



Wise Investment

# AIM Portfolio Review December 2011

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## First Birthday

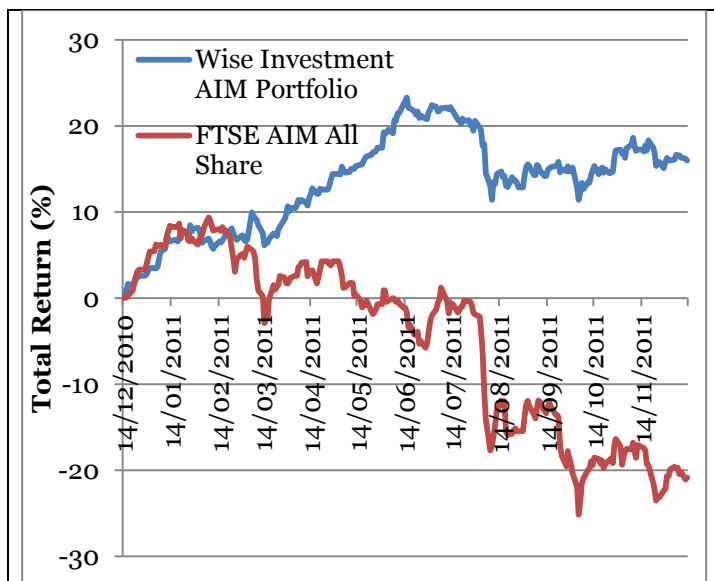
The Wise AIM portfolio is one year old. The first year has been eventful, and the performance pleasing. The model portfolio returned 16% on a total return basis in the year to 13<sup>th</sup> December 2011, compared to the AIM market which was down by over 20% (see panel opposite). Helping the portfolio have been two takeovers, and other investee companies continue to trade strongly (current holdings are on page 2).

We haven't had it all our way though, and the portfolio has fallen in value by 5.5% over the second half of the year. In this review I will examine the positive and negative contributors to the first year's performance. I'll also focus on a portfolio company that we have recently visited, F.W. Thorpe.

## The positive

Two of our investee companies were takeover targets during the year. The first, in March, was a bid for Education Development International (EDI) from Pearson. Pearson is a global provider of educational material, training and testing, with an increasing focus on digital delivery. They also own the Financial Times and Penguin books. EDI provide IT-based examination and training systems, so were a natural fit with Pearson's other businesses. The takeover price was 201.5p, a premium of some 63% to that quoted before the offer, and double the price when we launched the portfolio. We replaced EDI with Nationwide Accident Repair Services.

In November a second investee company, Hamworthy, received a takeover approach from Wartsila, a Finnish designer of marine engines and power stations.



1: Simulated return of the Wise AIM portfolio based on actual client holdings, and the return of the FTSE AIM All Share index. Total return includes reinvested income. Source: Bloomberg.

*This data is for illustrative purposes only and is presented before fees are deducted. Actual results may differ due to costs associated with dealing and differences in exact portfolio construction. Past performance is not a reliable indicator of future performance.*

Hamworthy design fluid delivery systems for the marine industry. The offer price was 825p, with the deal to conclude early in 2012. As with EDI, Hamworthy's price has doubled over the year. This is partly thanks to the acquisition, but the stock had been performing strongly even before the takeover announcement. Once the deal has completed we will use the cash to invest in one of the companies on our watch-list.

These two corporate actions gave a boost to short-term performance, and contributed the most to the overall return. Takeovers don't have to happen to drive returns though. We invest in companies that have good long-term prospects, and expect business fundamentals to be the main contributing factor to the valuation of the portfolio.



By way of example, Animalcare, which develops medicines for pets, contributed almost as much to performance as EDI. The company takes established, off-patent human medicines and applies them to the animal market. Aside from an issue with a manufacturing partner, which has been swiftly dealt with, the news flow from the company has been positive. They expect to launch four new products this year, the same as 2011 and in line with their stated aims. Other positives for the portfolio were Hargreaves Services, Nichols, Dealogic (which delisted), May Gurney and Young & Co.

We have naturally seen a number of detractors. Technical recruiter Morson has been seeing a slowdown in its core UK market, while using up cash by expanding overseas. On the first anniversary of the portfolio, the board announced that it was cutting the final dividend. The stock has more than halved over the year. Nationwide Accident Repair, an entrant to the portfolio half way through the year, fell by a third, again on news of a UK slowdown. It is worth noting that while some companies are feeling the effects of the economic climate more than others, we are confident in their long-term prospects. That said, things can and do change, and we will act accordingly if there is a permanent negative shift in the outlook for a company.

### Company Focus: F. W. Thorpe

Formed in 1936, F. W. Thorpe are designers and manufacturers of industrial lighting systems. We recently visited the family-run company at their headquarters and manufacturing facility in Redditch, and were shown around by current chairman Andrew Thorpe (grandson of the founder) and financial director Craig Muncaster. The trip gave us an insight into the market for industrial lighting, and how the company are tackling the changing trends in the industry. It will come as no surprise that energy efficiency is an increasingly important theme. Thorpe are exploiting this through their main brand, Thorlux, in offering systems that incorporate key control elements to limit energy usage. These work with the fittings that have traditionally been the core of the business.

Company	Industry
Animalcare Group	Animal Medicines
Brulines Group	Fluid delivery analytics
H&T Group	Pawn-broking
Hamworthy	Machinery-Diversified
Hargreaves Services	Commodities production, transportation and broking
James Halstead	Building Materials/Industrial Flooring
Matchtech Group	Technical Recruitment
Mattioli Woods	Diversified Financial Services
May Gurney Integrated Services	Engineering & Construction
Morson	Technical Recruitment
Nationwide Accident Repair	Automotive Recovery
Nichols	Beverages
Portmeirion Group	Household Products/Wares
Prezzo	Restaurants
Printing.com	Commercial Services
Stanley Gibbons	Stamp Dealing
Thorpe F.W	Industrial Lighting
Young & Co Brewery	Beverages
Zytronic	Technical Manufacturing

To their knowledge, they are unique in offering such an end-to-end product. It is the 'value added' service that sets the company apart from the competition, and makes the company more than a mass producer of commodity-like goods. We got to see Thorpe's products first hand in the impressive 'applications centre', a new demonstration suite that has mock-ups of tunnels, classrooms and even prison cells. The products certainly exude efficiency, actively reducing energy consumption in response to the natural lighting conditions and/or the presence of people.

What impressed about the management team was their appreciation of where the company sits within its market. They are focused on doing well in their niche, and this has led to remarkably consistent returns, particularly through the downturn of the last few years. While there are avenues for expansion internationally, their strong position in the core UK market arguably limits future growth. On the other hand, the company generates lots of cash which has in the past been returned to shareholders rather than used in expanding for its own sake. This discipline makes Thorpe an ideal stock for our AIM portfolio.

