



**Herald**  
LEADING-EDGE INVESTING

# Herald Investment Trust plc

17<sup>th</sup> April 2020

You should remember that past performance is not necessarily a guide to the future. You should determine for yourself what weight, if any, to place on such past performance. Markets and currency movements may cause the value of shares, and the income from them, to fall as well as rise, and you may get back less than you invested when you decide to sell your shares.

Prospective shareholders should not treat this presentation as advice relating to legal, taxation, investment or any other matters and are recommended to consult their own professional advisers concerning the acquisition, holding or disposal of shares in the fund.

**The figures in this presentation are not audited.**

**This presentation has been approved by Herald Investment Management Limited which is authorised and regulated by the Financial Conduct Authority.**

Data source unless otherwise stated:

Herald Investment Management Limited 31/03/2020





I have been managing Herald Investment Trust from inception in 1994. The current headache always seems to be the worst. People looked over the edge fearing the collapse of the banks in 2008, but it did not happen – they were rescued, and in hindsight little damage was done to most people’s lives. The lesson is don’t panic.

**KATIE POTTS**





With a significant proportion of the population in the developed world now in lockdown, many people are using technology at home to work, for communication, for shopping and leisure. It is evident how much the internet and cloud computing are alleviating the challenges of social distancing, thus mitigating the effects on people's wellbeing and on the economy.

**KATIE POTTS**

# Herald Investment Trust



Herald Investment Trust (HIT) launched in 1994



Global small cap TMT  
Median market cap c. £180m (31/12/2019)



Significant provider of primary capital to emerging business, £511m since inception



Long term performance - NAV up >15x



Intellectual property important in knowledge based world

# Full year 2019 highlights

NAV

## +27.5%

UK IRR

## +30.2%

N AMERICA IRR

## +39.5%

2019 - High levels of takeover activity, leading to high cash levels

### 2019 HIGHLIGHTS:

PLACINGS

## £39.6m

PLACINGS

## 58

IPOS

## 4

TAKEOVERS\*

## £106.1m

\* Includes £16.8m of Mellanox deal which is awaiting regulatory approval

# Performance figures

Reporting Period: 31/03/2020

All figures stated as % returns

	Q1 2020	FY 2019	31/12/2007-	Inception to date *		
			31/03/2020 TWR	TWR	TWR Annualised	IRR Annualised
Asia*	-16.6	30.1	200.6	643.2	8.7	5.9
Europe Middle East and Africa	-20.6	38.8	348.1	2,521.6	13.3	10.7
North America*	-11.9	36.5	458.0	616.6	8.5	9.2
UK	-22.6	30.4	258.2	1,671.8	11.6	17.1
<b>Totals for Herald Investment Trust plc</b>	-16.6	27.5	252.3	1,419.4		11.0
<b>Relevant Indices</b>						
Numis ex INV Trust plus AIM	-32.7	22.2	51.2	354.2		6.0
Russell 2000 Technology since 01/07/1996	-16.9	29.7	380.3	298.4		5.9

\*Asia and North America from 01/07/1996 when the Company globalized. TWR – Time Weighted Return IRR – Internal Rate of Return



Long term outperformance



# Q1 Highlights and commentary

NAV

**-16.6%**

Numis ex INV Trust plus AIM

**-32.7%**

Russell 2000 Technology

**-16.9%**

- Lessons from past crisis – stick to quality management teams who can navigate the challenges
- Tech sector relatively better positioned – modest leverage, high element of recurring revenues and exposure to digital trends
- Some companies benefit from lockdown
- Cautious on economic outlook and second order effects
- Focus on liquidity and supporting investments
- Cash to deploy



# COVID-19 portfolio impact

## Negatives

Advertising  
 Corporate Bankruptcies  
 CapEx Delays  
 Supply Constraints  
 Cash Flow Issues  
 Physical Events  
 Retail  
 Economic Recession  
 Leisure  
 High Unemployment

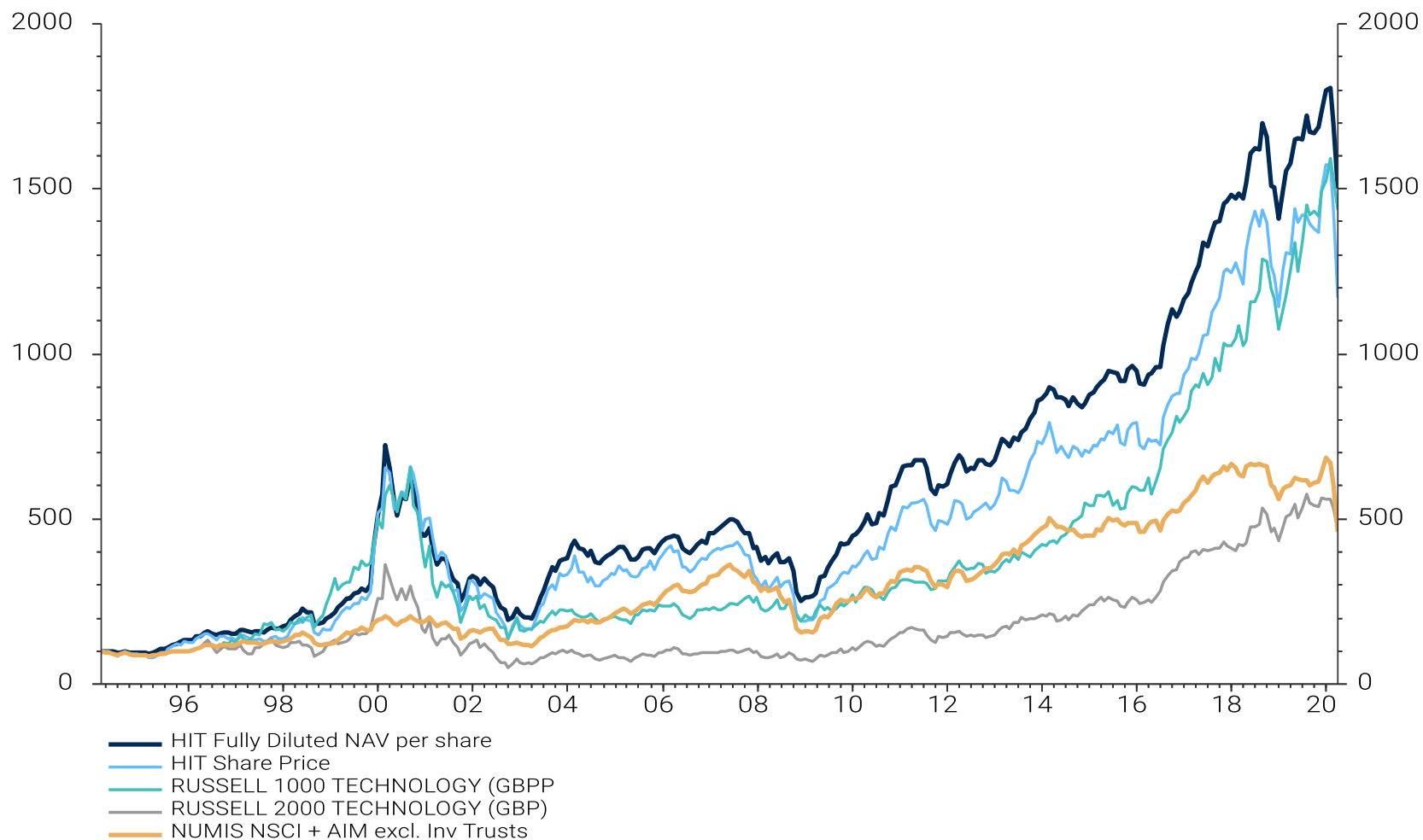


## Positives

Conferencing  
 Digital Customer Experience  
 Video Streaming & Home Entertainment  
 Ecommerce  
 Internet Bandwidth  
 Datacentre  
 Computer Gaming  
 PC & Peripherals  
 Connectivity

# HIT performance since inception

Total return rebased to 100 at Feb-1994



## 15x

NAV TOTAL  
RETURN SINCE  
INCEPTION

## 11.0%

NAV  
ANNUALISED  
RETURN SINCE  
INCEPTION

# Summary



TMT attractive in world of remote working and social distancing



Cash to deploy in challenging economy



Smaller companies disproportionately benefit by ability to rent low cost global cloud infrastructure



Small caps can provide more value, investment trust an ideal structure for an illiquid long term portfolio



Fundamental research and diversification to manage risk



Primary capital has been applied productively and interesting investment opportunities exceed capital supply



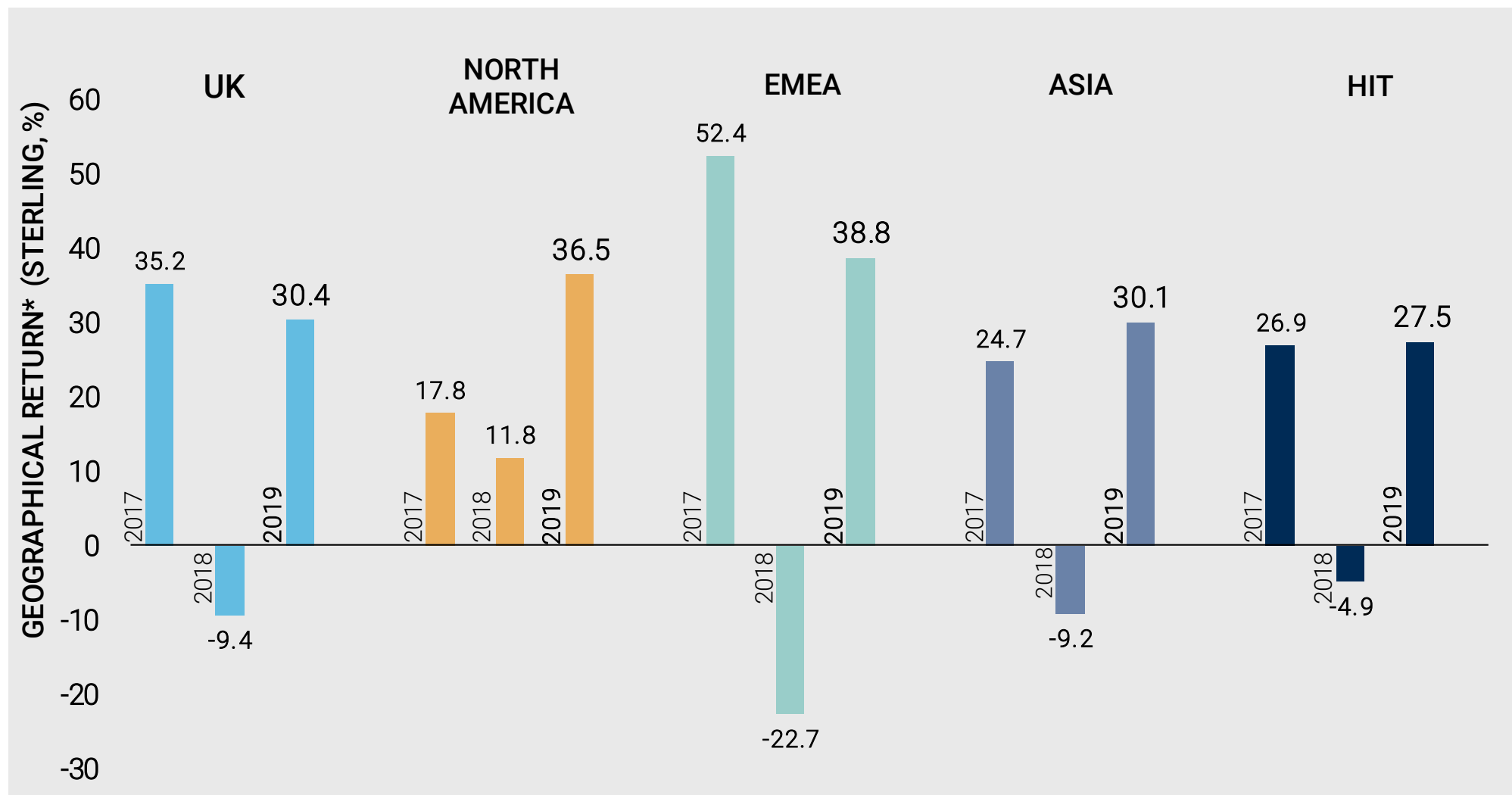
Good long term track record of providing strong returns





# Geographic Returns

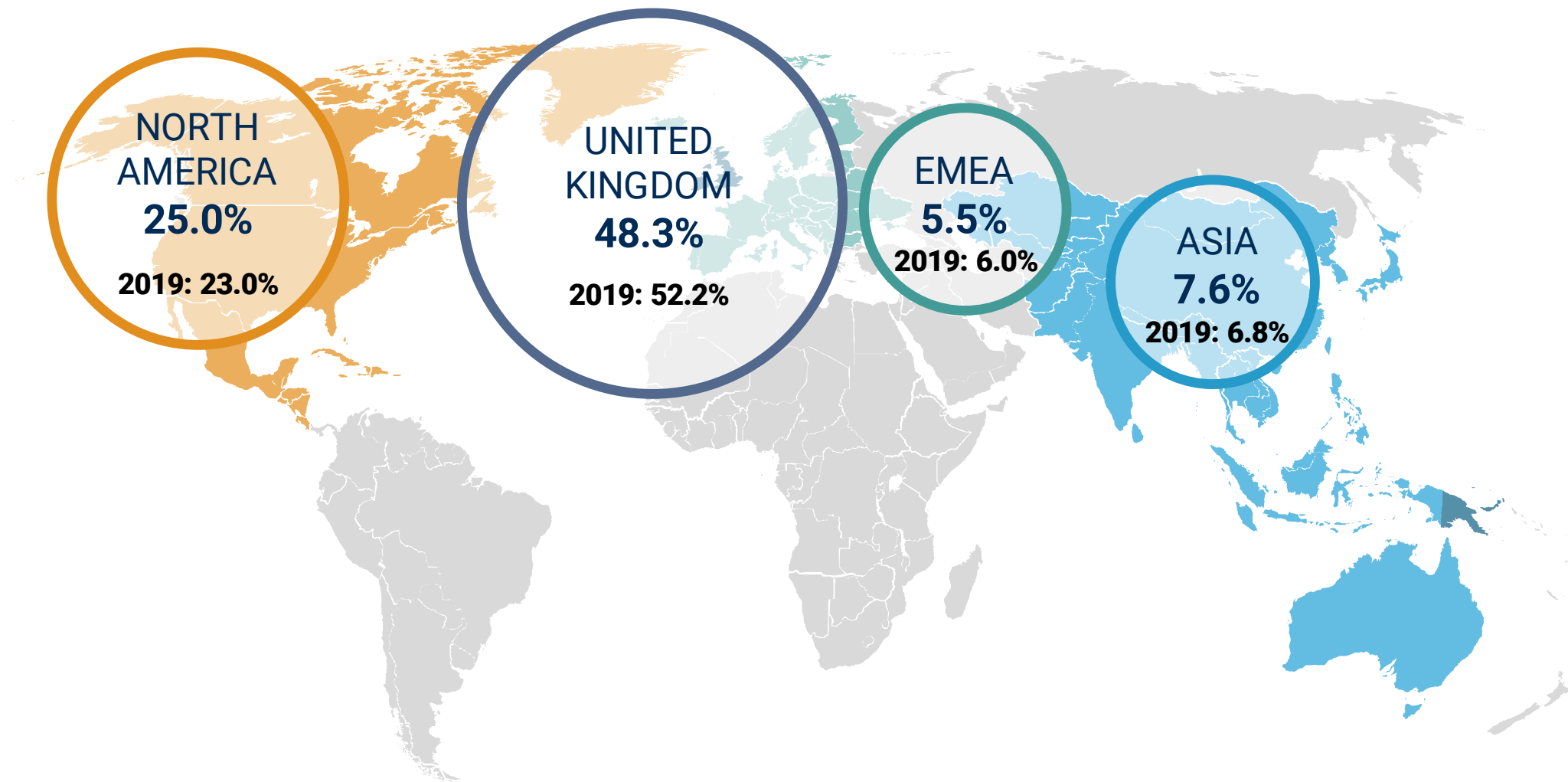
# Geographical returns – 2017 to 2019



\* TWR, costs including those of borrowing accounted for at Company level

# Geographical weightings

GEOGRAPHICAL SPREAD OF EQUITY INVESTMENTS AS AT 31 MAR 2020\*



\*Comparative year figures to 31/12/2019



# TMT Disruption

Technology sector offers exciting emerging companies

# TMT investment characteristics

- Relevant in a world of work from home and social distancing
- Disruptive technologies open up new markets
- Sector has unusual ability to earn super-normal margins (software, semiconductor, internet)
- Attractive growing end markets
- Scalable business models
- High levels of recurring or predictable revenues
- Opportunity for margin improvement in developing companies – move from loss to profit
- Strong cash conversion and cash flow generation
- Supplies consumer, government and enterprise
- Entrepreneurial management

## Diverse portfolio exposure

**IoT**

**Telit** **EUROTECH** **Adesto**  
 Imagine. Build. Succeed.

**NORDIC**  
 SEMICONDUCTOR

**ADVANTECH**  
 Enabling an Intelligent Planet

**SECURITY**

**avast** **Qualys** **CYBERARK** **VARONIS** **mimecast**

Continuous Security

**TELECOMS & NETWORKING**

**ADVA** **SPIRENT** **CloudCall**  
 Optical Networking Communications

**RADCOM** **Five9**

**SEMICONDUCTORS**

**Besi** **SiliconMotion** **IQE** **REALTEK** **CEVA**

**SOFTWARE**

**LIVEPERSON** **Aptitude** **PEGA** **blue prism**  
 SOFTWARE

**Kingdee** 金蝶

**INTERNET & MEDIA**

**Future plc** **yelp** **M&CSAATCHI** **YouGov**

Euromoney Institutional Investor PLC



Portfolio companies engaged in disruptive markets



## Broad technology drivers



# The Herald Approach

# What we do

Specialist TMT manager with a long term focus

## Achieving Capital Growth

Herald invests, generally on a long term basis, using fundamental analysis. The technology, media and telecommunications sector comprises of over 5,000 quoted companies, and many more unquoted.

The manager, Herald Investment Management Limited (HIML), focuses on investments within the technology media and telecoms sector.

Focus on the sector enables a significant degree of cross-referencing across competitors, customers and suppliers globally. Using the mosaic of information industry knowledge combined with strong financial analysis, we endeavor to add value.

The evolving nature of technology means there is a wide divergence of performance between the winners and losers, but the winners can be spectacular.



## WHAT WE DO

### WHAT WE DO

Analysis entails a prolific number of meetings with companies, either at Herald's offices, site visits or at conferences globally, as well as broker hosted meetings. In addition, Herald relies on independent industry research and published company filings, statements, presentations, websites and broker research. The Company has consistently invested in early stage companies, often providing primary

development capital, then holding investments for long periods, regularly providing further capital when needed.

Many of these holdings have a high stock specific risk and the Company aims to offer investors a low risk way to gain exposure to these exciting opportunities through broad diversification in the number of holdings and the maturity of the businesses.

## HISTORY OF THE COMPANY

### HISTORY OF THE COMPANY

The Company was established in 1994 raising £65m to invest in UK and European smaller TMT companies. In 1996 a further £30m was raised to globalise the Company with the recognition that TMT is a global sector and cross-referencing across geographies is a prerequisite for investing intelligently within the sector. Since 1996 no further capital has

been raised, but share repurchases totalling £138m have been made.

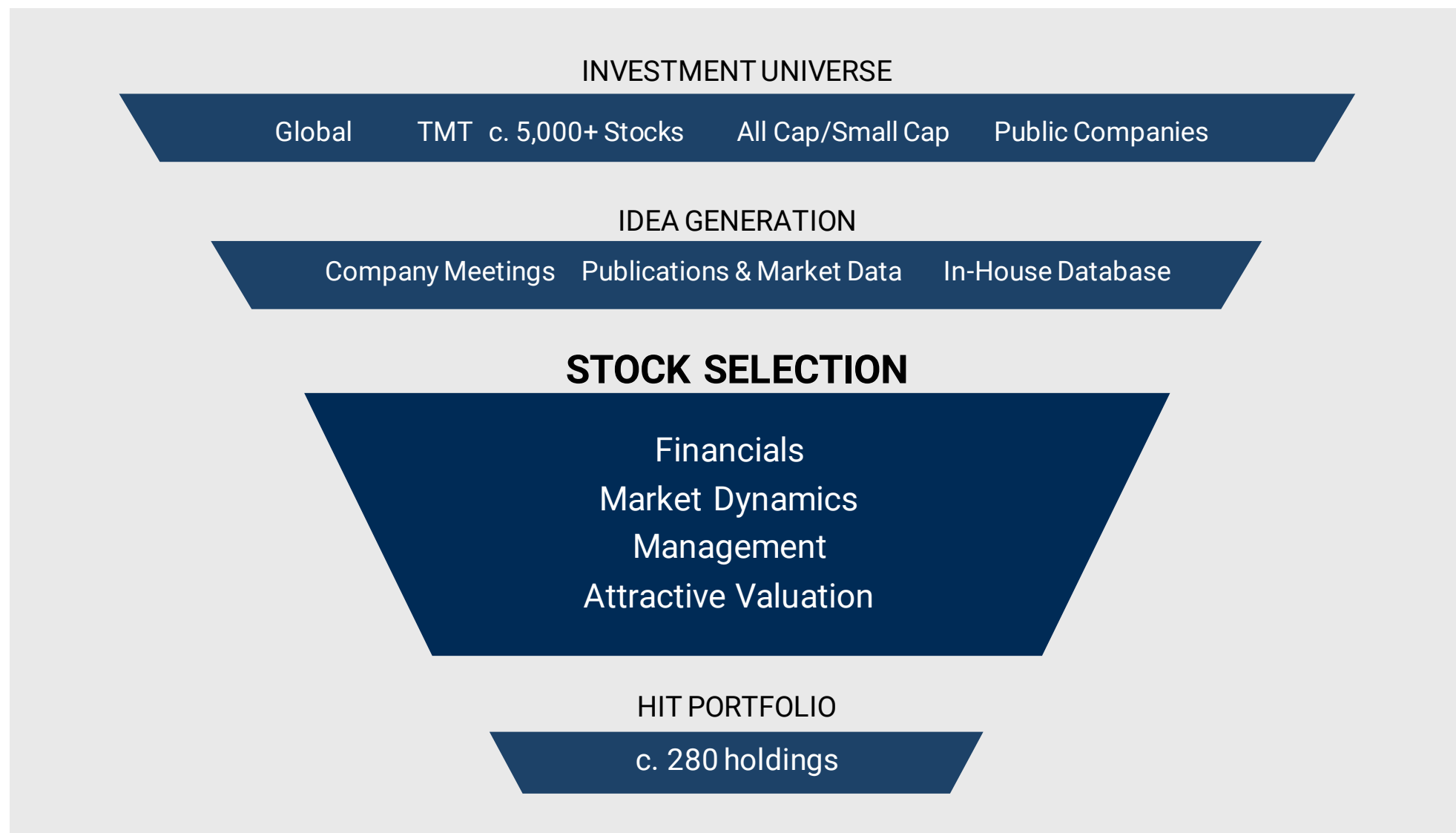
Over the history of the Company the NAV per share, on a total return basis, has compounded at an annualised rate of 11.9%.

# The Herald Approach

Focus on the technology, media and telecoms (TMT) sector enables a significant degree of cross-referencing across competitors, customers and suppliers globally

- Comprehensive mosaic of contacts and information in the sector globally gained through:
  - A team of 7 with >125 years TMT experience
  - Over 1,500 meetings per year with company management
  - 20 year in-house research database of meeting notes on 4,000+ companies
  - Access to and relationships with over 71 brokers globally
  - Telepresence enabling participation in remote meetings in NY office
  - Cross-referencing of suppliers, management, competition and products
- Portfolio enables exposure to early stage investments in low risk way through diversification
- Intolerant of financial engineering and greedy management

# Investment landscape and approach



# Investment Selection

Broad range of idea generation with risk mitigated through sector knowledge and smaller initial investment

- Fundamental long term analysis
- Idea generation from:
  - Meeting companies (suppliers, customers and competitors)
  - Sell-side conferences and analyst meetings
  - Brokers' research
  - Industry events and analyst meetings
  - Public information: websites, annual reports, market data, industry reports
  - Screening of different markets and sectors
- Initial position weighting starts small and adds over time as confidence grows in the business and management or valuation becomes more attractive
- Holdings grow over time mostly due to out-performances



# The Team

Specialist global team with over 82 years of Herald experience. The responsibilities of the team are split by sector and geography.

## Katie Potts

Katie founded Herald in 1994, she is the lead fund manager. Prior to founding Herald she worked at Barings Investment Management and S.G. Warburg Securities.

## Fraser Elms

Fraser joined in 2000, he is the investment manager responsible for the Asian portfolio. Deputy fund manager for HIT with analytical coverage for semiconductors.

## Bob Johnston

Bob joined in 2016 to establish a US office in New York. Prior to Herald he worked on the sell-side for over 20 years. He covers the communications and networking industries, while also helping to maintain more frequent contact with US companies.

## Taymour Ezzat

Taymour joined in 2004, focussed on the venture fund with analytical responsibility for the media sector. He has assumed joint responsibility for the European portfolio within HIT.

## Hao Luo

Hao joined in 2004, having grown up in China and studied MSc in Finance at Manchester University. He assists on the Asian portfolios and has analytical responsibility for the manufacturing sector globally. Hao has a CFA qualification.

## Peter Jenkin

Peter joined in 2015, he covers software companies and contributes to the overall investment selection. He has assumed joint responsibility for the European portfolio within HIT. Peter has a CFA qualification.

## Fati Naraghi

Fati joined in 2019 to focus on HWFT. Prior to Herald, Fati had been responsible Global Tech Sector at Newton Investment Management for 20 years. Fati has a Ph.D. in Communications Systems and is qualified as an AWS Cloud Practitioner.