

# Fundamental AIM IHT Portfolio

Quarterly Review Q4 2018



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## Portfolio Review

For the 4th quarter of 2018, the performance of the Fundamental AIM IHT portfolios were down, on average, 12% although the range of performance between the best and worst performing portfolios was quite broad, principally on the smaller portfolios.

It proved to be a torrid quarter for stock markets in general and AIM, which experienced the sort of drastic sell-off we haven't seen for many years. There were few winners from our portfolio holdings and plenty of losers. As all portfolios do not hold all positions, mainly due to size, this created some variance in performance.

Global equities in general came under increasing pressure on Brexit 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 and uncertainty surrounding Brexit negotiations, the FTSE All-share fell 11% in the quarter and FTSE100 Index down 10.4%, closing the quarter at 6728 which is broadly where it stood some four years ago.

The AIM All-Share index's outperformance of the main market came to a dramatic end as it tumbled a whopping 21.8% in the quarter. The AIM 100 index, which comprises the 100 largest AIM stocks by market capitalisation, experienced an even larger 25.3% fall, as many of AIM's larger more highly valued stocks sold off materially.

### **Patisserie Holdings**

The big news from the quarter for our portfolios was the near failure of **Patisserie Holdings**, whose shares remain suspended. Having previously reported it was sitting on cash of £28.8m, we were subsequently told the Group in fact carried significant debt and needed to raise more money, simply in order to survive. New money was injected at a price of 50p per share, which was an 88% discount to the share price prior to suspension. A large element of the new investment came from the Executive Chairman Luke Johnson. As shares in Patisserie Holdings remain suspended and its financial position remains unclear,

we have taken the prudent stance of valuing the position at zero in our portfolios<sup>1</sup>. We are very sorry to have to report this unfortunate situation. Thankfully our policy of diversification helps mitigate the impact of unforeseen problems like this.

The stand out performance in the quarter came from **AB Dynamics**, the manufacturer of advanced testing systems to the automotive industry, who announced outstanding results. Unfortunately this was a rare positive.

We experienced material share price falls for many of our portfolio stocks, irrespective of news and results, however bad news was punished severely. In our opinion, the irrational sell-off has presented some compelling buying opportunities in some stocks.

Notable fallers included **Abcam**, the life sciences group, **Craneware**, the software group to the US healthcare sector and a top performer from the previous quarter, **CVS Group**, the veterinary group, which is experiencing increased employment costs and **Fulcrum Utility Services**, the infrastructure and services provider. The largest faller in the quarter was **Warpaint**, the colour cosmetics business, whose shares tumbled after a profit warning.

Somewhat surprisingly, it was a more active 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 December 2018, there were 923 companies on AIM, with a total market capitalisation of £91bn. This compares with 937 companies at the end of September 2018 when the market capitalisation was £115bn.

There were no material changes to portfolios in the quarter.

**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.

*1. Applies to portfolios held with our appointed custodian and not those held on Elevate or Transact.*

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## Outlook

The 10-year US Treasury yield has fallen from 3.25%, when we reported at the end of the prior quarter, to 2.73% currently. Over the same period the leading US S&P500 index fell approximately 14%, with the dividend yield rising to approx. 2% at the period end. With the yield on cash still materially higher than the S&P 500 dividend yield, US Treasuries continue to look an attractive safe haven which may well see investors happy to steer clear of equities. While Bank of England base rate remains well below this at 0.75%, what influences US markets quickly spreads to the UK.

Equity markets experienced a roller-coaster ride over the Christmas period. The US market experienced its worst Christmas Eve trading day on record followed by the biggest single day gain in almost 10 years, when the S+P500 index rose 5%. Heightened volatility of this nature is uncomfortable for investors.

As we feared, the weakness in US technology stocks quickly extended 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. The reality check for some stocks was long overdue and in our opinion many of the more highly valued have much further to fall.

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. **The indiscriminate selling has already presented some interesting buying opportunities.**

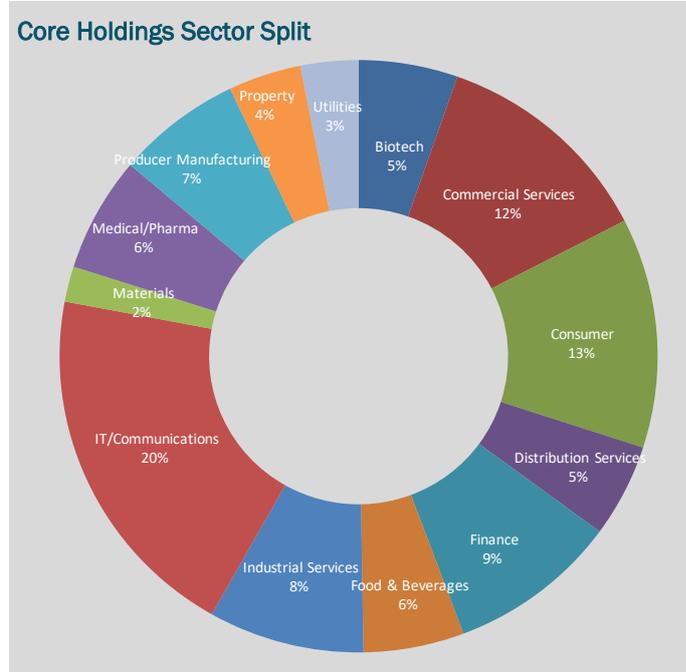
## AIM for IHT planning investment universe

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 (January 2019). 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

Core Stocks Average Statistics	10/1/19
Market capitalisation	£417m
PER (2018 consensus estimates)	19.7x
Dividend yield (at current share price)	2.88%
UK domestic market exposure	65%
Overseas based companies	NIL



	Since Inception Sept. 2004	YTD 2018	QTD
Model Portfolio	+294.87%	-10.81%	-12.30%
FTSE AIM All Share	-6.56%	-18.20%	-21.84%

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