STRATEGIC EQUITY CAPITAL PLC

Q2 Update 2016

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FE Crown Rating : 4 crown rating issued July 2016

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: Best UK Equity Silver status 2016 and Winner 2015

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

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

What Investment: Best UK Investment Trust 2015

Investment Adviser: IA 100 UK Smaller Companies Award Winner 2015

Contents

Q2 UPDATE 2016

Q2 2016 Executive summary

- Net assets per share decreased by 5.3%[1] over the period
- FTSE Smaller Companies ex Investment Trusts Index decreased by 4.1% in Q2 2016. We estimate that the IA UK Smaller Companies sector decreased by 7.5%
- Profit warning from Servelec counterbalanced a very resilient performance from the rest of the portfolio
- Net cash balance reduced slightly to 9.5% after a significant new investment (£8.5m) in April
- Forecast portfolio earnings growth continues to exceed the FTSE Smaller Companies Index significantly, despite much lower financial gearing of the portfolio[1]
- Portfolio rating has fallen with the market. Trades at GVQ cash yield of >10% for first time since September 2014
- Significant portfolio exposure to US$. No exposure to “classic” UK domestic consumer stocks such as housebuilders, property, retail, car dealers. Only Leisure exposure is to Goals Soccer – now recapitalised with a refreshed Board
- After reviewing the portfolio post the Referendum result, we concluded only small changes were necessary. However, volatility is significant – both in the market and the portfolio. Daily NAV has varied by up to 250bps vs equivalent indices

Share price & discount

- Average discount of c.4.2%[1] over the quarter, ending the period at c.10.1%

As at 30th June 2016
Source: 1. Bloomberg; Capita; Factset; iii; Trustnet & GVQIM
Note: IA = Investment Association – UK Smaller Company OEICs
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Q2 2016 Highlights

Investment highlights[1]:

- Net assets per share decreased by 5.3%, compared with the 4.1% fall in the FTSE Smaller Companies (ex investment trusts) index
- 9.5% net cash at the end of June – reduced over the quarter following the new investment in Equiniti
- Surprising material profit warning from Servelec, caused by delays across all three uncorrelated and acyclical business units. Although we had been taking profits following the strong performance in Q1, this still had a disproportionately negative impact on the NAV on 15th June. The Servelec Board has taken a very aggressive approach to re-basing estimates. We believe that earnings forecasts have "bottomed out" with the medium and long term risks skewed to the upside
- Portfolio forward earnings growth marginally increased from 13.9% to 14.7% over the quarter. Portfolio rating has fallen both on p/e and EV/EBITDA metrics
- Portfolio has traded resiliently since the result of the EU Referendum

Unaudited financial highlights[1]:

- Net assets of 198.1p per share[2]
- Average discount in Q2 2016 was 4.2% compared to a discount of 2.2% in Q1 2016[3]
- Discount widened materially on the last day of the month to 10.1%[1]

Disappointing performance from Servelec masks a very resilient broad performance over the quarter

As at 30th June 2016
Source: 1. Bloomberg, Capita, GVQIM. 2. NAV unaudited. 3. Bloomberg
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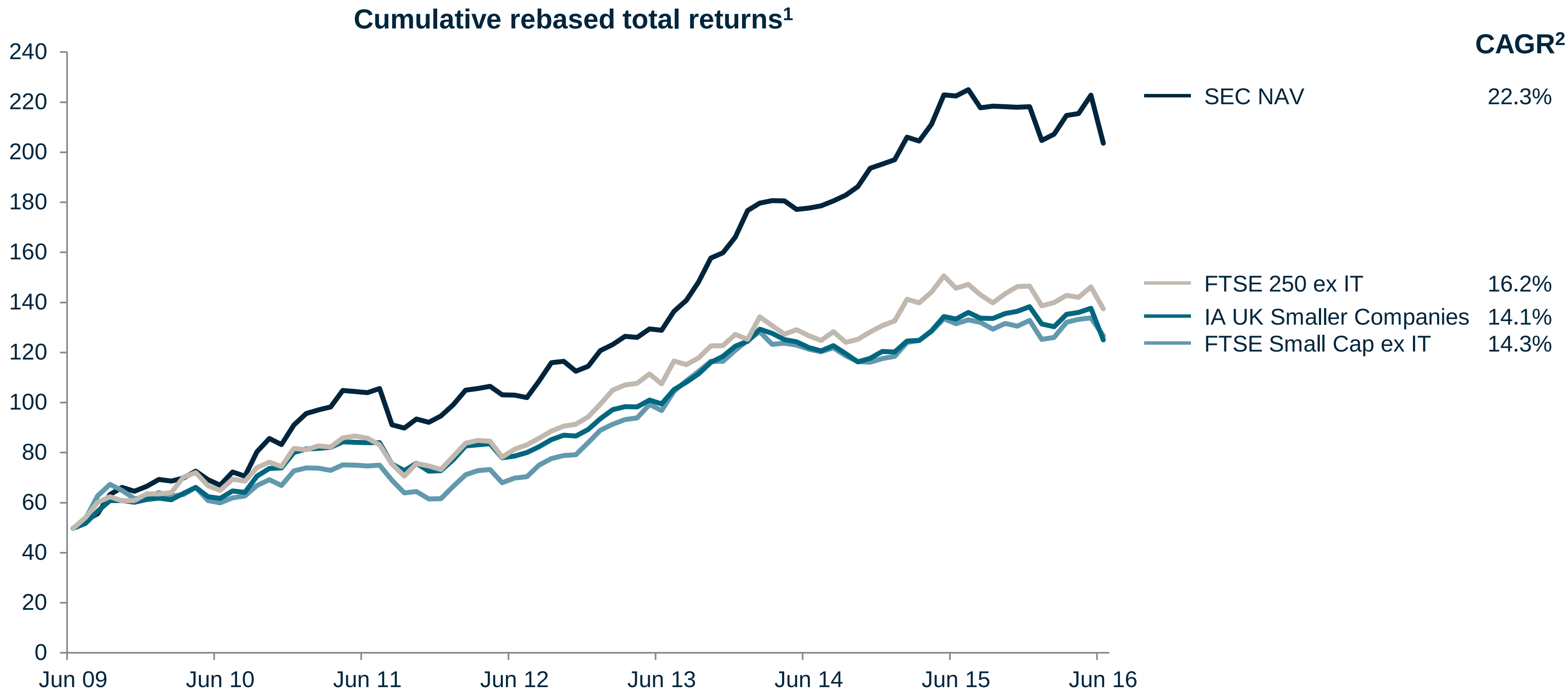
Long term track record



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

As at 30th June 2016
Source: IA; Bloomberg; Capita; iii 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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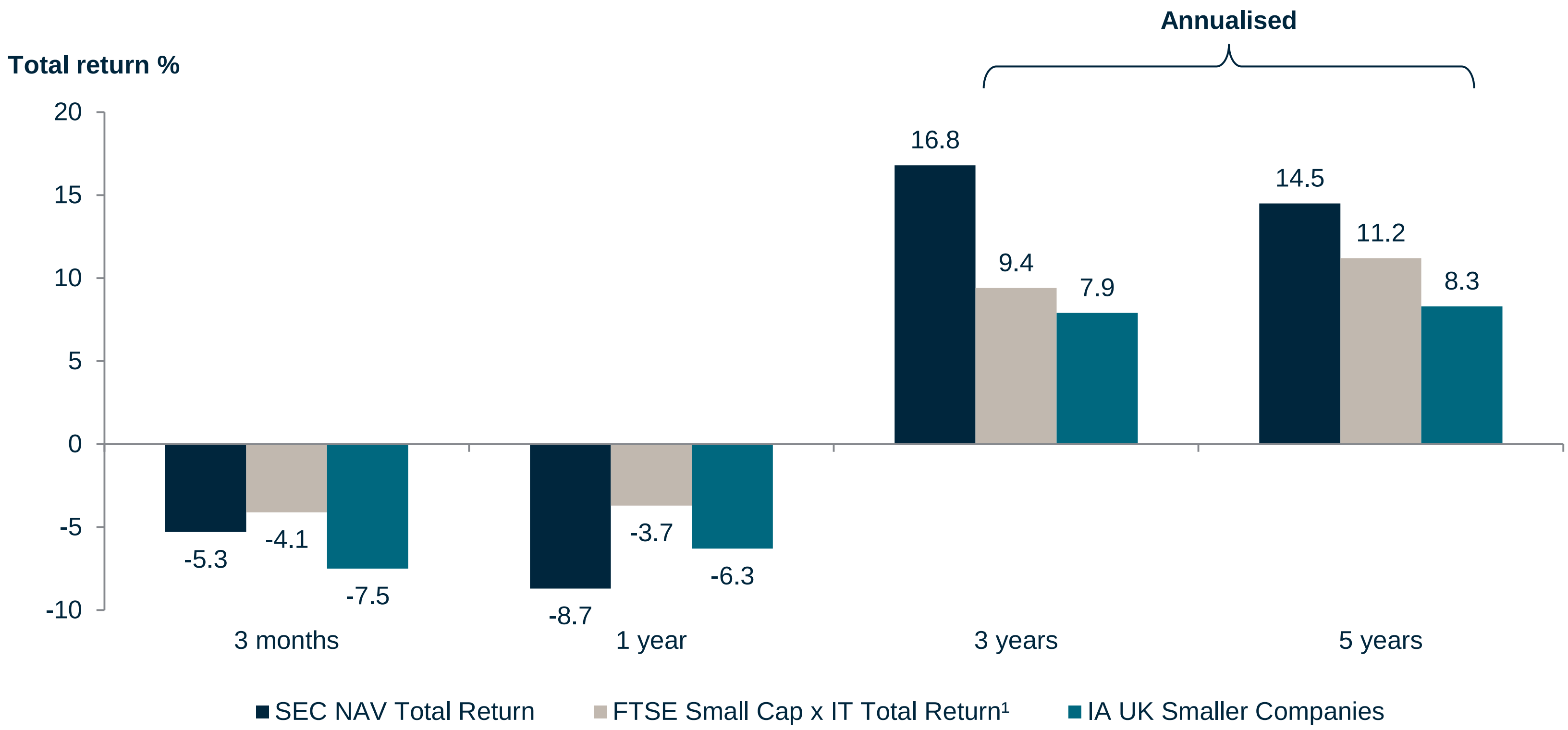
Medium and long term outperformance

SEC NAV performance against comparator index[1] & IA Sector[2]



Average Net Cash	10.1%	11.0%	10.3%	8.4%

Strong medium and long term annualised absolute and relative performance

As at 30th June 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

Q2 performance attribution

Company	Total return three months to 30th June 2016 (%)	Contribution to return (bps)	GVQIM Comment
Top 5 contributors			
Tribal Group	38.9%	98	Successful completion of rights issue. Appointment of new CFO
Clinigen Group	0.8%	43	Shares volatile. Increased comfort in achieving forecasts to June 2016
IFG	5.5%	29	Re-rates following more interest from UK institutional investors
4imprint	3.9%	22	Continued organic growth. Resilient post referendum due to US$ exposure
VINTAGE	6.7%	7	Underlying NAV and currency benefits
Bottom 5 contributors			
Servelec Group	-39.2%	-443	Surprise profit warning plus de-rating
EMIS Group	-8.9%	-72	De-rates on concerns of slightly lower growth given Servelec warning
Tyman	-13.7%	-60	De-rates on end market concerns. Significant US$ earner
e2v technologies	-6.7%	-59	Adverse market reaction to (well flagged) cash performance at results.
Wilmington	-5.4%	-47	Very small downgrades following some loss of lower quality training business
Total	**-5.3%**	**-526**	Average net cash position 10.1%
FTSE Small Cap Ex IT	**-4.1%**	**-406**	

Resilient broad portfolio performance eclipsed by disappointing profit warning at Servelec

As at 30th June 2016
Source: Attribution estimates based on FactSet Portfolio Analysis and GVQIM
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Q2 saw capital deployed in placings and fundraisings

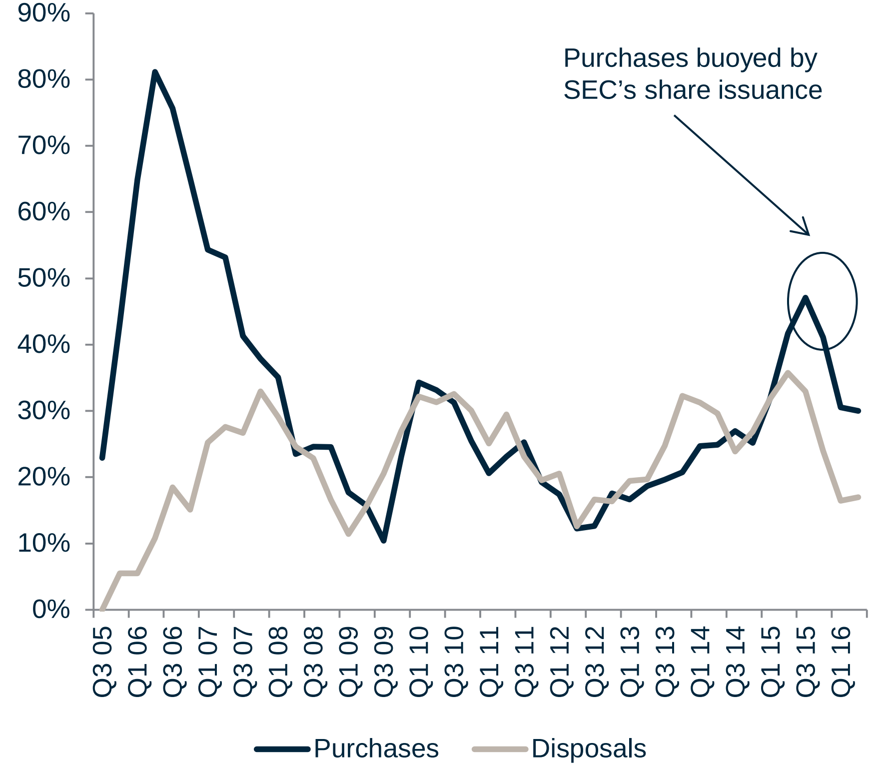
Investments & pipeline

- £8.5m new investment made in Equiniti in April, £3.6m of which was via a secondary placing by Advent International. Very reasonably priced, moderate growth company that is not very cyclical. Very out of favour with investors. Entry multiple <10x p/e for a quality business
- £2.7m additional investment in Clinigen – market purchase
- £2.4m invested in Tribal rights issue and nil-paid rights. Participated in placings for Goals and Tyman to avoid dilution

Realisations

- Full exit of Idox as it had reached target price. Profits continued to be taken in Gooch & Housego. Deliberate decision to reduce Tyman weight given cyclicality and gearing
- £4.3m realised from profit taking in Servelec (20% of holding sold) over April, May and early June

Moving annual total purchases and sales as % of NAV



Net buyer in Q2, driven by new investment in Equiniti , which we felt was compelling at the entry price

As at 30th June 2016
Source: GVQIM
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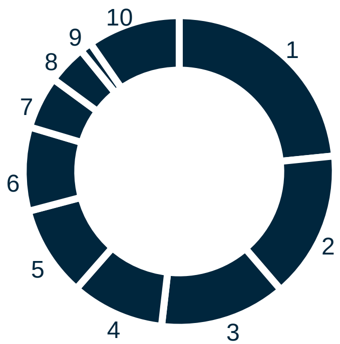
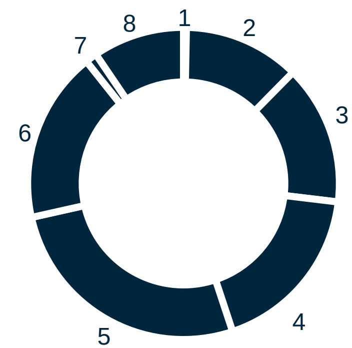
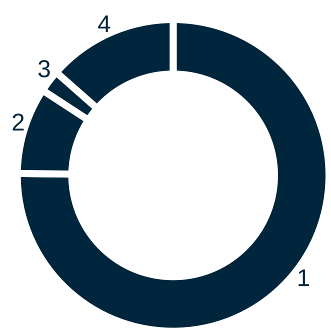
Highly concentrated and unconstrained portfolio



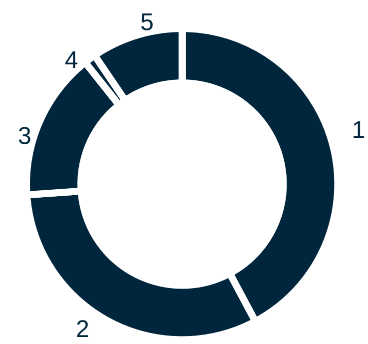
Sector exposure by value		
1	Technology – software & services	23.1%
2	Electronics	15.1%
3	Support Services	12.9%
4	Healthcare	9.5%
5	Financials	9.3%
6	Media	8.6%
7	Industrials	5.4%
8	Consumer Services	4.0%
9	Unlisted	1.2%
10	Net cash	9.5%



Value by market cap band		
1	<£50m	0.3%
2	£50m - £100m	12.1%
3	£100m - £200m	14.5%
4	£200m - £300m	18.0%
5	£300m - £500m	26.6%
6	> £500m	17.8%
7	Unlisted	1.2%
8	Net cash	9.5%



Concentration		
1	Top 10	75.5%
2	Rank 11 - 15	13.0%
3	Smaller holdings	1.9%
4	Net cash	9.5%



Value by index membership			No. Holdings
1	Small Cap	42.2%	7
2	Aim	31.7%	8
3	Unlisted	15.4%	2
4	Other*	1.2%	1
5	Net cash	9.5%	

Genuine small cap portfolio – <u>no</u> members of FTSE 250

As at 30th June 2016
Source: GVQIM. Tribal has been reclassified as Technology from Support Services, following its switch from full list (where it was in the Support Services sector) to AIM
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
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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	18	18	147	142
Market capitalisation (£m)	335	283	292	281
Consensus EV/EBITDA FY1	9.3x	9.1x	6.6x	7.2x
Consensus price earnings FY1	15.5x	14.6x	11.1x*	11.2x*
Consensus FY1 earnings growth	14.6%	10.4%	4.1%*	5.8%*
Consensus dividend yield FY1	2.3%	2.7%	4.0%	4.2%
Price/book FY1	3.1x	2.5x	1.0x	n/a
Price/sales FY1	1.7x	1.8x	0.6x	n/a
Price/cash flow	14.1x	13.5x	n/a	n/a
Debt to EBITDA	0.1x	0.0x	2.2x	2.0x
GVQIM cash flow yield FY1[1]	10.2%	10.2%	n/a	n/a
Overseas sales as %	43.1%	44.0%	n/a	n/a

GVQIM cashflow yield exceeds 10% again for first time since Sept-14. Overseas sales provide earnings tailwind?

As at 30th June 2016 for SEC; as at 1st July 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)

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]	12 month catalyst	Market leader[2]
e2v technologies	2009	Electronics	>5%	High	In line	12.2%	0.0x	Evidence of returns improving in Space imaging. Improved working capital	Yes - niche
Clinigen	2014	Healthcare	<3%	Medium	Ahead	9.1%	0.6x	Return to organic growth in General Access and Managed Access	Yes – niche
Wilmington	2010	Media	>5%	Medium	In line	10.7%	0.9x	Overseas growth; degearing; M&A	Yes - niche
EMIS	2014	Technology	>3%	Medium	Ahead	9.2%	-0.2x	Traction in secondary care business	Yes – UK
Servelec	2013	Technology	>5%	Medium	Behind	11.2%	-0.1x	Work begins on Centrica platforms 2&3; clarity on prospects for healthcare market	Yes – UK niches
4 imprint	2006	Support Services	>3%	Medium	Ahead	8.7%	-0.3x	Continued US growth. Pension fund buyout completed	Yes - US niche
IFG Group	2015	Financials	>5%	High	Ahead	10.0%	-2.3x	Sustainability of margin in James Hay. Increased interest from London investors	#2 in high end SIPPs
Tribal	2014	Support Services	>5%	High	Behind	5.1%	0.0x	CEO sets out and delivers improvement plan	Yes - UK
Equiniti	2016	Support Services	>3%	High	Early	10.6%	2.4x	Delivery of organic growth and cashflow	Yes in niches
Gooch & Housego	2011	Electronics	>3%	Medium	In line	8.5%	-1.4x	Initial evidence of success in self-help. Bolt on M&A?	Yes – niche

Balance sheets of top 10 holdings are very strong. Equiniti most geared but due to degear materially

As at 30th June 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

Portfolio company update - Servelec

- Business description
  - Technology based conglomerate. 3x divisions: 1) Electronic records for health & social care 2) Technologies: telemetry & business optimisation hardware and software 3) Controls – services to enable & manage automation of power generation and oil & gas facilities
- Summary investment thesis
  - Broad based, IP-rich technology group, which IPO'd at a considerable discount to its Sum of Parts valuation
  - Operating in markets not-correlated to the economic cycle; business units not correlated to each other
  - Structural growth drivers across each division
    - Health & social care: significant need to upgrade and update legacy systems to cut costs and improve care
    - Technologies: move to open systems in the water industry broadens the addressable market. AMP6 programme (2015-2020) to see significant increase in spend to update and extend water telemetry hardware and software
    - Controls: ongoing refurbishment/upgrade of legacy control and safety systems. Potential significant medium to long term upside of fully automating (demanning) offshore oil and gas facilities
- What caused the sudden profit warning on 15th June?
  - Expectations leading up to the warning were high. After some false starts over many years, oil & gas system installation had started. Although AMP6 had had a slow start, volumes were due to pick up. Healthcare win rate had been good and there was significant business to win in the "North Refresh" of the NPfIT programme
  - In a very short time window, anticipated oil & gas work was put on hold due to personnel changes. Within the same week, the HSCIC (Health and Social Care Information Centre – body responsible for determining the "North Refresh" timing and strategy) appears to have decided to delay the start of the refresh and provide additional funding to the incumbent providers of the legacy systems as a stop-gap.
  - Realising a need to update the market, the Board aggressively reduced forecasts to a highly conservative level, with the aim of only profit warning once
- GVQIM view
  - Exceptionally disappointing and a combination of events not anticipated
  - Supplementary due diligence suggests that business quality and medium and long commercial opportunity remains the same. No unexpected competitive losses. We believe that the disappointing trading update reflects largely a timing issue not weakening of position
  - Earnings have been rebased to a conservative level. The medium & long term balance of risk appears skewed to the upside
  - The company's share price rating has moved from full to under-valued. Currently trades on a healthy discount to Sum of Parts

As at 30th June 2016
Source: GVQIM

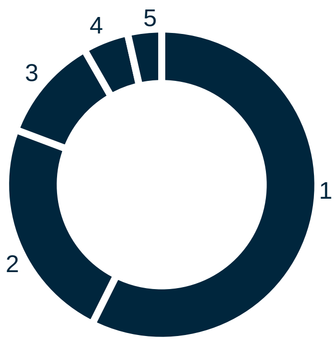
Investment themes accounting for c.54% of the NAV

Theme	NAV %	Portfolio Companies	Comments & GVQIM views
Electronic records systems – healthcare, social care, children's services & 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
Ethical unlicenced drug supply/sourcing, "salvage" medicines, outsourced sourcing of comparator drugs for trials	10%	Clinigen	Niche provider in structural growth market Some very high market shares following IDIS acquisition Link Health acquisition helps expand geographic footprint Effectively 4x business units
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?

Structural/acyclical growth themes continue to prevail in the portfolio

NAV exposure as at 30th June 2016
Note: *Exposure excluding Servelec's non-health and social care records businesses
Source: GVQIM

Geographic/currency exposure of the portfolio



End market sales			Key holdings with portfolio weighted exposure >1% to geographic area (% pts of portfolio)
1	UK	56.9%	EMIS (8.7%), Servelec (8.6%), IFG (7.6%), Equiniti (6.6%), Tribal (5.5%), Wilmington (5.3%), Goals (4.4%), Brooks MacDonald (3.0%), Clinigen (1.7%), E2V (1.5%), Gooch & Housego (1.1%)
2	North America	23.2%	4imprint (7.4%), Clinigen (4.4%), E2V (3.3%), Tyman (3.3%), Gooch & Housego (2.7%), Wilmington (1.6%),
3	Europe	10.9%	Clinigen (4.2%), E2V (3.0%), Wilmington (1.5%), Gooch & Housego (1.3%)
4	Asia	4.7%	E2V (2.7% - billed in US$)
5	RoW	3.5%	Tribal (1.7% - AUS$)

- UK exposure tends to be in market leaders, which often have good earnings visibility and limited cyclicality* Very limited exposure to rising raw material costs
  - UK exposure has increased over the past few years due to investments in IFG and Brooks
- US$ sales exposure just under 30% of the portfolio (North America + Asia). We estimate profit contribution from US$ could be 1/3 of portfolio earnings. Therefore, weakening £ is highly positive for underlying earnings
- Continental Europe exposure either defensive growth (pharmaceuticals; healthcare equipment), aerospace & defence related or B2B Media (Wilmington European sales largely healthcare and insurance). European exposure has continued to decline – was 36% in December 2011; 16% in June 2013

Broad international, especially US$ exposure. Exposure to Europe ex UK continues to fall

Portfolio exposure as at 30th June 2016
Source: Company Annual Reports; Factset; GVQ Investment Management.
Note: *In the opinion of GVQ Investment Management

Actions taken on the portfolio since 23rd June

- Not panicked
- Debated short and medium term implications with management of all large holdings
- Continued ongoing due diligence on existing holdings
  - E.g. additional site visit at largest holding E2V in early July 2016 to assess progress on the operational improvements
- Reviewed portfolio to consider material changes in risk/reward. Considerations:
  - Sector exposure
  - Earnings visibility/cyclicality
  - Scope for self-help to enhance margins
  - Strength of balance sheets
  - Currency exposure
  - Valuation outliers (i.e. trading at top or bottom of rating ranges)
  - Barriers or otherwise to corporate activity
  - Cash balance in the portfolio
- We believe there is very little need to change the shape of the portfolio in response to the Referendum result
- Modest increase of cash balance on "strong" days in the market, funded by the partial sale of higher rated/higher geared cyclical portfolio companies. We anticipate more volatility over the summer

As at 30th June 2016
Source: GVQIM

How we believe that the referendum & political situation may impact the stock market & smaller companies

GVQ INVESTMENT MANAGEMENT

- In the short term, we expect volatile markets, exacerbated by low levels of liquidity. Price moves may be indiscriminate in both directions
  - Given the concentrated and unconstrained nature of the SEC portfolio, daily NAV performance has varied from the smaller company indices by up to 250bps
- Overall market ratings have fallen among mid and small caps. There is no obvious imminent catalyst for a wholesale re-rating. There is concern over whether open ended funds will experience outflows – the marginal buyer of H2 2015 could turn to a marginal seller. In less liquid markets this can amplify price moves
- We have been cautious about the macro and consumer environments for some time. The result of the Referendum is likely to make businesses and consumers more cautious, especially those with UK consumer and cyclical UK & Eurozone exposures
- Some companies will profit warn as a result of these factors. Others may seek to prudently reduce profit guidance. Some may use it as an excuse to deliver bad news
- In a risk-off environment, investors will be more cautious and become more balance-sheet-aware
- Mid and small cap companies with significant overseas earnings and a large £ cost base should see tailwinds to profits. Many we speak with see little impact of the Referendum vote on day-to-day business. If they become mispriced for a protracted period, they are “sitting ducks” for international trade acquirers

As at 30th June 2016
Source: GVQIM

How the portfolio is positioned in this environment

- Low levels of exposure to the UK consumer

- Negligible gearing in aggregate across the portfolio
  - Many net-cash balance sheets
  - Most geared company is 2.4x net debt/EBITDA, acyclical and highly cash generative. Forecast to de-gear materially over the next three years

- The trust has c.10% net cash position. We plan to maintain cash at around this level over the next few months unless we are faced with outstanding asymmetric investment opportunities (i.e. very low downside; high upside)

- We believe that many portfolio companies are exposed to structural multi-year growth trends which are somewhat insulated from the broader economic environment

- We do not believe that portfolio companies with cyclical exposure are operating at peak margins or margin-maximising. This provides scope to defend earnings levels if the macro/demand environment worsens

- C.43% of portfolio company sales are derived from outside of the UK. The largest currency exposure is US$ as we estimate up to 30% of the aggregated portfolio sales derive from North America and Asia. The portfolio earnings in aggregate should benefit materially from the depreciation of sterling

- We have consciously avoided investing in companies with significant pension deficits, or where there are blocking shareholders. As a result, we believe that a prolonged period of under-valuation may catalyse bid approaches

As at 30th June 2016
Source: GVQIM

UK OUTLOOK

Outlook summary

- **Positives**
  - Fall in Sterling is good for UK companies with overseas earnings
  - Government stimulus for business is likely (e.g. potential for accelerated cut to corporation tax to 15%; likely cut in interest rates = more QE in the UK)
  - Market volatility is likely to lead to more mispricing and opportunities
  - M&A levels appear very low so far in 2016 - likely to pick up if the market does not re-rate
  - US economy appears to be relatively healthy. US banking sector appears stable (and much better than EU)
  - UK banks much better capitalised than in 2008
  - UK corporate balance sheets in good state

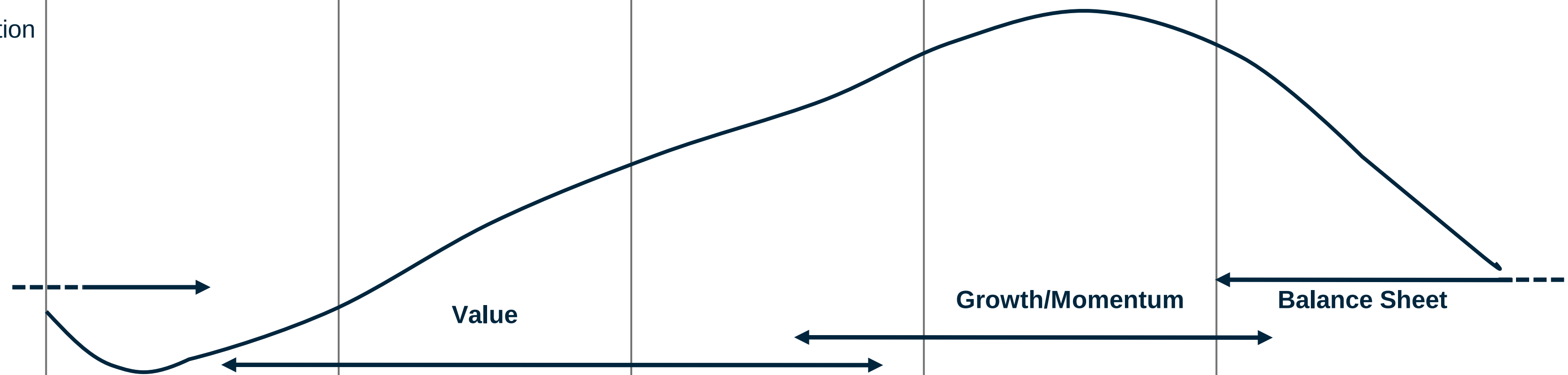
- **Negatives**
  - Referendum result has led to significant short term economic and political uncertainty
  - Global macro risks remain unresolved: Eurozone/EU; Chinese shadow banking & equity bubble; public sector indebtedness and persistent budget deficits
  - Potential for a European Banking crisis (Italian banks non-performing loans; terrifying scale and nature of derivatives exposure at Deutsche Bank)
  - Geopolitical risks remain e.g. Iraq/Syria/ISIL; Schengen & Brexit negotiations
  - Liquidity in companies <£400m market cap remains poor (although our investment style could thrive on worsening liquidity)

Much "noise". Risks have been present for a while. Brexit impact potentially less material than a debt crisis in Europe

As at 30th June 2016
Source: BIS; ECB; BoE
Past performance is no guarantee of future performance and the value of investments can go down as well as up

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		**Value**		**Growth/Momentum**	**Balance Sheet**
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



Could we be going through a mid cycle correction, similar to 1997/8 Asian crisis? Does QE mean this equity cycle is longer?

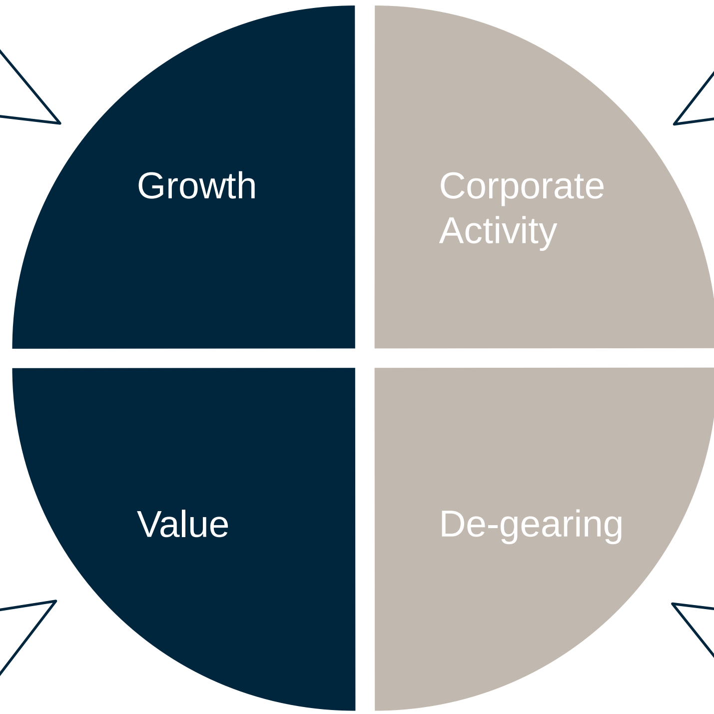
As at 30th June 2016
Source: Morgan Stanley Securities; GVQIM

Earnings growth, cashflow and M&A to drive returns

SEC portfolio

- **Low teens** aggregate earnings growth for portfolio
- Portfolio growth exceeds market materially, despite portfolio's much lower financial gearing

- Expect limited activity prior to EU referendum
- Portfolio companies remain overcapitalised in aggregate
- Corporate debt in general is low. Larger companies gearing up again via M&A



- SEC portfolio valuation has risen but we believe remains relatively attractive for quality & growth
- We are not assuming further re-ratings for many holdings

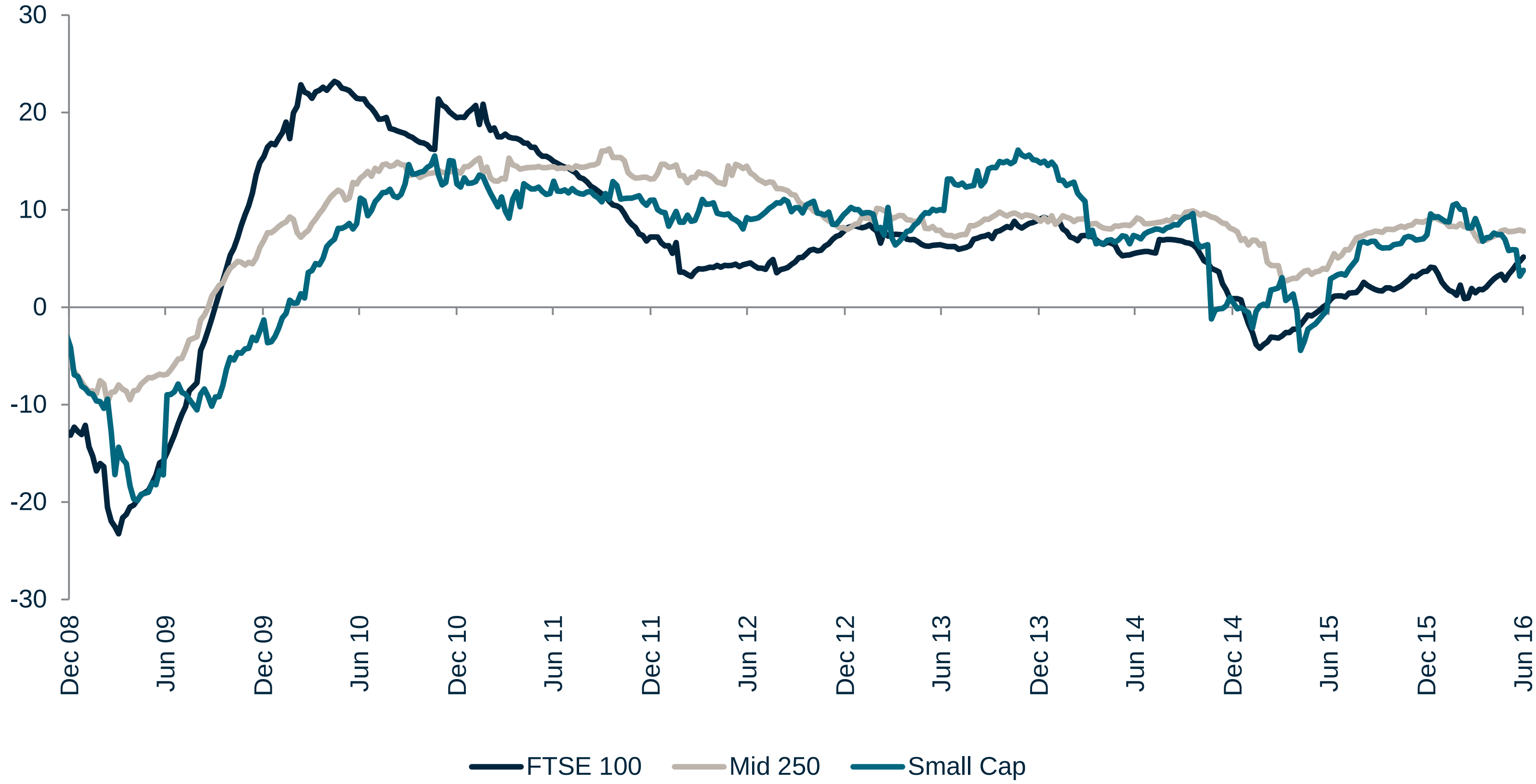
- Portfolio de-gearing continues at an estimated **3-4**% p.a.
- Additional **2.3**% dividend yield

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

Source: GVQIM

12-month forward EPS[1] growth projections

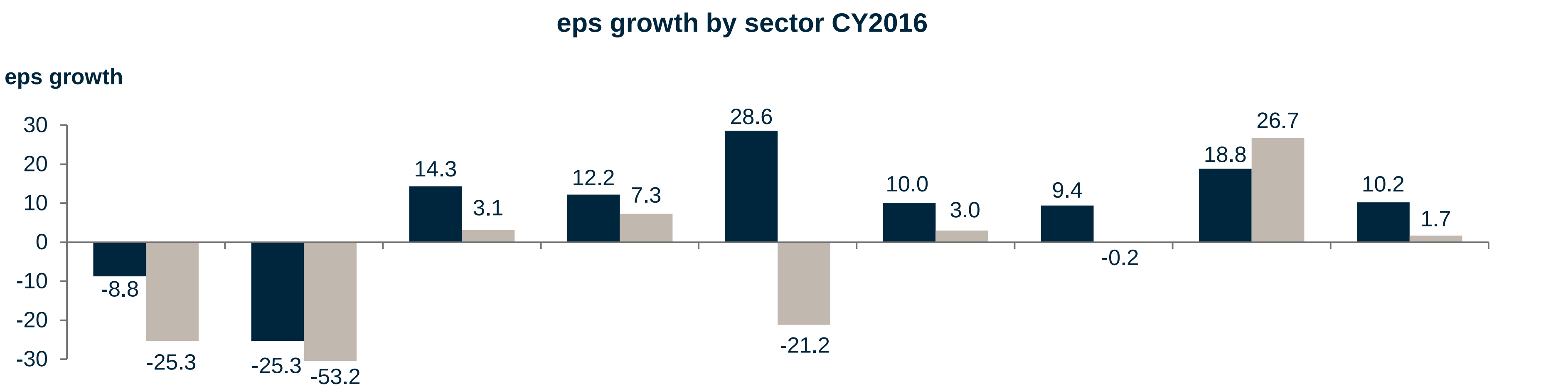
12m forward EPS growth by FTSE index ex investment trusts December 2008 to date[2]

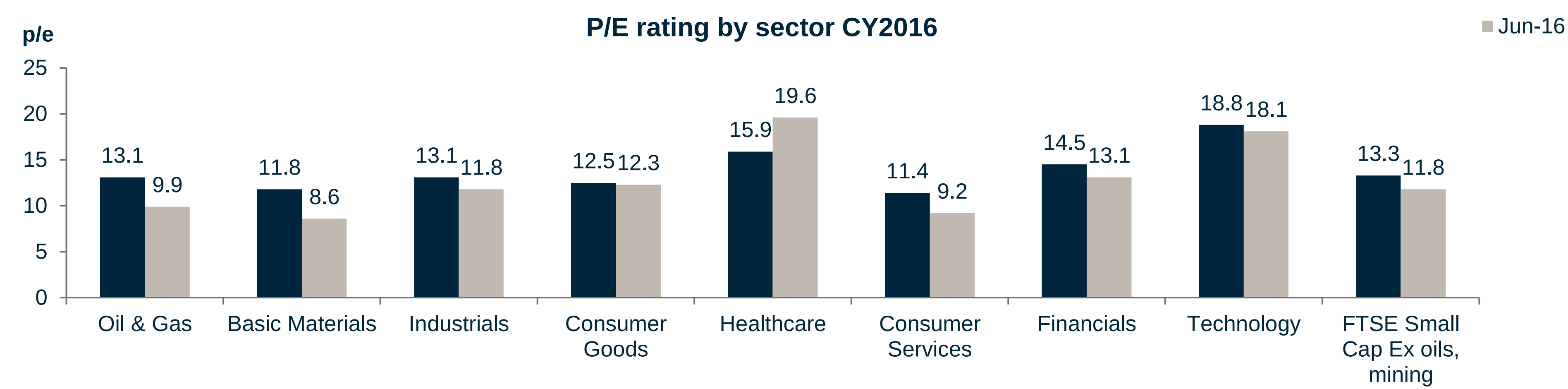


Earnings growth forecasts for smaller companies have been hit hard since the beginning of the year

As at 30th June 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

FTSE Small Cap Calendar Year 2016 downgrades





Many sectors have experienced downgrades and de-ratings for CY2016. Technology inflated by hardware – 47% eps growth following 40% decline in FY15. Software & services growth estimates are c.10%

As at 1st July 2016
Source: Peel Hunt; GVQIM
Note: **Index excludes loss makers**

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 payers*

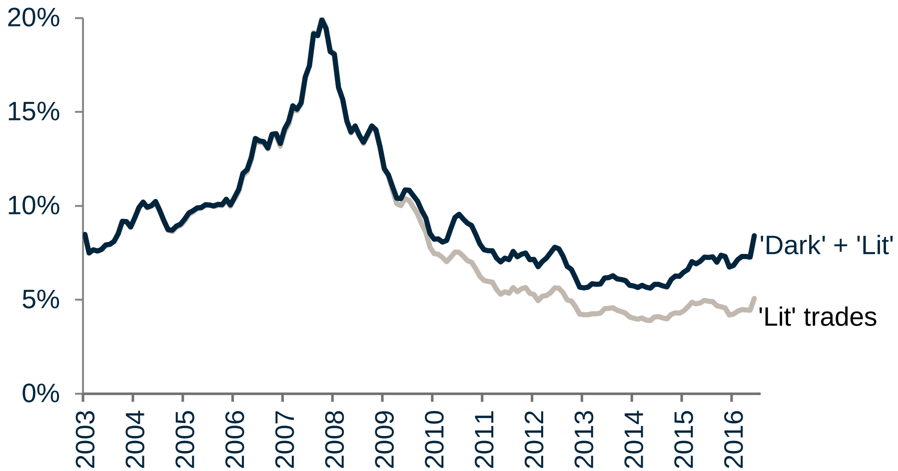
Index	Average market cap	12m forward p/e	12m forward eps growth	12m forward dividend yield	Growth & yield	PEG ratio	PE/(growth + yield)	Net debt/ EBITDA
FTSE 100	£16.3bn	15.2x	4.2%	3.8%	8.0%	3.6x	1.9x	1.7x
FTSE 250	£1.5bn	14.3x	6.3%	3.5%	9.8%	2.3x	1.5x	1.5x
FTSE Small Cap	£281m	11.2x	5.8%	4.2%	10.0%	1.9x	1.1x	2.0x
FTSE Fledgling	£41m	8.4x	7.0%	5.0%	12.0%	1.2x	0.7x	1.2x
FTSE AIM	£87m	13.9x	14.6%	3.0%	17.6%	1.0x	0.8x	1.1x
SEC portfolio	**£335m**	**15.5x**	**14.6%**	**2.3%**	**16.9%**	**1.1x**	**0.9x**	**0.0x**

Portfolio metrics continue to look attractive relative to small and mid cap

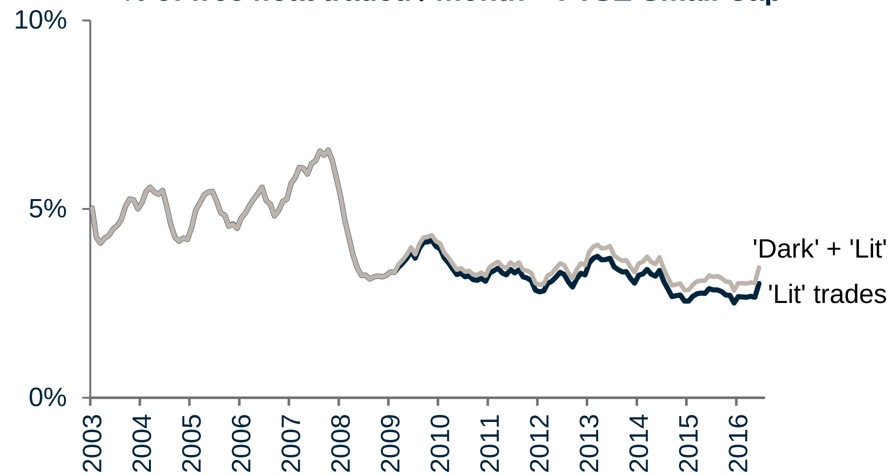
As at 30th June 2016 for SEC and 1st July 2016 for index data from Peel Hunt
Source: Peel Hunt; Capita; Factset; GVQIM
Note: *Indices presented exclude resources, as well as non-dividend payers and loss makers
Past performance is no guarantee of future performance and the value of investments can go down as well as up

Liquidity has picked up towards the end of June

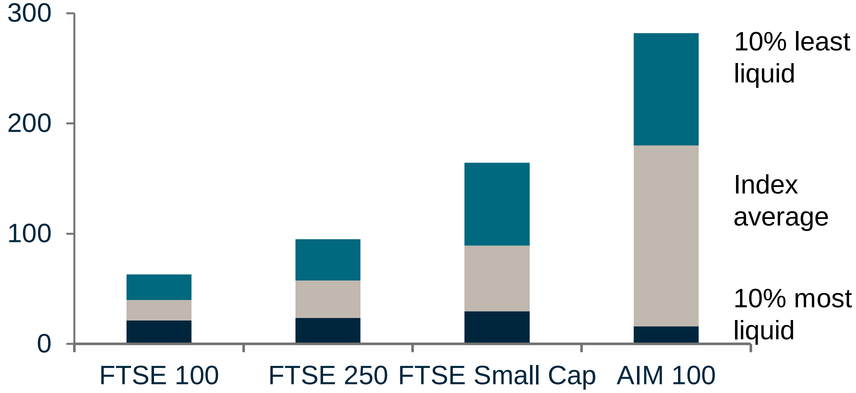
% of free float traded / month – FTSE 250



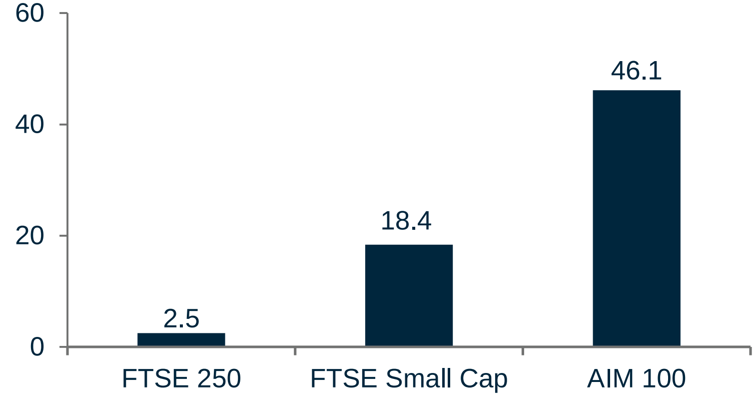
% of free float traded / month – FTSE Small Cap



No. days to buy/sell 10% of a stock*



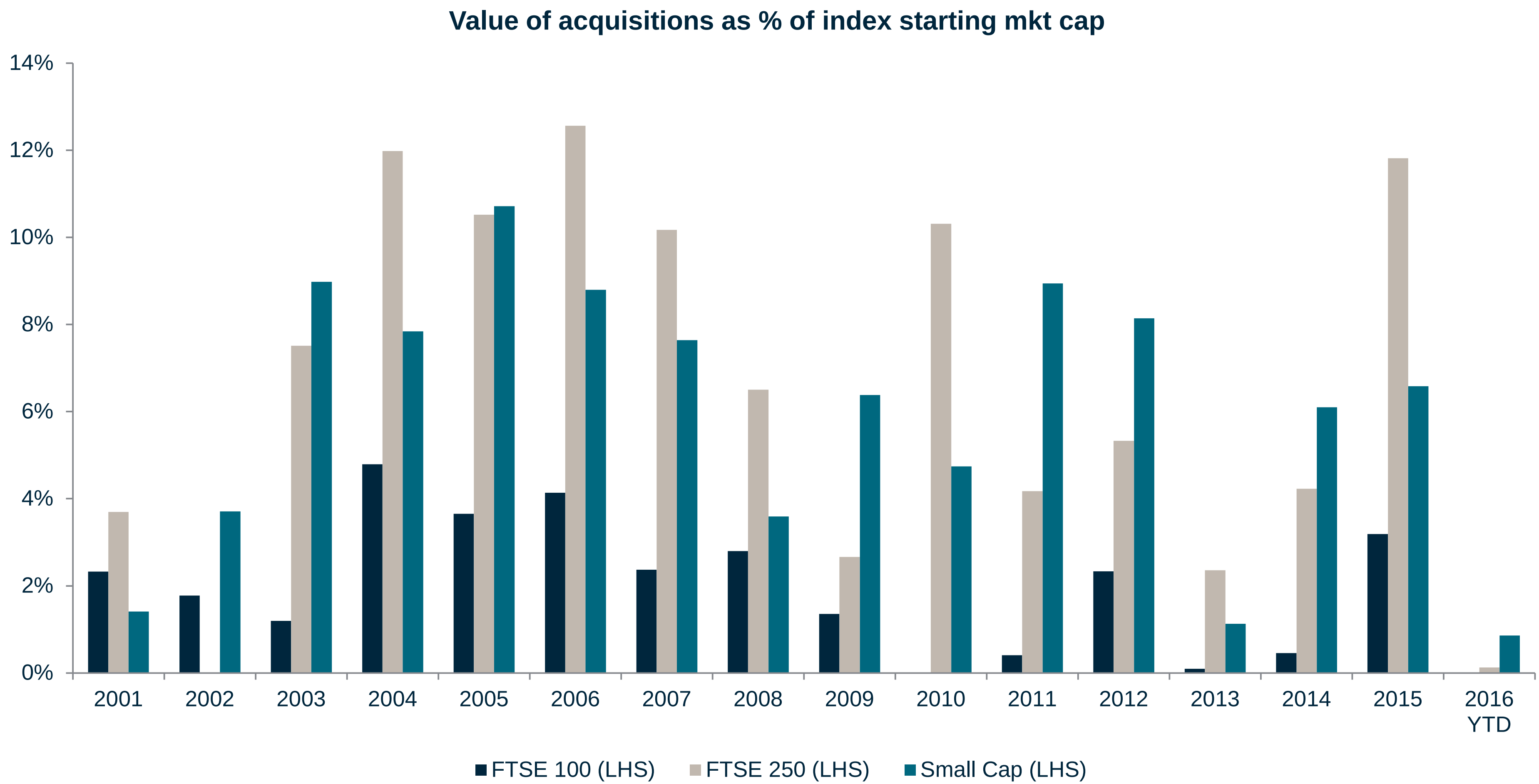
No. days to build up a £10m position in a stock*



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

As at 30th June 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

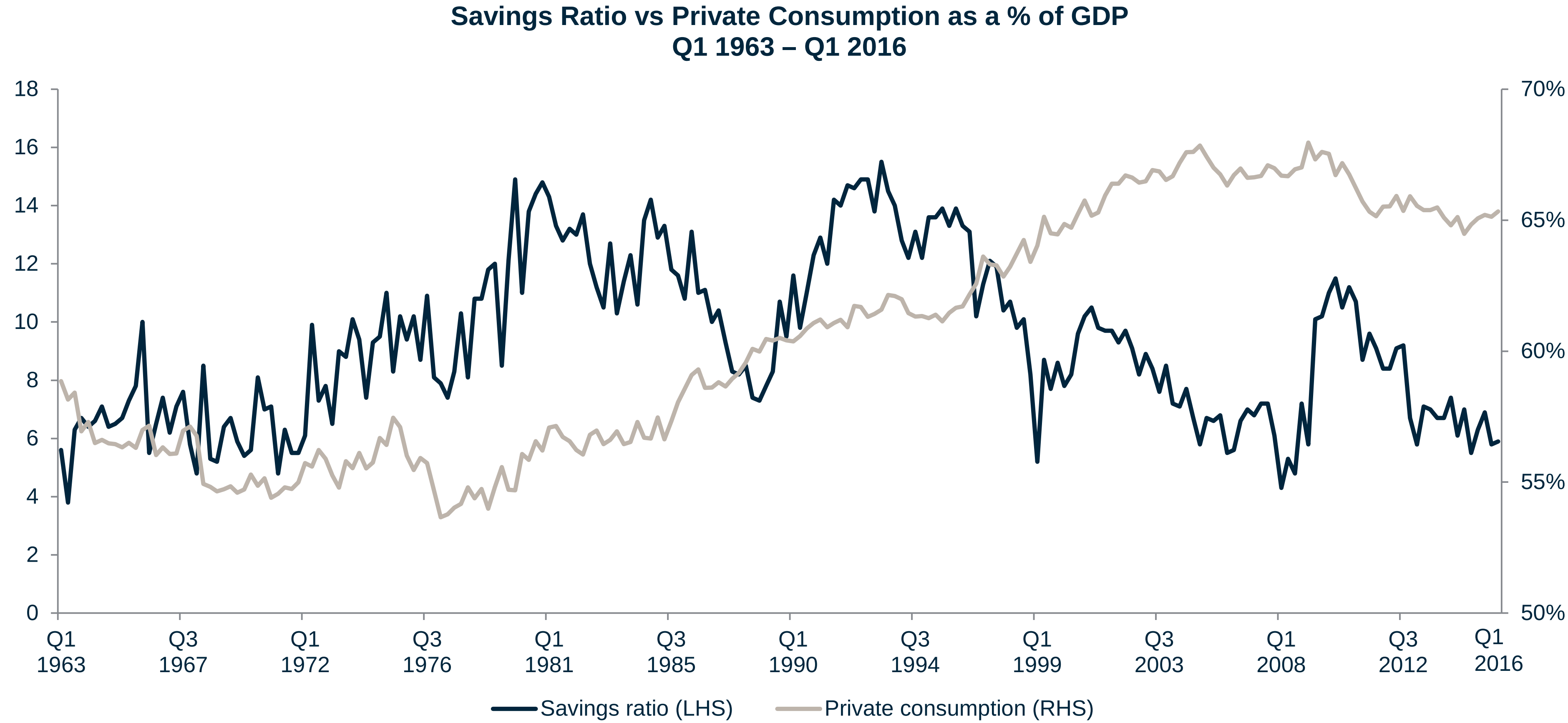
M&A levels appear subdued



Depreciation of Sterling could attract overseas buyers

As at 30th June 2016
Source: Liberum
Past performance is no guarantee of future performance and the value of investments can go down as well as up

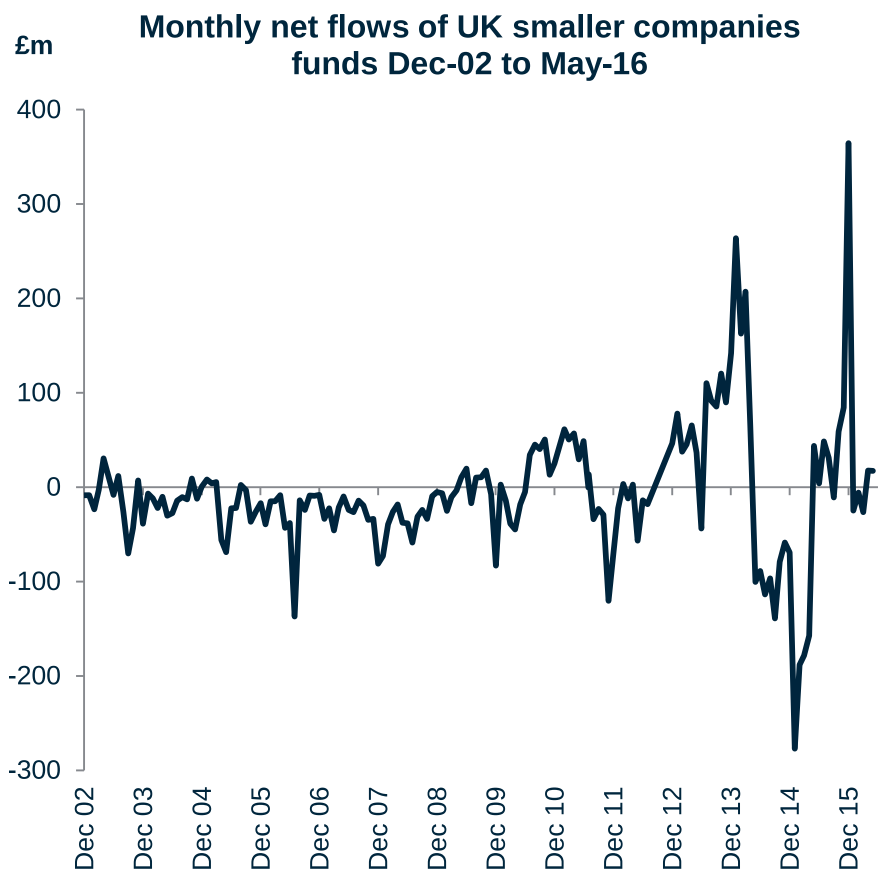
The outlook for consumer spending appears weak

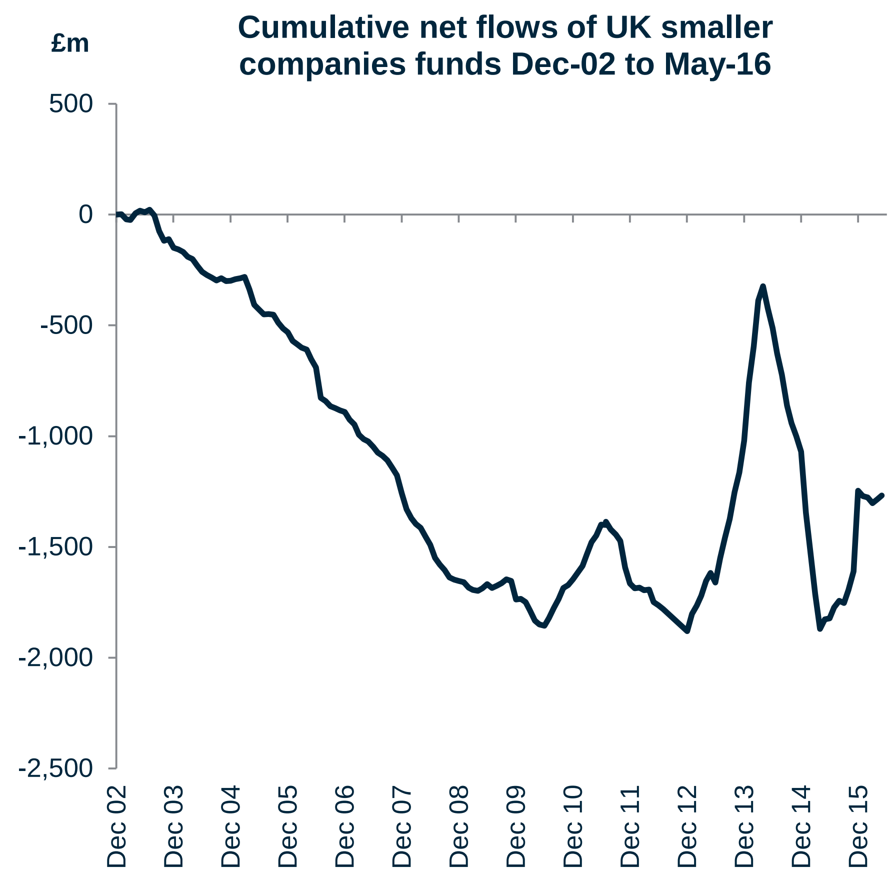


Regardless of the outcome of the Referendum, the prospects for consumer spending appear weak

As at 30th June 2016
Source: Barclays Capital; ONS
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

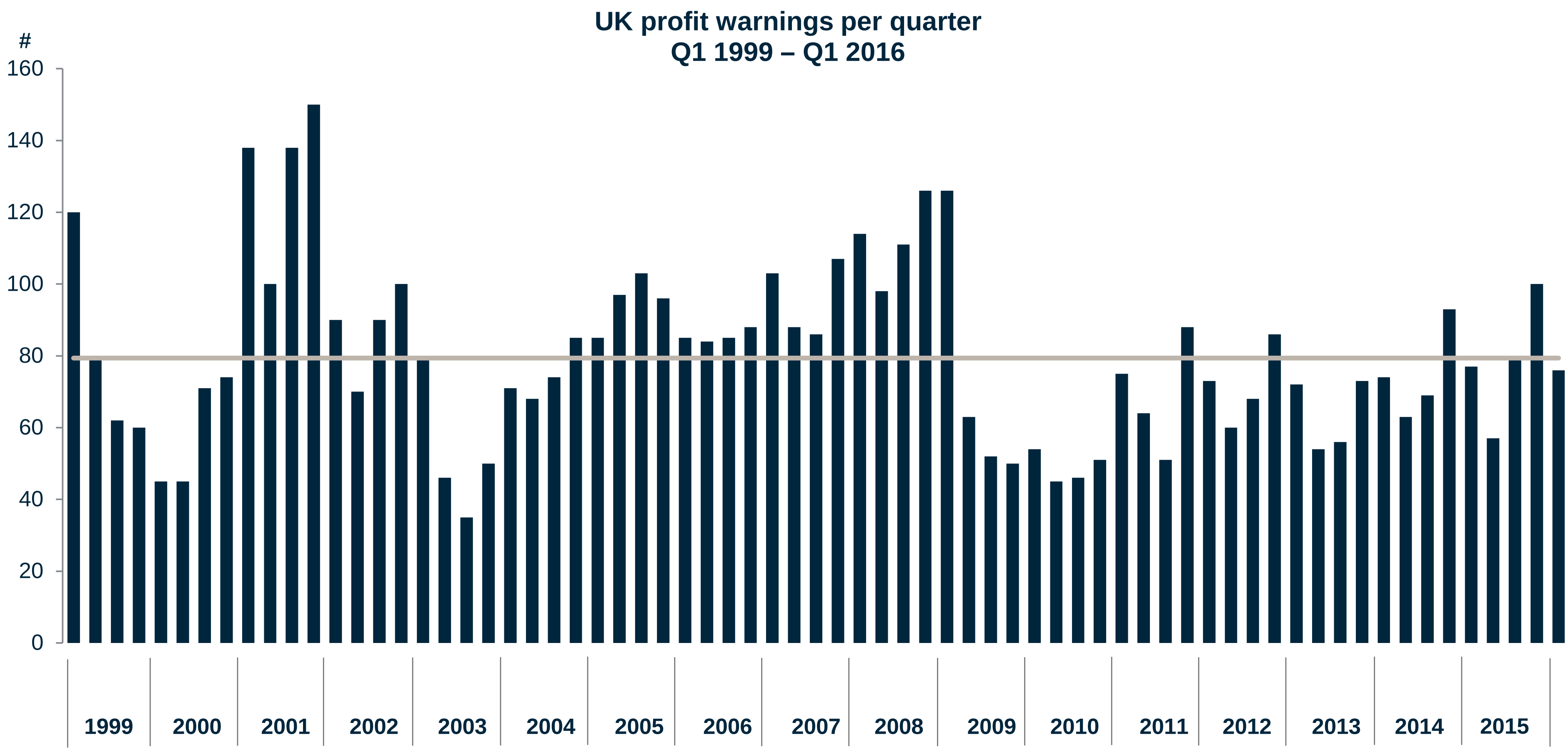




Stable for now

As at 31st May 2016
Source: Investment Association
Note: Total AUM in the IA UK Smaller Companies Sector in May 2016 was £12.2bn

Q1 2016 saw another period of high warnings

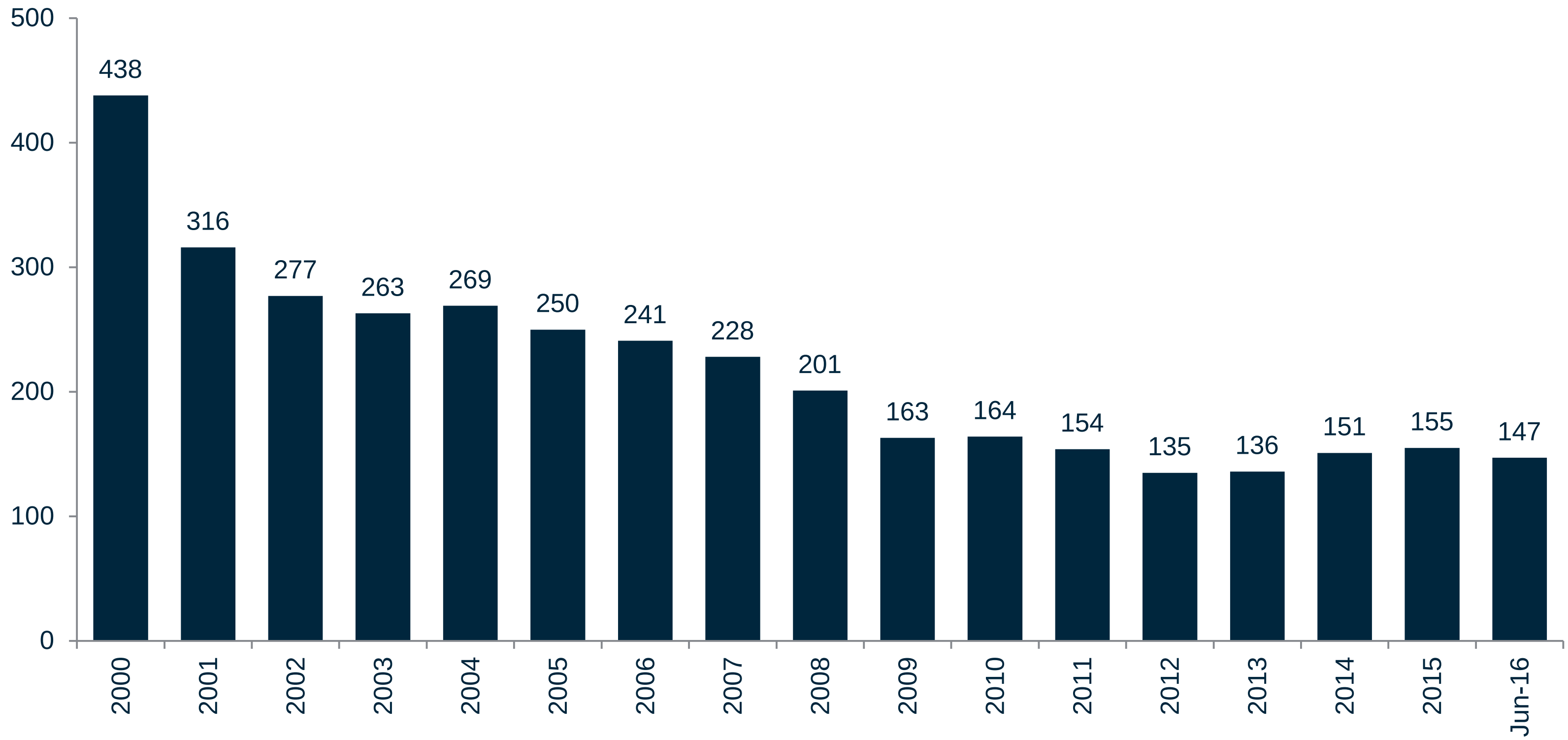


Surprising level of warnings given the significant warnings in Q3 & Q4 2015

As at 31st March 2016
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 30th June 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

Performance

Calendar Year Annual performance[1]

	2016 YTD	2015	2014	2013	2012	2011	2010	2009
Share Price Total Return	-19.1%	14.2%	32.6%	61.4%	25.6%	9.4%	35.1%	252.1%
NAV Total Return	-6.9%	12.1%	18.0%	46.0%	21.3%	3.9%	37.1%	63.8%
FTSE Small Cap ex Investment Trusts Total Return	-4.6%	13.0%	-2.7%	43.9%	36.3%	-15.2%	16.9%	57.7%
IA UK Smaller Companies	-9.6%[2]	14.7%	-1.7%	37.4%	22.5%	-9.0%	30.8%	50.1%

Share price return in 2016 impacted by the widening of the discount

As at 30th June 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

Note: *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	• High and/or improving ROCE
• Orderly end markets, with some growth	• Strong cash conversion
• Sustainable business model/franchise/uniqueness	• Limited capex or working capital investment needed to finance growth
• Overseas earnings	• Recurring revenues/profits/cashflows
• Able to pass on price increases	• Ideally achieving, or has potential to achieve double digit operating profit margin
• Intellectual property	• Realisable surplus tangible fixed assets and/or working capital
• Operational know-how	
• High barriers to entry	

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

- 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

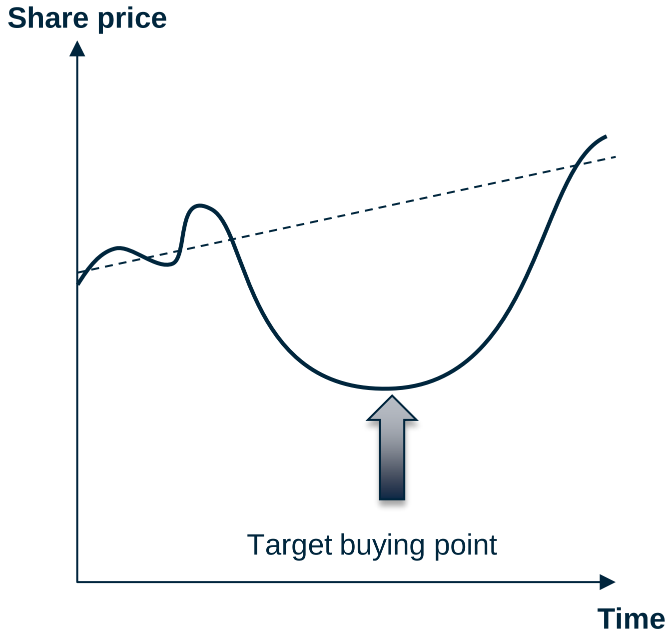
- Controlling shareholder with misaligned interests
- Below average/deteriorating governance practices
- Stakeholders unwilling to engage constructively

We have learnt what to avoid from previous experiences

Source: GVQIM

Types of market purchases we consider

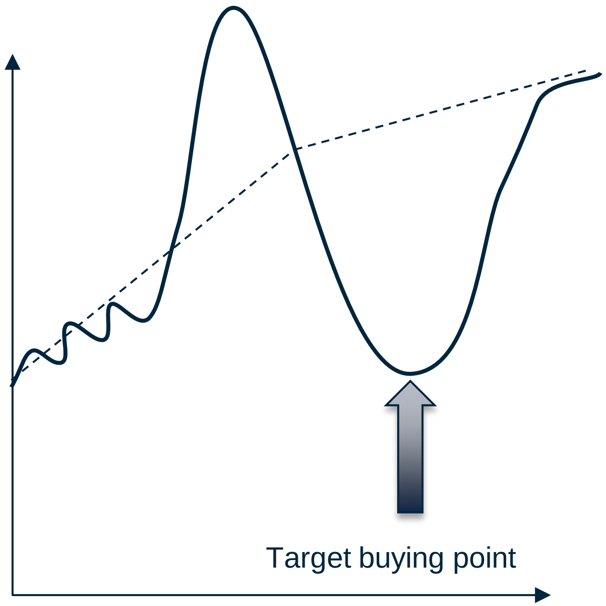
Self help



- 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

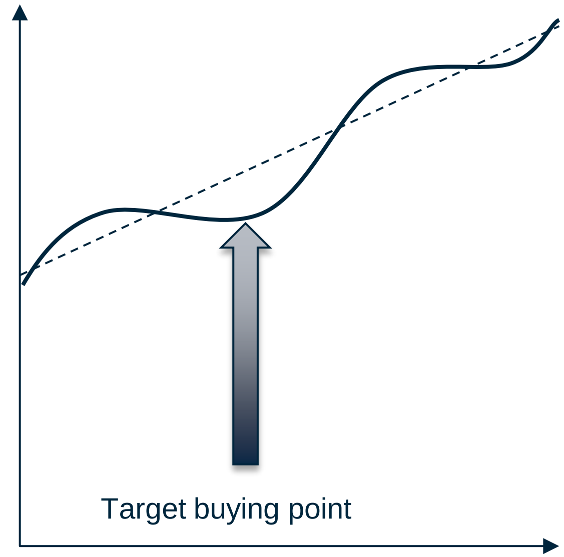
Broken growth



- 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

Source: GVQIM

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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