HAWKSMOOR
INVESTMENT MANAGEMENT

AIM PORTFOLIO SERVICE

Investors' Report

1st April to 30th June 2019

Performance in the first half of the year from our illustrative AIM Portfolio is a resounding **+10.7%**. The statistic is, however, indebted to the fact that this year started on the 1st January: a recent trough for AIM and many other equity markets. It is nonetheless welcome news that portfolios have now recovered so strongly from the falls experienced towards the end of 2018, and a reminder that market panics tend to overshoot.

We are finding that valuations amongst UK equities, generally speaking, are polarizing into two extremes. At one end sit companies that are exposed to the economic cycle, Brexit, and other specific 'risks': these friendless shares are being assigned prices that discount something akin to an economic Apocalypse. At the other end is a handful of defensive stocks, seen to be a 'safe pair of hands' regardless of the future course of macroeconomic events. These shares are ascribed high share prices that are in many cases far removed from economic reality. In other words, investors are incredibly nervous, seeking safety regardless of price, and seemingly unwilling to take on the risks intrinsic to most business ventures.

Our purpose is to assemble robust portfolios in the face of this multi-headed risk Hydra. There is still a pool of high quality businesses that do not require us to assume excessive idiosyncratic or valuation risk (below we present the case of **Next Fifteen Communications**), though that pool is shrinking.

Two of our stocks have been bought out this year: **Manx Telecom** back in March and, within the last few days, **Telford Homes**. (Note that by the *Replacement Asset Rule*, inheritance tax relief earned on shares that are acquired can be rolled-over: by reinvesting the sale proceeds into other qualifying AIM stocks, the relief is preserved.) These deals echo a wider trend: public market investor nervousness is coinciding with a boom in private equity deal making, and seemingly with no end in sight. If public markets are unwilling to assume the risk of enterprise, or recognise intrinsic value, private equity funds prepared to adopt longer time horizons are swooping in with the chequebook.

Company Focus | Next Fifteen Communications 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.

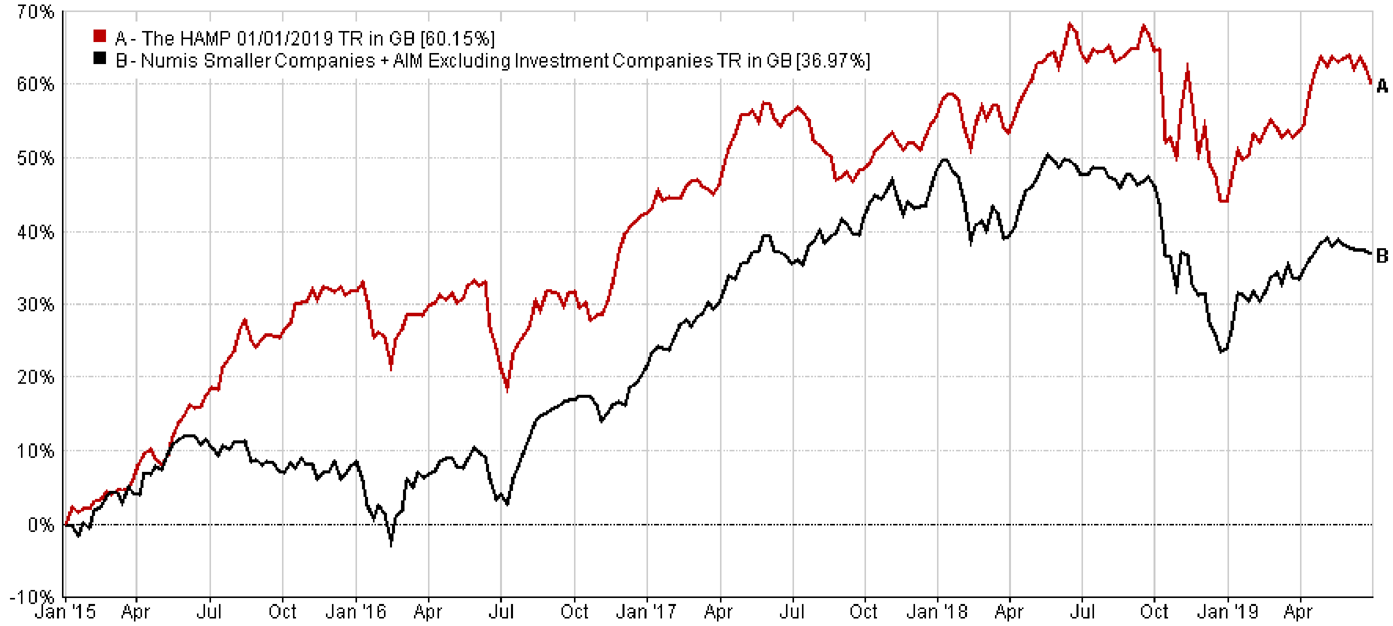
NEXT15

Next Fifteen started life in the early 1980s as a Public Relations agency for the technology sector. In the last ten years, it has diversified into other media services, such as digital marketing, data analytics and technology development. Its activities span traditional brand strategy and content marketing to digital marketing behaviour analytics and app development. It employs over 2,000 people, 800 of whom are based in the UK.

The group's agencies are the 'go-to' people for the technology industry. Its impressive client list includes familiar tech names, including Google, Facebook, Amazon, IBM, deliveroo, American Express and Lyft. Indeed, such is the calibre of its work and client list that its own marketing can rely largely on reputation alone.

Over the past five years, net revenues have grown from £109m to £224m, a compound annual growth rate of over 15% – and with a similar level of growth anticipated for the next five years too. Yet despite that level of growth and an exceptionally good track record, shares are attractively priced at just 16x next year's earnings *(Source: FactSet)*.

Hawksmoor AIM Model Portfolio (the "HAMP") Performance



	2015	2016	2017	2018	YTD 2019	Q2 2019
Hawksmoor AIM Model Portfolio	**+31.8**	**+8.2**	**+9.2**	**–7.0**	**+10.7**	**+4.2**
Numis Smaller Companies + AIM Excluding Investment Companies	+8.6	+12.0	+21.9	–15.8	+9.8	+2.6

Calculation Methodology

- *Source:* Hawksmoor Research, as at 30th June 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**.

Ian Woolley, CFA
AIM Portfolio Manager

Jim Wood-Smith
CIO, Private Clients

Chris Rew
Regional Director

Health Warning/ Disclaimer HA3404

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