STRATEGIC EQUITY CAPITAL PLC

UNAUDITED HALF-YEARLY REPORT & FINANCIAL STATEMENTS

for the six month period to 31 December 2014

Investment objective

The investment objective of the Company is to achieve absolute returns (i.e. growth in the value of investments) rather than relative returns (i.e. attempting to outperform selected indices) over a medium-term period, principally through capital growth.

The Company's investment policy can be found on page 3.

Investment Manager's strategy

The strategy of GVO Investment Management Limited ("GVOIM" or the "Investment Manager") is to invest in publicly quoted companies which will increase their value through strategic, operational or management change. The Investment Manager follows a practice of constructive corporate engagement and aims to work with management teams in order to enhance shareholder value.

A more detailed explanation can be found in the Investment Managers's report on page 6.

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Financial summary

	At 31 December 2014	At 30 June 2014	At 31 December 2013	Six months % change to 31 December 2014
Performance				
Total shareholder return for the period [1]	**10.11%**	**38.63%**	29.39%	
Capital return				
Net asset value ("NAV") per Ordinary share	**190.43p**	**173.66p**	162.00p	9.66%
Ordinary share price (mid-market)	**188.50p**	**156.00p**	146.50p	20.83%
Discount of Ordinary share price to NAV	**1.01%**	**10.17%**	9.57%	
Average discount of Ordinary share price to NAV for the period ended	**7.57%**	**11.72%**	13.12%	
Total assets (£'000) [2]	**110,673**	**104,183**	96,772	6.23%
Equity shareholders' funds (£'000)	**108,669**	**103,429**	96,487	5.07%
Ongoing charges [3]	**1.28%**	**1.27%**	1.30%	
Revenue return per Ordinary share	**0.69p**	**0.76p**	0.61p	
Dividend yield	**1.12%**	**0.50%**	1.12%	
Proposed final dividend for year	**n/a**	**0.78p**	n/a	n/a
Ordinary shares in issue with voting rights [2]	**57,066,291**	**59,558,111**	**59,558,111**	(4.18)%

Interim period's Highs/Lows	**High**	**Low**
NAV per Ordinary share	190.60p	127.60p
Ordinary share price	194.38p	104.25p

[1] *Total shareholder return is the increase per share in NAV plus dividends paid.*

[2] *The Company's fifth tender offer took place in July 2014. 2,382,098 shares were bought back for cancellation at a cost of £3,716,940 (including stamp duty). A sixth tender offer took place in November 2014. 109,722 shares were bought back and held in treasury at a cost of £182,582.*

[3] *The ongoing charges figure has been calculated using the Association of Investment Companies' ("AIC's") recommended methodology and relates to the ongoing costs of running the Company. Non-recurring fees are therefore excluded from the calculation.*

Investment policy

The Company invests primarily in equity and equity-linked securities quoted on markets operated by the London Stock Exchange where the Investment Manager believes the securities are undervalued and could benefit from strategic, operational or management initiatives. The Company also has the flexibility to invest up to 20% of the Company's gross assets at the time of investment in securities quoted on other recognised exchanges.

The Company may invest up to 20% of its gross assets at the time of investment in unquoted securities, provided that, for the purpose of calculating this limit, any undrawn commitment which may still be called shall be deemed to be an unquoted security.

The maximum investment in any single investee company will be no more than 15% of the Company's investments at the time of investment.

The Company will not invest more than 10%, in aggregate, of the value of its total assets at the time the investment is made in other listed closed-end investment funds provided that this restriction does not apply to investments in any such funds which themselves have published investment policies to invest no more than 15% of their total assets in other listed closed-end investment funds.

Other than as set out above, there are no specific restrictions on concentration and diversification. The Board does expect the portfolio to be relatively concentrated, with the majority of the value of investments typically concentrated in the securities of 10 to 15 issuers across a range of industries. There is also no specific restriction on the market capitalisation of issues into which the Company will invest, although it is expected that the majority of the investments by value will be invested in companies too small for inclusion in the FTSE 250 Index.

The Company's Articles of Association permit the Board to take on borrowings of up to 25% of the net asset value at the time the borrowings are incurred for investment purposes.

Chairman's report

Introduction

I am delighted to report that the Company made excellent progress in the six month period to the end of December 2014, delivering very strong growth in both share price and net assets. The Company's share price also moved from trading at a discount to net asset value to a premium over the period. This has been brought about by a combination of strong long-term performance and increased marketing activities by the Investment Manager.

From a performance perspective, it was pleasing to see the portfolio starting to benefit from M&A activity. The takeover of Allocate Software vindicated our long-term investment approach and highlighted some of the strategic value contained within the portfolio's holdings.

Performance

As at 31 December 2014, the Company had net assets of £108.7 million (190.43 pence per share). This represented an increase of 5.1% (9.7% per share) over the period. Including dividends, the Company delivered a NAV total return to shareholders of 10.1% per share. The Company's NAV outperformed the FTSE SmallCap ex Investment Trusts Index ("FTSE Small Cap Index") by 13.3%. This strong absolute and relative performance was delivered despite an average cash balance of c.6.6%.

The Company has delivered a NAV total return per share of 107.6% over the past three years, exceeding the 90.8% return from the FTSE Small Cap Index by 16.8%. The Company's five year NAV total return per share growth of 194.4% has exceeded the return from the Index by more than 100%. Notably, growth in the Company's NAV has been delivered without the use of gearing and with relatively low volatility.

Discount Management

The discount to NAV at which the Company's shares trade narrowed significantly from an average in the previous financial year ended 30 June 2014 of 11.7% to an average of 7.6% in the six months to the end of December 2014. The share price ended the period trading at a small premium to NAV. The Board believes that the narrowing in the discount has been driven by a mix of strong ongoing performance, the Company's increased profile among institutional and retail investors, the broadening shareholder base and also the regular tender offers.

Since the beginning of 2013, the Investment Manager's efforts to increase the profile of the Company have led to a major change in the shareholder base, with an increasing proportion of shares held by retail investors and wealth managers instead of discount focused institutional shareholders. This trend has continued during the period under review. New purchasers of shares included wealth managers, long-term institutional shareholders and additional offices of existing wealth manager shareholders.

Dividend

The Directors continue to expect that returns for shareholders will derive primarily from the capital appreciation of the shares rather than from dividends. In line with previous years, the Board does not intend to propose an interim dividend.

Tender

In May 2012, the Company introduced semi-annual tender offers, buying back shares for cancellation in May and November each year. Subject to unforeseen circumstances, the Directors intend to offer such tender offers in the event that the discount to NAV at which the Company's shares trade exceeds on average 10% over the relevant six month period to June or December as the case may be. Each tender offer is for up to 4% of the Company's issued share capital at a price equivalent to a 10% discount to NAV (including current period revenue and deducting the estimated tender costs) per share.

At a meeting in September 2014, the Board decided that it would no longer cancel tendered shares but buy them back into treasury, given the possibility that the shares would soon trade at a premium and so could be reissued thereafter at the Board's discretion.

Accordingly, the Company undertook its sixth semi-annual tender offer in November 2014, buying back 109,722 shares into treasury at a price of 166.4 pence per share, as announced on 18 November 2014.

Shareholders should note that with the shares now trading around NAV it is currently unlikely that the Board will recommend a tender offer in May 2015.

Development of the Company

At the Annual General Meeting held on 14 November 2014, shareholders passed a resolution reaffirming their support for the Board to issue new shares or sell shares out of treasury were there sufficient demand.

The Company has subsequently applied to the UK Listing Authority for a block listing of 5,607,878 further shares, being the number of shares which the Company has authority to issue non-premptively, following shareholder approval being granted at the Annual General Meeting held in 2014. This, in effect, gives the Board the ability to increase the size of the Company, if there is sufficient demand, by issuing new shares at a premium to NAV from time to time. Since the start of the period under review, all the shares held in the treasury account have been sold and as at the date of this report, 725,000 new shares have been issued by the Company. As a result, the Company's issued share capital consists of 57,901,013 ordinary shares. The issue of ordinary shares is being made in order to meet market demand. The proceeds of each issue will be used in further pursuing the investment objectives of the Company. The Company has the ability to issue a further 4,882,878 ordinary shares under its block listing facility.

The Board

As previously announced to the market, John Hodson, who served as Chairman of the Company from incorporation until September 2014, retired from the Board on 10 February 2015. On behalf of the Board, I would like to take this opportunity to thank John for his long-term leadership and valuable contribution to the successful running of the Company.

On 10 February 2015, Richard Locke joined the Board. Richard brings with him a wealth of experience in the financial sector, having been a stockbroker for many years and is now a managing director at a corporate finance advisory company.

Investment Manager

In December 2014, RIT Capital Partners plc ("RIT") announced that it had entered into an agreement to acquire the Investment Manager from Hansa Aktiengesellschaft ("Hansa"). RIT also entered into an agreement to acquire Hansa's shareholding in the Company on completion of the transaction. Both transactions have now completed. The Investment Manager will continue to operate as a separate legal entity with the same autonomous management team, structure and process. The Board looks forward to continuing to work closely with the Investment Manager and its new owner, RIT.

Gearing and Cash Management

The Company has maintained its policy of operating without a banking facility. This policy is periodically reviewed by both the Board and the Investment Manager.

The Board, together with the Investment Manager, has a conservative approach to gearing due to the concentrated nature of the portfolio. No gearing has been in place at any point during the period. From time to time, cash positions are maintained for when suitable investment opportunities arise.

Outlook

The Board shares the Investment Manager's belief that the prospects for the Company remain encouraging. The existing portfolio is in good shape, with individual companies enjoying strong balance sheets and materially better growth prospects than the broader smaller companies sector. The challenging markets have enabled the Investment Manager to build a good pipeline of potential new investments. Despite the many uncertainties going into 2015, the Board believes that the Investment Manager's selective investment approach will continue to serve the Company well.

Richard Hills
17 February 2015

Investment Manager's report

Investment Strategy

Our strategy is to invest in publicly quoted companies which will increase their value through strategic, operational or management change. We follow a practice of constructive corporate engagement and aim to work with management teams in order to enhance shareholder value. We like to build a consensus with other stakeholders and prefer to work alongside like-minded co-investors as leaders, followers or supporters. We try to avoid confrontation with investee companies as we believe that there is strong evidence that overtly hostile activism generally generates poor returns for investors.

We are long-term investors and 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. The duration of these plans can be shortened by transactional activity or lengthened by adverse economic conditions. 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. These include a focus on cash flows, the potential value of the company to trade or financial buyers and potentially beneficial changes in capital structure over the investment period.

Our typical investee company, at the time of initial investment, is too small to be considered for inclusion in the FTSE 250 Index. We believe that smaller companies provide the greatest opportunity for our investment style as they are relatively under-researched, often have more limited resources and frequently can be more attractively valued.

We believe that this approach, if properly executed, will generate favourable risk adjusted returns for shareholders over the long term.

Market Background

The last six months of 2014 witnessed considerable volatility in stock markets. Through early September, the UK market became increasingly concerned about the potential impact of Scotland voting for independence. In October, global markets stuttered. A downgrade in growth forecasts for the Eurozone, despite upgrades in growth for the US and UK, triggered a sudden sell-off. Notably, liquidity was poor and some share price movements appeared to be driven far more by fear than fundamentals.

A notable change was in foreign exchange markets, where the continued strong performance of the US economy and expectations of earlier rate rises led to a marked strengthening of the US$. With many emerging markets holding US$ debt, some market participants became concerned about a re-run of the emerging markets crisis of 1998. Compared with the bullish start to 2014, investors continued their aversion to risk. In the UK market, this was typified by continued outflows from UK Smaller Companies OEICs. As at the end of November 2014, these funds in aggregate had experienced seven months of consecutive outflows, the longest period of consecutive outflows for at least twelve years.

The other major factor impacting markets was the relentless slide in the price of oil, which started at the beginning of the period. Over the half year, the price of Brent Crude almost halved from $112 per barrel to finish the year at $57. The price movement took many market participants by surprise and appears to be driven by OPEC politics and positive supply dynamics rather than demand concerns. The impact on the share prices of oil explorers and producers was material, with the FTSE 350 Oil & Gas Producers Index delivering a negative return of 16.5%.

There was a notable divergence in the performance of the main UK equity indices. The FTSE 250 ex Investment Trust Index delivered a 3.2% gain, the only major index to deliver a positive return. The FTSE 100 Index fell by 1.1%, although stripping out the resources companies, the index would have delivered a positive return. Small Companies fared less well, with the FTSE Small Cap Index falling by 3.1% and AIM falling by 10.0%. We believe that the poor performance of the broader smaller companies sectors was driven by a combination of 1) poor performances from the smaller and more speculative resources companies, 2) stock specific disappointments – profit warnings appear to have risen and forward earnings forecasts have continued to be cut in aggregate, and 3) a general reduction in risk appetite, as evidenced by the negative fund flows out of UK Smaller Companies OEICs.

The buoyant IPO market which we commented on in the Annual Report for the year ended 30 June 2014 almost vanished during the period under review. Although some IPOs were successful, they tended to be of good quality and reasonably priced. In contrast, the return of M&A was more pronounced. We recall one week in particular where there was a new bid every day for a small or mid cap company, with bidders being both trade and private equity. We were not surprised by this given the low historic levels of M&A over the preceding few years. Notably, bid premiums were high, an indication of a considerable divergence in the ratings of certain quoted companies and their potential value to trade or private equity bidders.

Performance Review

Despite the poor investment environment for smaller companies, the portfolio's performance over the period was pleasingly strong, driven by stock specific factors. Notably, only one small portfolio holding, accounting for less than 1.5% of the NAV, downgraded or missed forecasts. This was due to US$ currency exposure, which was a drag on performance until July 2014. Pleasingly, all of the other portfolio holdings with significant US$ sales and profits either maintained, or in one case exceeded, and upgraded forecasts.

Top 5 Contributors to Performance

Company	*Valuation at period end £'000*	*Period attribution (basis points)*
Allocate Software	–	240
4imprint Group	9,385	220
Tyman	12,564	177
EMIS Group	9,570	153
Servelec Group	11,637	132

Allocate Software was the star performer, delivering more than 32% over the period. It released very strong final results at the end of July 2014, showing good growth and cashflow. It also showed continuation of the trend for an increasing proportion of revenues being repeat or recurring, indicating better sales and profit visibility and, therefore, higher quality earnings. We felt for some time that the improving business model had been overlooked by the broader investment community and had commented before on the undervaluation of the company. However, others had spotted this positive change and Allocate received a bid from HgCapital in October 2014 at a 35% premium to the prevailing share price, itself an almost record high.

The next most significant contributors to performance over the whole year were 4imprint, Tyman, EMIS and Servelec. They delivered market beating returns of 25.6%, 16.5%, 20.3% and 13.1% respectively, materially outperforming the 3% fall in the FTSE Small Cap Index.

4imprint maintained its strong record of organic growth. Its interim results and Q3 trading statement showed consistent currency growth of more than 20%, as it continues to take share in its large and highly fragmented market. With a market share of less than 3% and the clear market leader, we continue to believe that the long-term prospects for the business remain excellent. The company has also made decisive steps to address the long-term potential leakage of shareholder value to its legacy pension schemes. The result of these initiatives will, we believe, remove what has been a poison pill and improve long-term cash conversion. With virtually all of the revenues and profits being delivered from North America, a stronger US$ should provide an additional tailwind to results.

Tyman's share price was a little volatile over the period, but ultimately delivered a good return. The interim results and Q3 trading statement were both positive. At an update with the company in December 2014, we were reminded about the prospects for operational improvement initiatives to augment the upside from continued medium-term recovery in the key end markets. The management team believes that these initiatives will enable Tyman to deliver what were peak margins at the top of the last cycle, at volumes consistent with long-term average volumes (some 70% of the levels of historic peaks and some 40% higher than current market volumes). We believe that only a limited amount of this margin and earnings upside is reflected in the current rating of the company. We estimate that at least two-thirds of profits are derived from North America and as a result there should be a tailwind for results this year.

Investment Manager's report

(Continued)

EMIS continued to deliver predictably good results, with organic growth exceeding expectations. In September 2014, it announced a landmark deal, the first of its kind, to deliver an integrated Electronic Patient Record system for all of the health authorities (acute, community, mental, GP) in Gibraltar, where there are approximately 50,000 patients. In challenging equity markets, both institutional and retail investors appear to have warmed to the investment case and the shares re-rated over the period. We believe some of this may also have been driven by the investment community noticing M&A activity in the healthcare software space – namely Allocate Software and Advanced Computer Software. EMIS has continued to utilise its strong cashflows and balance sheet to make small bolt on acquisitions over the period.

Servelec Group continues to perform well, both in terms of its share price and business performance. Since IPO, its healthcare business has won more than 40% more licence renewals in the "London Refresh" of community and mental health patient record systems than was forecast at its November 2013 IPO. This indicates both the stickiness and high reputation of the product. Its technologies business unit appears to have also exceeded expectations. Its controls business, which provides specialist services to oil, gas, nuclear and power markets, has seen the award of a significant automation implementation contract with Centrica delayed. Servelec has done the design and specification and there is a pressing need to upgrade Centrica's operating assets. As a result, we believe that this contract will ultimately be awarded. The change in resource prices witnessed since June 2014 could be positive for brownfield investment to reduce operating costs in UK oil and gas production, which would be of benefit to Servelec. At the end of the period, the company announced the acquisition of Corelogic, a leading provider of electronic records for social care, funded out of its cash balances. We believe this could prove to be an excellent acquisition and add material shareholder value over time.

Outside of the top five contributors, other holdings enjoyed strong rises in their share prices. **Clinigen**, a new investment made in July 2014, delivered a total return of 44% following the purchase. The shares rallied from an oversold position, and were bolstered by strong final results and a further acquisition. We believe that the company has a compelling business model and is capable of many years of strong growth.

Dignity delivered a total return of more than 38% over the period. Trading was robust following an acceleration of its annual price increases, combined with a normalisation of the mortality rate in the second half of the year. It also announced a surprise re-financing, which simultaneously lowered the cost of its debt and extended the duration. It also modestly increased the balance sheet leverage, facilitating another of its periodic special dividends. The shares re-rated significantly over the period and are trading close to our target exit rating.

CVS Group shares also delivered a total return of more than 38% over the period, driven by better than expected trading and a significant re-rating of the shares. The shares have increased by c.350% since our initial investment in late 2010, and re-rated some way beyond our expectations.

Vintage I, the diversified fund of private equity funds advised by 3i Debt Management Limited, delivered a total return of more than 26% over the period, buoyed by a supportive exit environment for the underlying holdings. **Wilmington** delivered a total return of more than 13%, reversing some of its disappointing performance in Q2 2014. The company announced the appointment of a new CEO, who is due to deliver a strategic review to investors in early 2015.

E2V delivered a total return of 6.6% over the period. The recently appointed CEO presented his 5-year plan for the business in mid-November 2014. The stated objective is to double operating profits through a blend of improved organic growth, modest self-funded acquisitions and margin improvement. The ambition to achieve this without any share issuance implies substantial earnings growth over this period. Although the shares have re-rated a little, we believe that little of this long-term potential is priced in.

Bottom 5 Contributors to Performance

Company	*Valuation at period end £'000*	*Period attribution (basis points)*
Northbridge Industrial Services	1,695	(50)
Journey Group	203	(36)
RPC Group	3,069	(36)
Lavendon Group	1,547	(30)
Goals Soccer	7,535	(19)

With the exception of **Goals Soccer**, the bottom contributors to performance were among the smaller holdings in the portfolio. Only four holdings delivered a lower return than the FTSE Small Cap Index.

Northbridge delivered a disappointing return, with the shares falling 24%, predominately during the last three months of the period. We had taken profits over the summer prior to this fall in the price. The company has some, albeit modest, exposure to the oil and gas sector through a specialist equipment rental business. The shares de-rated materially over concerns about the trading prospects for these businesses. We estimate that less than 20% of revenues are derived from the oil and gas sectors, of which a large proportion is either based in the Middle East (where oil re-related capex is forecast by commentators to remain robust) or used in gas exploration and production, where commodity prices have been more stable than oil. We believe that the de-rating of the shares has been pernicious.

Journey Group delivered a negative return of 15% over the period. The company generates the vast majority of its profits in North America. Trading was insufficiently strong to compensate for the relatively weak US$ in the first six months of 2014 and the company downgraded profits in September 2014. The market cap is less than £20m and shares are highly illiquid. As a result, any movement in the share price tends to become exaggerated.

RPC released in-line trading statements and interim results over the period. In December 2014, it announced the significant acquisition of its Nordic peer, Promens, alongside a significant rights issue. The shares performed poorly on sentiment between the end of June 2014 and the sell-off in mid-October 2014, falling 20% peak to trough, before rallying and delivering a -8.3% return over the period.

Lavendon released mixed interim results and an autumn trading update. The performance of the European businesses continues to vary by region and the UK has disappointed with a slower recovery than some had hoped for. The Middle Eastern business, the highest margin business unit, continued to compensate for the rest of the group. The shares de-rated over the period, falling by 16%.

Goals Soccer released a solid trading statement in July 2014 and interim results in September 2014 which were in line with expectations. Directors bought stock six times over the period. We believe that substantial upside exists from the return to organic growth in the UK, the launch of the app and the expansion of the US business. Little of this potential is in the share price.

The average cash balance in the Company's portfolio was 6.6% over the period, reflecting both the Board and the Investment Manager's conservative approach to gearing and desire to retain the ability to participate in block transactions at short notice without being a forced seller of other holdings.

Dealing Activity

The level of portfolio activity was lower compared with the previous year, with disposals of £15.3m (excluding distributions from unlisted investments) representing around 14.9% of the weighted average NAV. In addition, £0.2m of net distributions were received from unlisted investments. £9.2m of purchases were made, representing 9.0% of the NAV.

The takeover of **Allocate Software** realised the remaining holding, raising £8.7m. This has been a successful investment for the Company, with the investment of £3.6m delivering 2.6x cost and 26% IRR over our five-year holding period.

The positions in **CVS** and **Journey** were reduced materially over the period. The CVS share price climbed above what we perceive to be fair value. Disposals raised £1.6m.

Journey has been a legacy investment for some time. It suffers from exceptionally poor liquidity and a low free float. Actively marketing the stake would have probably led to an overhang on the share price, or alternatively selling the stock at a material discount to the share price. Our patience was rewarded in December, when an offer was made for the majority of our holding at around the then current share price. Whilst value undoubtedly remains, this has been a non-core investment for some time, mainly as it would fail a number of our investment criteria.

Investment Manager's report

(Continued)

Whilst we are not active traders, the volatility in some longer term holdings over the period presented some excellent opportunities to add value. E2V, Northbridge and Tyman are good examples. As an example, the Company sold £2.3m of shares on a gross basis, but only £1.1m on a net basis in these names. The net sales were as a result of modest portfolio rebalancing. Some of the re-investment back into Northbridge was via participating in a placing at a significant discount to where shares had previously been sold.

Three new investments were made during the period. £2m was invested in Clinigen, a specialist pharmaceuticals services and products business. Since this purchase, the shares have performed better than we had anticipated and are above our current buying level. The other two new holdings are being built and accounted for less than 0.5% of the NAV at the half year end.

Further investments of £1.3m and £1.2m were made in XP Power and Goals Soccer.

Following the takeover of Allocate Software, a further £2m in total was also invested in EMIS and Servelec. Both EMIS and Servelec continue to trade at materially lower ratings than the equivalent exit multiple for Allocate Software. However, we believe that EMIS and Servelec are higher quality business models with better long-term growth potential.

Portfolio Review

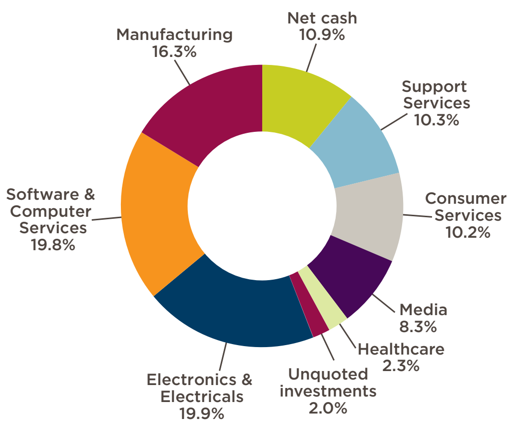
The portfolio remained highly focused, with a total of 19 direct holdings and the top 10 holdings accounting for 78% of the NAV at the end of the financial period. The portfolio remains predominantly invested in quoted equities, however, the percentage of the portfolio invested in unlisted securities changed from 1.8% to 2.0% at the end of the period due to the valuation uplift from Vintage I more than outweighing the distributions. 10.9% of the NAV was invested in cash at the period end.

Portfolio as at 31 December 2014 – Top 10 Largest Investments

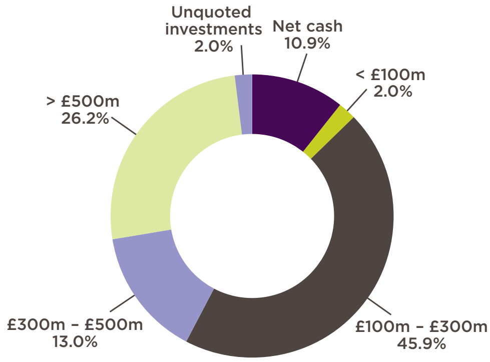
Company	*Sector classification*	*Date of first investment*	*Cost £'000*	*Valuation £'000*	*% of invested portfolio at 31 December 2014*	*% of invested portfolio at 30 June 2014*	*% of net assets at 31 December 2014*
Tyman	Manufacturing	Apr 2007	3,843	12,564	13.0	12.1	11.5
Servelec Group	Software and Computer Services	Dec 2013	7,589	11,637	11.9	10.6	10.7
E2V Technologies	Electronics	Oct 2009	3,038	11,556	11.9	12.2	10.6
EMIS Group	Software and Computer Services	Mar 2014	6,880	9,570	9.9	7.9	8.8
4imprint Group	Support Services	Feb 2006	2,941	9,385	9.7	8.6	8.6
Wilmington Group	Media	Oct 2010	7,315	9,051	9.3	8.5	8.3
Goals Soccer	Consumer Services	Mar 2012	5,181	7,535	7.8	7.1	6.9
Gooch & Housego	Electronics	Dec 2011	3,619	5,794	6.0	5.8	5.3
XP Power	Electronics	Dec 2013	3,721	4,229	4.4	3.3	3.9
RPC	Manufacturing	Feb 2007	1,664	3,789	3.9	3.9	3.5
			45,791	**85,110**	**87.8**	**80.0**	**78.1**

Portfolio as at 31 December 2014

Sector split



Size split (by market capitalisation)



The underlying operational performance of the portfolio remains good. We continue to believe that few portfolio companies are operating at peak margins, even those in cyclical sectors. We continue to avoid situations where companies are generating peak sales, peak margins and whose shares are trading at peak multiples, and are constantly seeking to exit holdings where this could be the case.

Portfolio Characteristics

Consensus portfolio characteristics	*Strategic Equity Capital*	*FTSE Small Cap Index*	*FTSE Small Cap Index ex financials and resources*
Price/Earnings ratio (FY1)	15.4x	13.8x	13.4x
Dividend yield	2.3%	2.8%	2.6%
Price/Book ratio	5.7x	1.5x	n/a
Price/Sales ratio	2.4x	0.7x	n/a
Price/Cashflow ratio	13.6x	12.8x	n/a
GVOIM Cashflow yield	9.8%	n/a	n/a
Forecast earnings growth (FY1)	14.4%	5.2%	0.8%
Forecast net debt to EBITDA	0.3x	1.6x	1.2x

Source: Factset Portfolio Analysis System, Investec, Peel Hunt. Index statistics include loss makers.

As was the case a year ago, the overall index valuation and growth metrics are skewed by the resources and financial services sectors. As a result, we believe that comparison against the FTSE Small Cap Index excluding these sectors is worthy of inclusion.

In contrast to previous periods, the overall aggregate growth across smaller companies is poor. Interestingly, the median growth statistics of the indices appear to show higher growth. We believe this demonstrates a very significant divergence in growth prospects of smaller quoted companies. Given the aggregate valuations of these indices, it suggests that there are a number of companies on market ratings which have little or no growth.

Investment Manager's report

(Continued)

In comparison, the portfolio growth is forecast to be double digit, alongside good cashflow. Although the GVOIM free cashflow yield has dipped marginally below 10%, we still believe this is good value given the growth prospects of the underlying holdings. On traditional metrics, the p/e rating of the portfolio appears undemanding given the combination of growth, yield and cashflow. The aggregate underling portfolio company balance sheets remain stronger than the overall market.

Unlisted Investments

Over the period, the Company received a total of £0.2m from Vintage I. The outstanding commitment relating to Vintage I is £1.2m and its adviser has communicated that it does not expect to make any further net draw downs.

Outlook

Accurately predicting market movements or trends for the year ahead is always fraught with difficulty. This is ever more the case when equity markets are mid-cycle, as we believe they are currently.

Global economies appear unbalanced and fraught with "known-unknowns". Investors are pondering many questions. Will Quantitative Easing work in Europe? Is the US economic growth sustainable? Will the oil price remain depressed for the short, medium or long term? Will the result of the UK general election be clear and good or bad for the UK economy? How much impact will the "real" UK public sector spending cuts have after the election? How big a threat is the Chinese shadow banking system? Will the appreciation in the US$ lead to a repeat of the 1998 emerging markets sovereign debt crisis?

The ultimate impact of the great Quantitative Easing experiment is the key topic of discussion at the time of writing. We believe that it has created an asset bubble in fixed income and some fixed asset prices, particularly prime property and high value "collectibles". In this environment, we believe that equities remain relatively attractively rated.

In equity markets, it has led arguably to indiscriminate re-rating of markets and valuation anomalies over the past few years. Last year, we commented that the valuation gap between higher quality and lower quality companies with similar growth prospects appeared unsustainably low, presenting an opportunity. Some of this valuation anomaly has corrected, but in our view not wholly.

We believe the emerging valuation anomaly is likely to be a relative overvaluation of high yield/low growth or reasonable yield/high risk stocks compared with the overall market. This is understandable given the paucity of yield from other asset classes.

However, dividend yield is only one source of return from equities. We often come across perceived "high yield" companies which are paying out all or even more than their free cashflows in dividends. Certain utilities companies are a good example of the latter phenomenon – effectively paying dividends out of borrowings. Therefore, the growth and sustainability of all dividends is not sustainable. If there is little underlying growth, long-term total returns are likely to disappoint.

Within our immediate investment space, the stark statistic is that following negative earnings growth in 2014, the aggregate constituents of the FTSE Small Cap Index are forecast to have declining earnings again in 2015. However, within the constituents, there are growing companies, as evidenced by the median forward earnings growth of the index, ex oil and gas, ex financials and ex loss makers, being 12.7% at the beginning of the year.

As a result of the above factors, we believe that 2015 will be another year requiring selective investing, which should be favourable to our investment style. Seeking quality, growing companies, trading at below fair value and generating strong cashflow over and above that used to pay dividends, should generate a good balanced return.

At the beginning of 2015, the portfolio in aggregate was forecasting forward earnings growth of 12-14%, depending on whether you consider the median or the weighted average, as well as a dividend yield of at least 2.3%. The GVOIM cash yield of more than 9% indicates that these companies should be generating free cashflow over and above the dividend yield of 3-4% of their market capitalisations. Adding these factors together suggests the potential for mid- to high-teens returns, excluding the impact of rating changes or M&A.

These latter two are difficult to predict. However, we note that the portfolio rating of 15.4x appears attractive relative to the total return (growth plus dividend plus additional free cashflow). Despite the 18% NAV per share return over the past year, it also remains below the level of December 2013. We continue to plan for no rating change.

If we are correct in our assumption of being mid-cycle, the recent pick up in M&A could be sustained or even increased. We do not plan for our holdings being bid for. However, many look attractive on our simulated leverage buyout models and are trading below precedent M&A multiples in their sectors. Therefore, we would not be surprised to receive bid approaches for one or two holdings during 2015.

The more discriminating markets and divergent company performances have helped us to build a strong and diversified pipeline of new investments. Given the paucity of secondary fundraisings, the majority of these will involve market purchases of the shares.

We continue to try and seek out investments where growth is more structural than cyclical. Where cyclical companies are already owned or being considered for investment, we are keen to ensure they are neither profit/margin maximising, nor trading at peak multiples. This should allow some cushioning of earnings if there is a cyclical shock, as well as protecting value. On the flip side, if there are more years left for the cycle to run, these types of companies should generate superior returns as margins and ratings expand. Gooch & Housego is an example of one such company. The recently appointed CEO believes there is scope to build and extend on his predecessor's work in improving operational efficiency and R&D efficacy, as well as sales performance. Although the shares are not lowly rated, we believe little of this incremental improvement opportunity is priced in.

We will continue to favour higher quality companies as we believe that they have the potential to offer more resilient returns across the cycle. High quality companies with superior business models and strong market shares tend to be more able to maintain or raise prices than companies with weak franchises or market shares. Regardless of if one believes in inflation or deflation, price leaders should deliver stronger returns than price takers.

We expect bouts of volatility as witnessed in October 2014, which have the potential to provide attractive opportunities for new investments, as well as selectively topping up existing holdings. As a result, we intend to continue to maintain a strong balance sheet, and be assiduous in taking profits where we believe even high quality companies are being rated higher than their fair value.

In conclusion, we believe that 2015 is likely to see a continuation of the trends of 2014. In particular, we think that equities offering sustainable growth allied with strong free cashflow will become even more sought after in a low growth and uncertain economic and geopolitical environment. Underlying portfolio company sales and profits remain skewed towards North America and the UK, which we perceive continue to offer better underlying demand drivers than Europe. Whilst earnings growth for the average smaller company remains low, we believe that our selective approach should help us find the pockets of reasonably priced, cash generative growth companies and help deliver another year of NAV progression.

Top 10 Investee Company Review

4imprint Group is the fourth largest distributor of promotional products in the world with an international network of companies in the UK, USA, Hong Kong and Europe. We have been involved with the company since a change of management in 2003. Following the disposal of Brand Addition, virtually all of the profits of the group are generated by the fast growing US business. The company has a significant net cash balance. Funds managed by the Investment Manager currently hold approximately 6% of the company's equity.

E2V Technologies is a global market leader in the design and manufacture of specialist electronic components and low volume, high value, high reliability semi-conductors, predominately for the medical, aerospace, defence and industrial markets. An ill-timed acquisition in September 2008 funded by debt left the balance sheet of the business over-stretched as the economic downturn began. A new Finance Director, well known to GVOIM, was appointed in May 2009. The management team acted, raising new equity to pay down debt as well as restructure the UK and French cost base, a process which is now largely complete. The Company made its initial investment during December 2009 via a placing and a deeply discounted rights issue to refinance the balance sheet. During 2013, a new chairman and CEO were appointed. The new CEO updated investors in November 2014 on his strategy for improving long-term shareholder returns. Funds managed by the Investment Manager currently hold approximately 5% of the company's equity.

EMIS Group is a specialist healthcare software and services provider. It is the UK market leader in the provision of electronic patient records for GPs, with a 53% market share. It also supplies electronic patient records to other healthcare organisations including community pharmacies, community and mental health trusts and accident & emergency departments. It has grown organically every year for 24 years and just under 80% of its revenues are recurring. It is very cash generative and has used this cash to augment its product portfolio through selective acquisitions. The shares had been under pressure due to some scepticism regarding the acquisition of Ascribe in autumn 2013, as well as uncertainty surrounding the renewal of the GP Systems of Choice framework contract which was announced at the end of March 2014. Funds managed by the Investment Manager currently hold approximately 3% of the company's equity.

Goals Soccer is a developer and operator of 5-a-side soccer centres in the UK, trading from 42 centres. In early 2012, the company announced that it would significantly reduce the speed of rolling out new sites for 12-18 months. Given that the roll out of sites requires significant capital, the impact of this change was to increase the free cash generation of the business and drive a large degearing of its balance sheet. The entry valuation was a significant discount to precedent M&A – specifically the acquisition of its only major competitor, Powerleague, by Patron Capital in 2009. The management team and board is working together to optimise operational performance and return the business to growth in the UK and North America. Funds managed by the Investment Manager currently hold approximately 6% of the company's equity.

Gooch & Housego is a global market leader in the design and manufacture of specialist optical components and subsystems. Funds managed by the Investment Manager previously invested in the company during 2010 and the Manager knows the business and management team well. The company's shares de-rated significantly at the end of 2011 and early 2012, driven by concerns over slowing activity in their industrial division. The Investment Manager took advantage of this weakness in the share price to rebuild a stake at a significantly lower level than its exit price in late 2010. The new product development pipeline and ramping up of volumes on existing contracts has the potential to deliver significant growth over the medium term. Its fiber-optics products have strong long-term growth prospects as they substitute conventional electronics in aerospace and defence applications. The appointment of a new CEO has the potential to accelerate medium-term shareholder returns. Funds managed by the Investment Manager currently hold approximately 3% of the company's equity.

RPC Group is Europe's leading manufacturer of rigid plastic packaging. Following lobbying from the Investment Manager and another shareholder acting in concert, the group initiated a strategic and operational review and made substantial changes to its board in 2008. The management team has performed well against RPC's new objectives, leading to a significant reduction in group debt and ongoing focus on improving return on invested capital. Post the restructuring, RPC has returned to consolidating its markets, acquiring a number of companies in the UK and Europe as well as one in the Far East. Funds managed by the Investment Manager currently hold approximately 1% of the company's equity.

Servelec is a UK technology company with three key divisions. The healthcare software division is a market leader in the design and operation of electronic patient records for NHS mental and community trusts. The controls division specifies, designs, assembles, installs and maintains safety and remote control systems for the oil & gas and process industries. The technologies division provides software, hardware and systems for industrial telemetry and SCADA applications. It was listed in November 2013, having previously been owned by a Singaporean listed group. The company has a robust balance sheet. Cash conversion will be strong for the foreseeable future due to the unwinding of a legacy trade debtor. In December 2014, it announced the acquisition of Corelogic. Funds managed by the Investment Manager currently hold approximately 5% of the company's equity.

Tyman is a leading international supplier of building products to the door and window industry, and was the world's leading manufacturer of marine breakaway couplings. The company has significant operations in nine separate countries across Europe, the Americas, Asia and Australasia. The building products division enjoys clear market leadership in a number of niches, with a highly diversified customer base, serving both the new build and RMI (repair and maintenance) markets. The building products division was adversely impacted by the significant fall in residential construction activity experienced since 2007, which, combined with a geared balance sheet, led to a material fall in the share price through 2008. We began building our stake in the company in late 2009 following the appointment of a new chairman. We believe that there is substantial upside from a medium-term recovery in the end markets of the building products division in North America. The recent acquisition of North American peer, Truth, has delivered significant cost and sales synergies to augment this end market recovery. Further upside remains from automating and streamlining more of its US manufacturing operations. Funds managed by the Investment Manager currently hold approximately 4% of the company's equity.

Wilmington provides business information and training services to professional business customers in the financial services, legal and medical sectors. More than 76% of revenues in the main publishing and information division are delivered digitally, typically on a subscription basis, and with high levels of client retention. The company is highly cash generative. Growth has been held back over the past few years due to a significant fall, and no recovery, in its legal training market and the decline in some legacy print publications. This has masked strong growth in the rest of the business. The declining segments have now either been exited or stabilised. The company's earnings are set to grow organically at double digit rates, as well as generating significant free cash flow, neither of which we feel are fully reflected in the current rating. With a stronger balance sheet, there is potential upside from targeted M&A. The management team has a good track record of creating value from M&A. A new CEO was announced in June 2014. Funds managed by the Investment Manager currently hold approximately 5% of the company's equity.

XP Power is a global market leader in the manufacture of high volume power supply solutions to healthcare, industrial and technology markets. The company has leading positions in fragmented European, Asian and North American markets where it has been taking share from larger industrial conglomerates. Under existing management, the business model has transformed from a third-party distributor to integrated manufacturer, developing strong customer accreditations, which act as a barrier to entry and have significantly improved the margins of the business. The business is highly cash generative and provides a very high return on capital employed. It is forecast to be in a net cash position at the start of this year. Funds managed by the Investment Manager hold approximately 1% of the company's equity.

Stuart Widdowson/Jeff Harris
GVO Investment Management Limited
17 February 2015

The unconstrained, long-term philosophy and concentrated portfolios resulting from the Investment Manager's investment style can lead to periods of significant short-term variances of performance relative to comparative indices. The Investment Manager believes that evaluating performance over rolling periods of no less than three years, as well as assessing risk taken to generate these returns, is most appropriate given the investment style and horizon. Properly executed, the Investment Manager believes that this investment style can generate attractive long-term risk adjusted returns.

All statements of opinion and/or belief contained in this Investment Manager's report and all views expressed and all projections, forecasts or statements relating to expectations regarding future events or the possible future performance of the Company represent the Investment Manager's own assessment and interpretation of information available to it at the date of this report. As a result of various risks and uncertainties, actual events or results may differ materially from such statements, views, projections or forecasts. No representation is made or assurance given that such statements, views, projections or forecasts are correct or that the objectives of the Company will be achieved.

Risk, going concern and responsibility statement

Risk

The important events that have occurred during the period under review are set out in the Chairman's report and Investment Manager's report, which also include the key factors influencing the financial statements.

The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 30 June 2014. The principal risks are set out on pages 18 to 20 of the annual report, which is available at www.strategicequitycapital.com.

In summary these risks are:

- general risks;
- market risks;
- regulatory risks;
- financial risks; and
- financial instruments.

Going concern

The Company has adequate financial resources to meet its investment commitments and as a consequence, the Directors believe that the Company is well placed to manage its business risks. After making appropriate enquiries and due consideration of the Company's cash balances, the liquidity of the Company's investment portfolio and the cost base of the Company, the Directors have a reasonable expectation that the Company has adequate available financial resources to continue in operational existence for the foreseeable future and accordingly have concluded that it is appropriate to continue to adopt the going concern basis in preparing the Half-Yearly Report, consistent with previous periods.

Responsibility statement

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements contained within the Half-Yearly Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' issued by the International Accounting Standards Board as adopted by the EU, and gives a true and fair view of the assets, liabilities, financial position and profit of the Company as required by Disclosure and Transparency Rule ("DTR") 4.2.4R;

- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8 of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

This Half Yearly Report was approved by the Board of Directors on 17 February 2015 and the above responsibility statement was signed on its behalf by Richard Hills, Chairman.

Statement of comprehensive income
for the six month period to 31 December 2014

		Six month period to 31 December 2014 unaudited			*Year ended 30 June 2014 audited*			*Six month period to 31 December 2013 unaudited*		
	Note	**Revenue return £'000**	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Investments										
Gains on investments at fair value through profit or loss		**–**	**10,712**	**10,712**	–	29,361	29,361	–	22,150	22,150
		–	**10,712**	**10,712**	–	29,361	29,361	–	22,150	22,150
Income										
Dividends	2	**1,127**	**223**	**1,350**	1,712	–	1,712	950	–	950
Interest	2	**12**	**–**	**12**	39	–	39	19	–	19
		1,139	**223**	**1,362**	1,751	–	1,751	969	–	969
Expenses										
Investment Manager's fee	8	**(483)**	**–**	**(483)**	(859)	–	(859)	(398)	–	(398)
Investment Manager's performance fee		**–**	**(1,679)**	**(1,679)**	–	(310)	(310)	–	–	–
Other expenses	3	**(260)**	**(66)**	**(326)**	(432)	(108)	(540)	(199)	(61)	(260)
Total expenses		**(743)**	**(1,745)**	**(2,488)**	(1,291)	(418)	(1,709)	(597)	(61)	(658)
Net return before finance costs and taxation		**396**	**9,190**	**9,586**	460	28,943	29,403	372	22,089	22,461
Finance costs		**–**	**–**	**–**	–	–	–	–	–	–
Net return before taxation		**396**	**9,190**	**9,586**	460	28,943	29,403	372	22,089	22,461
Taxation		**–**	**–**	**–**	–	–	–	–	–	–
Net return after taxation for the period/year		**396**	**9,190**	**9,586**	460	28,943	29,403	372	22,089	22,461
		pence	***pence***	***pence***	*pence*	*pence*	*pence*	*pence*	*pence*	*pence*
Returns per Ordinary share										
– Basic	5	**0.69**	**16.08**	**16.77**	0.76	47.85	48.61	0.61	35.98	36.59

The total column of this statement is the Statement of comprehensive income of the Company. All items in the above statement derive from continuing operations. The condensed interim financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial statements for the six month period to 31 December 2014 and 31 December 2013 have not been either audited or reviewed by the Company's Auditor. Information for the year ended 30 June 2014 has been extracted from the latest published Annual Report and financial statements, which have been filed with the Registrar of Companies. The report of the Auditor on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

These financial statements have been prepared under International Financial Reporting Standards, and in accordance with the accounting policies applied in the annual report which is available at www.strategicequitycapital.com.

The notes on pages 21 to 27 form an integral part of these Half-Yearly financial statements.

Statement of changes in equity

for the six month period to 31 December 2014

	Note	*Share capital £'000*	*Share premium account £'000*	*Special reserve £'000*	*Capital reserve £'000*	*Capital redemption reserve £'000*	*Revenue reserve £'000*	*Total £'000*
For the six month period to 31 December 2014								
1 July 2014		**5,955**	**5,246**	**42,650**	**46,581**	**2,026**	**971**	**103,429**
Gain on sale of investments		**–**	**–**	**–**	**5,177**	**–**	**–**	**5,177**
Appreciation of investments		**–**	**–**	**–**	**5,535**	**–**	**–**	**5,535**
Net return and total comprehensive income for the period		**–**	**–**	**–**	**223**	**–**	**396**	**619**
Dividend paid	4	**–**	**–**	**–**	**–**	**–**	**(446)**	**(446)**
Performance Fee		**–**	**–**	**–**	**(1,679)**	**–**	**–**	**(1,679)**
Tender offer expenses		**–**	**–**	**–**	**(66)**	**–**	**–**	**(66)**
Shares bought back for cancellation		**(238)**	**–**	**(3,900)**	**–**	**238**	**–**	**(3,900)**
31 December 2014		**5,717**	**5,246**	**38,750**	**55,771**	**2,264**	**921**	**108,669**
For the year to 30 June 2014								
1 July 2013		6,203	5,246	46,089	17,638	1,778	1,442	78,396
Net return and total comprehensive income for the year		–	–	–	28,943	–	460	29,403
Dividend paid	4	–	–	–	–	–	(931)	(931)
Shares bought back for cancellation		(248)	–	(3,439)	–	248	–	(3,439)
30 June 2014		5,955	5,246	42,650	46,581	2,026	971	103,429
For the six month period to 31 December 2013								
1 July 2013		6,203	5,246	46,089	17,638	1,778	1,442	78,396
Net return and total comprehensive income for the period		–	–	–	22,089	–	372	22,461
Dividend paid	4	–	–	–	–	–	(931)	(931)
Shares bought back for cancellation		(248)	–	(3,439)	–	248	–	(3,439)
31 December 2013		5,955	5,246	42,650	39,727	2,026	883	96,487

These financial statements have been prepared under International Financial Reporting Standards, and in accordance with the accounting policies.

The notes on pages 21 to 27 form an integral part of these Half-Yearly financial statements.

Balance sheet
as at 31 December 2014

	Note	**As at 31 December 2014 unaudited £'000**	*As at 30 June 2014 audited £'000*	*As at 31 December 2013 unaudited £'000*
Non-current assets				
Investments held at fair value through profit or loss	6	**96,830**	92,423	87,205
Current assets				
Trade and other receivables		**132**	64	80
Cash and cash equivalents		**13,711**	11,696	9,487
		13,843	11,760	9,567
Total assets		**110,673**	104,183	96,772
Current liabilities				
Trade and other payables		**2,004**	754	285
Net assets		**108,669**	103,429	96,487
Capital and reserves				
Share capital	7	**5,717**	5,955	5,955
Share premium account		**5,246**	5,246	5,246
Special reserve		**38,750**	42,650	42,650
Capital reserve		**55,771**	46,581	39,727
Capital redemption reserve		**2,264**	2,026	2,026
Revenue reserve		**921**	971	883
Total Shareholders' equity		**108,669**	103,429	96,487
		pence	*pence*	*pence*
NAV per share				
Basic		**190.43**	173.66	162.00
		number	*number*	*number*
Shares in issue				
Ordinary shares	7	**57,066,291**	59,558,111	59,558,111

These financial statements have been prepared under International Financial Reporting Standards, and in accordance with the accounting policies.

The notes on pages 21 to 27 form an integral part of these Half-Yearly financial statements.

Statement of cash flows

for the six month period to 31 December 2014

	Note	***Six month period to 31 December 2014 unaudited £'000***	*Year ended 30 June 2014 audited £'000*	*Six month period to 31 December 2013 unaudited £'000*
Operating activities				
Net return before finance costs and taxation		**9,586**	29,403	22,461
Adjustment for gains on investments		**(10,712)**	(29,361)	(22,150)
Share buy back expenses		**66**	108	61
Operating cash flows before movements in working capital		**(1,060)**	150	372
Decrease/(increase) in receivables		**(68)**	201	185
Increase/(decrease) in payables		**1,354**	(746)	(1,110)
Purchases of portfolio investments		**(12,813)**	(24,123)	(11,638)
Sales of portfolio investments		**19,014**	32,580	17,997
Net cash flow from operating activities		**6,427**	8,062	5,806
Financing activities				
Equity dividend paid	4	**(446)**	(931)	(931)
Shares bought back for cancellation in the period		**(3,716)**	(3,439)	(3,439)
Shares bought back and held in treasury		**(184)**	–	–
Share buyback expenses		**(66)**	(108)	(61)
Net cash flow from financing activities		**(4,412)**	(4,478)	(4,431)
Increase in cash and cash equivalents for period		**2,015**	3,584	1,375
Cash and cash equivalents at start of period		**11,696**	8,112	8,112
Cash and cash equivalents at 31 December 2014		**13,711**	11,696	9,487

These financial statements have been prepared under International Financial Reporting Standards, and in accordance with the accounting policies.

The notes on pages 21 to 27 form an integral part of these Half-Yearly financial statements.

Notes to the financial statements

for the six month period to 31 December 2014

1.1 Corporate information

Strategic Equity Capital plc is a public limited company incorporated and domiciled in the United Kingdom, registered in England and Wales under the Companies Act 2006 whose shares have a premium listing on the London Stock Exchange. The Company is an investment company as defined by Section 833 of the Companies Act 2006.

The Company carries on business as an investment trust within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010.

1.2 Basis of preparation/statement of compliance

The condensed interim financial statements of the Company have been prepared on a going concern basis and in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting' issued by the International Accounting Standards Board ("IASB") (as adopted by the EU). They do not include all the information required for a full report and financial statements and should be read in conjunction with the report and financial statements of the Company for the year ended 30 June 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trust companies and venture capital trusts issued by the Association of Investment Companies ("AIC") (as revised in 2009) is consistent with the requirements of IFRS the Directors have sought to prepare financial statements on a basis compliant with the recommendations of the SORP.

The condensed interim financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial statements for the six month period to 31 December 2014 and 31 December 2013 have not been either audited or reviewed by the Company's Auditor. Information for the year ended 30 June 2014 has been extracted from the latest published Annual Report and financial statements, which have been filed with the Registrar of Companies. The report of the Auditor on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Convention

The financial statements are presented in Sterling, being the currency of the primary environment in which the Company operates, rounded to the nearest thousand.

Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business.

1.3 Accounting policies

The accounting policies, presentation and method of computation used in these condensed financial statements are consistent with those used in the preparation of the financial statements for the year ended 30 June 2014.

1.4 New standards and interpretations not applied

Implementation of changes and accounting standards in the financial periods as outlined in the financial statements for the year ended 30 June 2014 had no significant effect on the accounting or reporting of the Company.

Notes to the financial statements

for the six month period to 31 December 2014 *(Continued)*

2. Income

	Six month period to 31 December 2014 £'000	*Year ended 30 June 2014 £'000*	*Six month period to 31 December 2013 £'000*
Income from investments:			
UK dividend income	**1,285**	1,617	911
Overseas dividend income	**65**	95	39
Liquidity fund income	**12**	39	19
	1,362	1,751	969
Other income:			
Underwriting commission	**–**	–	–
	1,362	1,751	969
Total income comprises:			
Dividends	**1,350**	1,712	950
Interest	**12**	39	19
Underwriting commission	**–**	–	–
	1,362	1,751	969
Income from investments:			
Listed UK	**1,285**	1,617	911
Listed overseas	**77**	134	58
	1,362	1,751	969

3. Other expenses

	Six month period to 31 December 2014 unaudited			Year ended 30 June 2014 audited			Six month period to 31 December 2013 unaudited		
	Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Secretarial services	**40**	**–**	**40**	80	–	80	40	–	40
Auditors' remuneration for:									
audit services	**15**	**–**	**15**	27	–	27	14	–	14
Directors' remuneration	**64**	**–**	**64**	115	–	115	54	–	54
Other expenses	**141**	**66†**	**207**	210	108†	318	91	61†	152
	260	**66**	**326**	432	108	540	199	61	260

† Expenses incurred in relation to the tender offer process.

4. Dividend

The Company paid a final dividend of 0.78p in respect of the year ended 30 June 2014 (30 June 2013: 1.50p) per Ordinary share on 57,176,013 (30 June 2013: 62,039,682) shares, amounting to £445,973 (30 June 2013: £930,595). The dividend was paid on 18 November 2014 to shareholders on the register at 17 October 2014.

5. Return per Ordinary share

	Six month period to 31 December 2014			Year ended 30 June 2014			Six month period to 31 December 2013		
	Revenue return pence	**Capital return pence**	**Total pence**	Revenue return pence	Capital return pence	Total pence	Revenue return pence	Capital return pence	Total pence
Return per Ordinary share	**0.69**	**16.08**	**16.77**	0.76	47.85	48.61	0.61	35.98	36.59

Returns per Ordinary share are calculated based on 57,150,371 (30 June 2014: 60,482,751 and 31 December 2013: 61,392,316) being the weighted average number of Ordinary shares, excluding shares held in treasury, in issue throughout the period.

6. Investments

	31 December 2014 £'000
Investment portfolio summary:	
Listed investments at fair value through profit or loss	**94,691**
Unlisted investments at fair value through profit or loss	**2,139**
	96,830

6. Investments *(continued)*

	31 December 2014		
	Listed £'000	*Unlisted £'000*	***Total £'000***
Analysis of investment portfolio movements			
Opening book cost	54,553	213	**54,766**
Opening investment holding gains	35,969	1,688	**37,657**
Opening valuation	90,522	1,901	**92,423**
Movements in the period:			
Purchases at cost	12,709	–	**12,709**
Sales – proceeds	(18,800)	(214)	**(19,014)**
– realised gains on sales	4,985	192	**5,177**
Decrease in unrealised appreciation	5,276	259	**5,535**
Closing valuation	94,692	2,138	**96,830**
Closing book cost	53,447	191	**53,638**
Closing investment holding gains	41,245	1,947	**43,192**
	94,692	2,138	**96,830**

Investments in unquoted investment funds are generally held at the valuations provided by the managers of those funds. The valuation for Vintage I is as at 30 November 2014.

A list of the top ten portfolio holdings by their aggregate market values is given in the Investment Manager's report on page 10.

	31 December 2014 Total £'000
Analysis of capital gains:	
Gains on sale of investments	**5,177**
Foreign exchange gains	**–**
Movement in investment holding gains	**5,535**
	10,712

The Company is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in measuring the fair value of each asset. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities ("level 1").
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) ("level 2").
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) ("level 3").

6. Investments *(continued)*

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value of the investment.

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value at 31 December 2014.

Financial instruments at fair value through profit and loss

	Level 1 £'000	*Level 2 £'000*	*Level 3 £'000*	***Total £'000***
Equity investments and limited partnership interests	94,692	–	2,138	**96,830**
Liquidity funds	–	13,513	–	**13,513**
Total	**94,692**	**13,513**	**2,138**	**110,343**

Investments whose values are based on quoted market prices in active markets are classified within level 1 and include active listed equities. The Company does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Level 3 instruments include private equity. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines.

There were no transfers between levels for the period ended 31 December 2014.

The following table presents the movement in level 3 instruments for the period ended 31 December 2014 by class of financial instrument.

	Equity investments £'000
Opening balance	1,901
Disposals during the period	(22)
Total gains for the period included in the Statement of comprehensive income	259
Closing balance	**2,138**

7. Share capital

	Number	31 December 2014 £'000
Allotted, called up and fully paid Ordinary shares of 10p each	**57,176,013**	**5,717**
Ordinary shares of 10p each held in treasury	**(109,722)**	**(110)**
Ordinary shares in circulation at 31 December 2014	**57,066,291**	**5,607**

During the period to 31 December 2014, 2,382,098 shares were repurchased by the Company for cancellation and 109,722 shares were repurchased by the Company and held in treasury.

Subsequent to the period under review, all 109,722 treasury shares have been sold in the market at prices ranging from 194.5p per share to 196p per share (before expenses) and a further 725,000 new shares have been issued to the market at prices ranging from 195p per share to 197p per share (before expenses).

8. Investment Manager's fee

A basic management fee is payable to the Investment Manager at the lower of (i) the annual rate of 1% of the adjusted NAV of the Company or (ii) 1% per annum of the market capitalisation of the Company. The basic management fee accrues weekly and is payable quarterly in arrears.

The Investment Manager is also entitled to a performance fee, details of which are set out below. No performance fee has been payable in the period.

9. Investment Manager's performance fee

The Investment Manager is entitled to a performance fee on the following terms:

- the Company's performance is measured over rolling three year periods ending on 30 June in each year, with the first Performance Period having commenced on 1 July 2008 and ended on 30 June 2011 and the current Performance Period having commenced on 1 July 2011 and ending on 30 June 2014;
- the Company's performance is measured by comparing the NAV total return per share over a Performance Period against the total return performance of the FTSE Small Cap Index, being the index against which the Board has historically compared the Company's investment performance;
- if the NAV total return per share (calculated before any accrual for any performance fee to be paid in respect of the relevant Performance Period) at the end of the relevant Performance Period exceeds both:

  (i) the NAV per share at the beginning of the relevant Performance Period as adjusted by the aggregate amount of (a) the total return on the FTSE Small Cap Index (expressed as a percentage) and (b) 2.0% per annum over the relevant Performance Period ("Benchmark NAV"); and

  (ii) the High Watermark (which is the highest NAV per share by reference to which a performance fee was previously paid).

9. Investment Manager's performance fee *(continued)*

Currently, the Investment Manager is entitled to 15% of any excess over the higher of the Benchmark NAV per share and the High Watermark.

Payment of a performance fee that has been earned will be deferred to the extent that the amount payable exceeds 1.75% per annum of the Company's NAV at the end of the relevant performance period (amounts deferred will be payable when, and to the extent that, following any later performance period(s) with respect to which a performance fee is payable, it is possible to pay the deferred amounts without causing that cap to be exceeded or the relevant NAV total return per share to fall below the relevant Benchmark NAV per share and the relevant High Watermark).

10. Taxation

The tax charge for the half year is £Nil (30 June 2014: £Nil; 31 December 2013: £Nil) based on an estimated effective tax rate of 0% for the year ended 30 June 2014. The estimated effective tax rate is 0% as investment gains are exempt from tax owing to the Company's status as an investment company and there is expected to be an excess of management expenses over taxable income.

11. Capital commitments and contingent liabilities

The Company has a commitment to invest €1,560,000 in Vintage I (30 June 2014: €1,560,000; 31 December 2013: €1,560,000).

12. Related party transactions

The Investment Manager is regarded as a related party of the Company. The Investment Manager may draw upon advice from the Industry Advisory Panel ("IAP") of which Sir Clive Thompson, a Director of the Company, is a member. The IAP was established to provide advice to the Investment Manager in relation to the strategy, operations and management of potential investee companies.

The amounts payable to the Investment Manager, in respect of management fees, during the period to 31 December 2014 was £483,000 (30 June 2014: £232,000; 31 December 2013: £157,000), of which £257,000 (30 June 2014: £232,000; 31 December 2013: £214,000) was outstanding at 31 December 2014. The amount due to the Investment Manager for performance fees at 31 December 2014 was £1,679,000 (30 June 2014: £310,000; 31 December 2013: £Nil).

Directors and advisers

Directors
Richard Hills (Chairman)
Sir Clive Thompson (Deputy Chairman)
John Cornish (retired 14 November 2014)
Ian Dighé
Josephine Dixon
John Hodson (retired 10 February 2015)
Richard Locke (appointed 10 February 2015)

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF

Broker
Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR

Custodian
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Depositary
Northern Trust Global Services Limited
50 Bank Street
Canary Wharf
London E14 5NT

Investment Manager
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25 North Row
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Registrar and transfer office
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Tel: 01392 412122

Solicitor
Stephenson Harwood LLP
1 Finsbury Circus
London EC2M 7SH

Shareholder information

Financial calendar

Company's year-end	30 June
Annual results announced	September
Annual General Meeting	November
Company's half-year	31 December
Half yearly results announced	February

Share price

The Company's Ordinary shares are listed on the main market of the London Stock Exchange. The mid-market price is quoted daily in the Financial Times under 'Investment Companies'.

Share dealing

Shares can be traded through your usual stockbroker.

Share register enquiries

The register for the Ordinary shares is maintained by Computershare Investor Services plc ("Registrar"). In the event of queries regarding your holding, please contact the Registrar, on 0870 707 1285. Changes of name and/or address must be notified in writing to the Registrar, whose address is shown on page 28.

NAV

The Company's NAV is announced daily to the London Stock Exchange.

Website

Further information on the Company can be accessed via the Company's website www.strategicequitycapital.com

An investment company as defined under Sections 833 of the Companies Act 2006
REGISTERED IN ENGLAND No. 5448627

A member of the Association of Investment Companies

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