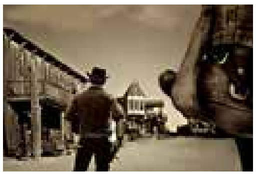
Expert investors in AIM and smaller quoted companies

Fundamental Asset Management

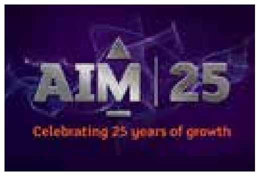
KEEP A CLOSE WATCH ON THIS LITTLE LOT...

Has AIM managed to shed its **investing 'Wild West' image?**



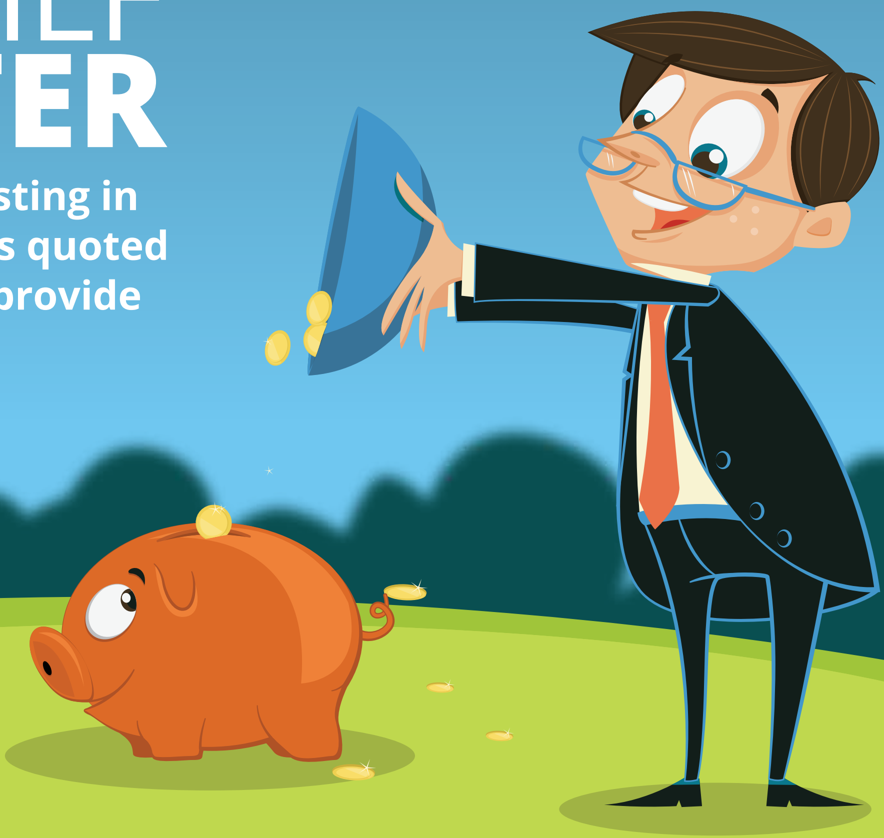
The key to AIM success
Essential reading

Value of AIM to the UK economy **significantly outweighs** cost of modest tax concession



100% TAX RELIEF ON OFFER

Did you know that investing in the shares of companies quoted on AIM can potentially provide 100% tax relief?



www.fundamentalasset.com

WHO WE ARE

Fundamental
Asset Management

Fundamental Asset Management Limited is an independent, owner managed, investment management firm with an unrivalled knowledge of AIM, a sub-market of the London Stock Exchange that was launched on 19 June 1995.

AIM is the most successful growth market in the world powering the companies of tomorrow.

AIM Portfolio

Our dedicated AIM portfolios have been producing outstanding results since 2004, significantly out-performing major UK stock market indices*

Portfolios reflect our client's investment requirements by investing in AIM companies that have demonstrable earnings and dividend yield along with reduced stock volatility.

These exciting, ambitious businesses offer excellent investment opportunities, combined with attractive tax benefits and the opportunity to support the global businesses of the future.

Our AIM Blog, Publications and Broadcasts provide regularly updates on news from this dynamic growth market.

***Typical AIM portfolio managed by Fundamental Asset Management and held for longer than 5 years.**

Obtaining 100% Inheritance Tax Relief

By investing in AIM-quoted companies that qualify for Business Relief, our portfolio service can help you obtain 100% relief from Inheritance Tax in the UK, if held for two years and still held at death.

ISA attractions

In addition to this relief, AIM shares can also be held within an ISA, giving you Capital Gains Tax and Income Tax relief, making this one of the most attractive tax-efficient investments on the market.

If you have an existing ISA, this can be transferred to our management for investment in qualifying AIM companies.

Investing in AIM companies with the added benefit of potential Inheritance Tax mitigation is a proven, effective and straightforward tax planning method, where assets remain under your control and are accessible at any time.

Our AIM for Inheritance Tax planning portfolio service can also be accessed through the Elevate, Transact, Standard Life and Nucleus platforms.

Why not tap into our specialist expertise and experience by contacting the Fundamental team at enquiries@fundamentalasset.com or 01923 713890

THE WORLD OF SMALLER QUOTED COMPANIES

But isn't it hard to buy and sell shares in smaller companies?

If you are a large fund manager overseeing Billions of Pounds it is indeed much harder to invest in smaller quoted companies, at least in any size that would be worthwhile for the fund. It's for this reason that big institutional fund managers steer clear of smaller companies and are often heard complaining how these are 'illiquid'.

Thankfully their loss can be the Private Investors gain – ironically those large 'dismissive' institutions will happily become interested in investing when the small company has grown much bigger and when all the really big gains have been made!

You can therefore enjoy an area where the small investor really does have an edge over the large fund manager!

What is AIM?

AIM is the London Stock Exchange's international market for smaller growing companies and is home to 830 companies (July 2020).

AIM used to be an abbreviation of 'Alternative Investment Market', but now it's just AIM.

Contrary to what you might have read in the popular press, AIM is no longer just about highly speculative micro-cap companies (that means really small in the investing world!) that may never generate a profit. There are now hundreds of fantastic AIM companies with a history of generating excellent profits, loads of cash and attractive dividends and everybody likes dividends.

Not as small as you might think...

AIM is not as small as you might think with the market value of all the companies on AIM just under £100bn (July 2020).

Many of these excellent businesses have seen their shares soar over the past few years, far outperforming larger but lower growth companies on the main stock market (that's the boring FTSE100 again!)

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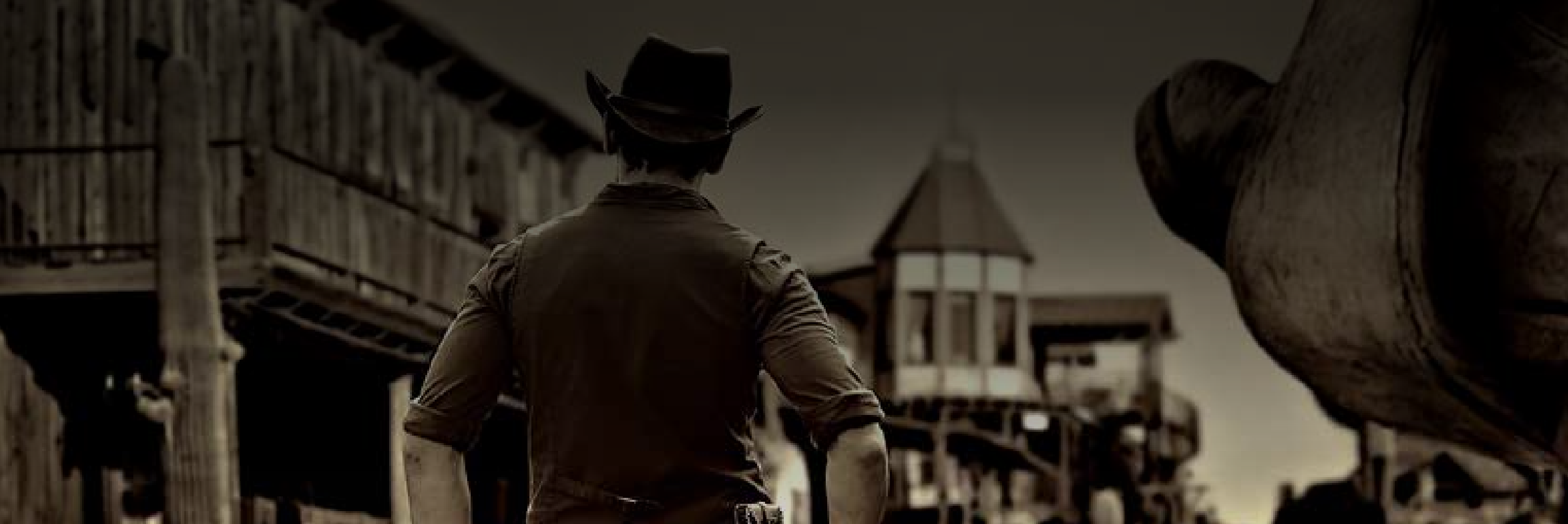


HAS AIM MANAGED TO SHED **ITS INVESTING 'WILD WEST' IMAGE?**

In an interview for Tax Efficient Spotlight, Chris Boxall, co-founder of AIM specialists **Fundamental Asset Management** ***www.fundamentalasset.com***, commented on the evolution of AIM in the 15 years since Fundamental launched its AIM portfolio service.

June 2018 marked the 23rd anniversary of the launch of AIM and, in the two decades since launch, it has undergone significant change.

Created as the junior division of the London Stock Exchange to act as a platform for smaller and growing companies to raise capital, when it launched in 1995 AIM had just 10 UK-listed companies to its name. Some nine years later when Fundamental launched its AIM IHT Portfolio service in September 2004 - a service which invests in Business Property Relief (BPR) qualifying AIM companies for inheritance tax planning purposes - manager Chris Boxall says this universe had expanded to just under 1,000 companies.

"Within three years of launching, thanks to the resources boom, this number had risen to nearly 1,700 companies" he says. "Given that many of these were early-stage, unprofitable and untested businesses, it was little wonder at the time that many advisers likened investing in AIM to the old Wild West casinos of centuries past."

Boxall says that in the 13 years since the Fundamental AIM portfolio service was launched, things have moved full circle.

"In our opinion AIM has now evolved into almost the small cap universe of the main market," he says. "A large number of the speculative resource companies have gone, the early stage businesses have either failed or matured into decent companies and many of the questionable overseas stocks have also disappeared."

The overall result of all this is that that AIM's volatility compared with that of the main market has reduced substantially since its early days.

"We now have a market where a much larger number of businesses are delivering positive earnings and cash flow" and he says "This means far less disappointment than there used to be. Of course there will still be profit warnings and the occasional shock, but it's far removed from before."

Another area that used to be seen as risky were AIM technology stocks. However Boxall says this sector has become much stronger, largely thanks to the growing maturity of many technology companies but also the prevalence of crowdfunding sites, which have supported the early stage backing that AIM used to provide. "As a result AIM has become less of an early stage market and more of a second level funding market, for more youthful companies" he argues.

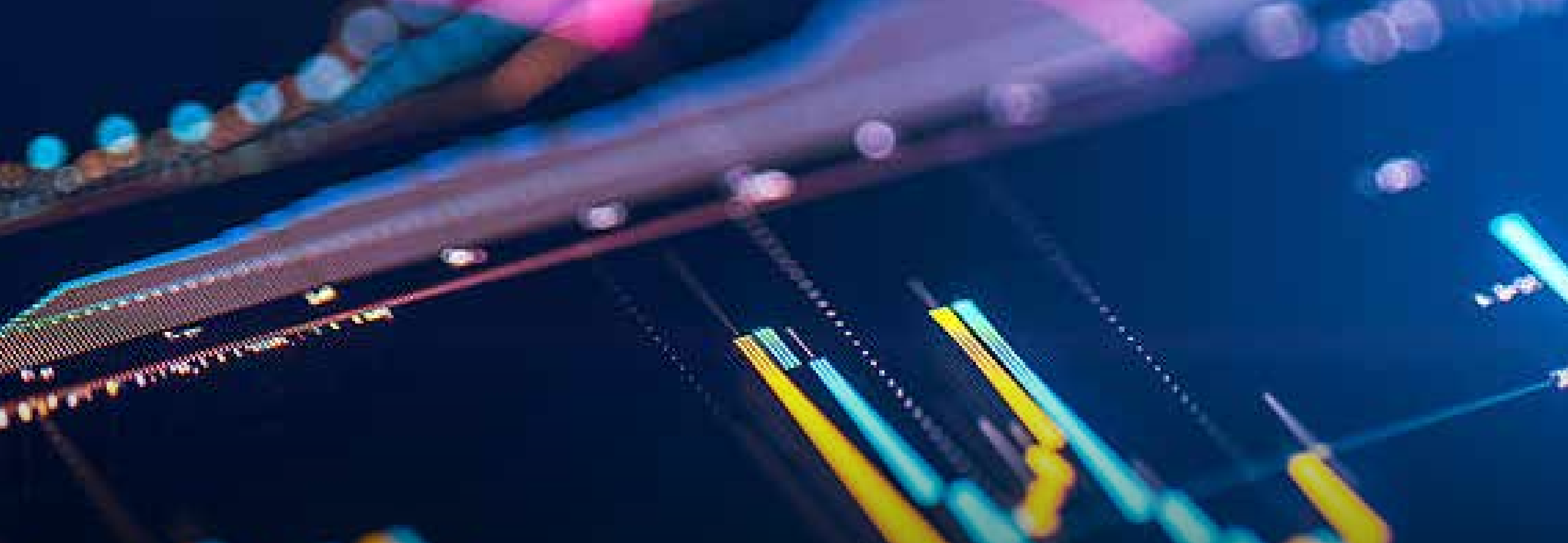
Boxall and co-manager Stephen Drabwell founded Fundamental in 2004, making them amongst the longest serving AIM for IHT management teams in the peer group. While not wanting to pigeon hole themselves in terms of how they invest, Boxall describes their investment approach as "quite conservative", preferring companies with modest levels of debt and cash on their balance sheet, although there are obviously exceptions.

"We are simply trying to make money buying good stocks for the long-term," he says. "It just so happens the stocks we are buying come with an amazing tax break. If we can find the right business, trading at an attractive valuation, with good long-term prospects, we will buy it. We are not sector specific in our approach, instead adopting more of a generalist approach."

One quality Boxall and Drabwell do look for is significant senior management ownership in their portfolio companies. "We want them to be putting in their own money and have their interests aligned with shareholders," he says.

"We also want them to be entrepreneurial and driven," he adds. "While you can find this in some better-established family companies, such as 'AIM Blue Chip' James Halstead, you are more likely to see these qualities in younger business where a more youthful management team is driving things."

He says: "As long as you apply discipline and don't get overexposed to riskier stocks you can do extremely well, it's simple common sense" he says.



THE KEY TO AIM SUCCESS
ESSENTIAL READING

Chris Boxall, co-founder of AIM specialist **Fundamental Asset Management** ***www.fundamentalasset.com***, explained in an April 2018 edition of Investors Chronicle how the AIM Admission Document should be essential reading for any investor in AIM companies. Unfortunately, large parts of this vital document are often ignored.

Free information that is ignored by many

The AIM admission document is a requirement of every AIM company and can usually be found in the section headed 'AIM Rule 26' information, on the company's website. This free information should be essential reading for anyone contemplating investing in an AIM company.

The admission document is not light reading. It summarises the significant due diligence undertaken on every aspect of the business by lawyers, reporting accountants and the company's nominated adviser (Nomad). As well as being the key regulatory document, the admission document is the main marketing document for the initial public offering (IPO) and the directors of the company are legally responsible for its contents.

Also identified as part of the due diligence effort are the various risks associated with the company and its shares, which are all covered under a separate section titled 'risk factors'. This section is also typically separately broken down as 'risks specific to the company' and 'general risks', with the latter generally full of 'boilerplate' language which is less helpful.

While many investors wish to dwell on the numbers in the admission document, we would urge you to read the risk factors as well. This section may look exceedingly boring (and often is), but it can contain snippets of information that can help you gain a better understanding of where things might, and often do, go wrong with an AIM company.

IHT planning investors are invariably drawn to invest in seemingly safe mature businesses, operating in mature sectors, with modest ratings and above-average dividend yields. But this perceived low-risk approach can result in investment in low-quality companies, which can also ultimately turn out to be far riskier than envisaged. Businesses of this nature, which are struggling to grow organically, are also inclined to adopt an acquisition-led strategy to growth, and this increases the risk further.

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Celebrating 25 years of growth

VALUE OF AIM TO THE UK ECONOMY **SIGNIFICANTLY OUTWEIGHS** COST OF MODEST TAX CONCESSION

Specialist growth company research house, Equity Development, has highlighted the huge benefits AIM brings to the UK economy and how the mild encouragement provided by the Inheritance Tax concession is a very large multiple of the cost in tax foregone by HMRC.

Equity Development considers AIM companies contribute over £33bn Gross Value Added (GVA) directly – over 40% more per employee than the national average – and just as much indirectly to the UK economy since their direct GVA has increased by 35% in the last five years, more than twice as fast as the average. Not only are AIM companies more productive than average, their productivity is growing – at 11% pa, significantly faster than average.

A report by Grant Thornton on AIM's first 25 years shows that small companies listed on AIM perform 'better' – generating more added value, more employment and far greater tax receipts for HMRC – than comparable "private" companies.

AIM's superior growth has, in just the five years to June 2020, added £4.7bn pa to UK economy and more than £1bn per annum to HMRC. But you may ask, at what cost?

The IHT concession is not a precise sum that can be easily calculated, but Equity Development reckons it 'costs' the Treasury c. £50m pa.

Equity Development questions why HMRC would abolish Business Relief (on which the IHT reliefs are based) to gain roughly £50m at a probable future cost to themselves exceeding £1bn per annum. They also suspect that much of the publicity given to suggestions that Business Relief should be abolished comes from promoters of more expensive, less useful IHT-avoidance schemes which are losing customers to simple AIM IHT ISAs.

Not only is AIM of huge benefit to the UK economy but AIM listed companies represent the primary source of growth for UK small cap investors, reflected in the significant outperformance of AIM for IHT managers, including Fundamental, over the past decade or more.

Business Relief is insignificant

The HMRC Annual and Report and Accounts 2018/19 (a must read!) reveals that IHT receipts, which are lumped together with 'Other taxes', were a meagre £5.3bn, or 0.854% of total tax revenues of £628bn in 2018/19.

HMRC Statistics indicate the value of Business Relief claimed on unquoted shares was £828m in 2016/17 across 1,480 estates, an average of £559k per estate. Other Business Reliefs were £417m on 848 estates. This implies total tax saved of £498m through the combined Business Reliefs (40% x £828m+£417m) or 0.08% of total tax receipts, if applied to the 2018/19 numbers. It is worth emphasising that this encompasses Business Relief applying to both AIM and private companies. These numbers highlight the irrelevance of IHT relative to the bigger tax take, suggesting the UK government will need to address the main sources of tax to boost its coffers.

Since launch on 19 June 1995, AIM has supported nearly four-thousand growth companies in raising over £117bn, 61% of which has been through follow-on fundraisings. Research from Grant Thornton shows that AIM companies directly contributed £33.5bn to UK GDP and supported more than 430,000 jobs in 2019.

The London Stock Exchange's collaboration with Primary Bid has also broadened retail investors' access to follow-on equity raisings. Many of these are also been supported by founders whose continuing equity interest in their companies is underpinned by Business Relief attractions.

You can find out more about Fundamental Asset Management's high performing AIM portfolio service, which has been delivering exceptional investment returns since 2004, from the link here - **Fundamental Asset Management** ***www.fundamentalasset.com***