

The first quarter of 2020 was acutely painful on AIM. As the severity of the coronavirus' spread and the economic implications of governmental responses to contain it became apparent, there was a mad rush for the exit across all equity markets. The last time we wrote a newsletter, portfolios were near record valuations. Three short months later, things could not be more different.

We will eventually get to the far side of the COVID-19 lockdowns, though in the short-term the situation manifests a severe hit to most companies' cash flows. In navigating this new reality, there are two primary questions we are asking of every stock: one, what will be the impact of lockdown on its revenues and two, do they have the financial reserves to survive that loss until the other side?

Regular readers will know that we have always adopted a cautious approach in our stock selection, eschewing the more speculative ends of AIM and preferring the steady and defensive. We also deliberately seek out companies in sound financial health and are repelled by excessive debt levels. The result is that we have made very few changes to portfolios at this time: our desire to own higher quality businesses in good financial health has only increased. Below we highlight the case of **NWF Group**, which is a key part of the UK's food supply chains.

The government's business support package is also crucial. That HM Treasury will pay the wage bill of affected industries is not only an essential lifeline for businesses directly, but it also reduces the risk of COVID-19 setting off a downward spiral of layoffs, gloom, and economic depression. Moreover, the Bank of England's credit line for British businesses means companies that would otherwise be in sound financial health have access to the short-term credit they need. These are critically important for supporting the UK economy and its companies in the short-term.

The selling pressure in the first quarter was indiscriminate. As things settle down and the full financial implications become clearer, we would expect the defensive qualities and financial health of our portfolio holdings to shine through. Meanwhile, the road to a world after COVID-19 will be bumpy, but it is there.



## Company Focus | NWF Group 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.



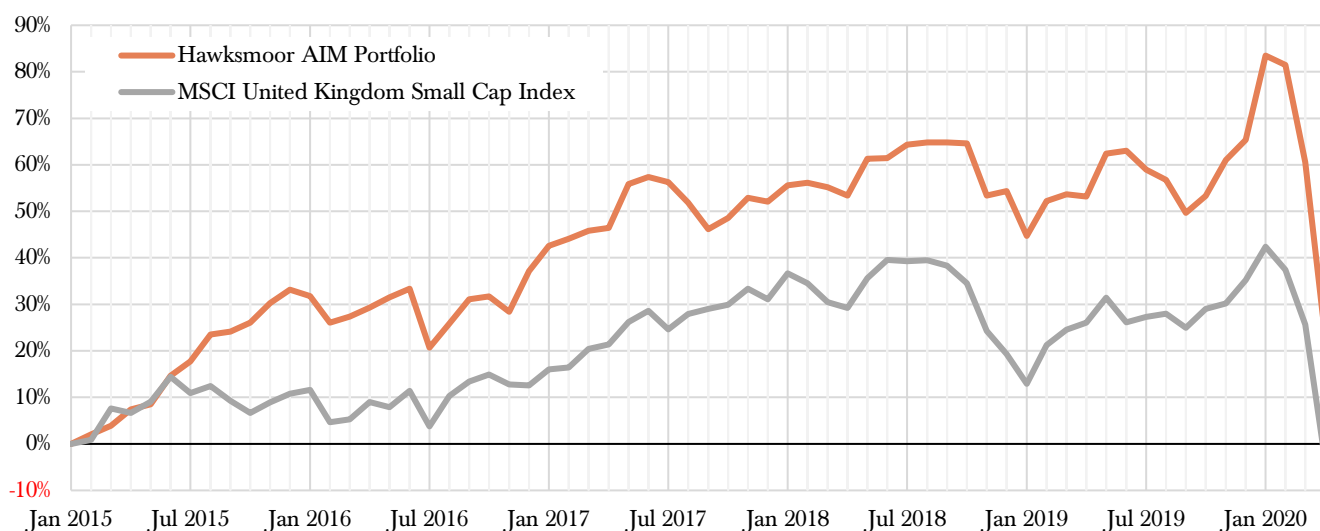
NWF Group is a distribution group with three core business lines: Feeds, Food and Fuel. It is the second largest producer of ruminant animal feed in the UK, the third largest fuels distributor in the UK, and the market leading food distributor in the North West of England. NWF estimates that its products feeds 1 in 6 of Britain's dairy cows.

In the context of the COVID-19 outbreak, NWF Group should prove to be a relatively resilient business because it is a key part of essential food and agricultural supply chains. The food industry is one part of the economy that will continue to operate.

Moreover, its financial health is robust: indebtedness is relatively modest and the group has substantial borrowing headroom available should it need it.



## Performance of an illustrative Hawksmoor AIM Portfolio



	2015	2016	2017	2018	2019	Q1 2020
<b>Hawksmoor AIM Portfolio</b> <sup>1</sup>	+31.8	+8.2	+9.2	-7.0	+26.5	-33.0
MSCI United Kingdom Small Cap <sup>2</sup>	+11.6	+3.9	+17.8	-17.4	+26.1	-35.1

<sup>1</sup> *Methodology and source:* Hawksmoor Research, as at 31<sup>st</sup> March 2020. Performance is quoted on a total return basis, net of a 1.5%+VAT Annual Management Charge and based on a portfolio of 25 equally weighted stocks typical of those bought for clients within the Hawksmoor AIM Portfolio Service since launch in January 2016 and a simulated portfolio for the period from January 2015 to launch. 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. Past performance is not a guide to future performance.

<sup>2</sup> *Source:* MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof) and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI or any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. **No further distribution or dissemination of the MSCI data is permitted** without MSCI's express written consent.

## 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 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 454708**.



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### Important Information

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