

# Fundamental AIM IHT Portfolio

Quarterly Review Q2 2019



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## Portfolio Review

For the 2nd quarter of 2019, the performance of the Fundamental AIM IHT portfolios were up, on average, an impressive 7.6% driven by strong gains from a number of our core positions.

It was another positive quarter for our AIM portfolios which once again significantly outperformed leading stock market indices. There were twice as many winners than losers from our portfolio holdings with some particularly strong performances. As all portfolios do not hold all positions, mainly due to size, this created some variance in performance.

Brexit concerns and the China/US trade dispute continued to cast a shadow over global equity markets. While the most recent meeting between Donald Trump and Xi Jinping at the G20 meeting in Osaka offered hope of a resolution between the two super powers, it looks like meaningful progress may take some time.

Major global stock indices rose 2%-5% in the quarter with the AIM index up a modest 0.27%.

Our portfolios featured yet another very strong performance from **AB Dynamics**, the manufacturer of advanced testing systems to the automotive industry whose shares rose 60% in the quarter. Other strong performers included, **CVS Group**, the UK's leading veterinary services business, **Sanderson Group**, which provides digital technology solutions and software and our smaller position, **Property Franchise Group**, the franchised lettings agent and hybrid estate agency. **RWS Holdings**, which has grown into one of the world's leading language, intellectual property support services and localization providers, also performed strongly. We have held shares in this excellent business for more than 10 years.

Unfortunately, it wasn't all positive and the quarter also saw material share price sell-offs from several companies on weak news, which was punished severely.

Notable fallers included **Craneware**, the highly rated market leader in Value Cycle

solutions for the US healthcare market. A trading update on the last day of the quarter saw the shares fall more than 30% on the day. The update pointed to lower growth in the short than originally anticipated. Unfortunately, this is a case of a company whose rich valuation leaves little room for error and even the slightest disappointment or delay can result in a big pull back in the share price. We await more detail in the annual results statement which is due in September.

Another notable faller was **Nexus Infrastructure**, a leading provider of infrastructure services to the UK housebuilding and commercial sectors, whose civil engineering business was suffering delays and customer pricing pressure from housebuilder customers.

There was a limited amount of restructuring in the quarter.

Following another disappointing announcement, this time relating to a delay in the publication of final accounts, we sold out of the position in **Fulcrum Utility Services**, the independent multi-utility infrastructure and services provider.

It was a slightly better quarter for new arrivals on AIM. **Argentex**, a provider of foreign exchange services, looks particularly interesting, listing at what appeared to be a very fair valuation...for once!

All the new AIM arrivals are covered by our associates **Investor's Champion** in their [Blog](#).

At the end of June 2019, there were 900 companies on AIM, with a total market capitalisation of £100bn. This compares with 904 companies at the end of March 2019 when the market capitalisation was £97bn.

**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

Much hangs on a successful resolution of the US/China trade dispute, with Brexit running a distant second in terms of importance to global trade and equity markets.

The main UK equity market continues to disappoint. As we have commented previously, 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.

While the number of companies on AIM have declined significantly over the years, standing at only 900 at the end of June, the quality is significantly better. AIM offers many fascinating investment opportunities delivering meaningful growth. The share prices of some of AIM's higher profile companies have fallen considerably over the past few months, yet valuations of many continue to look stretched and the more highly valued have further to fall in our opinion. The shortage of newcomers to AIM is also a growing frustration although there were signs of encouragement in the last quarter with some interesting IPOs.

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 £2.9bn (July 2019). Excluded sectors for the purpose of IHT planning purposes are Real Estate, Investment Companies and Banks.

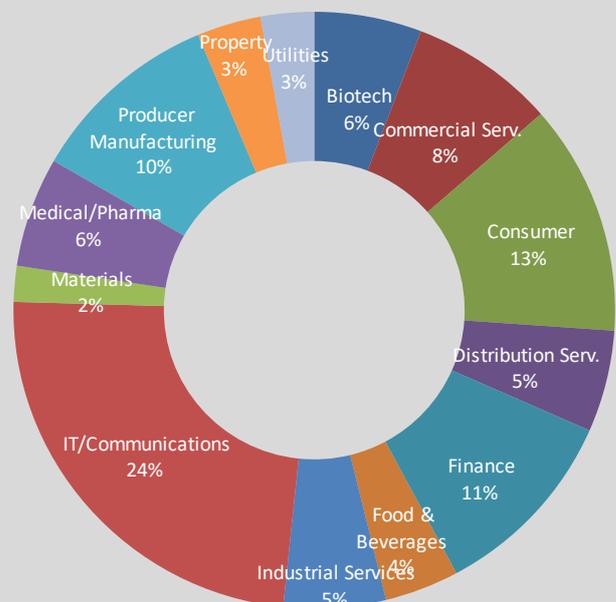
While not strictly excluded for qualifying purposes, we have no exposure to AIM quoted mining companies and oil and gas producers due to the more speculative nature of a large number of these and the instance of dual listings.

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.

## Core Stocks Average Statistics 28/6/19

Market capitalisation	£426m
PER (2019 consensus estimates)	19.8x
Dividend yield (at current share price)	3.07%
UK domestic market exposure	66%
Overseas based companies	NIL

## Core Holdings Sector Split



	Since Inception Sept. 2004	YTD 2019	QTD
Model Portfolio	+358.35%	+16.07%	+9.18%

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