

Fundamental AIM Portfolios Quarterly Review Q2 2021

Fundamental

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

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

PORTFOLIO REVIEW

For the second quarter of 2021, Fundamental AIM IHT portfolios were up, on average, 8%, although there was some variance depending on holdings and size of portfolio. It is pleasing to report that the portfolios continue to recover and grow from the sharp falls we saw this time last year.

The AIM index as a whole rose 4.2%, in the quarter, the second quarter running that it has underperformed the UK index of 100 largest main market companies, which rose marginally more at 4.8%.

Several of our long-term holdings now boast £1 billion+ valuations, with the most recent of these being veterinary services group CVS Group, a company we have held shares in since its IPO in October 2007 when valued at only £106m.

Our AIM portfolios remain heavily weighted towards larger AIM companies, with the average market capitalisation at the end of the quarter £715m. While these are 'large' in the context of AIM, many remain very small companies on the global stage and therefore continue to have a big growth opportunity ahead, which should see them grow into substantially bigger businesses.

Sector and market capitalisation exposures can be found on our [monthly factsheets](#).

However, our 'core' and 'satellite' portfolio construction approach also affords us flexibility to acquire smaller satellite positions in smaller AIM companies, where we see compelling growth opportunities. Some of our satellite positions delivered very strong performances in the quarter. There continue to be plenty of results and updates from companies for us to assess and

the results of some continue to incorporate an ever-bewildering array of adjustments, some enforced by the pandemic, but others increasingly questionable, with the aim of flattering poor underlying returns, rendering many income statements worthless.

As communicated previously, the pandemic has brought out the best and worst in many businesses, which has seen us reassess the long-term potential of a few of our holdings. In this regard, the quarter saw us sell out of iomart, a provider of managed hosting and cloud services. In a booming market for cloud storage, iomart bizarrely appears to be losing ground.

It was also encouraging to see a growing number of exciting new admissions to AIM in the quarter, some of which could ultimately find their way into our portfolios as they prove themselves on public markets.

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 £3.0bn (July 2021), and the majority in the £250m—£500m market capitalisation bracket.

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 30 companies in the former and 10 in the latter.

COMPANY NEWS

dotDigital Group plc

Shares in dotDigital Group, a leading digital marketing and customer engagement platform (email platform, live chat, SMS etc.) rose to new highs with the market clearly starting to appreciate the significant growth potential of this excellent business, notably in the US and overseas markets. Forecast sales of £56m for the current financial year are a drop in the ocean relative to the rapidly growing multi-£billion market opportunity.

Focusrite

Focusrite, the global music and audio products company, issued fantastic results for the six months ending 28 February 2021, ahead of revised expectations. Strong demand for its products, saw revenue grow 91% to £95.3m and adjusted pre-tax profit soar 320% to £25.7m. Its core brands continued to see high demand for home-based amateur and professional audio recording solutions and management remains of the view that the base of potential customers has materially grown, with more people using their solutions for music creation.

Adept Technology

Adept Technology, a provider of managed IT services issued a long trading update for its financial year ending 31 March 2021. We had expected this business to prove a little more resilient than it has been, given the growing dependence on reliable IT and communications over the pandemic and its public sector exposure, but perhaps that's a little harsh in such a challenging year. We continue to be patient as on many levels the valuation, supported by strong cash flow, looks very reasonable.

Elixirr International

Elixirr International, the fast-growing consulting firm, reported continuing strong trading in its AGM trading update. Trading in the five months ended 31 May 2021 saw revenue increase more than 75% (including the impact of acquisitions) compared with the same period in 2020. Consequently, revenue and adjusted EBITDA for the year ending 31 December 2021 are already anticipated to be towards the upper end of previous guidance. We have been very impressed with the performance of this business since IPO in 2020.

CVS Group

CVS Group, one of the UK's leading providers of integrated veterinary services and another long-standing Fundamental AIM portfolio holding, announced that trading had remained

strong with a steady increase in customer demand as lockdown eased. With management confident that the strong performance would continue for the remaining months of its financial year, full year revenue is anticipated to be ahead of expectations and adjusted EBITDA to be comfortably ahead.

Fevertree Drinks

Fevertree Drinks, the world's leading supplier of premium carbonated mixers and another of AIM's high quality companies, has benefited from continued strength in its Off-Trade business as at-home consumption of long mixed drinks is becoming increasingly established. Its US business is really bubbling, with US market Off-Trade sales rising 38% year-on-year, ahead of the wider mixer category.

Anexo Group

Anexo, the specialist integrated credit hire and legal services provider, has received a cash offer from its largest shareholder, DBAY Advisors, at 150 pence per share, a relatively modest premium to the share price before. With the Anexo founders and senior management having previously sold a tranche of their shares to DBAY at the same price in the last quarter of 2020, they seem likely to accept the current offer. It will be a shame to see another small AIM company acquired before it has realised anywhere near its full potential. We remain holders for now.

IG Design Group

IG Design Group, one of the world's leading designers and manufacturers of Gift Packaging, Celebrations, Craft & Creative Play, announced in-line results for the year ending 31 March 2021. Revenue increased by 40% to \$873.2m reflecting the full year effect from the CSS acquisition which was completed in March 2020. Like-for-like revenues (excluding CSS) fell 5%, which was an amazing result in the circumstances. A new Growth Plan is targeting to double EBITDA to over \$150m (2021: \$77.5m) through a mix of strong organic growth and M&A activity, however, it isn't clear over what time period they hope to achieve this.

Emis Group

EMIS Group, the UK leader in connected healthcare software and services, announced that trading for the year to date was in line with expectations. EMIS expects to grow in 2021 and to build market momentum with its new product developments, which will lead to opportunities for higher levels of growth in 2022 and beyond. Its Outcomes4Health software is currently underpinning the delivery of vaccinations outside hospital settings.

Ramsdens

Diversified financial services provider and retailer Ramsdens announced encouraging interim results for the six months ending 31 March 2021. While revenue fell 23% to £20.8m pre-tax losses were limited to £0.1m compared to the comparable period's profit of £2.3m. Foreign Currency Exchange, historically the largest contributor to group profits, was severely impacted by the travel restrictions with FX income down 78% to £1.0m. More encouragingly Jewellery retail revenue rose 14% to £8.1m with online revenue doubling and now representing 17% of total jewellery sold. Ramsdens will be a prime beneficiary of the easing of travel restrictions, whenever that may happen.

Team17 Group

Video gaming specialist Team17, the developer of independent premium video games, including the iconic Worms, is acquiring StoryToys, a developer and publisher of educational entertainment apps for children. The acquisition establishes a new highly complementary and fast-growing 'edutainment' vertical for the AIM quoted group. Team17 believes demand for educational entertainment apps, which has accelerated as a result of the COVID-19 pandemic, focused on the pre-school audience, will see significant growth going forward.

Animalcare

Animalcare Group, the international animal health business, announced that, its new Daxocox product has now been granted Marketing Authorisation for the European Union. The approval of Daxocox represents an advance in the treatment of breakthrough pain associated with osteoarthritis. Veterinary professionals now have an effective and convenient new treatment option to help prevent episodes of osteoarthritis pain that can plague the quality of

life for dogs, especially in middle-aged and older animals.

For further information please contact a member of the team at enquiries@fundamentalasset.com or 01923 713890.

This newsletter is also available at:

www.fundamentalasset.com/publications.



CONTACT FOR FINANCIAL ADVISERS

Derek McLay
Business Development Manager
Mob.07743725659
dmclay@fundamentalasset.com

Fundamental AIM IHT Portfolio: Cumulative Performance**						
3m	6m	YTD	1yr	3yr	5yr	Incep.*
10.02%	15.36%	15.36%	39.85%	30.55%	113.89%	496.86%

**Net Mngt. Fee (1%) and advice Fee (0.5%) to June End; *Incep.= Sep 2004

Core Stocks Average Statistics	30/6/21
Market capitalisation	£715m

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