Gresham House Strategic plc

("GHS" or "the Company")

Pre-close trading update

GHS expects to publish its full-year results in June. The latest factsheet for the period 1 January 2021 to 31 March 2021 is available at: www.ghsplc.com

FY21 summary, for the period ended 31 March 2021

- The Board's confidence in the strategy, the team and the portfolio, after a unique year for UK stock markets and significant portfolio evolution, is reflected in the decision to raise the dividend by 20% for the third year running.
- GHS Total Shareholder Return (TSR) was 59.3% in the year to 31 March 2021.[1]
- Unaudited NAV Total Return performance of 44.3% to 1,515.4p/share vs FTSE All Share Index and the FTSE Small Cap (ex-ITs) Index total returns of 27.1% and 75.0% respectively in the year to 31 March 2021.[1]
- Three-year TSR to 31 March 2021 of 81.6%[1], placed GHS 2/25[2] in the AIC UK Smaller Companies' sector, outperforming the FTSE All Share Index total return by +71.7%.[1]
- Share price discount to unaudited NAV reduced from 15.0% on 31 March 2020 to 6.3% on 31 March 2021.[1]
- As a result of both the discount narrowing and NAV growth, the five-year total return to GHS shareholders has been 99.6%, an approximate compound annual growth rate of 15%.[1]
- £14.9m was deployed into seven new holdings which have since driven material NAV growth. This was funded from net realisations of £11.2m, a starting level of £7.3m cash and income received of £335k.
- We have an exciting pipeline of potential investments in the under-researched UK smaller companies' universe where value opportunities exist.
- The Board will continue to consider all opportunities to grow GHS.

Portfolio overview

The portfolio entered the year with a cash weighting of c.19% and ended with c.3%, gross of performance fees due (approximately £2.3m (unaudited)). One of the most dynamic market environments in history unfolded, a FTSE UK All Share drawdown of 36%[1] troughing in March just prior to the period, followed by a significant rally of 42% after monetary and fiscal authorities launched historic rounds of stimuli. Waning market confidence over the summer, peppered by on-going equity fundraising requirements was abruptly ended with vaccine announcements in November. Since this point, a significant rotation of equity investor style has emerged from 'growth' into a long-overdue reconsideration of 'value', which has been underpinned by rising inflation expectations, rising bond yields and confidence in economic recovery.

- The Company is invested in 16 companies; the top ten represent c.82% of the portfolio, with unlisted exposure at 11% via three convertible bonds.

- The portfolio holdings have robust balance sheets: we entered the period with 12 holdings having net cash.

- All companies have recently updated on trading or announced results which demonstrate excellent operational control, adjusted cost bases and, in the context of Covid-19 related uncertainty, encouraging outlook statements. We expect all holdings to deliver material profit recovery in 2021.

- The portfolio is exposed to a range of end industries and markets, both domestically and overseas, with a large weighting to services.

- We remain heavily engaged across the portfolio and have achieved progress on several initiatives during the year which should help to drive shareholder value.

Investment highlights

- We were delighted with Augean's recent results, our largest holding at c.23%. The company reported adjusted operating margins of 22%, Return on Capital Employed (ROCE) of 35%, excellent cash generation, net cash on the balance sheet, an imminent return to dividends and demonstrated ongoing highly profitable growth in its fly-ash activities dealing with hazardous waste. We believe the shares are materially undervalued.

- ULS Technology's sale of a non-core operation for £27m in November 2020 was transformative. We first invested in December 2019 when the market capitalisation for the whole business was £29m; its value has since risen to £54m. The company has hired a high calibre CEO for its exciting next phase of digitally transforming the conveyancing process for UK property transactions.

- One of our first investment decisions of the year was to re-capitalise Bonhill plc, in which we acquired 10% of the company's equity capital. This was a classic recovery situation where talented management faced the collapse of their physically attended media events activities due to lockdown. We bought our holding at 5p, which is now valued at 13p (+160%). We see significant further upside as the economy re-opens.

- We also established a material holding in Flowtech Fluidpower (+30%), whose excellent cash generation, scope to improve returns and growth outlook appear undervalued. We also took advantage of depressed share prices, given clear evidence of operational and strategic improvements in each case, and increased our shareholdings in Centaur Media, Pressure Technologies, Northbridge Industrial Services, Universe Group and Van Elle Holdings. We are engaged with all these companies on further initiatives to unlock, create and accelerate the realisation of shareholder value realisation: we saw progress on several of these holdings during the period. The largest deployment of capital in the period was the purchase of shares in RPS plc, another company in need of additional financial support. A new Board and management team had started a root-and-branch operational modernisation prior to the pandemic but were still saddled with too much debt inherited from prior acquisitions when lockdown hit. As a global leader in environmental, planning, water and energy consultancy, a huge profit recovery potential now exists. We invested £2.6m at an average of 44.7p in September 2020; the shares are now 95p (+116%).

- The most recent significant investment has been £2.8m into M&C Saatchi at an average of 87.5p. Due to poor financial controls, governance, accounting irregularities and poorly designed acquisition terms, material change was required at this iconic global advertising agency group. This is underway with the retirement of all four founders, a refreshed Board, a new organisational structure and leadership team. Ambitious medium-term financial targets have been shared with investors and the shares have reached 145p (+66%).

Team

We are delighted to announce that Laurence Hulse, who joined Gresham House Asset Management in 2015 and has contributed significantly to Gresham House Strategic in recent years is being named Deputy Fund Manager for the strategy.

Outlook

Richard Staveley, GHS Fund Manager commented:

"With regards to Covid-19 compared to our initial expectations, we have been surprised by the severity and length of the lockdowns but not by the ability of the motivated and innovative pharmaceutical industry to develop vaccines rapidly. Whilst the UK now appears on track for re-opening, Europe and many other countries continue to face challenges. The scale of both huge monetary support and fiscal stimulus cannot be ignored though and, quite rightly, concerns over the medium-term inflationary outlook have surfaced. This development is very new to many market participants weaned on deflationary forces and ever lower bond yields. This dynamic has already been positive for shares considered to be 'value' and may become a healthy 'following wind' for the portfolio.

Laurence Hulse, GHS Deputy Fund Manager added:

"The recent crisis demonstrates that often we have an inaccurate sense of certainty or confidence in what the future holds. This is why it is so important to have an understanding of value at all times.

With careful analysis, a conservative approach to financial leverage and deep insight into a company's value drivers, a material margin of safety can be created to enable investments into stocks with significant medium-term returns. We believe strongly that our concentrated, engaged, Strategic Public Equity (SPE) approach and portfolio is well positioned for the re-opening of economies and the market environment ahead."

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the company's obligations under Article 17 of MAR.

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Notes to editors

GHS invests in UK smaller public companies, applying private equity techniques and due diligence alongside a value investment philosophy to construct a portfolio focused in 10-15 companies.

The Investment Manager, Gresham House Asset Management Ltd (Gresham House, GHAM, or Investment Manager), aims for a high level of engagement with investee company stakeholders, including management, shareholders, customers, suppliers and competitors, with the aim of identifying market pricing inefficiencies and supporting a clear equity value creation plan and targeting above market returns over the longer term.

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[1] Source: Bloomberg, 31 March 2021

[2] AIC Interactive Statistics as at 6 April 2021 - https://www.theaic.co.uk/aic/find-compare-investment-companies/interactive-statistics