

STRATEGIC EQUITY CAPITAL PLC

This interim management statement, issued in accordance with the UK Listing Authority's disclosure and transparency rules, relates to the period from 1 July 2011 to 30 September 2011.

Investment highlights

Net assets per share decreases by 13.72% to 89.17p.

Net assets per share outperform FTSE Small Cap Index by 0.7% points. This is the eighth consecutive quarter of outperformance.

Portfolio activity remains muted due to low cash balance and limited scope for realisations at sensible prices.

Financial highlights

Net assets of £62.53m or 89.17p per share.

Average discount increases to 15.2% from 13.8% in the previous quarter.

Unlisted investments increase to 19.75% of net asset value as a result of price movements.

Investment Managers' Review

Market Review

UK stock markets recorded their worst quarterly performance since 2002 as political wrangling dominated the headlines and concerns over sovereign debt, particularly in Europe, intensified. This, coupled with macro data indicating a slowing pace in the global economic recovery, led to increased risk aversion and violent gyrations in stock prices. The FTSE 100 saw intra-day swings of greater than 1% in 57 out of the period's 64 trading days, its largest single intra-day move being 7.4% on August 9th.

Smaller Companies underperformed their larger peers, falling by 14.4%. With the exception of a few days of exceptional trading volumes, liquidity was generally poor. Volatility, uncertainty and the discount between quoted and private market valuations continues to stifle any IPO activity. M&A levels were also weak, with non-executive directors wary of approving major transactions and erratic market moves frustrating corporate activity. The corollary was that most companies released results ahead or in line with expectations and did not forecast material downturns in their own markets albeit while adopting a more cautious tone in their outlook statements, positioning themselves for the worst whilst hoping for the best.

Performance Review

Poor market conditions impacted the Company's NAV, which fell by 13.7% points, outperforming the fall in the FTSE Small Cap Index by 0.7% points. This is the eighth consecutive quarter of outperformance. The total NAV return for the last 12 months was 11.7%, a cumulative outperformance of 16.2% points compared with the FTSE Smaller Companies Index, which fell by 4.5%. We believe that the SEC's outperformance of its relevant benchmark index over a 6 and 12 month basis compares highly favourably with other smaller company open and closed ended funds. As a result of improvements made to the investment process in 2008 and 2009, the SEC's total NAV performance now exceeds that of the FTSE Small Cap Index since inception in July 2005.

The majority of portfolio news flow remained positive, with final results and trading statements typically in line or ahead of expectations. The key positive contributors to performance in the period were Allocate, Vintage and Pinewood, which rose 4%, 11% and 2% respectively. Allocate released final results ahead of expectations and forecasts were upgraded. Although this has been a successful investment so far for the SEC, we believe that the considerable progress made over the past two years has failed to be fully reflected in its share price. Since May, we have increased our holding by about 45%. Vintage's movement was a result of the strong performance in its highly diversified private equity portfolios.

The key negative contributors over the period were E2V, Mecom, SRFII, Lupus and 4imprint which fell by 26%, 27%, 11%, 18% and 19% respectively. These were typically strong performers in prior periods and were marked down due to perceived or actual cyclicality of profits. Lupus released interim results which were accompanied by a minor downgrade. Other company news flow was in line or positive. Mecom completed the sale of its Polish national assets for 7x EBITDA and also paid a maiden interim dividend during the quarter. We believe that the company's substantial discount to the sum of parts value makes a controlled break up of the group the most likely outcome unless the company is able to identify a radical new strategy to improve its rating.. Finally the SRFII price move was driven by the movement in underlying holdings.

Portfolio Review

Portfolio turnover was approximately 14% on an annualised basis, virtually an all time low and consistent with the strategy of investing for the long term. Poor markets are typically better for net purchasing than selling, although the starting cash balance limited trading activity to portfolio rebalancing as opposed to initiating substantial new positions. We have been focussed on rebuilding cash balances to no less than 3% to facilitate new investment and increase diversification of the portfolio. Net cash rose from £1.1m (1.6% of opening NAV) to £1.4m (2.3% of closing NAV).

In aggregate, earnings and dividend momentum in the portfolio remained strong and companies continued to de-gear in line or ahead of expectations. The dividend yield of the portfolio is now 4.0%, on a forward basis, almost double the dividend yield in September 2010, when the NAV was some 10% lower. This reflects the strong improvement in cash flows generated by portfolio companies which has allowed them to raise dividends during the last year. The underlying cash flow of the portfolio remains strong, and the portfolio valuation is highly undemanding - with a post capital expenditure cash flow yield of more than 17% - the highest since we have tracked the data. The average level of gearing of underlying portfolio companies is 0.8x net debt/EBITDA.

The watch-list of new potential investments remains strong and pricing is increasingly compelling. However, in volatile markets, we are keen to ensure the balance sheet remains strong and we have flexibility to respond to offers of blocks, should they become available. Poor markets have temporarily lengthened the exit horizons for some mature investments and we are reluctant to introduce gearing unless absolutely essential. Whilst we are starting to be offered attractively priced blocks of stock in longstanding target companies, the low cash balance limits agility.

Outlook

We believe markets will continue to be volatile until there is resolution of the sovereign debt and banking crisis in Europe. Companies reliant on discretionary domestic public sector and/or consumer spending will continue to struggle to make progress in growing earnings faster than the current level of inflation. On the flip side, positive news flow, such as improving macro trends in North America, continues to be ignored, corporate gearing levels are forecast to reduce to a 20 year low and agile companies with strong market positions and business models continue to prosper.

The pressure on all but the largest and best capitalised investment banks and other "sell side" institutions has never been higher. For the first time since 2008, we believe that net headcount among brokers is falling both through cost reduction exercises and as a result of much needed consolidation. The quality and breadth of research continues to deteriorate, which typically presents attractive long term investment opportunities for patient investors prepared to "do the work". The SEC should be a major beneficiary of these trends over the medium and long term.

From a valuation perspective, we continue to believe that equities remain the most compelling asset class to own for medium to long term real returns. There are a record number of FTSE 100 companies yielding more than gilts, even with payout ratios remaining well below historical levels. Strong balance sheets and a slower macro growth environment are powerful catalysts for M&A. smaller companies have been historically major beneficiaries of this trend.

We continue to view the portfolio as a collection of highly attractive assets, typically enjoying market leadership, high levels of overseas earnings, with good growth prospects, trading on undemanding earnings and cash flow multiples. The 17.2% SVG free cash flow yield remains at the top end of its historic range and augurs well for further NAV growth over the medium term.

Summary

(as at 30 September 2011)

Net assets	£62.53m
NAV per share	89.17p
Net cash %	2.27

Top 10 Investments

Company name (as at 30 September 2011)	% of invested portfolio
Strategic Recovery Fund II	17.28
E2V Technologies	9.99
Lupus Capital	9.69
Lavendon Group	9.05
RPC Group	8.78
Kcom Group	8.43
Mecom Group	7.45
4Imprint Group	6.74
Allocate Software	6.19
Kewill	4.39

Sector analysis	% of portfolio
Technology	22.10
Investment companies	19.75
Manufacturing	18.44
Media	16.24
Support services	10.39
Telecoms	8.23
Retail	2.58
Net cash	2.27

Size analysis (market cap)	% of portfolio
<£100 million	45.57
£100 - £300 million	35.35
£300 - £500 million	8.23
Greater than £500 million	8.58
Net cash	2.27

The Directors are not aware of any significant events or transactions which have occurred between 30 September 2011 and the date of publication of this statement which have had a material impact on the financial position of the Company.

For further information please contact:

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