

Puma AIM Inheritance Tax Service

Q1 2023 Report

INVESTMENT TEAM



Dr Stuart Rollason
Investment Director



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In Q1 2023, the Puma AIM IHT portfolio decreased by -4.74%, underperforming the FTSE AIM All-Share Index, which decreased by -2.65%, and the FTSE All-Share Index, which increased by +2.03%. Since inception in July 2014, the portfolio has increased by +77.41%, outperforming both the FTSE AIM All-Share Index (+3.04%) and the FTSE All-Share Index (+15.49%).

In this reporting period, the Bank of England increased interest rates from 3.5% to 4.25% in two steps, in response to indications of stronger GDP figures and higher core consumer price inflation. UK GDP grew at 4.0% in 2022 after a flat Q4 2022. GDP is forecast to have decreased by 0.4% in Q1 2023, but is expected to show a slight increase in Q2 2023; a significant improvement on prior forecasts of a further 0.4% decline, and just avoiding a technical recession.

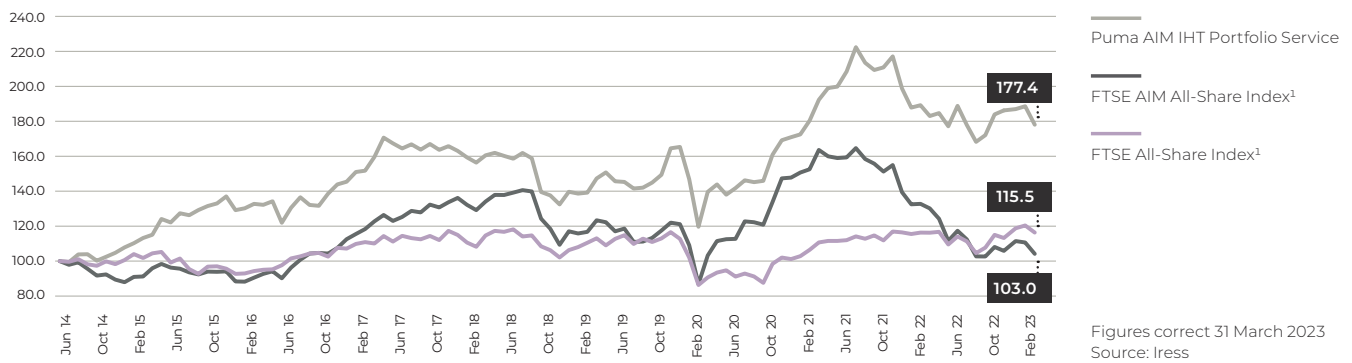
Early in Q1, there were a number of portfolio company trading updates, followed by results announcements in March. The news flow was encouraging: 27 delivered announcements in line with expectations and three reported ahead of expectations. One portfolio company had a profit warning and one reported results below expectations. Share prices of portfolio companies reacted more positively, aided by positive UK and global macroeconomic news that led markets generally on an upward trend. This early momentum came to an abrupt halt with the failure of Silicon Valley Bank. While comparisons to the 2008 banking crisis were overwrought, it did not stop a significant reverse in risk sentiment and a flight to safety, as investors sought to wait out the volatility. Frustratingly, the timing meant that, yet again, the market went into fear mode at an important moment in the financial calendar, as companies reported results. The clear progress and growth that many smaller companies are exhibiting were ignored.

We took the decision to look through the negative short-term market sentiment, to rebalance the portfolio. Cash was raised from the sale of one company about to be taken private, and the trimming of certain top ten holdings. Sale proceeds were invested in four companies new to the portfolio, as well as some of the five new companies introduced in Q4 2022.

The normalisation of interest rates across the major Western markets has caused some stress, as companies adjust to the new (old) normal, and the consequences of Putin's invasion of Ukraine continue to reach into economies and markets. Nevertheless, the current interest rate cycle is near the peak at 4.25%, and is forecast to fall to 3.25% over three years. The timing of that fall will depend on the persistence of inflationary pressures in domestic prices and wages. Business investment has been revised upwards, and annual CPI is expected to fall sharply from 10.5% to 4% by end 2023, as the increases in energy prices and other goods fall out of the annual rate calculation. Company outlook statements point to some headwinds, yet the vast majority continue to trade well. Management teams must be commended for navigating through significant economic challenges to deliver continued growth. We believe, on current evidence, that this will continue in 2023.

Dr Stuart Rollason,
Investment Director

Performance graph of the Puma AIM IHT Service's portfolio



Cumulative investment performance %

	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
PUMA AIM IHT Portfolio Service	-4.74	-6.22	+48.29	+13.49	+77.41
FTSE AIM All-Share Index (AXX) ¹	-2.65	-22.36	+18.61	-20.22	+3.04
FTSE All-Share Index (ASX) ¹	+2.03	-0.71	+33.80	+6.77	+15.49

Discrete investment performance %

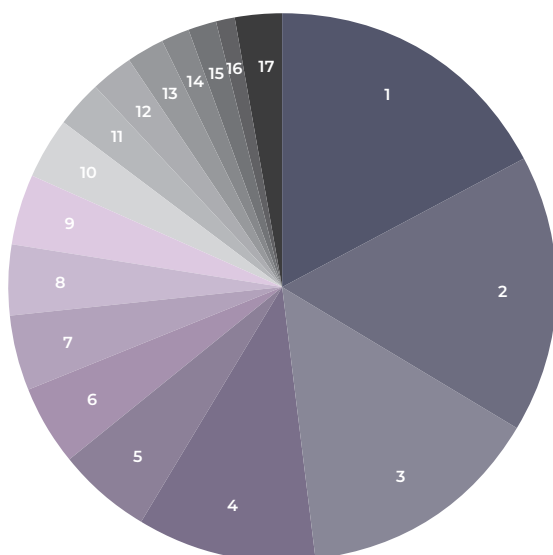
	2023 TO DATE	2022	2021	2020	2019	CAGR ²
PUMA AIM IHT Portfolio Service	-4.74	-14.24	+28.39	+2.81	+24.23	+6.77
FTSE AIM All-Share Index (AXX) ¹	-2.65	-31.69	+5.17	+20.74	+11.61	+0.34
FTSE All-Share Index (ASX) ¹	+2.03	-3.16	+14.55	-12.46	+14.19	+1.66

¹ The indices shown are for illustrative purposes only and are not considered directly comparable to the performance of this Service. Source: Iress.

² Compound Annual Growth Rate.

All performance data is quoted net of management and dealing fees and applies to actual initial investors' portfolios that remain invested. Please note that from Q2 2021 the performance data no longer applies to the previous Investment Director's portfolio, but instead applies to the next portfolio that remains in existence that has been invested since inception. Small variations in performance may apply as each individual investor has their own discrete portfolio of assets. Discrete performance data is calculated as full-year periods from 1 January to 31 December of the year displayed. Past performance is no guarantee of future results. | Source: Puma Investments, unless otherwise stated.
Date of inception: 1 July 2014.

Portfolio companies by sector % of portfolio



1	Software and computer services	17.43%
2	Support services	16.21%
3	Construction and materials	14.69%
4	Electronic and electrical equipment	10.51%
5	Technology hardware and equipment	5.54%
6	Finance and credit services	4.73%
7	Retailers	4.34%
8	Investment banking and brokerage services	4.22%
9	Property services	4.15%
10	Leisure goods	3.51%
11	Beverages	2.76%
12	Consumer services	2.53%
13	Medical equipment and pharmaceutical	2.33%
14	Telecommunication service providers	1.79%
15	Health care providers	1.56%
16	Industrial engineering	1.07%
17	Cash	2.65%

As at 31 March 2023. Figures may be subject to rounding errors.

Portfolio's top ten holdings

Company	% holding
Judges Scientific	7.03%
Renew Holdings	6.12%
FW Thorpe	5.54%
Cerillion	5.17%
H&T Group	4.73%
Bredon	4.35%
Vertu Motors	4.34%
Impellam	4.12%
EMIS	3.65%
Focusrite	3.51%
Total	48.55%

39

Total holdings in the portfolio

As at 31 March 2023.

Spotlight on a portfolio holding



Tracsis is a leading provider of software, hardware, geospatial/data analytics and services for the rail, traffic data and wider transport industries.

Founded as a spin-out of the University of Leeds, Tracsis provides an array of software, hardware and consultancy services to the UK rail industry. This includes software for train scheduling, passenger compensation for delayed services, and hardware for the monitoring of signals and level-crossing points. In 2022 it rolled out RailHub, an enterprise software system that provides a digital interface for 40,000 personnel who perform maintenance activities on the UK rail network.

Tracsis is intending to sell its existing products into the North American market, which has been slower than the UK to adopt technology to maintain and improve its rail network. Greater safety regulation and acceptance of the savings achieved from remote monitoring are driving adoption of these services in the US, although this remains a nascent opportunity.

Quality

Tracsis has a market leadership position in the UK market, built organically and through acquisition of complementary products. Its products are mission-critical for the operation and safety of the UK rail network. Its extensive investment in research is all expensed, and even so, the business operates with EBITDA margins in excess of 20%. The Traffic Data and Events business is lower margin and is not seen as critical to the future of the group, so we see potential for margin expansion as the strategy focuses on higher margin areas.

Growth

The business is currently experiencing good organic growth annualised at 13%, and ahead of the 10% long-term annual target. Growth is being seen in North America, which we forecast to continue, as well as through cross-selling of products to the existing UK customer base. We expect Tracsis to deploy its strong balance sheet to add further products and enter other markets.

Valuation

As product development spend is expensed, and revenues are increasingly on long-term contracts, we value this business on a free cash flow yield. This sits at around 5%, which we feel undervalues the company based on the long-term opportunity for the North American business, as well as the additional markets that could be developed.

£267m

Market capitalisation

Source: London Stock Exchange

895p

Price at end of quarter

Source: London Stock Exchange

2004

Year established

Source: Companies House

As at 31 March 2023.

Fees and expenses

	Direct with Puma	Through a platform ¹
INITIAL FEE	1% (of amount subscribed)	No initial fee charged to investors accessing the service through a platform
ANNUAL MANAGEMENT FEE	1.5% inc VAT (of portfolio value)	1.5% inc VAT (of portfolio value)
DEALING FEE	1% (applied to purchase or sale of stocks)	Platform and dealing fees may vary across platforms

¹ Other platform fees may apply.

Overview of the Service



Portfolio service

An award-winning discretionary portfolio service that seeks to deliver long-term growth focusing on quality companies quoted on AIM.



Inheritance tax

It is intended that investors will benefit from relief from inheritance tax provided investments are held for at least two years prior to and at the point of death.

MIN

Subscription amount

Minimum subscription of £20,000 with no maximum.



Available in ISAs

Investing in a portfolio of qualifying AIM stocks allows holders to mitigate inheritance tax while still retaining the benefits of an ISA.

Launch date: 1 July 2014.

Access through adviser platforms



Risk factors

An investment in the Service carries risk and may not be suitable for all investors. Investors should refer to the Investment Details and Investor Agreement, copies of which are available on the website www.pumainvestments.co.uk. Below are the key risks of the Service.

- Past performance is not a guarantee of future performance.
- Tax reliefs are not guaranteed, are subject to personal circumstances and subject to change
- You may lose money
- Long-term investment
- Potentially illiquid investment

Get in touch

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