

# Puma AIM Inheritance Tax Service Q1 2015 Quarterly Report



PUMA AIM  
INHERITANCE  
TAX SERVICE  
Calculated Excellence

AVAILABLE IN ISAS

## Background to the PUMA AIM Inheritance Tax Service

Puma AIM offers a discretionary portfolio service that seeks to deliver long-term growth while mitigating Inheritance Tax. It aims to mitigate Inheritance Tax by the use of Business Property Relief (BPR), which takes effect after just two years from the acquisition of qualifying AIM stocks.

We focus on investing in quality companies with strong margins, good returns and a track record of cash generation. We select companies on strict valuation criteria with a focus on capital preservation. We seek to invest in companies which can deliver solid long term growth. Our approach is research driven and we only select investments after intensive financial and business analysis.

## Investment Director's Quarterly Portfolio Review

During the first quarter of 2015 the Investment Director's portfolio increased by 8.10% after management fees and dealing charges compared to a 2.01% increase in the FTSE AIM All Share Index. This is a +6.09% outperformance of the market during the quarter. Since launch the portfolio has increased by +13.19%, a +22.00% outperformance of the FTSE AIM All Share Index.

The quarter was a slightly busier one than last quarter in terms of portfolio turnover. During January we sold our position in Prezzo plc, the chain of Italian restaurants, ahead of its take-over by a private equity company, after the controlling family agreed to sell. We sold prior to the closure of the take-over so the invested capital remained BPR qualifying throughout. We also sold the remainder of the position in support services company Restore plc, which has returned over 30% for the portfolio.

We remain confident in the outlook for the Puma AIM IHT portfolio service.

**Justin Waine**  
Investment Director

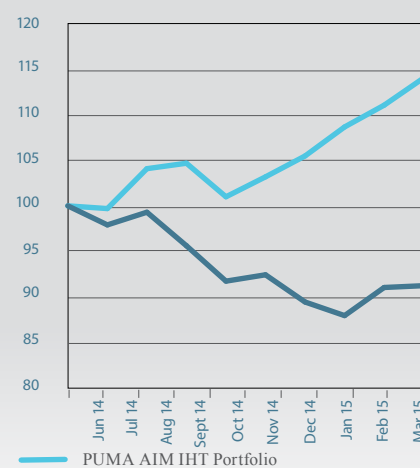
## Discrete Investment Performance in %

2015	Q1	Q2	Q3	Q4	YTD
Puma AIM IHT Portfolio Service	+8.10	-	-	-	+8.10
FTSE AIM All Share Index (AXX)	+2.01	-	-	-	+2.01
Relative Outperformance	+6.09	-	-	-	+6.09
2014	Q1	Q2	Q3	Q4	YTD
Puma AIM IHT Portfolio Service	-	-	+3.91	+0.81	+4.72

## Cumulative Performance in %

	3M	6M	9M	Since Inception
Puma AIM IHT Portfolio Service	+8.10	+8.98	+13.19	+13.19
FTSE AIM All Share Index (AXX)	+2.01	-4.61	-8.81	-8.81
Relative Outperformance	+6.09	+13.59	+22.00	+22.00

Monthly Performance Graph  
of the PUMA AIM IHT Portfolio

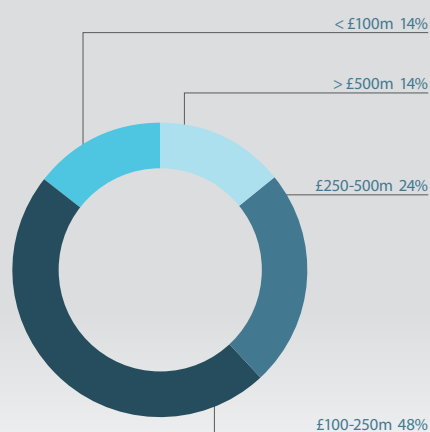


Source: Puma Investments, FTSE International

## Portfolio's Top Ten Holdings

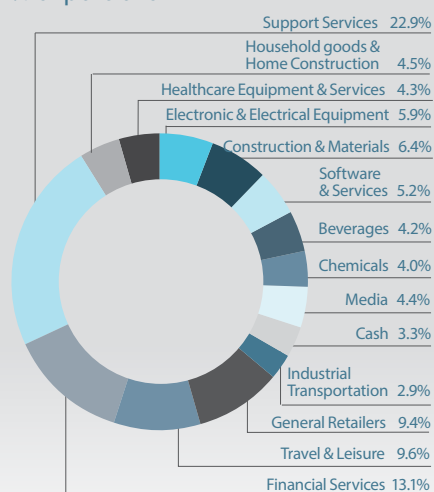
Company	% holding
Impellam	8.89
Renew Holdings	6.05
FW Thorpe	5.90
H&T	5.73
Vertu	5.53
EMIS	5.19
Patisserie Holding	4.83
GVC Holdings	4.73
Telford Homes	4.50
Cello	4.42
<b>Total % of the portfolio</b>	<b>55.77</b>
Total Holdings in portfolio = 21	

### Portfolio Companies by Market Cap % of portfolio



Source: Puma Investments

### Portfolio Companies by Sector % of portfolio



Source: Puma Investments

## Spotlight on a portfolio holding

### Summary

#### H&T Group plc

H&T Group is the UK's largest pawnbroker

**Sector:** Financial Services

**Year Established:** 1897

**Price at the end of quarter:** 189p

**Market Capitalisation:** £72m

### Company Background

Walter Harvey and Charles James Thompson established a pawnbroker together on the 1st July 1897. The first store opened on Vauxhall Bridge Road, London. The company expanded gradually until 1992 when having reached 26 shops it was acquired by Cash America Inc. The increased investment allowed the company to grow its store estate to 57 shops. It also diversified into areas such as cheque cashing and pay day advances. In 2004 the company was bought from Cash America by its management in a private equity backed buyout. In May 2006 the company joined the AIM market at 172p with a market capitalisation of £54m. By the end of 2014 the company had grown to 191 stores comprising of 152 H&T Pawnbrokers and 39 est1897 second-hand jewellery retail stores.

### Business Performance

H&T has only provided modest returns to investors since its IPO in 2006. This is despite the growth in a number of key metrics since going public. The company had increased its number of stores from 69 to 191 outlets. The revenues have increased from £32.1m in 2006 to £87.7m in 2014 and the pledge book, (how much the company has lent out), has increased from £25.2m in 2006 to £38.5m in 2014. EBIT by contrast has declined from £7.2m to £6.2m. This trend masks a rapid increase in the business until a peak in 2010, followed by a rapid decline in the business thereafter. As such the decline in costs, have lagged the decline in revenues. We now believe the revenue decline has ended and that the cost base has been rebased to the appropriate level. We expect the company to grow gradually from this level going forward.

### The Market

H&T is the market leader in the UK pawn-broking market. The market was characterised by rapid growth from the mid 2000s driven by the strong rise in the gold price, the roll out of new outlets and after the financial crisis increasing demand from consumers for alternatives to bank finance. The whole industry over expanded; which led to an excess supply of pawn-broking outlets. This was further compounded by increasing competition from other alternative loan providers such as pay day loan companies. After 2011 the collapse of the gold price further compounded the industry's woes. Since then things have improved for the industry with a contraction in the number of pawn-broking outlets, the effective closure of the payday loan industry and a more stable gold price.

### Our Conclusions

As stated in the Investment Policy, we look at companies through the prism of three factors; quality, growth and valuation. While we aim to buy high quality, high growth businesses on a low valuation this is not always achievable and most investment decisions involve a trade-off between these three factors.

**1. Quality:** H&T is the market leader in the UK pawn-broking industry. It has generated free-cash flow in each of the last five years, reflecting in part the reduction of the pledge book. Net debt is low at 1x EBITDA. Margins and returns have been depressed to single digit levels by the industry issues discussed above, this compares with returns and margins exceeding 20% at the peak. While we do not expect the company to return to these levels, we believe as the business grows on its existing cost base that returns and EBIT margins can rise to double digits.

**2. Growth:** We expect the company to benefit from the gradual reduction in competition from both other pawnbrokers and alternative consumer lenders. H&T are also making its own efforts to grow the business including rolling out its second hand jewellery stores under its brand est1897. It is also expanding in the area of personal loans.

**3. Valuation:** H&T is very lowly valued and trades at a small discount to tangible asset value. Based on our estimates it trades on 11.7x EV/NOPAT 2015. We expect the company to generate a free-cash yield of 5% in 2015 rising in subsequent years. Assuming the company recovers as we anticipate, there should be a considerable upside to the current share price.

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## Overview of the service

**Portfolio Service:** A discretionary portfolio service that seeks to deliver long term growth focusing on quality companies listed on AIM.

**Inheritance Tax:** It is intended that investors will benefit from relief from Inheritance Tax provided investments are held for at least 2 years prior to and at the point of death.

**Subscription Amount:** Minimum subscription of £15,000 with no maximum.

**Available in ISAs:** Whilst ISAs are extremely tax efficient during the holder's lifetime, upon death ISA balances may be subject to a 40% IHT liability. Investing in a portfolio of qualifying AIM stocks allows holders to mitigate Inheritance Tax while still retaining the benefits of an ISA.

## A Focused Investment Strategy

**Manager:** Puma Investments is part of Shore Capital, an AIM listed company itself, with a 30 year history. The team is led by Justin Waine, an Investment Director with 16 years of experience specialising in small and mid-cap companies.

**Quality Companies:** We seek to invest in quality companies with strong margins, good returns and a track record of cash generation.

**Research Driven:** We select companies on strict valuation criteria with a focus on capital preservation. Our approach is research driven with detailed financial analysis.

**Portfolio Construction:** Targeting approximately 20 companies with market capitalisations in excess of £50 million and low portfolio turnover.

## Investment Director



**Justin Waine**  
Investment Director

Justin graduated from Oxford with a degree in PPE. He joined Cazenove & Co as a sell side research analyst responsible for small and mid-sized companies.

In 2003, Justin joined Polar Capital Partners as a fund Manager on European Funds. This included managing a significant portion of the award-winning European Forager Fund; an absolute return fund focused on Pan-European small and mid-sized companies. Justin was responsible for investment across the whole of Europe, but predominantly focused on the UK, Germany and Switzerland, including companies listed on AIM.

## Fees and Expenses

Initial Fee		Annual Management Fee	
Less than £500k	2%	Less than £500k	1.5%
At least £500k but less than £1m	1.5%	At least £500k but less than £1m	1.25%
£1m or more	1%	£1m or more	1%

### Dealing Fee

A 1% dealing charge shall be applied to the purchase or sale of all stocks in the portfolio.

## FOCUS ON CAPITAL PRESERVATION

INVESTMENTS SELECTED ON STRICT VALUATION CRITERIA WITH A FOCUS ON CAPITAL PRESERVATION

## NATIONAL COVERAGE

NETWORK OF FIVE OFFICES INCLUDING LONDON, LIVERPOOL AND EDINBURGH

## EXPERIENCED TEAM

MULTI-DISCIPLINARY TEAM OF INVESTMENT PROFESSIONALS

## **30** YEAR HISTORY

PUMA INVESTMENTS IS PART OF THE SHORE CAPITAL GROUP ESTABLISHED IN 1985

## Shore Capital – Experts in AIM

**Long History:** Shore Capital has been active on AIM since its inception as both broker and corporate finance adviser to companies listed on AIM.

**Market-Making:** Shore Capital makes a market in 1,200 stocks and is the third largest market-maker on AIM by both value and volume of stocks.

**Research:** Shore Capital's highly regarded research team produce research on a wide range of AIM listed companies.

Part of the Shore Capital Group

 **SHORE CAPITAL**  
EXCELLENCE INTEGRATED

**Note:** Your capital may be at risk and past performance is no guide to future results. Please note the risk factors on the last page.

## Risk Factors

An investment in the Service carries risk and may not be suitable for all Investors. Investors can only invest in the Service through a Financial Adviser who has assessed that an investment in the Service is suitable.

**Past Performance:** Past performance is no indication of future results and share prices and their values can go down as well as up.

**Tax Reliefs are not Guaranteed:** Tax reliefs depend on individuals' personal circumstances, minimum holding periods and may be subject to change.

**You May Lose Money:** An investment in smaller companies is likely to be higher risk than other investments. Investors' capital may be at risk and Investors may get back less than their original investment.

**Long-Term Investment:** An investment in the Service should be considered a long-term investment.

**Potentially Illiquid Investment:** AIM stocks are largely small and illiquid. They are characterised by significant spreads and low trading volumes. It may prove difficult for Investors to realise immediately or in full proceeds from the sale of such shares.

## Disclaimer

All performance figures shown in this quarterly factsheet are reported after deduction of Puma Investments' management fees and dealing fees. The figures reflect the performance of the Investment Director's own portfolio and as such reflect the investment of real money in the Service.

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