

Fundamental AIM IHT Portfolio Quarterly Review Q4 2020

Fundamental

PORTFOLIO MANAGERS

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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 4th quarter of 2020, Fundamental AIM IHT portfolios were up, on average, 14%, although there was some variance depending on holdings and size of portfolio. It is pleasing to report that relatively few stocks in our portfolios saw their share prices fall during the quarter, with some very strong performances from several, buoyed by news of the vaccine

AIM had a remarkable 2020, ending the year with its market value at an all-time high and the AIM index also significantly outperforming other UK main market indices. The index finished up over 20% for the quarter and the year. The portfolios failed to match these kind of returns despite generating respectable returns. This is mainly due to the fact the AIM index is dominated by the likes of Asos, Boohoo and ITM Power, which we do not invest in for a number of factors. We continue to be wary that the share price rebound from many stocks is a little too positive given the very challenging outlook for the global economy.

Over the longer term, the portfolios continue to significantly outperform the index.

At the end of December 2020 there were 819 companies on AIM, with the total market value £131 billion. While there was a net decline of 44 companies in the year AIM's overall market value was £16.9 billion higher.

At the year end a record 24 AIM companies were valued at more than £1 billion, and 246 AIM companies were valued at £100m or more, the majority of which were in the £100m - £250m valuation bracket.

As the pandemic tested the financial resources of companies across all sectors, AIM saw a large number of secondary fund raises in the year with a total of £5.27 billion raised, making 2020 the best year for secondary issues since 2010.

The average daily value of AIM shares traded also hit all-time highs in the year at £326m and with c£83 billion of shares traded in the year as a whole, compared to c£60 billion in 2019.

Those are big numbers and counter the argument that AIM shares are illiquid!

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 and AIM's healthcare stocks came firmly back into favour in 2020.

Dividends

With numerous larger companies having postponed or cut their dividends, those investing for income have had a particularly difficult year. 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?

It was a relatively quiet quarter for meaningful results and updates, with shares prices and market sentiment driven by news of the vaccine and subsequently further lockdowns.

We were forced to sell out of our long-term holding **Abcam**, the life sciences group and one of AIM's largest companies, as it dual-listed on the Nasdaq. We also took some profit in some of our larger positions.

There was a strong performance in the quarter from video gaming group **Codemasters**, which is currently the subject of a bidding war between US listed gaming groups who seem determined to snap up the UK based racing game specialist.

Other strong performances came from **Jet2** (formerly Dart), the leisure travel group, **Craneware**, the provider of software to the US healthcare market, and new position **Fonix Mobile**, a mobile payments and messaging company.

Outlook and psychology

The IPO bonanza in the US continued in the final quarter of the year but has yet to be seen in the UK, although it appears that several high profile IPOs may be joining the UK market over coming weeks.

As we commented previously, in some respects the valuations and soaring share prices of certain US stocks harks back to the dotcom bubble of the late 1990's. In mitigation, leading US technology groups look in great shape with huge piles of cash at their disposal. The greater risk for the tech giants is that the US and European authorities seek to clip their wings, possibly demanding break ups, although this would take several years to happen.

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, up to now, got through the pandemic in decent financial shape. Our concern from an investing perspective is that the share prices of many larger and higher profile AIM stocks have already recovered strongly, sometimes back to new highs. With uncertainty remaining and plenty of growth already baked into valuations, the share prices of some may therefore struggle to

make much headway over the short-term. In support of valuations, with interest rates set to remain low for the foreseeable future, and companies performing well, stock markets remain the only viable investment game for many, with plenty of institutional support for companies with the desired growth profile

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 in the circumstances.

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 (January 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.

For further information please contact a member of the team. This newsletter is also available at: www.fundamentalasset.com/publications.

Fundamental AIM IHT Portfolio: Cumulative Performance**						
3m	6m	YTD	1yr	3yr	5yr	Incep.*
13.49%	21.23%	7.73%	7.73%	16.86%	63.82%	417.38%

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

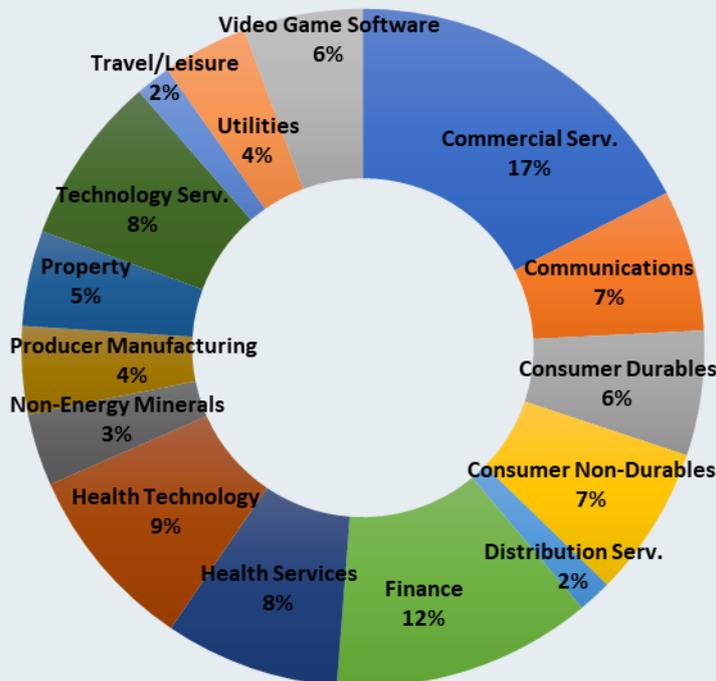
Core Stocks Average Statistics	31/12/2020
Market capitalisation	£508m
PER (2021 consensus estimates)	N/A*
Dividend yield (at current share price)	N/A*
UK domestic market exposure	72%
Overseas based companies	NIL

*Not provided due to lack of guidance



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