SENECA PARTNERS

SENECA RESPONDS TO "BREXIT"

The events of Thursday have clearly caused a wave of uncertainty in economic terms. This paper is designed to provide background on the current economic situation, an opinion from Seneca Partners on the likely events over the short and medium term, as well as our view on the potential impact on our underlying trading activities and the investments which we manage.

Seneca Partners is a specialist SME investment and advisory business with minimal international exposure. We are well capitalised and profitable in all areas of our operation and are therefore well placed to deal with any period of uncertainty that may follow last week's vote. Moreover, we are also extremely well placed to capitalise on the opportunities that will inevitably arise in the coming months and years.

We have capital to invest and we will continue to operate our debt, equity and advisory businesses diligently. As experienced during the economic challenges of 2008, demand for alternative sources of finance such as those provided by Seneca Partners increases in periods when traditional funders may reduce new business activity levels. Whilst it would be understating the potential impact of last week's referendum to say it is ''business as usual'' our conservative approach sees us in good shape at the current time in relation to both existing and new business.

Given Seneca Partners' strong regional presence our debt and bridging businesses are not exposed to the fully valued South East property market and our conservative lending approach in both businesses leaves them well positioned to absorb any period of depressed asset values. Additionally, the performance of our equity investment business and advisory businesses are largely uncorrelated to UK and World stock and currency markets, and whilst our EIS Portfolio Service does have some AIM exposure, underlying EU reliance is limited.

The Seneca Partners Board and business heads will continue to consider and update our strategy in the light of developments and our agility and specialist skills will enable us to capitalise on the opportunities that ultimately emerge. Our campaign to recruit the best talent will be unchanged and we will continue to invest in and grow our business, for the benefit of our investors and clients.

If you have any queries about our investment services, please contact our Haydock office and speak with any member of our team on 01942 271746.

Richard Manley
Director
Seneca Partners Ltd

29th June 2016

The following pages are intended to provide further detail on the economic situation and what, if any, effects it has on our investment services.

The Currency Markets

The pound has weakened significantly following the results of last week's referendum. Whilst this makes UK exports better value, the UK is a net importer and a more likely outcome may be inflationary pressure.

Economists believe that the Bank of England is likely to reduce base rate in order to stimulate the economy, and potentially restart Quantitative Easing, should the economy slow down. It is reassuring that Mark Carney pledged that the Bank of England would provide an extra £250bn of funds through its normal central banking facilities, as well as substantial levels of foreign currency lending to banks in case of need. During his statement, Carney reassured that the Bank of England "will not hesitate to take to take any additional measures required."

The Stock Market

Markets had anticipated a 'Remain' vote with both the UK stock market and the pound performing well in the week before the referendum. Following the 'Leave' vote, the market reaction that followed on Friday morning was severe, with sterling weakening significantly against most major currencies and the FTSE100 opening sharply lower.

There has been some recovery in the last few days with equities regaining some of ground lost immediately following the referendum result. Having said that, there has also been continued volatility this week with banks, the financial sector and house-builders amongst the worst hit. Against this backdrop, more defensive companies and especially those that derive a large proportion of their revenues overseas fared much better. The market will probably take time to absorb the likely effects of Brexit in the coming weeks with a number of key decisions still to be made and during that time, we anticipate that some volatility will persist.

Demand for UK gilts rose as investors sought a safe haven for assets, meaning that UK gilt yields have been trading at record lows (below 1%), reflecting the increase in demand for UK sovereign debt. The Bank of England's reassurances will have provided positive influence on this movement, providing some reassurance on the economic outlook for the UK's stability.

The Economy

The result of the referendum seems to have caught some members of the Government by surprise. We believe the current political instability and short term lack of confidence mean a period of volatility. Having said that, we also expect that it should recover relatively quickly. As the political situation develops, a new Prime Minister is selected and the negotiations over an exit from the EU start to become clearer, we anticipate that there should be signs of a recovery in the economy.

Speaking this week in a bid to calm and reassure markets, the Chancellor of the Exchequer stated that the economy was as strong as it could be to cope with the challenges ahead and asserted that the Treasury, Bank of England and Financial Conduct Authority had been working for months to put contingency plans in place for this outcome.

AN UPDATE ON SENECA INVESTMENT SERVICES

What follows is an analysis and update on the individual products and services which we manage, a commentary on underlying asset classes and sectors, as well as outlook for the short and medium term.

The Seneca EIS Portfolio Service

The tax reliefs available under the Enterprise Investment Scheme have not changed. This is a UK tax relief, intended to promote growth in UK SMEs and will continue to operate as it does now in relation to qualifying investments.

Our EIS Portfolio Service provides investors with an opportunity to invest in a portfolio of UK based SMEs where we feel the underlying strength of these businesses demonstrates good growth potential over a 4 to 5 year period. Whilst a number of our investments are listed on the AIM market and have experienced some volatility in the last few days, many are private companies and are not correlated with stock market movements.

For new investments, we will continue to follow our proven and disciplined investment process and we are confident that the short term volatility and uncertainty ahead will continue to present some attractively priced new investment opportunities.

Our experience, expertise and the strength of our professional relationships in the SME investment market will ensure that we continue to maintain an attractive deal flow pipeline and we will remain a UK market leading provider in the EIS market.

Seneca Special Situations and Turnarounds

A number of the considerations mentioned under the Seneca EIS Portfolio Service also apply to Seneca Special Situations and Turnarounds.

Seneca Special Situations provides investors with the ability to make more opportunistic value investments. These are generally unquoted companies, meaning that they are not affected by volatility seen in the quoted markets. All of the investee companies have the potential to provide up to a 3 times return over a three to four year period. Our portfolio has limited exposure to Europe and we continue to work with investee companies to monitor and minimise any knock on effects that may arise. Often these investments are bolstered by tangible security to mitigate risk and we expect to see more value investment opportunities arising from any near term disturbances in the market.

We continue to work on suitable exits for our existing Turnovers portfolio and do not currently envisage the referendum result having an adverse effect on this.

The Seneca IHT Service and Seneca Corporate BPR

The tax position regarding Inheritance Tax (IHT) relief through Business Property Relief (BPR) has not changed. This is a UK tax relief and will continue to operate as it always has in relation to qualifying property. All trading activities within our IHT and Corporate BPR Services are structured and managed in order to provide capital preservation through secured loans, with the security taken typically including a first legal charge over property or assets or company debentures.

The companies in which our IHT Service investors invest are unquoted and are therefore not subject to the market volatility associated with listed stocks. This is also true of the Partnership used for our Corporate BPR service.

We will continue to operate them as we did prior to the referendum, with strong due diligence and scrutiny on all lending activity by our Lending Team and the Credit Committee.

The central objective of capital preservation within these IHT Services have not changed and their ability to provide a solution for those seeking IHT

mitigation is unchanged by recent events. As such, these investments remain as secure as they did prior to the referendum and their capital preservation characteristics are still strong.

These Services are currently invested across three asset classes; commercial bridging loans, asset back loans and block discounting. All loans are made at a conservative loan to value ("LTV"), meaning that the security we take to underpin the loans provides adequate headroom in a more challenging economic climate, such as that being faced now.

The IHT Service targets growth of 4% pa and has proved to be an attractive and defensive, non- correlated investment product with the obvious added benefit of falling outside of the estate for IHT purposes once held for the mandatory 2 year minimum period.

We will continue to pursue our conservative secured lending strategy and are confident that we will be in a strong position to provide both ongoing support for SMEs and strong risk adjusted returns for our investors.

SUMMARY

There will be some uncertainty in the economy over the coming weeks and months as the impact of last Thursday's vote is digested. We are actively monitoring the situation but we believe that our business is both agile and robust and is well placed to deal with the opportunities which lie ahead.

The Seneca Board has in place the necessary controls and procedures to ensure we protect our investors and clients and we will continue to communicate and update as matters develop.

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