

Fundamental AIM IHT Portfolio

Quarterly Review Q2 2020



PORTFOLIO MANAGERS

Christopher Boxall
Direct: 01923 713893
cboxall@fundamentalasset.com

Stephen Drabwell
Direct: 01923 713892
sdrabwell@fundamentalasset.com

FUNDAMENTAL ASSET MANAGEMENT LIMITED

Cardinal Point
Park Road
Rickmansworth
Hertfordshire

WD3 1RE

+44 (0)1923 713890

enquiries@fundamentalasset.com
www.fundamentalasset.com

Portfolio Review

For the 1st quarter of 2020, Fundamental AIM IHT portfolios were up, on average, 16.7%, although there was some variance depending on holdings and size of portfolio.

Having bounced strongly in April and May, our AIM portfolios fell back marginally in June, but still recorded strong returns over the quarter.

The index gains in the quarter highlighted the resilience and appeal of AIM, which is now a very different market to the one we started investing in 16 years ago.

While the index of 100 leading UK shares rose 8.7% and the mid cap index 13.3%, London's growth market bounced 29.5%, driven by with very strong share price performance from some of AIM's largest companies which were in high demand from bargain hunters.

We are wary that the share price rebound from many stocks was a little too positive given the challenging outlook for the economy, although investors clearly relished the opportunity of buying into some quality growth companies at more modest valuations.

Growth!

What has become increasingly evident over recent years is the lack of attractive growth available to those investing on the main UK stock market. It is for this reason that many investors (large and small) are increasingly drawn to AIM, which offers plenty of growth opportunities in sectors not found on the main market. Software and video gaming companies having been proving their worth over lockdown, yet the main UK market has limited exposure to the former and no exposure to the latter.

Banks and insurance groups have seen their share prices battered over recent months but AIM has few of these companies, although some business operating in the financial services sector have experienced difficulties.

There has been no shortage of financial support from shareholders with a large number of equity raisings. While fund

raisings from main market companies appear to primarily address a need to shore up significantly weakened balance sheets, many on AIM have been to support growth opportunities as rivals struggle.

Dividends

Many AIM companies originally cancelled or postponed a decision on their dividends but trading and cash flow from some has been better than anticipated at the height of the lockdown, sometimes resulting in a change of plan. Fundamental AIM portfolio holding **Focusrite**, the global music and audio products company, announced that its full year results are now likely to exceed market expectations and with cash flow stronger than expected it has therefore decided to pay an increased interim dividend.

What have we been doing?

Having re-assessed all our holdings throughout the quarter we decided to sell out of the position in **Johnson Service Group**, the provider of workwear and linen services. This remains a good business, but with significant exposure to the hotel, restaurant and catering sectors we are wary it has very challenging outlook ahead and may struggle to return to past glories for several years.

We acquired a new satellite position in **Anexo Group**, the specialist integrated credit hire and legal services provider. This is a company we have been following closely since it joined AIM in 2018 and it presents a different kind of growth opportunity for the post Covid environment.

Many of our portfolio companies saw their shares bounce strongly with **AB Dynamics**, **Dart Group**, **Fevertree Drinks** and **Focusrite**, delivering particularly strong performances in the quarter.

Investor's Champion, a business affiliated to us, continues to publish regular commentaries on AIM companies and offers an excellent idea of companies we are looking at.

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Fundamental

Outlook and psychology

Since bouncing strongly off lows, stock markets moved sideways for much of June, with institutional investors awaiting US earnings season to gain a clearer picture of how leading international groups have weathered the pandemic, and for a better guide of what the future may hold for companies.

We remain wary that stock markets may need to pause for a while longer as markets take longer to fully open and results are digested, with many fearing a 'second wave'.

However, notwithstanding the general stock market concerns, we remain steadfastly focused on assessing the merits of individual companies, many of which have proven themselves over this unprecedented period.

While some smaller companies have seen their activities shut down entirely, strong balance sheets, ample cash reserves, and drastic cost cutting measures, combined with generous government and shareholder support, means the majority we assess are in decent financial shape and well prepared for whatever the future may throw up. Across April, May and June, AIM companies raised nearly £2 billion in new equity funding from supportive shareholders, with the total market value of AIM at the end of the quarter £97.5bn, which

compares to £70.3bn at the end of the previous quarter.

Over £200m of fund raisings went to small AIM companies leading research into treatments for Covid-19. While relatively few of these will go onto achieve commercial success with their tests and vaccines it shows what a vital contribution AIM makes to the UK economy.

The majority of companies are unable to provide guidance given the ongoing uncertainty, accordingly we have withdrawn PE and Dividend Yield references in this report.

AIM for IHT planning investment universe

Our overall investment universe for the purpose of IHT planning consists of approximately 280 companies with market capitalisations of our portfolio companies ranging from approx. £40m to £2.8bn (July 2020).

Fundamental AIM portfolios are constructed from a key list of researched stocks. Our current key list is split between deemed 'Core' and 'Non Core' holdings, with approximately 40 companies in the former and 30 in the latter.

For further information please call or e-mail Stephen Drabwell or Chris Boxall using the contact details shown overleaf. This newsletter is also available at:

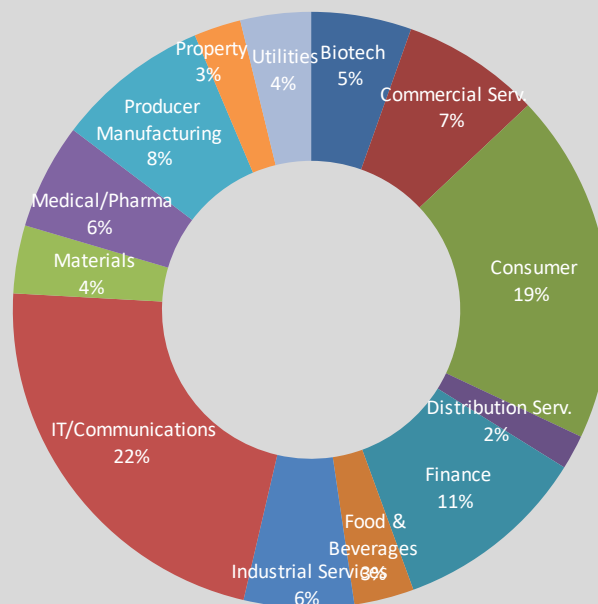
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Core Stocks Average Statistics 30/6/20

Market capitalisation	£524m
PER (2020 consensus estimates)	N/A*
Dividend yield (at current share price)	N/A*
UK domestic market exposure	69%
Overseas based companies	NIL

	Since Inception Sept. 2004	YTD 2020	1 year
Model Portfolio	326.76%	-11.14%	-6.89%

Core Holdings Sector Split



**With all dividends being withheld and little or no earnings guidance, we are not currently providing estimates*

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