


HAWKSMOOR
INVESTMENT MANAGEMENT

AIM PORTFOLIO SERVICE

GUIDE TO THE
AIM PORTFOLIO
SERVICE

The background is a dark, textured surface, possibly stone or concrete, with a diagonal shadow effect that creates a sense of depth and movement. The text is centered in a white, serif font.

INNOVATION BUILT
ON TRADITION

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WELCOME TO HAWKSMOOR

Hawksmoor is an award-winning investment management boutique committed to the responsible management of the wealth entrusted to our care.

Hawksmoor specialises in providing discretionary investment management services for private clients, trusts, pension schemes and charities. We are an independent business, without ties to a bank or any other financial institution.

Our investment managers have worked in the industry for many years and hold relevant qualifications, such as the Chartered Institute for Securities & Investment Wealth Management Diploma. They are supported by leading third-party providers of custodial and settlement services as well as our highly experienced in-house Research and Administration teams.

Hawksmoor's services bring together these highly qualified and experienced investment professionals, all of whom are focused solely on providing you with the best service.



Past performance is not a guide to future performance. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations. You may not get back the amount you originally invested. AIM-listed investments carry an above-average level of risk – see page 11.

THE HAWKSMOOR AIM PORTFOLIO SERVICE

Hawksmoor's AIM Portfolio Service enables individuals to invest in growth opportunities amongst UK smaller companies as well as to reduce their potential inheritance tax liability.

Capital Growth

Our goal is to increase the wealth of our clients by investing in outstanding businesses. The London Stock Exchange's *Alternative Investment Market* (AIM) is home to several quality UK smaller companies with significant growth potential.

- *Page 6:* What is AIM?
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Individual Savings Accounts (ISAs)

The AIM Portfolio Service can be run within an ISA for greater tax efficiency. As a result, holdings will be exempt from income tax on dividends and any capital gains tax on disposals.

Communicating with you

As a client of Hawksmoor you will enjoy the highest level of service. You can expect at least to receive a formal valuation of your portfolio every six months. In addition, we prepare a quarterly *Investors' Report* that provides performance statistics, commentary, and further information for those invested in the service.

Estate Planning

An inheritance tax (IHT) liability of 40% on a portion of your estate can have a large impact on your plans to pass wealth on to future generations. An AIM Portfolio can be a convenient way in which to reduce that tax. Current rules grant exemption from IHT to certain qualifying investments in companies on AIM once held for 2 years.

- *Page 7:* Business Relief Explained

The following is an example of the possible tax savings, based on a portfolio of £600,000 with and without a portfolio of £100,000 invested into qualifying AIM stocks.

		With AIM Portfolio
Main Portfolio	£600,000	£500,000
AIM Portfolio	–	£100,000
<i>IHT @ 40%</i>	(£240,000)	(£200,000)
Net value	£360,000	£400,000

In this example, the potential tax saving is £40,000: IHT is not levied on the qualifying AIM Portfolio assets.

WHAT IS AIM?

The Alternative Investment Market – AIM – is the part of the London Stock Exchange for small, growing companies.



London Stock Exchange

AIM was launched in 1995, designed specifically to help smaller and growing companies raise the capital they need for expansion.

It is particularly suited for smaller companies given AIM's lower cost, fewer listing requirements, and lighter regulatory demands.

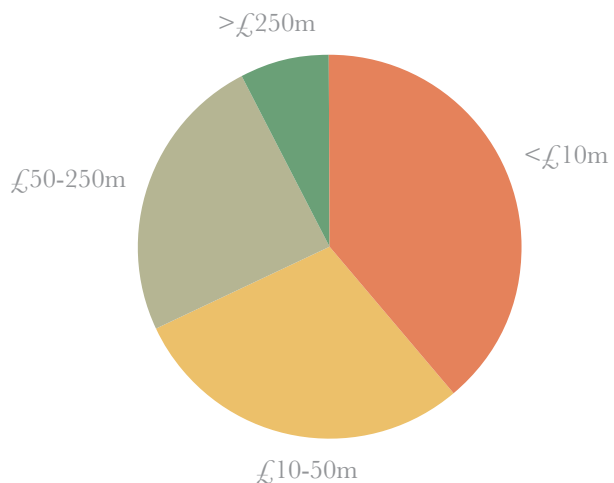
Today there are approximately 900 companies that trade on AIM that have a combined market capitalisation of over £70 billion¹.

AIM attracts a variety of companies from many distinct sectors, including retail, consumer goods, healthcare, mining, industrial services, manufacturing, house building, and technology to name just a few.

The nature of these companies is also incredibly varied, from the long established and profitable businesses to riskier start-ups.

The chart below illustrates that the overwhelming majority of these companies are below £250m in size; around one-third are smaller than £10m.

AIM-traded companies by Market Size¹.



¹Source: London Stock Exchange. As at November 2016.

BUSINESS RELIEF EXPLAINED

Current tax law grants inheritance tax benefits to individuals who make investments in qualifying AIM shares. Here is an overview of the main rules and how they apply.

Business Relief (also known as *Business Property Relief*) grants full exemption from inheritance tax to qualifying investments.

This tax relief has been in existence since 1976 and has been supported by successive governments. The intention of Business Relief is to boost investment into the UK's economy by encouraging savers to put their cash behind the growth plans of the nation's smaller companies.

For shares to qualify for relief, they must be "unquoted". For this purpose, shares listed solely on AIM are considered unquoted; those that have an additional listing on a recognised overseas exchange are, however, not eligible. Further, the company must not primarily exist to make or hold investments; AIM-listed investment trusts and property companies, for example, do not qualify. There are other rules too, including that the company must not be in the process of being wound up or liquidated. A core part of our due diligence process is checking that every share we invest in satisfies these rules.

To be eligible for relief, the investment must be owned for at least two years. However, via the "*Replacement Property*" rule, it is possible for an investor to switch one qualifying investment for another. In such cases, the combined period of ownership must be at least two years out of the preceding five years.

Note that there is no definitive list of AIM-traded securities that qualify for relief, and so no guarantee of securing the tax exemption. A company could also lose its qualifying status subsequent to investing, for example, if it moves to the main market. Our team of investment professionals continuously monitor our clients' AIM holdings for a change in eligibility, and adjust portfolios accordingly.

Upon death, an Executor can make a claim for relief from inheritance tax, and following Probate the shares will be distributed under the terms of the will. If the shares are transferred to a surviving spouse or civil partner, continuity of the relief is preserved. Otherwise, a new qualifying period will begin from the date of ownership.

HOW WE INVEST

Our investment approach is based on a disciplined stock selection process. In every investment, we seek two key elements: a high-quality business and a sensible price tag.

Identifying Quality

We seek to invest in profitable, cash-generative UK-based businesses that have an understandable business model and are run by a management team that we can trust.

Quality businesses typically generate high returns on capital employed through their superior market positioning. Assessing this requires an evaluation of industries, competitors, supply chains, opportunities and threats. We prefer recurring revenues, proven track-records and progressive dividends. We are wary of companies with too much debt, or an over-dependence on one customer.

We speak with the management team of every business in which we invest as an integral part of our due diligence process.

At what price?

In addition to a preference for quality, an important way to mitigate investment risk is by not paying too much in the first place.

Our assessment of the value of a business considers its revenues, profitability, cash flows, growth prospects, and assets. Our portfolios are biased towards companies with low price-to-book values and high dividends. By contrast, we are wary of shares on expensive ratings on the grounds of an alleged exciting future growth story; the future tends to surprise and high expectations often disappoint.

Be nimble

Given the small size of many AIM-listed companies, we are wary of liquidity (the ease with which a stake in a company can be bought or sold). It is, however, a virtue of our own “boutique” size that we can be far nimbler than our larger peers. That means we are not confined to only the largest stocks on AIM, but can and do hunt for opportunities across the market size spectrum.

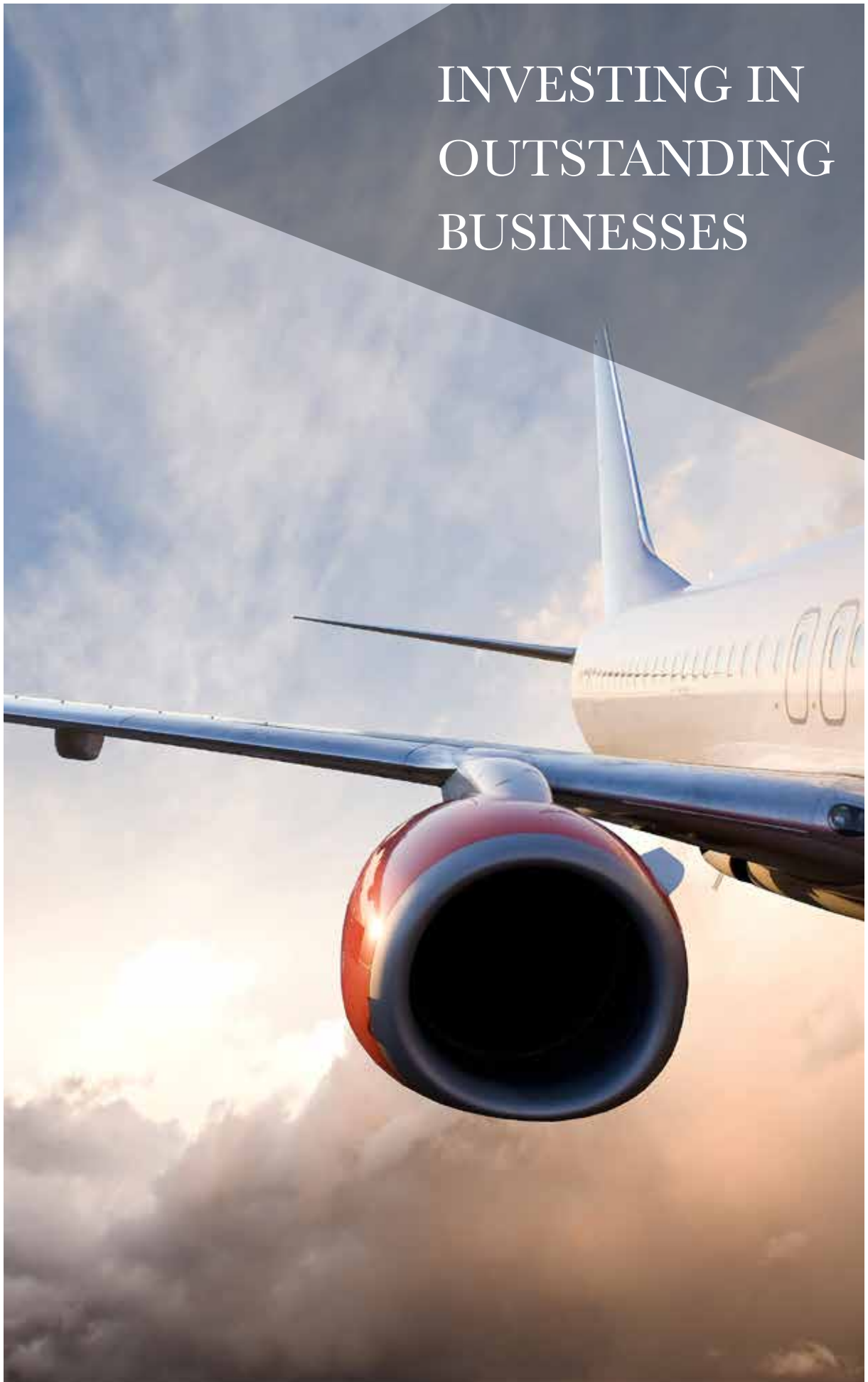
Relatedly, we are “benchmark ambivalent”.

Constructing portfolios based on a share’s weight in an index rather than on its long-term investment merit, makes little sense to us. We construct portfolios of equal unit sizes irrespective of a share’s index weight. This approach means our performance will at times deviate from that of the benchmark, yet we are convinced it is a surer way to build sustainable capital growth.

Summing up

Our motivation is simple: to increase the wealth of our clients. This philosophy forms the cornerstone of Hawksmoor’s investment processes and our belief that it is possible to achieve above-average performance without taking on unnecessary or excessive risk.

INVESTING IN
OUTSTANDING
BUSINESSES



QUALITY,
DIVERSIFICATION
AND THOROUGH
RESEARCH



KEY RISKS & PORTFOLIO MANAGEMENT

Principal Risks

An AIM Portfolio is a higher risk, long-term investment and not suitable for everyone. The following is an overview of the principal risks.

Smaller companies are above-average risk investments. The value of your investments and any income derived from them may fall as well as rise, and you may not get back the full amount invested.

AIM companies can be relatively illiquid, meaning it can be difficult to dispose of shares at a reasonable price at short notice.

You should expect that your portfolio will demonstrate volatility greater than the UK market average. Movements in the value of your portfolio may not reflect changes in the overall equity market.

Tax rules, including inheritance tax nil rate bands and the eligibility of AIM shares for Business Relief, may change. Hawksmoor cannot guarantee that investments will qualify for tax relief; HMRC decides eligibility on a case-by-case basis.

You should seek professional financial advice before investing into an AIM Portfolio.

Portfolio Management

We manage risk through the core tenets of thorough research, diversification and quality. A typical portfolio will invest in between 15 and 25 companies, diversified across a variety of sectors. Portfolios are continuously monitored and we will take profits on holdings that become too large (over 10% of the total) to maintain sufficient diversification.

We endeavour to keep turnover to a minimum, though it is likely that we will need to make changes to your portfolio from time to time. This will occur for one of the following three reasons:

- Loss of eligibility for Business Relief
- A holding becomes too large (over 10%)
- A business' fundamentals or share price change such that we no longer see sufficient investment value.

Note that by the Replacement Asset rule qualifying assets can be switched

To "start the clock" as early as possible for Business Relief purposes we will normally look to invest fully within two weeks of receiving funds. This will depend on market conditions and available liquidity.



RIGOROUS AND DISCIPLINED STOCK SELECTION



CUSTODY OF YOUR INVESTMENTS & CHARGES

Custody of your investments

Your investments will be held by Pershing Securities Limited, a major third-party custodian, securely segregated and ring-fenced from the assets of both Pershing and Hawksmoor. In November each year, we will send you a Custody Statement listing the holdings held on your behalf by the custodian.

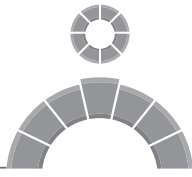
Your investments will be covered by extensive professional indemnity cover: both Hawksmoor and Pershing maintain insurance policies to protect you from loss caused by such events as fraud, theft or negligence. Your portfolio also will qualify for protection under the Financial Services Compensation Scheme, the compensation fund for clients of authorised financial services firms.

Charges

All Hawksmoor's charges are transparent and competitive, with no 'hidden extras'. The main charge is the annual management fee, which is based on the value of the portfolio and chargeable quarterly in arrears. Our standard pricing structure has no percentage dealing fee, just a flat administration charge for each sale and purchase.

Please refer to the 'AIM Portfolio Service Schedule of Charges' for details of all the charges that may apply to your portfolio.





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INVESTMENT MANAGEMENT

For further information on any of our services, or to arrange a meeting with an investment manager, please call one of our offices.

You can also find more information on Hawksmoor, our services and full contact details on our website at www.hawksmoorim.co.uk

Head Office:

The Senate
Southernhay Gardens
Exeter EX1 1UG
01392 410180



Offices also at:

Bury St Edmunds Dorchester London Taunton

info@hawksmoorim.co.uk

www.hawksmoorim.co.uk

Registered Address:

2nd Floor Stratus House, Emperor Way, Exeter Business Park, Exeter EX1 3QS. Company Number 6307442
Hawksmoor Investment Management Limited is authorised and regulated by the Financial Conduct Authority

HA1739

Whatever is goode in its kinde ought to be
preserv'd in respect for antiquity, as well as
our present advantage, for destruction can
be profitable to none but such as live by it.

Nicholas Hawksmoor

on the rebuilding of All Souls College, Oxford, 17 February 1715



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