

Fundamental AIM IHT Portfolio

Quarterly Review Q3 2020



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Portfolio Review

For the 3rd quarter of 2020, Fundamental AIM IHT portfolios were up, on average, 5.5%, although there was some variance depending on holdings and size of portfolio.

Following a strong bounce in the prior quarter, the share prices of many stocks in our universe struggled to make much headway, although we did see some very strong performances from a few.

AIM once again proved its resilience in a very challenging environment, with its outperformance of the main UK stock market. While the index of 100 leading UK shares fell 4.9% and the mid cap index rose 1.1%, London's growth market rose 8.60%, driven once again by very strong share price performances from some of AIM's largest companies which continue to be in high demand.

We remain wary that the share price rebound from many stocks is a little too positive given the very challenging outlook for the global economy, although investors preference for growth companies continues to support the shares prices of many companies on AIM.

Growth continues to attract!

AIM offers plenty of attractive growth opportunities in sectors not found on the main market. Software and video gaming companies continue to prove their worth in very difficult circumstances, although we are wary that the valuations of several of these are starting to look a little stretched, notwithstanding their evident attractions.

Having seen a large number of secondary fund raisings in the four months to the end of July, secondary fund raisings on AIM in the final two months of the quarter slowed down considerably, with only £117m raised in September compared to an average of £413m per month for the year as a whole and a peak of £716m in April. We are encouraged that many AIM companies feel they have the desired resources to carry them through the current crisis. While some may need to top up their cash over the coming months, there appears to be

plenty of support available for proven viable businesses with strong growth prospects. We have also seen a noticeable increase in the number of new issues with several interesting newcomers to AIM and more anticipated.

Dividends

With numerous larger companies having postponed or cut their dividends, those investing for income have had a particularly difficult time. While plenty of AIM companies offer attractive dividends, AIM is not a market for income seekers as small companies can generally put their cash to better use rather than paying it away as a dividend. However, it is pleasing to note that many AIM companies who originally cancelled their dividends have now reinstated them.

What have we been doing?

Over recent weeks there have been a huge number results and updates to assess from our universe of AIM companies, the majority of which have been in line with expectations.

We did not undertake any portfolio restructuring in the quarter and feel happy with our current portfolio of companies. While several may struggle to deliver any growth in the short term due to the pandemic, the long term attractions remain and valuations in some cases reflect a lot of bad news.

There were strong share price performances in the quarter from automotive testing group **AB Dynamics**, foreign exchange broker **Alpha FX**, veterinary services group **CVS Group**, digital marketing platform **dotDigital**, communications specialist **Gamma Communications** and video game developer **Team17**. We are particularly encouraged by the performance of long term holding CVS Group where greater focus on organic, as opposed to acquisition led growth, appears to be delivering results.

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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Outlook and psychology

While the main UK market went backwards, the US stock market continued its march upwards, despite a sharp correction at the beginning of September, notably from the technology sector. Results from many US technology companies continue to impress but valuations in some cases are starting to look extremely stretched. The surging share prices of several US IPOs over recent weeks and growth in Special Purposes Acquisition Companies ('SPACs') harks back to the dotcom bubble of the late 1990's and we know how that ended! In mitigation, leading US technology groups look in great shape with huge piles of cash at their disposal.

Notwithstanding general stock market concerns, we remain steadfastly focused on assessing the merits of individual companies, many of which continue to prove themselves.

Strong balance sheets, ample cash reserves, and drastic cost cutting measures, combined with generous government and shareholder support, means the majority of companies we assess have got through what we hope was the worst of the pandemic in decent financial shape and well prepared for whatever the future may throw up. A total of £3.7 billion in new equity funding has been raised by AIM companies in the year to the end of September from supportive shareholders. The total market value of AIM at the end of the quarter was

£107 billion compared to £97.5 billion at the end of the previous quarter.

We will be obliged to sell out of one AIM position in the final quarter of the year as the proposed dual listing on the Nasdaq will compromise its qualification for IHT portfolios.

The majority of companies we assess remain unable to provide accurate short term guidance given the ongoing uncertainty, accordingly we continue to withdraw PE and Dividend Yield references, which would be meaningless.

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. £50m to £2.7bn (October 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.

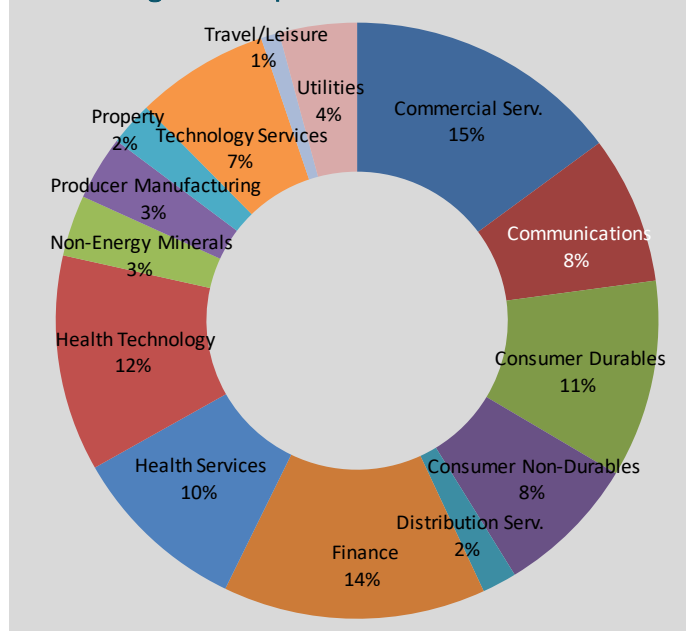
For further information please call or e-mail Stephen Drabwell or Chris Boxall using the contact details shown overleaf. This newsletter is also available at:

www.fundamentalasset.com/publications/

Core Stocks Average Statistics 30/9/20

Market capitalisation	£577m
PER (2020 consensus estimates)	N/A*
Dividend yield (at current share price)	N/A*
UK domestic market exposure	70%
Overseas based companies	NIL

Core Holdings Sector Split



	Since Inception Sept. 2004	YTD 2020	1 year
Model Portfolio	355.89%	-4.93%	6.14%

**With little or no earnings guidance from many companies, we are not currently providing estimates*

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