

Fundamental AIM IHT Portfolio

Quarterly Review Q4 2019



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 4th quarter of 2019, Fundamental AIM IHT portfolios were up, on average, 11.5%, although there was some variance depending on holdings and size of portfolio.

Our AIM portfolios closed the year with a strong performance, outperforming leading stock market indices, including the booming US market which closed 2019 at an all-time high. Just over 80% of the companies in our core portfolio list registered a positive share price move in the quarter.

The UK election result provided a catalyst for the shares of several companies to rise, notably those with construction related exposure. However, many of our AIM stocks also saw their share prices react positively following the announcement of strong results or trading updates.

Global stock markets received a boost towards the end of the year following encouraging US economic data and the announcement of a phase-one trade deal between Washington and Beijing. However, relations between the two superpowers remain strained and there are many hurdles still to overcome.

The MSCI world index rose 8.56% in the quarter with the AIM Allshare index up 9.8%. Our AIM portfolios benefited from very strong performances from a number of holdings.

The share price of **Breedon Group**, the construction materials company, received a boost following the election result and the start of 2020 has brought news of the acquisition of assets from CEMEX. Breedon should be a prime beneficiary of the Tories manifesto pledge to boost expenditure on infrastructure and maintain ongoing support for the construction of 300,000 homes annually.

Nexus Infrastructure, which provides infrastructure services to the UK housebuilding and commercial sectors, also saw its shares perform strongly boosted by encouraging full year results.

Having performed poorly in the prior quarter, **Smart Metering Systems**, the

UK's largest integrated installer and manager of smart meters, saw its share price enjoy a better quarter. However, it still remains well below historic highs and we continue to believe there could be a strong recovery in store over coming months as the company delivers improved performance at the operating level. We were also encouraged by one of the founders acquiring a large number of shares earlier in the quarter.

Ramsdens Holdings, the financial services provider and jewellery retailer, saw its share price climb following the announcement of excellent interim results. It has also started 2020 in excellent form announcing strong trading during the Christmas period.

There was a limited amount of restructuring in the quarter. We reduced our position in **AB Dynamics** following a very strong performance over the course of 2019. We also sold out of a small, satellite position in **Warpaint** following another poor trading update and concerns over the long term growth potential of this business.

The proposed merger between AIM portfolio holding **Redde** and Main Market **Northgate** and intended listing of the combined group on the Main Market means we will be obliged to sell Redde shares in the first quarter of 2020. The merger makes no sense to us!

2019 saw only 23 companies join AIM, the fewest number of new joiners since records began in 1995 and even lower than the 'Financial Crisis' year of 2009. All the new AIM arrivals are covered by our associates **Investor's Champion** in their [Blog](#).

At the end of December 2019, there were 863 companies on AIM, with the total market capitalisation £104bn. This compares with 882 companies at the end of September 2019 when the market capitalisation was £94.7bn.

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

A primary focus in 2020 for the UK's new government will be negotiating the desired trade deal with the EU. The latest utterances from the European Commission illustrate how this is not going to be easy, with Brussels' insisting that a tariff-free, quota-free trade deal must be underpinned by a "level playing field" of rules to protect Europe's businesses from unfair British competition. The commission president also warned that the UK needed to accept that a full agreement, covering every single aspect of a new partnership, would not be ready by the end of the year and that both parties will have to prioritise.

The US/China trade dispute has started to take its toll on businesses and many are hoping that the recent phase-one trade deal will herald the start of a more positive relationship and ultimately a more substantive agreement.

The escalation in hostilities between the US and Iran has seen oil prices climb which is rarely good news for companies or consumers. Hopefully matters won't escalate further.

With the UK index of largest companies continuing to significantly underperform other leading global indices in 2019, we anticipate bargain hunters will be eyeing up opportunities in 2020. While many of the UK's leading 'aged'

companies fail to offer the sort of growth prospects on offer on the US market, in our opinion the valuations of some are increasingly compelling.

The number of companies on AIM has declined substantially over the years but AIM continues to offer many fascinating investment opportunities delivering meaningful growth. However, if the growth outlook stalls, the share price correction for a highly valued stock can be severe, as we witnessed on several occasions in 2019 from some of AIM's largest companies.

We continue to build portfolios with a balance of large and smaller AIM companies, addressing growing markets. We prefer companies where founders or families retain a meaningful equity stake, with the predominant focus on organic growth funded through internally generated cash flow. This will often see us stick to tried and trusted names which have a long term track record of delivery, rather than venture into pastures new.

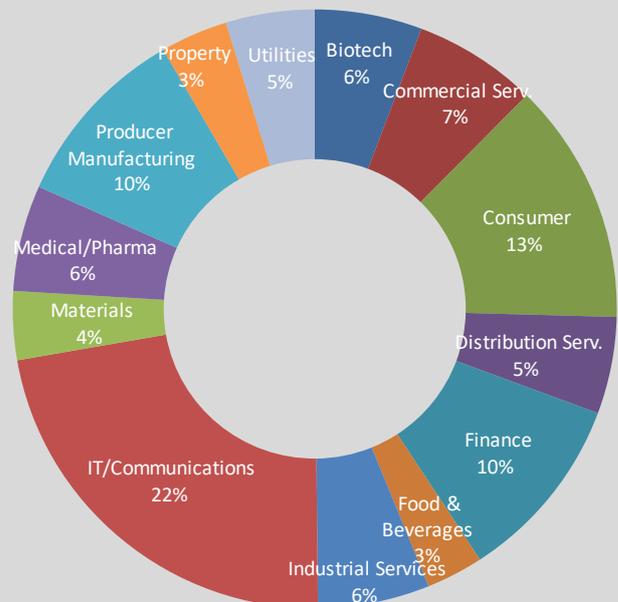
AIM for IHT planning investment universe

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

Core Stocks Average Statistics 9/1/20

Market capitalisation	£444m
PER (2019 consensus estimates)	23.7x
Dividend yield (at current share price)	2.28%
UK domestic market exposure	66%
Overseas based companies	NIL

Core Holdings Sector Split



	Since Inception Sept. 2004	YTD 2019	QTD
Model Portfolio	+380.25%	+21.62%	+11.81%

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