HAWKSMOOR
INVESTMENT MANAGEMENT

AIM PORTFOLIO SERVICE

INVESTORS' REPORT – 30th June 2022

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GROWTH INVESTOR 2021 AWARDS FINALIST BEST AIM PORTFOLIO SERVICE

The first half of 2022 has been the worst six-month period for AIM since the 2008-09 financial crisis. Amidst that storm, our portfolios held up about 7% better than the wider market *(see overleaf)*. Losing less when markets turn sour is key to long-term value creation—though we appreciate that your valuation will make for uncomfortable reading regardless.

Our core message this quarter is that there is a growing disparity between that dark market mood and news from corporates at the economic coalface. Investors seem to expect a severe and deep recession, caused by sharply rising interest rates to tackle an inflation spiral that is running out of control. Corporates, meanwhile, see strong demand, record order books, and plenty of opportunity for growth. Those too divergent economic outlooks cannot both be right.

It is now commonplace to find shares with dividend yields in excess of their P/E ratios, or share prices that discount zero growth for businesses that are clearly growing rapidly. We do not get the impression that corporates are being excessively optimistic. We have seen a series of upgrades to profit expectations this quarter with businesses clearly running ahead of cautious budgets. Higher profits and lower share prices mean valuations now look very attractive.

We are not the only ones seeing value. Private equity firms, too, are out buying. This quarter **Ideagen**—a stock we highlighted in the Q4 2021 Company Focus—was the target of a bid. In many ways this is regrettable: Ideagen is a top-rate business that we would have liked to own for a lot longer. With some of the proceeds we started a new position in **Inspiration Healthcare**—a business operating in a crucial and defensive market (see *Company Focus*). This is the kind of stock we like a lot: high quality, IP-rich businesses at a good price—and that fly under the reach of larger institutions.

In addition to stocks being taken out entirely, this quarter also saw **Oxford Metrics**—a long-standing holding—sell a subsidiary that contributed 15% of the group's profits for over £50 million, equivalent to half of the group's value at the time. Again, this demonstrates the inherent value in these companies that is not being recognised.

We have no crystal ball and no way of knowing how long this market storm will last. But we can say that there are some wonderful businesses, trading well, and currently on sale. For the long-term investor, opportunity abounds.

Company Focus | Inspiration Healthcare

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.

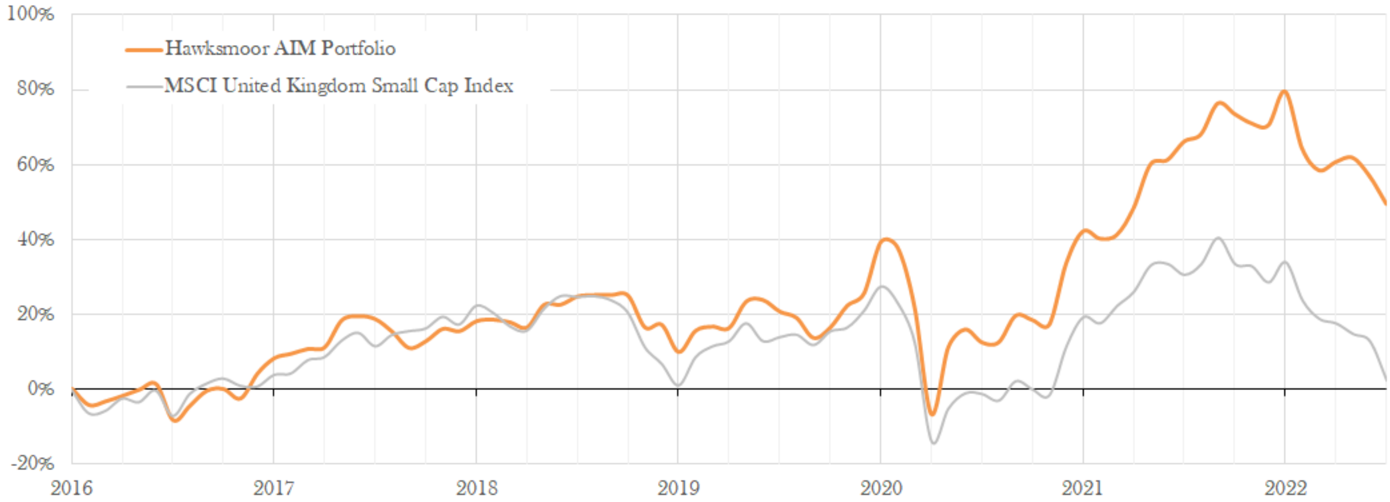
Inspiration Healthcare is a global provider of medical equipment for use in neonatal critical care, such as ventilators and temperature management devices used to treat premature babies. Pre-term birth complications are responsible for approximately 1 million deaths annually, and is the largest cause of mortality in infants under 5 (18%).

The global neonatal intensive care market is estimated to be worth about £7.7 billion, and expected to grow by 6.5% annually between 2021 and 2027. It is also an area of medical spending that is usually ring-fenced from budget cuts and is therefore defensive. Inspiration Healthcare differentiates itself on the quality and features of its offering, which are specifically designed for neonatal care. The group has set a target to reach £100 million of revenues in the medium term, up from the current £40 million.

This is a business rich in intellectual property operating in an important, growing and defensive healthcare sector. It is well-invested, well-managed, and clear on its goals.

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	2022 YTD
Hawksmoor AIM Portfolio [1]	**+8.2%**	**+9.2%**	**-7.0%**	**+26.8%**	**+2.0%**	**+26.3%**	**-16.7%**
MSCI United Kingdom Small Cap [2]	+3.9%	+17.8%	-17.4%	+26.1%	-6.4%	+12.3%	-23.6%

Cumulative Performance	1 month	3 months	6 months	1 year	3 years	5 years
Hawksmoor AIM Portfolio [1]	**-4.7%**	**-7.0%**	**-16.7%**	**-10.0%**	**23.9%**	**26.0%**
MSCI United Kingdom Small Cap [2]	-9.3%	-13.0%	-23.6%	-21.6%	-10.2%	-8.2%

PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE.

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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.

[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.