ALTERNATIVE INVESTMENT MARKET (AIM) PORTFOLIO

HIGHLIGHTS

The portfolio continues to achieve its main aim of providing inheritance tax relief after two years via companies that qualify for business relief.

We continue to focus on businesses with solid fundamentals and noteworthy advantages. We believe this will produce satisfactory returns over the long term. We expect there to be periods of time when the performance of the portfolio with be significantly out of line with the benchmark. This is due to both the concentration of our holdings as well as our process of buying further when stocks remain under appreciated.

WHAT IS THE VALUE OF A BUSINESS ENTERPRISE?

While the year-to-date return on portfolios, including shares, remains very positive, the third quarter performance of portfolios pulled back from the year highs. Talking heads can always provide an explanation after the event as to the reason why the air in a balloon comes out quicker than it goes in, but what is more important we feel, is the reasons as to why we believe we have special confidence in the positions we continue to hold.

Price fluctuation in investment is normal. Two steps forward and one back is a perennial reality for all investors, the key is to look back over long passages of time and make sure the two steps are heading in the desired direction!
We judge our performance not by the change in price of our investments around the mean (or market), but by the preservation and expansion of client's capital over a significant timeframe. The number one rule to investment is to not lose client's money, the number two rule is to not forget the first.

So rather than jump in with an explanation of micro economic factors I thought it would be more helpful to initially answer a simple question: What is the value of a business enterprise? Posing such a question, focusing on the process of valuation, is what keep us sane - rather than being someone blown by the winds of popular opinion and market sentiment. A good quarter fills us with confidence, everyone agrees we are right (so we must be right, right?). A pull back in value fills us with fear (we must be wrong, we cannot be right, otherwise why would others disagree, right?)

Making sense of it all!

John Burr Williams, the author of The Theory of Investment

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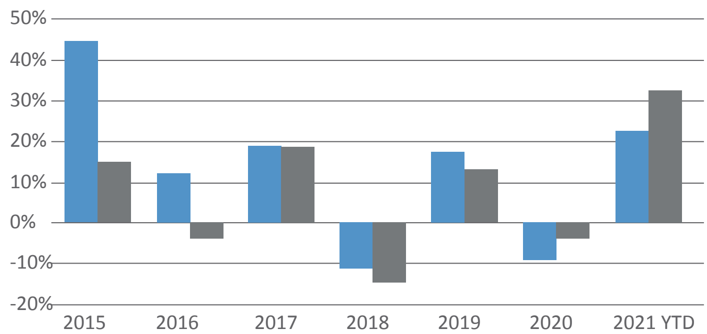
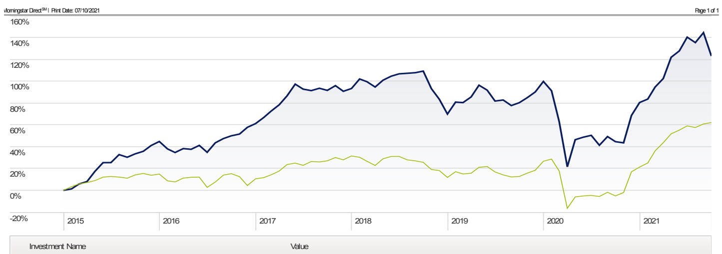
Portfolio Performance



Henry Spain AIM Portfolio   CBOE UK Smaller Companies

Source: Morningstar and Henry Spain. Data reference points: '01.01.2015 – 30.09.2021
*performance is based on a portfolio value of £500,000+ net of 1.2% + VAT annual management fee.

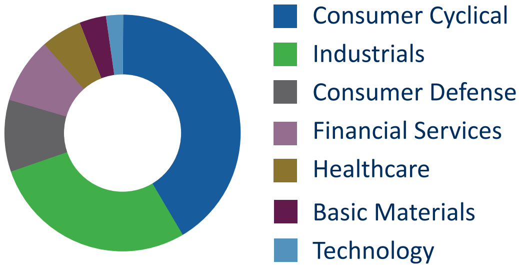


Henry Spain AIM Portfolio   CBOE UK Smaller Companies

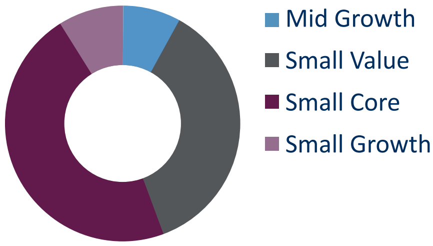
Source: Morningstar and Henry Spain Reference:
'01.01.2015 – 30.09.2021, net of 1.2% + VAT annual management fee.

The factsheet should be read in conjunction with the Costs & Charges Illustration.

AIM PORTFOLIO SECTOR HOLDINGS



COMPANY SIZES IN TERMS OF MARKET CAPITALISATION



TOP HOLDINGS

Company	Holding (%)
Staffline	10%
Character	14%
Gattaca	6%
Vertu Motors	7%
Portmeirion	5%

Cumulative Performance

	Henry Spain AIM Portfolio	CBOE UK Smaller Companies
1 Year (01/10/2020 to 30/09/2021)	54.29%	70.83%
5 Year (01/10/2016 to 30/09/2021)	48.78%	40.58%
Since Inception (01/01/2015 to 30/09/2021)	123.02%	62.03%

Discrete Annual Performance

Henry Spain AIM Portfolio	Total Returns for the Periods Shown	CBOE UK Smaller Companies
01/01/2016 – 31/12/2016	12.24%	-3.81%
01/01/2017 – 31/12/2017	19.40%	19.00%
01/01/2018 – 31/12/2018	-11.45%	-14.96%
01/01/2019 – 31/12/2019	17.85%	13.25%
01/01/2020 – 31/12/2020	-9.67%	-4.21%
2021 YTD	23.61%	33.62%

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Value, was the first person to really make the connection between the value of cash flows and the value of a business. It seems like an intuitive connection, and you would think it would have logical and popular appeal, but to many investors the value of a business is a complete mystery. What on earth should a business be worth? And more importantly (as most investors own a share of a business rather than the whole) – what should each share I own be worth?
The answer does not need to be as complicated as you may first think. In essence the value of an enterprise is its cash flows, the growth in those cash flows and the risk embedded in those cash flows.

Let us use a more common place example to try and make sense of what this all means: An investor seeks to buy a block of apartments in the centre of his/her own town. The expected annual rental income is £100,000 after costs and let’s assume, for simplicity, the rental income is expected to stay the same for the duration of the investment. What is the value of the apartment block? Well, you could just say let’s look at Zoopla – i.e., compare what other apartment blocks have been selling for in area and just say its worth around that. However, the problem with this approach is it’s a “pricing” not a “valuation”. What do I mean? Well, your primary source for valuation is “what someone else is willing to pay”. If you believe that markets are always logical and totally efficient then you could go with the “pricing” method, but if you want to know for yourself what the enterprise is worth based on the cash flows, the growth in those cash flows and the risk embedded in those cash flows, you would have to take a different approach.

Let’s assume that after consideration you realise that there’s around a 10% void period when rents are not going to be received on average so the per annum “owners’ earnings” are now £90,000 per annum. Depending on the approach of the owner, 100% of those earnings could be distributed, retained, or divided as a combination of the two. It is important to remember if the cash is retained this could be reinvested into further projects and the use of that capital could therefore create further value in

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time. If the cash is retained and then wasted or invested into projects that produce ever decreasing rates of return, then this is a poor outcome for the owner of the enterprise.

So, what is a money printing machine worth that can create £90,000 a year in cash flows? To determine intrinsic value we need to discount the value of those cash flows back by a required rate of return that allows for the risk in those cash flows – if we are certain that the cash flows will keep coming and we have adjusted for the risk we can use a lower rate. Warren Buffett famously adjusts cash flows for risk in his mind and then uses the long-term US government bond rate for his required rate of return. If we are uncertain or require a higher rate of return to account for the risk, then it's wise to use a higher rate or look for a wider margin of safety between the intrinsic value and the price paid for the investment. Price and value are not the same and the famous adage "they know the price of everything but the value of nothing" is a very true word when it comes to investing.

So, following this logic the intrinsic value of the apartment block is owners earnings divided by our required rate of return. If we required, an 8% return (in its simplest form) we would calculate the value of the enterprise to be 90,000/0.08 = £1,125,000. If we required a 12% return, then the value of the enterprise would be £750,000. It is important to realise, the more we pay for the cash flows of any enterprise, the lower the forward return if those cash flows remain the same.

If we wanted to account for growth in those cash flows intrinsic value becomes owners' earnings divided by our required rate or return minus the expected growth rate. In more complex models it helps to grow cash flows for a period of time at a different rate, and then assume growth does not continue at the same rate forever (perhaps something to discuss for those interested another time).

The important thing to understand is it's the cash that can be produced and returned to shareholders both now and, in the future, that forms the value of any enterprise. A business that does not produce cash today or will not produce cash in the future has no positive value.

In the magnificent mind of John Burr Williams, the only cash that was relevant was the cash paid in the form of dividends (a dividend discount model). What Warren Buffett and others discovered later was the power of compound earnings within a business enterprise. If earnings can be retained and grown at higher rates of return, then that's a money printing machine squared.

Pulling it all together we believe, based on the cash our investments can produce both now, and in the future, and allowing for the risk in those cash flows, many of our investments remain incredibly attractive, especially when compared to long term bond rates and inflation, and some Investments much more attractive than they did a month ago!
In portfolios, with individual shares, the top three contributors to performance in Q3 were Staffline 13%, Brooks Macdonald 13% & Vertu Motors 10%. Top three detractors were Character -28%, Gattaca -18% & Joules -28%. We remain convinced of the investment case for all six names mentioned and encourage all clients not to grow too enthused or despondent by short term moves in any of their share prices.

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TOM SPAIN
Investment Manager

"Most investors are primarily oriented towards return - how much they can make and pay little attention to risk - how much they can lose. My chief concern is the quality of the businesses we buy because when I get that right, returns have been more than satisfactory".