

PORTFOLIO MANAGERS

Christopher Boxall
Direct: 01923 713893
cboxall@fundamentalasset.com

Stephen Drabwell
Direct: 01923 713892
sdrabwell@fundamentalasset.com

FUNDAMENTAL ASSET MANAGEMENT LIMITED

Langwood House
63-81 High Street
Rickmansworth
Hertfordshire
WD3 1EQ

+44 (0)1923 713890

enquiries@fundamentalasset.com
www.fundamentalasset.com

Best wishes for 2017!

Portfolio performance

For 4th quarter of 2016, the performance of all the Fundamental AIM IHT portfolios ('unprotected') were up, on average, 7.5%.

The performance of the more diversified Protected IHT Portfolios ranged from up 1% to up 6.05%. The variance in performance is mainly due to the size of the portfolios and amount of portfolio protection in place and the additional cost of hedging.

Sterling's weakness relative to the US Dollar continued to see overseas buyers flock to UK blue chips pushing the FTSE100 Index to new highs. While the main UK market may pause for breath over the course of the next quarter, we remain of the view that with UK interest rates set to remain low for a good while yet, and compelling yield on offer from main market equities in particular, there is still more to encourage equity buying in the short term. However, the new US President and Brexit negotiations could introduce some volatility to the year!

AIM Market— 4th quarter 2016

The AIM All-Share index rose 3.08% and the AIM 100 index, which comprises the 100 largest AIM stocks by market capitalisation, rose 3.6% in the period. Once again, there were strong performances from several of AIM's largest companies, notably a well-known online clothes retailer, which has a high weighting in the AIM index and therefore had a disproportionate effect on the overall return in the quarter. It was a quiet end to the year for new issues on AIM, and December also saw the departure of one of AIM's largest companies, with GW Pharmaceuticals moving onto the Nasdaq. Nevertheless the total market value of AIM still finished the year above £80bn, the first time it had closed a year above the £80bn market cap level since 2007. The more balanced FTSE Small Cap Index,

albeit comprising much longer established businesses, rose 3.38%.

At the end of December 2016 there were 982 companies on AIM with the total market capitalisation £80.8bn. This compares with 1,000 companies at the end of September 2016 when the market capitalisation was £82.98bn.

While the number of companies declined, and it was disappointing to see some quality business succumb to takeovers, including several of our portfolio stocks (**Red24 plc**, **Digital Globe Solutions** and **Alternative Networks**), AIM has now evolved into a cracking little market with some wonderful little companies.

Valuation

As we commented at the end of the last quarter we are wary that valuations of some of the larger AIM companies are now at high levels. However, positive results and subsequent upgrades have seen the majority continue to justify these lofty valuations. Brexit concerns appear to have been brushed aside (for now) and AIM's exporters continue to benefit from Sterling's weakness. Approximately 40% of our portfolio companies will be net beneficiaries due to strong US\$ denominated sales and largely UK based costs.

As previously smaller AIM stocks have not attracted quite the same attention from buyers as AIM's 'Blue Chips' and we believe that this is where bargains continue to be found. We also look forward to welcoming some attractive AIM newcomers.

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.

Fundamental AIM IHT Portfolio

Quarterly Review Q4 2016

Fundamental

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. £10m to £1.6bn (January 2017). 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, but not wanting to be over-exposed to individual stocks.

Outlook

As I write President Obama has just delivered an emotional farewell speech and I suspect we won't be enjoying the same eloquence from President-elect Trump. The US Market has remarkably been propelled to new highs and is bound to pause as real policy comes into play.

On our side of the water Mrs May and her cabinet are struggling to get to grips with Brexit negotiations and it's clearly going to be a very messy and costly divorce. Results from many of our stocks have illustrated the material 'short term' impact of the weak currency, thankfully mostly positive for now. We obviously keep a watchful eye on those stocks with negative exposure to the weak currency.

There was sadly (we don't like losing companies with good long term prospects!) plenty of takeover activity from our portfolios in the period and we said goodbye to portfolio holdings **Alternative Networks**, **Digital Globe Services** and **Red24**. New additions to portfolios included **Patisserie Holdings** (AIM:CAKE) which is well-known for its excellent cakes and Patisserie Valerie café chain. Over the period we also added to positions **Character Group**, **Jarvis Securities**, **Fulcrum Utility Services** and **Watkin Jones**. After the period end we sold out of our position in **K3 Business Technologies**.

We look forward to a positive 2017.

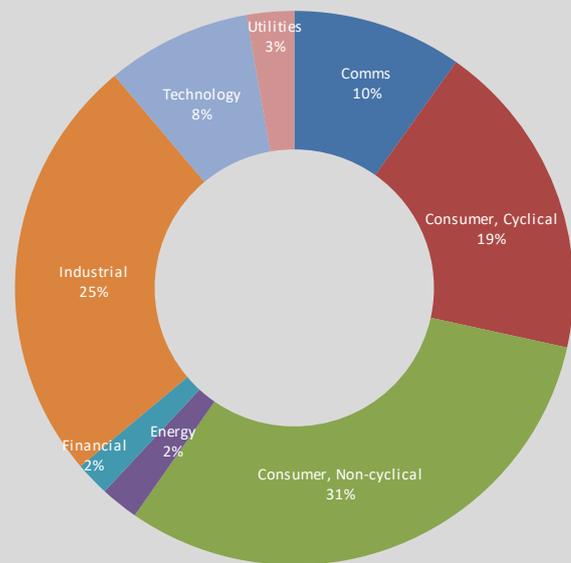
For further information please feel free to call or e-mail Stephen Drabwell or Christopher Boxall using the contact details shown overleaf.

This newsletter is available at:

www.fundamentalasset.com/publications/

Core Stocks Average Statistics	11/1/17
Market capitalisation	£286m
PER (2017 consensus estimates)	18.3x
Net gearing/(cash)	6%
Dividend yield (at current share price)	2.5%
UK domestic market exposure	62%
Overseas based companies	2%

Core Holdings Sector Split



	Since Inception Sept. 2004	YTD 2016	QTD
Model Portfolio	+247.22%	+9.94%	+9.31%
FTSE AIM All Share	-8.11%	+14.29%	+3.09%

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