HAWKSMOOR
INVESTMENT MANAGEMENT

AIM
PORTFOLIO
SERVICE

INVESTORS' REPORT – 31ST December 2021

MICAP REVIEWED

INVESTMENT WEEK
TAX EFFICIENCY AWARDS 2019/20
WINNER
BEST AIM IHT PORTFOLIO SERVICE - DFM PROVIDER

GROWTH INVESTOR 2021 | AWARDS
FINALIST
BEST AIM PORTFOLIO SERVICE

Happy New Year. Investment performance for 2021 was pleasing: a typical Hawksmoor AIM Portfolio returned +26.3% for 2021, or +14.0% better than the benchmark *(see overleaf)*.

News on COVID-19 can still upset the market's mood, of course, but to a far lesser extent than previously. After some choppier waters in September and October as investors weighed up the risks (and pronunciation) of Omicron, we saw a strong rebound to end the year. The singular success of vaccines in 2021 means investors are now able and willing to look beyond this crisis.

In the business world, the acute symptom of COVID-19 is inflation. This is remarkable: roaring demand amidst too little supply is the exact opposite of the original fears that the virus would accompany an economic depression. Though preferable, the result is sharp input cost rises and constrained availability—and a wide range of outcomes. Hardest hit in the portfolio was **IG Design**, which warned the unprecedented rise in the cost of paper and global shipping would inevitably hurt its profit margins this year. At the other end of the spectrum, **Vertu Motors** made more than three times its expected profits as the price of used cars soared.

Inflation per se is manageable, because input costs can inform set prices. The problem is shock inflation, where prices rise quicker than thought when terms were agreed. IG Design started the year expecting shipping rates to double; in fact they rose by 500%, which was simply unmitigable. Inflationary headlines have staying power. The lion hiding in the long grass, though, is overstocking. After a year of frustrated deliveries, ordering has shifted from 'just in time' to 'just in case'. For suppliers, that's driven record revenues and order books—yet the logic is reliant on this upbeat economic tempo continuing. We are paying close attention to working capital practises and inventories.

In other news, **Clinigen** rose +50% since we last wrote after it received a takeover approach. We flagged Clinigen back in the summer as a temporary casualty of the pandemic. Yet value remained—and we weren't the only ones to spot it. With the proceeds from Clinigen, for most portfolios we bought **Ideagen**, which we present in this quarter's Company Focus, below.

Once again we start a year with cautious optimism. As ever, there are plenty of real and imagined threats for investors to brood over. Yet we are very content with the quality of the portfolio, progress made over 2021, and prospects for the coming years.

Company Focus | Ideagen plc

In each of our quarterly briefings we present one of the companies in which we invest (not necessarily held by all clients) to provide examples of the kind of opportunities that one can find amongst quality smaller companies that trade on AIM.

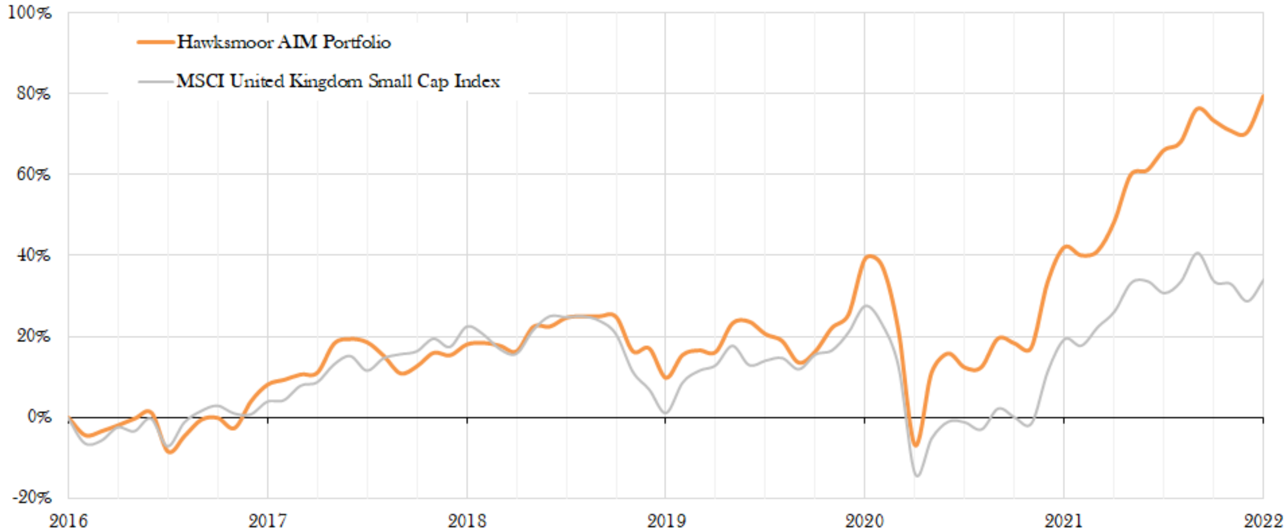
Ideagen provides compliance software to healthcare, life sciences, manufacturing, aerospace, pharma, energy, financials, food and drink, the public sector and many other industries. The common theme is a regulatory reporting requirement, such as ISO compliance, audit management, safety incident reporting, and risk management tools.

In a world of ever-increasing regulation, its customer base is broad: it includes 250 UK and US hospitals, 15 of the top 20 pharmaceutical firms, and 9 of the top 10 accounting firms. Their software is a 'cost of doing business' for its customers and Ideagen's revenues are consequently very sticky: customer retention is typically over 95%.

Ideagen ticks several boxes: it has high levels of organic growth and cash conversion, good returns on capital and is financially healthy. New targets announced in November 2021 are for the group to grow to £200 million of annual recurring revenues by 2025 (up from the current £86 million) with 35% margins.

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	2021 Q4
Hawksmoor AIM Portfolio [1]	**+8.2%**	**+9.2%**	**-7.0%**	**+26.8%**	**+2.0%**	**+26.3%**	**+3.5%**
MSCI United Kingdom Small Cap [2]	+3.9%	+17.8%	-17.4%	+26.1%	-6.4%	+12.3%	+0.4%

Cumulative Performance	1 month	3 months	6 months	1 year	3 years	5 years
Hawksmoor AIM Portfolio [1]	**+5.3%**	**+3.5%**	**+8.0%**	**+26.3%**	**+63.4%**	**+65.9%**
MSCI United Kingdom Small Cap [2]	+4.2%	+0.4%	+2.6%	+12.3%	+32.5%	+29.0%

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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.