



**Gresham House**  
*Specialist asset management*

# Strategic Equity Capital plc (SEC.LN)

## Introduction presentation

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April 2021



# IMPORTANT INFORMATION

- The value of the fund and the income from it is not guaranteed and may fall as well as rise. As your capital is at risk you may get back less than you originally invested
- Past performance is not a reliable indicator of future performance
- Funds investing in smaller companies may carry a higher degree of risk than funds investing in larger companies. The shares of smaller companies may be less liquid than securities in larger companies
- This fund may experience high volatility due to the composition of the portfolio or the portfolio management techniques used

# STRATEGIC EQUITY CAPITAL PLC (SEC)

*Application of private equity techniques to public small companies*

- **Differentiated strategy** with highly-concentrated portfolio, deep research focus and engaged approach
- **Genuine small cap** - a structurally overlooked part of the market
- **Long term investment horizon**, low portfolio turnover with a **quality company focus**
- **Small-cap specialists** with significant public and private equity expertise leveraging Gresham House's broader platform and network
- **Recent team changes** with objective to **drive performance** and **close discount to NAV** leveraging track record of Ken Wotton and the Gresham House equities team

**Specialist equity fund targeting absolute returns (15% IRR)<sup>1</sup> over the medium term.**

*Low correlation to market and peers.*

*Defensive characteristics. Tendency to outperform in weaker markets.<sup>2</sup>*

1. Internal target only, not guaranteed

2. <http://performance.morningstar.com/funds/cef/ratings-risk.action?t=SEC&region=gbr&culture=en-US&ownerCountry=USA>

# OUR TEAM

## Investment team led by Ken Wotton



**Ken Wotton**  
Managing Director, Public Equity

- Over 20 years' experience in AIM and other listed investments
- Fund Manager for LF Gresham House UK Micro Cap Fund and LF Gresham House UK Multi Cap Income Fund
- Previously at Livingbridge



**Adam Khanbhai**  
Investment Director

- Over 13 years' investment experience
- Previously at GVQ and OC&C Strategy Consultants
- Joined Gresham House in 2020



**Brendan Gulston**  
Investment Director



**Richard Staveley**  
Managing Director



**Laurence Hulse**  
Investment Manager



**Paul Dudley**  
Corporate Finance



**Anthony Dalwood**  
Investment Committee Chair

- Started Gresham House Asset Management in 2015
- CEO of Gresham House plc
- 25 years' experience in public and private equity
- Previously CEO of SVG Advisers and SVGIM

## Resource platform



Portfolio talent

Data analytics



Powerful network

Deal execution



Operating Partners

Sales and Marketing



Research/analysis

Finance and Operations



## Wider Strategic Equity team

Bevan Duncan  
Steve Cordiner  
Thomas Makey  
Henry Alty

James Hendry  
Mackenzie Travers  
Maya Ward  
Rupesh Patel

## Operating partners

**Hazel Cameron**  
Head of Portfolio Talent

**Tamer Ozmen**  
Technology Operating Partner

## Investment Committee

**Anthony Dalwood (Chair)**  
Ken Wotton  
Bruce Carnegie-Brown

Graham Bird  
Richard Staveley  
Tom Teichman

# INTRODUCING STRATEGIC PUBLIC EQUITY

*An alternative investment strategy that applies private equity investment processes to public companies*

Highly engaged strategy driving strategic, operational or management initiatives

Targeting inefficient areas of public markets

Thorough due diligence to identify value creation catalysts  
Leveraging our network of experts

Influential minority stakes

Focus on intrinsically undervalued, cash generative companies.  
A “value approach”

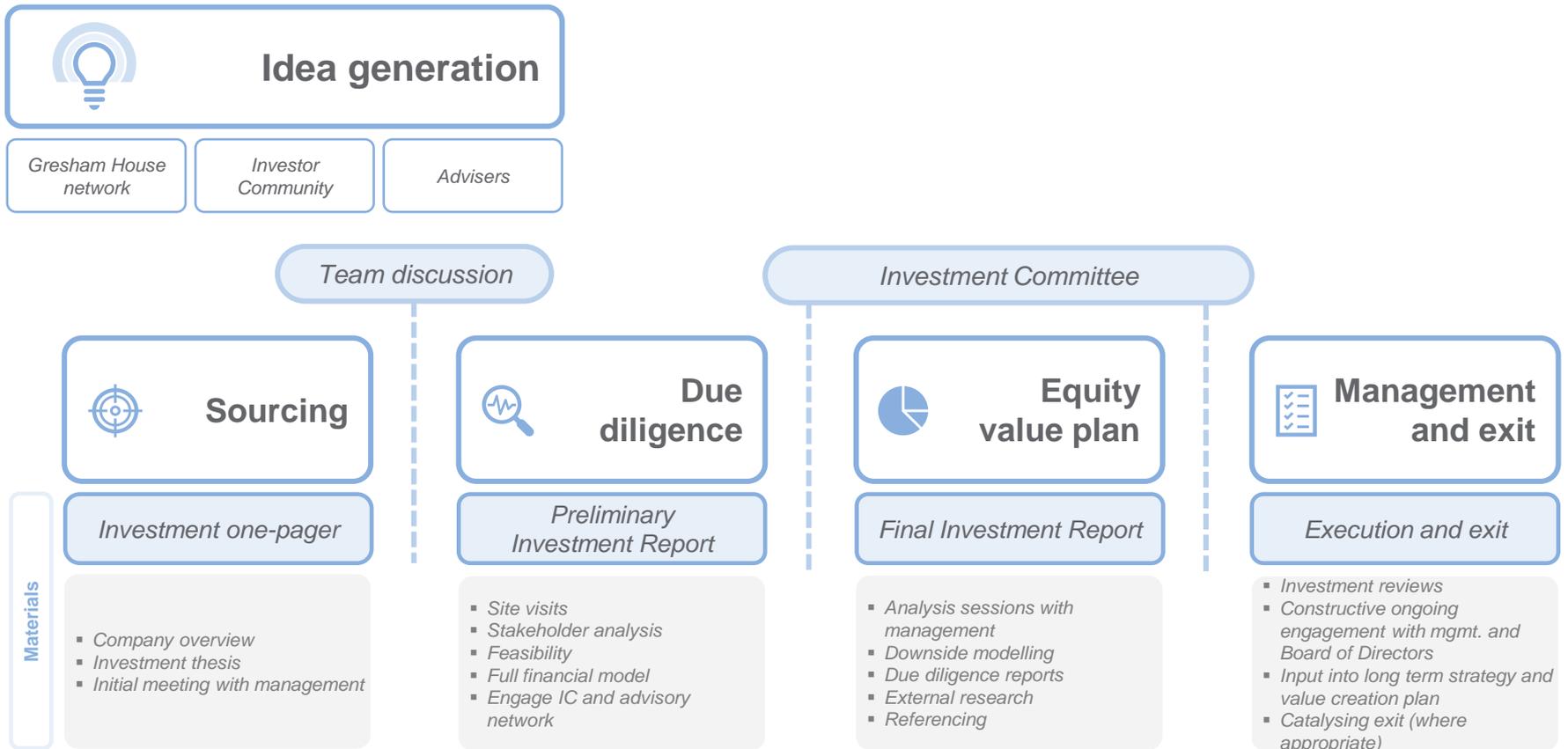
Concentrated & flexible mandate:  
up to 20% can be invested in unquoted

*Past performance is not necessarily a guide to future performance.*

*Portfolio investments in smaller and/or unquoted companies typically involve a higher degree of risk.*

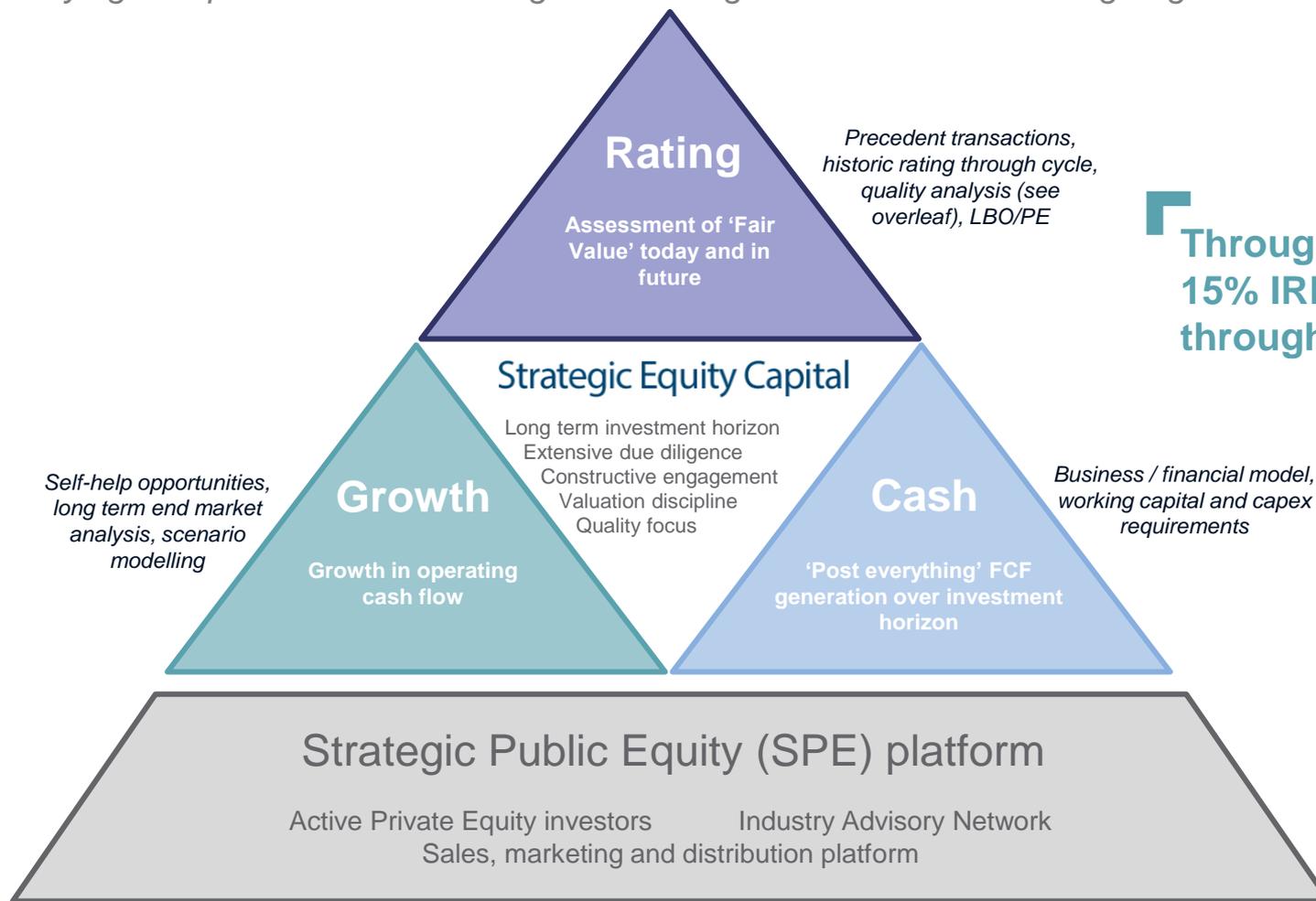
# PROCESS MODELLLED ON PRIVATE EQUITY

Four stage investment process, with multiple touchpoints and Investment Committee input



# FOCUS ON LONG TERM DRIVERS OF VALUE

Identifying multiple drivers of returns gives a stronger likelihood of achieving target investment returns



Through this target a 15% IRR<sup>1</sup> with upside through M&A

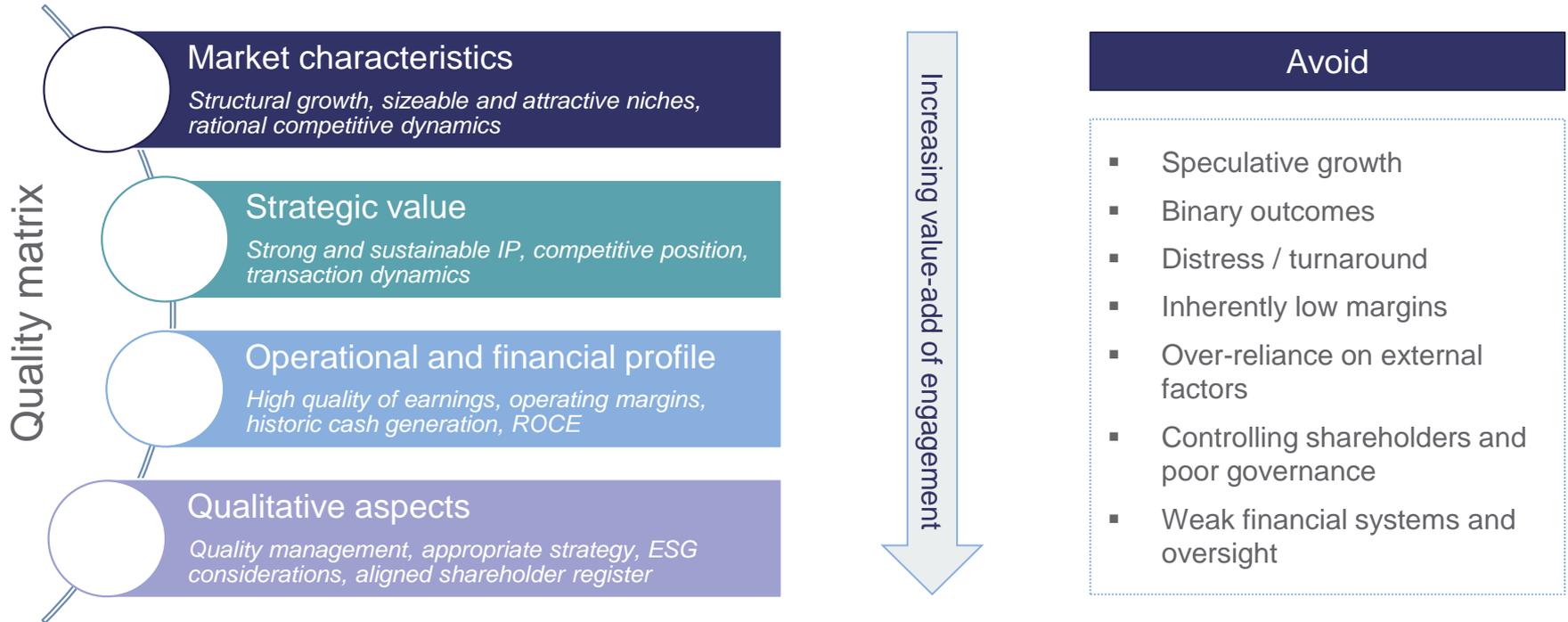
1. Internal target only, not guaranteed

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Portfolio investments in smaller companies typically involve a higher degree of risk.**

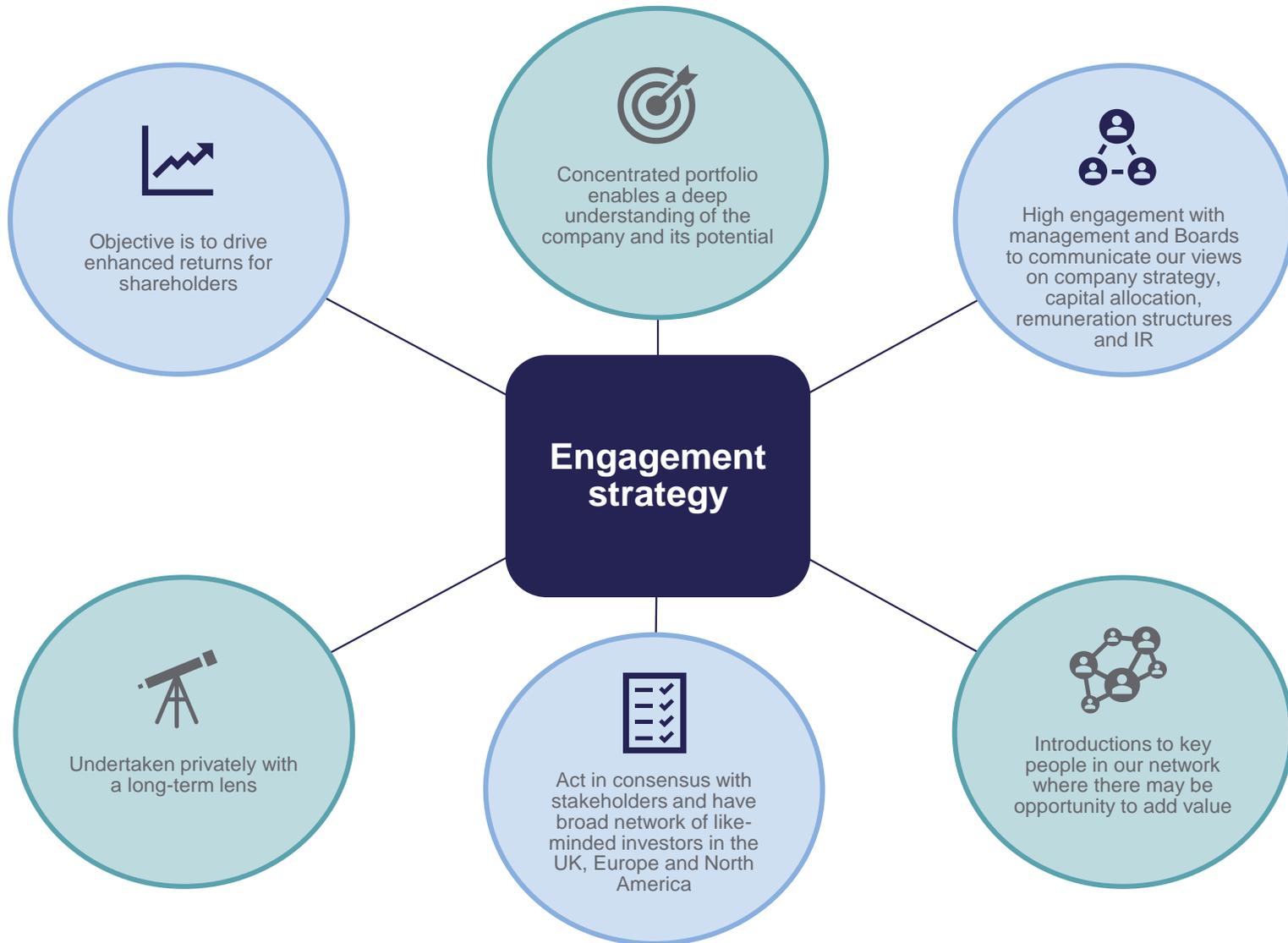
# OUTPUTS OF INVESTMENT PROCESS

*Applying a private equity approach to public markets*

What do we look at?



# ENGAGEMENT STRATEGY

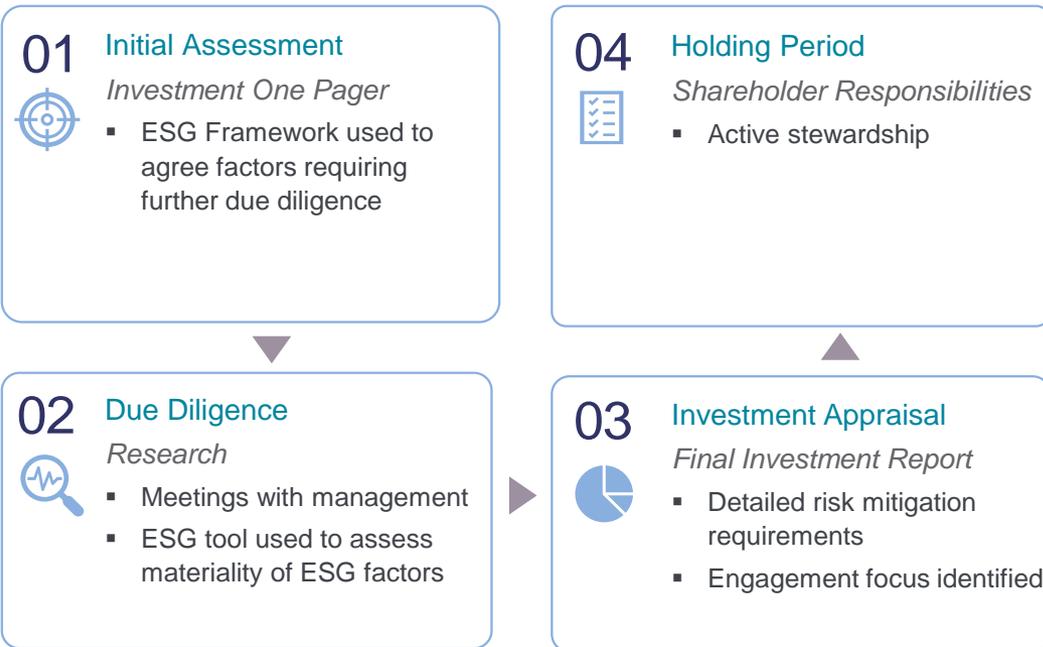


# ESG FOCUS: PUBLIC EQUITY

As long-term investors with a focus on small and micro-cap companies in the UK equity market, we are active stock pickers applying a private equity approach to quoted equities. We offer a range of investments including our open-ended equity funds, listed strategic public equity investment trusts and limited partnership vehicles.

Our public equity philosophy revolves around taking a hands-on approach to engaging with our investee company stakeholders, including management, shareholders, customers and suppliers, in order to capitalise on market inefficiencies and identify value creation and recovery opportunities.

## ESG Implementation



**4.8 years**  
weighted average holding period as at 31 December 2020

We are proud signatories to the following member organisations:





## Case study

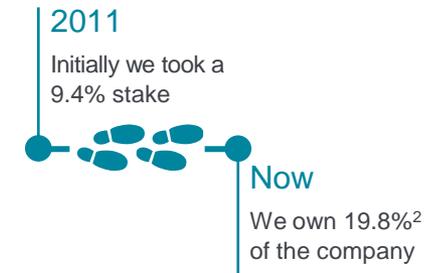
### Changing the way businesses purchase and use energy

#### The business

Inspired Energy plc is a leading UK corporate energy services and procurement specialist. They are energy management experts and work with corporate energy consumers to optimise their energy costs. The company provides three key services:

We invested in the company when it first listed in 2011 but worked with the management team before this point on areas such as Board composition and management incentives prior to IPO.<sup>1</sup> Since 2011 we have regularly engaged with the management team on various projects, most notably:

1. Business strategy
2. Raising capital for expansion
3. Board composition and planning




Specialises in end-to-end solutions for investors and Corporate Businesses to make effective ESG Disclosures and transform them into ESG Impacts



Delivers energy, water and sustainability assurance and optimisation services, so Corporate Businesses can manage their costs better, reduce their carbon efficiently and meet their net zero targets.



Delivers technology and software solutions that underpin the services provided by Inspired PLC and makes them available to third parties.

1. Initial Public Offering  
2. Holding across all Gresham House funds as at 31 March 2021

Case studies selected for illustrative purposes only to demonstrate investment strategy and are not investment recommendations.

# ERGOMED PORTFOLIO REALISATION CASE STUDY

## Background

- Ergomed is a specialist pharmaceuticals company. It has two services businesses; Clinical Research Services and Pharmacovigilance (drug safety monitoring). It also has a products division co-developing early stage pharma assets
- Following a period of diligence, our interest grew following engagement with the new Chairman, Peter George who we knew well from Clinigen. We purchased our initial stake in a founder placing at 190p in April 2018 and scaled the position over the following months
- The two service businesses are high quality in our view with structural growth given the trend towards outsourcing in pharmaceuticals and attractive financial characteristics. Our view was the company should focus on these two divisions and cease co-development activities which delivered a low return on investment
- In the two years following investment, after initial challenges in managing growth, the company has upskilled management and the Board with strong sector experience from Chiltern, a CRO which was sold to Covance in 2017
- Earnings momentum has been strong as the company has focused on its core capabilities with strong cash generation allowing bolt-on M&A. This has led to a re-rating more in line with similar companies in the industry
- Realisations on strong share price performance; final sale at 875p. IRR over investment period of 72%

### Active Ownership and Value Creation



## Investment thesis

### Rating

On a SoTP basis, the two services business are worth mid-teens EBITDA multiples  
Re-rating from ceasing co-development and continued growth in services division

### Growth

Structural growth from outsourcing to specialists  
Increasing R&D investment (CRO) and regulation (PV)

### Cash

Capital-lite business model with high margins  
Net cash balance sheet

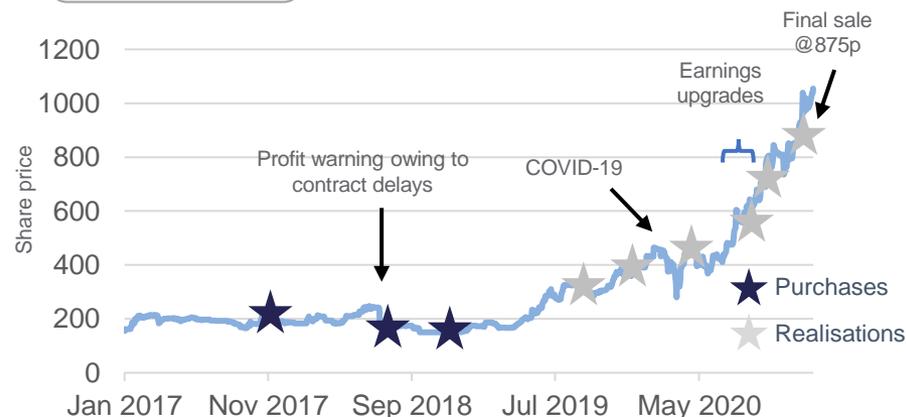


Chart source: Bloomberg, as at 31 Dec 2020

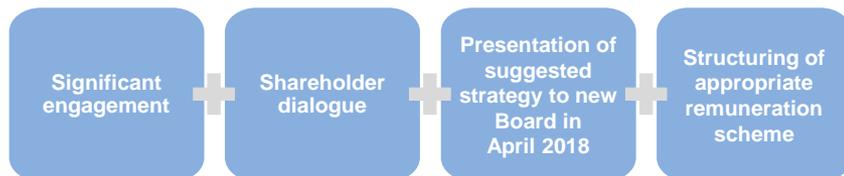
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# IFG GROUP TAKEOVER CASE STUDY

## Background

- On 25 March 2019, a recommended cash offer was made by Epiris Funds at 193p, a 46% premium to the closing share price, a trailing PE valuation of 21.4x. SEC owned 9.9% of the shares in issue
- The company's rating had been impacted by the aborted sale of Saunderson House in early 2018 and the emergence of a legacy issue (Elysian Fuels) and potential financial liability. Both were discrete and, in our view, didn't affect the long-term quality of the business and its end markets
- We commented as such in our FY18 Annual Report: *'Our view remains that the individual businesses... are independently more valuable than in the current group structure and than the prevailing share price suggests. Ongoing consolidation and an increasing incidence of listed peers in both the wealth management and platform industries demonstrate considerable valuation upside in our view.'*
- We presented our analysis and views to new management shortly after they joined in April 2018 and have been heavily engaged with the company's executive management team and Board with a view to maximising shareholder value

### Active Ownership and Value Creation



## Investment thesis

### Rating

Severe dislocation to SoTP valuation based on precedent M&A and peer analysis  
Gap to close via a corporate solution

### Growth

Structural growth from pensions freedom and favourable demographic and regulatory drivers

### Cash

Well capitalised business and strong underlying cash generation  
Screens well on LBO basis



Chart source: Bloomberg, as at 30 September 2019

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# OXFORD METRICS GROUP PORTFOLIO REALISATION CASE STUDY

## Background

- Oxford Metrics plc (ticker: OMG-LN) focuses on developing and commercialising image processing and location data technologies
- The company's IP is regarded as industry leading, particularly in its Vicon subsidiary that enables 3D motion capture for the entertainment, engineering and life sciences industries
- Due diligence process initiated in August 2014, and accelerated following the company's decision to focus on profitable divisions and monetise IP in loss making areas. Initial investment December 2014
- Ongoing engagement with management and the Board. Scope for strategic improvement through divestment of sub-scale business units and focus on core activities
- Significant organic growth, rerating and cash generation over five year investment horizon. Sale of stake into market in Q4 2019 and Q1 2020 based on share price reaching our view of fair value
- We commend the management team and Board of the company for consistently strong operational and strategic performance. An exceptional investment for SEC, generating an IRR of 34% and 2.3x money multiple over the course of 5+ years

### Active Ownership and Value Creation



## Investment thesis

### Rating

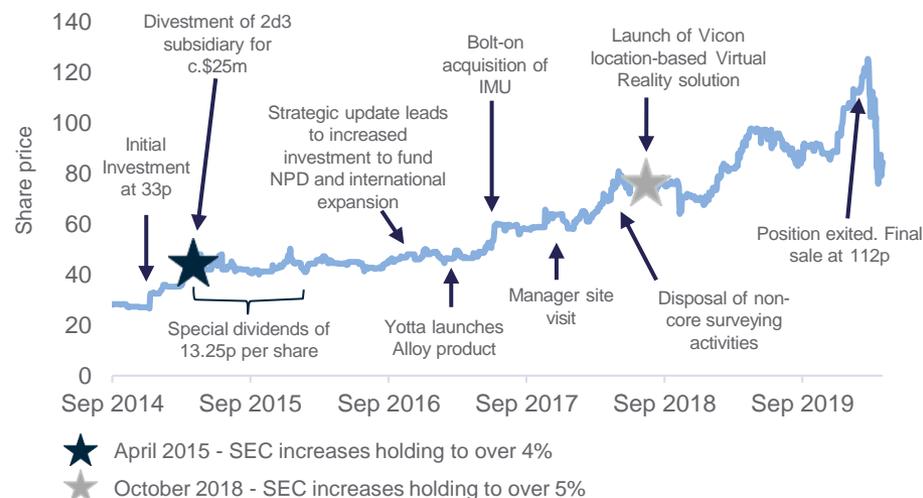
Underappreciated IP and quality of earnings. Headline valuation and financials misleading given loss making division; attractive SoTPs

### Growth

Strong market growth due to increasing utilisation and sophistication of motion capture technology

### Cash

Cash generative with net cash balance sheet; potential for excess returns to shareholders



Source: Bloomberg, as at 31 March 2020

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# TOP 10 HOLDINGS<sup>1</sup> - INVESTMENT THESES

Company and % of NAV	Investment thesis	Company and % of NAV	Investment thesis
 <b>10.8%</b> Healthcare	<ul style="list-style-type: none"> <li>A niche market leader in the UK teleradiology sector which is acyclical and is growing rapidly driven by increasing healthcare requirements and a structural shortage of radiologists</li> <li>Above market organic growth and underappreciated cash generation characteristics</li> </ul>	 <b>6.4%</b> Media	<ul style="list-style-type: none"> <li>International provider of B2B data and training in the compliance, insurance, financial and healthcare sectors</li> <li>New Chair, CEO and CFO incentivised to re-focus the business and deliver a return to organic growth</li> </ul>
 <b>9.7%</b> Software	<ul style="list-style-type: none"> <li>International provider of student administration software with market leading positions in the UK, Australia and NZ</li> <li>Strong defensive characteristics with high visibility of earnings</li> <li>Transition to cloud-based platform</li> </ul>	 <b>6.0%</b> Business Services	<ul style="list-style-type: none"> <li>Market leader in defensive share services and regulated technology markets</li> <li>De-gearing and cash flow demonstration required to drive a re-rating</li> <li>Precedent M&amp;A in this sector given financial characteristics</li> </ul>
 <b>9.2%</b> Healthcare	<ul style="list-style-type: none"> <li>Leading positions in unlicensed medicines and territories without access to healthcare</li> <li>High barriers to entry built through M&amp;A and organic investment</li> <li>Attractive growth and cash flow potential</li> <li>Significant potential medium-term upside</li> </ul>	 <b>5.5%</b> Business Services	<ul style="list-style-type: none"> <li>UK B2B corporate energy services and procurement specialist. Strong ESG credentials</li> <li>Leading player in fragmented industry; significant opportunity to gain market share through client wins, proposition extension and M&amp;A</li> </ul>
 <b>7.3%</b> Business services	<ul style="list-style-type: none"> <li>Leading 'challenger' brand in the pensions administration and advice market with organic market share opportunity following industry consolidation</li> <li>Highly defensive - high degree of revenue visibility and largely non-discretionary, regulation driven client activity</li> <li>Below market rating despite favourable cash flow characteristics</li> </ul>	 <b>4.8%</b> Financials	<ul style="list-style-type: none"> <li>UK focused wealth management platform; structural growth given continuing transition to self-investment</li> <li>Opportunity to leverage operational investments to grow margin and continue strong cash flow generation</li> <li>A consolidating market; opportunity for Brooks as both predator and prey</li> </ul>
 <b>6.9%</b> Industrials	<ul style="list-style-type: none"> <li>Market leader in residential and commercial window and door manufacturing</li> <li>Multiple self-help opportunities under new management to improve ROCE; de-gearing should drive a re-rating</li> </ul>	 <b>4.7%</b> Business Services	<ul style="list-style-type: none"> <li>Leading UK provider of technology enabled regulatory solutions and services to IFAs, financial institutions and other intermediaries</li> <li>Strategically valuable technology platform with opportunity to drive material growth in revenues and margins through supporting customers' digitisation journeys</li> </ul>

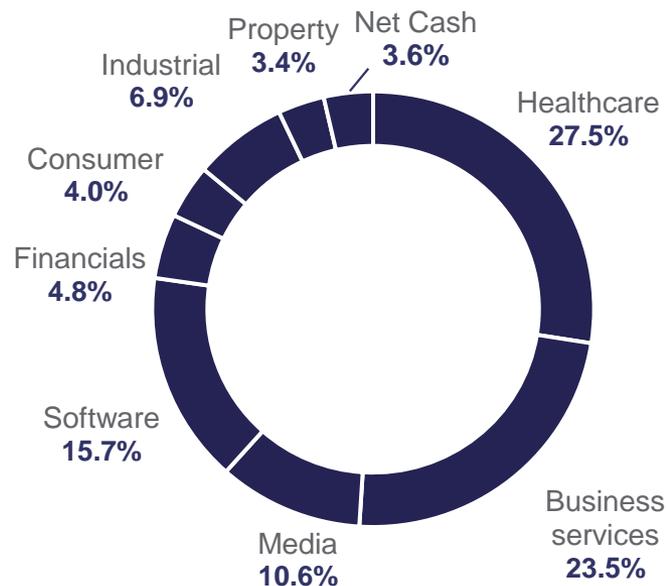
As at 31 March 2021

1. Top 10 holdings representing c.69% of NAV

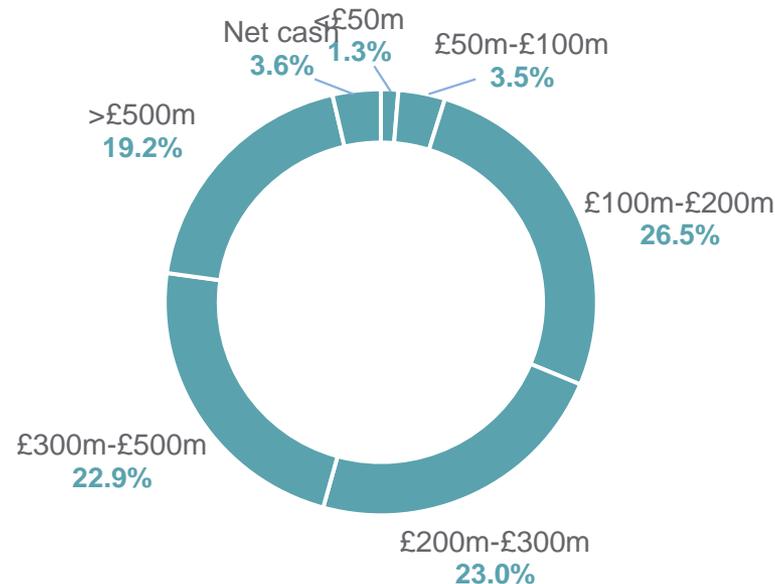
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# HIGHLY CONCENTRATED & UNCONSTRAINED PORTFOLIO

## Sector exposure by value



## Value by market cap band



- Sector exposure is an output rather than input. We favour industries with strong structural growth features and companies with attractive business models and financial characteristics
- A highly concentrated portfolio with a focus on smaller companies. We believe this part of the market remains under-researched, accentuated by MiFID II, with good opportunities for active managers

Source: Bloomberg, PATAC as at 31 March 2021

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# SPECIALISTS IN ALTERNATIVES

Gresham House is a London Stock Exchange-quoted specialist alternative asset management group (GHE.LN), providing funds, direct investments and tailored investment solutions, including co-investment.

- Specialists in five areas of alternative investment
- Growing organically and through acquisition, expanding our shareholder base, and developing our investment pipeline
- Committed to operating responsibly and sustainably, building long-term value across our portfolio

## Strategic Equity



Public Equity



Private Equity

£0.9bn

## Real Assets



Forestry



New Energy &  
Sustainable  
Infrastructure



Housing

£3.1bn

£4.0bn<sup>1</sup>

Signatory of:



Joined UKSIF  
**UKSIF**  
UK Sustainable Investment  
and Finance Association

1. As at 31 December 2020

# INVESTMENT COMMITTEE



**Anthony Dalwood**

Investment Committee Chairman

- Started Gresham House Asset Management in 2015
- CEO of Gresham House plc
- 25 years' experience in public and private equity
- Previously CEO of SVG Advisers and SVGIM



**Graham Bird**

- Over 26 years' experience in public and private equity fund management and advisory
- CFO at Escape Hunt
- Previously at Gresham House and SVGIM



**Ken Wotton**

- Over 20 years' experience in AIM and other listed investments
- Fund Manager for Gresham House UK Micro and Multi Cap funds
- Previously at Livingbridge



**Richard Staveley**

- Over 23 years' experience in public equity
- Previously at Majedie Asset Management, River & Mercantile Asset Management (Founder) and Société Générale Asset Management



**Bruce Carnegie-Brown**

- Over 30 years' experience in private equity
- Chairman of Lloyd's of London
- Previously at Banco Santander, Aon UK Ltd, and Catlin Group Ltd



**Tom Teichman**

- 30 years' experience in VC and banking
- Co-founder of The Garage
- Previously CEO of Gresham House Strategic plc (formerly Spark Ventures)

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The internal rates of return or IRRs presented on a gross basis do not reflect any management fees, carried interest, taxes and allocable expenses of the kind that will be borne by investors in a fund, which in the aggregate may be substantial.

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