

Strategic Equity Capital

Q4 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 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.

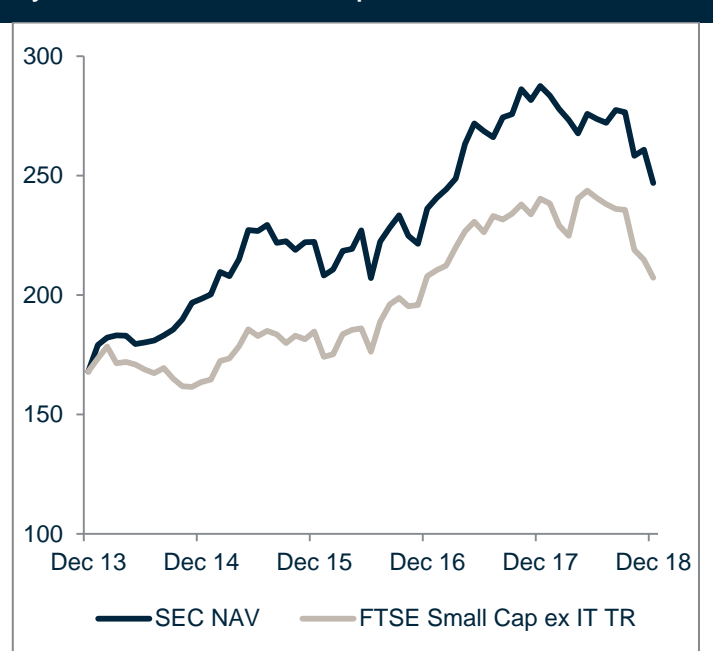
Fund Manager Commentary:

Much has been written about the backdrop to weak financial markets in Q4 and the impact was seen in both the FTSE Small Cap ex-ITs index and AIM suffering their worst quarters in 7 and 10 years respectively. The brunt of the sell-off was born by previously ‘valuation-agnostic’ growth stocks and challenged domestic cyclicals (many of which suffered warnings); however some portfolio companies were also caught in the general market de-rating taking their valuations to multi-year lows. This is despite the progress and prospects of holdings within the Trust; 9 of the top 10 holdings experienced earnings upgrades over the course of H2. Specifically, there were a number of encouraging developments over the quarter.

Proactis, the e-procurement software business’s FY18 results highlighted the high degree of revenue which is recurring (86%) and a European peer was approached at a premium to Proactis’ prevailing rating, despite not generating any profit. Both Equiniti and 4imprint released trading updates which increased the previously upgraded expectations for coming periods. In both cases, strategic progress is being made in core and new markets (the US for Equiniti and across new media channels for 4imprint). New management at IFG Group outlined ambitious but what we believe are achievable medium term targets. Any progress towards these would render the current valuation very low. Oxford Metrics continues to make progress in its motion measurement niche across entertainment, sports and life sciences.

Whilst cognisant of broader market risks, specific strategic, operational and financial progress continues to be made among portfolio companies, which is not reflected in multi-year low valuations. The aggregate GVQ cash yield at 11.4% is the highest (cheapest) since mid 2013.

5 year cumulative rebased total performance¹



Discrete performance (%)²

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

Sector Breakdown³ (%) of NAV

Technology – software & services	22.2
Support Services	20.1
Healthcare	17.7
Financials	13.6
Media	7.1
Industrials	5.3
Property	3.9
Electronics	2.8
Unlisted	0.5
Net cash	6.8

Top Ten Holdings⁴ (%) of NAV

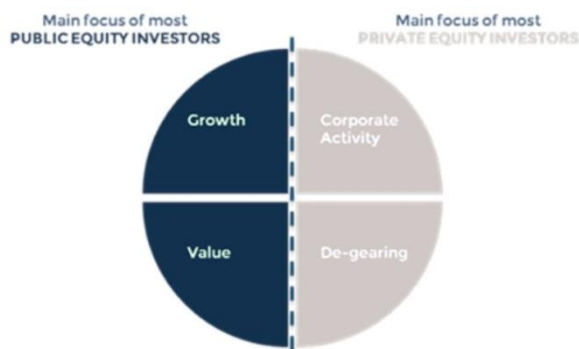
Equiniti Group	12.1
IFG Group	8.8
Tribal Group	8.2
4imprint Group	8.0
Wilmington	7.1
Proactis	5.9
Clinigen Group	5.7
Medica	5.4
Tyman Group	5.3
EMIS Group	5.1

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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 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:	£152m
Market capitalisation:	£127m
Share price:	196.0p
Net Asset Value per share:	233.7p
Shares in issue:	65,045,291
Current holdings:	18
Yield (historic):	0.5%
On-going charges:	1.12%
Gearing:	At present, the policy is 'no gearing'
Discount to NAV:	16%
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.strategicquitycapital.com

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1. As at 31st December 2018. 2. PATAAC. Fund received a 10 Year Morningstar Rating™ of ★★★★★ as at 31st December 2018. Money Observer Rated Fund as at 31st December 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