Investors' Report

1st July to 30th September 2019

HAWKSMOOR
INVESTMENT MANAGEMENT

AIM PORTFOLIO SERVICE

The strong first half of 2019 gave way to a more subdued experience in the third quarter for share prices of AIM-traded stocks: our 'illustrative' AIM portfolio witnessed an overall –3.4% fall. Three months on, yet very little seems to have changed: the mood music for equities is still to the endless reprises of Brexit, continental trade disputes, and hypochondriacal concerns that we must surely be overdue a recession by now. We are none the wiser as to whether we deal or don't; regrettably we suspect the B-word will still dominate investment newsletters a decade hence.

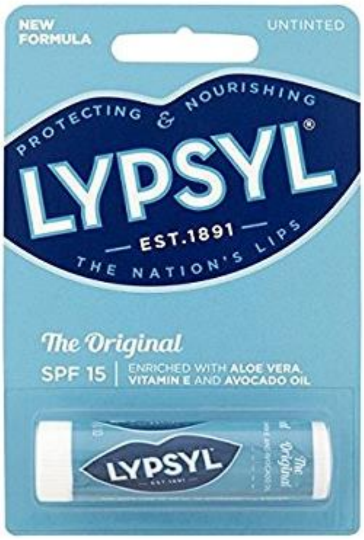
Yet while our politics may be fascinating, we contend that the world's economics remain fundamentally dull. We are living in a period ruled by the twins of low growth and low inflation. Far too many people in finance and the media are paid to make it all sound oh so terribly exciting: the truth is that it isn't. This is important, because low growth and low inflation are solid foundations for equity returns. Beyond the daily noise, great businesses continue to be great businesses. The challenge for investors is to keep this particularly noisy backdrop in the context of these sound fundamentals.

Since our last newsletter, the Office of Tax Simplification (OTS) has considered the thorny issue of inheritance tax and the extension of its relief to eligible AIM investments. The OTS rightly concludes that while the original intention for Business Property Relief to allow family businesses to pass down the generations seldom applies on AIM, its eligibility nonetheless plays a valuable economic role in encouraging investment into smaller British businesses.

Successive governments of both colours for the past fifty years supported Business Property Relief, yet the threat of its removal will always be a risk factor. Our response to that is to construct portfolios of good, or preferably great, companies that can stand on their own investment merit alone: a robust underlying business and a sensible price tag. Below in Company Focus we highlight the case of **Alliance Pharma**, which last month reported a +25% increase in its underlying profitability in its half yearly results.

Company Focus | Alliance Pharma 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.

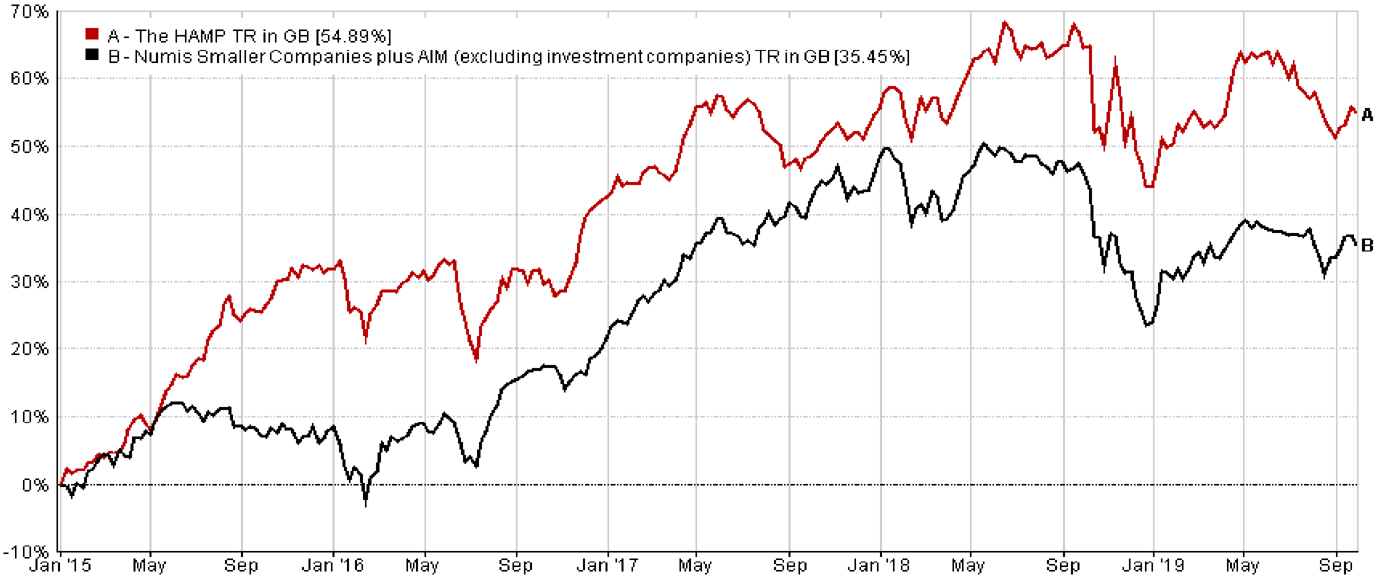


Alliance Pharma is an international speciality pharmaceutical company based in Chippenham. It acquires or licences pharmaceutical and consumer health products. Alliance specialises in dermatology (Kelo-cote, Hydrolmol, Aloclair, Lypsyl), mother and child (Forceval, Anbesol, MolluDab) and ophthalmology (MacuShield). In total, it has a portfolio of over 90 products that sell in more than 100 countries.

The strategy is based on a 'bedrock' of steady sellers that are typically long-established, ex-patent products that require little promotion, complemented by a portfolio of actively-managed 'growth brands', often with international potential.

The investment attractions of the business flow both from the defensive, strong market positions of its products and from its asset-light model. Manufacturing, warehousing and distribution are all outsourced and the group is highly cash generative. Alliance has an impressive track-record in using that cash to both enhance its existing portfolio and expand through acquisition.

Hawksmoor AIM Model Portfolio (the "HAMP") Performance



	2015	2016	2017	2018	YTD 2019	Q3 2019
Hawksmoor AIM Model Portfolio	**+31.8**	**+8.2**	**+9.2**	**–7.0**	**+7.2**	**–3.4**
Numis Smaller Companies + AIM Excluding Investment Companies	+8.6	+12.0	+21.9	–15.8	+2.0	–3.3

Calculation Methodology

- *Source:* Hawksmoor Research, as at 30th September 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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