



STRATEGIC EQUITY CAPITAL PLC

Q3 Update 2017



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The unconstrained, long term philosophy and concentrated portfolios resulting from GVQIM’s investment style can lead to periods of significant short term variances of performance relative to comparative indices. GVQIM 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, GVQIM believes that this investment style can generate attractive long term risk adjusted returns.

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FE Crown Rating : 2 crown rating as at 30th September 2017

Morningstar 5 Year Rating of ★★★★★ as at 30th September 2017

Money Observer: Rated Fund as at 30th September 2017

Runner Up 2017 and 2016, Winner 2015, Highly Commended 2014: Money Observer Trust Awards. Category: Best UK Equity Trust

Highly Commended 2016, Winner 2015, Highly Commended 2014: Moneywise Investment Trust Awards . Category: UK Smaller Companies

Winner 2015 and 2014: What Investment Trust Awards . Category: Best UK Investment Trust

Winner 2015: Investment Adviser 100 Club Awards . Category: UK Smaller Companies

Winner 2015: Grant Thornton Quoted Company Awards . Category: Fund Manager of the Year

Winner 2014: PLC Awards . Category: Fund Manager of the Year

Winner 2014: Investment Week, Investment Company of the Year Awards . Category: UK Smaller Companies

Highly Commended 2012: Money Observer Trust Awards . Category: Best UK Smaller Companies Trust

Winner 2011: Investment Trust Magazine. Category: Best Small Companies Trust

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Q3 UPDATE 2017

Executive summary

- SEC had a good quarter; net assets per share increased by a further 2.7%, marginally behind the FTSE Small Cap ex IT index (the “index”) which delivered a total return of 3.5%. The average discount over the period was 13.7%
- This built on the strong performance year-to-date, over which the Trust has delivered a total NAV return of 16.7%, outperforming the index by 4.1%
- Following a significant deployment of capital in the first half of 2017, Portfolio turnover over the quarter was more in line with historic levels. A legacy investment in Goals Soccer Centres was fully realised prior to its profit warning
- It was a busy quarter for corporate engagement. The Manager was instrumental in driving board room change at top 10 investment, Wilmington. We believe the company is materially undervalued. We also had meetings with five portfolio company Non-Executive Board members and a large number of mutual shareholders. Constructive corporate engagement remains integral to our strategy
- We are delighted to announce the recent appointment of Rob Ward to the Investment Team as an Analyst. Rob brings extensive corporate finance skills to the team and further augments our research capability which now consists of six investment professionals and five senior industry advisors. We can also confirm that with the implementation of MiFID II in January next year, any external research costs will be borne by the Manager
- Our positive outlook remains unchanged, a view endorsed by significant buying of SEC shares by the Investment Team post the publication of SEC’s full year results

Good continuing growth in NAV. Positive outlook supported by attractive portfolio characteristics

As at 30th September 2017

Source: GVQIM; PATAC; Bloomberg; Numis; Factset

Past performance is no guarantee of future performance and the value of investments can go down as well as up

Investment team

Team member	Experience
 <p>Jeff Harris, ACA Fund Manager Strategic Investment Committee</p>	<p>Jeff was promoted to Fund Manager of SEC in February 2017. He has been a member of the Strategic Investment Committee since May 2014, having joined GVQIM in 2012. He has 10 years experience at leading financial service organisations, including 3 years as a Deputy Fund Manager on both GVQIM's Unconstrained and Strategic mandates, and as part of a multi-award winning investment team. Prior to joining, Jeff worked within the Transaction Services team at PricewaterhouseCoopers performing financial due diligence on private equity and corporate transactions. Following this he worked at Macquarie as a European Banks Analyst. He holds the ACA and IMC qualifications.</p>
 <p>Adam Khanbhai, CFA Deputy Fund Manager Strategic Investment Committee</p>	<p>Adam was promoted to Deputy Fund Manager of the SEC in February 2017 and a member of the Strategic Investment Committee. He has 9 years of relevant financial experience. He joined GVQIM in 2014 as a 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.</p>
 <p>Jonathan Morgan Research Committee</p>	<p>Jonathan was re-appointed Chairman of GVQIM's Research Committee in October 2016, following a period pursuing other interests. (He successfully held the same position at GVQIM between 2009 – 2014). Prior to joining, Jonathan was Chairman of SVG Capital's Investment Committee. He started his career with 3i Group before joining the Prudential's London based private equity business in 1985, becoming Managing Director in 1995. He was also Chairman of the Investment Committee responsible for investing over £1 billion in Europe and \$330 million in Asia Pacific. He has over 30 years' experience in private equity.</p>
 <p>Jamie Seaton, CFA Research Committee</p>	<p>Jamie was appointed CEO of GVQIM in May 2014 and is the Lead Fund Manager of both GVQIM's unconstrained funds; the GVQ UK Focus Fund since April 2009 and GVQ Opportunities Fund since October 2015. Jamie is also a member of GVQIM's Research Committee. Prior to this, Jamie was an equities analyst for GVQIM, and its first recruit following its formation. Previously he was an Investment Manager at Rothschild Asset Management and worked at Goldman Sachs. Jamie holds the CFA and IMC qualifications.</p>
 <p>Oliver Bazin, ACA CFA Analyst</p>	<p>Oliver joined GVQIM in 2016 as an Analyst. His primary role is performing analysis and due diligence on existing and potential investee companies. Prior to joining he worked at Rothschild in their M&A practice, with a particular focus on Financial Institutions, advising clients across Asset Management, Banking and Insurance. He started his career at KPMG in their audit practice. Oliver holds both the ACA and CFA qualifications.</p>
 <p>Rob Ward Analyst</p>	<p>Rob joined GVQIM in 2017 as an Analyst. His primary role is performing analysis and due diligence on existing and potential investments. Rob started his career at the corporate finance boutique, Gleacher Shacklock, before moving to Rothschild's M&A practice where he principally advised clients in the Asset Management, Wealth Management and Banking sectors. He has seven years of relevant financial experience and is a graduate of Cambridge University.</p>

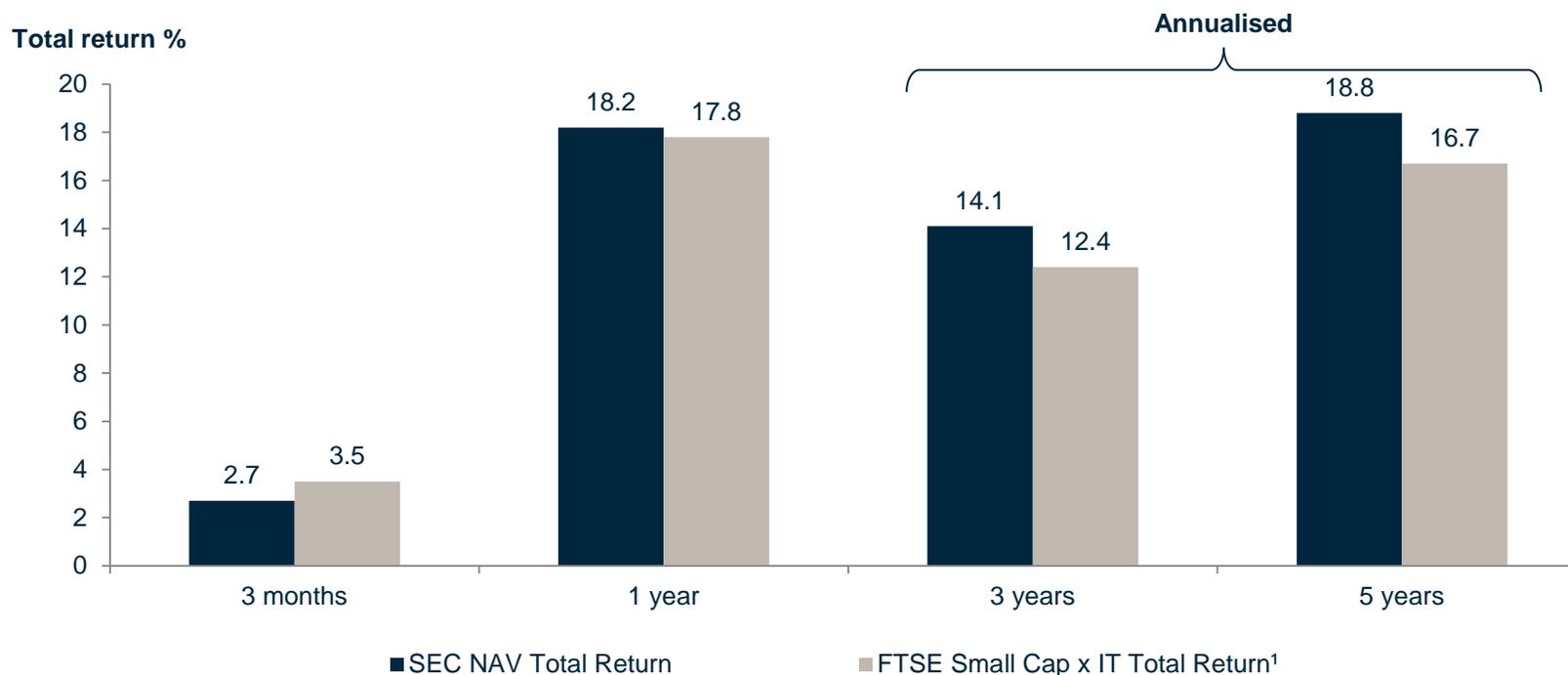
An experienced Investment team with a broad and diverse range of financial experience and backgrounds

Supported by an Industry Advisory Panel

GVQIM's Industrial Advisory Panel	Year joined IAP	Industry experience	Previous experience
 <p>Sir Clive Thompson</p>	2003	Business services Consumer services FMCG	Chairman of Rentokil Initial plc until 2004, having been Chief Executive for twenty years to 2002. Former President of the CBI, member of the Committee on Corporate Governance and Deputy Chairman of the Financial Reporting Council. He is also a former Director of J Sainsbury plc, Wellcome plc, Seeboard plc, Caradon plc and BAT Industries plc. He is Deputy Chairman of Strategic Equity Capital plc.
 <p>Stewart Binnie</p>	2006	Retail Media Technology Financial Services	Chairman of Cotswold Collections and formerly Chairman of Aurora Fashions, Lipsy and Jaeger. He was previously a Partner at Permira and Schroder Finance Partners, a board member of the Schroder Ventures Asia Pacific Trust and was a member of the investment committee of the Schroder Private Equity Fund of Funds business. He has served on the boards of a variety of public companies and private equity backed businesses.
 <p>Chris Rickard</p>	2011	Industrials Business services Healthcare products	Former CFO of Taylor Wimpey plc, Whatman plc, VT Group plc, Weir Group plc and Meggitt plc. Previously he was Head of Corporate Development at Morgan Crucible. Has led numerous successful financial and operational restructurings, as well as executed more than 100 acquisitions, mergers or disposals.
 <p>Peter Williams</p>	2013	Media	Finance Director from 1991 to 2011 of Daily Mail and General Trust plc, a worldwide media business, spanning newspapers, online consumer businesses, business information and exhibitions. He is also on the board of Hays plc, the leading recruitment company, and of Perform Limited, a digital sports media business.
 <p>Lindsay Dibden</p>	2014	Healthcare Private Equity	Lindsay Dibden spent a 23 year career in private equity investment. He was a founder partner of HgCapital, establishing its Healthcare practice in 1996, which he led for 16 years. During his career he was involved in more than 30 transactions. Prior to retiring from the partnership in 2012, Lindsay served on the firm's Investment Committee and Executive Committee. He is now the owner of two healthcare businesses, one providing care in the home in Hampshire and the other offering women's health and IVF services in the home counties. He is also a director of 24Haymarket Ltd, a business engaged in active investment in early stage businesses. In addition he acts as an advisor to Spring Ventures and EVOCO AG and actively manages a diverse portfolio of other investments.

A proprietary panel network with extensive plc board, operating and M&A experience. In conjunction with the investment team, we believe this makes GVQIM one of the best resourced and almost uniquely positioned within the UK Fund Management industry

SEC NAV performance against comparator index¹



Average Net Cash	7.6%	11.1%	10.4%	10.4%
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Strong outperformance of index over time, achieved without gearing and with lower volatility, driven by a robust and consistently applied Private Equity derived research process

As at 30th September 2017
 Source: Unaudited Bloomberg; PATAC; Morningstar; GVMQIM
 Note: 1. Comparator index FTSE Small Cap ex Investment Trusts Total Return
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Q3 Attribution analysis

Positive attribution (top five)	bps	GVQIM Comment
Equiniti Group	321	In-line interim results. Positive response to the announced acquisition of Wells Fargo's Share Registration & Services business for £176m. Deal is transformational and provides significant long-term opportunity
Clinigen Group	199	Strong full year results with adjusted gross profit, EBITDA and EPS all growing >20% alongside significant de-gearing. Announced acquisition of Quantum Pharma which will be accretive to earnings
4imprint Group	53	Positive interim results. Resumption in double-digit underlying growth post the flagged phasing of marketing spend earlier in the year. Pension substantially de-risked and accumulation of net cash increases the prospects for enhanced shareholder returns. SEC acquired shares in 4imprint for the first time in 9 years earlier in 2017
Harworth Group	36	Positive interim results with core strategy and management actions delivering NAV growth in-line with their target of 10%+ p.a. through the cycle. Trades at a significant discount to NAV. Directors have been buying shares throughout the year
Alliance Pharma	29	In-line interim results. Strong growth in International Star brands. Strong cash flow de-gearing the balance sheet
Negative attribution (bottom five)	bps	
Brooks Macdonald Group	-28	First full year results of new CEO. Prudent approach taken to legacy regulatory issue and additional investment undertaken in risk and compliance capability to underpin continued future growth
Dialight	-38	Interim results taken negatively due to timing issues over product launches. Launch subsequently announced
Tyman	-60	In-line interim results
Medica Group	-77	After a very strong run, share price comes back. Maiden interim results demonstrate significant underlying growth and increase in radiologist recruitment to meet this growth
Servelec Group	-162	Downgrade to profit owing to customer decision delay in technologies division and lower win rate in social care business. Strategic progress with 'go-live' of Ocean in UHB and controls work with Centrica

Generally positive company results period. Company issues largely transitory in nature and remain focus of diligence and engagement

As at 30th September 2017

Source: Attribution estimates based on FactSet Portfolio Analysis and GVQIM

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Changes to top 10 holdings

Top 10 Q2 2017

Company	% of portfolio
Equiniti Group	11.4
Servelec Group	10.5
Tribal Group	8.5
IFG Group	7.6
Clinigen Group	7.5
EMIS Group	6.6
Medica Group	6.4
Wilmington	6.2
Tyman	5.6
4imprint Group	5.4

Top 10 Q3 2017

Company	% of portfolio
Equiniti Group ¹	12.0
Servelec Group	9.1
Tribal Group	8.4
Clinigen Group	8.3
IFG Group	7.9
EMIS Group	6.6
Wilmington	6.5
4imprint Group	6.1
Medica Group	5.5
Tyman	4.6

Following significant re-deployment of capital in Q1 and early in Q2, portfolio turnover lower this quarter in line with historical levels

As at 30th September 2017

Source: PATAC and GVQIM

Note: 1. Includes Equiniti nil-paid rights

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Top 10 holdings¹

Company	Vintage	Sector	GVQIM Funds % of company	Return potential ²	Progress vs thesis	GVQIM CF yield ³ NTM ⁴	Net debt/ EBITDA NTM ⁴	Catalysts	Market leader ²
Equiniti Group	2016	Support Services	<5%	Medium	In line	8.4%	2.3x	Delivery of organic growth and cashflow. Integration of WFSS acquisition	Yes – niches
Servelec Group	2013	Technology	>5%	High	Behind	10.4%	-0.1x	Progression in UK secondary healthcare. UK water AMP6 spending cycle; M&A	Yes – UK niches
Tribal Group	2014	Technology	>5%	Medium	In line	7.0%	-1.1x	Delivery of operational improvements; new platform development; contract wins	Yes
Clinigen Group	2014	Healthcare	<3%	Medium	Ahead	6.3%	0.5x	Continued organic growth; spec pharma M&A; development of technology platform	Yes – niche
IFG Group	2015	Financials	>5%	High	Behind	10.6%	-2.0x	Margin improvement in James Hay; increase in interest rates; M&A	#2 in high end SIPPs
EMIS Group	2014	Technology	>3%	Medium	In line	8.3%	-0.4x	Organic growth; operational restructuring; new CEO; patient; balance sheet	Yes – UK
Wilmington	2010	Media	>5%	High	Behind	12.3%	1.1x	Organic growth; de-gearing; M&A; New Chairman	Yes – niche
4imprint Group	2006	Support Services	<3%	Medium	Ahead	7.3%	-0.8x	Continued US growth; prospect of enhanced cash returns	Yes - US niche
Medica Group	2017	Healthcare	>3%	Medium	Early	5.3%	0.4x	Growth; increasing investor profile	Yes - UK
Tyman	2009	Industrials	>5%	Medium	In line	11.4%	1.8x	Integration of acquisitions; growth and de-gearing	Yes - niche

Portfolio in good health with very strong balance sheets and favourable medium term prospects

As at 30th September 2017. Source: GVQIM analysis; PATAAC

Note: 1. Top 10 holdings representing c.75% of NAV. 2. In the opinion of GVQIM. 3. GVQIM cashflow yield: (12m forward Cash EBITDA minus maintenance capex)/(market capitalisation plus 12m forward net debt). 4. NTM: Next Twelve Months; negative number indicates net cash

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Portfolio company updates (1 of 2)

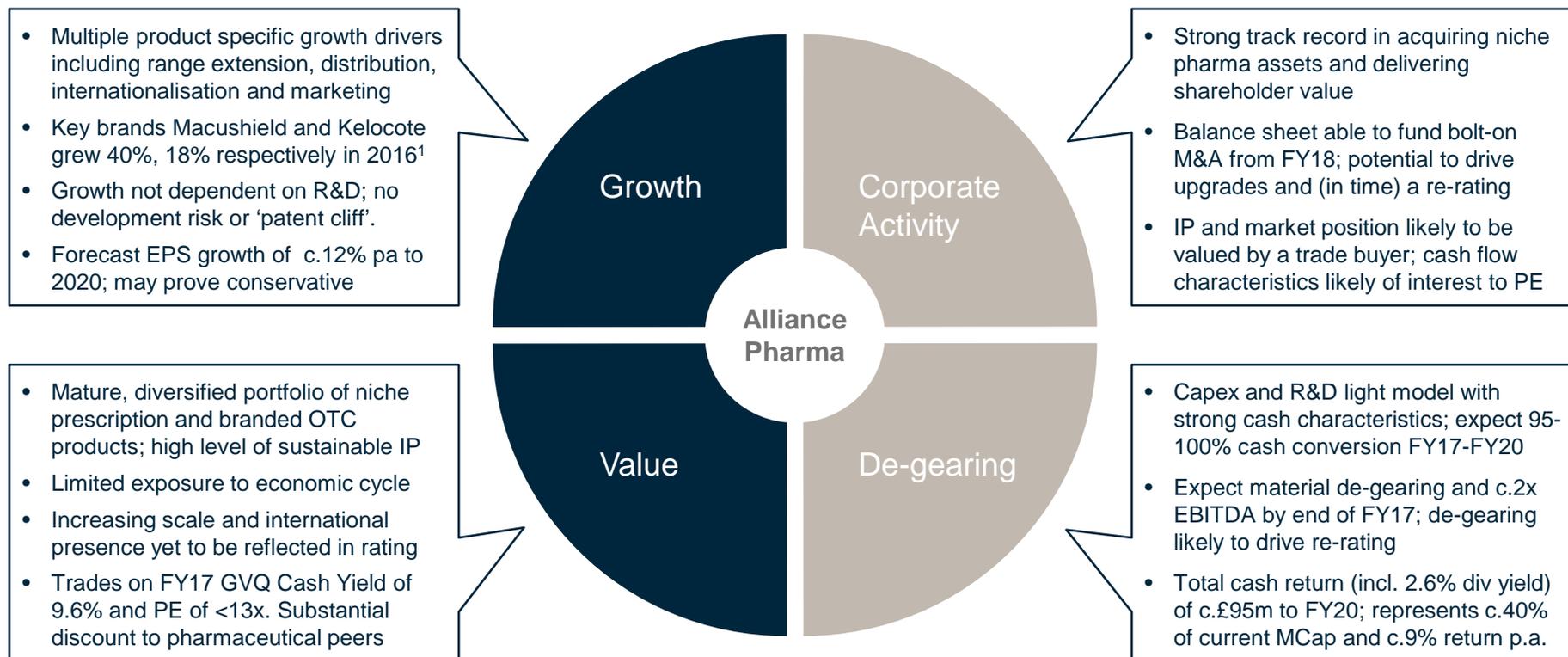
- Equiniti
 - Announced acquisition of Wells Fargo's Share Registration & Services business for £176m partially funded through a proposed rights issue
 - Attractive and transformational deal. Provides strategic entry into the U.S., the world's largest capital market (7x the U.K. market)
 - Strong returns profile in displacing a third-party IT vendor and scope for significant cross-sell to WFSS customer base akin to strategy deployed successfully in the UK market. Additional material upside potential from increase in base interest rates in both the U.K. and the U.S.
 - In our view, this further improves the quality and long term prospects of Equiniti
- Servelec
 - Interim results disappointed owing to customer delays in the Technologies business and lower win rates in Social Care
 - 'Go-live' of Patient Administration System at University Hospital Birmingham as further evidence of strategic progress, alongside orders for remote operations solutions from Centrica and strong positioning on 6 of the 8 declared AMP6 water frameworks. Well positioned strategically, although timing of orders remains uncertain
- Tribal
 - Strong interim results reported with upgrades to profit
 - Short term prospects underpinned by high levels of committed revenue
 - Longer term quality improved through an increased recurring revenue base and ongoing development of a full education software and managed services offering with significant strategic value
- Clinigen
 - Impressive final results with net debt materially lower than forecast. We believe its cash generation is under-appreciated
 - Continuing strong growth demonstrated across all three divisions
 - Announced proposed acquisition of Quantum Pharma for £150m; provides future potential in 'unlicensed to licensed' treatments

Portfolio company updates (2 of 2)

- IFG Group
 - Interim results show improved performance in James Hay and continuing growth in Saunderson House
 - IFG would be a significant beneficiary of an increase in interest rates
- Wilmington
 - Final results disappointed on additional investment into property and digital learning capabilities, alongside negative impact of non-core division on organic growth
 - GVQIM instrumental in the decision taken by the Chairman to announce he will be stepping down
- Medica
 - Maiden interim results showed very strong underlying growth in scanning activity
 - Capacity constraints being addressed through recruitment of new radiologists and broadening of services to radiographers
- EMIS
 - In-line interim results with good growth in recurring revenue and market shares
 - New CEO has joined recently
- 4imprint
 - Strong interim results with resumption in double digit growth following signposted phasing of marketing spend
 - SEC acquired shares in 4imprint for the first time in 9 years earlier in 2017
 - Pension scheme de-risked and continued accumulation of cash increases the prospects of enhanced capital returns
- Tyman
 - In-line interim results
 - Shares continue to look good value

Recent investment: Alliance Pharma

Alliance Pharma – a mature diversified pharmaceuticals company



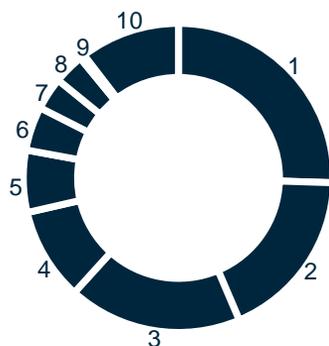
Alliance Pharma offers robust growth and cash flow characteristics at a substantial discount to peers

As at 30th September 2017

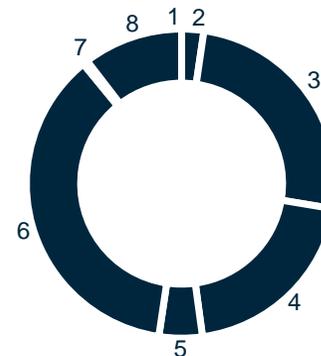
Note: 1. Pro-forma underlying growth

Source: GVQIM

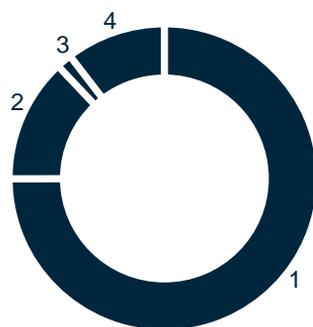
Highly concentrated and unconstrained portfolio



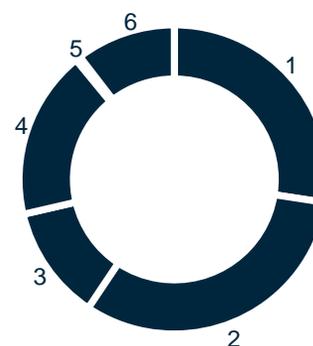
Sector exposure by value		
1	Technology – software & services	25.5%
3	Healthcare	18.1%
3	Support Services	18.1%
4	Financials	9.7%
5	Media	6.5%
6	Industrials	4.6%
7	Property	3.4%
8	Electronics	3.2%
9	Unlisted	0.5%
10	Net cash	10.4%



Value by market cap band		
1	<£50m	0.0%
2	£50m - £100m	2.3%
3	£100m - £200m	25.3%
4	£200m - £300m	20.2%
5	£300m - £500m	4.5%
6	> £500m	36.7%
7	Unlisted	0.5%
8	Net cash	10.4%



Concentration		
1	Top 10	74.9%
2	Rank 11 - 15	13.0%
3	Smaller holdings	1.6%
4	Net cash	10.4%



Value by index membership			No. Holdings
1	Small Cap	27.4%	5
2	Aim	31.9%	7
3	FTSE 250	12.0%	1
4	Other ¹	17.7%	3
5	Unlisted	0.5%	1
6	Net cash	10.4%	

Genuine small cap portfolio with attractive sector exposure

As at 30th September 2017

Source: GVQIM

Note: 1. "Other": UK listed companies which are not eligible for inclusion in indices either due to liquidity or dual listed with only standard list on the LSE, with market cap. of £150-£350m
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Portfolio valuation

	SEC weighted average	SEC median	FTSE UK Small Cap ex investment trusts ¹	FTSE UK Small Cap ex investment trusts, oils, mining and financials ¹
Number of securities	15	15	116	105
Market cap (£m)	470	257	363	369
Consensus EV/EBITDA FY1	11.3x	11.0x	6.5x	7.2x
Consensus price earnings FY1	18.1x	16.9x	12.4x ¹	12.7x ¹
Consensus FY1 earnings growth	15.6%	14.5%	10.0% ¹	7.3% ¹
Consensus dividend yield FY1	2.1%	2.6%	2.7%	2.8%
Price/book FY1	4.7x	2.8x	1.6x	-
Price/sales FY1	2.5x	1.9x	0.7x	-
Price/cash flow	19.1x	14.9x	12.6x	-
GVQIM cash flow yield FY1 ²	8.7%	8.7%	-	-
Net Debt/EBITDA	0.2x	-0.2x	1.7x	1.4x
Overseas sales as %	33.0%	35.0%	-	-

Growth prospects improved over the quarter to a healthy mid-teens rate and remain ahead of the index, despite lower gearing. In aggregate, the portfolio has negligible gearing which is materially lower than the index

As at 30th September 2017

Source: Factset portfolio analysis; Bloomberg; Peel Hunt. Notes: 1. Index is ex loss makers – i.e. valuation and yield is flattered. Harworth Estates & Vintage excluded from analysis. 2. GVQIM cash flow yield: (12m forward Cash EBITDA minus maintenance capex)/(market capitalisation plus 12m forward net debt)

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Portfolio investment themes

DIVERSIFIED PHARMA

Demographic and population changes increase need for treatments

Access to medicines. 80% of the world's population has limited or no access to right medicines

Diversified portfolios of pharmaceutical brands. Not dependent on binary outcomes

Clinigen
Alliance Pharma

DIGITAL HEALTH

Digital maturity agenda; replacement of legacy IT systems with modern care management systems

Converged care agenda; integrated health journey to encourage a joined up approach to case management

Remote healthcare to address shortage of clinicians and improve patient care; 'Telemedicine'

Servelec
EMIS
Medica

REGULATION AND COMPLIANCE

Increasing compliance and regulatory burden

Need for information and reliable, auditable and cost effective technology driven solutions; 'RegTech'

Examples include MiFID II, financial crime and KYC

Equiniti
Wilmington

PENSIONS AND SAVINGS

Increase in complexity and need to 'self-manage' investments and seek advice

Ageing populations with increased longevity of investments

IFG
Brooks Macdonald

INFRASTRUCTURE AND BUILDING

US single family housing activity remains behind long term levels. 2.5 new homes per thousand inhabitants compared to c.60 year average of 4 new homes

Increasing demand for well-connected industrial and logistics space and regeneration of brownfield sites for housing development in the UK

Tyman
Harworth

We target companies with strong positions in markets supported by long term structural growth

OUTLOOK

Positives:

- PE fundraising so far this year of \$338bn suggests 2017 is on track to set a post-financial crisis record. Apollo raised the largest ever dedicated private equity fund (\$24.7bn) in July
- M&A activity has increased. European targeted M&A increased sharply by +22% in H1 and PE buyouts worth \$212bn were agreed in the first nine months, their highest level since the same period of 2007
- 2017 has seen the return of inflows into the IA UK Smaller Companies sector following a prolonged period of outflows
- UK smaller companies remain under-researched providing opportunity. This is likely to be accentuated from next year with the introduction of MiFID II. We believe GVQIM is well placed with an extensive research infrastructure and we will bear the cost of external research
- UK corporate balance sheets in aggregate are strong. Debt financing remains generationally cheap

Negatives:

- Appears to be areas of over-valuation in the equity markets. Some stocks trading at premia to history and precedent transactions
- Are small and mid-cap markets currently 'momentum driven'? FinnCap's 'momentum' portfolio¹ was +21.9% in Q3 2017 (+49.7% YTD)
- Start of interest rate tightening cycle soon?
- Growth outlook uncertain. Upwards pressure on inflation. Stagflation?
- Global debt ratios materially higher than a decade ago. Potential adverse impact of tightening on US dollar denominated debt
- FX tailwind becoming a headwind? Recent UK market earnings growth has been aided by weak sterling
- Significant uncertainty remains in the global geopolitical system

Uncertainty and volatility are continuing features of the market. We retain a selective and disciplined investment process

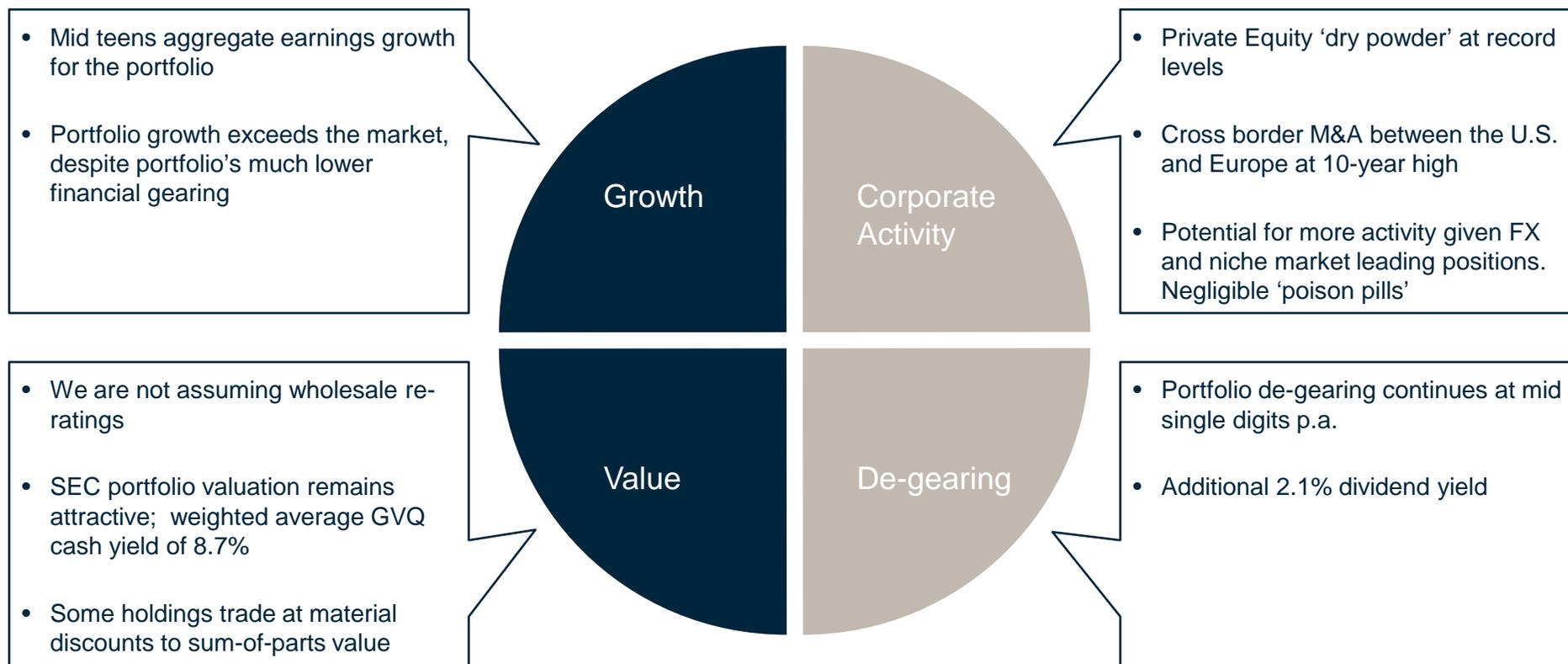
As at 30th September 2017

Source: Preqin; Credit Suisse; IA, FinnCap. Note: 1. FinnCap's momentum style portfolio considers a universe of c.500 UK small/mid-cap companies and selects the top 25 with the highest EPS upgrades and positive share price momentum based on moving averages

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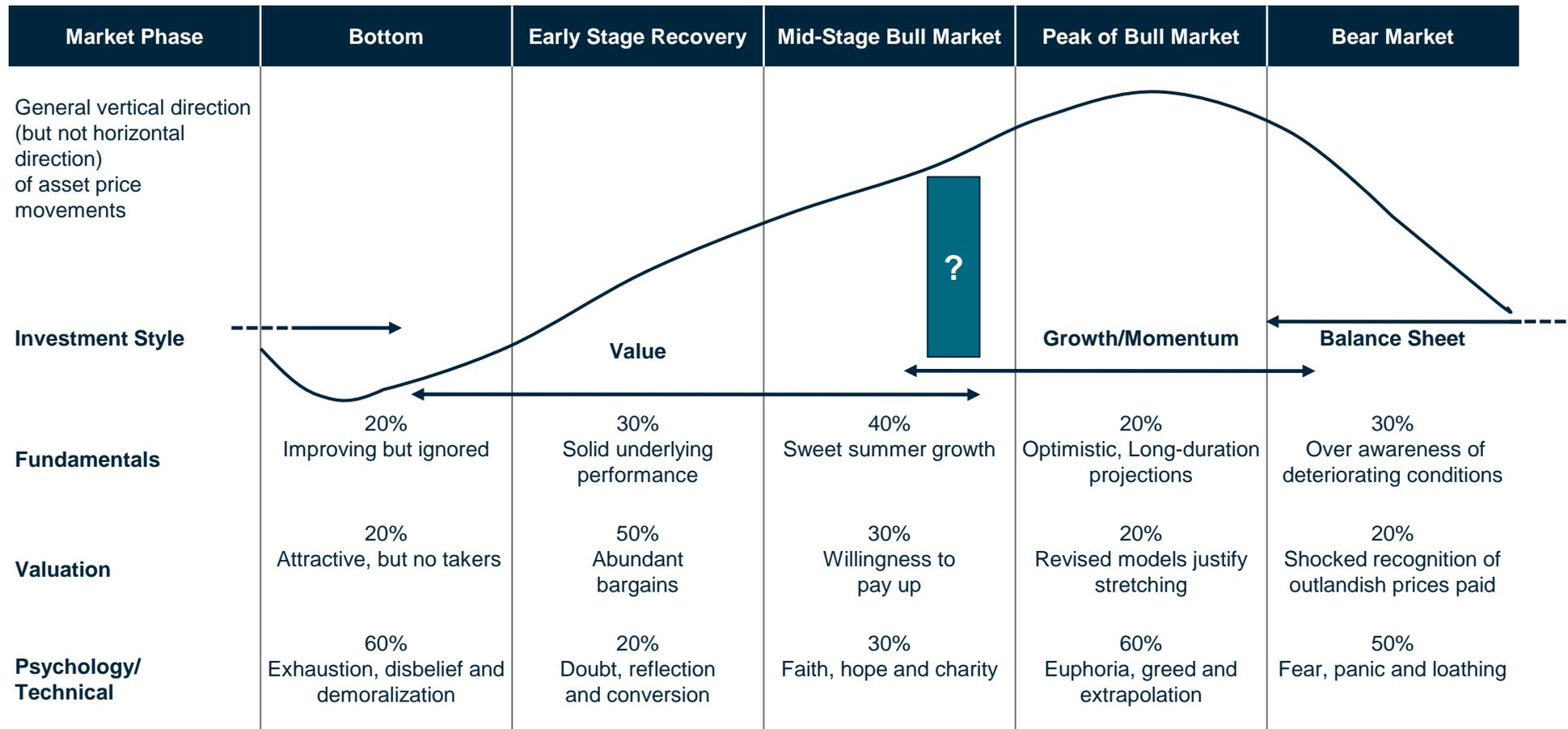
Earnings growth, cashflow and M&A to drive returns

SEC portfolio



We continue to target double digit annualised returns from the portfolio over the medium term

The investment cycle – where are markets now?



Fundamentals, valuation, investment style and psychological factors suggest late mid stage...

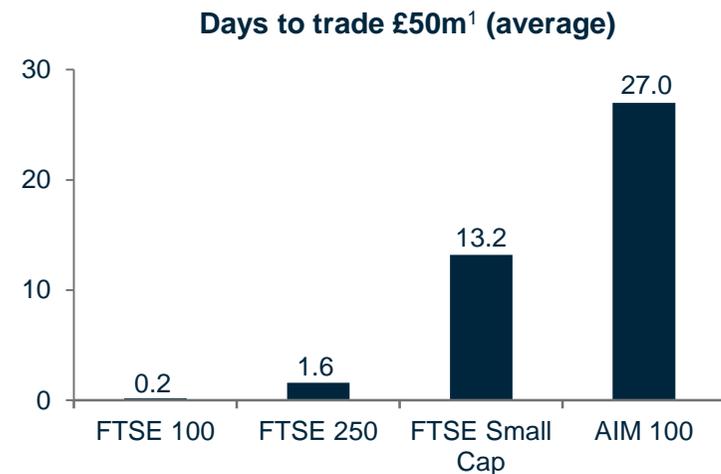
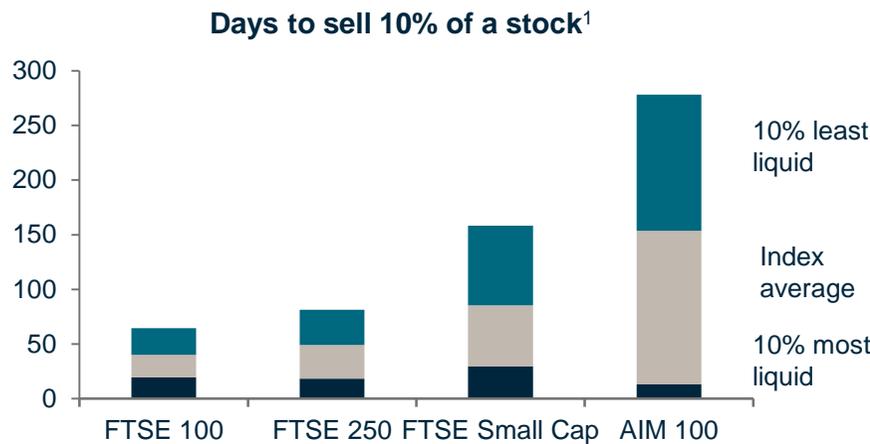
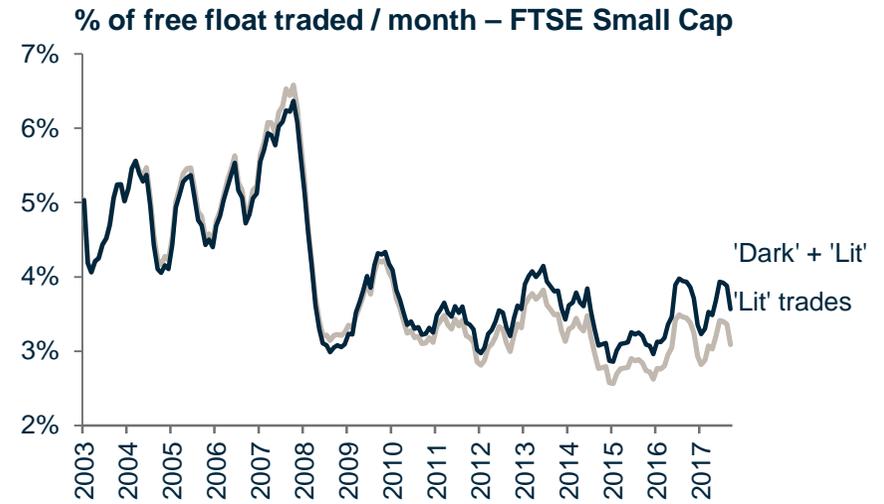
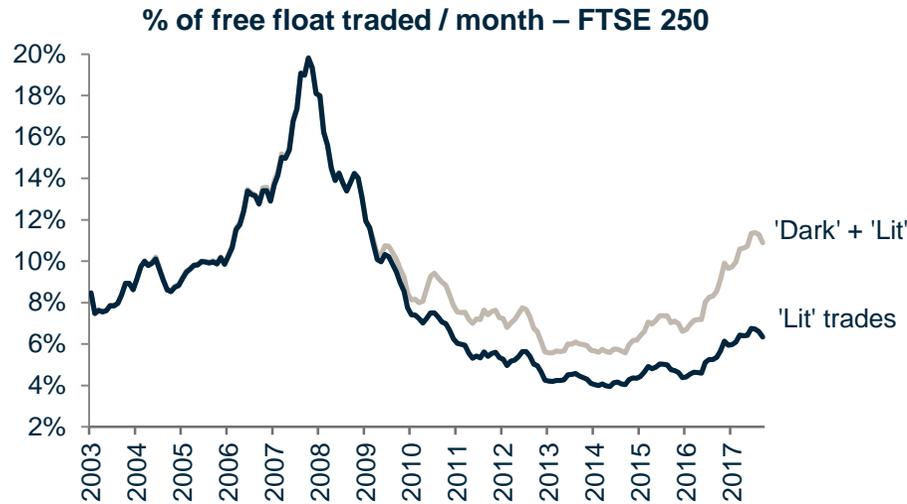
Bear market checklist

	Start of Proper Bear Markets Mar-00	Oct-07	February 2016 Market Trough	Now (Sep-17)
Global Equity Valuations				
Trailing PE	33	17	16	20
Fwd PE	24	14	14	16
DY	1.3	2.1	2.9	2.4
CAPE	48	30	18	24
Global Equity Risk Premium	1.0%	3.3%	5.5%	3.9%
US Yield Curve (10Y minus 2Y)	-0.5	0.0	1.0	0.8
Sentiment				
Global Analyst Bullishness (std dev)	1.7	1.0	0.0	-0.1
US Panic Euphoria Model	1.09	0.42	-0.60	0.02
Global Equity Fund Flows Previous 12m	\$300bn	\$50bn	\$47bn	\$240bn
Corporate Behaviour				
Global Capex Growth (YoY)	8% (1999)	11% (2007)	-2% (2015)	0% (2018e)
M&A (Previous 6m as % of Mkt cap)	6.1%	4.2%	4.0%	2.3%
IPOs (Previous 12m as % of DM Mkt cap)	0.70%	0.40%	0.28%	0.2%
Profitability				
Global RoE	12.2%	16.1%	11.2%	11.3%
Global EPS Growth, Previous 12m change (peak to trough)	14%(-38%)	14%(-57%)	-6%	19.0%
Balance sheets / credit markets				
Asset/Equity (US Financials)	16x	16x	10x	10x
Net Debt/EBITDA (US ex Fins)	1.8x	1.4x	1.5x	1.6x
US HY Bond Spread	600bp	600bp	850bp	380bp
US IG Bond Spread	175bp	175bp	215bp	105bp
# of sell signals	17.5/18	13/18	5/18	2.5/18

Red=worrying, Amber=perhaps, White=not worrying

Bear market checklist, we believe, supports our view of late mid-stage bull market with only 2.5 out of 18 sell signals

FTSE Small Cap liquidity remains low



FTSE 250 liquidity over 3x that of Small Cap – and unlike Small Cap is back to 2006/7 levels

As at 30th September 2017

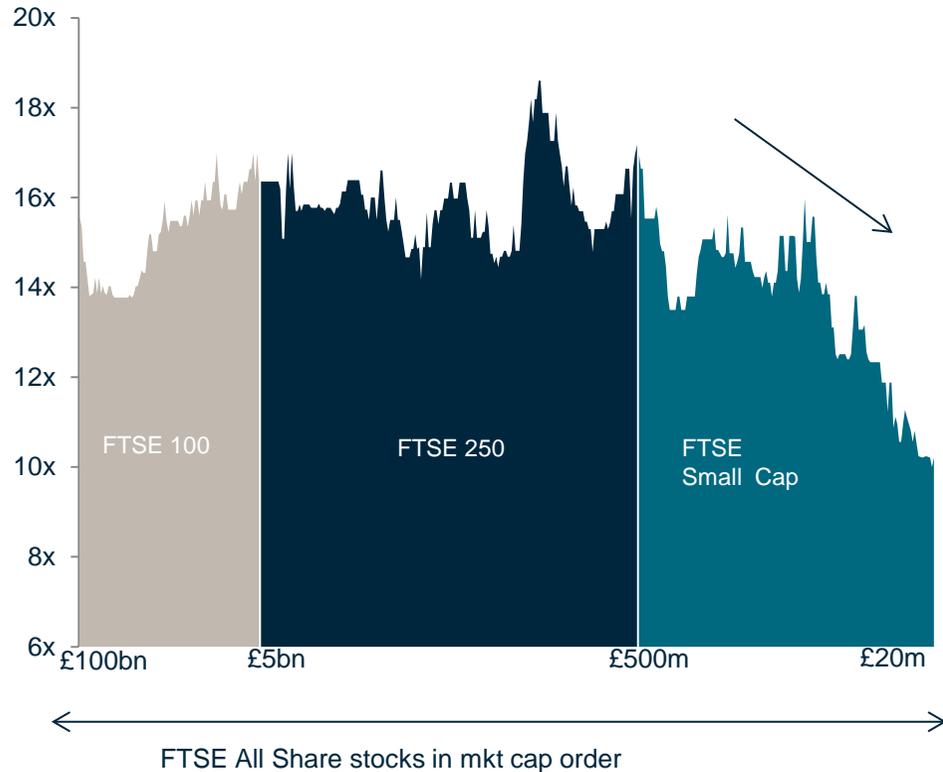
Source: Liberum, Bloomberg

Note: 1. Assuming 100% of daily volume

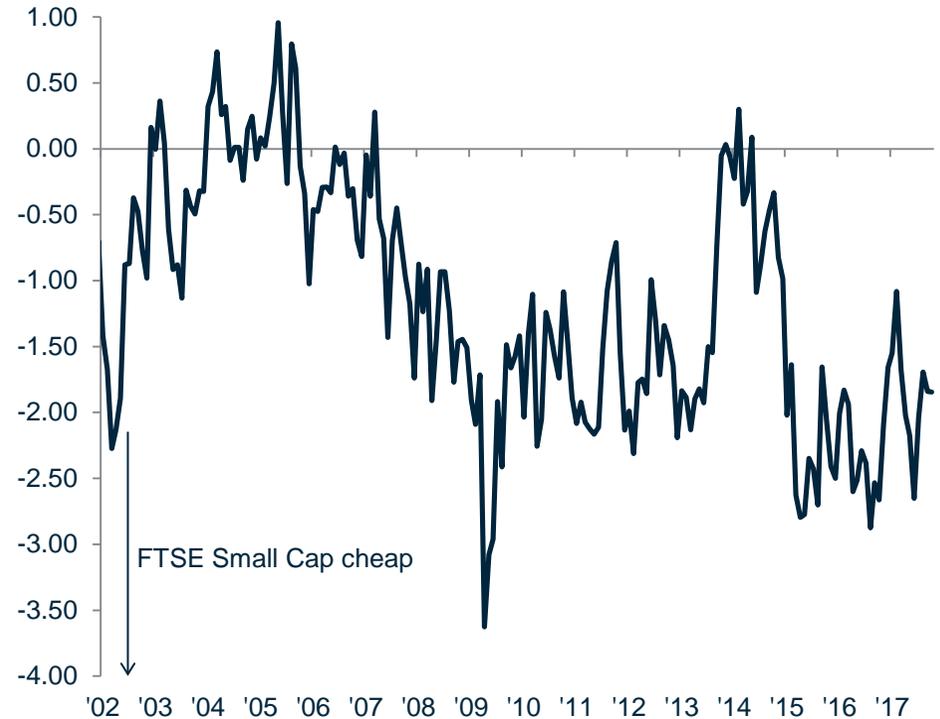
Past performance is no guarantee of future performance and the value of investments can go down as well as up

A 'Small Cap discount'?

12m forward rolling median P/E



Median P/E Small Cap vs. FTSE 250



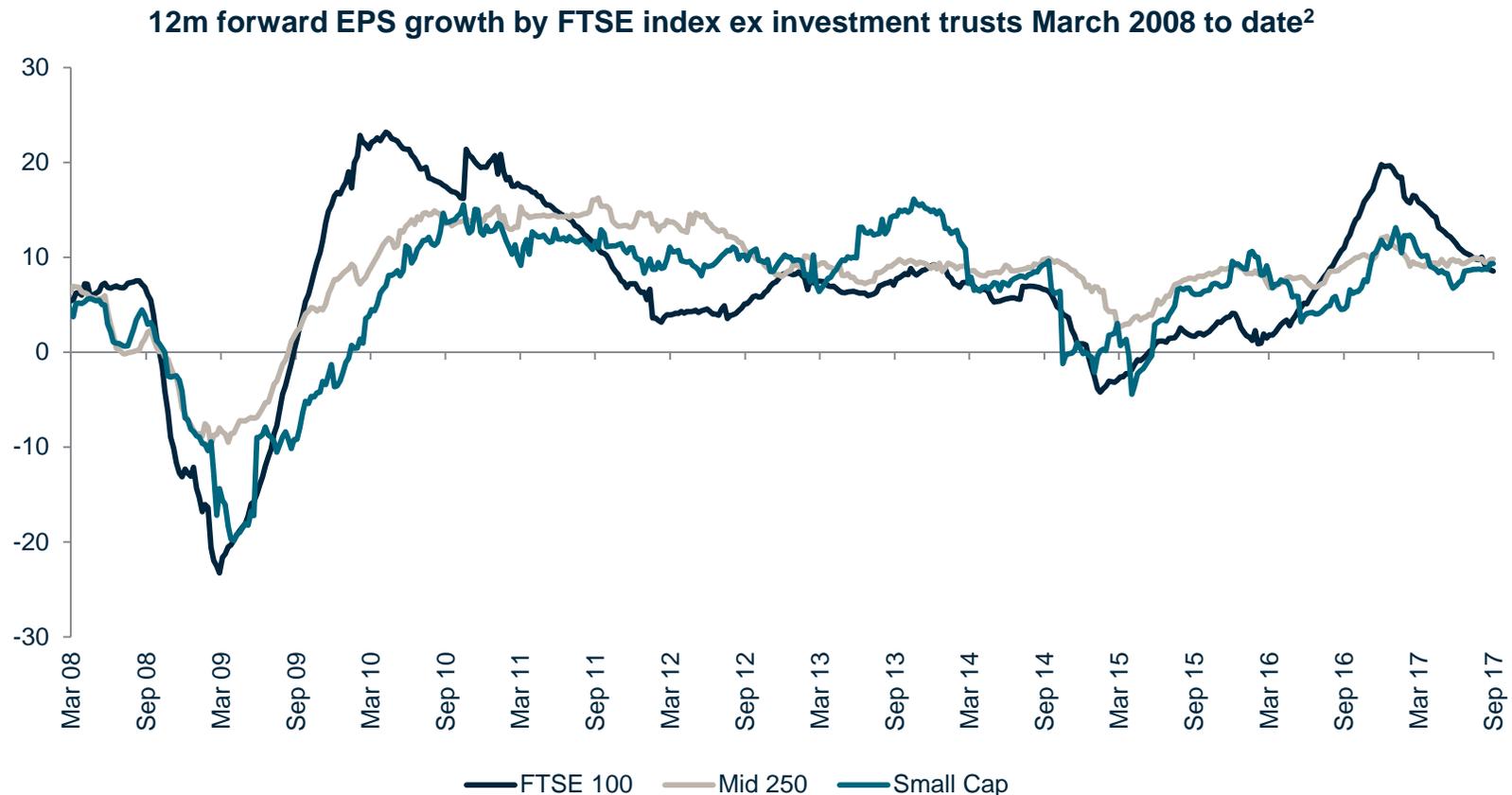
Has desire for liquidity opened up valuation opportunities in small cap?

As at 30th September 2017

Source: Liberum

Past performance is no guarantee of future performance and the value of investments can go down as well as up

12-month forward EPS¹ growth projections



Although FTSE Small Cap earnings projections have marginally improved over the quarter; we retain a highly selective approach

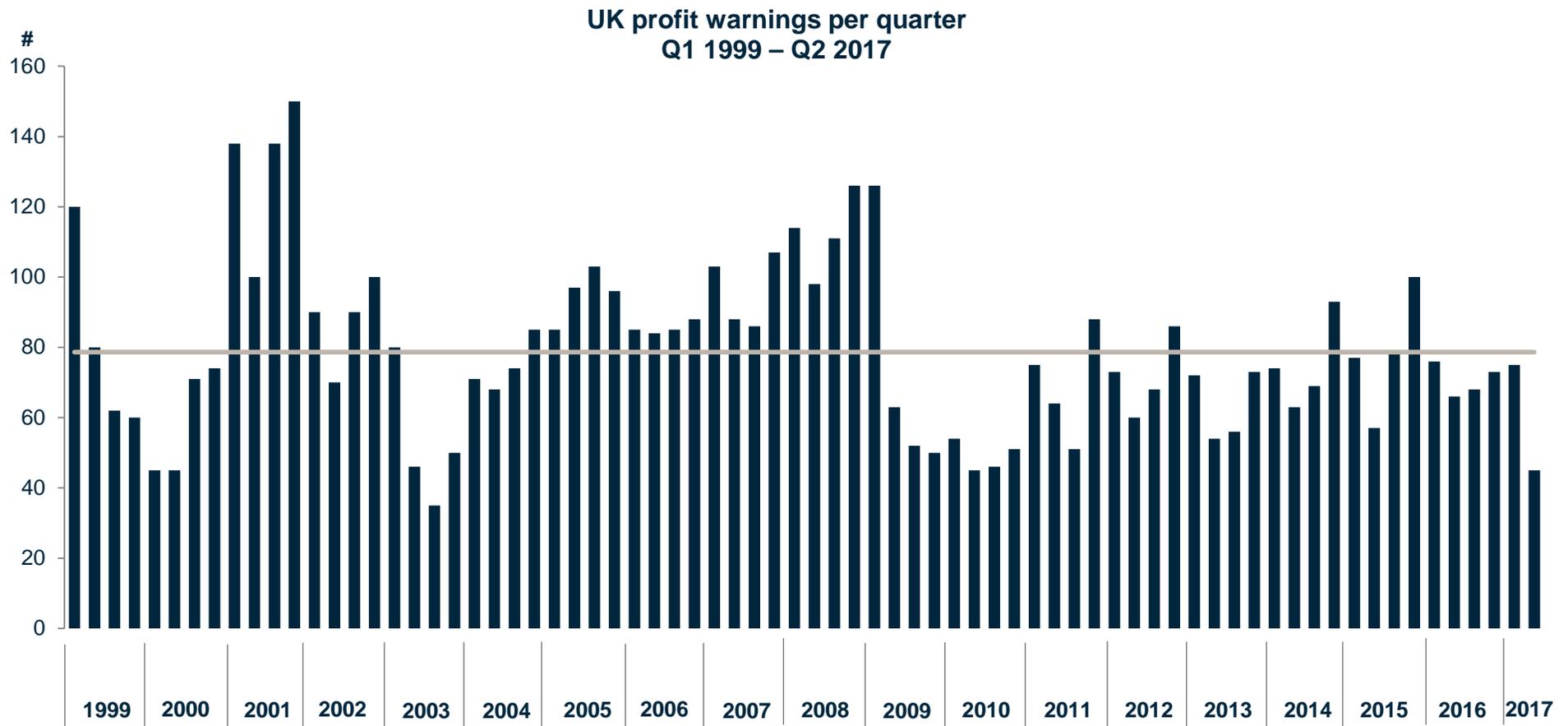
As at 30th September 2017

Source: 1. EPS = earnings per share. 2. Peel Hunt

Note: Index excludes loss makers

Past performance is no guarantee of future performance and the value of investments can go down as well as up

UK profit warnings



Latest data shows profit warnings below long term average. However, recent warnings evidenced particularly in UK consumer sectors. Fund cautious on consumer outlook and has limited exposure

As at 30th June 2017

Source: Ernst & Young

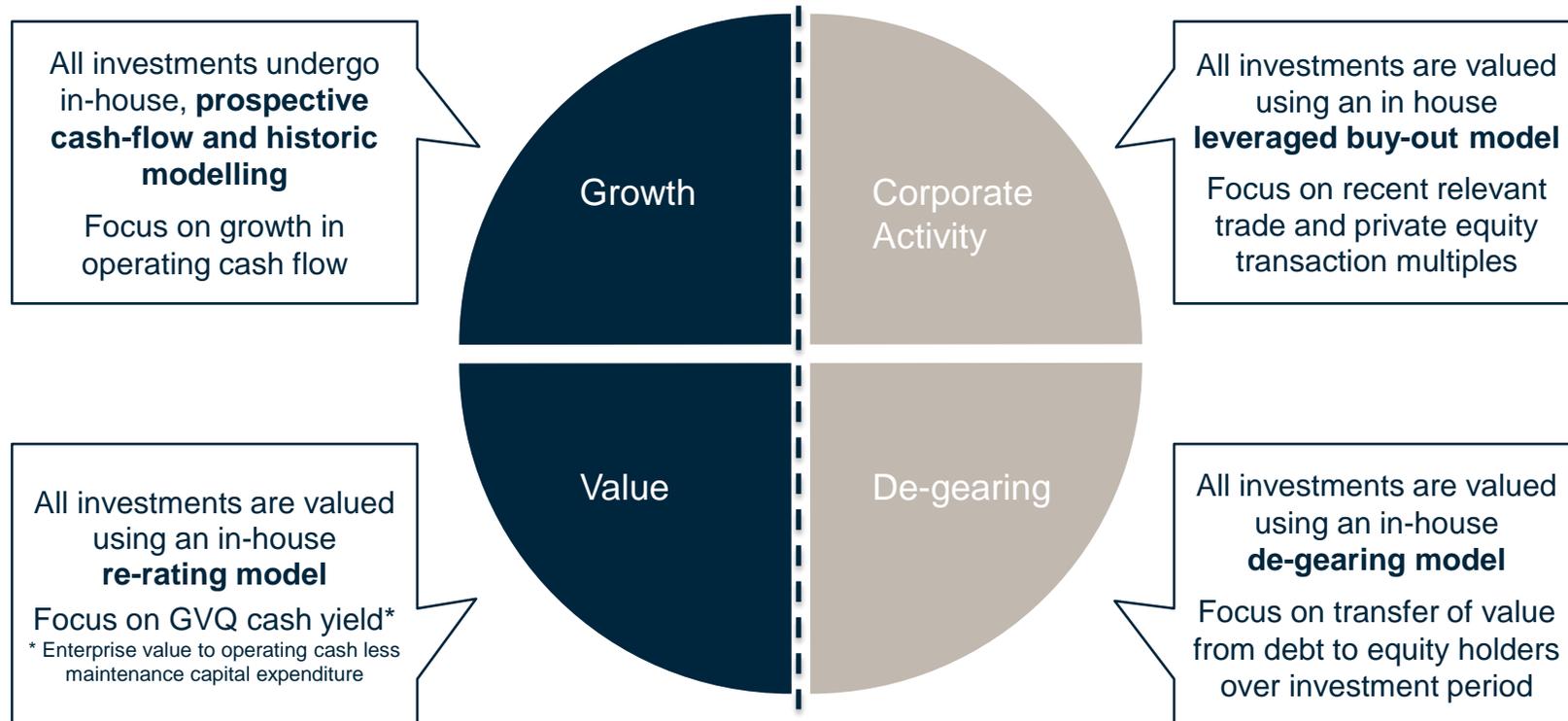
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APPENDIX

How we identify value in potential investments

Main focus of most PUBLIC EQUITY INVESTORS

Main focus of most PRIVATE EQUITY INVESTORS



We focus on four key drivers of shareholder value creation to maximise the chance of success

There are strict criteria for inclusion in our funds



GVQIM's research process aims to identify high quality coveted assets with attractive cash flows

How we identify coveted assets

We look for characteristics which GVQIM believes potential acquirers value highly

Qualitative	Quantitative
<ul style="list-style-type: none">• Niche market leaders• Orderly end markets, with some growth• Sustainable business model/franchise/uniqueness• Overseas earnings• Able to pass on price increases• Intellectual property• Operational know-how• High barriers to entry	<ul style="list-style-type: none">• High and/or improving ROCE• Strong cash conversion• Limited capex or working capital investment needed to finance growth• Recurring revenues/profits/cashflows• Ideally achieving, or has potential to achieve double digit operating profit margin• Realisable surplus tangible fixed assets and/or working capital

We believe coveted assets retain value even in tough times, and are more likely to be acquired

Our Black List screens out companies with fundamental business risks

Operational

- Excessive reliance on a single product, customer, supplier or distributor
- The primary driver of profitability cannot be influenced by management (e.g. resources)
- Inherently low margins
- Structurally declining markets

Financial

- Poor accounting systems or controls
- Weak cash flows – especially when reported profits look good!
- Excessive gearing

Governance

- Controlling shareholder with misaligned interests
- Below average/deteriorating governance practices
- Stakeholders unwilling to engage constructively

We have learnt what to avoid from previous experiences

Research Committee ensures consistency of approach

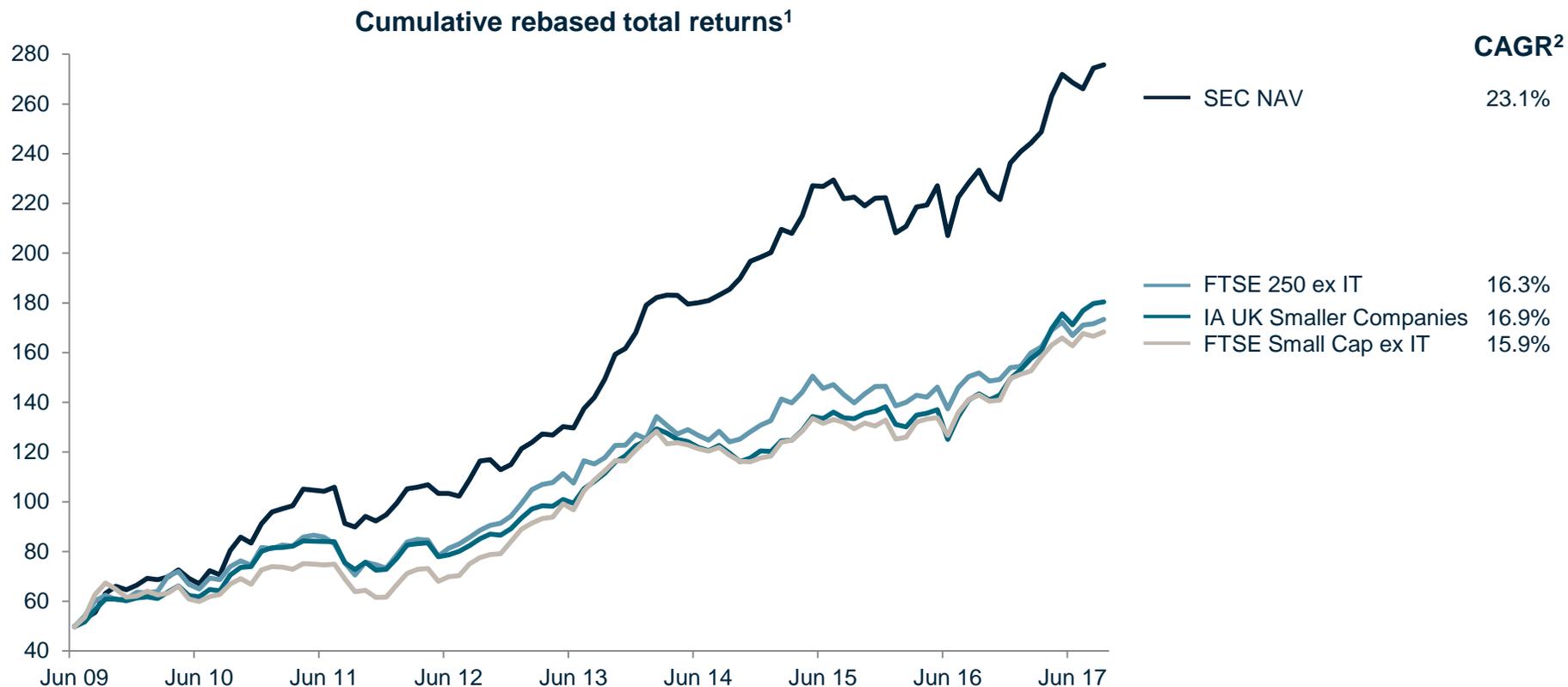


	Idea generation	Investment Memorandum	Preliminary Investment Recommendation	Final Investment Recommendation	Monitoring & review
Materials	<ul style="list-style-type: none"> • Watch list • M&A transactions • Cash flow screen • Yield screen • Four drivers screen • LBO screen • Directors dealing 	<ul style="list-style-type: none"> • Company description • Investment thesis • Cash flow model • LBO model 	<ul style="list-style-type: none"> • Company meeting • Management analysis • Stakeholder analysis • Qualitative financial analysis • Feasibility 	<ul style="list-style-type: none"> • Counterparty analysis • Due diligence verification • Bespoke research • Forensic accounting • Management referencing 	<ul style="list-style-type: none"> • Progress against original investment thesis • Proposed changes to target price • Changes to consensus estimates
Debate	<ul style="list-style-type: none"> • Are we focusing on the right stocks/sectors? • What is happening in trade and private equity? 	<ul style="list-style-type: none"> • Is there are credible case for investment? • Does the company meet our basic criteria? 	<ul style="list-style-type: none"> • Peer group review • Work together to identify key due diligence questions and investment risks 	<ul style="list-style-type: none"> • Have we properly answered all of the key questions? 	<ul style="list-style-type: none"> • Automatic review against thesis every 12 months or earlier as required
Output	<ul style="list-style-type: none"> • New idea 	<ul style="list-style-type: none"> • Initial Target Price 	<ul style="list-style-type: none"> • Due diligence questions 	<ul style="list-style-type: none"> • Final Target Price 	<ul style="list-style-type: none"> • Watch list

Industrial Advisory Panel involvement

Multi-stage research process; fully documented and scrutinised using a variety of methods and people

Long term track record



Strong cumulative performance since process improvements in June 2009. No use of gearing or derivatives

As at 30th September 2017

Source: IA; Bloomberg; PATAAC; iiii data

Note: 1. FTSE Small Cap, FTSE 250 and IA data rebased to SEC start NAV June 2009. 2. CAGR: compound annual growth rate

Past performance is no guarantee of future performance and the value of investments can go down as well as up

Calendar Year annual performance¹

	2017 YTD	2016	2015	2014	2013	2012
Share Price Total Return	13.3%	-1.6%	14.2%	32.6%	61.4%	25.6%
NAV Total Return	16.7%	6.3%	12.1%	18.0%	46.0%	21.3%
FTSE Small Cap ex Investment Trusts Total Return	12.6%	12.5%	13.0%	-2.7%	43.9%	36.3%
IA UK Smaller Companies	20.7% ²	8.1%	14.7%	-1.7%	37.4%	22.5%

Established track record of successfully employing private equity techniques in the quoted market

As at 30th September 2017

Source: 1. GVQIM; Capita; Bloomberg; Trustnet. 2. Preliminary estimates based on Trustnet & Morningstar data
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Contact details

For further information regarding the SEC please contact the GVQ Investment Management marketing team below, or visit the Company's website: www.strategicequitycapital.com

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