

INVESTORS' REPORT - 30th June 2021

Somehow we are already into the second half of 2021. Where did those past six months go? Even more incredibly, it's been five years already since the UK voted to leave the EU.

Time slipped by, but performance in the second quarter of 2021 was pleasing. On average, portfolios were up +12.0% in the past three months, taking the year-to-date return to +16.9%, which is 6.4% better than our index. Encouragingly, that performance was driven by multiple stocks. To pick out but a few, **Impax Asset Management** has continued to rapidly pick up new sustainable investment mandates; **Voilex** reports huge demand for its data centre and electric vehicle cables, and the accelerating growth of digital marketing has been to **Next15's** benefit.

In each of these there are identifiable 'structural growth' trends that should outpace general GDP growth. Yet growth alone is not enough. Ask the solar industry: photovoltaics have seen almost exponential growth in the past three decades, though that hasn't stopped many manufacturers facing financial ruin. So we spend a lot of time thinking about structural growth, but even more time ensuring there is a business model that will reliably translate that growth into shareholder returns.

The long tail of the pandemic is though still a trip hazard. Our biggest disappointment this quarter was **Clinigen**, a healthcare business, which warned COVID-19 is still discouraging people from seeking cancer diagnoses and receiving treatment. Clearly that presents much wider public health issues than merely the fortunes of this one AIM stock. Yet the result is that Clinigen's profits will be lighter than we had hoped this year (albeit with a recovery due as our lives normalize).

The wider challenge for businesses is on cost inflation. The price of shipping, for example, at one point had risen ten-fold, while the lack of semi-conductors risks halting car and smartphone production lines. Demand is far stronger than expected at the same time as COVID-19 has upset and constrained supply chains. It will take time for the post-pandemic economy to rebalance and, as ever, some businesses are much better placed to manage those pressures than others.

Overall though, it's been a good time to be invested in smaller UK companies. Time is relentless, but with it those heavy clouds of Corbynism, Brexit and COVID – which, each in turn, had kept investors awake at night – are finally now abating.



Company Focus | Voilex 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.



Voilex is an integrated manufacturer of power products and cables. As well as being one of the world's largest suppliers of cables for household appliances and whitegoods, Voilex has a rapidly growing business supplying complex systems for use in data centres, electric vehicles, industrial and medical markets.

In electric vehicles, it specializes in 'grid cords' - plugs and cables used to connect cars to the mains electricity. These need to be rugged enough to be accidentally driven over, or left out in the rain, without risk of electrocution.

Voilex is a well-invested, highly-automated operation with deep customer relationships and exposure to several 'structural growth' markets. The business has a history dating back to 1892; today it employs 6,7000 and operates across 21 countries.



Performance of an illustrative Hawksmoor AIM Portfolio

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.



| Discrete Annual Performance | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 YTD | 2021 Q2 |
|---|--|------|-------|-------|-------|------|----------|---------|
| Hawksmoor AIM Portfolio ¹ | | +8.2 | +9.2 | -7.0 | +26.8 | +2.1 | +16.9 | +12.0 |
| MSCI United Kingdom Small Cap ² | | +3.9 | +17.8 | -17.4 | +26.1 | -4.9 | +10.5 | +3.6 |

| Cumulative Performance | | 1 month | 3 months | 6 months | 1 year | 3 years | 5 years |
|---|--|---------|----------|----------|--------|---------|---------|
| Hawksmoor AIM Portfolio ¹ | | +3.1 | +12.0 | +16.9 | +47.7 | +33.2 | +81.3 |
| MSCI United Kingdom Small Cap ² | | -2.2 | +3.6 | +10.5 | +32.2 | +4.8 | +40.6 |



Ian Woolley, CFA
Head of AIM Services



Jim Wood-Smith
Chief Investment Officer



George Salmon
Senior Investment Analyst



Ben Luck
Investment Analyst



Jonathan Rigley
Investment Manager

Important Information

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¹ *Methodology and source:* Hawksmoor Research, as at the date of this report. 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.

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.

