



STRATEGIC EQUITY CAPITAL PLC

Q1 Update 2016



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FE Crown Rating : 5 crown rating issued 1st July 2013

Morningstar Rating™ for 3 and 5 Years: 5 star rating first issued October 2013

Money Observer: Rated Fund as at March 2016

Money Observer Trust Awards 2015: Best UK Smaller Companies Trust

What Investment: Best UK Investment Trust 2015 as at May 2015

Investment Week: UK Smaller Companies Trust of the Year 2014 & 2015 as at November 2014 & 2015

Moneywise: Highly Commended for UK Smaller Companies Trust of the Year 2016 as at March 2016

Investment Adviser: IA 100 UK Smaller Companies Award winner as at October 2015

Q1 update 2016

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Q1 UPDATE 2016

Q1 2016 Executive summary

- Net assets per share decreased by 1.7%¹ over the period
- FTSE Smaller Companies ex Investment Trusts Index decreased by 0.6% in Q1 2016. We estimate that the IA UK Smaller Companies sector decreased by 2.3%
- Net cash balance stable at c.13.5%. Reflects long term confidence but short term market specific concerns
- Forecast portfolio earnings growth continues to exceed the FTSE Smaller Companies Index significantly, despite much lower financial gearing of the portfolio¹
- Portfolio rating remains steady¹ and is inflated by material net-cash balance sheets of some holdings
- Continued deliberate shift of the portfolio away from cyclical holdings to structural/acyclical growth
- Prospects at Tribal transformed due to new CEO, disposal of non-core asset and rights issue. Shares rally 115% in Q1

Share price & discount

- Average discount of c.2.2%¹ over the quarter, ending the period at c.4.6%

Q1 2016 Highlights

Investment highlights¹:

- Net assets per share decreased by 1.7%, compared with the 0.6% fall in the FTSE Smaller Companies (ex investment trusts) index
- 13.5% net cash at the end of March – stable over the quarter
- Portfolio companies results and trading statements have tended to be in line
- Underperformers appear to have stabilised or are stabilising. Engagement less intense than Q4 2015
- Portfolio forward earnings growth marginally decreased from 14.7% to 13.9% over the quarter. Portfolio rating is broadly unchanged

Unaudited financial highlights¹:

- Net assets of 209.0p per share²
- Average discount in Q1 2016 was 2.2% compared to a premium of 5.3% in Q4 2015³

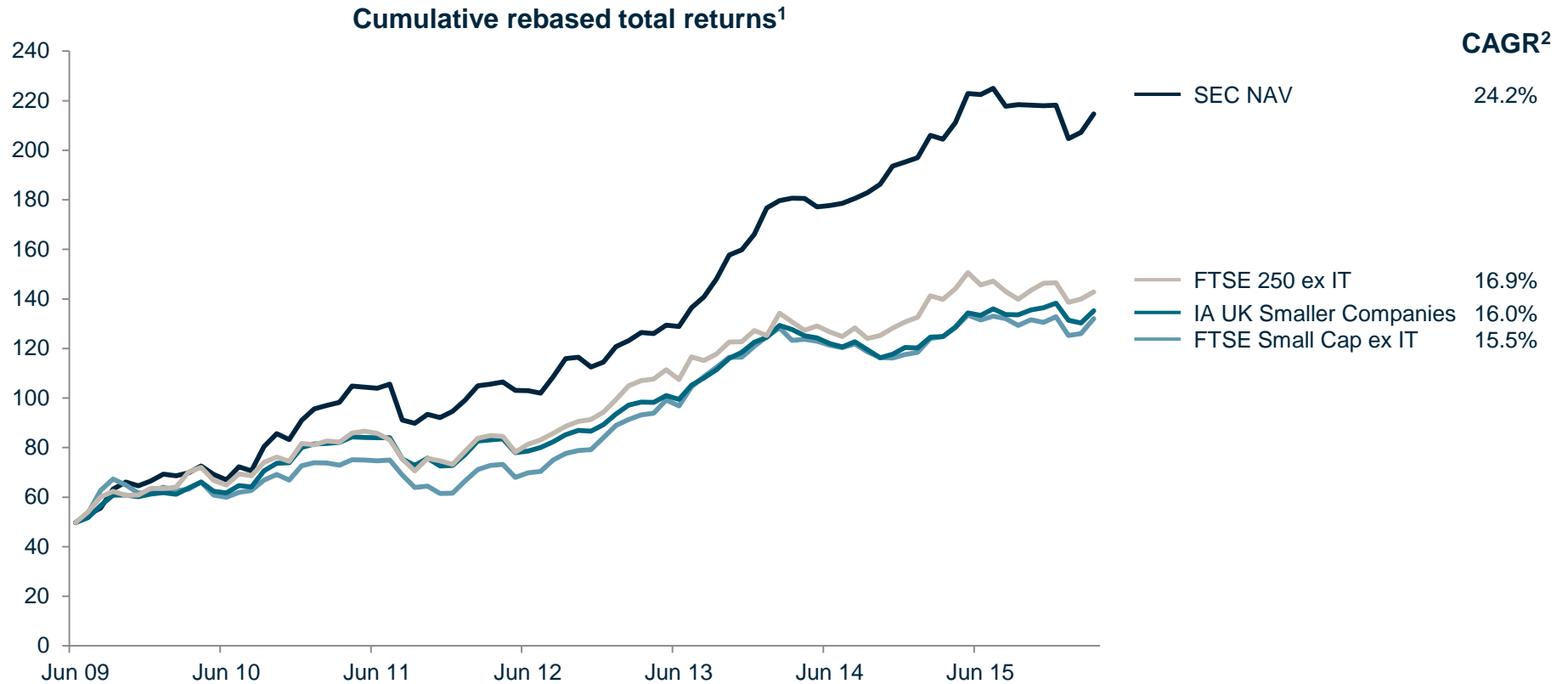
We believe that the portfolio health is good. Obvious underperformers appear to be stabilised or stabilising

As at 31st March 2016

Source: 1. Bloomberg, Capita, GVQIM. 2. NAV unaudited. 3. Bloomberg

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 March 2016

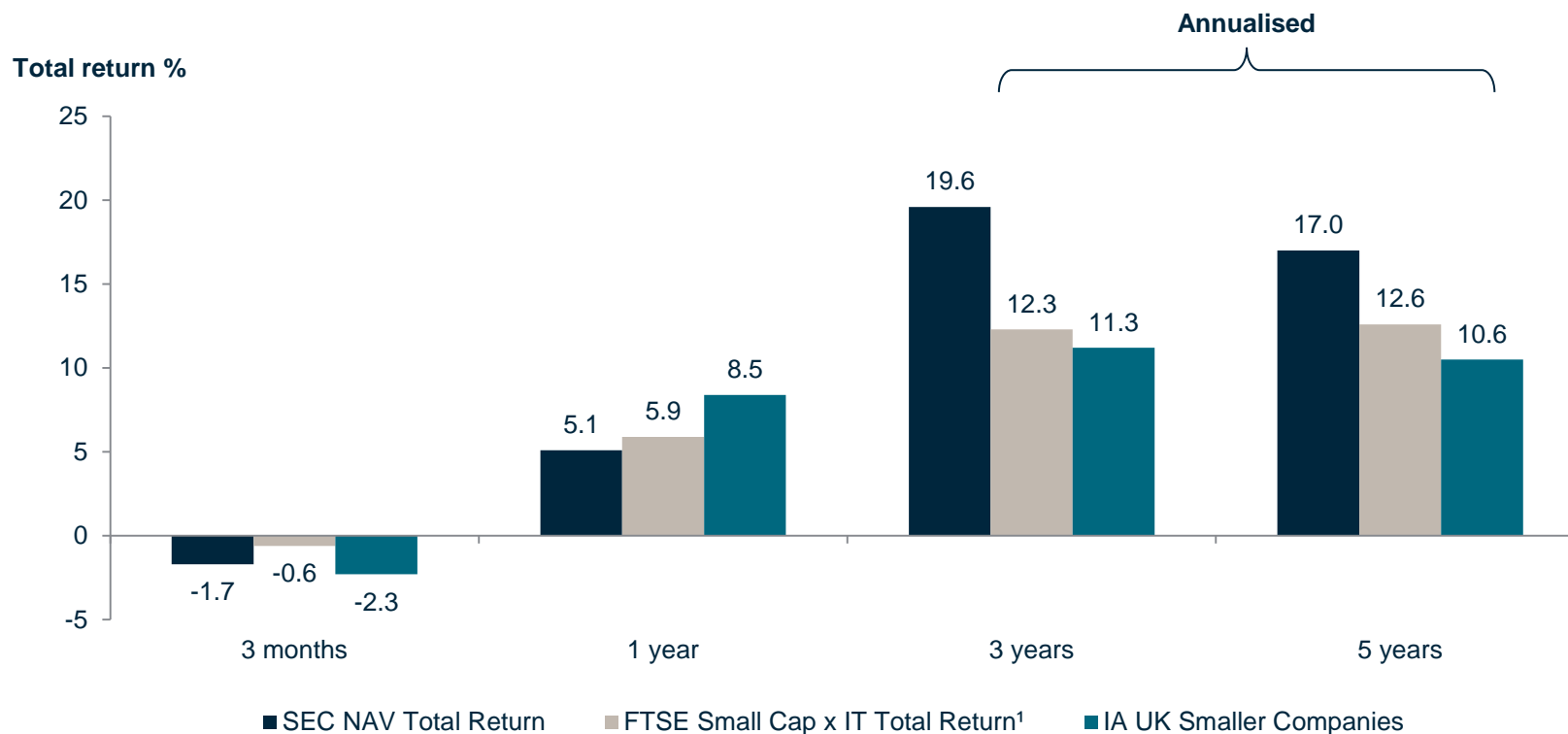
Source: IA; Bloomberg; Capita; iiii data

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

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Medium and long term outperformance

SEC NAV performance against comparator index¹ & IA Sector²



Average Net Cash	13.4%	11.1%	10.7%	8.6%
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Strong medium and long term annualised absolute and relative performance

As at 31st March 2016

Source: Unaudited Bloomberg; Capita; IA; GVQIM

Note: 1. Comparator index FTSE Small Cap ex Investment Trusts Total Return. 2. IA data aggregates performance of some 53 smaller company open ended funds
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Q1 performance attribution

Company	Total return three months to 31 st March 2016 (%)	Contribution to return (bps)	GVQIM Comment
Top 5 contributors			
Tribal Group	114.9%	262	New CEO, disposal of non-core asset and rights issue announced
Servelec Group	14.3%	211	In line final results. Announced acquisition of Synergy from Tribal
Iomart	25.6% ¹	15	In line trading update showing 9% organic growth
Gooch & Housego	1.0%	7	In line AGM statement
OMG	2.3%	5	In line AGM statement
Bottom 5 contributors			
Goals Soccer Centres	-42.9%	-219	Final results in line with expectations – market recognition of poor trading in H2
Clinigen Group	-17.7%	-148	In line interim results. De-rates on some concerns on H2 weighting
EMIS Group	-10.0%	-84	In line trading statement and results at earnings level. Behind on sales & cash
e2v technologies	-4.3%	-46	In line Q3 trading statement. Small bolt on acquisition
Brooks MacDonald	-9.0%	-32	Trading statement and interims. In line/ahead except CI ² where profits lower
Total	-1.7%	-168	Average net cash position 13.4%
FTSE Small Cap Ex IT	0.6%	-58	

Portfolio trading typically in line. Tribal stabilised. Goals severely de-rated despite hitting revised forecasts

As at 31st March 2016

Source: Attribution estimates based on FactSet Portfolio Analysis and GVQIM

Notes: 1. From date of purchase on 22nd January 2016 to the end of the period; 2. Channel Islands

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Q1 was another quiet trading period

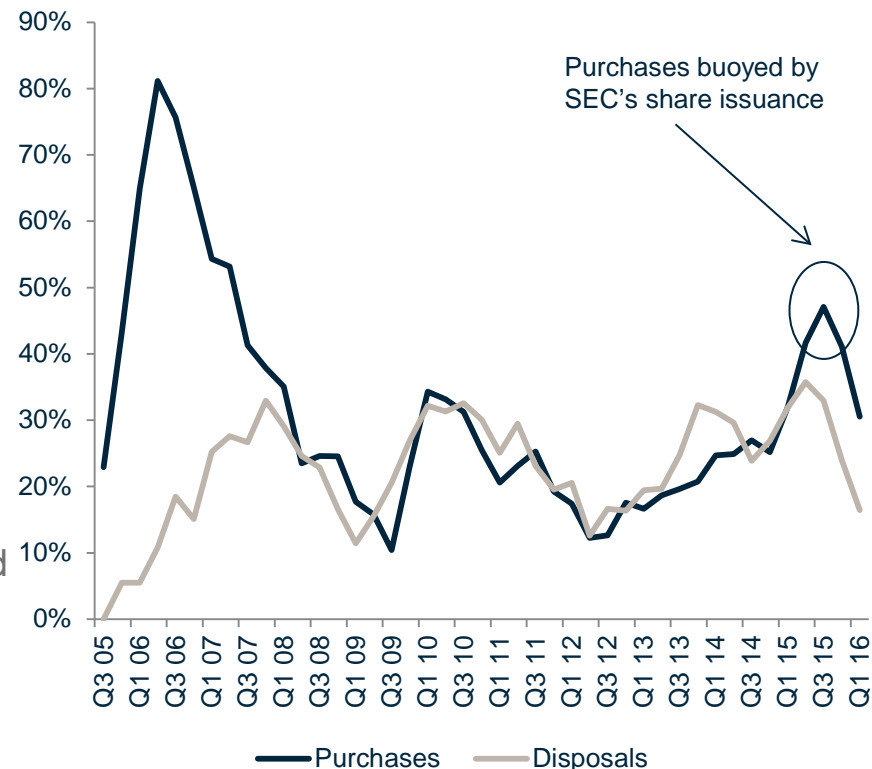
Investments & pipeline

- Two small new investments initiated
- Some buying back of holdings which were top sliced in December when they were trading at much higher levels
- Pipeline improving. However we are price sensitive and keen to maintain decent cash balances

Realisations

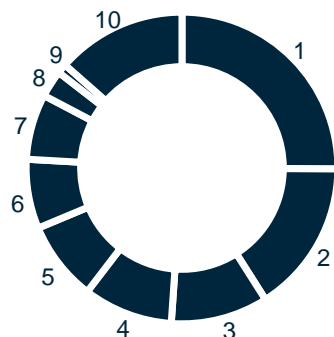
- Profits continued to be taken on Idox and OMG
- Holdings in Gooch & Housego and Tyman were top sliced after strong share price performances

Moving annual total purchases and sales as % of NAV

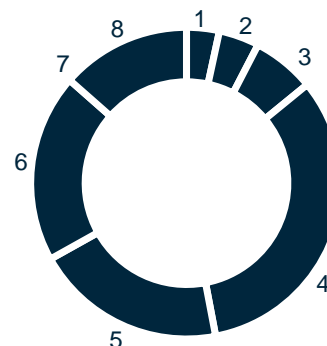


Ex share issuance by SEC we continue to expect 25-33% underlying portfolio turnover in the long term

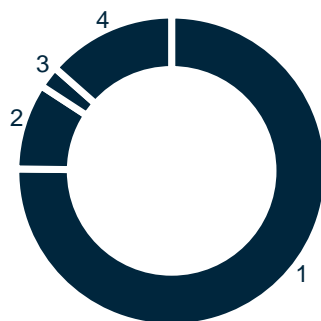
Highly concentrated and unconstrained portfolio



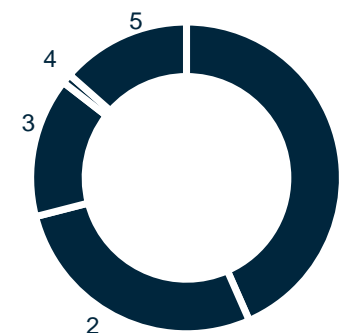
Sector exposure by value		
1	Technology – software & services	25.1%
2	Electronics	15.9%
3	Support services	10.1%
4	Financials	9.3%
5	Media	8.3%
6	Industrials	7.2%
7	Healthcare	6.8%
8	Consumer Services	2.8%
9	Unlisted	1.0%
10	Net cash	13.5%



Value by market cap band		
1	<£50m	3.4%
2	£50m - £100m	4.2%
3	£100m - £200m	6.5%
4	£200m - £300m	32.9%
5	£300m - £500m	18.9%
6	> £500m	19.6%
7	Unlisted	1.0%
8	Net cash	13.5%



Concentration		
1	Top 10	75.2%
2	Rank 11 - 15	9.0%
3	Smaller holdings	2.3%
4	Net cash	13.5%



Value by index membership			No. Holdings
1	Small Cap	43.4%	7
2	Aim	27.6%	9
3	Other ¹	14.5%	2
4	Unlisted	1.0%	1
5	Net cash	13.5%	

Genuine small cap portfolio – no members of FTSE 250

As at 31st March 2016

Source: GVQIM

Note: "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-£250m
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Portfolio valuation

	Portfolio weighted average	Portfolio weighted median	FTSE UK Small Cap ex investment trusts	FTSE UK Small Cap ex investment trusts ex resources
Number of securities	20	20	157	142
Market capitalisation (£m)	342	264	305	304
Consensus EV/EBITDA FY1	10.1x	10.8x	7.3x	8.1x
Consensus price earnings FY1	17.2x	17.0x	12.0x*	12.2x*
Consensus FY1 earnings growth	13.9%	10.3%	8.1%*	8.3%*
Consensus dividend yield FY1	2.2%	2.4%	3.5%	3.6%
Price/book FY1	3.1x	3.1x	1.1x	n/a
Price/sales FY1	2.2x	2.0x	0.6x	n/a
Price/cash flow	15.2x	14.6x	n/a	n/a
Debt to EBITDA	-0.2x	-0.3x	2.1x	2.0x
GVQIM cash flow yield FY1 ¹	9.5%	8.6%	n/a	n/a
Overseas sales as %	42.2%	37.0%	n/a	n/a

Portfolio growth remains strong and materially exceeds typical smaller quoted company. Portfolio aggregate gearing is much lower – as a result we believe that EV/NOPAT² valuation will be much closer to the market

As at 31st March 2016 for SEC; as at 1st April 2016 for Index data

Source: Factset portfolio analysis; Bloomberg; Peel Hunt; * Index is ex loss makers – i.e. valuation is flattered.

Note: 1. GVQIM cashflow yield: (12m forward Cash EBITDA minus maintenance capex)/(market capitalisation plus 12m forward net debt) . 2. EV/NOPAT: Enterprise Value/Net Operating Profit after Tax
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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	12 month catalyst	Market leader ²
Servelec	2013	Technology	>5%	Medium	Ahead	7.8%	-1.2x	Integration of Synergy. AMP6 wins for Technologies. Traction with Controls	Yes – UK niches
e2v technologies	2009	Electronics	>5%	Medium	In line	10.8%	0.0x	Evidence of returns improving in Space imaging	Yes - niche
Wilmington	2010	Media	>5%	Medium	In line	10.4%	0.9x	Overseas growth; degearing; M&A	Yes - niche
EMIS	2014	Technology	>3%	Medium	Ahead	8.3%	-0.3x	Traction in secondary care business	Yes – UK
Clinigen	2014	Healthcare	<3%	Medium	Ahead	9.0%	0.7x	Return to organic growth in General Access and Managed Access	Yes – niche
4 imprint	2006	Support Services	>3%	Medium	Ahead	8.0%	-0.3x	Continued US growth. Pension fund buyout completed	Yes - US niche
IFG Group	2015	Financials	>5%	High	Ahead	12.2%	-2.7x	Sustainability of margin in James Hay. Increased interest from London investors	#2 in high end SIPPs
Gooch & Housego	2011	Electronics	>3%	Medium	In line	8.5%	-1.5x	Initial evidence of success in self-help. Bolt on M&A?	Yes – niche
Tyman	2009	Industrials	>5%	Medium	In line	10.2%	2.0x	Pent up demand in US market; US restructuring programme	Yes – niche
Tribal	2014	Support Services	>5%	High	Behind	8.1%	2.1	Repaired balance sheet. CEO sets out and delivers improvement plan	Yes - UK

Market leaders with strong cashflow and balance sheets. Arguably many are over capitalised

As at 31st March 2016. Source: GVQIM analysis; Capita

Note: 1. Top 10 holdings representing c.76% 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

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Portfolio company updates (1 of 2)

- **Servelec**
 - In line final results despite material headwinds in 2015 from Technologies division
 - Outlook for 2016 and 2017 & 2018 in particular look very strong
 - Highly complementary acquisition of Synergy from Tribal plc (see below)
 - Shares performed exceptionally well despite ending 2015 strongly
 - We continue to believe that good upside remains
- **EMIS**
 - In line trading statement on earnings, but slight miss on sales and cashflow – opportunity to top up
 - Misses were driven by late signing of reasonably sizeable software sales in secondary healthcare (completed Q1 2016)
 - Significant work undertaken in year to improve performance of secondary healthcare business
 - Primary healthcare business showing consistent evidence of regaining market share
 - Growth prospects for the next five years more diverse than last five years, but double digit earnings growth still anticipated
- **Clinigen**
 - Interim results broadly in line. Cashflow ahead of expectations
 - “Digestion” of IDIS and Link Healthcare, as well as deliberate exit of low margin contracts provided growth headwind
 - Growth prospects for second half much improved, augmented by favourable FX. Some moderate downside risk due to timings of business wins – but would provide a tailwind for 2017
 - We believe that the prospects for 2017 and 2018 are very good
- **4imprint**
 - Yet another year of strong organic sales and profits growth (20% in US\$), as well as market share gain
 - Capital investment completed to enable the business to double in size again
 - Further action taken to reduce the exposure to the legacy DB pension scheme significantly

Portfolio company updates (2 of 2)

- IFG Group
 - Final results released in March 2016 were materially ahead of market and our expectations
 - Margin improvement at the investment platform business James Hay was significantly better than anticipated
 - Earnings growth outlook maintained; outlook for organic growth at both divisions remains good
 - We continue to believe that it remains under-owned and materially undervalued
- Gooch & Housego
 - In line AGM statement. H2 trading to benefit from cost savings and improving order intake
 - Short term trading has seen weakness in microelectronics compensated for by strong trading in HI REL subsea couplers
- Tyman
 - Final results slightly better than anticipated
 - Outlook for US market in 2016 is good after disappointing 2015. Canada continues to be weak. “Green shoots” in EU ex UK
 - Announced internally funded acquisition of Giesse. At face value, it appears a good fit
- Tribal Group
 - New Chairman and Senior Non-Exec Director have been exceptionally active
 - Disposal of non-core business announced in March. Reduces the size of the rights issue and reduces dilution
 - New CEO announced and in situ. Former CEO of Allocate Software plc who we know well (SEC investment 2009-2014)
 - Significant personal investments made by new Chairman, Senior non-Exec and CEO
 - Investor sentiment transformed – shares up 115%. In Q1 and notably significantly since the announcement of the rights issue
- Goals Soccer
 - Final results in line with trading statement in December 2015. Reported return to L4L growth in 2016
 - However shares de-rated materially on realisation of how poor H2 performance was and the relatively high leverage
 - New Chairman still in diagnosis phase. CEO appointment progressing

Portfolio positioning & investment tactics

On a short to medium term view, we believe that market risks remain high

We continue to use six strategies, which are not mutually exclusive, to protect and grow the NAV

1. Invest in above-average quality companies
2. Strong balance sheets – aggregate portfolio companies, as well as SEC’s own. Where appropriate, support balance sheet strengthening with new equity
3. Margin upside/self help potential to drive profit growth at portfolio companies, even in a low sales and economic growth environment
4. Selective corporate engagement to enhance value
5. Sell discipline if shares trade above our perceptions of fair value
6. Avoid companies with poison pills (DB pension deficits; blocking shareholders), which could frustrate or fetter M&A activity

In addition, our preference over the last 24 months has been to favour structural growth/themes for new investments over cyclical growth or recovery

Structural/acyclical exposure continues to increase. Net cash expected to be 10-15%

Investment themes accounting for c.64% of the NAV

Theme	NAV %	Portfolio Companies	Comments & GVQIM views
Electronic records systems – healthcare & students	20%*	EMIS Servelec Health Tribal	Structural growth & significant demand for systems upgrades “Sticky” customers Scope for national and international consolidation
Niche electronics for existing and new aerospace, defence, space, life sciences applications. Move up value chain from component to subsystems Improved management execution	15%	E2V Gooch & Housego	c.20% of sales exposed to more cyclical microelectronics Other applications are leading edge/enabling technologies Move up value chain is structural trend Multiple self-help opportunities
Growth of DC pensions & self managed investments. Beneficiaries of “death of annuities”	9%	Brooks MacDonald IFG Group	Both are well placed in different ways to benefit from multi-year market tailwinds. Additional margin upside?
Ethical unlicensed drug supply/sourcing , “salvage” medicines, outsourced sourcing of comparator drugs for trials	7%	Clinigen	Niche provider in structural growth market Some very high market shares following IDIS acquisition Link Health acquisition helps expand geographic footprint
Automation, Telemetry and SCADA products and systems	6%	Servelec Controls and Technologies	Structural growth areas due to compelling ROI for customers Niche operator. Few direct competitors
Continued recovery in US Residential Construction	6%	Tyman	New housing starts still materially below average since 1959 We believe medium term outlook remains good

Structural/acyclical growth themes continue to prevail in the portfolio

NAV exposure as at 31st March 2016

Source: GVQIM

Note: * Proforma assuming rights issue for Tribal taken up in full. Irrevocable undertakings have been given for this

UK OUTLOOK

- **Positives**

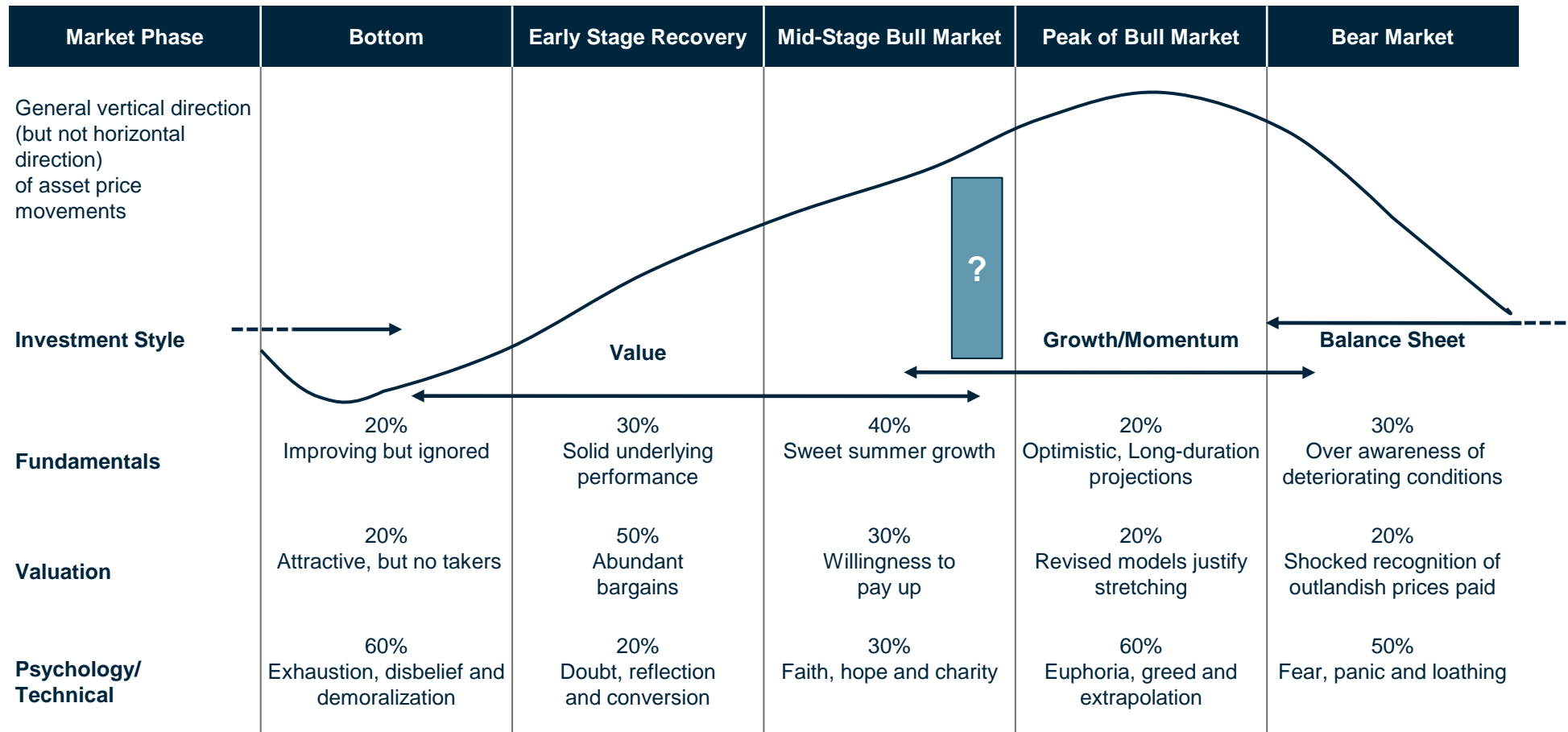
- Decline in corporation tax continues to be an earnings tailwind to 2020 (albeit time limited). Also likely to broaden investment universe via new IPOs. Supply of stock may limit further re-ratings
- Research coverage and active broking of smaller companies stocks continues to deteriorate – better for research intensive, selective stock-picking
- Mainstream UK Smaller Companies fund managers continue to shun <£300m market cap companies other than IPOs, due to lack of liquidity
- Large and mid sized companies look fully priced in aggregate for modest growth. Small companies look attractively rated again?
- Detractors in SEC's portfolio have stabilised

- **Negatives**

- The market appears to be being driven in the short term by asset flows / QE -> equities least over-valued asset? Not a fundamental/conviction market
- About-turn in Federal Reserve rates guidance is worrying
- Global macro risks remain unresolved: Eurozone/EU; Chinese shadow banking & equity bubble; public sector indebtedness and persistent budget deficits
- Geopolitical risks remain e.g. Iraq/Syria/ISIL; Schengen & Brexit
- Liquidity in companies <£400m market cap remains poor (although our investment style could thrive on worsening liquidity)
- UK public spending cuts will accelerate post 2015 – focus appears to be on welfare
- Decline in corporation tax and reduction in tax deductibility of interest is detrimental to private equity investment model and is likely to reduce P2P activity

Much “noise”. Brexit impact potentially less material than a debt crisis in Europe

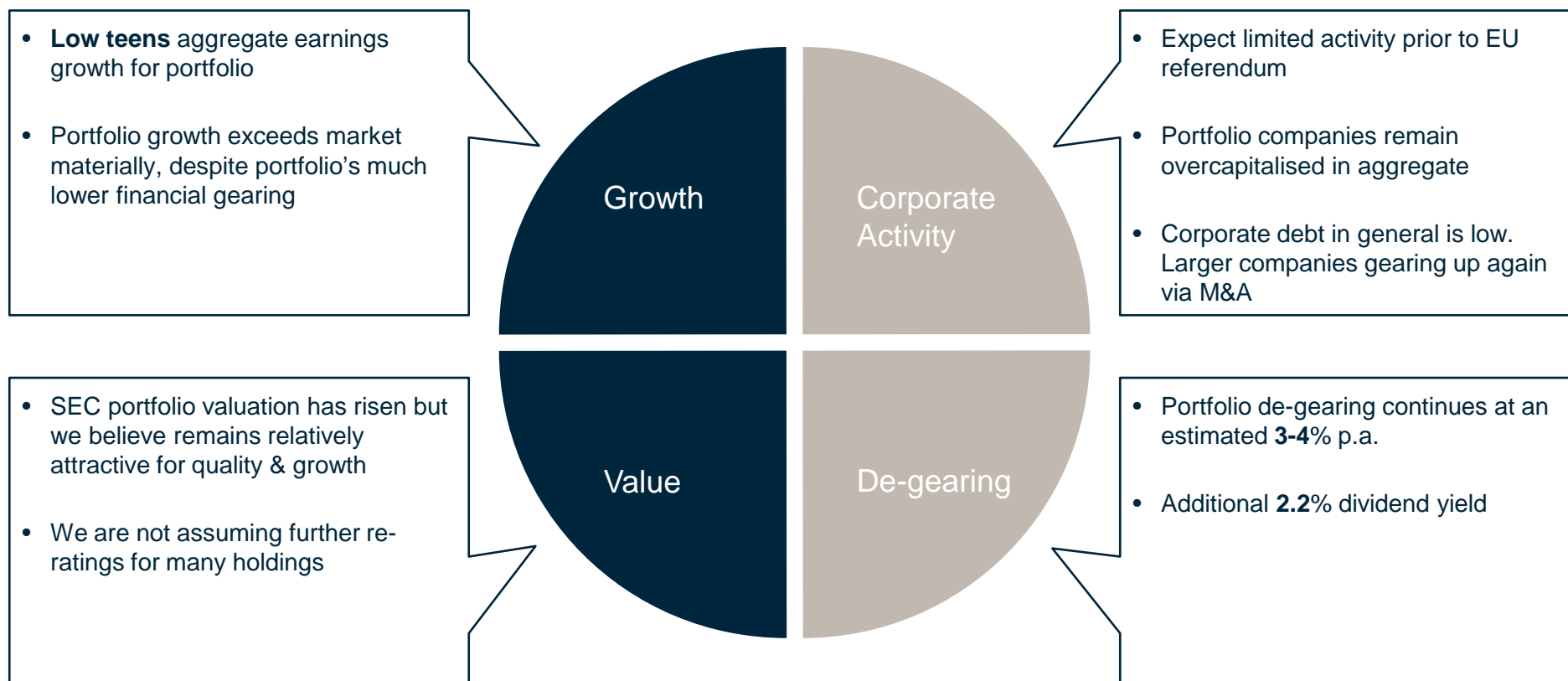
The investment cycle – where are markets now?



Multiple evidence points to late mid stage.....unclear how long this will last.....QE unprecedented...

Earnings growth, cashflow and M&A to drive returns

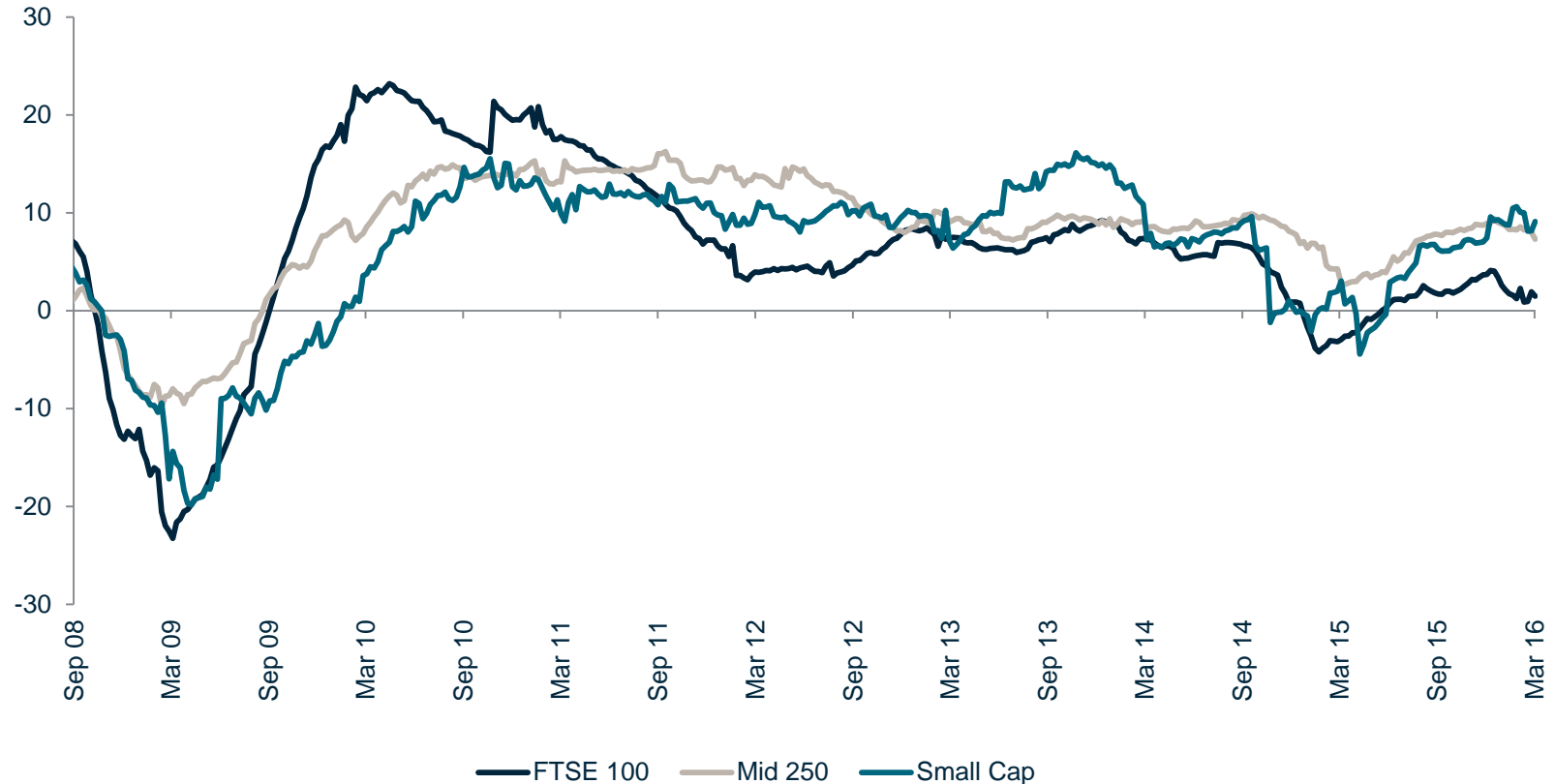
SEC portfolio



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

12-month forward EPS¹ growth projections

12m forward EPS growth by FTSE index ex investment trusts September 2008 to date²



Earnings growth forecasts for 2016 remain strong

As at 31st March 2016

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

How SEC's portfolio dynamics differ to the market

Valuation and growth metrics of key indices ex oil, miners and ex loss makers and non-dividend payers¹

Index	Average market cap	12m forward p/e	12m forward eps growth	12m forward dividend yield	Growth & yield	PEG ratio	PE/(growth + yield)	Net debt/ EBITDA
FTSE 100	£15.8bn	15.0x	5.2%	3.9%	9.1%	2.9x	1.6x	1.7x
FTSE 250	£1.6bn	15.4x	6.0%	3.2%	9.2%	2.6x	1.7x	1.6x
FTSE Small Cap	£304m	12.2x	8.3%	3.6%	11.9%	1.5x	1.0x	2.0x
FTSE Fledgling	£43m	13.3x	14.4%	3.8%	18.2%	0.9x	0.7x	1.2x
FTSE AIM	£87m	15.8x	15.0%	2.4%	17.4%	1.0x	0.9x	1.2x
SEC portfolio	£342m	17.0x	13.9%	2.2%	16.1%	1.2x	1.1x	-0.2x

Gearing levels of smaller companies continue to rise compared with previous periods

FTSE 100 and FTSE 250 Indices on PEG ratios of well over 2x. EPS Growth & yield still >9%

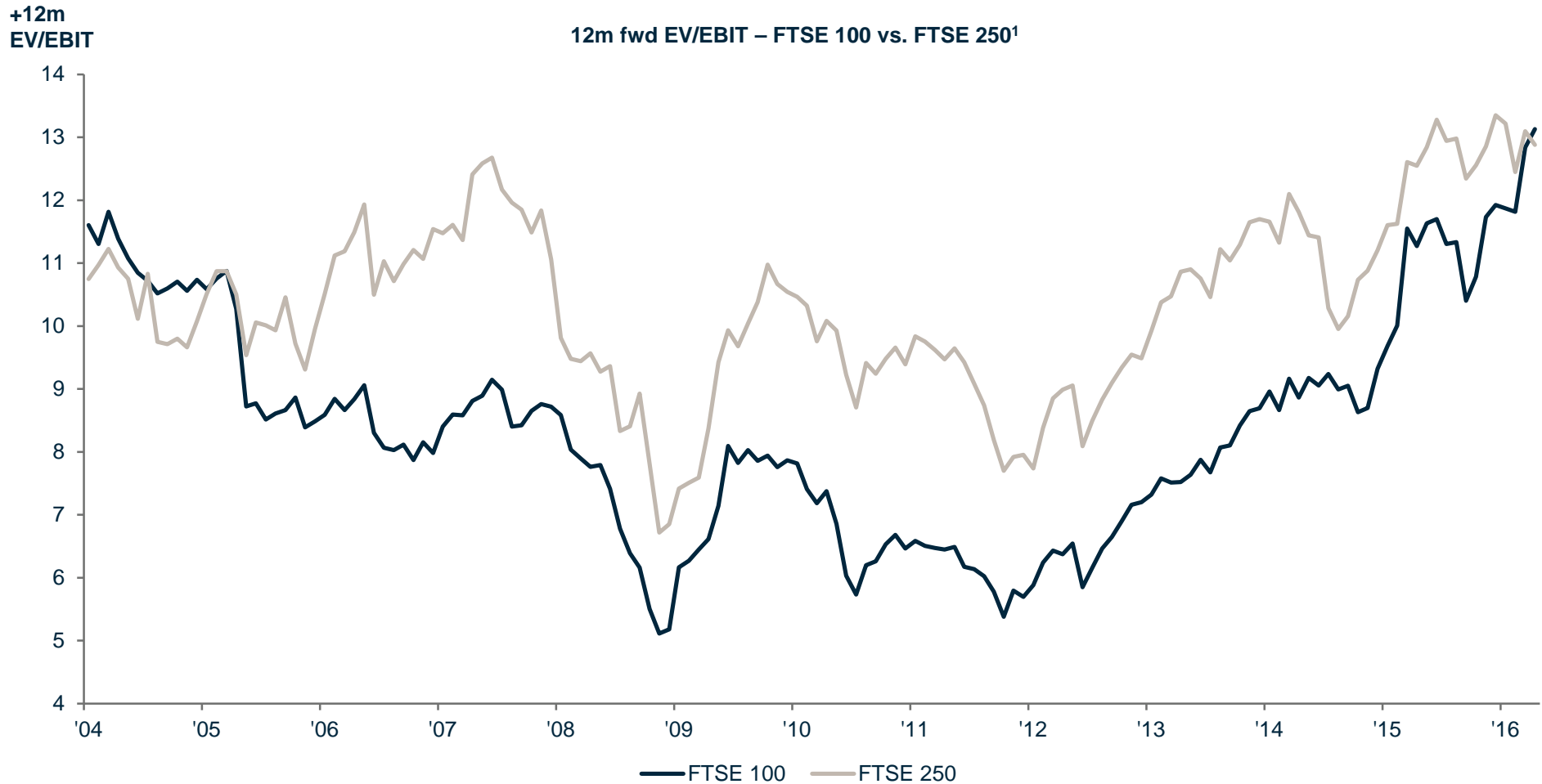
As at 31st March 2016 for SEC and 1st April 2016 for index data from Peel Hunt

Source: 1. Peel Hunt; Capita; Factset; GVQIM

Note: Indices presented exclude resources and financials, as well as non-dividend payers and loss makers

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FTSE 100 & 250 EV/EBIT multiples are at 12 year highs



Re-rating since the global financial crisis has largely played out?

As at 31st March 2016

Source: Liberum, Datastream

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

The convergence of p/e and EV multiples

How lower interest rates and corporation tax change relative p/e and EV/EBIT multiples

Empirical example - Company X

Years starting 1st April	2007	2008-11	2011	2012	2013	2014	2015/6	2017-2019	2020
Net debt	-10	-10	-10	-10	-10	-10	-10	-10	-10
EBIT	10	10	10	10	10	10	10	10	10
Interest rate	5%	3%	3%	3%	3%	3%	3%	3%	3%
PBT	9.5	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7
Corporation tax rate	30%	28%	26%	24%	23%	21%	20%	19%	17%
PAT	6.7	7.0	7.2	7.4	7.5	7.7	7.8	7.9	8.1
Market cap @ 14x p/e	93	98	100	103	105	107	109	110	113
EV/EBIT	10.3	10.8	11.0	11.3	11.5	11.7	11.9	12.0	12.3

- **Implications for private equity – expect more IPOs and fewer P2Ps**

- For the same exit p/e multiple at IPO a much better EV and EV rating is achieved. IPO exit more compelling than pre 2008
- Conversely, take privates are likely to be “more expensive”, especially given the lower tax deductibility of interest

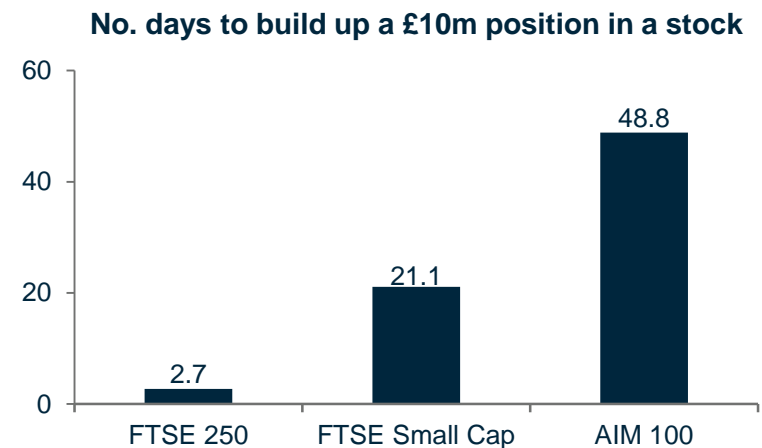
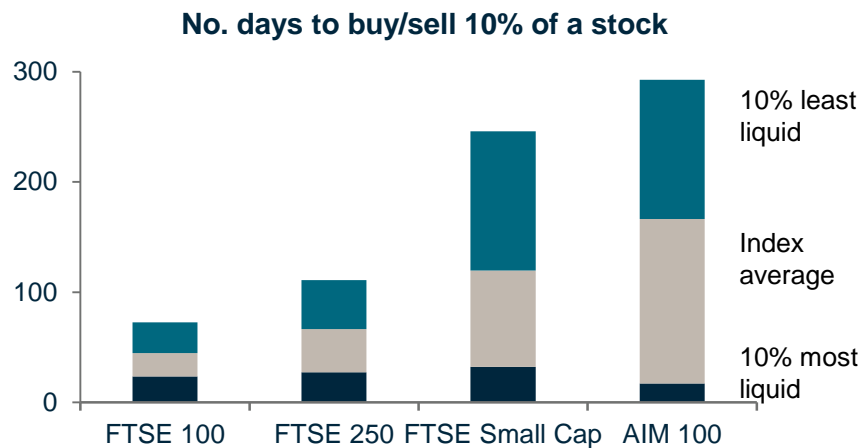
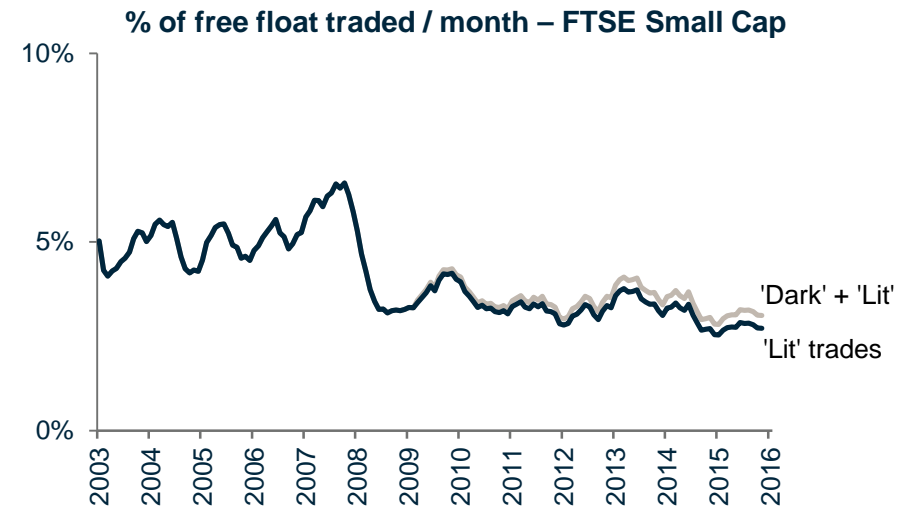
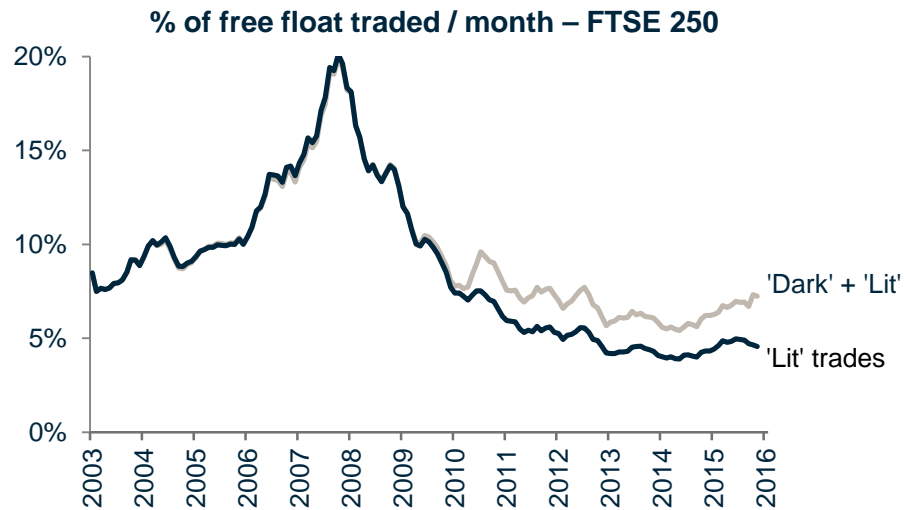
EV multiples +20% for same p/e

- **Implications for UK PLCs**

- Lower cost of finance and lower tax rates is likely to make them more competitive bidding against PE houses for acquisitions
- Likely to see more re-shoring of corporates to the UK, maybe tax inversion deals
- UK PLCs optically more expensive to potential bidders (trade or PE) on an EV basis

We believe that this dynamic is likely to lead to an increase in the number of UK quoted companies

Liquidity below the FTSE 250 remains poor



Unlike the FTSE 250, Small Cap liquidity remains materially below that of 2003-2006

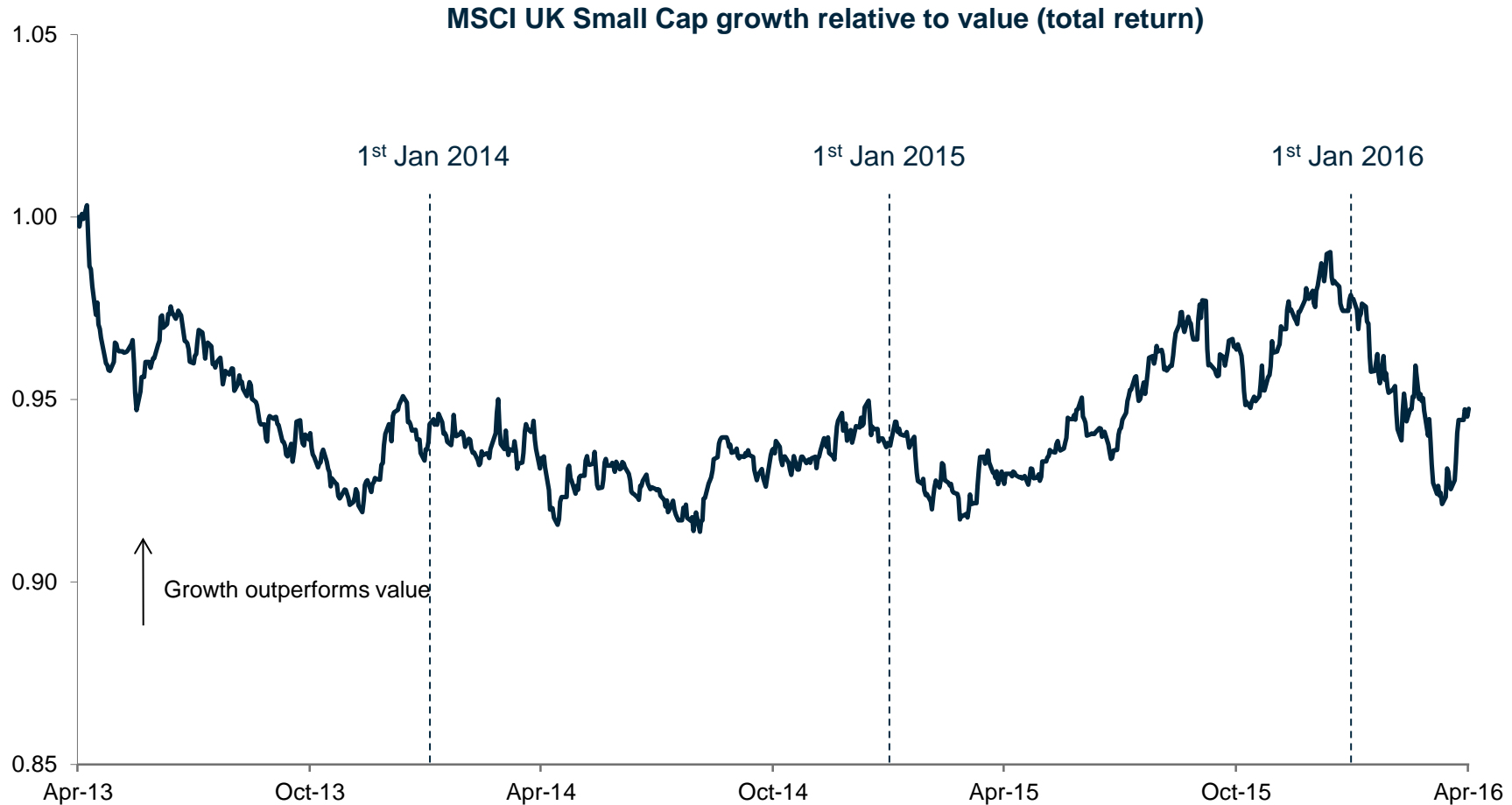
As at 31st March 2016

Source: Liberum, Bloomberg

Note: 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

UK Small Cap style performance analysis



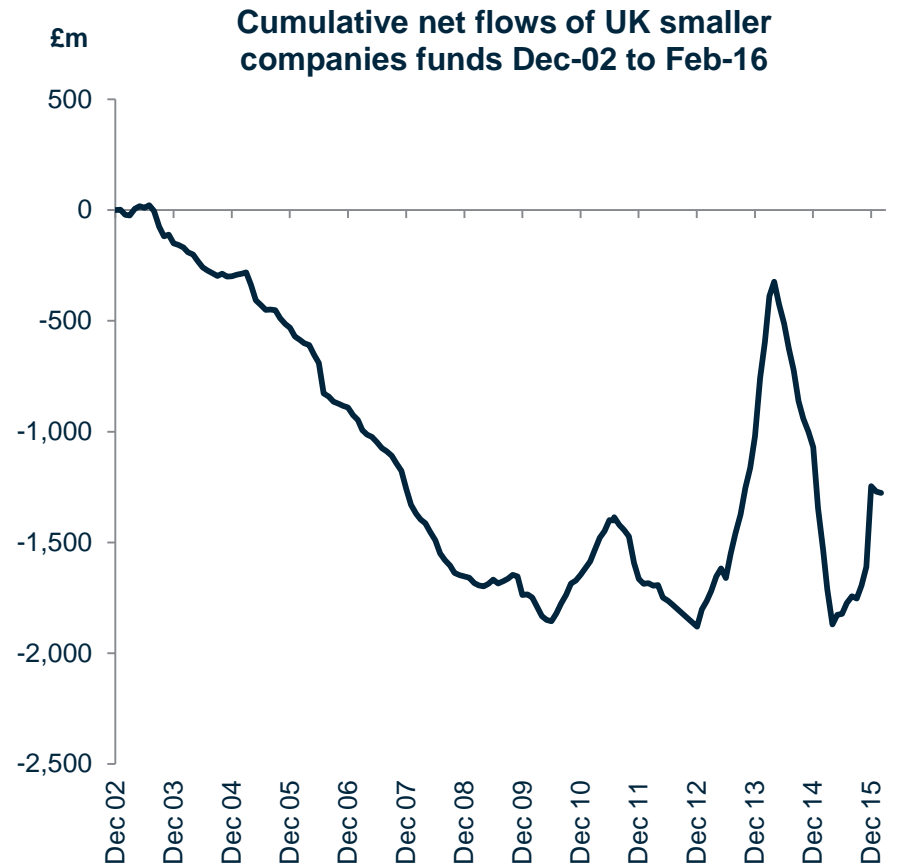
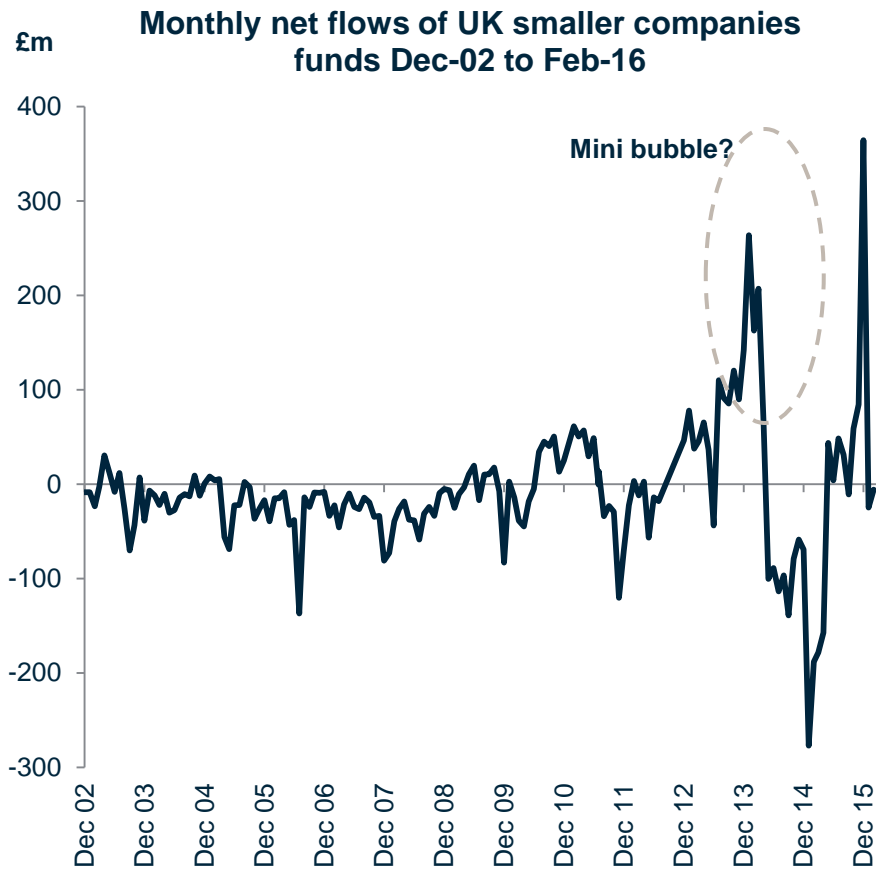
Data appears to support our experience that H2 2015 saw a material rally in growth/momentum which reversed aggressively in Q1 2016

As at 31st March 2016

Source: Liberum, Bloomberg

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

UK Smaller Companies OEIC flows



£364m inflow in December – the bulk of which was reported as a £288m institutional inflow

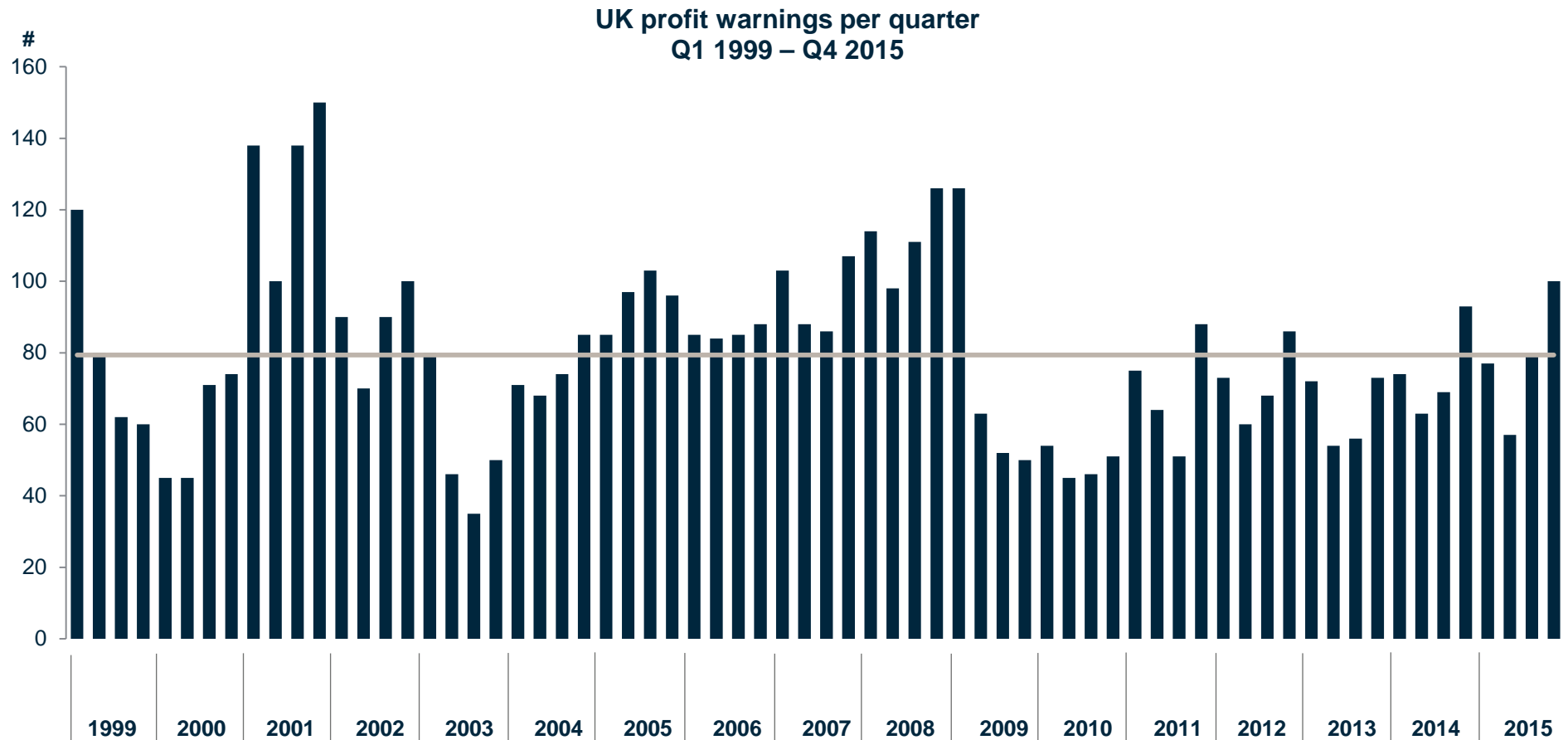
As at 29th February 2016

Source: Investment Association

Note: Total AUM in the IA UK Smaller Companies Sector in February 2016 £11.8bn

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

Q4 2015 UK profit warnings highest since Q1 2009



Profit warnings significantly increased in Q4 and broadened out on a sector basis

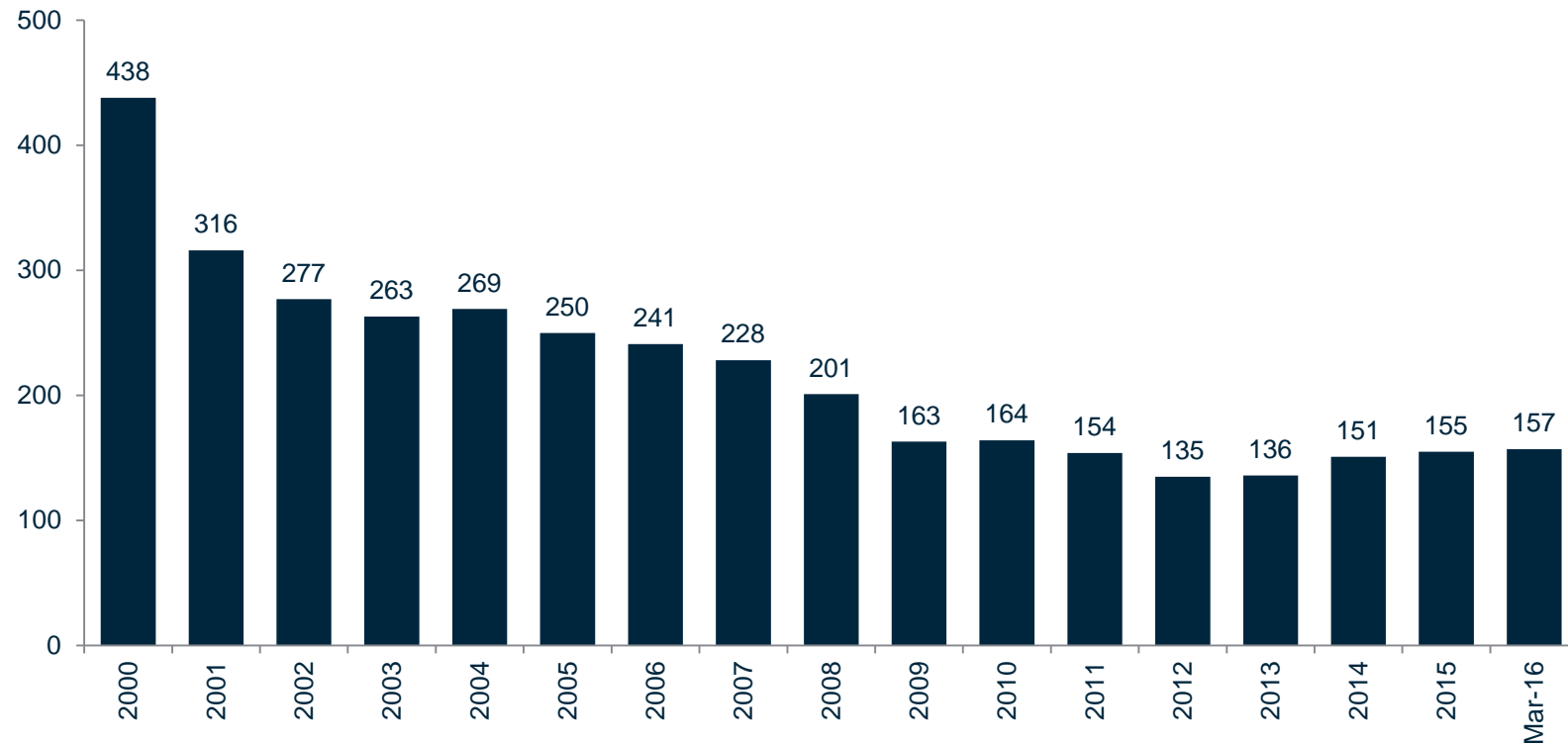
As at 31st December 2015

Source: Ernst & Young

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

Growth in number of smaller companies has paused

Constituents of the FTSE Small Cap ex Investment Trusts Index



Number of constituents of smaller companies index is gradually recovering

As at 31st March 2016

Source: Numis Securities; Bloomberg

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

APPENDIX

Calendar Year Annual performance¹

	2016 YTD	2015	2014	2013	2012	2011	2010	2009
Share Price Total Return	-9.4%	14.2%	32.6%	61.4%	25.6%	9.4%	35.1%	252.1%
NAV Total Return	-1.7%	12.1%	18.0%	46.0%	21.3%	3.9%	37.1%	63.8%
FTSE Small Cap ex Investment Trusts Total Return	-0.6%	13.0%	-2.7%	43.9%	36.3%	-15.2%	16.9%	57.7%
IA UK Smaller Companies	-2.3% ²	14.7%	-1.7%	37.4%	22.5%	-9.0%	30.8%	50.1%

Only UK Smaller Companies investment trust to deliver positive returns in 2011

As at 31st March 2016

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

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

- 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

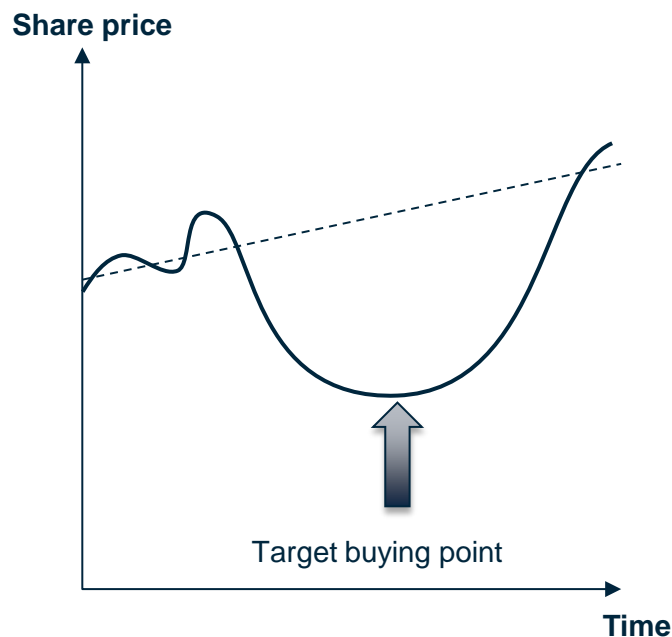
Governance

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

We have learnt what to avoid from previous experiences

Types of market purchases we consider

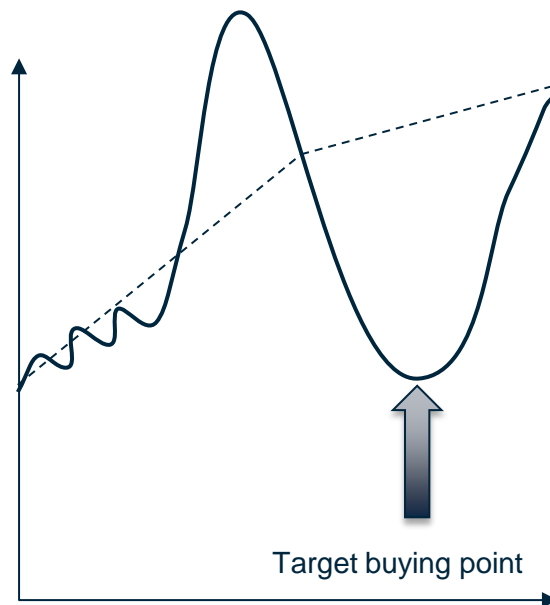
Self help



- Typically low growth businesses
- Some element of engagement required to stimulate performance improvement
- Long term investments

**Identified via deep research.
Require corporate engagement to
unlock value**

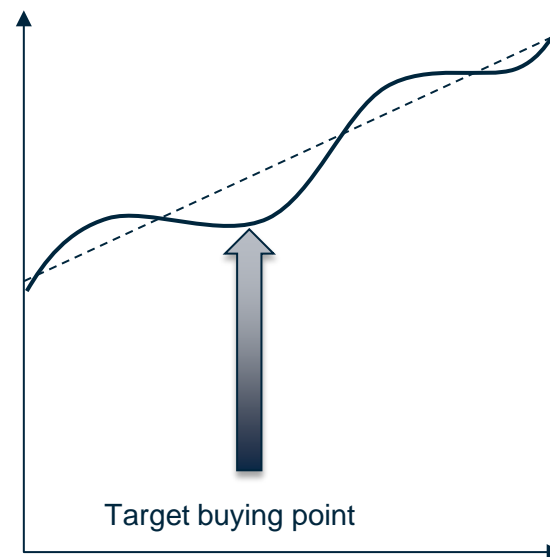
Broken growth



- Momentum stocks, which have gone wrong. Over rated transitions to under rated
- Base investment case attractive even assuming moderate growth
- Often attract corporate suitors

**Shunned by momentum investors.
Some interesting opportunities**

Quality GARP



- Quality, growing, high margin “value compounders”
- Temporary out of favour with investors -> opportunity to buy at a discount to fair value

**Became relatively over valued
in our opinion in late 2015**

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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