

# Quarterly Factsheet

## Q3 – September 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:

**1075.2p\***

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

Share price:

**846p\*\***

Strategic Public Equity  
investment mandate

\* As of 29 September 2017.

\*\* Mid price as of 29 September 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).

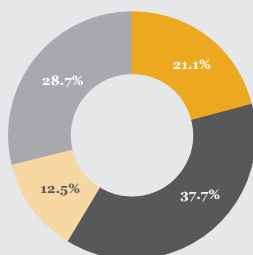
**Graham Bird** Fund Manager, Investment Committee Member  
20 years of investment, advisory and operating experience. Previously Executive Chairman of paybyphone (a subsidiary of paypoint plc), Director of Strategic Investments at SVGIM and a Director within the Corporate Finance department at JP Morgan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

### SIGNIFICANT SHAREHOLDINGS\*

	£m	% shareholding in Company	% of portfolio NAV
IMImobile plc	13.8	12.1	34.5
Northbridge Industrial Services plc	3.2	11.4	8.0
Be Heard Group plc	2.6	10.6	6.5
Miton Group plc	2.0	2.7	5.0
MJ Hudson	2.0	n/a	3.9
Tax Systems plc	1.4	2.1	3.4
Escape Hunt plc	1.3	4.6	3.3
Revolution Bars Group	1.3	1.2	3.2
Quarto Group plc	1.1	4.4	2.8
SpaceandPeople plc	1.0	16.2	2.6
Centaur Media	0.8	1.1	2.1
Private and Commercial Finance	0.8	1.4	2.1
Other Investments	2.1		6.8
Cash and Other Working Capital Items	6.3		15.8
Net Asset Value	39.7		

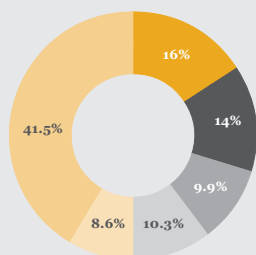
\* As of 29 September 2017. Holdings above 2% of total portfolio NAV are shown.

#### Mkt Cap breakdown



■ Cash and other net assets\*  
■ £100 – £150m  
■ £50 – £100m  
■ £0 – £50m

#### Sector analysis



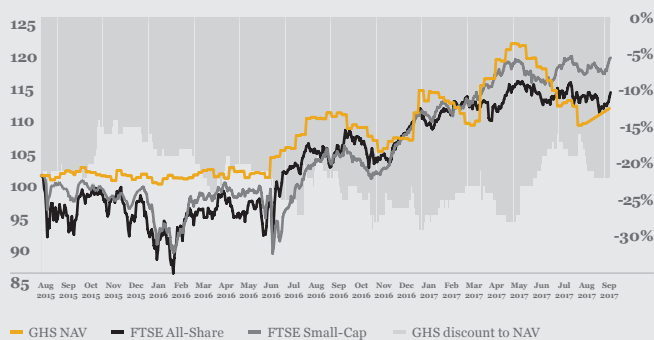
■ Cash  
■ Consumer  
■ Financial Services  
■ Industrial and Engineering  
■ Media  
■ Software and Computing

\* Includes MJ Hudson convertible loan instrument (private company).

### SHARE PRICE PERFORMANCE

14 AUGUST 2015 – 29 SEPTEMBER 2017

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



Performance	Q3 (%)	Q2 (%)	Q1 (%)	YTD <sup>1</sup> (%)	Since inception <sup>2</sup> (%)
GHS NAV	-6.7	7.5	2.8	3.1	8.8
FTSE Small Cap	2.8	1.7	5.4	10.2	18.2
FTSE All Share	1.2	0.2	2.9	4.3	12.4
Relative performance					
vs FTSE Small Cap	-9.6	5.8	-2.6	-7.1	-9.4
vs FTSE All Share	-7.9	7.3	-0.1	-1.2	-3.6

1 To 29 September 2017.

2 First NAV release on 14 August 2015 to 29 September 2017, most recently announced NAV.

## MARKET COMMENTARY

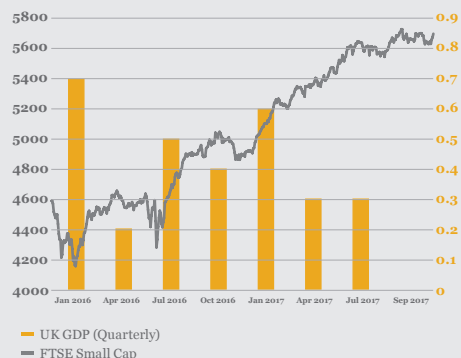
The third quarter was one defined by monetary policy discussion, both in the UK and globally. As inflationary pressures begin to build in the UK economy, the Bank of England has become increasingly hawkish, signalling to investors that interest rate rises are on the way and likely to begin sooner than many expected earlier in the year. On the global stage, the Fed has felt able to begin to reduce its balance sheet and global economic growth is experiencing its broadest upswing since 2008. These themes, amongst others, have generated a feeling of a gradual return to 'normality' and an increasingly positive outlook for equities despite UK political uncertainty.

Meanwhile, Brexit negotiations have been somewhat colourful with mixed outcomes; Theresa May's Florence speech was well received generally on the continent and seen as constructive step forward. On the other hand, it emerged from a set of meeting minutes that Jean-Claude Juncker, president of the European Commission, had questioned the "stability and accountability" of the UK's chief Brexit negotiator, David Davis.

The key statement in May's speech was formalising the desire for a two-year transition period. The Prime Minister implied in March 2019 that the UK would only leave the EU on paper and continue to function as if it were a member – crucially including remaining single market compliant (despite Boris Johnson's best efforts) – while the finer details of Brexit are negotiated in the transition phase. We believe this is a swing to a 'softer' Brexit, which we highlighted as a likely outcome in our Q2 commentary following the general election. Commentators have seen this as a boon to UK's economic prospects, offering greater certainty and a softer Brexit environment for UK plc.

These key themes of the quarter have spurred a positive performance in domestic indices since early September, evidencing an upturn in sentiment and global economic data towards the end of the quarter – The FTSE small-cap has been particularly strong, closing the quarter at an all-time high. UK equities have performed in-spite of weaker UK economic and business investment data over the past 12-months

and it appears investors feel that this short term domestic weakness can be offset by the delay and softening of Brexit together with a more supportive global economic environment.



## INVESTMENT MANAGERS REPORT

At the end of a busy quarter for the business, we now hold 18 stocks in the portfolio and the advanced pipeline of prospective investments is the most interesting it has been for 12 months. Eleven of these investments represent a >2% weighting in the Fund and together represent 75% of the net asset value, with the remaining 6 investments representing toehold positions while we undertake further due diligence to determine whether we build a more strategic stake. Our target is to maintain a portfolio of 10-15 investments comprising 80% of the NAV of the portfolio.

Following a mixed quarter for the portfolio's performance as NAV traded back to 1075.2p/share, we are excited by the opportunities ahead of us over the next 3 months presented by existing holdings, our toehold positions and our pipeline opportunities. These, as well as significant news from some of our holdings, are outlined below.

### Quarto

It has been a disappointing quarter for Quarto. The share price weakened significantly from c.250p to c.130p following downward revisions to forecasts which followed a change in accounting policy and dilutive disposals of two non-core businesses. This was accompanied by a shift in the seasonality of the business towards H2 and a cautious outlook for consumers in both the US and the UK. Whilst the former two factors were well signalled, market forecasts had not fully factored them in and the company was slow to point this out. Gresham House has had significant engagement with the board around re-building shareholder confidence and how the company can continue its successful strategy of bolt-on acquisitions

in a pure-play publishing environment. We remain confident in the intrinsic value of the business, with an effective platform for operational consolidation and distribution synergies and are seeking the best route to restore value for shareholders.

### Revolution Bars

Revolution Bars was bid for by Stonegate pubs at the end of July following the share price halving earlier in the year – a time when GH began to buy shares on weakness as it engaged the company with a view to making a strategic recovery investment. Our high-level thesis identified a significant undervaluation which failed to recognise the underlying value of the brand and the geographic footprint as well as the strong cashflow characteristics of the business. Perhaps unfortunately Stonegate pubs recognised this inherent value too and launched a bid at 203p. Whilst we had hoped to build a strategic stake, we are pleased with the quick return on our 122p entry level and the vindication of our 'toehold' policy during the DD phase of our investing activity.

### Be Heard

It was an extremely encouraging quarter for BeHeard, albeit that the share price has not yet started to reflect the positive news – though the reasons for this are well understood and should represent a short-term issue. The company's interim results in September were positive across the board; Interim revenue growth of +152% to over £8.3m and the group moved into profitability. However most important for us was that the cohesive, platform offering model (which was a key part of our investment thesis), has begun to show encouraging signs of success. Eight clients now use

2 or more of BeHeard's 4 digital marketing divisions and there is significant visibility on revenues for the full year accompanied with encouraging prospects for further cross selling. We also introduced David Morrison to the company who has since been appointed NED. As a well-seasoned investor, David brings a wealth of experience in supporting growing businesses both on and off market. The share price appeared indifferent to the positive interim statement, which as a major shareholder has been frustrating. However, the drivers of this are understood; including a legacy holder from the cash shell into which BeHeard reversed, unwinding their holding. Our investment thesis remains on track and we remain confident of the company's future outlook.

### New Investments & Pipeline

As mentioned above, and evidenced by the reduced cash position at the end of the quarter (£6.2m), there has been increased activity on new investments and the pipeline. Following initial desktop due diligence and first-meetings with management, we have made early stage investments in Centaur media and Universe group as we continue to build confidence in our investment thesis in each case. We also increased our position in MJ Hudson, a private pre-IPO opportunity, primarily through our investment in the convertible loan notes, but also subscribed for some equity to provide funds for potential acquisitions. There are 3 additional exciting opportunities where our work is well advanced.

## 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:** 3,810,275 (as at 29 September 2017, excluding shares held in treasury)

**Stock Exchange Ticker:** GHS

## CONTACT

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# Gresham House Strategic plc

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