

INVESTORS' REPORT - 30th June 2023

The AIM market as a whole was down sharply again in Q2, though there were enough eddies in the rapids that we were able to avoid the worst of it. Our benchmark was down -5.6% in the three months; our portfolios on average just -1.3%. For 2023 so far we are ahead by +5.4% (*full performance statistics overleaf*). As we've said before, we don't expect praise when we lose money, but losing less in weak markets is fundamental to long-term value creation.

UK public markets in their entirety still seem to be loathed; Brexit, political instability and a stubbornly high inflation mean we're left languishing in the 'too difficult' box for most international investors. That approach rather misses that these British Isles are home to some world-class companies that are now trading well below fair value—albeit we appreciate that we're all in need of some greater stability and calm.

One example of a higher-quality British manufacturer is **Volex**, which was our *Company Focus* two reports ago. Volex shares were up +33% in the period having reported on high levels of organic growth throughout the business. Encouragingly, it also reports much improved supply chains, a welcome improvement to the challenges and frustrations of 2022. The bigger picture here is mounting evidence that the economy is normalising after the imbalances of lockdowns.

Elsewhere, artificial intelligence hype has gone mainstream. We are apparently facing a future of both workless leisure and the end of humanity at the same time – a paradox on which ChatGPT can, on demand, write a very snappy limerick. This great known unknown saw one of AIM's giants, **Keywords Studios**, down by around a third in the quarter on the view that its 'work for hire' business model is redundant in a world where AI can translate, code, and win photography prizes for free. Another view is that these businesses stand to reap huge productivity benefits. This is a meaty topic we will write more on, but for the short-term expect negative sentiment on any stock deemed potentially at risk of significant disruption, well-founded or not.

Last quarter we warned that higher interest rates probably meant that private equity will have had its funding wings clipped. As if to prove quite how wrong we were on that, Cap10 Partners put in a bid for **Sureserve PLC**, sending its shares up +42% in the quarter—our best performer. We are nonetheless still extremely wary of debt; the cost of borrowing today makes far too many capital allocation decisions from the past few years now look very silly indeed.



Company Focus | Tracsis 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.



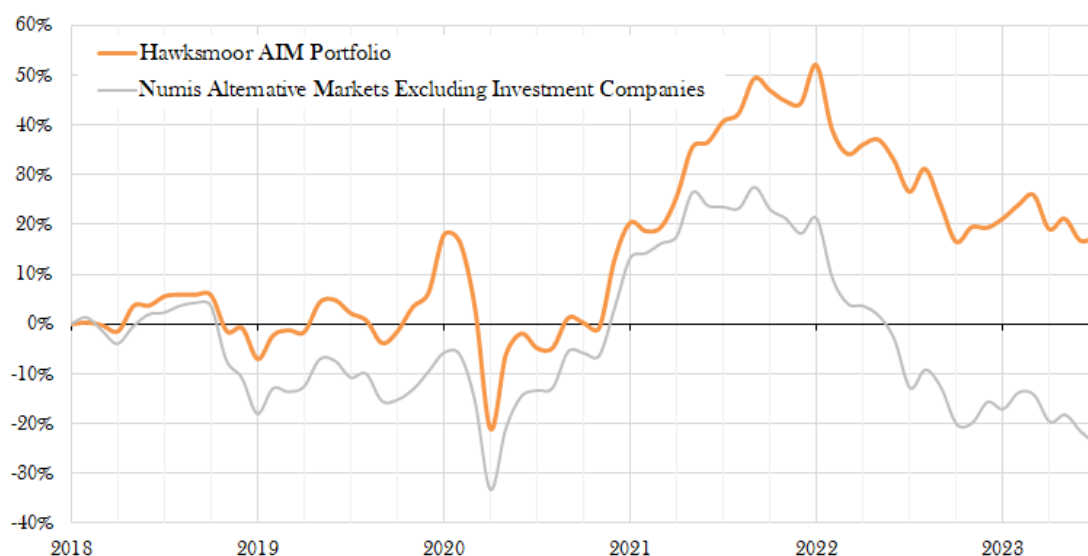
Tracsis provides the software that makes the rail industry safer and more efficient. It provides operational planning and timetabling, remote condition monitoring, consultancy and ticketing solutions. It also has a business conducting road traffic surveys and analytics.

The core theme in Tracsis' favour is the growing use of data and technology in industry. Its software means rail network signals, switches and infrastructure can be remotely monitored, reducing failure rates, reducing costs, and improving safety on the tracks. It further helps automate regulated business processes to reduce risk.

From an investment perspective, these are multi-year contracts with recurring revenues and high barriers to entry. It has a healthy balance sheet, earns good margins and has the potential for excellent growth.



Performance of an illustrative Hawksmoor AIM Portfolio



Discrete Calendar Years

	2018	2019	2020	2021	2022	YTD
Hawksmoor AIM Portfolio ¹	-7.0%	26.8%	2.0%	26.3%	-20.3%	-3.0%
Numis Alternative Markets ²	-17.9%	14.8%	20.1%	7.0%	-31.5%	-8.5%

Cumulative Performance

	3 months	6 months	1 year	3 years	5 years	Inception
Hawksmoor AIM Portfolio ¹	-1.3%	-3.0%	-7.2%	23.4%	11.2%	38.7%
Numis Alternative Markets ²	-5.6%	-8.5%	-12.9%	-12.4%	-25.8%	11.9%

PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE.

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.



Meet the team



Ian Woolley, CFA
Head of AIM Services

Ian joined Hawksmoor in 2013 having previously worked as an investment analyst and business consultant. He has a First Class degree in Mathematics from the University of Bath and is a Chartered Financial Analyst (CFA) charter holder.



Tinzar Minmin
Investment Manager

Tinzar qualified as an Investment Manager in 2021. She has a BSc in *Actuarial Mathematics* and a Masters in *Actuarial Finance* from the University of Leeds. She was included in Citywire's 2023 'Top 30 Under 30' list of rising investment stars.

Important Information

Hawksmoor Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England No. 6307442. Registered office: 2nd Floor, Stratus House, Emperors Way, Exeter Business Park EX1 3QS.

This document should not be interpreted as investment advice for which you should consult your financial adviser. The information and opinions it contains have been compiled or arrived at from sources believed to be reliable at the time and are given in good faith, but no representation is made as to their accuracy, completeness or correctness. Any opinion expressed, whether in general or both on the performance of individual securities and in a wider economic context, represents the views of Hawksmoor at the time of preparation, they may be subject to change. The value of an investment can fall as well as rise and you may not get back the amount originally invested. Investments in AIM carry an above-average level of risk – please see **Guide to the AIM Portfolio Service** for full details, which can be found on our website www.hawksmoorim.co.uk.

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. Inception: 1st January 2016

² Numis Alternative Markets Excluding Investment Companies, quoted on a total return basis.



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