

# Strategic Equity Capital

## Interim Management Statement 31 March 2009

This interim statement, issued in accordance with the UK listing authority's disclosure and transparency rules, relates to the period from 1 January to 31 March 2009.

### Investment Highlights

- Net assets per share stable at 40.7p, despite continued market volatility and a 4.8% decrease in the UK smaller companies market.
- Tentative signs of M&A market returning with public to private proposal for 3i QPE (a significant holding within the Fund)
- Strong company results confirm that investment strategies are generally progressing well.
- Portfolio continues to offer the potential for significant earnings growth ahead of the market.

### Financial Highlights

- Net assets of £28.3 million or 40.7p per share. An increase of 0.3% during the period.
- Substantial narrowing of discount leads to an increase of 63.8% in share price to 23.75p.
- Company broadly fully invested at end of period, net cash representing 3.2% of NAV.
- Latest NAV released as at 8 May 2009 shows continued recovery in performance to 49.18p per share.

### Investment Manager's Review

The period appeared to represent relative stability after 18 months of volatility; however, the markets started the period very weakly before rebounding in March. We believe that investment horizons across many asset classes reduced from longer term perspectives to weeks or even days. Concordantly small and mid cap companies' share prices were dramatically affected and the FTSE SmallCap index (ex IT) fell 67% from peak to trough. This sell off was indiscriminate and highly influenced by liquidity.

The effects of this scale of de-rating upon a company, its

management and employees can be significant. It can influence M&A, de-motivate key managers and, in summary, affect long term corporate strategy which may be firmly focused on shareholder value. One of the objectives of 'value' and private equity style investors is to support medium term management plans for the benefit of all stakeholders. The current environment tests this resolve; however, the investment returns from execution and delivering can be substantial.

There is tentative evidence that valuations are becoming relevant again to the investment community. This is beginning to benefit the Company's portfolio, which continued to offer very attractive absolute and relative valuation characteristics, including 0.9x price/book (versus 1.2x for FTSE SmallCap index), superior forecast earnings growth of 12.9% (versus 7.1% for FTSE SmallCap index) and a dividend yield of 7.4% (4.7% for FTSE SmallCap index).

There is long term evidence that investing in smaller companies, when valuations are at current levels, usually generate very attractive medium-long term returns. The macro economic environment remains poor, however, the stock market generally reflects these issues well in advance and the smaller companies' index peak to trough has fallen to levels similar to the troughs in the 1970's and 1930's. The portfolio remains concentrated, and although the recession will inevitably slow the value creation plans, the Manager is pleased that the vast majority of portfolio companies are robust and performing well.

### Portfolio Activity

In line with the investment strategy of strategic block investing, the portfolio saw limited activity with turnover less than 2% of NAV. There were no new investments made over the period. Despite M&A activity continuing at very low levels, it is pleasing to see the portfolio profitability benefitting from a proposed public to private transaction, as 3i Group plc announced a recommended

takeover of 3i QPE at a significant premium.

Follow-on investments in KCOM and Thorntons were made as share price weakness presented compelling opportunities to buy at depressed levels. Both of these companies continue to progress their value creation strategies, implemented by relatively new management teams. A small toe hold investment in Fiberweb was realised as no compelling strategic opportunity was identified in the short term.

### Outlook

The stock market has recently seen signs of increasing risk appetite, simultaneously to a stabilisation of the corporate

banking market, which has also given confidence for some to engage in corporate transactions. It is important to recognise how far the UK smaller companies market has fallen since July 2007. This has presented some compelling valuation opportunities which will unwind over the medium-long term, generating substantial equity returns. Indeed, it is likely that corporate and private equity buyers will increasingly look to exploit this. The portfolio is well positioned to benefit from this, as well as deserved share price re-ratings reflecting the underlying earnings growth as management successfully execute their strategies.

### Summary

(as at 31 March 2009)

Net assets	£28.3 million
Net Asset Value (NAV) per Ordinary share	40.74p
Net cash as % of funds invested	3.2%

### Top 10 Investments

(as at 31 March 2009)

Company name	% invested in portfolio
Pinewood Shepperton	9.5
Intec Telecom	9.4
Spirent Communications	8.3
Vintage 1 Limited	8.2
4imprint	8.0
RPC Group	7.9
Statpro Group	7.2
Thorntons	6.2
3i Quoted Private Equity	5.9
Redstone	5.8

### Sector analysis

	% of portfolio
Technology	27.3
Support services	15.9
Investment companies	13.6
Industrials	11.6
Media	10.4
Telecoms	8.5
Retail	6.0
Financial General	2.7
Leisure	0.8
Net cash	3.2

### Size analysis (market cap)

	% of portfolio
Less than £100 million	57.1
£100 – £300 million	16.7
£300 – £500 million	15.1
Greater than £500 million	7.9
Net cash	3.2

### Contact details

For further information please contact:  
Adam Steiner  
SVG Investment Managers Limited  
Telephone: +44 (0)20 7010 8927  
or email  
adam.steiner@svgequitycapital.com  
Company website:  
www.strategiequitycapital.com

# Strategic Equity Capital

Strategic Equity Capital plc

## Investment Manager – SVG's Public Equity Team

SVG's Public Equity Team was established in 2002. Headed up by Tony Dalwood and Adam Steiner, the team now consists of five investment professionals who combine a complimentary skill set of corporate finance, fund management, research and private equity experience.

### Investment process

The Manager seeks to identify investment opportunities by applying private equity appraisal techniques primarily in public markets.

After a potential investee company has been identified, initial due diligence is undertaken.

Before finalising an investment decision, the Manager will seek to engage directors, management and shareholders of potential investee companies in constructive dialogue directed towards the implementation of value creation strategies. Such strategies may include:

- capital raisings;
- financial restructurings;
- operational restructurings;
- trade sales; and
- public to private transactions.

The Company does not seek to involve itself in the day-to-day management of the companies in which it invests. The manager seeks to maintain regular contact with the managers and directors of investee companies.

## Fund facts

- A London Stock Exchange listed, UK domiciled investment trust
- Independent board chaired by John Hodson
- The objective is to achieve absolute returns over a medium term period, principally through capital gains
- The majority of the portfolio to be invested in 10-15 companies
- An investment horizon of typically two to five years for each investment
- A flexible gearing policy of up to 25% of net assets

## Principal terms

- Management fee of 1% of NAV per annum
- Performance fee of 15% of NAV gains (total return) in excess of 7% per annum compounding trigger, with high watermark

## The Strategic Advisory Board

The Investment Manager utilises a Strategic Advisory Board to assist in the analysis of company management and directors, business dynamics and investment opportunities. The Strategic Advisory Board also provides introductions to other industrialists for due diligence. Members of the Strategic Advisory Board include:

### Stewart Binnie

- Was at WH Smith plc from 1976 to 1984, latterly as merchandise controllers, and was Managing Director of Hatchards Bookshops Limited from 1984 to 1989
- He was a Partner of, and consultant to, Schroder Ventures (now known as Permira) until 1996. He has also been the Chairman of Helicon Publishing Group plc and TFPL Limited
- Currently Chairman of Mosaic Fashions hf



### Alan Mackay

- Managing Director and member of the leadership team in 3i's European buyouts business with 18 years of private equity experience
- Alan's board appointments include chairman of the supervisory board of a central European private fund TCEE NV. He is also a member of the board at Nordic industrial holding company Atle Industri AB, private equity manager 3TS Oy, and the British-Swedish Chamber of Commerce



### Ken Minton

- Has led successful turnarounds within a number of UK publicly listed companies. These include Laporte plc (where he was Chief Executive), Mowlem plc (as Executive Chairman) and Arjo Wiggins Appleton plc (as Executive Chairman)
- He is currently Executive Chairman of 4imprint Group plc and non-executive Director at Tomkins plc and Solvay SA



### William Nabarro

- Was Vice Chairman of KPMG Corporate Finance
- Is currently non-executive Director of ICAP plc, Executive Director of Jardine Lloyd Thompson UK Ltd and Treasurer of the University of Leeds



### Sir Clive Thompson

- Chairman of Rentokil Initial plc until 2004, having been Chief Executive for twenty years until the end of 2002. Over this period the company averaged 20% growth in earnings per share per annum and a similar rate of growth in dividends per share
- Was President of the CBI (1998-2000), member of the Hampel Committee on Corporate Governance and Deputy Chairman of the Financial Reporting Council
- Has been a Director of Sainsbury plc, Wellcome PLC, Seeboard plc, Caradon PLC and BAT Industries PLC



## Disclaimer

The information in this presentation is issued by SVG Investment Managers Limited ("SVGIM"), whose registered office is at 61 Aldwych, London, WC2B 4AE. SVGIM is registered in England: No. 4493500 and is authorised and regulated by the UK Financial Services Authority.

The information contained in this presentation is not intended to make any offer, inducement, invitation or commitment to purchase, subscribe to, provide or sell any securities, service or product or to provide any recommendations for financial, securities, investment or other advice or to take any decision. You are encouraged to seek individual advice from your personal, financial, legal and other advisers before making any investment or financial decisions or purchasing any financial, securities or investment related service or product.

The investments referred to in this presentation are only suitable for investors who are capable of evaluating the merits and risks of such investments and who have sufficient resources to be able to bear any losses which may arise from that investment (taking into account the fact those losses may be equal to the whole amount invested).

The information contained in this presentation is provided for general information and is not comprehensive and has not been prepared for any other purpose. Any financial, securities or investment related service or product referred to may not be available to all customers or in all cases; may be available only where specifically requested and agreed upon; may be associated with certain specific fees and conditions and may be materially different than as described.

## Risk considerations

You should remember that the value of investments, and the income from them, may go down as well as up, and is not guaranteed, and investors may not get back the amount of money invested. Past performance cannot be relied on as a guide to future performance. Exchange rate changes may cause the value of overseas investments or investments denominated in different currencies to rise or fall. In addition, there is no guarantee that the market price of shares will fully reflect their underlying net asset value and it is not uncommon for the market price of such shares to trade at a substantial discount to their net asset value.

These are not all the risks of an investment in Strategic Equity Capital shares. Investors should take advice from their own independent, professional financial advisers before making an investment decision and are responsible for ascertaining any income tax or other tax consequences which may affect their acquisition of any investment.