

Fundamental AIM IHT Portfolio

Quarterly Review Q3 2018



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Portfolio Review

For the 3rd quarter of 2018, the performance of the Fundamental AIM IHT portfolios were down, on average, 1.5% although the range of performance between the best and worst performing portfolios was quite broad, principally on the smaller portfolios.

In general, it has been a difficult quarter for our core investment universe. Although winners and losers from our portfolio were split fairly equally, there were some sharp movements in their share prices. As all portfolios do not hold all positions, mainly due to size, this created some variance in performance.

Equities in general have started to come under pressure on politics and trade concerns as the tariffs imposed by the Trump administration on Chinese exports have started to have an impact.

In the face of mounting global pressures the main market struggled, with the FTSE All-share falling 1.77% in the quarter and FTSE100 Index down 1.66%.

The AIM All-Share index rose 1.48% and the AIM 100 index, which comprises the 100 largest AIM stocks by market capitalisation, was up 3.3% in the period.

Mildly disappointing interim results from **Flowtech Fluidpower**, the supplier of fluid power products, saw the share price tumble by more than 30%. The sell-off looked overdone and with a well-supported dividend yield of more than 5% we remain patient holders.

The share price of **Quartix Holdings**, a leading supplier of vehicle tracking systems, also fell significantly following interim results which marginally missed the mark. Despite subsequently reassuring that full year results would be 'at least in line with expectations' the shares continued to fall, thereby offering a decent buying opportunity in this rapidly growing, cash generative business, whose shares now yield nearly 5%.

Other notable fallers included **Smart Metering Systems**, the owner and operator of gas and electricity meters, and **CVS Group**, one of the UK's leading providers of veterinary services. Both groups issued in-line results in the quarter.

After the period end **Patisserie Holdings** announced it had uncovered accounting irregularities and a potential material mis-statement of the Company's accounts, resulting in the temporary suspension of trading of its shares on AIM. For now, we are reassured that the business is highly cash generative and at 31 March 2018 reported net cash was £28.8m with no debt. Our policy of diversification helps mitigate the impact of unforeseen problems like this. However, this is likely to have a negative impact on performance in the coming quarter.

More positively, **Craneware**, the market leader in Value Cycle solutions for US healthcare, saw its shares soar on the back of excellent full year results and a highly positive outlook.

It was a quiet period for new arrivals on AIM. All the new AIM arrivals are covered by our associates **Investor's Champion** in their **Blog**.

At the end of September 2018, there were 937 companies on AIM, with a total market capitalisation of £115bn. This compares with 944 companies at the end of June 2018 when the market capitalisation was £110.7bn.

The only material changes, across a number of portfolios, were the sales of **Cohort plc**, a technology group focused on the defence sector, and **Manx Telecom**, an Isle of Man based telco. We also took some profit from the position in **AB Dynamics**.

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

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Outlook

At the time of writing the 10-year US Treasury yield has now risen to 3.25%, its highest level since July 2011. This after a fresh batch of data underscored the health of the US economy. With the yield on cash now materially higher than the S&P 500 dividend yield of 1.80%, US Treasuries are, for the first time in a long while, starting to look a more attractive safe haven. While Bank of England base rate remains well below this, what influences US markets quickly spreads to the UK.

Fueled by a number of factors including Italian fiscal problems, a surge in US bond yields, negative sentiment in Chinese markets and an unclear outlook for Brexit, UK stocks have been very weak at the start of the final quarter. The weakness has spread to AIM where we have witnessed some indiscriminate selling, pushing down the share prices of some of the more highly priced AIM stocks.

As we have commented previously, US equity markets continue to be driven by US technology stocks and any weakness here could extend to some of the more ridiculously valued small caps on AIM, where the momentum trade has been the name of the game for several years now. A reality check for some stocks is long overdue in our opinion!

We continue to have a preference for smaller companies, addressing growing markets, where the founders or families retain a meaningful equity stake, with the predominant focus on organic growth funded through internally generated cash flow.

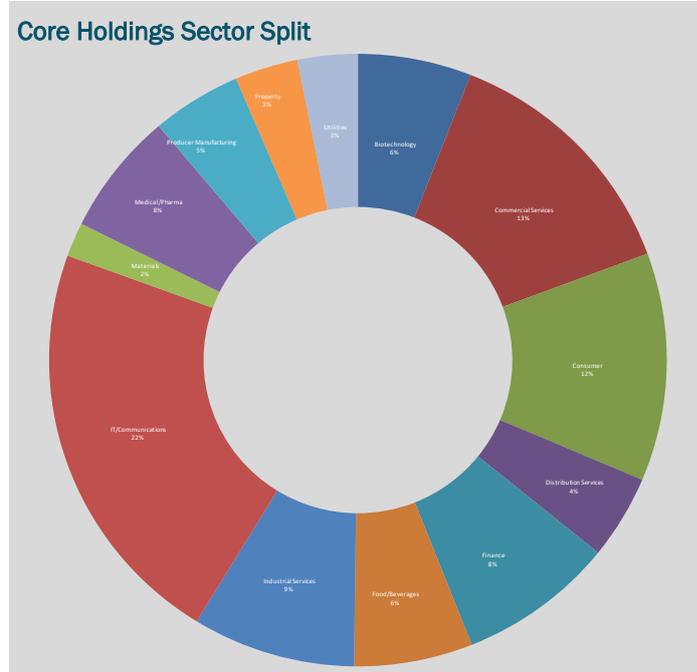
AIM for IHT planning investment universe

Our overall investment universe for the purpose of IHT planning consists of approximately 350 companies with market capitalisations ranging from approx. £40m to £2.6bn (October 2018). Excluded sectors for the purpose of IHT planning purposes are Real Estate, Investment Companies and Banks.

While not strictly excluded for qualifying purposes, we have no exposure to AIM quoted mining companies and oil and gas producers due to the more speculative nature of a large number of these and the instance of dual listings.

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 40 companies in the former and 30 in the latter. The 'Non Core' element has been increased reflecting our preference to hunt for value among smaller AIM companies.

Core Stocks Average Statistics	28/9/18
Market capitalisation	£422m
PER (2018 consensus estimates)	21.8x
Dividend yield (at current share price)	2.35%
UK domestic market exposure	64%
Overseas based companies	NIL



	Since Inception Sept. 2004	YTD 2018	QTD
Model Portfolio	+350.28%	+1.70%	-1.51%
FTSE AIM All Share	+19.55%	+4.66%	+1.48%

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