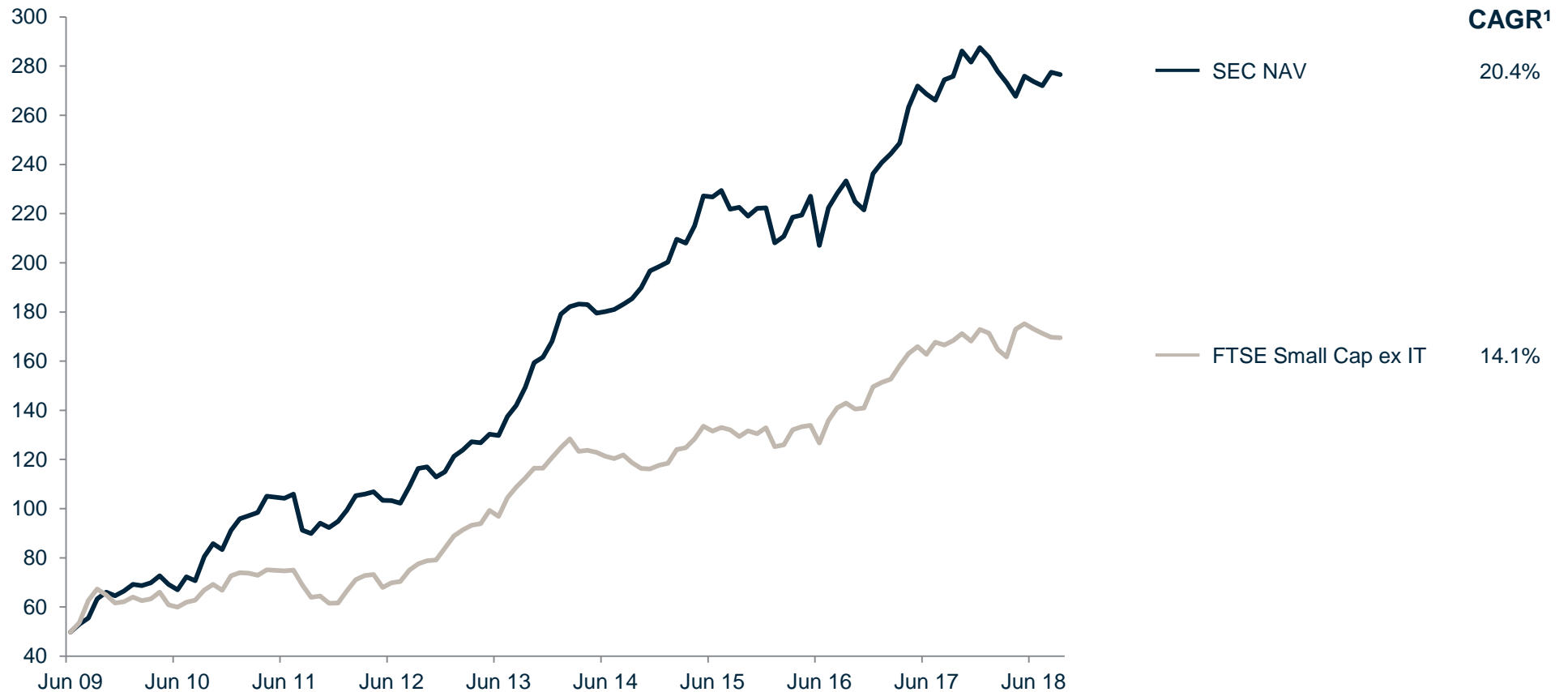
	Idea generation	Investment Memorandum	Preliminary Investment Recommendation	Final Investment Recommendation	Monitoring & review
<b>Materials</b>	<ul style="list-style-type: none"> <li>• Watch list</li> <li>• M&amp;A transactions</li> <li>• Cash flow screen</li> <li>• Yield screen</li> <li>• Four drivers screen</li> <li>• LBO screen</li> <li>• Directors dealing</li> </ul>	<ul style="list-style-type: none"> <li>• Company description</li> <li>• Investment thesis</li> <li>• Cash flow model</li> <li>• LBO model</li> </ul>	<ul style="list-style-type: none"> <li>• Company meeting</li> <li>• Management analysis</li> <li>• Stakeholder analysis</li> <li>• Qualitative financial analysis</li> <li>• Feasibility</li> </ul>	<ul style="list-style-type: none"> <li>• Counterparty analysis</li> <li>• Due diligence verification</li> <li>• Bespoke research</li> <li>• Forensic accounting</li> <li>• Management referencing</li> </ul>	<ul style="list-style-type: none"> <li>• Progress against original investment thesis</li> <li>• Proposed changes to target price</li> <li>• Changes to consensus estimates</li> </ul>
<b>Debate</b>	<ul style="list-style-type: none"> <li>• Are we focusing on the right stocks/sectors?</li> <li>• What is happening in trade and private equity?</li> </ul>	<ul style="list-style-type: none"> <li>• Is there are credible case for investment?</li> <li>• Does the company meet our basic criteria?</li> </ul>	<ul style="list-style-type: none"> <li>• Peer group review</li> <li>• Work together to identify key due diligence questions and investment risks</li> </ul>	<ul style="list-style-type: none"> <li>• Have we properly answered all of the key questions?</li> </ul>	<ul style="list-style-type: none"> <li>• Automatic review against thesis every 12 months or earlier as required</li> </ul>
<b>Output</b>	<ul style="list-style-type: none"> <li>• New idea</li> </ul>	<ul style="list-style-type: none"> <li>• Initial Target Price</li> </ul>	<ul style="list-style-type: none"> <li>• Due diligence questions</li> </ul>	<ul style="list-style-type: none"> <li>• Final Target Price</li> </ul>	<ul style="list-style-type: none"> <li>• Watch list</li> </ul>

**Industrial Advisory Panel involvement**

**Multi-stage research process; fully documented and scrutinised using a variety of methods and people**

# Long term track record

### Cumulative rebased total returns



**Strong cumulative performance since process improvements in June 2009. No use of gearing or derivatives**

As at 30<sup>th</sup> September 2018

Source: Bloomberg, PATAAC

Notes: Data rebased to SEC start NAV June 2009 1. CAGR: Compound Annual Growth Rate

Past performance is no guarantee of future performance and the value of investments can go down as well as up



## Calendar Year annual performance

	YTD	2017	2016	2015	2014	2013	2012
Share Price Total Return	-5.0%	20.2%	-9.0%	14.2%	32.7%	61.5%	25.6%
NAV Total Return	-3.8%	21.7%	6.3%	12.1%	18.1%	46.1%	21.3%
FTSE Small Cap ex Investment Trusts Total Return	-2.0%	15.6%	12.5%	13.0%	-2.7%	43.9%	36.3%

## Established track record of successfully employing private equity techniques in the quoted market

As at 30<sup>th</sup> September 2018

Source: GVQIM, PATAC, Bloomberg, Trustnet

Note: 1. Preliminary estimates based on Trustnet & Morningstar data

Past performance is no guarantee of future performance and the value of investments can go down as well as up

# Contact details

For further information regarding the SEC please contact the GVQ Investment Management marketing team below, or visit the Company's website: [www.strategicequitycapital.com](http://www.strategicequitycapital.com)

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