

## INVESTORS' REPORT – 31<sup>st</sup> March 2021

The long lockdown winter is beginning to thaw – and we sincerely hope for the last time.

We reported last quarter of how companies had emerged through the pandemic far better than we had dared hope last spring. That trend has continued. Moreover, the stage is set for a big economic boost in the second half of this year from a combination of pent-up demand and consumers flush with cash. We are all long overdue a party. That growing optimism meant a typical Hawksmoor AIM portfolio increased by approximately +5.1% in the first quarter to new highs – *full performance statistics are overleaf*.

We have been busier than ever meeting with management teams. In each case, we want to understand *how* a company has beaten expectations. We are particularly wary where profits in 2020 were made solely by aggressive cost cutting at the expense of adequate investment in the business. As the crisis recedes, such firms must rebuild cost bases on top of substantially smaller businesses: the damage to profitability is not to 2020 but to 2021.

Fortunately, that predicament is not commonplace. Companies doing better than feared are principally those that have been quick to adapt to new ways of working and selling, principally online. We are fortunate it was COVID-19 rather than COVID-99: twenty years ago, the switch to cloud-based home-working would have been far more problematic. The common message we are hearing is one of greater visibility of earnings and confidence in the future. Meanwhile, some companies have been outright beneficiaries of the societal changes unleashed – and below we highlight the case of **SDI Group**. We remain very positive about the portfolio's prospects, both for the coming year and beyond.

Finally, it is worth reflecting on how AIM has matured over the past twenty-five years, perhaps best evidenced by the fact that so many companies were able to raise fresh equity capital throughout this extremely challenging year. Whether to strengthen the fortress against the downturn or for specific acquisitions, right across the market cap spectrum we see high quality companies able to access capital from a supportive shareholder base when they need it. AIM is a market that is working well – for both company and investor.



### Company Focus | SDI 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.



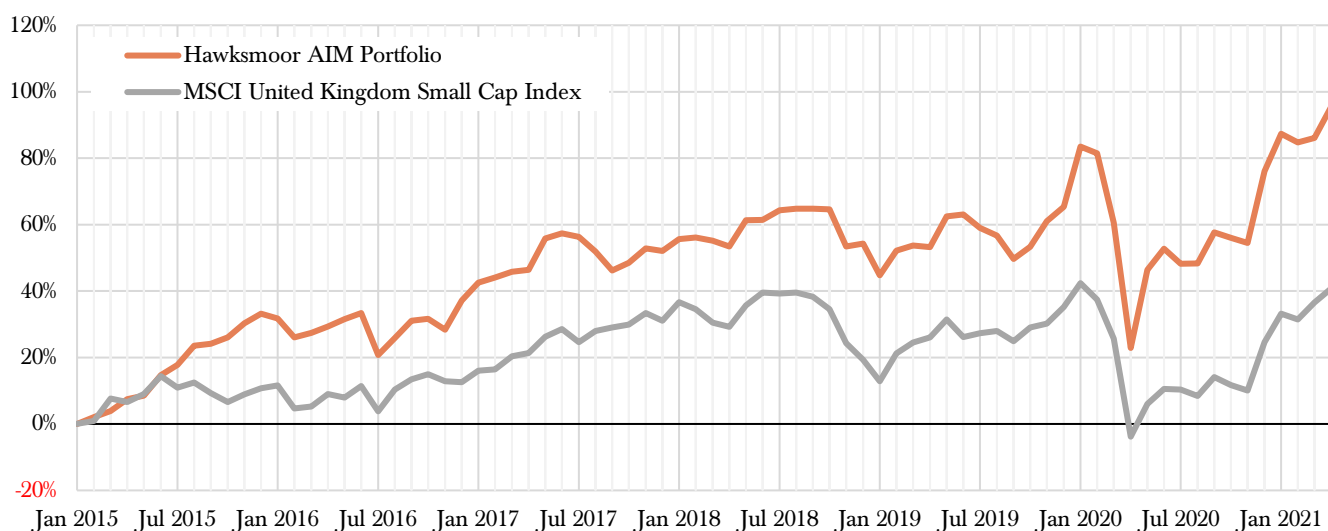
**SDI Group** is a £180 million sized company and a good example of a business that has emerged a beneficiary of COVID-19. SDI traded at less than 40p in the first lockdown, yet at the time of writing trades at over £1.80.

It manufactures niche scientific equipment, notably including cameras used in rapid COVID-19 testing equipment (pictured left). With the demand for such testing equipment clearly increasing, it recently secured a major £10m supply contract that drives material upgrades for the coming years.

Beyond that fortuitous boost, however, SDI exhibits many of the quality features we look for in investments: plenty of free cash flow, an ability to reinvest those at high rates of return and excellent growth prospects.



## Performance of an illustrative Hawksmoor AIM Portfolio



|   | 2016 | 2017  | 2018  | 2019  | 2020 | Q1 2021 |
|---|------|-------|-------|-------|------|---------|
| <i>Hawksmoor AIM Portfolio</i> <sup>1</sup> | +8.2 | +9.2  | -7.0  | +26.8 | +2.1 | +5.1    |
| MSCI United Kingdom Small Cap <sup>2</sup>  | +3.9 | +17.8 | -17.4 | +26.1 | -4.9 | +7.4    |

<sup>1</sup> *Methodology and source:* Hawksmoor Research, as at 31<sup>st</sup> March 2021. 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. 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.

<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 team of experienced professionals:



**Ian Woolley, CFA**  
Head of AIM Services



**Jim Wood-Smith**  
CIO



**George Salmon**  
Snr. Investment Analyst



**Ben Luck**  
Investment Analyst



**Jonathan Rigley**  
Investment Manager

### Important Information

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