GVQ

INVESTMENT MANAGEMENT

Strategic Equity Capital plc

Q4 Update 2017

Risk considerations

***Risk Factors** for Strategic Equity Capital plc (the Company") – The general risk factors set out under the heading "D.1.Key Risks" of the Prospectus apply to the Company. In addition, potential investors should note the following factors:*

- There can be no guarantee that the investment objective of the Company will be achieved and neither capital nor income is guaranteed.
- You may not be able to sell your shares in the Company easily or you may have to sell at a price that significantly impacts on how much you get back.
- The share price may trade at a discount to the Net Asset Value of the Company.
- The amount that you have invested is not protected so in some unfavourable circumstances you could lose all of your investment.
- The Company may borrow money which can be used to make further investments (gearing). In a rising market, this "gearing" can magnify the gains or in a falling market, the losses on your investment.
- The Company invests in a smaller number of companies and sectors than the market, creating concentration risk.
- There is some liquidity risk, as a significant level of investment is made in companies too small for inclusion in the FTSE 250 Index. These are likely to have a low level of liquidity in some circumstances.
- The Company may invest in companies that are not listed or admitted to trading upon any recognised stock exchange. These investments can be riskier and may be illiquid and difficult to realise and more volatile than investments in larger, longer-established businesses.
- The performance of SEC will depend on the skill and expertise of the Investment Manager. The loss of key personnel could affect the performance of the Company.
- Stock market investments should be regarded as long term. The Company's strategy, and therefore level of risk, can change over time. Economic factors, such as interest rates, inflation and supply and demand can affect all investments. Tax rules can change and the value of any benefits will depend on personal circumstances.
- Charges and expenses are taken from capital and this increases the chances of the capital value falling

These are not all the risks of an investment in the Company. For a full list of the Company's risks, please see the Prospectus and Supplement to the Prospectus, in the section entitled "Risk Factors".

Investors should take advice from their own independent professional financial advisers before making an investment decision and are responsible for ascertaining any income tax or other tax consequences which may affect their acquisition of any investment.

You should remember that the value of investments and the income from them may go down as well as up and is not guaranteed, and investors may not get back the amount invested. Past performance cannot be relied on as a guide to future performance.

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Risk considerations:

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In addition, there is no guarantee that the market price of shares will fully reflect their underlying net asset value and it is not uncommon for the market price of such shares to trade at a substantial discount to their net asset value.

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.

These are not all the risks of an investment in Strategic Equity Capital Plc shares ("Strategic Equity Capital" or "SEC"). Investors should take advice from their own independent, professional financial advisers before making an investment decision and are responsible for ascertaining any income tax or other tax consequences which may affect their acquisition of any investment.

FE Crown Rating : 2 crown rating as at 31st December 2017
Morningstar 5 Year Rating of ★★★★ as at 31st December 2017
Money Observer: Rated Fund as at 31st December 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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Q4 UPDATE 2017

Executive summary

- SEC (the "Trust") had another good quarter; net assets per share increased by a further 4.3%, ahead of the return for the FTSE Small Cap ex IT index (the "index") which delivered a total return of 2.7%. The average discount over the period was 13.1%

- Builds on the strong performance in 2017, over which the Trust delivered a total NAV return of 21.7%, outperforming the index by 6.1%. Longer term, SEC has delivered an annualised growth in NAV per share of 20.1% over the last 5 years

- Recommended bid for core portfolio holding Servelec. In our view, this is an example of the disconnect between the public market focus on earnings momentum, which had depressed the rating and the 'real world' valuation of a quality asset. Our investment returned an IRR of 15.4% and a 1.4x money multiple and supports the process of applying private equity investment techniques to public markets

- In aggregate, on a weighted average basis, the portfolio rating is broadly in line with the same point a year ago (at c.9% GVQ cash yield) and has slightly de-rated on a traditional PE basis. This compares favourably with the market which re-rated on our estimates by c.11% in 2017

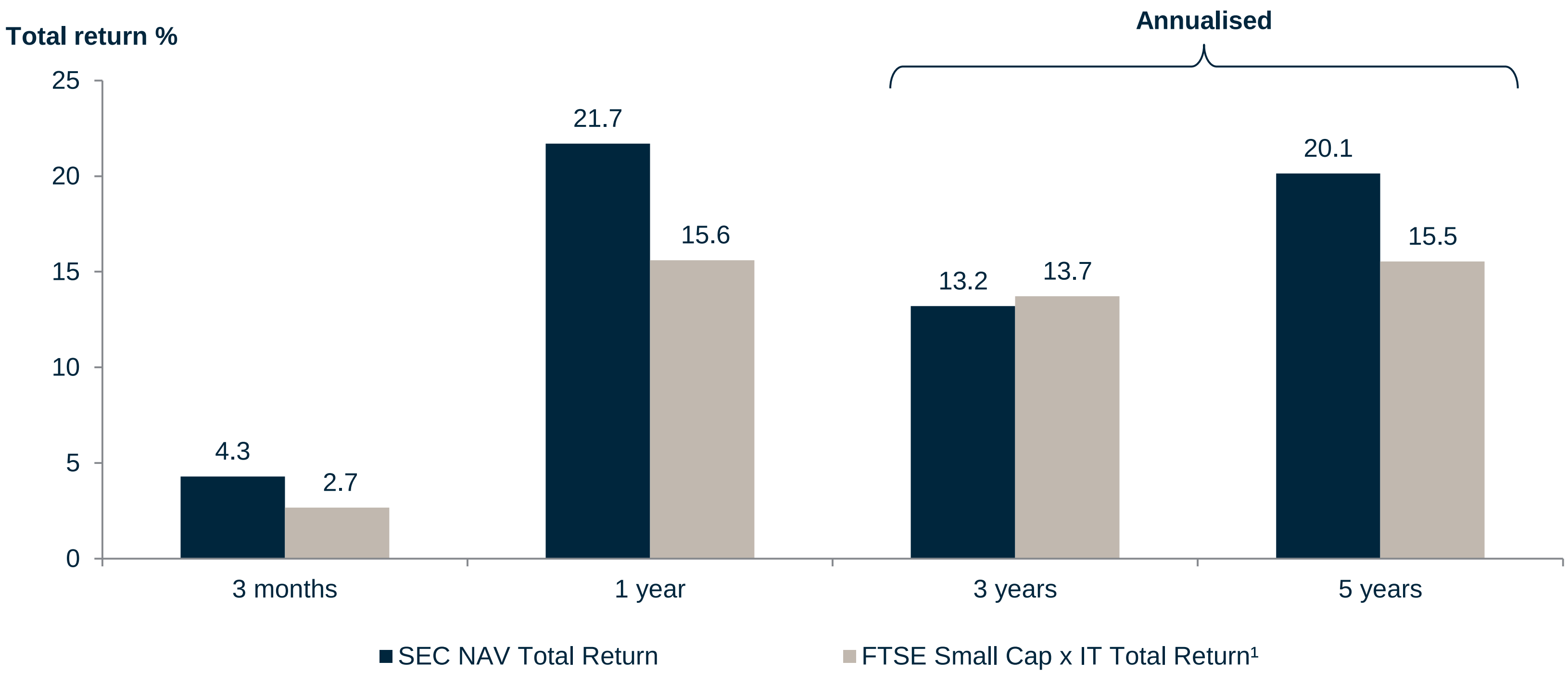
- This alongside an improved healthy mid-teens forecast earnings growth and the financial strength of the portfolio companies provides us with confidence over the medium term outlook

Another year of positive growth in NAV and healthy outperformance of the smaller cap index. We continue to focus on all four drivers of equity returns; growth, re-rating, degearing and M&A

As at 31st December 2017
Source: GVQIM, PATAC, Bloomberg, FactSet
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Fund performance

SEC NAV performance against comparator index[1]



Average Net Cash	8.1%	9.4%	10.8%	10.4%

Performance in 2017 delivered despite a net cash balance. Morningstar[2] 'upside' capture ratio of 101.2 and 'downside' capture ratio of -13.5 demonstrates strong defensive qualities of the Trust

As at 31st December 2017. Source: Unaudited Bloomberg, PATAC, GVQIM. Notes: 1. Comparator index FTSE Small Cap ex Investment Trusts Total Return. 2. An upside capture ratio over 100 indicates a fund has generally outperformed the benchmark during periods of positive returns for the benchmark. Meanwhile, a downside capture ratio of less than 100 indicates that a fund has lost less than its benchmark in periods when the benchmark has been in the red
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Q4 Attribution analysis

Positive attribution (top five)	bps	GVQIM Comment
Servelec Group	203	Recommended offer for the company at 313.1p by Montagu Private Equity
IFG Group	120	Q3 trading update with continuing asset growth. Increase in Bank of England Base Rate expected to improve revenue and operating margin in James Hay in 2018
Alliance Pharma	94	Announced two product bolt-on acquisitions towards the end of the period resulting in mid-single digit upgrades to future year earnings
Tyman	64	Well received capital markets day focusing on the North American business. Positive impact of prospective U.S. tax reforms anticipated
EMIS Group	62	No news. Possible read-across from the acquisition of Servelec highlighting the attractiveness and consolidation opportunity in the UK healthcare market
Negative attribution (bottom five)	**bps**	
Proactis	-11	Final results with good organic growth and integration of Perfect Commerce on track
Brooks Macdonald	-21	Positive net new business growth continues in the quarter. Finance Director announces retirement
Clinigen Group	-22	Completion of acquisition of Quantum Pharma. Share price gives back some of the previous gains
Equiniti Group	-56	Positive Q3 trading update detailing client retentions and new client wins. After a strong share price performance in recent quarters, shares slightly weaker over the quarter
Dialight	-73	Company warns on profits owing to its outsourced manufacturing partner failing to fulfil delivery obligations

In the main, positive developments at portfolio companies. Company issues largely transitory in nature and remain focus of diligence and engagement

As at 31st December 2017
Source: Attribution estimates based on FactSet Portfolio Analysis and GVQIM
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Portfolio company update - Servelec

- At the end of November 2017, Servelec received an **all-cash offer** at 313.1p per share from Montagu Private Equity. This offer was **recommended** by the company.
- SEC was at the time the 2nd largest shareholder in the company having invested in the IPO in November 2013 and at various points since.
- Our investment thesis is that the group has **strong technology** and **leading market positions** across its three key divisions. The business is exposed to long term structural growth in its markets underpinned by changes in technology and industrial and infrastructure spending. Alongside this, the company generates **strong cash flows**. Our view has been that on the public market, the business traded at a **discount to its potential acquisition ("real-world") value**.
- The company announced a material profit warning in June 2016 and although strategic progress has been made subsequently, the end markets remain weak driven by budget constraints and delayed spending decisions. Given the market's seemingly singular focus on earnings momentum over recent periods, its rating has been depressed.
- We have remained **closely engaged** with the company throughout, meeting the Chairman on a number of occasions to discuss the progress of the company and strategic options. Despite the recent issues, we have remained committed shareholders given our fundamental investment thesis remained intact and in our view, under-appreciated.
- We are not surprised that a Private Equity buyer has recognised the **valuation opportunity** and **quality of the underlying assets**.
- We provided a Letter of Intent to support the bid rather than Irrevocable Undertakings. Although recommended after a review, the bid comes at a time where earnings are potentially at a low ebb and we wanted to give the opportunity for other potential bidders to come forward.
- Our investment in Servelec returned **a 15.4% IRR and 1.4 money multiple.**

This provides a further 'real-life' example of our investment process; adopting private-equity style approach to investing in the public market

As at 31st December 2017
Source: GVQIM

Changes to top 10 holdings

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

Top 10 Q4 2017

Company	% of portfolio
Equiniti Group	9.0
IFG Group	8.9
Servelec Group	8.6
Tribal Group	8.2
Wilmington	7.5
Clinigen Group	7.3
EMIS Group	7.0
Tyman	5.9
4imprint Group	5.8
Medica Group	5.5

Portfolio turnover was in-line with previous quarters. Some profit taking in Equiniti and top-ups in Wilmington and IFG Group. Outside of the top ten holdings, two new investments were initiated

As at 31st December 2017
Source: PATAC, GVQIM
Note: 1. Includes Equiniti nil-paid rights
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Top 10 holdings[1]

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	7.3%	2.5x	Delivery of organic growth and cashflow. Integration of WFSS acquisition	Yes – niche
IFG Group	2015	Financials	>5%	High	Behind	9.8%	(1.8x)	Margin improvement in James Hay; increase in interest rates; M&A	#2 in high end SIPPs
Servelec Group	2013	Technology	>5%	n/a	In line	8.2%	(0.1x)	Progression in UK secondary healthcare. UK water AMP6 spending cycle; **M&A**	Yes – UK niche
Tribal Group	2014	Technology	>5%	Medium	In line	7.7%	(1.2x)	Delivery of operational improvements; new platform development; contract wins; M&A	Yes
Wilmington	2010	Media	>5%	High	Behind	12.4%	1.0x	Organic growth; de-gearing; M&A; New Chairman	Yes – niche
Clinigen Group	2014	Healthcare	<3%	Medium	Ahead	6.7%	1.3x	Continued organic growth; degearing; spec pharma M&A; development of technology platform	Yes – niche
EMIS Group	2014	Technology	>3%	Medium	In line	6.0%	(0.6x)	Organic growth; operational restructuring; new CEO; Patient; balance sheet; M&A	Yes – UK
Tyman	2009	Industrials	>5%	Medium	In line	10.1%	1.9x	Integration of acquisitions; growth and de-gearing	Yes - niche
4imprint Group	2006	Support Services	<3%	Medium	Ahead	7.2%	(0.8x)	Continued US growth; prospect of enhanced cash returns	Yes - US niche
Medica Group	2017	Healthcare	>3%	Medium	Early	5.5%	0.3x	Growth; increasing investor profile	Yes - UK

Portfolio returns to be driven by a combination of strong cash flow, prospects for M&A and selective re-rating, in addition to, rather than solely on growth

As at 31st December 2017. Source: GVQIM analysis and PATAC

Notes: 1. Top 10 holdings representing c.74% 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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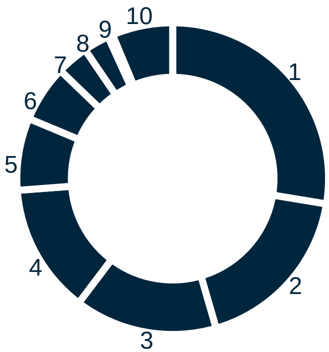
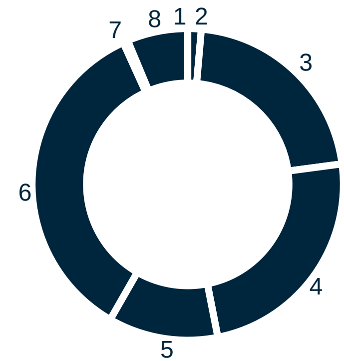
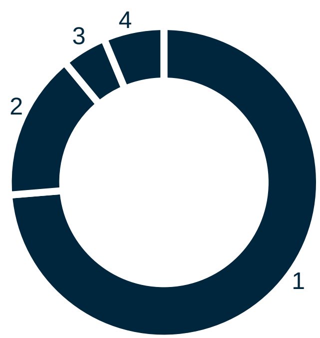
Highly concentrated and unconstrained portfolio



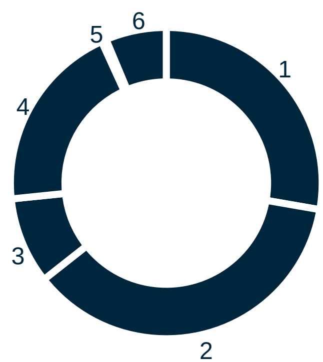
Sector exposure by value		
1	Technology – software & services	27.6%
3	Healthcare	17.9%
3	Support Services	14.8%
4	Financials	13.5%
5	Media	7.5%
6	Industrials	5.9%
7	Property	3.3%
8	Electronics	2.7%
9	Unlisted	0.5%
10	Net cash	6.3%



Value by market cap band		
1	<£50m	0.0%
2	£50m - £100m	1.4%
3	£100m - £200m	21.5%
4	£200m - £300m	24.0%
5	£300m - £500m	11.4%
6	> £500m	34.9%
7	Unlisted	0.5%
8	Net cash	6.3%



Concentration		
1	Top 10	73.7%
2	Rank 11 - 15	15.3%
3	Smaller holdings	4.7%
4	Net cash	6.3%



Value by index membership			No. Holdings
1	Small Cap	27.7%	5
2	Aim	36.6%	9
3	FTSE 250	9.0%	1
4	Other[1]	19.8%	3
5	Unlisted	0.5%	1
6	Net cash	6.3%	

A highly concentrated portfolio with focus on smaller companies. Believe this part of the market remains under-researched with good opportunities for active managers

As at 31st December 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
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Portfolio valuation[1]

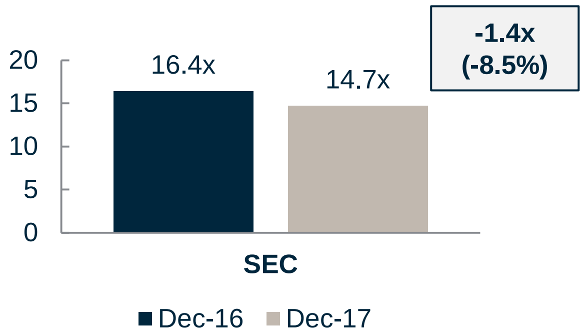
	SEC weighted average	SEC median	FTSE UK Small Cap ex investment trusts
Number of securities	17	17	155
Market cap (£m)	444	239	314
Consensus EV/EBITDA FY1	11.6x	10.6x	7.8x
Consensus price earnings FY1	14.7x	15.6x	13.8x
Consensus FY1 earnings growth	18.1%	14.0%	12.6%
Consensus dividend yield FY1	2.1%	2.3%	3.6%
Price/book FY1	3.1x	2.3x	1.4x
Price/sales FY1	1.9x	2.2x	0.7x
Price/cash flow	19.9x	16.9x	13.1x
GVQIM cash flow yield FY1[2]	8.5%	8.8%	-
Net Debt/EBITDA	0.2x	-0.5x	2.0x
Overseas sales as %	35.2%	35.0%	-

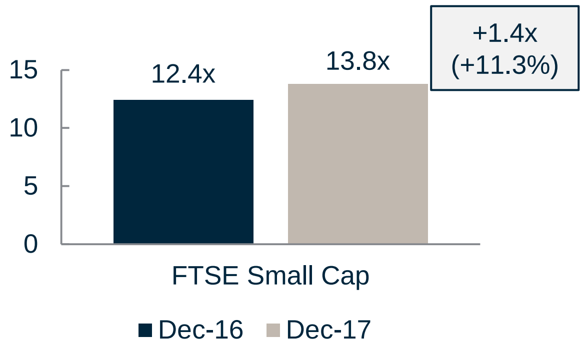
Growth prospects improved over the quarter to a healthy mid-teens rate and remain ahead of the index, despite lower gearing. In aggregate, the portfolio has negligible gearing which is materially lower than the index

As at 31st December 2017
Source: FactSet portfolio analysis, Bloomberg, FTSE Russell
Notes: 1. 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)

Portfolio characteristics vs. the same point last year

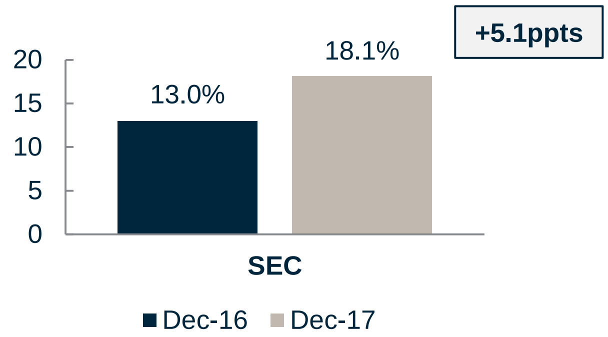
Price earnings FY1

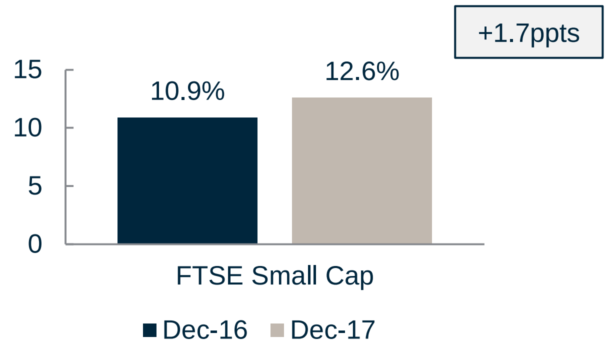




Over a year, the rating of the portfolio has reduced. This is in contrast to the small cap index which is c.11% more expensive

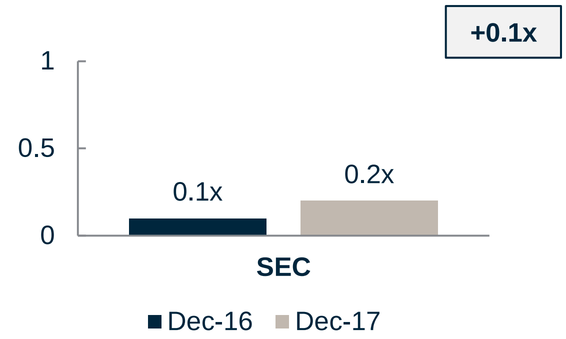
Earnings growth FY1

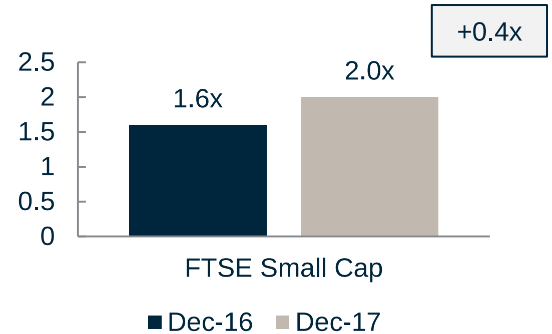




In spite of the rating contraction, the growth outlook for the portfolio has markedly improved and at a better rate than the broader market improvement

Net Debt/EBITDA





The gearing of the portfolio remains low and provides optionality. The market has a significantly higher level of gearing, which has increased

The development of the portfolio characteristics is positive in isolation and when compared with the trends of other UK smaller companies

As at 31st December 2017
Source: Bloomberg

Outlook

Outlook

Positives:

- PE funds raised a record $453bn in 2017. Preqin estimates over $1trn in Private Equity 'dry powder' at the end of 2017
- M&A activity has increased. European targeted M&A increased sharply by +23% as at December. PE buyouts worth $212bn were agreed in the first nine months, their highest level since the same period of 2007
- UK smaller companies remain under-researched providing opportunity. Possibly to be accentuated with MiFID II. We believe GVQIM is well placed with an extensive research infrastructure, bearing the cost of external research
- UK corporate balance sheets in aggregate are strong. Debt financing remains generationally cheap
- The UK is the biggest 'underweight' in global portfolios according to data from Columbia Threadneedle Investments

Negatives:

- Appears to be areas of over-valuation in the equity markets. Some stocks trading at premia to history and precedent transactions. Of Berenberg's SMID cap coverage list, 75% of stocks underwent PE multiple expansion in 2017
- Low volatility. There was only a greater than 1% move in the closing price of the FTSE Small Cap ex-ITs index on 6 days in 2017 (2.4% of trading days)
- Start of interest rate tightening cycle?
- Global debt ratios materially higher than a decade ago. Potential adverse impact of tightening on US dollar denominated debt
- Significant uncertainty remains in the global geopolitical system

'Running with the bulls can be dangerous' – we retain a disciplined and well entrenched investment process

As at 31st December 2017
Source: Preqin, Berenberg, FT, Columbia Threadneedle

Uses of capital

GVQ INVESTMENT MANAGEMENT

Alliance Pharma	Medica	3 initial investments
• Steady predictable **growth** supported by selective bolt-ons • High free cash flow yield, scope for **re-rating** • Qualities attractive to **financial buyers** • Strong **cash** generation, return potential from de-gearing	• High structural **growth** in scanning activity • No **re-rating** assumed • Previously **PE** owned, niche market leader • Highly **cash** generative	• **Self help** from improved manufacturing process, sales effectiveness and integration of acquisitions • Strong and/or undervalued **cash generation** • **Competitive advantage/strong market position** driving growth rather than relying on continuation of strong markets • **IP** increasing covetability and **downside protection** • Attractive **end markets** (e.g. software, diversified financials and niche industrials)

Avoid **assets trading at close to all time high valuations with the main reliance on delivery of growth. Although this may continue, timing the end is precarious and there is significant rating downside**

Pipeline of new ideas is healthy. Bar for new investment remains high requiring a combination of growth, cash flow, rating upside and M&A potential

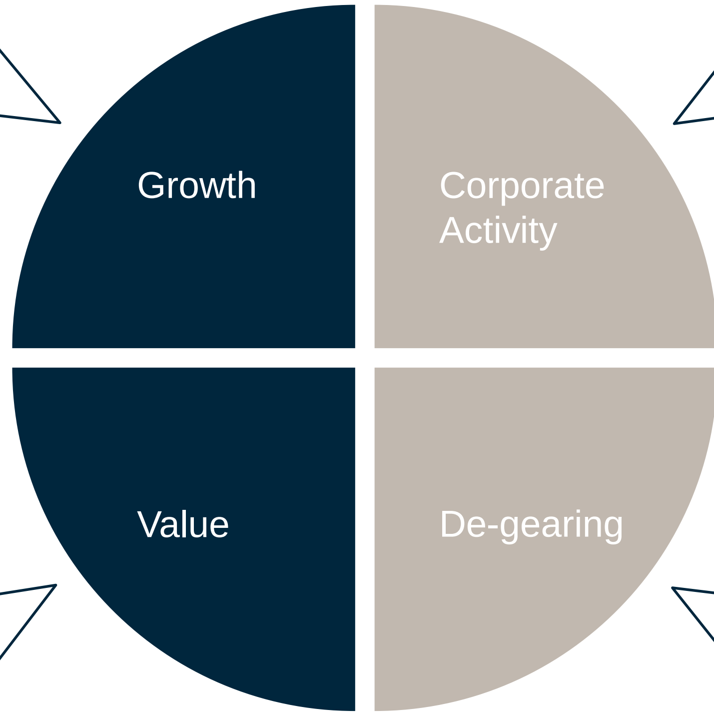
Source: GVQIM

Earnings growth, cashflow and M&A to drive returns

SEC portfolio

- Mid teens aggregate earnings growth for the portfolio
- Portfolio growth exceeds the market, despite portfolio's much lower financial gearing

- Private Equity 'dry powder' at record levels
- Debt at generationally cheap levels
- Potential for more activity given FX and niche market leading positions. Negligible 'poison pills'



- We are not assuming wholesale re-ratings
- SEC portfolio valuation remains attractive; median GVQ cash yield of 8.8%
- Some holdings trade at material discounts to sum-of-parts value

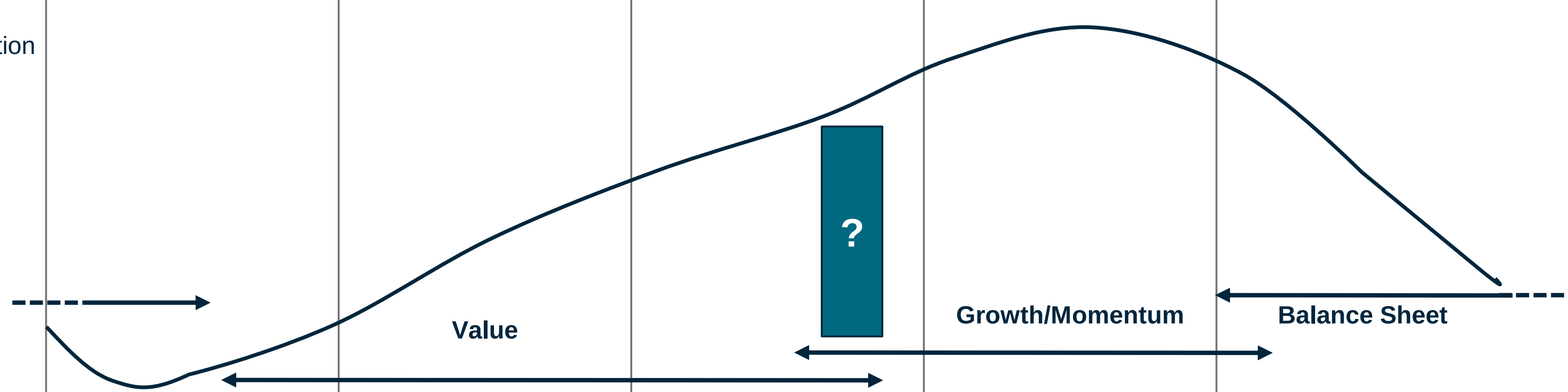
- Portfolio de-gearing continues at mid single digits p.a.
- Additional 2.3% dividend yield

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

As at 31st December 2017
Source: GVQIM, Preqin

The investment cycle – where are markets now?

Market Phase	Bottom	Early Stage Recovery	Mid-Stage Bull Market	Peak of Bull Market	Bear Market
General vertical direction (but not horizontal direction) of asset price movements					
Investment Style					
Fundamentals	20% Improving but ignored	30% Solid underlying performance	40% Sweet summer growth	20% Optimistic, Long-duration projections	30% Over awareness of deteriorating conditions
Valuation	20% Attractive, but no takers	50% Abundant bargains	30% Willingness to pay up	20% Revised models justify stretching	20% Shocked recognition of outlandish prices paid
Psychology/ Technical	60% Exhaustion, disbelief and demoralization	20% Doubt, reflection and conversion	30% Faith, hope and charity	60% Euphoria, greed and extrapolation	50% Fear, panic and loathing



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

Source: Morgan Stanley Securities, GVQIM

Bear market checklist

	Start of Proper Bear Markets Mar-00	Oct-07	Nov-17
Global Equity Valuations			
Trailing PE	33	17	20
Fwd PE	24	14	16
DY	1.3	2.1	2.3
CAPE	48	30	24
Global Equity Risk Premium	1.0%	3.3%	3.8%
US Yield Curve (10Y minus 2Y)	-0.5	0.0	0.6
Sentiment			
Global Analyst Bullishness (std dev)	1.7	1.0	-0.1
US Panic Euphoria Model	1.09	0.42	0.30
Global Equity Fund Flows (3y as % of Mkt cap)*	2.9%	0.7%	0.3%
Corporate Behaviour			
Global Capex Growth (YoY)	8% (1999)	11% (2007)	0% (2018e)
M&A (Previous 6m as % of Mkt cap)	6.1%	4.2%	2.3%
IPOs (Previous 12m as % of DM Mkt cap)	0.70%	0.40%	0.2%
Profitability			
Global RoE	12.2%	16.1%	11.3%
Global EPS ($, % from previous peak)*	35%	117%	-7.0%
Balance sheets / credit markets			
Asset/Equity (US Financials)	16x	16x	10x
Net Debt/EBITDA (US ex Fins)	1.8x	1.4x	1.6x
US HY Bond Spread	600bp	600bp	390bp
US IG Bond Spread	175bp	175bp	100bp
# of sell signals	17.5/18	13/18	3/18

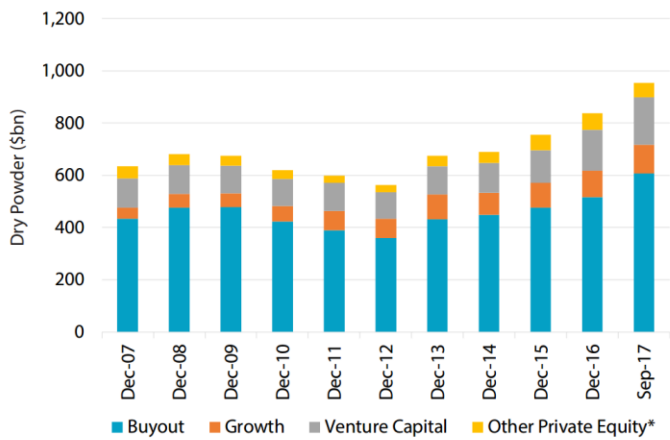
Red = worrying, Amber = perhaps, White = not worrying

Updated bear market checklist, we believe, continues to support our view of late mid-stage bull market with only 3 out of 18 sell signals

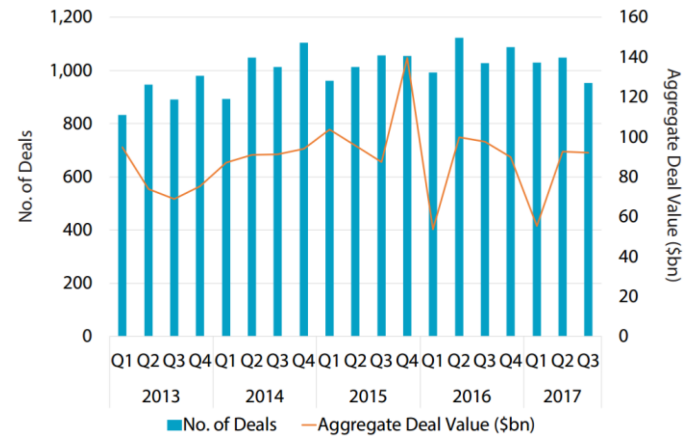
As at 30th November 2017
Source : Citi Research
Note: 1. Consensus

Global private equity dry powder levels at record highs

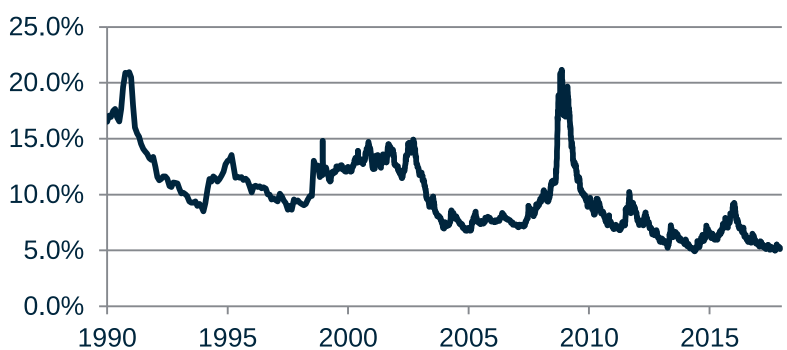
Private Equity Dry Powder by Fund Type, 2008 - 2017



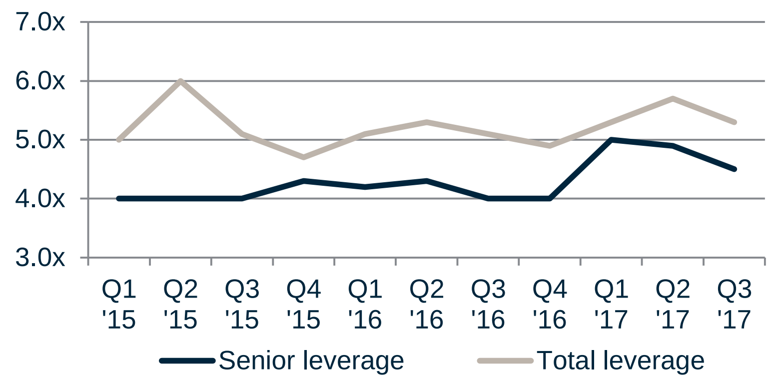
Private Equity-Backed Buyout Deals, Q1 2013 - Q3 2017



HY bond yields over time (Bloomberg global high yield bond index)



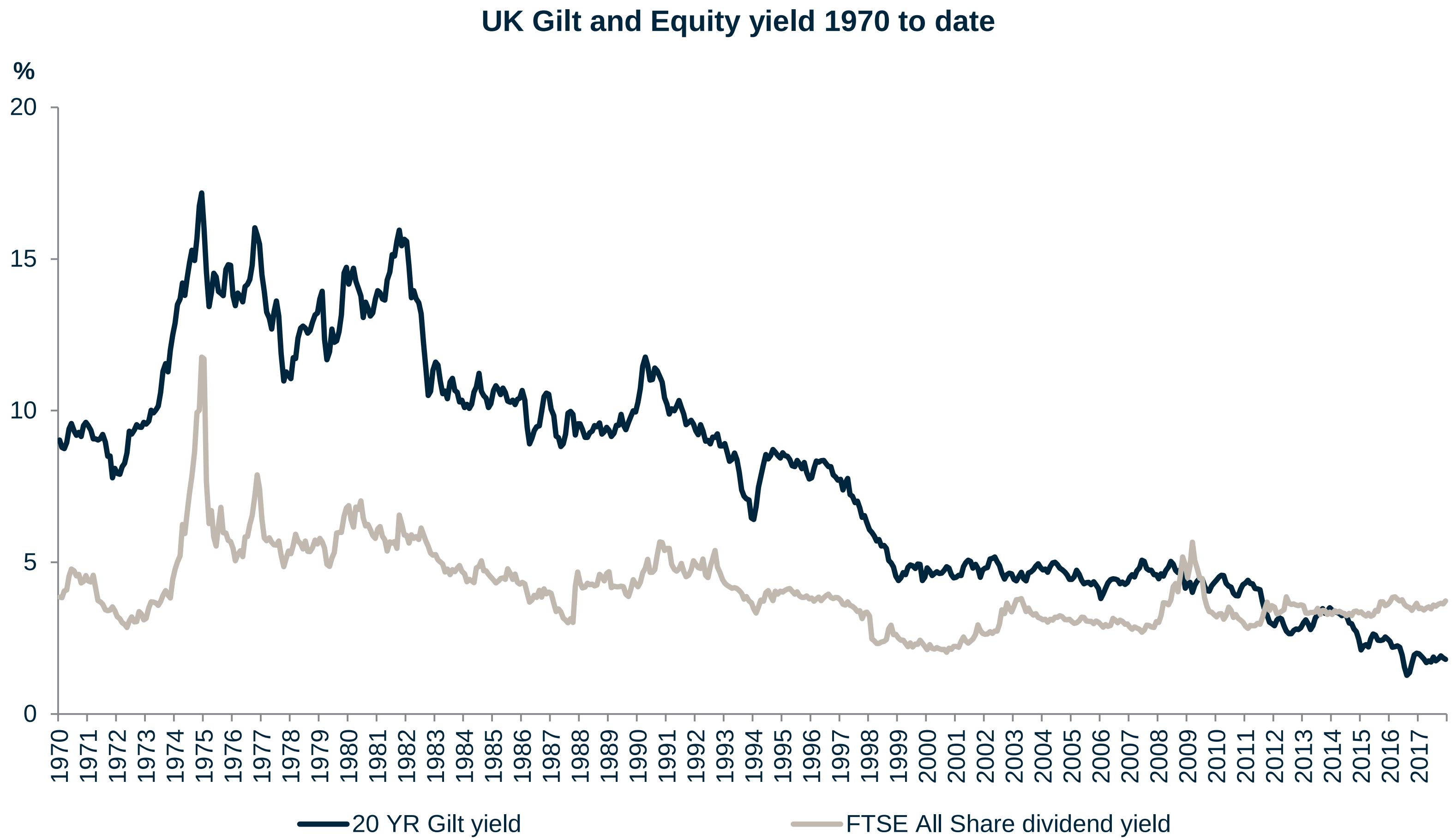
Net debt / EBITDA of mid-market M&A deals



While the level of private equity dry powder (capital that has been raised, but not yet deployed) has continued to climb, the number of private equity deals has slowed in recent months, while the cost of debt remains both generationally low, and widely available

Source: Preqin Private Equity Online, William Blair, Bloomberg

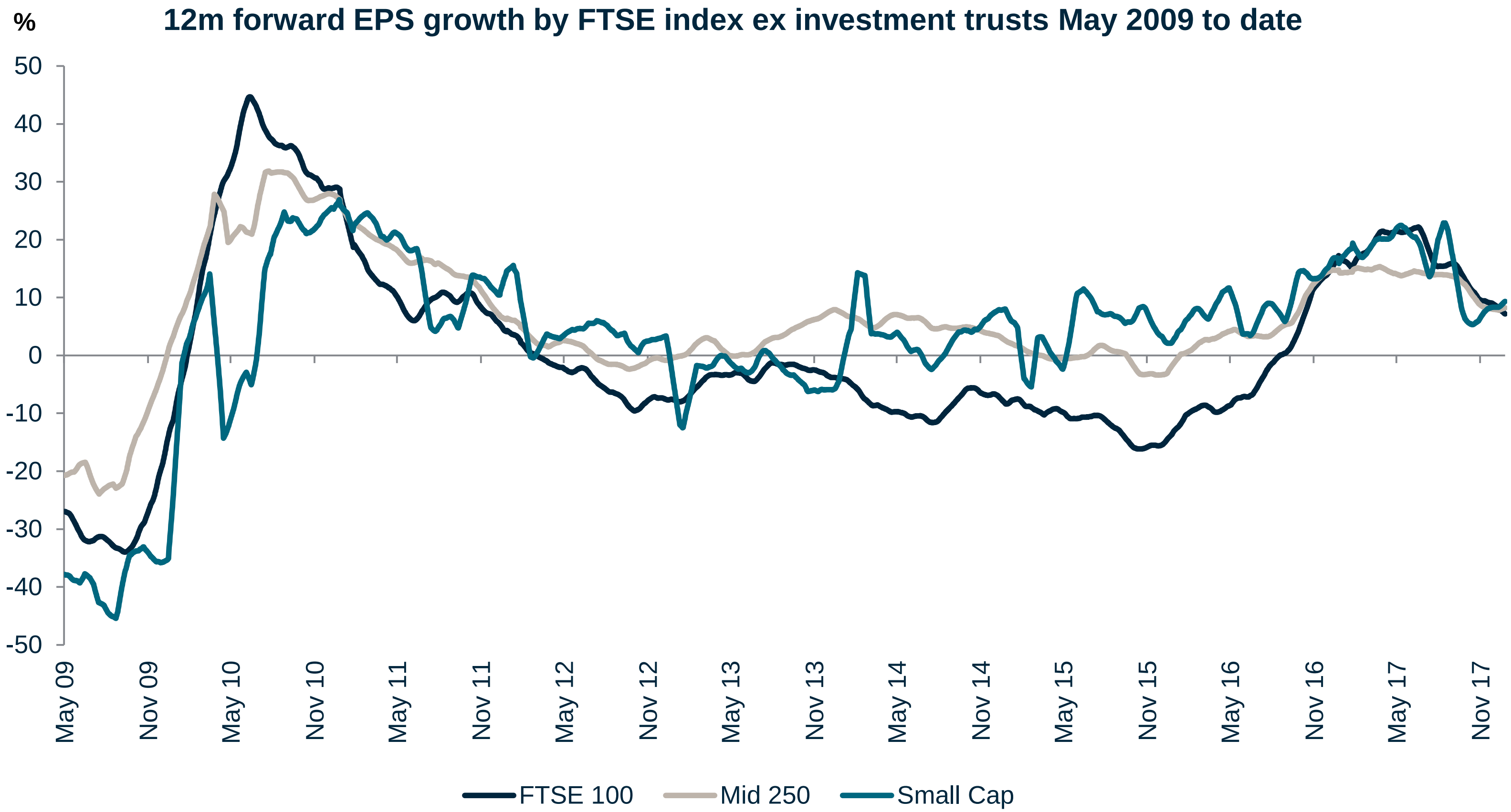
UK market relative to bonds



Relative argument for UK equities versus bonds rarely looked more attractive; generationally cheap

As at 31st December 2017
Source: Numis
Past performance is no guarantee of future performance and the value of investments can go down as well as up

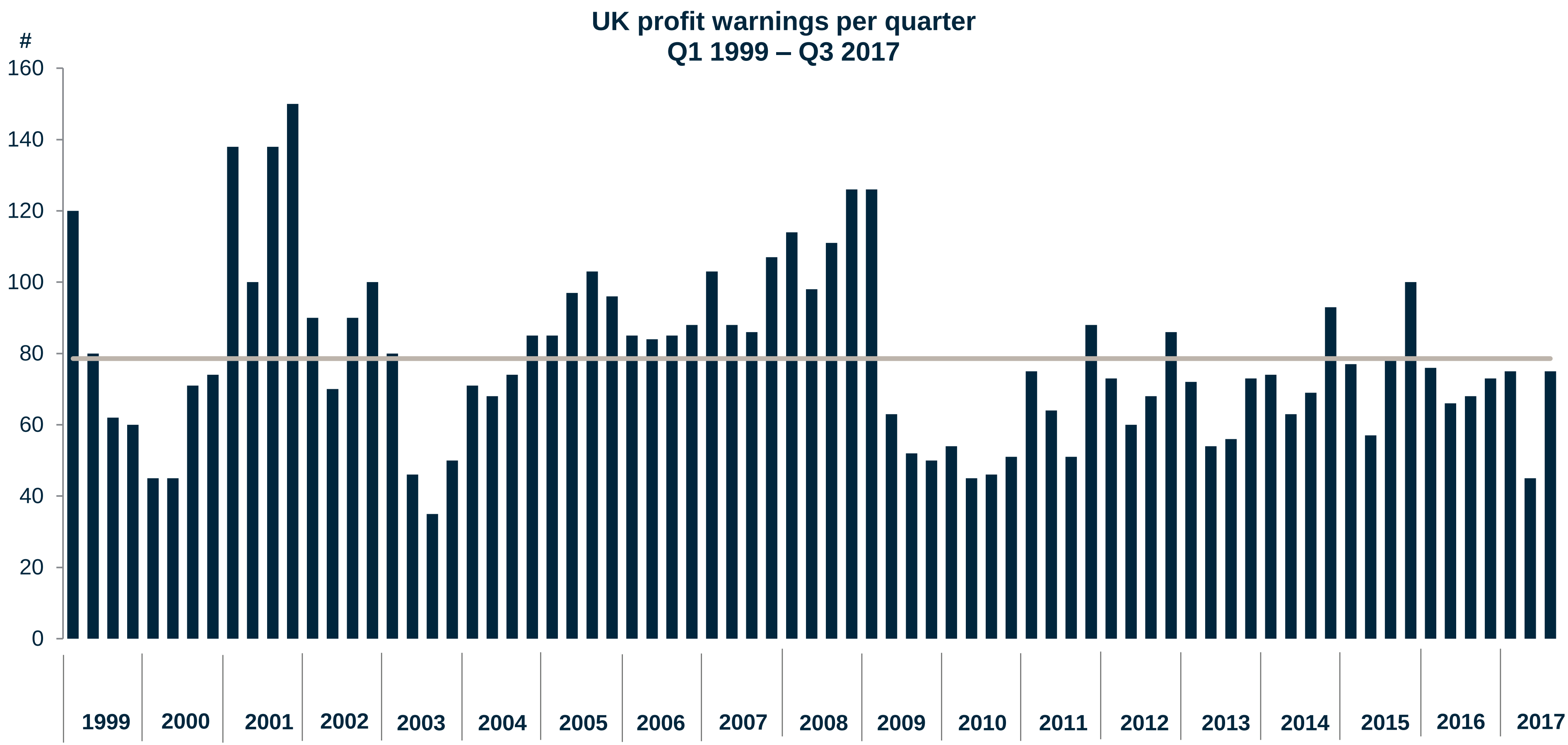
12-month forward EPS[1] growth projections



Earnings picture remains mixed; highlights need for a selective approach

As at 31st December 2017
Source: Berenberg
Note: 1. EPS = earnings per share
Past performance is no guarantee of future performance and the value of investments can go down as well as up

UK profit warnings



Profit warnings in Q3 returned to long term average level. Although formal data is not yet available, there were a large number of profit warnings across the market in Q4

As at 31st December 2017
Source: Ernst & Young
Past performance is no guarantee of future performance and the value of investments can go down as well as up

APPENDIX

How we identify value in potential investments

Main focus of most
PUBLIC EQUITY INVESTORS

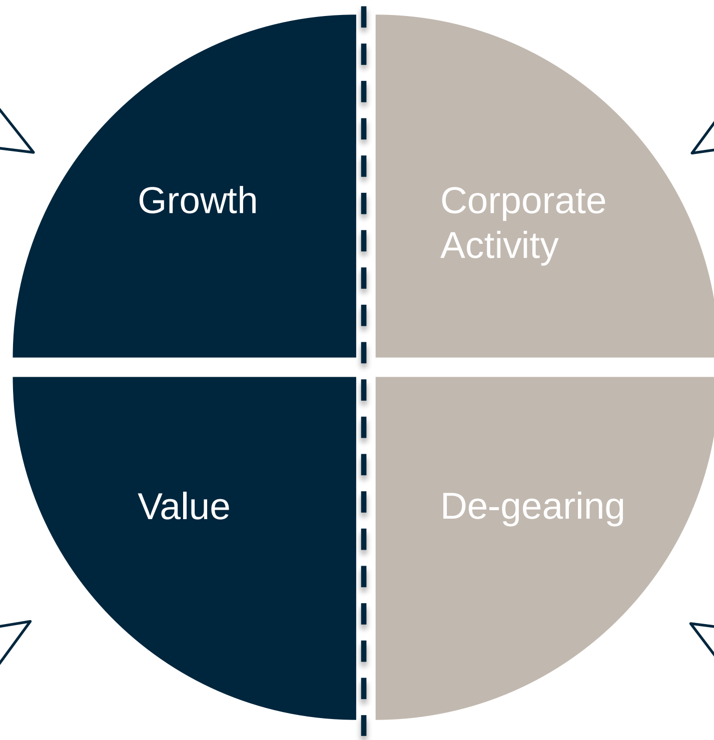
Main focus of most
PRIVATE EQUITY INVESTORS

All investments undergo in-house, **prospective cash-flow and historic modelling**

Focus on growth in operating cash flow

All investments are valued using an in house **leveraged buy-out model**

Focus on recent relevant trade and private equity transaction multiples



All investments are valued using an in-house **re-rating model**

Focus on GVQ cash yield*
* Enterprise value to operating cash less maintenance capital expenditure

All investments are valued using an in-house **de-gearing model**

Focus on transfer of value from debt to equity holders over investment period

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

Source: GVQIM

There are strict criteria for inclusion in our funds

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

Source: GVQIM
Note: 1. Growth at a reasonable price

How we identify coveted assets

We look for characteristics which GVQIM believes potential acquirers value highly

Qualitative	Quantitative
• 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	• 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

Source: GVQIM

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

Source: GVQIM

Research Committee ensures consistency of approach

	Idea generation	Investment Memorandum	Preliminary Investment Recommendation	Final Investment Recommendation	Monitoring & review
Materials	• Watch list • M&A transactions • Cash flow screen • Yield screen • Four drivers screen • LBO screen • Directors dealing	• Company description • Investment thesis • Cash flow model • LBO model	• Company meeting • Management analysis • Stakeholder analysis • Qualitative financial analysis • Feasibility	• Counterparty analysis • Due diligence verification • Bespoke research • Forensic accounting • Management referencing	• Progress against original investment thesis • Proposed changes to target price • Changes to consensus estimates
Debate	• Are we focusing on the right stocks/sectors? • What is happening in trade and private equity?	• Is there are credible case for investment? • Does the company meet our basic criteria?	• Peer group review • Work together to identify key due diligence questions and investment risks	• Have we properly answered all of the key questions?	• Automatic review against thesis every 12 months or earlier as required
Output	• New idea	• Initial Target Price	• Due diligence questions	• Final Target Price	• Watch list

Industrial Advisory Panel involvement

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

Source: GVQIM

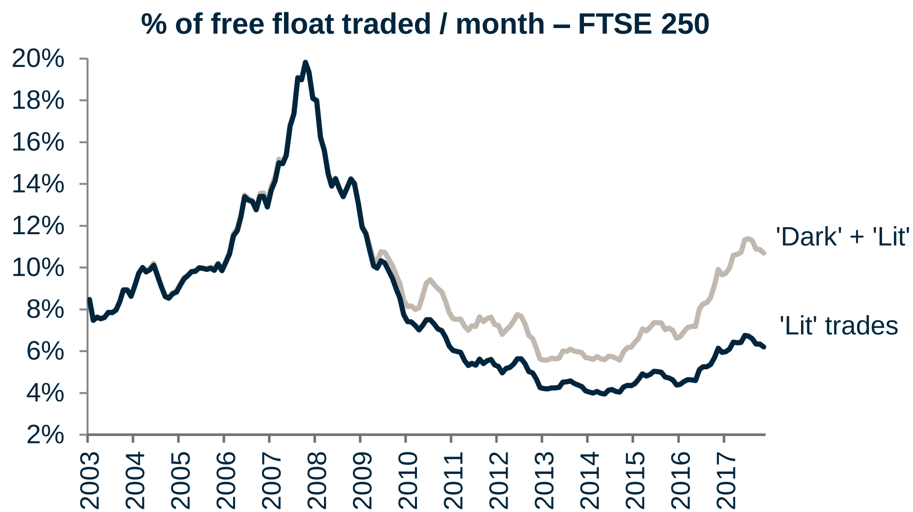
Portfolio investment themes

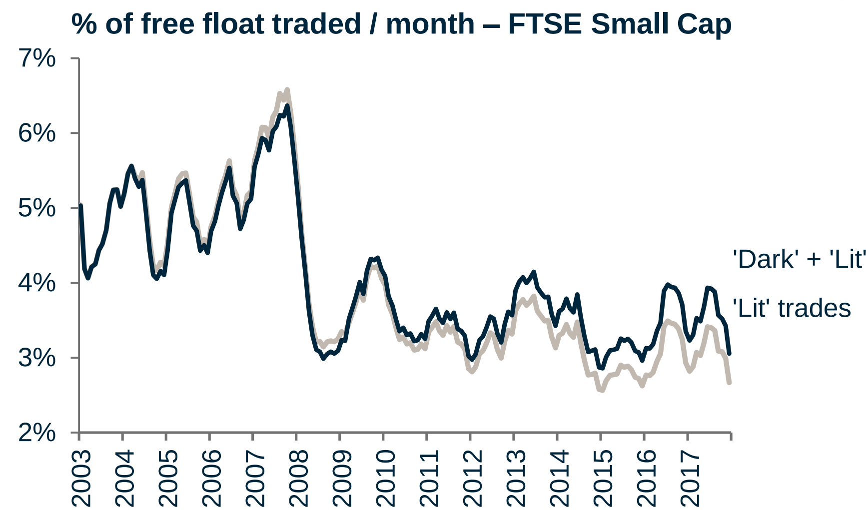
DIVERSIFIED PHARMA	DIGITAL HEALTH	REGULATION AND COMPLIANCE	PENSIONS AND SAVINGS	INFRASTRUCTURE AND BUILDING
Demographic and population changes increase need for treatments Access to medicines. 80% of the world's population has limited or no access to right medicines Diversified portfolios of pharmaceutical brands. Not dependent on binary outcomes	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'	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	Increase in complexity and need to 'self-manage' investments and seek advice Ageing populations with increased longevity of investments	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
Clinigen **Alliance Pharma**	**Servelec** **EMIS** **Medica**	**Equiniti** **Wilmington**	**IFG** **Brooks Macdonald**	**Tyman** **Harworth**

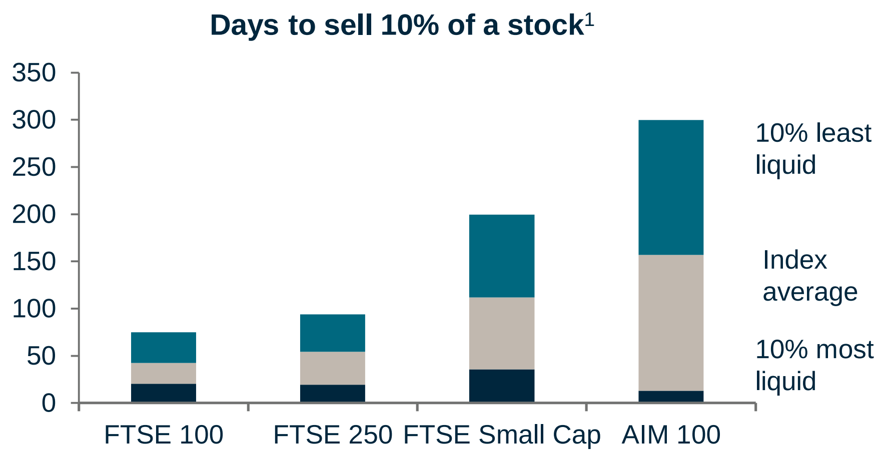
We target companies with strong positions in markets supported by long term structural growth

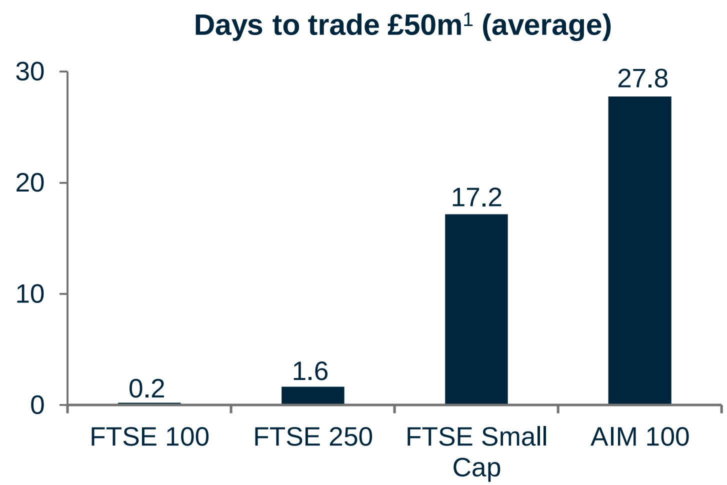
Source: GVQIM, Clingen, Liberum

FTSE Small Cap liquidity remains low





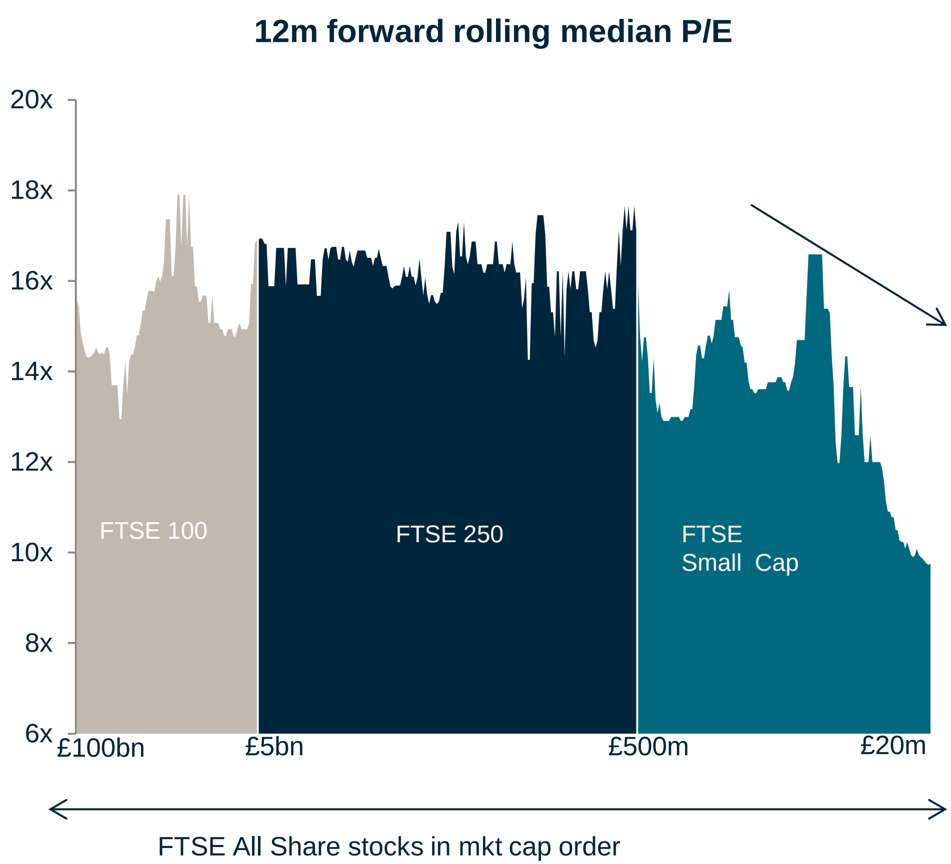


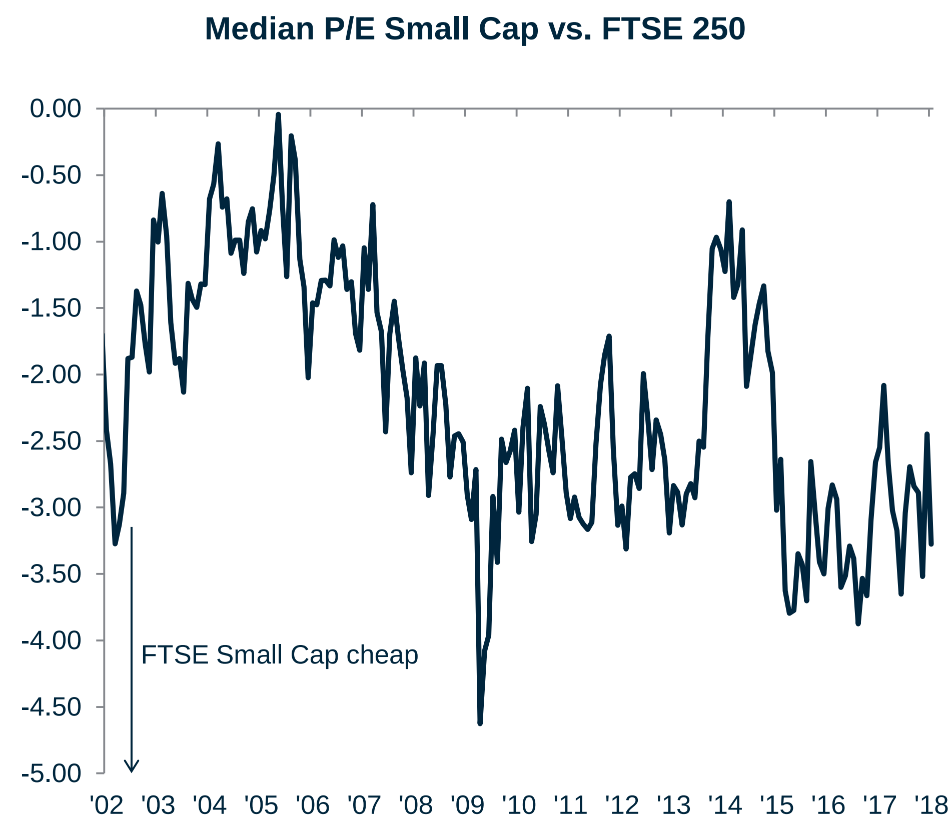


FTSE 250 liquidity over 3x that of Small Cap – and unlike Small Cap is back to 2006/7 levels

As at 31st December 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'?

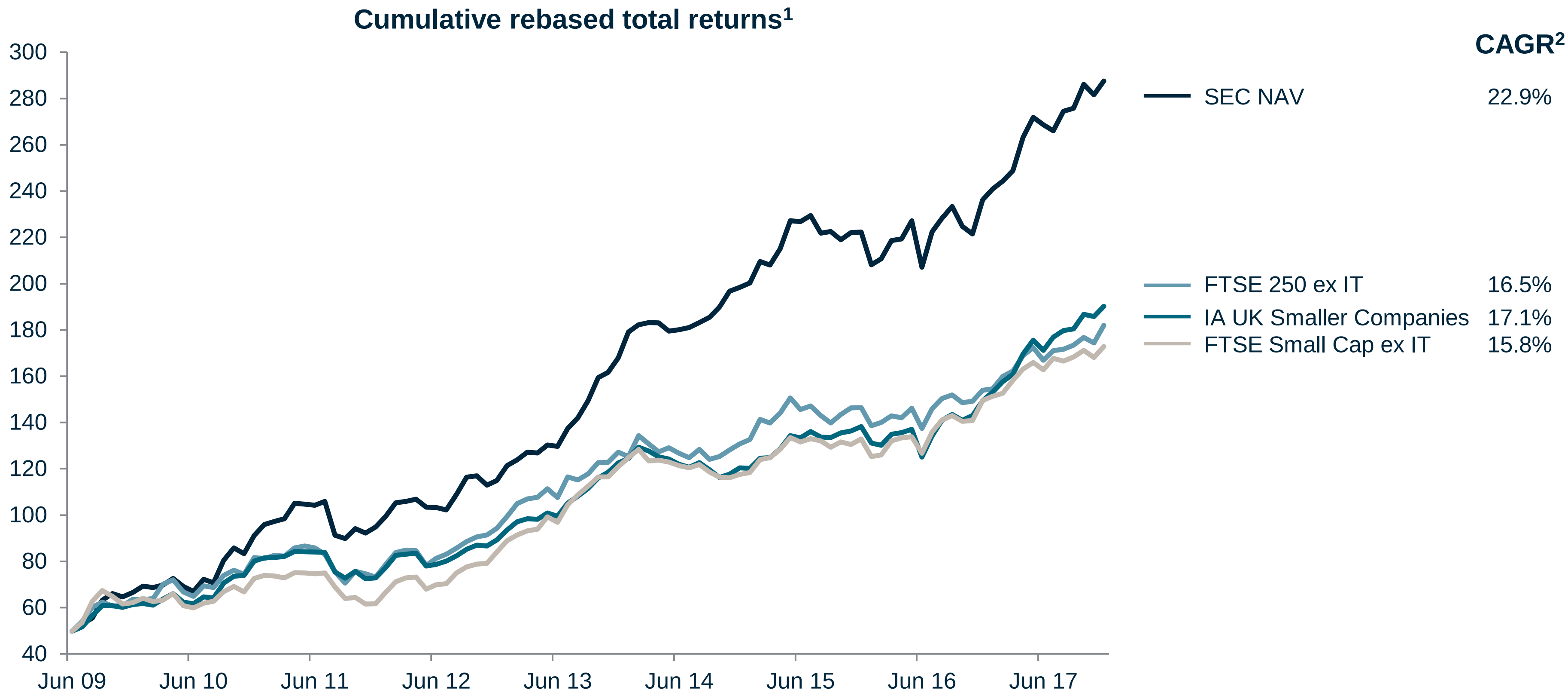




Has desire for liquidity opened up valuation opportunities in small cap?

As at 31st December 2017
Source: Liberum
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Long term track record



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

As at 31st December 2017
Source: IA, Bloomberg, PATAC, iii data
Notes: 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

Performance

Calendar Year annual performance

	2017	2016	2015	2014	2013	2012
Share Price Total Return	20.2%	-9.0%	14.2%	32.7%	61.5%	25.6%
NAV Total Return	21.7%	6.3%	12.1%	18.0%	46.0%	21.3%
FTSE Small Cap ex Investment Trusts Total Return	15.6%	12.5%	13.0%	-2.7%	43.9%	36.3%
IA UK Smaller Companies	27.3%[1]	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 31st December 2017
Source: GVQIM, PATAC, Bloomberg, Trustnet
Note: 1. 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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