

# Quarterly Factsheet

## Q2 – April 2017



Investment mandate: Strategic Public Equity (SPE) – targeting 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 manager focuses on profitable, cash generative companies that are intrinsically undervalued and aims for significant engagement with investee company stakeholders in support of a clear equity value creation plan over the long-term.

### GHS – KEY FACTS

NAV per share:

**1072.4p\***

**Benchmark:** Unconstrained  
**Ticker:** GHS

Share price:

**825p\*\***

Strategic Public Equity  
investment mandate

\* As of 31 March 2017.

\*\* Mid price as of 31 March 2017.

### FUND MANAGERS

**Tony Dalwood** Fund Manager, Investment Committee Chairman  
20 years of investment and operating experience. Established SVG Investment Managers and launched Strategic Equity Capital plc and the Strategic Recovery Funds. Former CEO of SVG Advisers (Schroder Ventures London). Previous member of the UK Investment Committee at PDFM (UBS Asset Management).

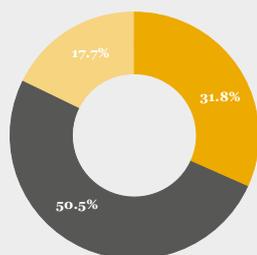
**Graham Bird** Fund Manager, Investment Committee Member  
20 years of investment, advisory and operating experience. Previously Executive Chairman of paybyphone (a subsidiary of paypoint plc), Director of Strategic Investments at SVGIM and a Director within the Corporate Finance department at JP Morgan Cazenove.

### SIGNIFICANT SHAREHOLDINGS\*

	£m	% shareholding in Company	% of portfolio NAV
IMI Mobile	14.2	13.5	36.0
Be Heard Group	2.9	10.6	7.3
Miton Group plc	2.8	4.1	7.1
Northbridge Industrial Services	2.4	10.9	6.1
Quarto	2.2	4.4	5.6
MJ Hudson	1.0	n/a	2.5
Cash and other net assets	13.97		35.4
Net Asset Value	39.5		

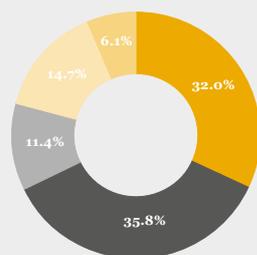
\* As of 31 March 2017.

#### Mkt Cap breakdown



■ Cash and other net assets\*  
■ £50 – £100m  
■ £0 – £50m

#### Sector analysis



■ Cash and other net assets  
■ Software and Computer Services  
■ Financial Services  
■ Media  
■ Industrials and Engineering

### SHARE PRICE PERFORMANCE 14 AUGUST 2015 – 7 APRIL 2017

#### Appointment of Gresham House and adoption of SPE Investment mandate in August 2015



Performance	Q4	Q1	Last 12 months <sup>1</sup>	Since inception <sup>2</sup>
GHS NAV	(3.60%)	2.82%	14.28%	14.08%
SMXX	7.29%	5.38%	16.18%	12.89%
ASXX	7.77%	2.92%	17.55%	11.46%
Relative performance				
vs FTSE Small Cap	(10.89%)	(2.56%)	(1.90%)	1.19%
vs FTSE All Share	(11.36%)	(0.10%)	(3.27%)	2.62%

1 Last 12 months to 7 April 2017.

2 First NAV release on 14 August 2015 to 7 April 2017, most recently announced NAV.

## MARKET COMMENTARY

2017 started confidently with the FTSE 100 and FTSE All Share Index reaching all-time highs in March and the BoE upping growth forecasts in February from 1.4% to 2% for 2017, acknowledging the UK's performance had been stronger than predicted immediately following the BREXIT vote. The key macroeconomic themes investors will be focused on in Q2 will be inflation and the prospect for measured interest rate rises and fiscal tightening moderating growth, consumer sentiment and pressure on real incomes, tapering of quantitative easing and foreign investment into the UK - not to mention the complex negotiations with our European counterparts having triggered article 50.

UK companies appear to be in relatively robust shape however, we are still operating in uncertain times and we believe there is potential for increased market volatility surrounding BREXIT, trumpenomics and the impact of inflation on real incomes and consumer sentiment – all of these with the potential to delay investment decisions and slow growth.

The FTSE All-Share Index, as a multiple of prospective earnings, is trading close to its 10-year high and we continue to believe markets are expensive. Much of the increase in valuations is due to market re-rating, weakness in sterling and increased dividends rather than earnings growth and upgrades and companies are trading close to peak margin ranges.

Recent analysis by the ONS showed a steady increase in input prices in the UK at a faster rate than CPI. We believe this points to two things; firstly, that the UK consumer is yet to feel the real impact of inflation and secondly, that those companies with limited pricing power will find margins under increasing pressure.

Smaller companies tend to be valued at a discount to their larger peers (fig.1) and we see scope for superior returns focusing on companies below £250m market cap which trade below intrinsic value and generate strong cash flows - 'value stocks'.

### FTSE All-Share Index average EV/EBITDA, Multiple (x)

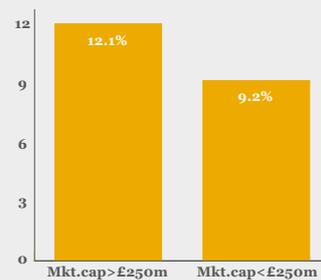


Figure 1. Source: Bloomberg, 11 April 2017

## INVESTMENT MANAGERS REPORT

At present, we hold 10 stocks in the portfolio with a medium target that would see between 10 and 15 stocks representing more than 80% of the portfolio. We believe the current holdings are attractively valued, cash generative and well positioned with good growth prospects for 2017. Through buying GHS shares which currently trade at a 25% discount to the NAV per share, investors gain exposure to a portfolio of stocks valued at c.6x EV/EBITDA (stripping out cash from the portfolio) which are forecast to grow earnings more than 30%\*.

Following strong performance from our portfolio of realised investments the board has decided to pay a 15p dividend and launched a share buyback programme on the 6th April. This is in-line with the Company's policy to return half of all realised profits to shareholders.

Several portfolio companies released positive and upbeat results statements and trading updates in Q1 2017.

**IMI Mobile plc (IMO)** continues to perform in-line with our thesis. The company announced the renewal of a major contract in January on terms in-line with management expectations and at the same time confirmed the signing of a reseller agreement with a global solutions provider to call centres for its IMIchat product. In February, the company simplified its share capital structure with the founders of the business converting their 'B-shares' and then, given the healthy demand, placing shares with institutional investors, broadening the share register and removing complexity. Management retain a significant stake in the business.

IMO announced a new contract award with Telenor a leading mobile operator in Scandinavia and S.E Asia in March and followed with the earnings enhancing acquisition of Infracast which makes them the leading supplier to UK banks and resulted in Investec increasing forecasts by 5%. The company is expected to announce its results in June.

Strong fund investment performance resulted in significant AUM growth at **Miton Group plc (MGR)**. This has resulted in a pleasing operational and financial performance from the group with results in March confirming a doubling of profits and importantly, signalling a material increase in dividend. The business remains highly cash generative with a balanced suite of single strategy funds and an operational platform that can facilitate continued growth in AUM over the long-term. Importantly the multi-asset funds have seen strong inflows following a repositioning and restructuring of the product and good investment performance.

**Quarto Group plc (QRT)** has delivered a good and resilient performance from its niche publishing business with another year of strong growth in children's books. The management team now has an enviable track record of executing enhancing acquisitions following the successful integration of IVY Press and Becker & Mayer and we see scope for further acquisitions this year. Having now disposed of its direct sales business in Australia and its printing division in Hong Kong the

management team is solely focused on its core publishing portfolio.

**Northbridge Industrial Services plc (NBI)** saw its share price continue to rise in Q1, a result of positive measures to manage oil output amongst OPEC member states. The company continues to perform in-line with our long-term investment thesis. Although the oil price has stabilised the market remains tough and we remain cautious with respect to NBI's tool hire business (Tasman) serving the Oil & Gas sector. The company in its interim results (announced in September 2016) reiterated that its loadbank and transformer division (Cresthich) continued to perform well in the UK and Europe. We continue to support the management team who are themselves substantial shareholders in the business. NBI continues to generate cash and is well positioned to benefit from growth in its core markets and a recovery and stabilisation in the oil price.

We have significantly increased our engagement with **SpaceandPeople plc** following a further profit warning in January supporting the recovery strategy for the business. Whilst disappointing, this has served as a catalyst for management to refocus on the core UK business which is growing and where the company has announced good contract wins with Network Rail, British Land and in UK airports. We increased our shareholding taking advantage of significant share price weakness and pleasingly the company released a more optimistic trading update and outlook in March.

\* Using the latest corporate broker forecast for the underline portfolio companies and stripping out the cash position in the company. GHS EV is based on the market capitalisation and cash position as at 31 March 2017.

## FUND INFORMATION

### Investment Committee

#### Tom Teichman

30 years VC & banking experience having founded SPARK Ventures in 1995. Former Investment Committee member at Brandt's, Credit Suisse, Bank of Montreal and Mitsubishi Finance London. Start-up investor/director of lastminute.com, mergermarket.com and Chairman of notonthehighstreet.com

#### Bruce Carnegie-Brown

Chairman of Moneysupermarket.com Group plc. He is a non-executive director of Santander UK plc. He was previously a Managing Partner of 3i QPE plc, a Managing Director of JP Morgan and CEO of Marsh Ltd.

#### Rupert Robinson

Former CEO and CIO of Schroders Private Bank Rupert was previously Head of UK Wealth Management at Rothschild Asset Management.

### Gresham House Asset Management

The asset management division of Gresham House plc (GHE).

It specialises in managing assets on behalf of third party clients focused on funds and co-investments across a range of differentiated and illiquid alternative investment strategies. The company is built around a long-term value investment philosophy and applies private equity techniques to due diligence and investment appraisal.

**Investment Manager:** Gresham House Asset Management Ltd (GHAM)

**Annual Management fee:** 1.5%

**Performance fee:** 15% over a 7% hurdle

**Shares in issue:** 3,687,504 (excluding shares held in treasury)

**Stock Exchange Ticker:** GHS

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