

Fundamental AIM Portfolio

Quarterly Review Q2 2018



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INVESTMENTS LIMITED

FINANCIAL PLANNING & WEALTH MANAGEMENT

Portfolio Review

For the 1st quarter of 2018, the performance of the Fundamental AIM IHT portfolios were down, on average, 2.3%.

It was a challenging quarter for global equities with the escalating trade war between the US and China dominating the headlines. As I write President Trump has ordered his administration to put together a plan for an additional \$100bn in tariffs on imports from China, suggesting this fight may have some way to run—it's never a dull moment with the Donald!

While the share prices of some smaller companies fell quite significantly, we were surprised to see AIM continue to outperform the Main Market (in relative terms) given the increased volatility. If history is any guide we would have expected a more material sell off from small caps in the circumstances.

The AIM All-Share index fell 3.36% and the AIM 100 index, which comprises the 100 largest AIM stocks by market capitalisation, fell 2.96% in the period. Both AIM indices once again outperformed the FTSE100, which fell 8.2% in the quarter. The FTSE Small Cap Index, comprising much longer established businesses, fell 5.39%.

While many stocks from our portfolios experienced share price weakness, there were also some very positive performances. **Focusrite**, the global music and audio products company, issued a positive trading update pushing its shares to new highs. The share price of more recently listed **K3 Capital Group**, the business sales and brokerage business, also soared on the back of a very positive trading update.

It proved to be a very quiet period for new arrivals on AIM. February arrivals included **OnTheMarket**, the estate agent-backed property portal, whose share price has tumbled 31% despite issuing positive news, and **TruFin**, which

focuses on growing Fintech and banking businesses, whose shares have performed more positively.

All the new AIM arrivals are covered by our associates **Investor's Champion** in their [Blog](#).

The catastrophic failure of **Conviviality**, the retailer and distributor of alcoholic beverages, dominated the AIM headlines in the quarter. We used to hold shares in this business but were compelled to sell back in October 2016 having reassessed things. We are certainly happy we did!

At the end of March 2018, there were 947 companies on AIM, with a total market capitalisation of £103.3bn. This compares with 960 companies at the end of December 2017 when the market capitalisation was £106.8bn.

Just after the quarter end we concluded to sell our position in **Restore**, the document storage and office relocation business, having fully reassessed things at the time of the latest acquisition. This is a controversial call on a share that is currently well-liked by many large institutional investors, however we have strong reasons for wanting to sell and would be happy to elaborate on request.

Where appropriate, new positions were opened in **dotDigital Group**, which runs the dotmailer e-mail marketing platform, **ECO Animal Health**, which is engaged in the development of pharmaceutical products for animal health markets and **IG Design** which is engaged in the design and manufacture of gift packaging and a host of other items that are regularly purchased.

Investor's Champion, a business affiliated to us, continues to publish regular commentaries on AIM companies and offers an excellent idea of companies we are looking at.

SEARCHLIGHT INVESTMENTS
LIMITED

89 High Street
Rickmansworth
Hertfordshire
WD3 1EF

+44 (0)1923 896189

admin@searchlightinvestments.co.uk
www.searchlightinvestments.co.uk

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Outlook

Having witnessed a sort of mini-correction in the first quarter, the valuations of many AIM stocks look certainly look more reasonable than they did a few months ago. We continue to believe that, in the absence of spectacularly good news, 2018 will see the share prices of the more highly priced stocks struggle to make much progress. As we hinted at previously, the sell-off in US technology stocks has indeed seen UK peers tumble in sympathy, thereby presenting some buying opportunities.

We are increasingly wary of the Buy and Build strategies adopted by some companies on AIM, led by corporate managers with little real equity participation; **Conviviality** being one such example! Many of these businesses seem to address low growth markets and are struggling to make real progress, flattering their returns through large ongoing exceptional items and restructuring costs. To quote Warren Buffett, 'Only when the tide goes out do you discover who's been swimming naked.' On this measure Conviviality could be likened to a nudist colony!

There are exceptions, but generally speaking we have a preference for smaller companies, addressing growing markets, where the founders or families retain a meaningful equity stake, with the predominant focus on organic growth

funded through internally generated cash flow.

AIM for IHT planning investment universe

Our overall investment universe for the purpose of IHT planning consists of approximately 350 companies with market capitalisations ranging from approx. £30m to £2.6bn (April 2018). Excluded sectors for the purpose of IHT planning purposes are Real Estate, Investment Companies and Banks.

While not strictly excluded for qualifying purposes, we have no exposure to AIM quoted mining companies and oil and gas producers due to the more speculative nature of a large number of these and the instance of dual listings.

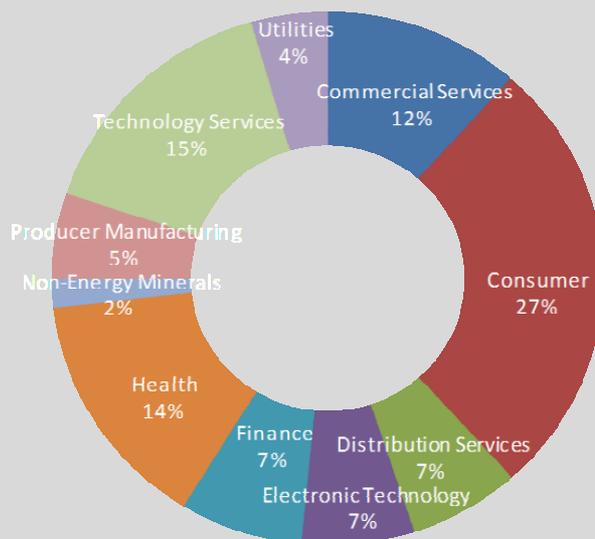
Fundamental AIM portfolios are constructed from a key list of researched stocks. Our current key list is split between deemed 'Core' and 'Non Core' holdings, with approximately 40 companies in the former and 30 in the latter. The 'Non Core' element has been increased reflecting our preference to hunt for value among smaller AIM companies, but not wanting to be over-exposed to individual stocks.

For further information please feel free to call or e-mail Stephen Drabwell or Christopher Boxall using the contact details shown overleaf. This newsletter is available at: www.fundamentalasset.com/publications/

Core Stocks Average Statistics 9/4/18

Market capitalisation	£381m
PER (2018 consensus estimates)	20.6x
Dividend yield (at current share price)	2.33%
UK domestic market exposure	62%
Overseas based companies	NIL

Core Holdings Sector Split



	Since Inception Sept. 2004	YTD 2017	QTD
Model Portfolio	+329.90%	+27.51%	-2.90%
FTSE AIM All Share	+10.39%	+24.30%	-3.36%

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