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 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. The SPE team has managed five consecutive funds since 2003, including GHS plc, following the SPE strategy and these on average have outperformed by 10.7% per annum.¹

INVESTMENT MANAGER
Gresham House Asset Management Ltd (GHAM)
Gresham House Asset Management, the asset management division of Gresham House plc (GHE), manages funds and co-investments across a range of differentiated investment strategies for third-party clients. The company is built around a long-term investment philosophy and applies private equity techniques to due diligence and investment appraisal.

INVESTMENT COMMITTEE

Bruce Carnegie-Brown: Chairman of Lloyds, Chairman of Moneysupermarket.com Group plc. He is a non-executive director of Santander UK plc. Previously a Managing Partner of 3i QPE plc, a Managing Director of JP Morgan and CEO of Marsh Ltd.


1. Average annual outperformance against FTSE Small Cap (Excluding investment trusts) Index across 5 funds totally £221m spanning periods from 2003 to 2019. Performance measured over life of fund/period relevant to the investment team’s involvement
2. 31 December 2018 to 31 March 2019
3. Inception 14 August 2015
4. Top ten holdings shown as at 31 March 2019 using bid-price data. Investments in Northbridge, BeHeard and MJ Hudson include equity and convertible loan notes.
**INVESTMENT MANAGER'S REPORT**

We are pleased to report to our shareholders that it was strong quarter for the NAV on an absolute and relative basis, building on 2018 performance. GHS was the top performing UK Small Cap Investment Trust / Investment company for the calendar year, and best placed amongst 49 open-ended funds in the IA UK Smaller Companies sector.

Our NAV per share increased to 1253.9p in the first quarter of 2019, up 5.5% - a realising gains performance for the quarter was driven by a profitable realisation in Tax Systems, and strong performances in Augean (+30%), Mobile (+23%) and IMI Mobile (+23%). We are evaluating some interesting opportunities both in our toehold investments and new positions for 2019 as we look to create additional NAV drivers for the portfolio. We took advantage of the Q4/Q1 market weakness to increase our positions in IMI Mobile, BeHeard, Northbridge, Swallowfield and Universe Group.

**Tax Systems**

We were pleased to see an execution of our thesis for Tax Systems, for a final offer price of 115p vs. our in price of 72p two years ago, generating an IRR of 72% and profit of £0.7m, well ahead of our 15% IRR target return.

**Augean**

It was an extremely pleasing quarter for our investment in Augean, which rallied +30% in the period. The share price strength was driven by the ongoing execution of an investment thesis that centres around cost reduction, cash generation and resolution of the HMRC discussions. The company made significant progress on cost reduction and cash generation in FY18, which catalysed the share price. The results confirmed the company’s next catalysts are further rationalisation and cost cuts, which are significantly ahead of estimates.

The shares were driven further with an announcement that the company had won a series of major contracts that are due to be signed by early 2020. The share price strength was driven by the market volatility created an overhang. Augean’s fundamentals are strong, with strong earnings growth, low gearing and a series of significant contracts, that by our calculations materially underpin years 2020 and 2021 earnings estimates, and hence these have been moderately upgraded by brokers. The share price strength was driven by the balance sheet and further updates from the HMRC investigation, which we consider as challenging. Our roadshow meeting with management suggested that an ‘end-game’ with HMRC is probably 12-18 months away.

**IMI Mobile**

IMI Mobile has been a stand-out performer over the quarter, as the shares have partially recovered from a difficult few months. We feel very well placed for its recovery by c.400p. The shares at 220p earlier in the quarter they have increased in value by 32% relative to the repurchase price in a few weeks. We believe this has been driven by:

1. Ongoing operational performance - meetings with management and RNS updates have confirmed that an end-game continues to grow organically and perform in line with expectations
2. Share register rotation - the IMI share register was significantly upgraded by brokers facing redemptions in the worst of the market volatility created an overhang. A number of Gresham House managed vehicles cleared out the last of this overhang at 220p earlier in the quarter.
3. Market recovery - the improving sentiment in equity markets, especially in the UK, provided additional support to the share price.

From an operational perspective, the next big news flow will be the trading update which is usually posted in April and then the annual results in due course.

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5. Data compiled by FE Trustnet and Morningstar for the year to 31 December 2018, shows the Gresham House Strategic fund outperformed all open-ended UK smaller companies’ funds and UK smaller companies closed ended funds, achieving total NAV total returns of 8.9%. Since inception in August 2015, GHS has outperformed its benchmark by 13.3%.