

# Strategic Equity Capital

## Q1 Update 2020



### 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.

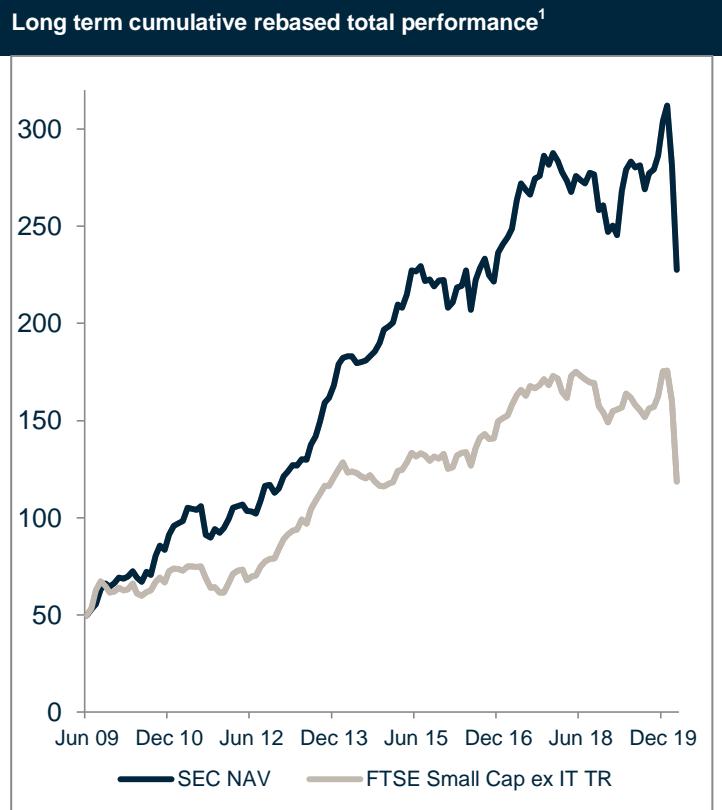
### Fund Manager Commentary:

The quarter has been dominated by the ongoing Covid-19 pandemic which continues to have a severe impact on individuals, businesses and, of course, financial markets around the world. We hope all of our stakeholders and their families are keeping safe through this extremely challenging time.

The FTSE Small Cap index declined by almost a third in Q1; this is the biggest quarterly decline experienced since the index was created in 1985. The net asset value ("NAV") of the portfolio has been impacted also, although to a lesser extent at this stage, falling by 25%. As managers, our strategy focuses on high quality and cash generative companies with structural, rather than cyclical, growth drivers. We believe this, coupled with the generally conservative positioning of the portfolio, has helped to mitigate some of downside experienced by the market.

There are very few companies that will be left entirely unscathed by the unprecedented situation that Covid-19 has created and the effects will be different to those experienced in previous recessions or market crises. We remain highly engaged with the management teams and Boards of our 21 holdings over how to best navigate this environment.

The length, severity and long term impact of Covid-19 are difficult to forecast at this stage. There will doubtless be many second (and third) order implications which are as yet unclear. We maintain a healthy cash position which is strategically valuable in times like this. Such extraordinary times are likely to create a number of extraordinary investment opportunities, both within the portfolio and in the broader market. Whilst we are cognisant of these opportunities, our approach will continue to be cautious and cerebral. It is still early days.



	Discrete performance (%) <sup>2</sup>								
	Q120	2019	2018	2017	2016	2015	2014	2013	
Share price TR	-25.9	25.8	-17.6	20.2	-9.0	14.2	32.7	61.5	
NAV TR	-25.1	23.1	-14.1	21.7	6.3	12.1	18.1	46.1	
FTSE Small Cap TR	-32.4	17.7	-13.8	15.6	12.5	13.0	-2.7	43.9	

Sector Breakdown <sup>3</sup> (%) of NAV	
Healthcare	27.8
Support Services	16.5
Technology	15.0
Financials	12.4
Industrials	8.7
Media	4.9
Property	2.6
Agricultural Producers	2.6
Net cash	9.6

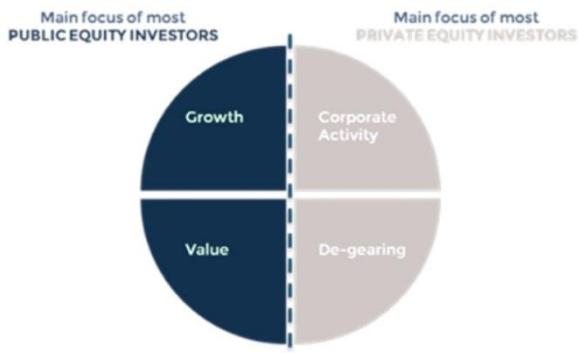
Top Ten Holdings <sup>4</sup> (%) of NAV	
Equiniti Group	11.9
Clinigen Group	10.4
Tribal	7.4
Ergomed	6.8
XPS Pensions	6.1
Tyman	6.0
Alliance Pharma	5.3
Medica	5.3
Wilmington	4.9
Brooks Macdonald	4.7

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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 to manage 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 Information<sup>2</sup>

<b>Investment Manager:</b>	GVQ Investment Management Limited
<b>Launch date:</b>	July 2005
<b>Net Assets:</b>	£136m
<b>Market capitalisation:</b>	£115m
<b>Share price:</b>	181.5p
<b>Net Asset Value per share:</b>	214.1p
<b>Shares in issue:</b>	63,296,844
<b>Current holdings:</b>	21
<b>Yield (historic):</b>	0.85%
<b>On-going charges:</b>	1.11%
<b>Gearing:</b>	At present, the policy is 'no gearing'
<b>Discount to NAV:</b>	15%
<b>Performance fee:</b>	10% above rolling 3yr FTSE Small Cap ex IT total return + 2% p.a., subject to high watermark
<b>Dividend:</b>	Annual (November)
<b>Asset Class:</b>	UK Smaller Companies
<b>Comparator index:</b>	FTSE Small Cap ex IT Total Return
<b>Trust codes:</b>	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](http://www.strategicequitycapital.com)

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1. As at 31<sup>st</sup> March 2020. 2. PATAc. Fund received a 10 Year Morningstar Rating<sup>TM</sup> of ★★★★ as at 31<sup>st</sup> March 2020. 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