

# Investors' Report

1<sup>st</sup> July to 30<sup>th</sup> September 2018

The third quarter of 2018 was relatively pedestrian: our illustrative portfolio of AIM companies advanced +0.2% in the three months. Hardly roaring, though that was +1.2% better than the wider market (as tracked by the not-so-snappily titled *Numis Smaller Companies + AIM Excluding Investment Trusts Index*), which fell -1.0%. Full performance statistics are in their usual spot overleaf.

Regrettably, we do need to bring up the B-word. We start by stating that it is not our role to proffer views on the rightness or wrongness of Brexit, but rather to explain how we intend to manage our portfolios in this period of heightened uncertainty. On the one hand, market unease over Brexit has meant certain domestic UK stocks are “on sale”. On the other, it is clear that near-term risks and costs are already increasing.

Earlier this month we met the management of **Alliance Pharma PLC**, which regular readers will know has been a long-standing constituent of our portfolios. In the pharmaceutical world, there are certain required regulatory roles: in order to prepare for potential divergence between the UK and EU, Alliance Pharma has duplicated these compliance costs by employing an additional regulatory team in Dublin. It has further substantially increased its inventory levels to mitigate any short-term supply disruption. In other words, Brexit is already introducing additional costs, complexities and cash flow constraints to UK businesses.

Remember though that Brexit remains a relatively local issue. We can mitigate the risks of a disorderly Brexit in our portfolios through investing in businesses that have substantial overseas earning, including **IG Design PLC**, which we feature below in Company Focus. We are not prepared to throw out the many good UK domestic stocks, and are alert to emerging valuation opportunities. Yet the tactic is to tilt portfolios away from UK sensitivities to hedge these increased near-term risks. We are braced for a potentially bumpy ride.

## Company Focus | IG Design Group PLC

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In each of our quarterly briefings we present one of the companies in which we invest. We hope that this will give you a better idea of the kind of opportunities that one can find amongst quality smaller companies that trade on AIM.

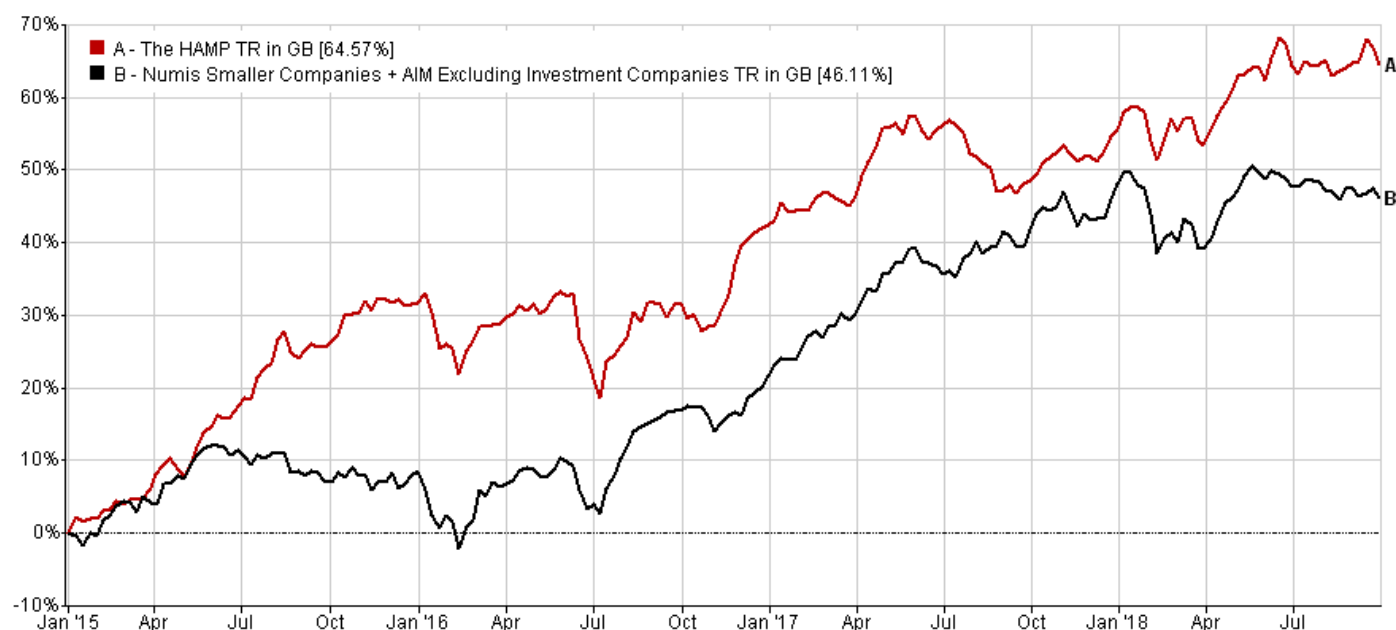


IG Design is a designer and manufacturer of gift packaging, greeting cards, stationery and creative play products. It is the world's largest supplier of Christmas crackers and reportedly even counts Her Majesty the Queen as a paying customer. It is a UK business but the group operates globally: over 70% of sales originate overseas. Its customers include over 5,000 retailers, including Tesco, Aldi, Carrefour and Costco.

The key attraction of the business lies in its market positioning. To be successful in this industry, a company has to have both scale and a highly automated production base; in the UK IG has a 40% market share and state-of-the-art production facilities both locally in Wales and in the Far East.

IG Design has a high level of cash flow generation, which provides options to management: make further acquisitions, invest in the business and generate returns to shareholders. IG has an enviable track record of doing both.

## Hawksmoor AIM Model Portfolio (the “HAMP”) Performance



	2015	2016	2017	YTD 2018	Q3 2018
<b>Hawksmoor AIM Model Portfolio</b>	<b>+31.8</b>	<b>+8.2</b>	<b>+9.2</b>	<b>+5.8</b>	<b>+0.2</b>
<i>Numis Smaller Companies + AIM Excluding Investment Companies</i>	+8.6	+12.0	+21.9	-1.4	-1.0

### Calculation Methodology

- *Source:* Financial Express Analytics, as at 30<sup>th</sup> September 2018. The HAMP is a portfolio of 25 equally-weighted stocks typical of those that we buy for clients within the Hawksmoor AIM Portfolio Service. The above performance is based on the HAMP since launch in January 2016 and a simulated portfolio for the period from January 2015 to launch.
- Performance is quoted on a Total Return basis, net of a 1.5% Annual Management Charge, and calculated on an Offer-Bid pricing basis. Given the liquidity of AIM, actual market prices paid may have been materially different than that simulated, and thus the returns of an actual portfolio may have differed over the period.

### About the Hawksmoor AIM Portfolio Service

Our AIM Portfolio Service invests in exceptional UK smaller companies for long-term capital growth. It can also be used for inheritance tax planning since we endeavour to ensure that every investment will qualify for *Business Property Relief* once held for at least two years. It is a virtue of Hawksmoor’s size that we are not restricted to only the largest and most popular of AIM companies, where valuations can become artificially elevated by tax relief demand. Rather, our proprietary investment process combines a disciplined screening process with rigorous fundamental analysis designed to identify value and quality.

It is managed by a specialist team of experienced professionals. For further information, please call **01392 410180**.



**Ian Woolley, CFA**  
AIM Portfolio Manager



**Jim Wood-Smith**  
CIO, Private Clients



**Chris Rew**  
Regional Director

#### Health Warning/ Disclaimer

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