

Strategic Equity Capital

Q1 Update 2019



Fund objective

Strategic Equity Capital plc (“SEC” or “Trust”) is a London-listed investment trust investing predominately in small cap UK equities. The Trust is not constrained by market indices and aims to maximise returns for investors over the medium term.

Investment Strategy:

The Investment Manager, GVQ Investment Management Limited (“GVQIM”) employs a strategy to invest predominantly in publicly quoted companies which can create value through strategic, operational and management change. GVQIM follows a practice of constructive corporate engagement and aims to work with management teams in order to enhance shareholder value. Established in 2002, GVQIM believes it is one of the leading investors in this field.

Investment Approach:

Before investing we undertake an extensive due diligence process, assessing market conditions, management and stakeholders. Our investments are underpinned by valuations, which we derive using private equity-based techniques, including a focus on cash flows, the potential value of the company to trade or financial buyers and the capital structure.

We typically aim to hold companies for the duration of rolling three-year investment plans that include an entry and exit strategy and a clearly identified route to value creation.

During our investment holding periods, we engage constructively with portfolio companies. The primary objective of this engagement is to promote further value creation for all investors. However, we will vigorously defend the interests of our investors if we believe they risk being threatened. Our engagement is undertaken in private and involves discussions and submission of written commentary and proprietary analysis to portfolio company managers, their advisers and, where required, other shareholders.

The majority of the investments by value will be typically invested in up to 25 smaller companies in the FTSE Small Cap & AIM indices.

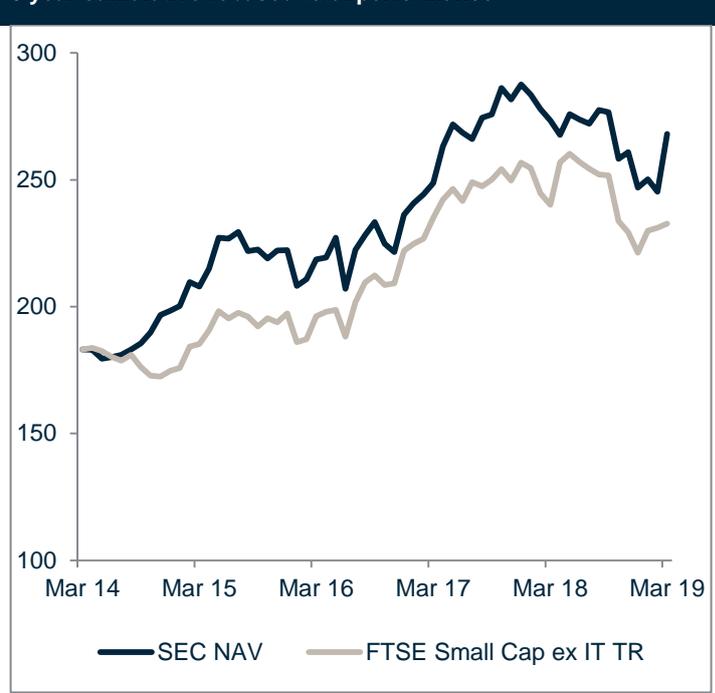
Fund Manager Commentary:

Since the start of 2019, an increasing amount is being written about the global economy entering a ‘synchronised slowdown’ with sentiment indicators and economic data deteriorating. We look to position the portfolio away from a dependence on external ‘macro’ factors and overt exposure to ‘the cycle’, instead focusing on structural growth drivers or operational improvement opportunities, which will enable holdings to become better and more valuable companies. Over time, this should be recognised on the public market or through a transaction.

Since the start of the year, this strategy has been reflected in good operating performance across the portfolio, including the likes of Medica, Clinigen and EMIS; ‘acyclical’ companies whose shares have all appreciated. Unfortunately, there was a disappointing update from Proactis. We are closely reviewing the situation with a view to protecting and maximising shareholder value.

Towards the end of the quarter, an offer was made for IFG Group at a 46% premium by Epiris Private Equity. We have long believed the company to be undervalued as stated in our most recent Annual Report; ‘Ongoing consolidation and an increasing incidence of listed peers in both the wealth management and platform industries demonstrate considerable valuation upside.’ In our view, the approach for IFG and the premium paid are not exceptional, but reflective of the inherent strategic value of portfolio companies. Whilst mindful of macro challenges, our focus is on identifying and enhancing the value of companies. Where public markets are often short term focused, private equity (and trade) buyers focus on the potential for long term value creation. We believe the portfolio offers this in abundance.

5 year cumulative rebased total performance¹



Discrete performance (%)²

	YTD	2018	2017	2016	2015	2014	2013	2012
Share price TR	5.6	-17.6	20.2	-9.0	14.2	32.7	61.5	25.6
NAV TR	8.6	-14.1	21.7	6.3	12.1	18.1	46.1	21.3
FTSE Small Cap TR	5.1	-13.8	15.6	12.5	13.0	-2.7	43.9	36.3

Sector Breakdown³ (%) of NAV

Healthcare	20.0
Support services	17.3
Financials	17.3
Technology	16.7
Industrials	8.8
Media	7.2
Property	3.7
Unlisted	0.4
Net cash	8.6

Top Ten Holdings⁴ (%) of NAV

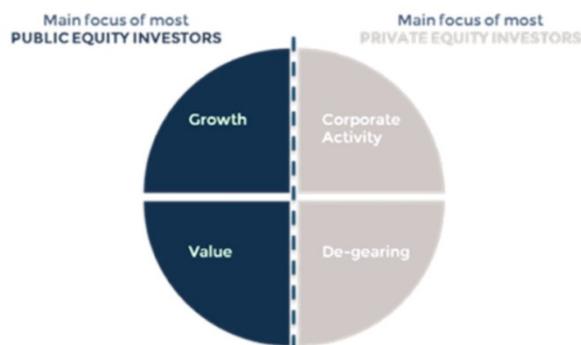
IFG Group	11.8
Equiniti Group	10.8
Wilmington	7.2
Tribal Group	6.7
4imprint Group	6.5
Medica	6.3
Clinigen Group	6.2
Tyman Group	5.5
EMIS Group	5.1
Alliance Pharma	4.1

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Key Investment features:

We aim to combine the best elements of public and private equity investing as described in the chart below:



Management team:



Fund Manager: Jeff Harris

Jeff joined GVQ Investment Management in 2012 as an Analyst. He was appointed Deputy Fund Manager in May 2014 and Lead Manager of Strategic Equity Capital plc. in February 2017. Prior to joining he worked at PricewaterhouseCoopers within the Transaction Services Team on a number of private equity and corporate transactions. Jeff holds the ACA qualification.



Fund Manager: Adam Khanbhai

Adam was appointed Deputy Fund Manager of Strategic Equity Capital plc in February 2017. He has 10 years of relevant experience. He joined GVQIM in 2014 as Senior Analyst providing analysis and due diligence on existing and potential investee companies. Prior to joining he worked at OC&C Strategy Consultants for six years as a consultant working on commercial due diligence and strategy projects for corporate and private equity clients. Adam was a Girdlers' Scholar at Cambridge University and is a qualified CFA charterholder.

Investment Information²

Investment Manager:	GVQ Investment Management Limited
Launch date:	July 2005
Net Assets:	£163m
Market capitalisation:	£133m
Share price:	207.0p
Net Asset Value per share:	253.8p
Shares in issue:	64,471,346
Current holdings:	19
Yield (historic):	0.5%
On-going charges:	1.12%
Gearing:	At present, the policy is 'no gearing'
Discount to NAV:	18%
Performance fee:	10% above rolling 3yr FTSE Small Cap ex IT total return + 2% p.a., subject to high watermark
Dividend:	Annual (November)
Asset Class:	UK Smaller Companies
Comparator index:	FTSE Small Cap ex IT Total Return
Trust codes:	Sedol: B0BDCB2 Bloomberg: SEC:LN ISIN: GB00B0BDCB21

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

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1. As at 31st March 2019. 2. PATAC. Fund received a 10 Year Morningstar Rating™ of ★★★★★ as at 31st March 2019. Runner Up Best UK Equity Trust, Money Observer Trust Awards in April 2017. Highly Commended in the UK Smaller Companies category at the Moneywise Investment Trust Awards in March 2016. Winner Best UK Investment Trust, What Investment in May 2015. Winner UK Smaller Companies, Investment Adviser 100 Club Awards in September 2015

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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

These are not all the risks of an investment in Strategic Equity Capital Plc shares. 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