



# ESG & AIM - do they mix?

Adviser Aid



# 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, Ascetric, Funds Network, Nucleus and ColInvestor platforms.

Why not tap into our specialist expertise and experience by contacting the Fundamental team at [enquiries@fundamentalasset.com](mailto:enquiries@fundamentalasset.com) or 01923 713890

#### **Disclaimer**

This guide is provided for information purposes only and does not constitute investment, legal, tax or other advice or any recommendation to buy, or sell or otherwise transact any of the stocks mentioned. Prospective investors should take appropriate professional advice before making any investment decision.

# Introduction

**ESG investing is an undeniable and perpetual growth story which is not showing any signs of slowing down and is expected to continue to gain significance for financial advisors and wealth managers.**

AIM is one of the most successful growth markets in the world with some of the most generous tax benefits available. But what about ESG & AIM? This guide is designed to help financial advisers who have clients looking to use AIM as part of their Inheritance Tax planning but in a way which is sensitive to their ethical principles.

## Background to ESG

There are two significant United Nations agreements which form much of the basis of modern ESG investing, The six principles for Responsible Investment and the Paris Agreement.

### Principles for Responsible Investment

In 2005, the then UN Secretary-General, Kofi Annan, invited a group of the world's largest institutional investors to join a process to develop the **Principles for Responsible Investment**. The Principles are based on the notion that Environmental, Social and Governance (ESG) issues, such as climate change and human rights, can affect the performance of investment portfolios and should therefore be considered alongside more traditional financial factors if investors are to properly fulfil their fiduciary duty. The six Principles are as follows:

- 1. We will** incorporate ESG issues into investment analysis and decision-making processes
- 2. We will be** active owners and incorporate ESG issues into our ownership policies and practices
- 3. We will** seek appropriate disclosure on ESG issues by the entities in which we invest
- 4. We will** promote acceptance and implementation of the Principles within the investment industry
- 5. We will** work together to enhance our effectiveness in implementing the Principles
- 6. We will** each report on our activities and progress towards implementing the Principles

Source: *the United Nations Principles for Responsible Investment (2005)*

## The Paris Agreement

In 2015, the United Nations adopted a resolution titled "Transforming Our World: the 2030 Agenda for Sustainable Development". This agenda (also known as the Paris Agreement) set 17 global Sustainable Development Goals (SDGs) and 169 targets to address challenges related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. It is the first-ever universal legally binding global climate change agreement aiming to cut emissions and achieve climate-neutrality before the end of the century.



## The growth of ESG investing

ESG began as a niche market but has seen remarkable growth in recent years. Since its introduction, ESG investing has grown at a rapid rate. In the third quarter of 2020, the European sustainable fund market reached a milestone of £800 billion Assets under Management, representing 9.3% of total European assets and a 10% increase compared to the 1.6% increase for the overall European fund market (Source: Morningstar).

Research suggests that the financial benefits of ESG investing are as strong as its societal benefits.

# ESG & AIM

## ESG & AIM—do they mix?

The first and simplest sign of the strength of any company's commitment to improving its standing on Environment, Social and Governance issues is evidence of an easily accessible sustainability report, or direct equivalent of it. Many businesses on AIM do not have such a report however there are many others who meet the standard comfortably.

Here are two AIM companies which meet the standard on ESG.



**Smart Metering Systems (LON:SMS)** make smart meters and carbon reduction assets, including EV chargers and battery storage systems, which facilitate a smarter, greener and more flexible energy system. Their core function is attractive from an environmental perspective as they are helping users be more energy efficient.

SMS's carbon handprint (all the positive things it does) was 9 times larger than its carbon footprint (the negatives) in 2019. The London Stock Exchange has awarded SMS its "Green Economy Mark", something given to organisations that generate over 50% of total annual revenues from products and services contributing to the global green economy.

*James Halstead*

JAMES HALSTEAD PLC

**James Halstead (LON:JHD)** is a prominent manufacturer on the world stage for commercial flooring with the group's flooring products being installed across the globe.

The company has produced an annual sustainability report for 14 years. James Halstead has always believed that environmental sustainability is inseparable from economic sustainability. That's why they are constantly working to reduce resources, waste and their carbon footprint, as well as increasing re-use and recycling.

Polyflor, Halstead's main brand, is the industry leader from a sustainability perspective, with harvested rainwater being used for production as far back as 1915!

## Can Fundamental Asset Management build an ESG portfolio with AIM shares?

Our general approach is to build portfolios with a focus on growth. However, our portfolios are bespoke and we have always been happy to exclude certain stocks or sectors. We also have the ability to tailor portfolios in line with ESG principles that your clients may hold.

However, it's important to understand that AIM as a market place is lagging behind larger companies on the main UK stock market on ESG reporting given AIM's smaller company nature. As such, although a portfolio can be built to accommodate those principles, such a portfolio may not be able to match the strict ESG standards of an ESG portfolio built using main market stocks.

**For more information about Fundamental Asset or hear about the AIM ESG portfolio we could build for you contact the Fundamental team at [enquiries@fundamentalasset.com](mailto:enquiries@fundamentalasset.com) or call us at 01723 713 890**



# 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](mailto: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](mailto:enquiries@fundamentalasset.com) or call 01923 713 890

**Discover more at [www.fundamentalasset.com](http://www.fundamentalasset.com)**

Please remember 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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