

Investors' Report

30th September 2020

AIM PORTFOLIO SERVICE

After the dizzying lurches of the first two quarters, the third thankfully brought steadier sailing. That relative tranquillity reflects a more optimistic trading picture emerging from the UK's companies. Most management teams tell us trading has been modestly better than base case scenarios fleshed out in the eye of the pandemic storm back in March, and certainly an awful lot better than it might have been. Our portfolios ended the quarter approximately +5% higher than where they started, with most of that gained in August (*full performance statistics overleaf*).

Cash flows have been particularly encouraging. Not only have companies been effective in managing their own cash through lockdown, there also has not been a major spike in bad debts or deferred cash collections either. The cash crunch investors feared in the spring fortunately did not happen. It is still early days of course, but as the post-COVID world becomes a little clearer, we are starting to see corporate confidence, formal guidance and dividends all return, albeit naturally with a cautious footing.

Worst-case scenarios were thus avoided, but there is no denying that every company has been impacted by COVID-19. The common mantra we hear is 'years of change in months': now that the immediate issues of survival have abated, businesses must look at how to adapt to thrive. Chief among this is the acceleration of the digitalization trend, including data-driven business models, ecommerce, virtual events and hybrid home-office working arrangements. In one sense, every company is now a technology company. We are finding good value on AIM, especially in stocks that understand this. Below we highlight the attractions of **Next Fifteen Communications**, a 'digital-native' media stock.

We continue to avoid investments in the travel industry, High Street retail and other areas where the survival question is still very much at the fore. That said, in other areas there is a clear opportunity for those with the right business models and the financial strength to emerge as long-term beneficiaries, despite near-term COVID-19 pain. Market moods will continue to fluctuate depending on news of tighter local lockdowns or vaccine progress, but from a company perspective, we seem to be through the worst of this crisis.



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.

Next Fifteen Communications is a collection of digital media agencies spanning public relations, digital marketing, data analytics and app development. It employs around 2,000 people, including 800 in the UK.

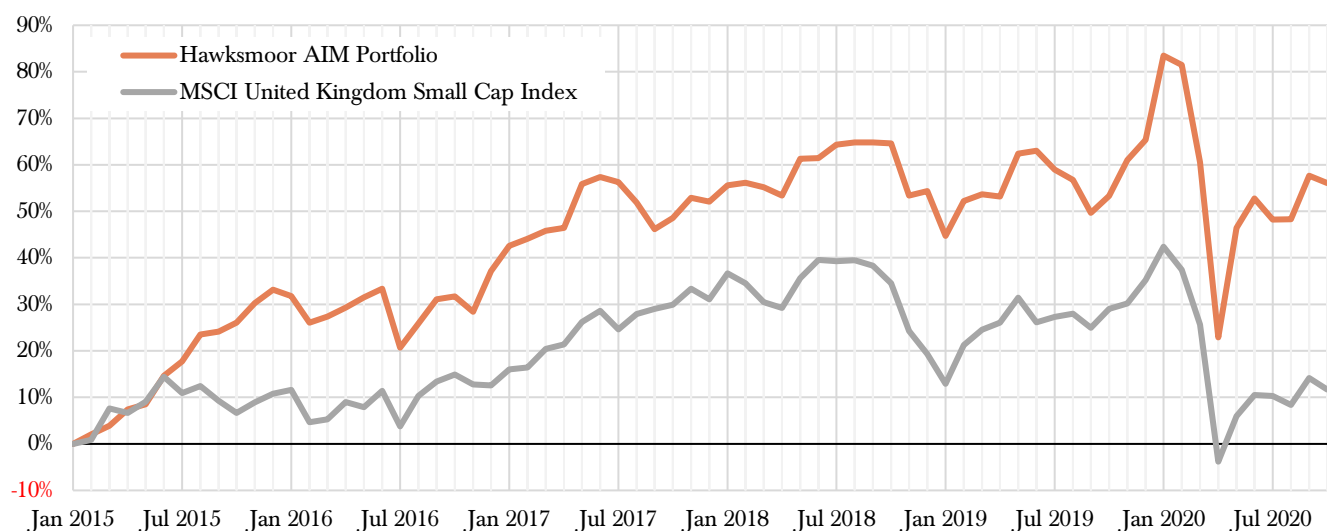
NEXT15

While most of the advertising world has struggled during COVID-19, Next15 is a specialist to technology sectors, where there hasn't been such a sprint to cut discretionary spending. Its impressive client list includes familiar tech names such as Google, Facebook, Amazon, IBM, Deliveroo, and American Express.

Moreover, Next15 benefits from the digital nature of its services. This was already a growth area, but it is boosted further by this year's lockdowns. Marketing spend for cancelled events is being reallocated to digital channels, but more importantly we are also seeing an increasing demand for data analytics and accurate measurement of marketing spend to demonstrate value for money.



Performance of an illustrative Hawksmoor AIM Portfolio



	2015	2016	2017	2018	2019	YTD	Q3 2020
Hawksmoor AIM Portfolio ¹	+31.8	+8.2	+9.2	-7.0	+26.8	-14.9	+5.3
MSCI United Kingdom Small Cap ²	+11.6	+3.9	+17.8	-17.4	+26.1	-20.5	+1.7

¹ **Methodology and source:** Hawksmoor Research, as at 30th September 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 illustrated, and thus the returns of an actual portfolio may have differed over the period. Past performance is not a guide to future performance.

² **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. To find out more, email jill.gill@hawksmoorim.co.uk or call 01392 454708.



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Important Information

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