

Fundamental AIM IHT Portfolio

Quarterly Review Q1 2019



PORTFOLIO MANAGERS

Christopher Boxall
Direct: 01923 713893
cboxall@fundamentalasset.com

Stephen Drabwell
Direct: 01923 713892
sdrabwell@fundamentalasset.com

FUNDAMENTAL ASSET MANAGEMENT LIMITED

Cardinal Point
Park Road
Rickmansworth
Hertfordshire
WD3 1RE

+44 (0)1923 713890

enquiries@fundamentalasset.com
www.fundamentalasset.com

Portfolio Review

For the 1st quarter of 2019, the performance of the Fundamental AIM IHT portfolios were up, on average, 4.4% although the range of performance between the best and worst performing portfolios was quite broad, principally on the smaller portfolios.

Thankfully 2019 started much brighter than 2018 finished, with a strong rebound from AIM in January followed by two months of the market broadly going nowhere. It makes a welcome change to be able to report plenty of winners from our portfolio holdings and relatively few losers. As all portfolios do not hold all positions, mainly due to size, this created some variance in performance.

While equity markets in general staged a recovery, with Brexit and the China/US trade dispute still overshadowing things investors continued to withdraw money out of the UK stock market even as we entered ISA season, when demand for equities usually increases. The Financial Times reported that in the four months to the end of the tax year, outflows from UK funds have amounted to almost £5bn.

The relief rally saw major global stock indices rise 8%-10% in the quarter. It's also interesting to note that since the date of the EU referendum in 2016, the main UK market has risen almost 31% to date.

Our portfolios featured strong performances from **AB Dynamics**, the manufacturer of advanced testing systems to the automotive industry, **Gamma Communications**, a provider of cloud communication services and **dotDigital Group** which provides software and managed services to digital marketing professionals. With Brexit fears casting a shadow over the construction sector, it was pleasing to see a strong performance from one of AIM's more elderly members, **James Latham**, the distributor of timber and panel products.

Unfortunately it wasn't all plain sailing with material share price sell-offs from several companies on weak news, which was punished severely.

Notable fallers included **Fulcrum Utility Services**, the independent multi-utility infrastructure and services provider, where the shares have been particularly weak due to contract delays being experienced by a business it recently acquired.

The share price of **Redde**, the provider of a range of accident management and legal services, also tumbled in March following news that it unsuccessful in securing the renewal of a hire and repair contract with a large insurer.

There was degree of restructuring in the quarter. We sold the position in **XLMedia**, the provider of digital performance marketing services, at the beginning of February. Our general distrust with this business had reached tipping point following another poor update. It proved a timely exit as the business issued another poor update towards the end of the month. We also exited the position in **Staffline**, the recruitment and training group, at the beginning of January. We were concerned by the lack of clarity in its reporting and enthusiasm for questionable accounting adjustments. Shares were suspended at the end January due to concerns relating to invoicing and payroll practices. The suspension has subsequently been lifted. We are happy to be out of both companies!

It was another poor 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 March 2019, there were 904 companies on AIM, with a total market capitalisation of £97bn. This compares with 923 companies at the end of December 2018 when the market capitalisation was £91bn.

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.

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Fundamental

Outlook

Equity markets remain driven by US/China trade concerns and Brexit matters, in both cases there appears to be no immediate resolution to provide the desired reassurance to equity investors.

While the main UK equity market staged a modest recovery in the quarter, in many respects it looks modestly valued relative to other markets, with the dividend yield over 4%. However, this should be considered in the context of the constituent companies, many of which are a motley collection of aged businesses, many of which deliver modest returns on capital and offer questionable long term growth prospects.

At the opposite end of the scale, AIM offers many fascinating investment opportunities delivering meaningful growth. Unfortunately, despite the sell-off in the last quarter of 2018, the valuations of some continue to look excessive and many of the more highly valued have much further to fall. The shortage of newcomers to AIM is also a growing frustration.

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. This will see us stick to tried and trusted names which have a long term track record of delivery.

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 (April 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.

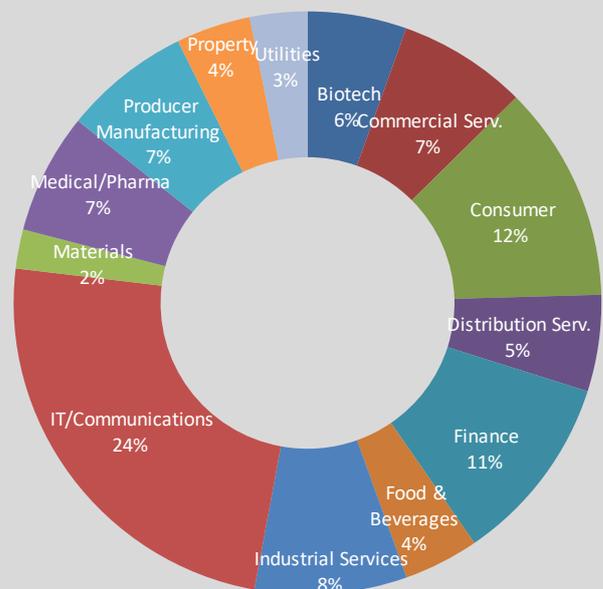
Fundamental AIM portfolios are constructed from a key list of researched stocks. Our current key list is split between deemed 'Core' and 'Non Core' holdings, with approximately 40 companies in the former and 30 in the latter. The 'Non Core' element has been increased reflecting our preference to hunt for value among smaller AIM companies.

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 31/3/19

Market capitalisation	£388m
PER (2018 consensus estimates)	19.8x
Dividend yield (at current share price)	3.07%
UK domestic market exposure	67%
Overseas based companies	NIL

Core Holdings Sector Split



	Since Inception Sept. 2004	YTD 2019	QTD
Model Portfolio	+319.81%	+6.31%	+6.31%

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