Strategic Equity Capital

Interim Management Statement
31 March 2010

This interim management statement, issued in accordance with the UK Listing Authority's disclosure and transparency rules, relates to the period from 1 January to 31 March 2010.

Investment Highlights

- Net assets per share increased by 4.6%, outperforming the smaller companies index by 2.8%.
- Top holdings continued to perform well; reporting strong annual results.
- Exuberant markets allowed for exits of mature investments at attractive valuations.
- Invested in undervalued companies as secondary fundraising opportunities dried up.

Financial Highlights

- Net assets of 69.2p per share.
- Discount remained broadly unchanged at 25.9%.
- Company fully invested, temporarily used gearing facility for the first time.
- 3i consideration for SRF2 investment successfully placed in market.

Investment Manager's Review

- The period saw a further improvement in net assets per share of 4.6%, resulting in a cumulative increase of 70.7% over the twelve months ended 31 March 2010. The performance of the trust is now in line with the smaller companies market over three years.
- Performance was driven by the continued strong performance of top portfolio holdings. Statpro, Spirent, and 4imprint rallied in excess of 20% around solid annual results, positive outlook statements and continued upgrades to consensus earnings forecasts. Performance attribution was broad based, with KCOM, Lupus, Mecom and Lavendon adding to the names above in contributing materially to performance. It was encouraging to see some of the more recent portfolio investments, such as Lavendon, Mecom and Lupus, having an immediate impact, without the usual J-Curve effect. This highlighted the efficacy of active engaged investment at this point in the economic cycle.
- Negative attributions came from E2V, which fell on the back of industrial disruption in France, and Intec Telecom, which issued a profits warning on the last day of the quarter. E2V has subsequently resolved these issues, which were accounted for in our investment thesis, and rallied materially. Intec is a mature and highly successful investment which had been largely exited at the time of the warning.
- Our principle engagement activity in the period centred around assisting the board of 4imprint on succession planning issues and clarifying long term strategy aims with some of our newer investee companies. We successfully lobbied for increased research coverage of a number of portfolio companies which fell off the radar screen of investment banks during the market turbulence of the last two years. Finally we have identified a limited number of portfolio companies which might benefit from changes to their corporate structure, and have encouraged their management to explore these options further.

Portfolio Review

- The portfolio remains highly focused with 21 holdings, a slight reduction following the sales of two toe-hold investments. The top 10 holdings accounted for 77.2% of net assets, broadly in line with our 80% target. At the end of the period the portfolio was less than 1% geared, in line with our new policy of using a small proportion of our facility to fund working capital movements. The portfolio moved back into a net cash position shortly after the period end.
- Sales over the period centred on the exit of toe-hold positions and reductions in our mature and successful investments in the technology sector. Four small holdings were completely exited over the period: Communisis, Inspired Gaming, Melrose and Renold. In each of these cases while valuations appeared attractive we were unconvinced that there remained a verifiable catalyst for shareholder value creation in the near term. The majority of value realised over the period was from the remaining holdings of technology stocks Spirent, Statpro and Intec. These stocks have all roughly doubled in value since investment, and delivered IRRs in excess of 25%. While these companies may remain attractive for growth investors, the ongoing driver of their value is unlikely to be strategic or operational or management change.
- From a valuation perspective the portfolio remains very attractive. Our key financial metric the SVG Cash Flow Yield (calculated as operating cash flow less maintenance capital expenditures to enterprise value), is currently running at just over 15%, the highest it has been since the company began. On more conventional measures the median consensus forecast PE of 10.7X and price to sales of 0.4X also imply good value. The gearing of the underlying portfolio has been deliberately increased to about 1.5X debt to EBITDA as we have reduced our exposure to Intec and Spirent, which have net cash balance sheets, and proceeds have been invested in more highly geared companies.

Outlook

- The current corporate environment is probably the best seen for active engaged investors since the early 1990s. Activist investing usually produces the best results during the early-to-mid stages of an economic recovery, when plcs are benefitting from the tailwind of economic recovery, yet boards battered by poor historic results can benefit greatly from financial or strategic support from shareholders.
- While many of the political and macroeconomic uncertainties engendered by the credit crunch remain unresolved, the news flow from public companies has unquestionably turned positive. Bottom and top line earnings forecasts have been upgraded consistently for over 6 months now, and the strength of corporate balance sheets has been restored. The analytical community has rejected any possibility of a double dip in corporate earnings, and this view appears to be shared by investors.
- Renewed confidence has led to startling recoveries in stock markets. At the time of writing the FTSE All-Share index has returned to within 10% of its all time high, and the smaller companies market, while still down on 2007 levels, is up 88% from its 2009 low. Many mid-cap stocks and cyclical companies are trading at or near all time high PE ratios, in anticipation of a multi-year recovery in valuations and earnings. Meanwhile others have seen little change in their ratings, and have benefitted mostly from improved earnings.
- This two tier investment environment presents a compelling investment environment for the trust, as we are able to recycle capital from mature holdings that have become relatively expensive into newer ideas which we believe can produce returns significantly in excess of our stated targets.

Summary	
(as at 31 March 2010)	
Net assets	£53.2 million
NAV per share	69.23p
Net cash %	-0.4%

Top 10 Investments

Company name (as at 31 March2010)	% of invested portfolio
Strategic Recovery Fund II	13.91
RPC Group	9.26
Kcom Group	8.43
Statpro Group	8.30
Lavendon Group	8.17
Thorntons	6.46
Spirent Comms	5.96
4imprint Group	5.70
E2V Technologies	5.62
Mecom Group	5.06

Sector Analysis	% of portfolio
Unlisted	16.4
Manufacturing	13.3
Telecoms	9.0
Technology	29.7
Retail	6.5
Media	9.8
Support services	15.4
Financial general	–
Leisure	0.3
Net cash	(0.4)

Size Analysis (market cap)	% of portfolio
<£100 million	55.4
£100 – £300 million	30.5
£300 – £500 million	8.5
Greater than £500 million	6.0
Net cash	(0.4)

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Strategic Equity Capital

Strategic Equity Capital plc

Investment Manager – SVG Investment Managers

SVG Investment Managers (SVGIM) was established in 2002 and applies private equity techniques to public markets. Investment decisions for Strategic Equity Capital are made by a Strategic Investment Committee consisting of Tony Dalwood, Adam Steiner, Stuart Widdowson and Jonathan Morgan.

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 Industry Advisory Panel

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

Stewart Binnie

- Has been involved in UK publishing, retail and financial services businesses since 1976.
- Presently Chairman of Aurora Fashions, whose retail brands include Karen Millen, Coast and Oasis, is a member of the Investment Committee of the Schroder Private Equity FoF business and has advised Schroders plc on private equity related issues since 2005.
- Former activities include Partner of Permira (formerly Schroder Ventures) and Schroder Finance Partners, and Chairman of Helicon Publishing Group, Elddis and Cassell plc.

Alan MacKay

- Partner at global private equity investor 3i, having joined in 1987 and been appointed to the board of 3i plc in 1994.
- Was Development Director for Europe plc and then Chief Executive of 3i Nordic plc following the acquisition of Sweden's largest listed private equity company Atle AB in 2001.
- From 2004 has been a senior partner in the Buyouts and the Quoted Private Equity businesses of 3i; now Group Partner at 3i Group plc, with strategic responsibilities that include 3i holdings in public listed companies.
- Currently a non-executive director of Character Group plc and Phibro Animal Health Corporations and, since April 2009, Chairman of MDY Healthcare plc.

Ken Minton

- Has led successful turnarounds within a number of UK publicly listed companies.
- Currently Executive Chairman of 4imprint Group plc.
- Former Executive Chairman of Arjo Wiggins Appleton plc, former Chief Executive Officer of Laporte plc, former Non-Executive Director of Tomkins plc, Solvay SA, Elementis plc and former Non-Executive Chairman of Mowlem plc.

Sir Clive Thompson

- Deputy Chairman of Strategic Equity Capital plc.
- Served as Chairman of Rentokil Initial plc between 2002 and 2004, having been Chief Executive for 20 years to 2002.
- Former President of the CBI, member of the Committee on Corporate Governance and Deputy Chairman of the Financial Reporting Council. He is also a former Director of J Sainsbury plc, Wellcome plc, Seeboard plc, Caradon plc and BAT Industries plc.