

Investors' Report

1st January to 31st March 2019



The first quarter of 2019 turned out to be far more pleasant than the final quarter of 2018. While AIM market prices in the final few months of last year endured some of the worst falls in a decade, prices so far this year have decisively rebounded. In the three months to the 31st March 2019, an illustrative Hawksmoor AIM portfolio grew +6.2% (*full statistics overleaf; actual performance will vary depending on the specific composition of an individual portfolio*).

AIM is naturally a volatile arena, though the current macroeconomic and political uncertainty is an added fuel to the flame. The uncertainty still surrounding Brexit, in particular, is unhelpful in several ways. First, uncertainty weighs on both consumer and business confidence: particularly in big-ticket discretionary sectors, individuals and companies are holding back on major spending decisions. Second, is the impact on the pound: a weaker pound pushes up costs for UK businesses importing raw materials from overseas. Third, the risks and uncertainties of Brexit is weighing on investor sentiment: investors are incredibly nervous, especially towards firms exposed to the health of the UK economy.

In this quarter's *Company Focus* below, we introduce **James Latham PLC**, which has been at the sharp end of all three of these unhelpful forces. Nonetheless, it is testament to the quality of the business and its management that it is successfully navigating these challenges: they are headwinds, but are not terminal. The fundamental attractions of the business remain intact and a company update in March confirmed the group is trading in line with expectations. Its case shows how share prices can all too easily build in excessive pessimism: in the first quarter of 2019, James Latham's share price rose by +27% (*Source: FactSet*).

As regular readers will be familiar, Hawksmoor's style is naturally conservative: we invest in businesses that are profitable, have understandable business models, are financially fit and healthy and are run by a management team that we can trust. The challenge of investing for the long-term is not letting the short-term get in the way: we expect markets to remain volatile for some time, though equally whatever happens with Brexit – or indeed interest rates or US-Chinese trade relations – the sun will still rise and markets, eventually, will move on.

Company Focus | James Latham PLC

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.



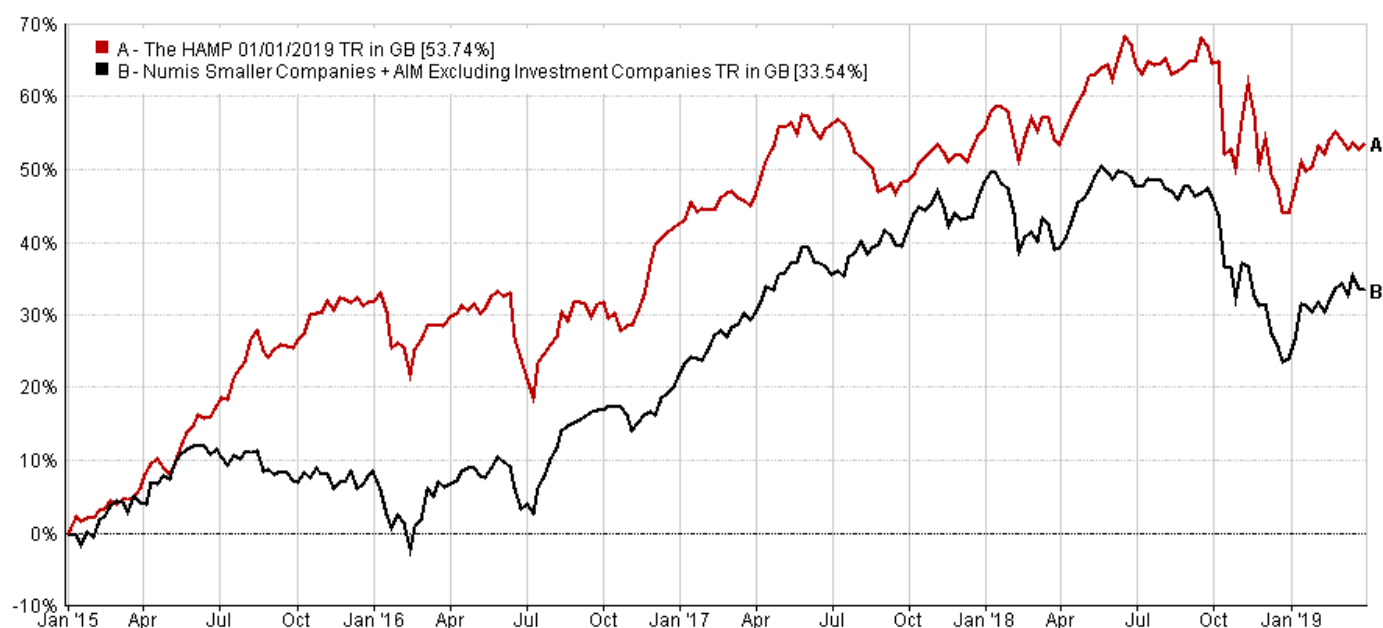
James Latham, valued at the time of writing at £157 million, is an importer and distributor of wood products including panels, doors, flooring, hardwoods, softwoods, decking, cladding and many others.

It stands out from typical AIM stocks in that it was founded in 1757 and the Latham family retain a sizeable stake in the business. Family ownership typically leads to a conservative management style, and it is notable the business is run with very little debt.

The attractions of the business from an investment perspective are its strong market positions in niche product sales, where profit margins are higher than more commoditized ranges. The group stock one of the most comprehensive ranges of species, sizes and non-standard thicknesses available in the UK.

Its environmental and sustainability credentials are also industry-leading: amongst other initiatives, all Latham's depots have been awarded Forest Stewardship Council accreditation.

Hawksmoor AIM Model Portfolio (the “HAMP”) Performance



	2015	2016	2017	2018	Q1 2019
Hawksmoor AIM Model Portfolio	+31.8	+8.2	+9.2	-7.0	+6.2
<i>Numis Smaller Companies + AIM Excluding Investment Companies</i>	+8.6	+12.0	+21.9	-15.8	+7.0

Calculation Methodology

- *Source:* Hawksmoor Research, as at 31st March 2019. 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. Past performance is not a guide to future performance.
- Performance is quoted on a Total Return basis, net of a 1.5% Annual Management Charge. 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**.



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AIM Portfolio Manager



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CIO, Private Clients



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Health Warning/ Disclaimer

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