

Quarterly Factsheet

Q2 – 2017



Targeting a net annual return on equity of 12-15% over the long-term, new investments will be focused predominantly on direct private equity investment in smaller companies below £50m enterprise value. The team invests and partners with management teams of profitable and cash generative companies.

LMS – Key Facts

NAV per share:

74p

As at 30 June 2017

Share price:

51p

Mid-price as at 30 June 2017

Significant Shareholdings*

	£m	% of portfolio
Quoted investments		
Coretx Holdings	3.2	5.4
Gresham House plc	2.7	4.6
Unquoted investments		
Medhost Inc	9.9	16.8
Entuity Ltd	3.6	6.1
Elateral Ltd	3.5	5.9
Fund investments		
<i>San Francisco Equity Partners</i>		
Penguin Computing	12.4	21.0
Yes To.Inc	5.8	9.8
<i>Others</i>		
Brockton Capital	4.5	7.6
Opus Capital Venture partners	4.2	7.1
	49.8	84.3
Other Interests	9.3	15.7
Total Portfolio	59.1	100.0
Cash	17.4	
Working Capital	(4.8)	
Net Asset Value	71.7	

* As of 30 June 2017.

Portfolio Performance

Performance	Q2%	Q1%	YTD%
LMS NAV	7.2	-2.6	4.5
FTSE All-Share	0.3	3.0	3.3

Investment Manager: Gresham House Asset Management Ltd (GHAM)

Annual Management fee: 1.5%

Performance fee: 15% over an 8% hurdle per GHAM, as portfolio manager. No performance fee will be payable to GHAM in respect of assets held prior to the adoption of the new investment policy.

Shares in issue: 96,441,735

Stock Exchange Ticker: LMS

Fund Information

Investment Committee

Tim Farazmand

Tim has a strong background in UK mid-market Private Equity with over 30 years in the industry working with a broad variety of companies such as LDC, 3i, RBS PE and Catalyst Fund Management during that time. Most recently Tim was a MD at LDC, the private equity subsidiary of Lloyds Bank plc.

Robert Rayne

Robbie has expertise in a wide range of sectors including real estate, media, consumer, technology and energy. He established LMS Capital's investment activities in the early 1980s as Investment Director and later Managing Director and Chief Executive of London Merchant Securities. Robbie is Non-Executive Chairman of Derwent London plc. and a Director of Weatherford International plc as well as a number of charitable trusts and foundations.

Tony Dalwood (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).

Market Commentary

The first half of 2017 has been characterised by uncertainty with several significant political events in the UK, Europe and the US. Investors have had to navigate continued uncertainty over the terms of Brexit, the impact of the US presidential election as well as pockets of uncertainty in Europe and a snap election in the UK. This is in addition to slowing growth in Asia, continued oil price volatility, and uncertainty surrounding the prospect of interest rate rises on the back of rising inflation. The FTSE All Share reached an all-time high in May and we have also seen strong GDP growth in Germany and renewed focus on European equities. High valuations, fund raising and

increased competition for deals means private equity firms have high levels of uninvested funds, particularly for the larger enterprise value deals. We believe there are significant inefficiencies at the smaller end of the market, focusing on established smaller private companies below £50 million enterprise value where there can be less competition for deals and valuations are more attractive. This segment of the market tends to be off radar for venture and early stage funding providers and sub-threshold for midmarket private equity investors, creating an opportunity to generate superior long-term returns.

Investment Manager's Report

Net Asset Value per share at 30 June 2017 was 74p (31 December 2016: 71p) a return of 4.2% for the first half of the year.

Portfolio gains (realised and unrealised) for the six months were £5.4 million net (2016: net losses of £1.8 million), the key elements of which were:

- Following the recapitalisation and partial sale of the portfolio company, Yes To, the net gain on the Company's interest in San Francisco Equity Partners was £7.8 million;
- The sale of 365iTMS resulted in a net gain of £1.9 million; and
- The Company reduced its carrying value for the co-investment Medhost by £1.6 million, based on the latest carrying value reported by the lead investor.

The portfolio gains for the period are stated after the impact of unrealised exchange losses of £1.9 million (2016: gains of £6.8 million), reflecting the strengthening of sterling against the US dollar. Overhead costs were £1.6 million, significantly lower than the previous year (2016: £2.1 million). The amount for the first half of 2017 includes costs totalling £0.7 million which are not expected to recur once the transition to external management is complete.

GHAM has made significant progress since being appointed investment manager in August 2016. With input from the LMS Capital Board it has adopted a staged approach towards achieving the objectives outlined at that time.

The 'first stage', which is now substantially complete, has seen transition to external management, including:

- Implementing a new investment process and governance structure, including the newly appointed Investment Committee;
- Detailed review of portfolio holdings to frame future strategy and drive potential growth and liquidity opportunities;

- Significant engagement with the management teams of underlying portfolio investments in order to identify catalysts for stabilisation, value creation and long term growth. This includes members of GHAM joining the boards of 365iTMS (until its sale), Entuity, Elateral, and Nationwide Energy Partners; and
- Appointing external administrators and driving targeted annualised cost savings.

The 'second stage' is focused on realisation and return of capital to shareholders alongside investing appropriately to optimise the value of the portfolio where there is a clear plan for longer term value creation with portfolio companies. This stage is now also substantially complete as shown by:

- The tender offer to return up to £11 million to shareholders, details of which are being sent to shareholders today, and which returns in full the amount set out in the circular to shareholders dated 27 July 2016;
- The sale of 365iTMS in April, partly for cash but largely for shares in Coretx Holdings plc to enable LMS Capital to participate in the expected future growth of the combined business;
- Completion of the arrangements to sell the Company's interest in Nationwide Energy Partners back to the founders; and
- The redemption of most of the Company's interest in the Weber Capital funds.

The 'third stage' will be focused primarily on new investment in direct private equity opportunities at the smaller end of the market and alternative, specialist asset classes targeting long term, illiquid strategies, in each case leveraging the expertise, experience and network of the investment team and newly formed Investment Committee. The team will also seek to scale the Company appropriately to generate additional shareholder value.

Executive Investment Team

Graham Bird

Graham is also part of the Investment Committee and has 20 years of investment, advisory and operating experience. Previously Executive Chairman of paybyphone (a subsidiary of paypoint plc), Director of Strategic Investments at SVG Investment Managers and a Director within the Corporate Finance department at JP Morgan Cazenove.

Pardip Khroud

Pardip is Investment Director at Gresham House. She has 13 years' experience in audit, private equity transactions and global tax restructuring at KPMG, as a Senior Manager at Lloyds Banking Group and most recently as an Investment Manager at Lloyds Development Capital (LDC). At LDC she managed numerous investments and was also appointed to the Board of portfolio companies uSwitch and Bluestone.

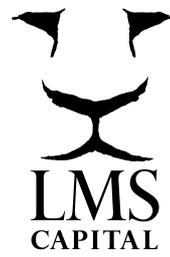
Nick Friedlos

Nick joined the GHAM team in August 2016, having previously joined LMS in 2012 to oversee the realisation strategy and was instrumental in structuring the Company's new arrangements with GHAM. Nick is a Chartered Accountant by training and was a partner at PriceWaterhouseCoopers. For the last 20 years Nick has worked as a consultant to and as CFO and CEO in alternative asset investment businesses including real estate, private equity and renewable energy.

CONTACT

Michael Hart
Head of Distribution
m.hart@greshamhouse.com
0203 873 5908

Graham Bird
Fund Manager
g.bird@greshamhouse.com
0203 837 6270



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