

Strategic Equity Capital plc

Factsheet commentary – Q4 2025

Past performance is not necessarily a guide to future performance. Portfolio investments in smaller companies typically involve a higher degree of risk. Capital at risk. Extracted portfolio performance is not necessarily indicative of the performance of the fund. Not to be construed as investment advice or recommendation. Views expressed by the investment team are correct at the time of writing but are subject to change.

Overview – Q4 2025

UK equity market performance was mixed in the fourth quarter of 2025 as smaller company stocks generally underperformed their larger peers. The Deutsche Numis Smaller Companies plus AIM ex-Investment Trusts Index, FTSE 100 Index, and FTSE 250 Index rose by **1.6%**, **6.8%** and **2.9%** respectively, while the FTSE AIM All Share fell by **1.7%** in comparison.

During the fourth quarter, the FTSE 100 continued to outperform, largely driven by ‘mega cap’ banks, pharma, and energy stocks. We view this dynamic as further evidence of shifting tides in global asset allocation. The ‘US diversification trade’ has diverted global money flow into the top-end of the UK and other international equity markets, particularly over the second half of 2025, as fears of US stock market concentration and an AI valuation ‘bubble’ become increasingly salient. Combined with the uncertain direction of US economic and foreign policy under the Trump administration, we believe overweight US allocations will continue to unwind and that the backdrop for marginal buying of UK equities looks more supportive than at any point over the last three years.

The widening jaw between UK large cap and small cap valuations was another key feature of the fourth quarter, with companies below £500 million market cap trading at a 23% median price-to-earnings discount to companies with over £4 billion market cap at period-end.¹ While UK-based investors remained risk-off domestic equities – withdrawing £2.6 billion from UK-focused equity funds over the period – ² the large-to-small relative value trade provides an attractive incentive for money to trickle down into the UK smaller companies space. Historically, when investors have capitalised on this opportunity, they have been rewarded handsomely – over each peak-to-trough and trough-to-peak UK equity market cycle since 1998, UK small caps have rebounded over 70% higher than the FTSE All Share on average, with that recovery often coming within a six-month window.³ Moreover, private equity and strategic buyers have materially capitalised on this relative value dynamic over the last two years and public-to-private transaction activity continued apace during the fourth quarter with £2.6 billion-worth of takeovers of UK-listed companies.

¹ Bloomberg data, December 2025

² Calastone Fund Flow Data, 6 January 2026

³ Bloomberg data, December 2025

We believe our high-conviction stock selection and portfolio management style provides investors with a source of potential outperformance driven by earnings growth, cash generation and organic re-rating. Our focus is on businesses with high-quality fundamentals such as structural market drivers, solid and defensible market positions, high-quality earnings streams such as recurring revenues, high margins, resilient balance sheets, and capable and aligned management teams. These fundamentals translated into resilient operational delivery during the period, whereby 92% of trading updates or financial results across the portfolio were either positive or in-line relative to market expectations.

Performance – Q4 2025

The Trust's NAV Total Return decreased by **5.4%** over the quarter ended 31 December 2025, underperforming the FTSE Small Cap Index (excluding Investment Companies)⁴ which delivered a flat return of **0.0%**.

Key contributors to returns in the quarter came from: **Costain (+1.9% CTR)**, following a series of strategically important contract wins and framework appointments that strengthened revenue visibility and reinforced its position in core infrastructure markets; **ActiveOps (+1.0% CTR)**, following strong FY25 results that demonstrated double-digit revenue growth, expanding annual recurring revenue and a healthy sales pipeline which underpinned confidence in continued momentum into FY26; and **Tribal (+0.3% CTR)**, following a trading update that reaffirmed the Group was on track to deliver full-year revenue in line with expectations, adjusted EBITDA ahead of consensus and a substantial improvement to a net cash position.

The main detractors in the period were: **Diaceutics (-1.8% CTR)**, **Everplay (-1.2% CTR)** and **Brooks Macdonald (-1.1% CTR)**, all on no specific company news flow during the period.

Portfolio activity

The fund made no new investments during the quarter but made several follow-on investments, including into; **XPS Pensions**, a UK pensions consultancy and administration provider, which we see as a structural winner from increasing regulatory complexity and scheme consolidation, with strong market share gains, high revenue visibility, margin expansion and a robust pipeline underpinning continued earnings momentum, all reinforced by robust structural tailwinds in the pensions market; and **Fintel**, a UK fintech and support services group serving the retail financial services sector, where we increased our holding following positive momentum evidenced by robust late-2025 trading dynamics. Additionally, Fintel's expanded credit facility and strengthened balance sheet position provide the flexibility to pursue further organic growth and selective acquisitions, reinforcing our view of Fintel's structural growth prospects in a fragmented market backed by rising demand for compliance, technology and insight services

The Fund made one full exit during the period, from **Ricardo**, following the agreed all-cash takeover by WSP Global at a 28% premium to the undisturbed share price, or approximately 70% versus the 90-day volume-weighted average price.

4. Where holdings' returns are stated, please note these are Total Returns, including dividends, for each of those stocks over the quarter

Outlook – Q1 2026

Entering 2026, the Gresham House Public Equity portfolios are well positioned for a small and mid-cap recovery. We have a high-quality portfolio of companies with quality long-term fundamental characteristics: earnings growth with high visibility of revenues in less cyclical segments of the economy; high margins reflecting strong market positions; low or no financial leverage providing resilience in an uncertain macro environment; good cash generation underpinning financial returns; high quality and agile management teams aligned with creating long-term shareholder value. These are companies that should command premium ratings on the public markets. Instead, many trade at historically low valuations. If the market fails to rate these businesses appropriately then it is likely we will continue to see an elevated level of takeover approaches for businesses where private equity and strategic buyers appreciate the value on offer.

There are a number of reasons to be more cheerful about the outlook for 2026:

- The material outperformance of the FTSE 100 against not only other domestic indices but also the S&P 500, particularly in US dollar terms, during 2025 has put the UK market back on the global map after several years of underperformance
- Valuation dispersion between large and smaller companies remains historically wide, incentivising a relative value trade and a positive trickle-down effect
- Expected UK interest rate cuts should improve liquidity conditions and provide valuation support for smaller companies
- A reopening IPO market and elevated corporate activity provide tangible catalysts for re-ratings
- History suggests that although small caps typically lag in a market recovery, when they do recover they can do so rapidly and sharply, contributing substantially to their long-term outperformance over the wider market
- If 2026 is to be the year of the small- and mid-cap recovery, patient investors should avoid capitulating and missing this potential source of outsized returns.

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