

Quarterly Factsheet

Q1 – January 2017



Gresham House
Strategic plc

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:

1043.0p*

Benchmark: Unconstrained
Ticker: GHS

* As of 30 December 2016.

Share price:

777.5p**

Strategic Public Equity
investment mandate

** Mid price as of 30 December 2016.

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).

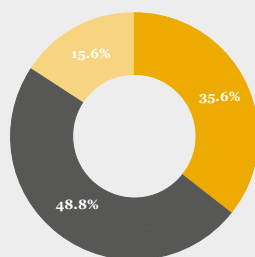
Graham Bird Fund Manager, Investment Committee Member
20 years of investment, advisory and operating experience. Previously Executive Chairman of paybyphone (a subsidiary of paypoint plc), Director of Strategic Investments at SVGIM and a Director within the Corporate Finance department at JP Morgan Cazenove.

SIGNIFICANT SHAREHOLDINGS*

	£m	% shareholding in Company	% of portfolio NAV
IMImobile	12.7	13.5	33.0
Northbridge Industrial Services	3.1	10.9	8.1
Quarto Group Inc	2.7	4.4	7.0
Be Heard Group	2.5	10.6	6.5
Miton Group	2.2	4.1	5.7
Warpaint London	1.2	1.4	3.1
MJ Hudson (convertible loan note)	1.0	n/a	2.6
Cash and other net assets	13.1	n/a	34.0
Net Asset Value	38.5		

* As of 30 December 2016.

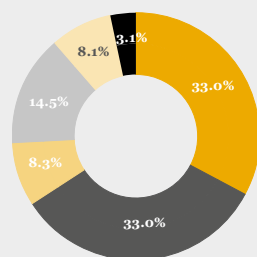
Mkt Cap breakdown



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

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

Sector analysis

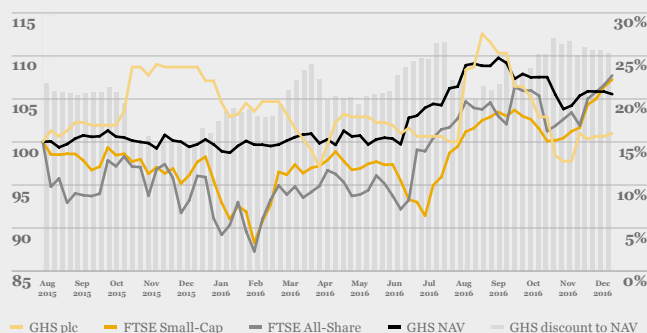


■ Cash and other net assets
■ Software and Computer Services
■ Financial Services
■ Media
■ Industrials and Engineering
■ Consumer

SHARE PRICE PERFORMANCE

14 AUGUST 2015 – 30 DECEMBER 2016

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



Performance	Q3	Q4	Last 12 months ¹	Since inception ²
GHS NAV	6.3%	(3.6%)	5.3%	9.8%
FTSE Small Cap (ex Inv Trusts)	11.0%	4.0%	9.2%	9.0%
FTSE All Share (ex Inv Trusts)	5.5%	3.1%	12.4%	8.9%
Relative performance				
vs FTSE Small Cap	(4.8%)	(7.6%)	(3.9%)	0.8%
vs FTSE All Share	0.8%	(6.7%)	(7.1%)	0.9%

1 Last 12 months to 30 Dec 2015.

2 First NAV release on 14 August 2015 to 6 Jan 2017, most recent published NAV.

MARKET COMMENTARY

UK Equities remained strong in Q4. Having initially fallen in response to the vote to leave the EU on 23 June, the FTSE Small-Cap Index (ex. Investment Trusts) increased 12% from Post BREXIT lows to the end of the 2016 and the All-Share increased 6% with the FTSE 100 closing the year with three record highs on 28, 29 and 30 December 2016. 2016 has been a volatile year and we are pleased with the consistent performance of our portfolio holdings delivering NAV growth of 5.6%. Markets remain at the upper end of historic ranges (SMXX trading on c.16x PER the All-Share on 20x, and both yielding c.3%) with corporates nearing peak margins. This is against an uncertain economic backdrop in a post BREXIT environment with fragile global growth, political uncertainty and reflationary pressure. We continue to hold a significant cash position which was a drag on relative performance in Q4.

The election of Donald Trump in the US and his comments with respect to fiscal stimulus and reversing the regulatory burden on companies has resulted in expectations of rising inflation, rising interest rates and growth in equities. However, this sits adjacent to his rhetoric on greater

protectionism. For the moment, the reaction of the markets implies expectation of a more moderate approach to the pre-election rhetoric. In the UK, expectations of inflation exceeding the 2% UK government target in 2017 should result in rising interest rates, but the Bank of England has limited ability to act without hampering growth and recent consumer surveys and the increase in UK cash deposits confirm this fragility.

It would seem there is more risk appetite with investors preferring cyclical to defensives and commentators flagging

Oil & Gas, financials and technology as sectors to watch in 2017. We believe now is the time to be switching out of over owned and highly valued growth stocks into 'value' stocks which have been overlooked for much of the last ten years.

We remind investors of the MSCI world value vs growth chart included in our Q1 factsheet 2016 where we flagged that 'value' stocks were as overlooked and undervalued as in 1999/2000 during the TMT bubble. As shown in the updated chart below we are beginning to see this rotation into 'value' stocks gain traction.



INVESTMENT MANAGERS REPORT

Gresham House Strategic plc (GHS) NAV has been resilient over the last 12 months against a volatile backdrop. We saw a decline of 3.6% in Q4 primarily driven by a 15% fall in the IMImobile (IMO) share price following concern over its exposure to Nigeria and the short-term impact of the devaluation of the Naira. IMO updated the market at the time of its interim results on 15 November confirming the currency translation effect but importantly the strong operational and financial performance of the business which delivered 29% revenue and 22% gross profit growth, of which 14% was organic with growth across all geographies and divisions within the group. Cash generation was very strong converting in excess of 100% of EBITDA into cash and recurring revenues increased to c.95%. IMO announced the renewal of its largest contract on 6 January this year and also flagged it had signed up a major reseller for its high margin contact centre product IMIchat. In our view the stock remains significantly undervalued trading on c.8x FY2017 EV/EBITDA vs a peer group on a range of 12x-15x and we continue to support the management team over the long-term with the business performing in-line with our investment thesis.

At present we hold 8 companies in the portfolio with a medium term target that would see between 10 and 15 stocks representing more than 80% of the portfolio. We believe the current holdings are attractively valued, with good growth prospects and positive cash generation. Taking into account cash in the portfolio and the current share price discount to NAV per share, the portfolio is trading on an implied EV/EBITDA multiple of 5.4x which is a significant discount to the

average market rating of 8.8x¹, and offers estimated EBITDA growth prospects in excess of 20%², twice the market median.

We made two new investments in Q4. In November we made our first private company investment in **MJ Hudson**, an integrated advisor and service provider to the alternative asset management industry covering legal, administrative, fiduciary and regulatory reporting services. MJ Hudson is focused purely on alternatives, a fast growing niche where outsourcing is most prevalent and where longer term funds will provide a valuable and recurring revenue base. The business has grown organically and through a series of acquisitions. GHS subscribed for £1m convertible loan notes in a pre-IPO funding round which provide an attractive return through a combination of a 7% annual coupon and a redemption premium/conversion discount. MJ Hudson were keen to engage with GHAM as a partner to assist and add value through to IPO and then support in the public markets.

We also invested £0.8m in **Warpaint London plc (W7L)** the fast growing and highly cash generative global cosmetics business which owns the W7 brand (creative, design focused make-up with a focus on the 16 – 25 age range). W7L listed on AIM at the end of November 2016 raising £23m at an attractive valuation. The share price ended 2016 up 42% and the business is well positioned to grow in 2017 with the house broker forecasting revenue growth of 20% and earnings growth of 18%.

Be Heard Group (BHRD) share price was marginally down in Q4, but up 9.2% on our entry price. The digital marketing agency led by industry veteran Peter Scott was back on the acquisition trail adding profitable and growing digital content marketing agency Kameleon to the group. This is a natural step for BHRD and adds complementary capability to the group which now spans digital marketing, SEO, user experience and design and content creation.

Quarto Group Inc (QRT) shares increased 7.2% in Q4, now 42% above our initial entry price. The company highlighted in November that on the basis of current levels of trading and order book visibility the group remains confident that it will meet management expectations for the full year and deliver debt reduction and earnings growth for the fourth successive year.

Miton Group (MGR) announced the appointment of Jim Wright to launch an infrastructure fund in October. This followed the good set of results for the company in September. We continue to support the management team and believe there is scope for shareholder value creation through further positive asset gathering momentum and improved return on capital. We had added to our holding in Q3 ahead of the interim results.

Northbridge Industrial Services (NBI) performed strongly in Q4 with the share price increasing 31% driven by increased awareness and investor profile and positive sentiment as a result of measures to manage oil output amongst OPEC member states. This momentum has continued into 2017.

- 1 Average of FTSE Small-Cap (ex. Investment Trusts).
- 2 GHAM calculations applying corporate broker FY16 forecasts to portfolio holdings factoring in discount and stripping out residual cash as of 30 December 2016.

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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