

Strategic Equity Capital

Q3 Update 2018



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 their 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.

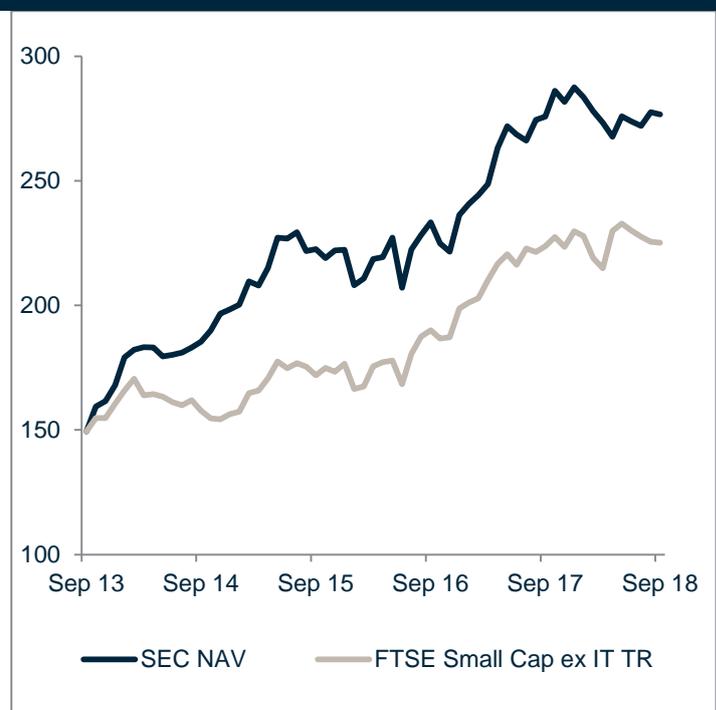
Fund Manager Commentary:

The areas of client focus over recent months have been Brexit, the impact of MiFID II and a prospective reversion from the growth momentum style which has led markets over recent years. On the first, whilst mindful of ‘Brexit risk’, we seek to avoid investing in cyclical companies whose fortunes are closely linked to the economy and macro events and have limited exposure to exports. Over 40% of portfolio sales are international (e.g. 4imprint which was a strong performer over the quarter). Where we do own UK focused companies, these are not in consumer discretionary sectors and not overly exposed to cycles. For example, EMIS and Medica provide crucial services and are deeply embedded in the plumbing of the NHS with longstanding repeatable business. Both delivered strong results over the quarter which also saw corporate transactions involving peers at valuation premiums.

On MiFID II, we agree with broader sentiment that 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. The volatility in share prices of both Equiniti and Medica have created opportunity for our active strategy and both were positive attributers to NAV over the quarter.

Lastly, on style, whilst growth and momentum strategies have performed strongly, particularly at the higher end of smaller companies owing to IHT advantages, it is difficult to know if and when things may ‘revert’. Our 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. Given the valuation, financial strength and quality of the portfolio, our medium term outlook remains positive.

5 year cumulative rebased total performance¹



Discrete performance (%)²

	YTD	2017	2016	2015	2014	2013	2012
Share price TR	-5.0	20.2	-9.0	14.2	32.7	61.5	25.6
NAV TR	-3.8	21.7	6.3	12.1	18.1	46.1	21.3
FTSE Small Cap TR	-2.0	15.6	12.5	13.0	-2.7	43.9	36.3

Sector Breakdown⁴ (%) of NAV

Technology – software & service	22.3
Support Services	20.2
Healthcare	16.4
Financials	14.0
Industrials	6.9
Media	6.4
Property	4.0
Electronics	2.3
Unlisted	0.4
Net cash	7.1

Top Ten Holdings⁵ (%) of NAV

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

Source: As at 30th September 2018

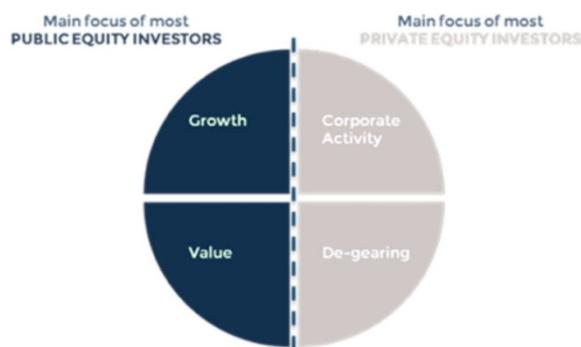
Notes: 1. FTSE Small Cap and IA data rebased to SEC start NAV 30th September 2013. 2. Bloomberg. 3. Estimated based on Trustnet data. 4. FactSet. 5. PATAC
Past performance is no guarantee of future performance and the value of investments can go down as well as up

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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 fulfils this role on both GVQ's Unconstrained Funds. Jeff is also Lead Manager of Strategic Equity Capital plc. 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.



Deputy 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 no 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:	£174m
Market capitalisation:	£151m
Share price:	228.0p
Net Asset Value per share:	262.9p
Shares in issue:	66,135,710
Current holdings:	18
Yield (historic):	0.3%
On-going charges:	1.17%
Gearing:	At present, the policy is 'no gearing'
Discount to NAV:	13%
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 30th September 2018. 2. PATAC. Fund received a 5 Year Morningstar Rating™ of ★★ as at 30th September 2018. Money Observer Rated Fund as at 30th September 2018. 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