

Strategic Equity Capital

Q4 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:

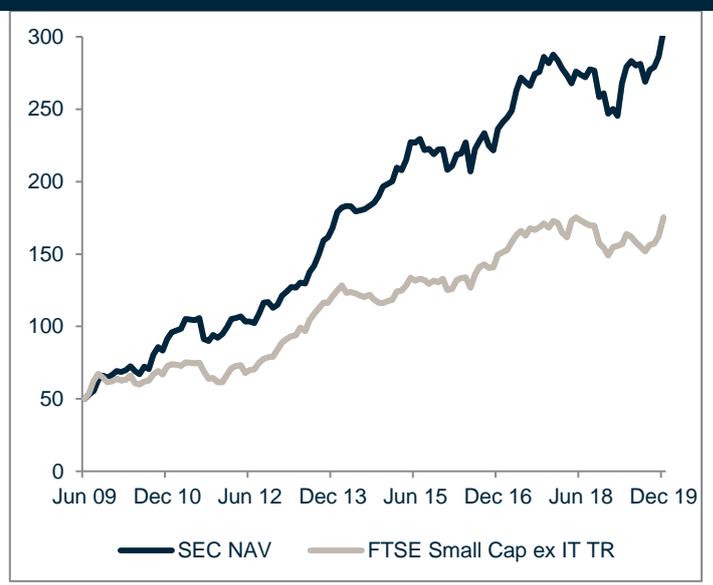
The final quarter of 2019 was a strong end to a year which saw both the NAV and share price increase by around a quarter.

Despite the strong growth in NAV, the valuations of portfolio companies remain attractive in our view. When looking at a traditional P/E ratio compared to historical levels, all but one of the top ten companies are rated at below their five year mid point. On our preferred valuation metric, the GVQ cash yield, the weighted average portfolio valuation corroborates this positive outlook.

Furthermore, irrespective of whether markets remain supportive, portfolio companies have specific opportunities to grow profitability and cash flow and improve their business models. For example; leveraging investment recently undertaken, improving capital allocation, reducing balance sheet leverage through cash generation, more efficient operations and improving communications and investor perceptions are all means to grow their value. We continue to engage with investee companies on these areas.

Whilst smaller companies remain at a discounted rating to medium sized and larger companies owing to poor liquidity and risk aversion, the opportunity for an actively managed small cap investment trust is acute. This is particularly so given the weight of money in private equity funds alongside the generationally cheap levels of financing.

Long term cumulative rebased total performance¹



Discrete performance (%)²

	2019	2018	2017	2016	2015	2014	2013	2012
Share price TR	25.8	-17.6	20.2	-9.0	14.2	32.7	61.5	25.6
NAV TR	23.1	-14.1	21.7	6.3	12.1	18.1	46.1	21.3
FTSE Small Cap TR	17.7	-13.8	15.6	12.5	13.0	-2.7	43.9	36.3

Sector Breakdown³ (%) of NAV

Healthcare	24.7
Technology	17.0
Support Services	16.4
Financials	12.4
Media	10.2
Industrials	9.0
Property	3.6
Agricultural Producers	2.7
Net cash	4.2

Top Ten Holdings⁴ (%) of NAV

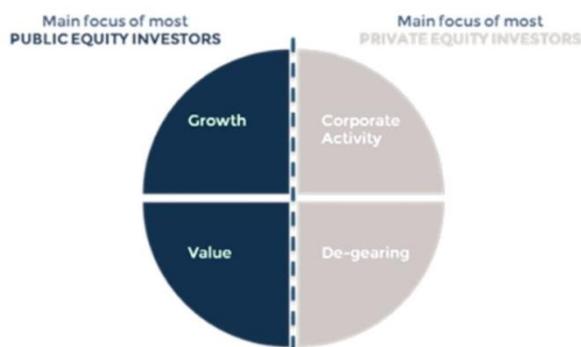
Equiniti Group	10.9
Wilmington	8.1
Clinigen Group	8.0
Tyman Group	7.2
Medica	6.0
Brooks Macdonald	5.5
Alliance Pharma	5.5
Tribal	5.4
Ergomed	5.2
XPS Pensions	5.2

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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 Information²

Investment Manager:	GVQ Investment Management Limited
Launch date:	July 2005
Net Assets:	£181m
Market capitalisation:	£155m
Share price:	245.0p
Net Asset Value per share:	286.1p
Shares in issue:	63,296,844
Current holdings:	23
Yield (historic):	0.6%
On-going charges:	1.12%
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.strategicquitycapital.com

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1. As at 31st December 2019. 2. PATAC. Fund received a 10 Year Morningstar Rating™ of ★★★★★ as at 31st December 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