Gresham House Strategic plc

Q3 Factsheet - 30 September 2021

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 September 2021

NAV per share
1,906.5p

Mid-price
1,700.0p

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 September 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
Fund Manager

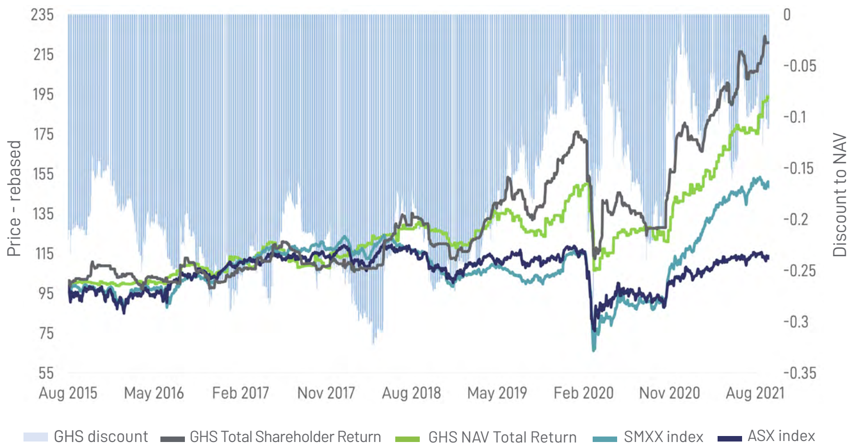
7 years' investment experience.

Nominated for the 2021 Investment Week Rising Star of Investment Companies.

Joined Gresham House in 2015 and has worked on the GHS investment team since 2016.

NAV per share relative performance

14 August 2015 - 30 September 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	108.1%	60.2%	58.2%	89.5%
FTSE Small Cap Total Return	75.5%	72.4%	38.8%	64.0%
FTSE All Share Total Return	41.4%	27.8%	9.6%	29.5%

Source: Bloomberg as at 30 September 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.

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.

Market commentary

Equity markets meandered through the third quarter of 2021 as expectations for earnings, inflation and monetary policy diverged, ending the quarter on a weak note. This was despite record breaking levels of M&A driving up the ratings of various targets and their peers - including investments in our portfolio. We have previously commented on the remarkable position of markets and macroeconomics versus the depths of the pandemic.

The third quarter certainly saw cause for moderation which was reflected in equity markets. We also discussed how markets entered July gravitating around three key themes: material GDP growth, 'transitory' inflation and ever-supportive central banks, and all three stole headlines over the quarter.

It was particularly notable to see supply side issues feeding through to domestic and global energy markets and some of the first rate-hikes or 'taper talk' at various central banks.

We maintain the belief that monetary policy failure remains a key market risk and our caution over the next year (now nine months) for equities as there is certainly potential for increased volatility.

Having been fully invested for the past 15 months, we have recently been realising significant profits and cash through a mix of secondary sales and takeovers.

1. Inception 14 August 2015 - 30 September 2021

Top ten shareholdings[1]	£m	Shareholding in company	Portfolio NAV
Augean plc	£21.6m	5.6%	32.6%
Northbridge Industrial Services plc	£6.6m	13.4%	9.9%
RPS Group plc	£5.3m	1.6%	8.0%
Flowtech Fluidpower	£4.8m	5.8%	7.3%
Centaur Media plc	£4.3m	5.9%	6.4%
National World plc	£3.9m	4.7%	5.9%
Van Elle Holdings plc	£3.3m	6.4%	5.0%
M&C Saatchi	£3.2m	1.6%	4.8%
ULS Technology	£3.2m	6.6%	4.8%
Pressure Technologies plc	£3.1m	13.8%	4.7%
Other investments	£8.6m	-	12.9%
Cash and other working capital items	(£1.5m)	-	(2.3%)
Total NAV	**£66.4**		**100%**

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.

After quarter end, on 11 October, the Investment Management Agreement with GHAM was terminated and Harwood Capital LLP (Harwood) was appointed as the new Investment Manager. There is no change to the investment mandate. Full details can be found here.

1. Top ten holdings shown as at 30 September 2021 using bid-price data

Investment Manager's report

The portfolio delivered another very strong quarter for shareholders as the NAV ended September around new record highs. The Net Asset Value (NAV) grew 9.0% to 1906.5p and the shares, traded higher too ending at 1,700p. This material outperformance has been created by catalysts – that were either identified by the team's original investment theses or others actively driven 'post-deal' over the past 12 months. As we have consistently indicated, this is a long term, specialist investment approach and TSR since inception is now 141.5%, outperforming the FTSE All-Share by 12.0% per annum as a result of both NAV performance and the discount narrowing. Significant contributors this quarter were Augean, Northbridge, National World and Centaur Media.

Augean plc - AUG LN (Investment Exit; 101.2% IRR, 9.0x Money Multiple)

Our four-year investment has come to a really welcome conclusion for clients as the business is to be acquired following a prolonged bidding war. A core element of the thesis was the arbitrage between the distressed multiple the company traded on at the time and the 8-12x EBITDA valuation private markets tend to pay for such assets. Four years later the business has been acquired at over 10x, generating profits of over c.£22m for GHS shareholders as the investment delivered a 9.0x Money Multiple return and an IRR in excess of 100% versus our original share purchases between 22p and 50p.

Our active and engaged investment style allows us to 'run our winners' and in-depth ongoing due diligence, alongside Investment Committee input, through the holding period allowed us to capture supernormal returns by retaining our position over the past couple of years and through the takeover offers, at a time when many took profits. Credit and thanks must go to the management team and board for such a recovery in just four years.

Northbridge Industrial Services plc - NBI LN

The company continued to deliver further upgrades in Q3 adding to momentum. It has been particularly pleasing to see changes that we have worked on with the board feeding through to what matters so quickly - the numbers. Leadership change was cited in the interim results as speeding up decision making, and improved Investor Relations and communications appears to have helped the stock to re-rate. A renewed focus on ROI and ROCE for the fleet from power markets and the targeted disposal of Tasman are creating the opportunity for additional profitable growth, quickly driving upgrades and the interim results cite the opportunity for further growth in the medium term.

M&C Saatchi plc - SAA LN

A similar story has been building in a very different company; M&C Saatchi. Since our investment 9-12 months ago, the new management team and board have rapidly got to grips with the two key drivers of margin: costs and turnover.

Their self-help initiatives following a troublesome period have quickly driven both profit growth and cash generation. There has been material rationalisation of a bloated cost base and the strategy is narrowing its focus to core revenue opportunities, driving a series of upgrades. We were also impressed to see a rapid use of cash generation to buy-out future put option liabilities in order to reduce future dilution to returns.

Ted Baker plc - TED LN (Investment Exit - 130.7% IRR, 1.9x Money Multiple)

In line with some of the market commentary overleaf, we took profits from our investment in Ted Baker in Q3. The drivers for this were threefold. Firstly, retail sector data simply had not rebounded over the summer as much as we had modelled at the point of investment in the 'Covid raise' at 72p and consumer confidence more generally started to stall too. This was sullied further with the company revealing 'under-indexing' in eCommerce on both quantitative and qualitative measures at the interims. It is not controversial to deem online execution key to any B2C business in the post-pandemic world, so this diluted conviction further. Finally, given the above, the material re-rating from 72p to the 150p-202p spread where we sold shares this year represented fair value of the initial cost reduction efforts and a de-risking of the balance sheet that the raise provided and therefore it was deemed prudent to take profits.

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Important information