Gresham House Strategic plc

Q2 Factsheet - 30 June 2021

Since 1857
Gresham House
Specialist asset management

Investment mandate: Strategic Public Equity (SPE) targets 15% IRR on investments over the long term.

Gresham House Strategic plc (GHS) invests in UK smaller public companies, applying private equity style techniques to construct a focused portfolio. The process is based on private equity disciplines including a team approach and an investment committee. The Manager focuses on profitable, cash-generative companies that it believes are intrinsically undervalued, aiming for significant engagement with investee company stakeholders in support of a clear equity value creation plan over the long term.

Key facts as at 30 June 2021

NAV per share:
1,749.2p

Mid-price:
1,665.0p

Benchmark:
Unconstrained

Investment mandate:
Strategic Public Equity

Ticker:
GHS

Fund information

Annual management fee: 1.5%

Performance fee: 15.0% over a 7.0% hurdle

Shares in issue: 3,480,884 (as at 30 June 2021, there are no shares held in treasury)

Investment Managers

Tony Dalwood
Fund Manager, Investment Committee Chairman

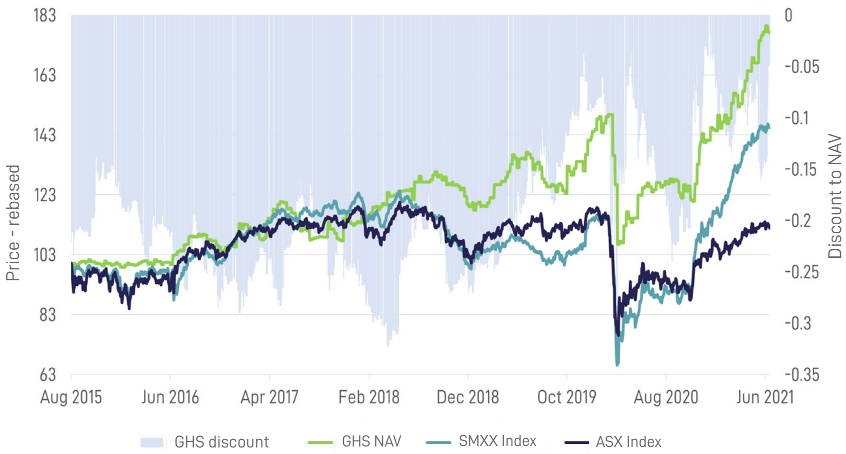
Started Gresham House Asset Management in 2015. CEO of Gresham House plc. Over 25 years' experience in Public and Private Equity. Previously at PDFM and CEO at SVG Advisers.

Laurence Hulse
Deputy Fund Manager & Associate Director

Over 7 years' investment experience. Previously at Rothschild as an intern in the M&A team.

NAV per share relative performance

14 August 2015 - 30 June 2021 (Appointment of Gresham House and adoption of SPE investment mandate in August 2015).



Performance	Since inception[1]	1 year	3 years	5 years
GHS NAV Total Return	**87.9%**	**42.3%**	**52.9%**	**82.7%**
FTSE Small Cap Total Return	71.0%	65.2%	32.4%	80.7%
FTSE All Share Total Return	38.3%	21.4%	6.3%	36.8%

Source: Bloomberg as at 30 June 2021, net of fees and costs

The figures shown in the table above relate to past performance. Past performance is not a reliable indicator of future performance and should not be the sole factor in considering whether to invest in a product or strategy.

Market Commentary

Equity markets coursed higher through the second quarter of 2021 as they further re-calibrated to reflect earnings expectations, valuations and Covid-19 government policy. It is worth reflecting on the truly unprecedented scale of fiscal stimulus, ease of monetary conditions and how well economies reacted to the crisis. Twelve months ago, it would have been remarkable to expect record equity valuations and the UK to be a few weeks away from, more or less, a full return to normality thanks to the successes of the vaccination programme. Despite this, the UK and smaller company relative discounts, to other equity markets and larger company equities, remain. Markets entered July gravitating around three key themes: material GDP growth, 'transitory' inflation, and ever-supportive central banks, extending the clear direction of markets and sentiment. We invested more than 40% of the portfolio during the volatile period of last spring and as a result have benefitted from these tailwinds.

Whilst the trend of the past twelve months has been clear, the second quarter bookended a more muted May. Genuine concerns emerged from a chorus of respected economists and market participants about an increased monetary policy failure risk, and this is a view we sympathise with. Whether inflation proves transitory or systemic and central banks' responses will be the key themes that will have implications well beyond equity markets. This narrative, combined with current record measures for manufacturing, purchasing and other macroeconomic metrics leave us cautious about how the next year for equities will compare to the previous year. Given this and the unusual levels of uncertainty in company forecasts (positive and negative) there is potential for increased volatility. In the UK small-cap market, we believe there is a particular blind spot as many executive teams have not had to operate in an inflationary environment before. While we have been fully invested since last summer, we have been selectively taking profits and raising cash recently.

Capital at risk:

The value of investments may fall as well as rise and investors may not get back the original amount invested.

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

1. Inception 14 August 2015 - 30 June 2021

Top ten shareholdings[1]	£m	Shareholding in company	Portfolio NAV
Augean plc	£16.4m	5.6%	27.0%
RPS Group plc	£6.0m	2.0%	9.9%
Flowtech Fluidpower	£4.5m	5.8%	7.4%
Northbridge Industrial Services plc	£4.4m	13.4%	7.2%
Pressure Technologies plc	£4.0m	13.8%	6.6%
ULS Technology	£3.5m	6.6%	5.7%
Centaur Media plc	£3.5m	5.9%	5.7%
Van Elle Holdings plc	£3.3m	6.4%	5.4%
M&C Saatchi	£3.1m	1.6%	5.1%
National World plc	£2.7m	4.7%	4.4%
Other investments	£9.7m	-	15.9%
Cash and other working capital items	(£0.2m)	-	(0.3%)
Total NAV	**£60.9m**		**100%**

1. Top ten holdings shown as at 30 June 2021 using bid-price data.
2. AUM as at 31 December 2020

Investment Manager

Gresham House Asset Management Ltd (GHAM)

The operating business of Gresham House plc, GHAM manages funds and co-investments across a range of differentiated alternative investment strategies for third-party clients. The company is built on a long term investment philosophy and applies private equity techniques to due diligence and investment appraisal.

Gresham House plc (ticker: LON:GHE) is a London Stock Exchange quoted specialist asset manager with c.£4.0bn[2] in assets under management.

Investment Manager's Report

Our strong performance in the year to 31 March 2021 accelerated in Q2 CY2021 as a number of catalysts in portfolio holdings, enhanced by the supportive market backdrop, helped drive share prices. The Net Asset Value (NAV) grew 15.4% to 1,749.2p and the shares, again, ended the quarter trading at an all-time high of 1,665.0p, enabling Gresham House Strategic to retain its top quartile position in the AIC UK Smaller Companies sector over three years (3rd/25), as at 30 June 2021 , for share price total return. Some of our investments in the quarter significantly outperformed, including; Augean, Flowtech Fluidpower and National World. It was also pleasing to see coverage by Simon Thompson in the Investor's Chronicle and participation in the popular Vox Markets podcasts.

Northbridge Industrial Services plc - NBI LN (profitable realisation)

It was a very busy quarter following a number of operational, strategic and personnel changes at Northbridge, where we are the largest shareholder. The company, who manufacture, hire and sell specialist electrical equipment, has repeatedly reported improving trading results and outlook. This was particularly profound in the Crestchic division which designs, manufactures and hires load banks for test generators and has been generating a return on capital in excess of 20%. Strategically there has been progress on the disposal process for the more challenged Tasman division and investment to increase capacity at Crestchic. The improving picture was underlined by director share purchases and increased investor relations activity. Most importantly, we secured a profitable exit from 80% of our loan notes held in the company. We redeemed £1.6m of notes which generated a total profit of £790k (quarterly and redemption interest). The remaining 20% was converted at 90p versus a current market price of 116p, leaving us with a remaining portfolio weighting of c.7% in Northbridge equity.

Pressure Technologies plc - PRES LN

It was a frustrating period for Pressure Technologies, a business that provides engineering solutions for their products used in harsh operating environments. The turnaround strategy had begun to show encouraging signs especially in the cylinder's division, before metal supply issues and operational disruption generated a profits warning. Whilst it was reassuring to see share purchases by the Chair and Non-Executive Directors after the announcement, it was still disappointing and management have recalibrated their three-year plan to include, what we feel, is a delay to the underlying growth in the equity story. The business has been the most heavily impacted by Covid-19 of all our holdings and, as clients would expect, we are actively supporting the business where we can, working closely with the team and Board. Recovery in Oil & Gas markets and further successes in the Hydrogen sector are key near-term catalysts for the business.

Augean plc - AUG LN

There was a welcomed development at our largest holding Augean, in the second quarter. Bloomberg cited sources claiming Morgan Stanley Infrastructure Partners was contemplating a bid for the group which was subsequently confirmed. The process is currently in an extended put-up-or-shut-up period, and we await further developments. The investment, made by the team in 2017, has generated significant returns to date. A core element of the turnaround thesis was the arbitrage between the distressed multiple the company traded on at the time and the value private markets tend to pay for such assets. It was this conviction that has been an important part of the justification for retaining significant exposure to the investment.

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