

Strategic Equity Capital

Q2 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:

Financial markets continue to be challenging with volatility in share prices reflecting considerable uncertainty in global geopolitics, trade policy and macro-economic outlook. Although this uncertainty does need to be taken into account, the UK stock market remains deeply out of favour, despite the fact that the performance of the UK economy has, to date, remained relatively robust.

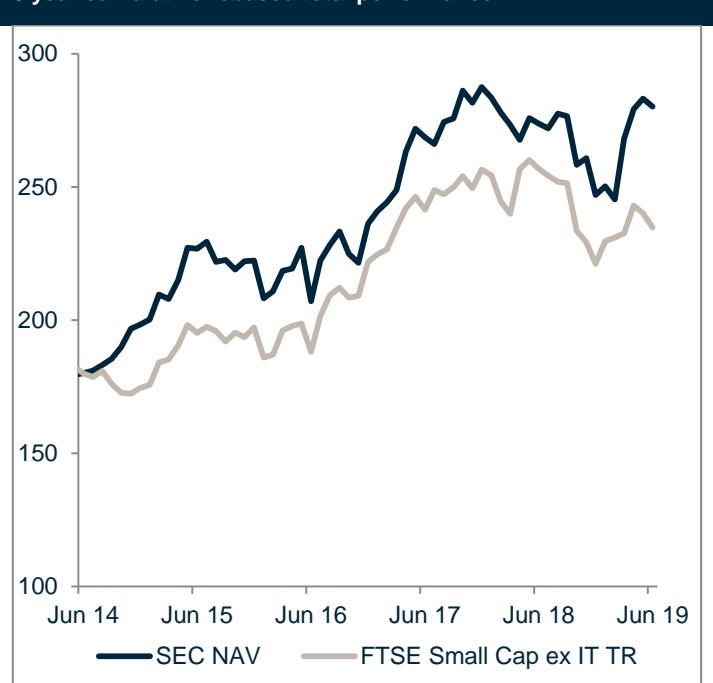
The quarter end is also the Trust’s financial year end. Over our FY19, the NAV per share increased by 2.4% (on a total return basis). The FTSE Small Cap ex ITs index decreased by 8.6% and the FTSE Aim All Share Index decreased by 13.9% over the same period on the same basis.

In our view, conditions are ripe for Private Equity activity. Valuations are low, financing is generationally cheap and there is significant dry powder - \$2.5tn globally according to Preqin. This is evidenced, in part, through an increase in takeover activity in the UK. SEC has benefited more recently in the take-privates of IFG Group and Servelec.

Whilst one can never predict if or when takeovers may occur, we expect it may continue as a feature in UK markets. A challenge for company Boards will be achieving fair value for shareholders in this environment.

For the portfolio, we believe the characteristics are attractive status quo or to potential acquirers. Holdings are IP-rich, in stable markets, with strong cash generation and solid balance sheets. In our view, the portfolio remains attractively valued at a time when private equity is becoming more active again.

5 year cumulative rebased total performance¹



Discrete performance (%)²

	YTD	2018	2017	2016	2015	2014	2013	2012
Share price TR	16.6	-17.6	20.2	-9.0	14.2	32.7	61.5	25.6
NAV TR	13.5	-14.1	21.7	6.3	12.1	18.1	46.1	21.3
FTSE Small Cap TR	6.1	-13.8	15.6	12.5	13.0	-2.7	43.9	36.3

Sector Breakdown³ (%) of NAV

Healthcare	22.6
Support services	19.3
Financials	16.7
Industrials	11.8
Technology	11.1
Media	6.4
Property	3.3
Unlisted	0.4
Net cash	8.4

Top Ten Holdings⁴ (%) of NAV

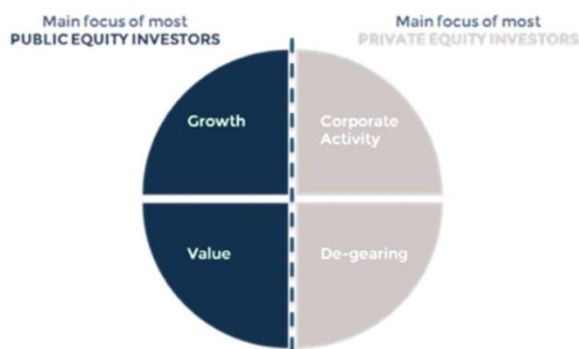
Equiniti Group	12.2
Tyman Group	6.6
Clinigen Group	6.5
Tribal Group	6.5
Wilmington	6.4
4imprint Group	6.3
Ergomed	5.6
EMIS Group	5.1
Medica	4.9
Brooks Macdonald	4.6

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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:	£169m
Market capitalisation:	£146m
Share price:	228.5p
Net Asset Value per share:	265.2p
Shares in issue:	63,759,589
Current holdings:	22
Yield (historic):	0.4%
On-going charges:	1.10%
Gearing:	At present, the policy is 'no gearing'
Discount to NAV:	14%
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

For general enquiries, please contact:

GVQ Investment Management Limited

16 Berkeley Street, W1J 8DZ

Email: gvqimmarketing@gvqim.com

Tel +44 (0)20 3907 4190

Fax +44 (0)20 3907 3913

www.gvqim.com

Secretary and Registered Office

PATAC Limited

21 Walker Street, Edinburgh, EH3 7HX

Tel +44 (0)1315 386608

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1. As at 30th June 2019. 2. PATAC. Fund received a 10 Year Morningstar RatingTM of ★★★★★ as at 30th June 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