Fundamental
Asset Management

Discussing Risk in AIM with Clients

Adviser Aid

www.fundamentalasset.com

FOR INVESTMENT PROFESSIONALS ONLY

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 (formerly known as Business Property 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 Wrap, Ascentric, Funds Network, Nucleus and CoInvestor platforms.

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

Introduction

AIM is one of the most successful growth markets in the world and qualifies for some of the most generous tax benefits available for Inheritance Tax planning. So why do some clients have a reservation holding AIM shares in their portfolio? The answer is often AIM's reputation as a risky market. However, the impact of risk in AIM can often be misunderstood and this can make it difficult to justify to a client why AIM should have a place in their portfolio.

This guide is designed to help financial advisers with this conversation. Risk in AIM is a three-step conversation with clients covering **Risk, Performance and Tax.**

The reason for this is that all that risk alone paints only part of the picture when considering AIM. Performance and Tax have such a significant impact on AIM as it changes the overall perception on risk and whether AIM should be included in a client's portfolio.

1. Risk & Volatility

AIM is a high-risk asset class like any other equity market. However, its level of risk is often exaggerated, especially against the main UK stock market.

Capital Risk:

AIM carries risk that your capital could be worth less than you originally invested. However, as part of a well diversified portfolio of AIM stocks this risk is reduced. The reality is that AIM has become a much more stable market worth over £130bn in total value with over 20 companies each valued at over £1bn (March 2021). In fact, over the last 10 years, AIM's larger companies have been significantly better at delivering capital growth to investors than their main UK stock market peers.

Liquidity Risk:

Many AIM shares are less liquid than those found in the main UK stock market. However, AIM is still a highly liquid market and unless you are an institutional investor (or forced to sell during a market sell off) liquidity should not be an issue. The portfolio approach at Fundamental looks at the larger and more established businesses in AIM. The result of this is that we run a liquid portfolio which minimises the liquidity risk when a client needs to encash assets.

Concentration Risk:

Concentration can be an issue for some large AIM investment managers as AIM is designed to be a market for smaller companies and those managing significant assets for clients will risk owning too much of a single company. Fundamental Asset Management has the best of both worlds, we are large enough to take advantage of scale but small enough not to have any concentration risk.

Volatility:

The AIM index has higher volatility than the main market. However, AIM has a lot of small and un-investible companies which serve to drag on the volatility of the overall index. Much of the success at Fundamental can be credited to our skill in avoiding these positions. And the results can be seen in, not only our performance figures, but our volatility figures too.

Below is the discrete volatility of our portfolio against the London Stock Exchange main market.

Volatility of Fundamental AIM portfolio vs Main UK Stock Market

Year	Fundamental Asset Management	Main UK Stock Market
2020	8.08%	6.96%
2019	3.72%	2.66%
2018	4.26%	3.06%
2017	2.11%	2.13%
2016	3.47%	2.13%
2015	2.25%	3.37%
2014	2.67%	2.41%
2013	3.13%	3.30%
2012	5.30%	2.87%
2011	4.17%	3.68%
2010	4.96%	4.73%

Volatility in AIM is lower than most people think and the Fundamental Asset Management AIM Portfolio tracks close to the main UK stock market.

2. Performance

AIM has been a remarkable growth story for the London Stock Exchange since inception and especially over the last 10 years, following the inclusion of AIM shares in ISAs. The importance of strong performance cannot be overstated. The main risk to investors generally is a risk that their capital could be worth less than they originally invested. This can only be nullified with strong investment performance, something which makes AIM the envy of the main UK stock market.

Below is a comparison of our portfolio performance against the LSE main market.

Performance of Fundamental AIM portfolio vs Main UK Stock Market

Year	Fundamental Asset Management	Main UK Stock Market
2020	7.73%	-14.34%
2019	21.62%	14.19%
2018	-10.81%	-12.95%
2017	27.51%	9.00%
2016	9.94%	12.45%
2015	21.99%	-2.50%
2014	5.10%	-2.13%
2013	55.06%	16.69%
2012	6.07%	8.24%
2011	17.63%	-6.69%
2010	23.92%	10.94%

The reason AIM has performed so well against the main market may also be due to its abundance of well-established, founder-led and family-controlled companies with strong fundamentals, reliable dividends, consistent growth and little debt.

AIM has a wide range of companies across numerous sectors which means that investors can pursue different investment strategies within the index.

AIM was designed for younger companies but has been around for 25 years. Many of those early businesses grew over time and the average market capitalisation is now around £130m. In fact, 20 companies have a market cap of over £1bn and the overall market value was £107bn at the end of August 2020.

3. Taxation

The Performance and Risk balance should then be considered against the generous Stamp Duty, IHT and ISA tax benefits.

No Inheritance Tax

A Business Relief qualifying AIM asset held for two years and until death will receive an exemption from Inheritance Tax. **This is effectively a 40% head start.**

No Income Tax or CGT on Growth

A portfolio of AIM stocks can be held within an ISA where no Income Tax or CGT will be paid on investment growth; on top of this, a full ISA can be transferred to a surviving spouse tax-free through the Additional Permitted Subscription rule.

4. Summary

AIM is a high-risk investment, but risk only tells part of the story when considering whether to use AIM as part of your client's Inheritance Tax planning.

- Capital, Liquidity and Concentration risk can be managed effectively by a professional AIM manager
- Volatility is not as high as you think.. in fact, portfolios such as our own at Fundamental Asset Management track very close to the main UK stock market
- AIM has significantly outperformed the main market and strong performance is vital to combat the risk that your capital could be worth less than what you originally invested
- Qualifying AIM stocks pay no Inheritance Tax. This is effectively a 40% head start on performance. Furthermore, there is no Stamp Duty and AIM shares can be held within an ISA

All of these factors need to be taken into consideration when looking at AIM for IHT planning.

Stocks & Shares ISA Illustration

What is the impact on Inheritance Tax of holding a £180,000 Stocks & Shares ISA in main market stocks compared with moving it to a Stocks & Shares ISA in AIM stocks using the Fundamental Asset AIM ISA Portfolio?

	Remain in ISA in main market stocks	Move ISA to a Fundamental AIM Inheritance Tax ISA Portfolio
Gross Investment	£180,000	£180,000
Dealing Fees AIM Portfolio of 25 positions; each position £50	£0	-£1,000
Initial Charge at 1%	0	-£1,800
Amount remaining after initial costs	£180,000	£177,200
Annual Management Charges at 1%+VAT over 2 years	£4,621	£4,549
Value of Investments after 2 years assuming 5% growth each year	£196,069	£193,019
Amount lost through Inheritance Tax on death at 40%	**£78,427**	**£0**
Value of inheritance passed on to beneficiaries	**£117,641**	**£193,019**

Looking for a quote?

Email details to us at enquiries@fundamentalasset.com and we will be happy to pull together a personalised illustration for you.

Independent firm with unrivalled knowledge

Fundamental Asset Management Limited is an independent, owner managed, investment management firm based in Rickmansworth, with an unrivalled knowledge of the AIM market and smaller quoted companies.

We have successfully provided Portfolio Management to private investors, trusts and institutions since 2004 and are specialist investors in AIM for Inheritance Tax planning purposes.

Contact the Fundamental Asset Team for advice on building a suitable portfolio

To contact Fundamental Asset Management email us at enquiries@fundamentalasset.com or call 01923 713 890

Discover more at www.fundamentalasset.com

Please remembers that the value of shares and the income from them can go down as well as up and you may get back less than the amount invested. The value of tax benefits depends on individual circumstances.

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