2021 Annual Letter

In 2021, the AIM Global High Conviction Fund delivered a return of +31.14% after all fees.

Considering the wall of worry markets had to climb in 2021, I am pleased to say that sticking to our process – owning high quality businesses for the long-run, and refusing to be bound by the false contradiction implied by the 'value' and 'growth' labels so readily ascribed by the market – has seen us through in reasonably good stead.

In particular, our efforts to ensure our businesses can exhibit pricing power in a period of rising input cost inflation was a key driver of the outcome we delivered. Higher inflation no longer seems to be as 'transitory' as hoped for by central banks, meaning businesses blessed with the combination of pricing power and a low requirement for reinvestment in tangible capital should still be positioned well, regardless of what happens next.

We intend to stay true to our philosophy: own high-quality businesses that can compound into the future, and use periods of market dislocation as opportunities to acquire or increase our ownership of such businesses with a greater margin of safety, with a view towards long-term business ownership.

Performance Summary

The table below presents the calendar year returns of the Fund since the long-only strategy inception (30 June 2019) to present, as well as the compound returns over two years, from the long-only strategy inception date, and the original inception of the Fund (7 July 2015.) All returns are net of all fees.

Calendar Year Returns	GHCF	Benchmark
2021	+31.1%	+29.3%
2020	+14.2%	+5.6%
2019 (Long-Only Strategy Inception: 30 June 2019)	+5.7%	+9.0%
Compound Returns (annualised)		
Two Years (31 December 2019)	+22.4%	+16.8%
Long-Only Strategy Inception (30 June 2019)	+20.1%	+17.2%
Fund Inception (7 July 2015)	+8.3%	+10.2%

Please note: the benchmark was changed from the MSCI World Index in USD (price only) on 1 July 2019 to the MSCI World Total Return Index in AUD. The benchmark return above reflects this change. Past performance is not indicative of future performance.

Our Annual Letter

As an investment team, we remain committed to providing our investors with a high level of transparency into the businesses the Fund owns on your behalf, the drivers of our performance, and the rationale behind the decisions our investment process leads us to when allocating your capital.

Our Interim and Annual Letters are crucial tools in achieving the abovementioned goals, and I hope you can find a moment to read them. (We'll do our best to try and make them interesting and sufficiently informative to warrant the investment of your time.)

This Annual Letter is divided into five parts:

- Part One provides an overview of our performance for the year, discussing in detail the factors that contributed to and detracted from performance, as well as several other ratios (including from a risk perspective) that we consider relevant.
- In Part Two, we provide an update on portfolio positioning and the underlying fundamental characteristics of the Fund.
- In Part Three, we examine a few lessons learned and insights gained in 2021.
- In Part Four, we discuss the repeatability of our investment process in compounding your wealth.
- In Part Five, we provide some concluding thoughts on where we see a specific risk for markets in 2022 and beyond.

The five parts are independent of each other and can be read in any order, though we have presented it in a way we feel is most logical.

As per usual, we conclude with a one-page summary of our investment philosophy for ease of reference.

Conclusion

As we close the book on yet another decidedly less-than-ordinary year in global markets, I would like to take this opportunity to thank all investors – new and long-standing – for your ongoing support. Our goal remains the long-term compounding of your wealth through sensible capital allocation.

With regards

Charlie Aitken

Part One: Portfolio Manager's Review

Etienne Vlok, Portfolio Manager

Performance Overview

For the calendar year ended 2021, the AIM Global High Conviction Fund (GHCF) delivered a return of +31.14% after all fees. This compares to a benchmark return of +29.29%.

Performance to 31 December 2021	FYTD	1 year	2 years	30 June 2019	2 years (ann.)	30 June 2019 (ann.)
AIM Global High Conviction Fund	+14.1%	+31.1%	+49.7%	+58.2%	+22.4%	+20.1%
MSCI World Net Total Return (AUD)	+11.3%	+29.3%	+36.5%	+48.7%	+16.8%	+17.2%

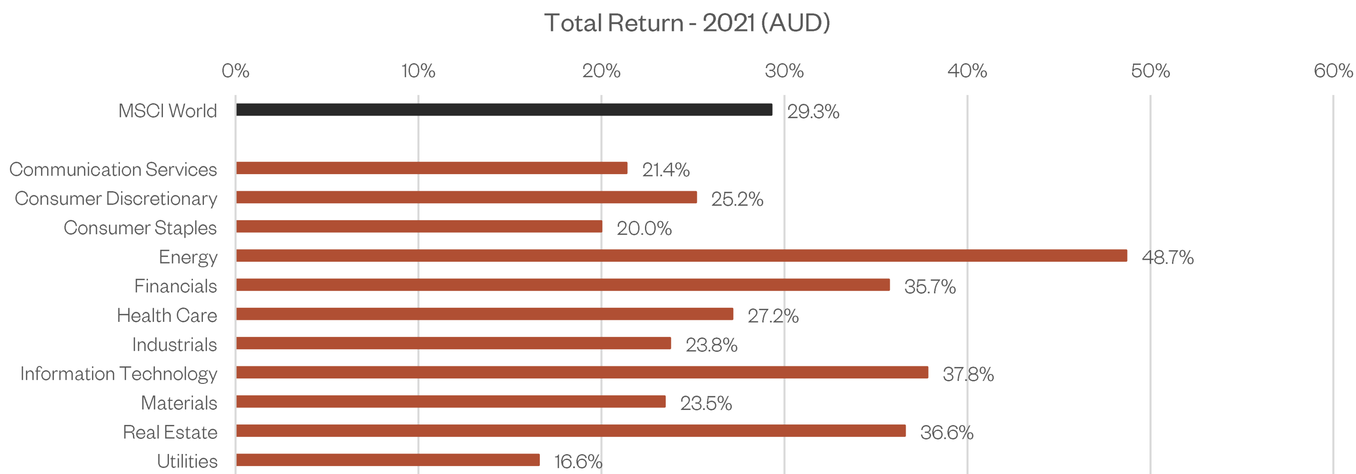
Source: Apex, MSCI. Returns are presented net of fees in AUD. Past performance is not indicative of future performance.
Benchmark changed from 1 July 2019 to the MSCI World Total Return Index in AUD. Investment strategy changed to long-only from 1 July 2019.

A 30%-plus year is hopefully a 'good enough' outcome in anyone's book, but outperforming the benchmark by 1.8% (after fees) hardly feels like something to get excited about. Normally, we would agree. However, 2021 was anything but a 'normal' year, and when considering the factors that drove markets at various points over the past twelve months, we are pleased with the outcome as an investment team, while remaining conscious that (as always) there is more work to be done.

The proverbial 'main event' that markets had to navigate in 2021 was the ongoing economic recovery as progress was made with vaccine rollouts around the world. Progress on this front had to be weighed against higher levels of realized inflation that stemmed from excess consumer demand, disrupted supply chains, and a very tight labour market, all of which resulted to some extent from the extreme measures taken in 2020 to support the global economy through the worst of the pandemic. We had flagged the risk of higher inflation extensively during the latter months of 2020, and already positioned the Fund for a variety of possible outcomes prior to entering 2021.

The generally recommended 'trade' at the start of 2021 was to go overweight the value factor (or at least, businesses with lower starting valuations) relative to 'growth' stocks. Many of these traditionally labelled 'value' stocks were concentrated in sectors (Financials, Energy and Materials) we generally consider outside the bounds of our investable universe, largely because the underlying businesses do not sustainably generate returns on capital that meet our minimum hurdle rates.

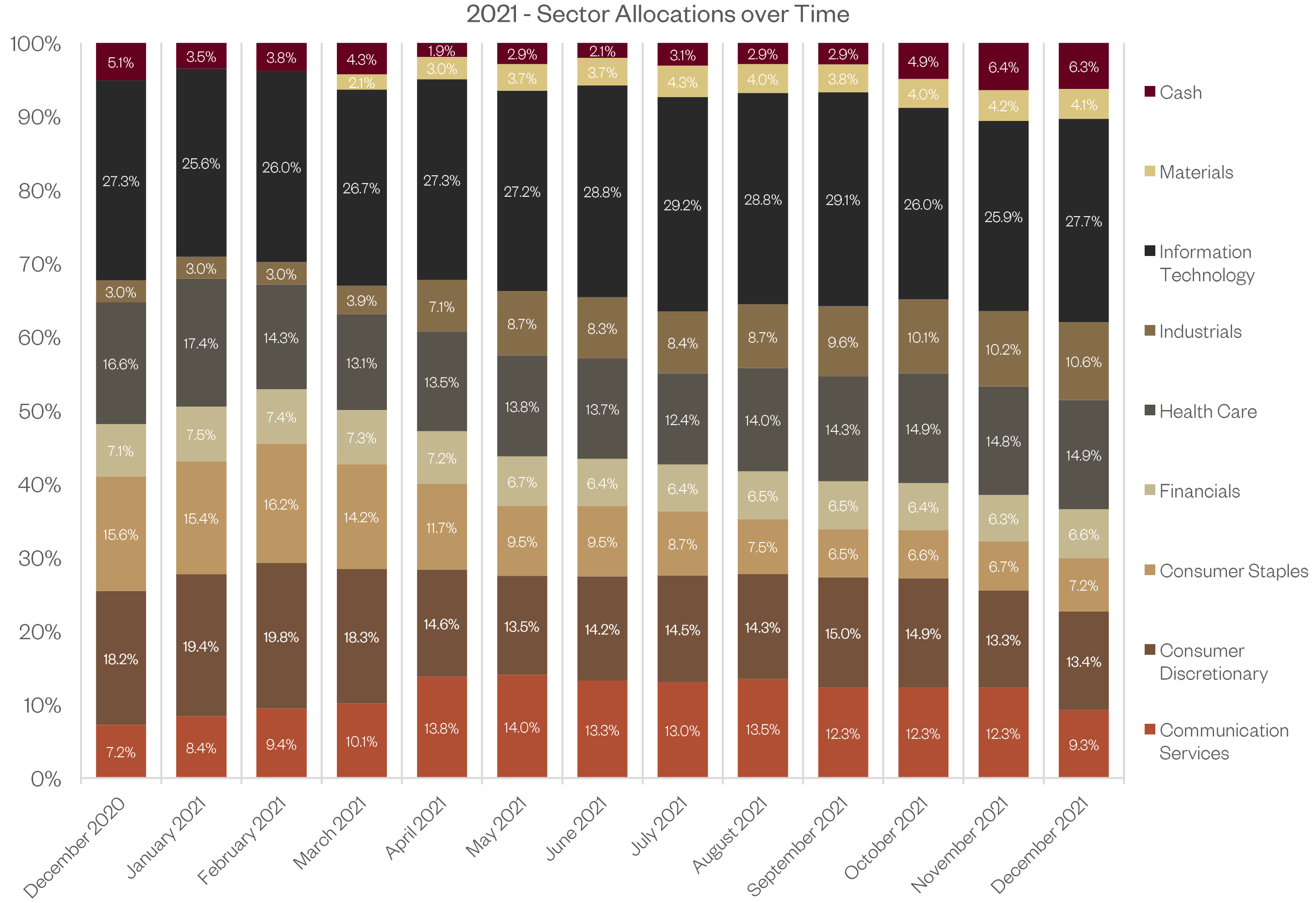
The table below shows the total return (in AUD) for the parent MSCI World index, as well as the sector components it is comprised of.



Source: MSCI.

Note that – except for the IT sector (+37.8%) – the only three sectors that managed to outperform the broader market index (+29.3%) in 2021 were Energy (+48.7%), Financials (+35.7%) and Real Estate (+36.6%). Generally speaking, you'd have done quite well by owning these more 'value'-tilted sectors in 2021 and going to the beach. (If only someone were kind enough to publish this data in advance of the year commencing rather than at the end, we certainly wouldn't fault you for doing so; however, since we lack the clairvoyance required to follow this strategy, we'll stick to our knitting!)

As the monthly sector allocation in the graph below highlights, the Fund had no exposure at all to the best performing sector (Energy), and very differentiated exposures in Financials (Berkshire Hathaway is most certainly not a bank) and Materials (Croda PLC is a provider of speciality chemicals, i.e. not a producer of commoditised metals.)



Source: Apex, FactSet, AIM.

The graph above depicts our year rather succinctly: we owned hardly anything in the best performing sectors, whereas the sectors where we generally had meaningful overweight positions, lagged the overall benchmark.

Thus, the fact that the Fund modestly outperformed the market came down to our stock selection. The result gives us confidence that our research and portfolio construction processes are working as intended, and hence the reason why we are at ease with the relative return of +1.8% we have delivered for our investors. We might be pressed into at least admitting we are 'happy' about the absolute return, but no champagne corks are popping; we have a tricky market to navigate in 2022.

The investment team has been around long enough to understand that in the short-term, the flow of liquidity sets prices, and sentiment drives flows. If sentiment is favouring a particular sector, stock or investment factor/style at the cost of another, flows into these beneficiaries lead to more buyers than sellers, pushing prices higher as demand exceeds supply. There is no doubt that in 2021, the perceived safety and quality of our businesses attracted buyers. This could obviously work in the reverse. (In fact, as we put pen to paper for this letter in early January 2022, this seems to be exactly what is happening: our "quality" businesses are being sold to fund the purchase of "value" names).

Trying to predict sentiment (a Keynesian Beauty Contest) and benefit from short-term flows is outside of our circle of competence. We want to own businesses for the long run, not trade their stock in the short-term. This leads to a point worth highlighting: the longer one intends to own a business, the greater importance one should place on its competitive position, industry dynamics, management ability and capital allocation track record. To quote from our June 2021 Interim Letter:

> *[...] it is worth pointing out that over as short an investment horizon as one year, the vagaries of what is currently in vogue ("Value! Growth! Reflation! Deflation!") is largely driven by narrative and sentiment. We believe that fundamentals win out over the longer term, meaning that as time goes by, the performance we aim to deliver to you will increasingly be attributable to the hard work of the management teams and staff employed by the businesses we own on your behalf. Our job is to prudently allocate your hard-earned capital to trustworthy people at an attractive price, and then to let them get on with creating value.*

We do not invest your capital with an annual investment horizon in mind; we plan to be perpetual owners. As Warren Buffett has pointed out, "our investments simply are not aware that it takes 365 days for the earth to make it around the sun."

We would caution investors against mentally extrapolating the rate of return we have delivered this year; there will undoubtedly be leaner periods at some point in the future. The right way to think (and survive) in markets is to have a stoic disinterest in short-term results (which a single calendar year would be, in our opinion) and rather focus on our longer-term compounding ability. Since the shift to the long only strategy (June 2019), the Fund has returned +58.2% (+20.1% annualised), which is an outcome we are pleased with both in absolute and relative terms, and when compared to our long-term return target of 8% - 12% per year.

Our return profile

For the sake of clarity, we absolutely believe there will be periods where our strategy will underperform the market. (From experience, this happens about one in every three or four years). The table below presents the Fund's return by calendar quarter for the past two years. We are of the opinion that breaking down our return profile over this period by quarter is instructive, as it demonstrates how and when we believe our quality-focused strategy will outperform (and, conversely, when it may lag.)

Quarterly Performance	1stQ20	2ndQ20	3rdQ20	4thQ20	1stQ21	2ndQ21	3rdQ21	4thQ21
AIM Global High Conviction Fund	-2.5%	+7.0%	+5.8%	+3.4%	+2.8%	+11.8%	+3.2%	+10.5%
MSCI World Net Total Return (AUD)	-9.3%	+6.1%	+3.7%	+5.9%	+6.3%	+9.3%	+3.9%	+7.1%

Source: Apex, MSCI. Returns are presented net of fees in AUD. Past performance is not indicative of future performance.

To reiterate, our quality-based strategy should hold up better during periods of market distress due to our focus on balance sheet strength. Following a market crash, our preference for cash producing (and cash-rich) businesses should generally see us perform well; however, when the crisis abates and the next cyclical rally starts, we will likely only match (or possibly lag) the general market index for a period as markets then favour lower-quality, cyclically sensitive stocks. As the business cycle matures, we expect our businesses to outperform due to their intrinsic competitive advantages and superior capital allocators at the helm, leading to their internal pool of capital compounding at a high rate of return.

As you study the table above, you will note that the expected return profile outlined is indeed the pattern we managed to deliver over the last two years: outperforming markedly in the March 2020 crash, achieving modestly better returns over the second and third quarters of 2020, and then lagging the market slightly in the final quarter of 2020 as the news of vaccines being approved kicked off a rally in more cyclical assets. This 'risk-on' rally persisted in the 1st quarter of 2021, but thereafter the Fund kept pace with (or modestly outperformed) the broader market index as it became clear the economic recovery would be more uneven than initially believed.

Over a full economic cycle, we think our strategy will be able to produce a fine result, but we do not expect to be able to outperform markets every day, week, month or quarter, and we certainly do not position the Fund to try and do so.

It is not uncommon in our industry to find that bonuses are paid on the basis of annual outperformance, meaning it should come as no surprise that there is an immense focus on trying to outperform the benchmark in 12-month increments. We think this goal (outperforming every year, requiring a huge amount of portfolio turnover to capture 'what is working right now') is *very* different from what we are trying to achieve: to compound our investors' capital in a low-risk manner over time.

In our experience, the excess returns (also referred to as 'alpha') of a quality strategy is usually earned unevenly over time, which is why we believe that time in the markets – owning business that can compound their internal capital and thus intrinsic value – allows the patient investor to capture this alpha by staying the course through these cycles. If we are right about the long-term prospects of our businesses, we believe we'll do just fine alongside our investors, with no need to swing for the fences in any one particular year to 'make the numbers.'

A word on what did not work in 2021: chasing the 'new' at any price

2021 was a year in which there were a lot of narratives spun about the 'new' displacing the 'old' in our economies. To be sure, Schumpeter's "gale of creative destruction" is blowing at full force today, and we are not blind to the risk of technological disruption across many industries we cover and businesses we own. However, investing in the 'new' is at the best of times a risky endeavour.

The problem in trying to predict the future with any degree of precision is that it is inherently unknowable. Speculating about how the world will change in ten years' time is a fun mental exercise, but to make money from said speculation, a phenomenal number of things have to go right: not only do we need to guess 1) the correct variables (i.e. the things that will change), but then 2) correctly estimate *how* the variables will change, as well as 3) how the market will react to these changes relative to the previously embedded expectations for the status quo.

Frustratingly, one can be right about the general trajectory of technological advancement (the car replacing the horse-drawn buggy, for example), but still lose money hand over fist by trying to invest in the change (cf. investing in automakers for the majority of the 20th century.)

Lastly, if there is an obvious prospect to execute a land-grab in a rapidly evolving market due to technological development creating new opportunities, there is a clear economic incentive for capital to flood into this industry to fund a vast array of new entrants, all of which will try to claim the #1 position. This is a classic capital cycle, and in our opinion, not the kind of investment opportunity which reliably leads to long-term wealth creation. As a rule, we prefer to avoid any industry into which new capital is entering rapidly, as the resulting rise in competition likely means poor returns on capital until there is an industry shakeout, with weaker players exiting and allowing stronger players to consolidate the market.

We think a better question to ask is "what will stay the same for the next ten years?" We believe we can find much better opportunities in businesses that have embedded in their value proposition a natural resilience to technological disruption. For example, we are reasonably certain that people will still want to exercise, stay healthy and be fit ten years from now, meaning Nike's core product is unlikely to be disrupted. Simplistically, the technology requirements of large enterprises will continue to become more complex, meaning there will always be a role for a technology-agnostic partner such as Accenture to advise their biggest clients on the best path forward.

To quote the narrator in Robert Pirsig's *Zen and the Art of Motorcycle Maintenance*:

> *"What's new?" is an interesting and broadening eternal question, but one which, if pursued exclusively, results only in an endless parade of trivia and fashion, the silt of tomorrow. I would like, instead, to be concerned with the question "What is best?," a question which cuts deeply rather than broadly [...].*

We agree. Looking exclusively for 'what is new?' means you'll end up wasting a lot of effort on businesses that have novelty but ultimately no staying power. The 4th quarter of 2021 is littered with cases of 'pandemic winners' falling off a cliff because investors over-extrapolated the trends of the pandemic into a 'new normal.' Some of these businesses may recover, but we wouldn't be surprised if many do not.

We look for businesses that are to a large extent protected from fundamental technological disruption, yet still flexible enough to change to meet the developing needs of their customers. 'What is best?' leads to questions around management integrity, capital allocation track record, moat (widening or being eroded?) and culture – all of which are vital to our interests as equity owners if we intend to be long-term owners of a business. These businesses are rare, and to find them trading at a material discount is even rarer. However, they tend to have very long runways to compound in value, and given enough patience on our behalf, will be more than enough to generate the long-term returns we seek to deliver.

Thus, in a year where retail investors engineered a short squeeze on Gamestop, where NFTs took off in a big way, and where every conceivable cryptocurrency was promoted to go to the moon, we feel rather happy to say: "not our game." Beyond that, we'll stick to owning quality businesses that can compound, hopefully for a very long time. Implied in this statement is a healthy degree of paranoia regarding our businesses being disrupted, which tends to bring a rather sudden stop to the compounding process. We are not blind to the 'new'; we just don't see the need to thoughtlessly chase novelty for the sake of it when trying to deliver compound returns to our investors over time.

Performance Drivers

Our average cash position throughout the year was around 3.8%. The cash position did not add or subtract materially to our absolute performance of +31.9% but was a very minor drag on relative performance.

- Over the course of the year, we exited seven businesses, which we regard as above average turnover for us. The main driver behind four of these exits relate to questionable capital allocation decisions, in our opinion.
- On the positive side, the number of businesses that contributed to absolute performance (25) far outnumbered those that detracted (3).
- Two businesses delivered materially negative returns in Australian dollars: these were Tencent (-21.1%, sold in December) and Nintendo (-19.6%.) Both are discussed in more detail below.
- The relative weakness of the Australian dollar was a tailwind to performance.

Contributors

The top ten stocks that contributed most to our performance were:

Business	Contribution	Total Return (AUD)
Alphabet Inc.	4.9%	75.3%
Microsoft Corp.	4.1%	61.8%
UnitedHealth Group.	3.0%	54.1%
Accenture PLC	3.0%	70.5%
Berkshire Hathaway	2.7%	36.9%
LVMH	2.3%	41.9%
Croda International	2.3%	69.3%
Estee Lauder Co.	2.2%	48.6%
Fastenal Company	1.7%	42.3%
Thermo Fisher Scientific	1.7%	53.7%

Constellation Software narrowly misses the list of top ten contributors by a few basis points. Microsoft, Accenture and Alphabet are part of our top ten contributing stocks for the second year in a row.

- After advertising budgets were slashed at the start of the pandemic, it became clear to business owners that a critical avenue to reach their customers during lockdown was to advertise to them where their attention had shifted: online. Alphabet was well placed to assist during this period.
    - Google (and YouTube in particular) benefitted from a re-allocation of advertising dollars from 'traditional' channels (outdoor, print, TV, etc.) Combined with rapid product iteration (to name a few: direct response ads, changes to Google Shopping, improvements to Google Maps allowing for deeper integration with search results for local businesses), Google provided merchants – particularly smaller ones – a lifeline to sustain their business during the worst of the pandemic. With consumer adoption of online shopping taking a permanent step-change higher, we believe these dynamics make Google an indispensable channel for businesses to acquire customers, build their brand, and facilitate purchases going forward. In short, Google's suite of advertising tools has become the lifeblood of small business for customer acquisition.
    - Google Cloud Platform – whilst a distant third relative to Amazon Web Services and Microsoft Azure from a size and market share perspective – also continues to grow apace as the economy-wide digital transition sees more applications, services and storage shift to the cloud.
    - That's only one part of the story, though. In the April 2020 conference call to discuss quarterly results, CFO Ruth Porat answered a question on whether Alphabet could be more aggressive on managing costs by

saying "after a decade of growth, there have to be opportunities for added efficiency […] painful times like this put a spotlight on an urgency around making sure you're focused on the levers that you have." Since making that comment nearly two years ago, operating margins at Alphabet have gone from a pre-pandemic level of ~22% to north of 30% in recent quarters. Some component of the margin uplift (around 2% - 3%) was due to a change in accounting estimate regarding the useful life of data centre assets, but the balance was due to a combination of better cost control and operating leverage. Perhaps more tellingly, free cash flow margins – which ignore the depreciation charge and instead focuses on cash spend – has gone from ~19% pre-pandemic to ~27% at present. Returns on invested capital have similarly moved higher.
  - The additional free cash flow available to shareholders has been partly deployed to meaningfully accelerate the rate of share repurchases.
  - Our work in April 2020 suggested that Alphabet could operate at a more normalized level of mid-to-high 20% operating margins over time, but even we were surprised at the rate which this has been achieved. Our view regarding sustainably higher margin levels are no longer as meaningfully different from what is implied in prices at present, and thus we have more recently reduced our allocation to the business somewhat. We intend to remain owners, though, since we believe the business remains uniquely positioned to capture the shift in online advertising spend, and it's ability to redeploy excess capital to other high-return opportunities within its core businesses remain meaningful.
- Microsoft and Accenture are both exposed to the ongoing digitisation of business processes and workloads across the economy. Given that this transition showed no signs of slowing in 2021, it should come as little surprise that both businesses delivered strong financial results over the calendar year.
  - In Microsoft, we are backing the specific technology solutions they bring to market – Office, Dynamics, Windows, the wide range of server and network management tools, and the Azure cloud computing service – as being exceedingly well positioned to help customers transition on-premises workloads into a hybrid (on-premises/cloud) environment. We believe Microsoft's decades of industry-specific experience, combined with having a foot in the 'old' on-premises world, positions them to best execute such transitions for large enterprise clients. As Microsoft Azure adoption continues to tick up, we believe margins will slowly grind higher as greater utilization of the investments made in the platform will deliver operating leverage. Combined with a pristine balance sheet, high cash generation and many irons in the fire that provide optionality for where technology is headed over the next decade – not to mention being one of the two leading IaaS/PaaS providers – we believe there is still substantial runway from Microsoft to capture the digitisation opportunity.
  - Accenture plays to many of the same themes, but as a technology-agnostic service provider to large enterprises. (Thus, if we are right about the digitisation theme but proven wrong about Microsoft being well positioned to capture it, Accenture should still benefit, as they partner with almost all large IT vendors.) In their consulting business, their focus has increasingly shifted to helping their enterprise clients navigate the complex technology landscape (vs. more traditional consulting), whilst the outsourcing side of the business provides value-added services – in effect, taking over certain operational functions of their clients entirely – with a reputation for high standards of quality. We think an underappreciated part of Accenture's moat is their proven capital allocation track record; the management team in place has proven to be excellent acquirers of businesses that bolster their operating capability without diluting returns on capital. This is partly due to Accenture approaching acquisitions as a process to be studied, optimized, and then institutionalized so that it can be replicated over geographies and time. Combining Accenture's reputation for delivery and its wide-ranging capabilities with rock-solid cost management, strong growth in future business bookings, high free cash generation, a spotless balance sheet and a generous shareholder capital return programme, we still find a lot to like about the business over the medium term.
- UnitedHealth Group (UNH) was one of the largest contributors to fund performance in 2021 as it continues to grow its number of government-sponsored memberships and expand its network of primary care delivery providers operating with value-based care models.
  - As the pandemic began to ease and the US unemployment rate came down, UNH saw its commercial-sponsored membership numbers stabilise and return to growth in 2021. Alongside this, the company has continued to gain market share in the number of Medicare Advantage members covered by offering best-in-class health coverage. We expect this trend to continue, and for the membership growth to drive usage of UNH's Optum Care network.
  - Medical claims made by members continues to ebb-and-flow with an inverse relationship to the number of COVID-19 cases present in local jurisdictions as some members choose to avoid hospital settings during

these periods. Management have noted however, that UNH is unlikely to see a material increase in claims going forward to make up for those not made in prior periods.
  - On the OptumHealth side of the business, the number of patients covered continues to grow as UNH brings more care providers into their network. Even more positively, the dollars earned per customer served continues to grow as UNH increases the number of services it can provide in each local jurisdiction. Additionally, more patients are being cared for under value-based care models which takes costs out of the system, reducing the medical costs expense over time and allowing UNH to price even more competitively.
  - OptumInsight is also continuing to grow at a double-digit rate as UNH leverages the data and analytics consulting capabilities of this segment to improve the operations of newly acquired care providers in the OptumHealth network and enable them to offer value-based care services.
  - We believe this powerful combination of expansion and efficiency gains reinvested in increasing the competitive pricing of care has plenty of runway left.
- After being negatively affected across virtually all of its operations in 2020, Berkshire Hathaway saw a strong rebound in 2021. Revenue has generally exceeded pre-pandemic levels in most, though not all, business units; the same holds true for operating earnings.
  - Burlington Northern and Santa Fe (BNSF) remains a business with an astoundingly difficult to breach moat due to a combination of a practically-impossible-to-replicate networks of rights of way and rail. While there are numerous other options for moving goods around the USA, railroads are by far the lowest-cost option for journeys where the origin and destination are not connected by water routes, especially for freight with low value per unit weight.
  - The continued investment and growth of Berkshire Hathaway Energy – where incremental investment is largely into renewable capacity – continues to provide the parent company with solid, if regulated, returns.
  - It is difficult to make any firm conclusions on the health of the insurance operations, given how many adjustments are required to account for the one-off events, charges and premium givebacks incurred during the pandemic, though our sense is that it remains in good health.
  - Of particular interest to us is the fact that capital allocation in Omaha still continues to be sensible. The business has used its financial position to both reduce and lengthen the term of its debt, and has repurchased roughly 7.5% of its equity over the past two years.
  - With the announcement of Greg Abel (currently the CEO of Berkshire Energy) as Warren Buffett's eventual successor at the head of Berkshire, we believe that this has materially de-risked succession concerns the market may have had for the future of the group beyond Buffett's tenure.
  - We continue to believe the business is not remotely expensive, has a lot of optionality given its tremendous cash reserves, and serves as an excellent source of diversification in the portfolio (in addition to being an incredibly high-quality business in and of itself.)

Detractors

The three stocks that detracted from our performance, ranked from most to least, were:

Business	Contribution	Total Return (AUD)
Tencent Holdings	-0.7%	-21.1%
Nintendo Co.	-0.6%	-19.8%
Salesforce.com	-0.1%	-2.2%

We will address each in turn.

- Tencent (-0.7%) was sold in December. After continuing to monitor the risks around the Chinese regulatory landscape, we ultimately concluded that we could no longer claim with conviction that the business could continue to compound in value for equity owners. We discuss the sale of Tencent in more detail below in the section titled 'Businesses sold'.
- Nintendo (-0.6%) detracted from the performance of the fund in 2021, but we maintain a high level of conviction in the investment thesis, and used the weakness in the stock price to increase its weighting in the Fund over the year.
  - The stock traded sideways for the first half of 2021 but began to sell off during July in tandem with Tencent, on possible fears of further regulatory restrictions on video gaming in China. It should be noted though that China makes up a small portion of Nintendo's total sales.

  - Following this, and at its 1Q21 results in August, Nintendo announced it would launch another model of their current generation of gaming hardware, the Switch (the new model being named the Switch OLED), to the disappointment of many market participants who were expecting the announcement of a 'next generation' console. Whilst we cannot say for certain, we believe there is a very high probability that supply chain disruptions – particularly in the semiconductor industry – contributed to management's decision to release an 'enhanced' Switch model in 2021 rather than a materially upgraded console. This announcement saw the stock sell-off further on the disappointment on the near-term console sales outlook.
  - We viewed these market concerns as particularly short sighted. Whilst we concede that hardware sales of the Switch did in fact peak during the pandemic, this was expected, and the Switch console is still selling incredibly well in all core markets, with software sales holding up strongly. Recent data from the launch of the Switch OLED and new entries in key video game franchises have been very successful, suggesting the Nintendo user-base is alive and there is still considerable demand for their video games. We believe that in time this may prove to be a prime example of taking advantage of near term volatility for the benefit of long term returns.
  - Another positive for the company, and a major part of our thesis, has been the increasing proportion of software sales made via download (as opposed to purchasing a physical copy). Sales made through digital downloads an incredibly high margin revenue stream. Software download revenue as a percentage of total software revenue has roughly tripled in the last 5 years to around 45%. We expect this trend to continue and to positively support gross margins going forward.
  - We also believe Nintendo have materially de-risked the process of transitioning to the next console cycle now that its users have accounts with data stored in the cloud that they can transfer to the next generation of console (which we expect to be announced in the next 12 months).
  - And lastly, none of the aforementioned market movements came off the back of any weakness in Nintendo's portfolio of intellectual property, which management intend to monetise further as noted at the company's November 2021 results presentation.
- As you can see from the table above, Salesforce was a very minor (-0.1%) detractor from our performance for the year. The reason is rather straightforward: the stock was sold early in January 2021. At that point, the stock was very marginally down (-2.2% in AUD) for the calendar year to date. The rationale for the sale is discussed below in the section titled 'Businesses sold'.

Hidden contributor: currency

Over the course of 2021, we estimate that relative weakness of the Australian dollar added roughly +5.8% to our absolute returns; this compares to the currency being a roughly -7.6% headwind to absolute performance in 2020.

The Australian dollar – being a commodity currency – is generally a good proxy for global risk sentiment; when markets go risk-off, the AUD tends to weaken, providing a safety valve of sorts to our absolute returns. (The inverse is also true – when the market goes risk-on, the AUD tends to strengthen, hurting our absolute returns.)

As we have indicated before, we do not count the ability to try and consistently generate alpha by actively trading currency exposures in the portfolio as part of our circle of competence. Currencies can bounce around quite a lot in the short-term, and thus introduce an element of volatility into results, but in the long run, we expect the compounding ability of the businesses we own to negate any short-term currency fluctuations.

Hidden detractors: sectors not owned

As mentioned previously, the Fund had no exposure to any energy, real estate, mining or banking businesses. However, given the rally experienced by businesses in these sectors over the year, our choice to have zero effective exposure resulted in a drag on relative performance for the calendar year ended 31 December 2021.

Our stock selection managed to mostly offset the drag of not having any exposure to these types of businesses.

Given our bias for businesses that earn high returns on their capital base with modest amounts of leverage, very few (if any) companies in the abovementioned sectors meet our quality investment criteria, and they are unlikely to be considered for investment in future.

Businesses sold

To stay true to label in our commitment to transparency, the table below indicates the return and contribution of the seven businesses we sold during the financial year. The purpose of this disclosure is to give you comfort that we do not attempt to hide any analytical mistake we may make by simply getting the stock out of the Fund by the end of the review period. If we sell a business – regardless of whether we generate a capital gain – we commit to disclose these figures to you.

Business	*Contribution (AUD)*	*Total Return (AUD)*
PayPal Holdings.	0.6%	6.8%
ICON PLC	0.3%	19.9%
Novo Nordisk	0.3%	7.2%
Prosus	0.2%	2.6%
Heineken	0.1%	5.8%
Salesforce.com	-0.1%	-2.2%
Tencent Holdings	-0.7%	-21.1%

Below, we address each of these businesses (ordered by contribution) and the reasons we had for selling them.

- PayPal was exited during October following numerous reports from reputable news agencies that management were considering the acquisition of Pinterest. While the company had not confirmed or denied the possible acquisition of Pinterest at the time of our divestment, we focus on the risks that *can* happen, not necessarily only the ones that will happen. In this instance, a probability-weighted scenario and valuation analysis made exiting our holding the prudent decision at the quoted market price. While management subsequently chose not to pursue the acquisition of Pinterest at the time, the share price has begun to discount the possibility of further sub-optimal capital allocation decisions.
    - While we cannot guarantee that we will always make the correct decision regarding managing the risk of any individual exposure, we will always act in line with our risk management framework. Our decisiveness in this instance was enabled by our size advantage, allowing us to liquidate any position within the Fund without unduly affecting the price of the underlying investment.
- ICON Plc was sold in July. In February, alongside the announcement of their 2020 annual results, ICON announced its intention to acquire PRA Health Sciences (PRAH) – a rival contract research organisation (CRO) of similar size – for an enterprise value of roughly USD12bn. While the deal did have some strategic rationale, our assessment was that ICON was paying an at-best full price for PRAH, and much of the synergy hinged on reducing PRAH's tax rate to be closer to the Irish-domiciled ICON's effective tax rate. Additionally, we determined there would be execution risk with a merger of that size, not the least of which is cultural and organizational integration between two former competitors. Finally, the transaction would add a substantial amount of debt onto ICON's balance sheet from what was previously an industry-leading net cash position. As such, we decided to materially reduce our weighting from February onwards, until we eventually exited the position. We remain constructive regarding the long-term outlook for the CRO space, but instead have exposure to the sector via our position in Thermo Fisher Scientific, who recently acquired one of the other major CRO players, PPD.
- Novo Nordisk was sold in February. It was originally purchased during the March 2020 crash at a discount to our assessment of intrinsic value for its world-leading diabetic treatment franchise. After the Biden administration took the reins in Washington, our belief was that drug pricing in the US – a particularly important market for Novo Nordisk – would become a political hot potato yet again. With Federal finances already stretched and Democrats promising to make inroads in fighting the cost of health care in the US, we assessed the risk of pricing pressure over the medium term as high. Even though we only held the stock for a year, we felt we had a hard time handicapping the pricing dynamics three to five years out, and hence moved on. It's perhaps a salutary lesson in human ingenuity that one of their pipeline drugs was approved as a treatment for obesity – again, particularly prevalent in the US – shortly thereafter, and the stock ended up ~72.5% in AUD for the year. Here, we definitely cut off the right tail of the distribution by selling.
- Prosus was sold during April. A core part of our investment thesis in Prosus was that it presented an attractive entry point into Tencent Holdings, but at a significant discount to owning Tencent directly. Our decision to sell Prosus and use the proceeds to buy Tencent directly was prompted by Prosus management signalling their intent to allocate shareholder capital towards sectors we view as having a high risk of value destruction, rather than returning capital

to shareholders. This introduced an element of risk at the Prosus level, which we viewed as unnecessary in light of our ability to own Tencent directly.

  - Subsequent to our decision to switch out of Prosus and into Tencent, Prosus management announced a complicated (to say the least) cross ownership structure between Prosus and Naspers (the sister company to Prosus and a co-owner of Tencent) in an effort to reduce the material discount to underlying value that Prosus was trading at in the market. We viewed this as yet another suboptimal decision by management.

- Heineken was sold in April. The business was purchased in the Fund pre-pandemic, but was severely affected by lockdowns and outright bans on the sale of alcohol in many of its operating geographies in 2020. With the release of the annual results in February 2021, we reviewed the investment case in light of management's medium-term recovery plan, and concluded there were better opportunities elsewhere. Thus, there was nothing fundamentally wrong with Heineken, but it had recovered the bulk of the depreciation it had suffered in 2020. Its sale was used to fund the introduction of Thermo Fisher Scientific, as well as adding to Croda PLC and Constellation Software (both of which were initially purchased in March.)
- Tencent was sold during December following our switch out of Prosus into Tencent in April. While this is an unusually short holding period for us, our risk framework highlighted two key events that would prompt an exit of our position in Tencent.
  - The first red flag related to a possible challenge to Tencent's VIE (variable interest entity) ownership structure. While this risk had not materialized as at the time of our divestment, there are increasing signs that Chinese regulators are willing to challenge existing ownership structures to achieve local political outcomes.
  - Our second key risk revolved around capital allocation. Over decades, Tencent management have repeatedly proven their ability to reallocate the cashflow generated within the group to value accretive opportunities, subsequently scaling these acquisitions to a degree that we believe other potential acquirers could not. Any regulation that potentially restricted management's ability to freely allocate shareholder capital we viewed as a red line beyond which we would not continue to be owners of the business.
  - Having reduced the position early in the year as our only direct exposure to China prior to the introduction of significant regulatory interventions in the technology sector, industry developments prompted our sale of the position.
  - When we buy into a business, we back the management team to allocate shareholder capital for the benefit of shareholders over the long term. If we can no longer be assured that this principle will hold true in any business that we own, we will protect our investors capital either by divesting or materially reducing the weighting to a level warranted by the change to the risk profile.
- Salesforce was sold in January. As we wrote in our March quarterly letter, "following the announcement of the acquisition of Slack [...] we could not get our head around the numbers required to justify the price paid. [...] Given that a meaningful component of our thesis was built on Salesforce bedding down the numerous acquisitions made over the last several years, a further acquisition of this scale altered the risk-reward balance unfavourably, in our view." We stand by that view. Given that Salesforce management had as recently as August 2020 spoken about their reticence to engage in M&A, their willingness to do so less than 3 months later in an incredibly expensive deal did not sit well with us. It should be mentioned that Salesforce subsequently rallied by ~21% for the calendar year as at 31 December 2021. Money left on the table? Perhaps; but fundamentally, we become very uncomfortable when we see capital allocation decisions being made that we cannot reconcile from first principles – particularly when management contradict their own previous statements.

Risk Metrics

We frequently say that we aim to deliver superior risk-adjusted returns. The 'returns' part is fairly straightforward to measure (see pg. 1 of this letter, or any of our factsheets), but the 'risk' is a different matter. Balancing risk vs. return is a key part of our job.

The investment industry has long equated risk with volatility; we disagree with this logic, but understand that volatility can, in and of itself, be a powerful driver of behaviour in markets. As a former mentor to one member of the investment team was fond of saying, "the best investment strategy is one a client can stick with through a market drawdown." In this light, having lower volatility does indirectly assist in generating long-term returns if it allows investors to remain invested in tough times.

The table below shows various risk metrics, both over the past calendar year and since the strategy inception on 30 June 2019.

	CY2021			Since Long-Only Strategy Inception (30 June 2019)					
Risk Metric	Standard Deviation	Sharpe Ratio	Sortino Ratio	Standard Deviation	Sharpe Ratio	Sortino Ratio	Max. Drawdown	Downside Capture	Upside Capture
AIM Global High Conviction Fund	10.1%	2.77	5.78	10.6%	1.77	3.67	-7.6%	82.8%	112.0%

Source: Australian Fund Monitors. Data is for 2021 and from July 2019 to December 2021, as indicated.

The Sharpe ratio is a measure of outperformance per unit of risk (with risk defined as standard deviation of return, or volatility.) The Sortino ratio is a modified version of the Sharpe ratio which focuses only on the standard deviation of negative returns (since – understandably – most investors don't care about volatility to the upside, i.e. outperformance.)

In both cases, a higher ratio is better. We are satisfied with the numbers generated over the past 30 months.

Should all of the above sound like financial gobbledygook (we won't blame anyone for thinking so), the downside and upside capture – combined with the maximum drawdown – are likely more accessible metrics. In short, the Fund captures ~83% of down markets, ~ 110% of up markets, and the steepest drawdown it experienced from peak to trough was -7.6% (in February and March 2020).

On the whole, we would say our risk-adjusted metrics compare favourably.

Part Two: Portfolio Positioning

At the end of December 2021, cash (held in Australian dollars) accounted for 6.2% of the net asset value of the Fund. The Fund owned 21 businesses, and the median position size is 4.3%.

In the table below are the full holdings of the Fund (excluding cash), presented alphabetically.

Business	MSCI Sector	AIM Internal Classification
Accenture PLC	Information Technology	IT Services
Alphabet Inc.	Communication Services	Internet Platform
Amazon.com Inc.	Consumer Discretionary	Internet Platform
Autodesk Inc.	Information Technology	Software
Berkshire Hathaway	Financials	US Cyclical
Constellation Software Inc.	Information Technology	Software
Croda Intl. PLC	Materials	Speciality Chemicals
Estee Lauder Co.	Consumer Staples	Personal Care
Fastenal Co.	Industrials	US Cyclical
HEICO Corp.	Industrials	US Cyclical
Intuitive Surgical	Health Care	Medical Devices
Keyence Corp.	Information Technology	Industrial Automation
LVMH	Consumer Discretionary	Luxury Goods
Mastercard Inc.	Information Technology	Payments
Microsoft Corp.	Information Technology	Software
Nike Inc.	Consumer Discretionary	Luxury Goods
Nintendo Co., Ltd.	Communication Services	Internet Platform
The Coca-Cola Co.	Consumer Staples	Beverages
Thermo Fisher Scientific Inc.	Health Care	Medical Devices
UnitedHealth Group Inc.	Health Care	Health Care Services
Not yet disclosed	Consumer Discretionary	Internet Platform

Source: AIM, MSCI. Data as of 31 December 2021.

Having now used recent pullbacks and volatility to accumulate a minimum position, we can now disclose that one of the two businesses purchased initially in September 2021 is Autodesk, the provider of design software to the architecture, engineering, construction and manufacturing industries. We will explore the investment rationale of Autodesk in a future note.

The other business purchased in September has not yet offered us the opportunity to add again at a sufficient margin of safety. Once we achieve a minimum weight, we plan to disclose the business to our investors.

Portfolio characteristics: quality first

Given our objective of providing investors with high levels of transparency, we believe that providing you with a quantifiable way to hold our feet to the fire regarding the quality of the businesses we own is of vital importance.

The table below presents the fundamental characteristics of the businesses owned by the Fund in comparison with the broad MSCI World index. It is constructed by taking the relevant metric for each individual business we own, and then weighting it for the size of the investment in the Fund.

We will update this table over time to enable you to track whether we remain true to label over long periods.

Portfolio Characteristic	AIM GHCF	MSCI World
Profitability		
Gross Margin	50.9%	30.7%
Operating Margin	22.8%	14.3%
Free Cash Flow Margin	22.4%	11.6%
Returns on Capital		
Return on Assets (ROA)	12.9%	2.3%
Return on Equity (ROE)	26.4%	14.7%
Return on Invested Capital (ROIC)	18.4%	7.3%
Leverage		
Debt/Equity	73.1%	95.6%
Net Debt/Equity	11.5%	64.1%
Valuation		
Free Cash Flow Yield	2.8%	3.7%
12m Forward Free Cash Flow Yield	3.2%	4.3%
24m Forward Free Cash Flow Yield	3.6%	4.8%
Holdings		
Number of positions	21	1546
Active Share	89.0%	0.0%

Source: AIM, MSCI. Data as of 31 December 2021.

Profitability

The businesses we own are highly profitable, and certainly much more profitable than the average business in the benchmark. For every $100 of sales, our businesses generate roughly $51 in gross profit (about 1.65x the index average), $22.80 in operating profit (roughly 1.6x the index average) and – most importantly – about $22.40 in free cash flow (a touch more than 1.9x the index average). This margin profile speaks to the competitive moats our businesses possess, as they have either the ability to charge more for their products/services (pricing power) or deliver them for less (cost advantages).

Returns on Capital

These high margins translate to high returns on capital, which is a measure of how efficiently a business deploys its internal capital base in the course of operations. Our preferred measure is return on invested capital (ROIC) since it considers both equity and debt capital invested in the business. Return on equity remains a very relevant measure, but can be flattered by high amounts of debt, which we prefer to avoid. Regardless of how we measure it, the returns on capital our businesses generate are multiples of the index average, and certainly well above any reasonable average of the cost of capital. Our businesses create economic value, year-in and year-out.

Leverage

On the topic of debt, our businesses use materially less debt to generate their high returns on capital. From a net debt/equity perspective, the Fund is reasonably close to being in a net cash position. The combination of high profitability, high returns on capital, superior cash generation and lower leverage underpins our belief that our businesses have much less fundamental risk than the average business listed on public equity markets.

In the event of an unforeseen crisis (of which the COVID-crash was a case in point,) lightly-geared and cash generative businesses simply have more room to manoeuvre – or even act opportunistically when lower quality businesses are forced onto the back foot.

Valuation

Admittedly, the Fund is more expensive than the index, as can be seen from the lower free cash flow yield. (In this case, a lower number implies a higher valuation). We believe we must balance the trade-off between quality and valuation, and where we cannot reasonably justify the long-term expectations embedded in current market valuations, we will act accordingly. However, we believe the significantly higher quality of the businesses we own justifies a valuation premium. Recently, we have begun reducing our exposure to names such as Alphabet and Microsoft, as the valuation was no longer as favourable as it was at the start of 2021 relative to our assessment of value.

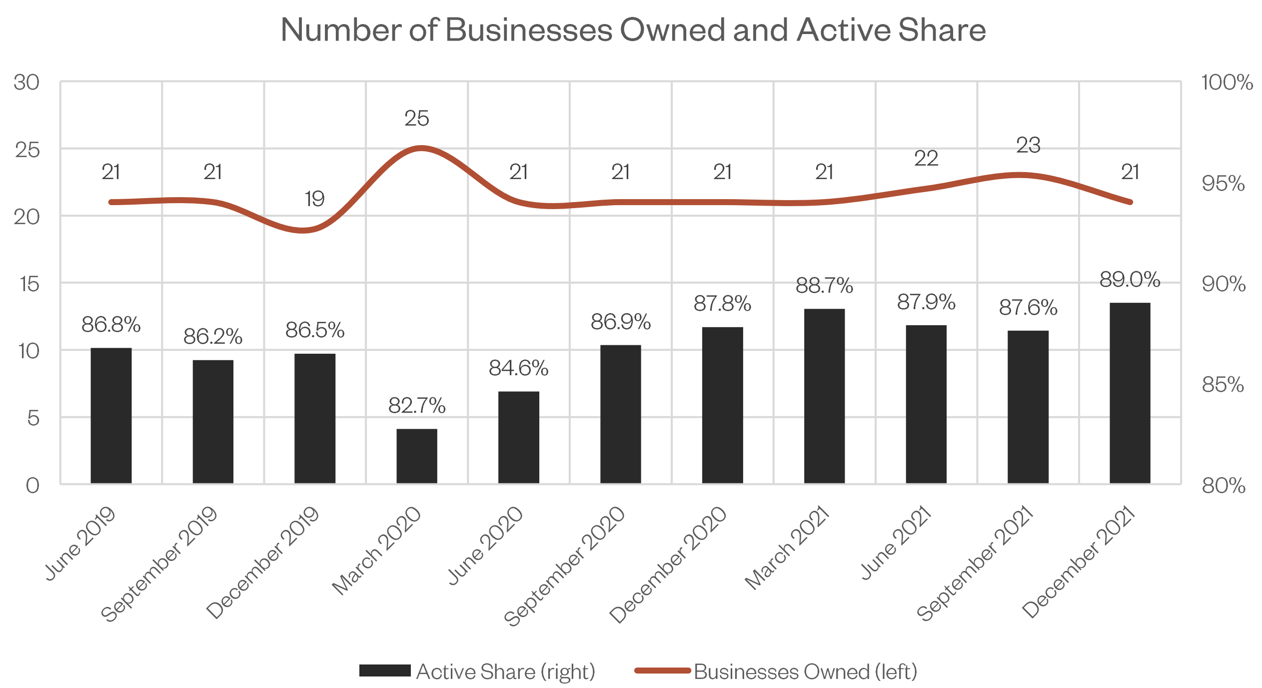
Holdings

The Fund is highly concentrated, owning only 21 businesses as at the end of the year. Our active share as at year end is 89.0%.

In simple terms, active share measures how much a portfolio differs from the benchmark it is measured against. A portfolio that fully mirrors the benchmark would have an active share of 0%, whereas a portfolio that has nothing in common with the benchmark would have an active share of 100%. In general, a portfolio needs to have an active share above 60% to be considered as 'actively managed'.

We target an active share above 80% and managed to be between 87.4% and 89.0% for the full year, meaning we differ materially from our benchmark.

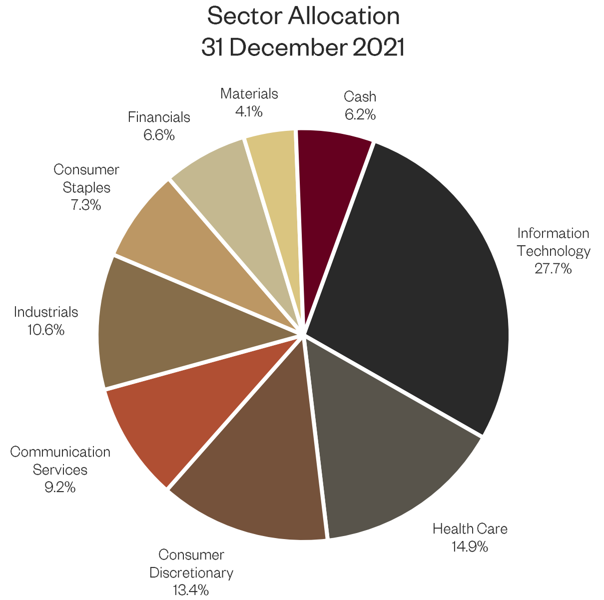
The graph below presents these data points graphically by quarter over the last two-and-a-half years.

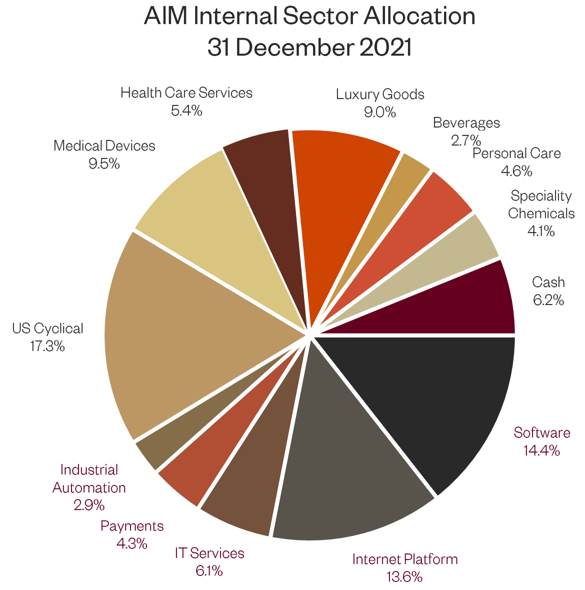


Source: Apex, FactSet, AIM. Data as at 31 December 2021.

Sector allocation

The charts below indicate the sector allocation of the Fund. In the left-hand chart, we use the standard sector classification as defined by MSCI. However, we feel the right-hand chart presents a more accurate view of our true portfolio diversification, using our internal classification system. (For example, MasterCard is classified as an Information Technology stock due to its business being reliant on the global payment network it administers. While we understand the logic, we think lumping it together with Microsoft or Autodesk obscures the difference in end markets).

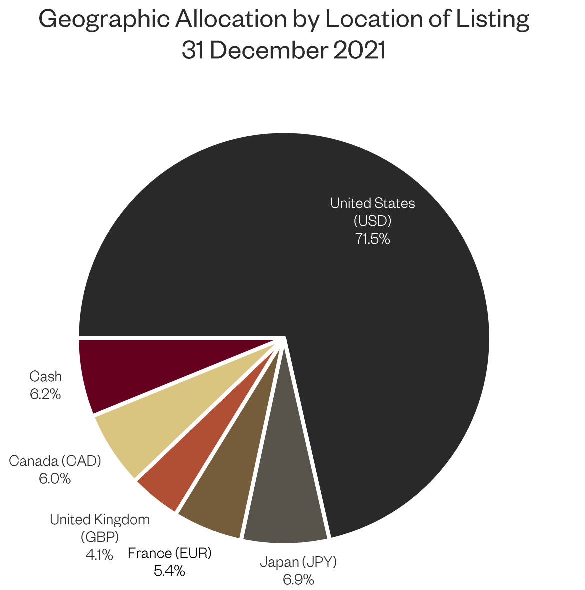


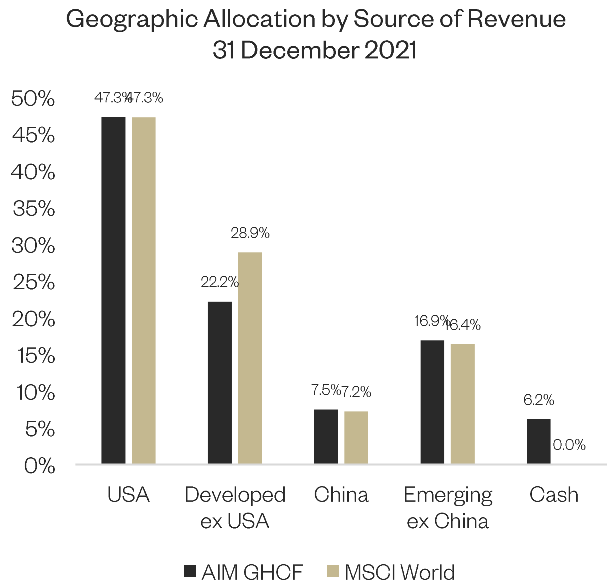


Source: AIM, MSCI. Data as of 31 December 2021.

Geographic allocation

The charts below indicate the geographic and currency allocation of the Fund. In the left-hand chart, we show the listing location and trading currency, whilst the right-hand chart shows the see-through revenue exposure of our businesses. As a reminder, we consider the latter far more relevant when constructing and evaluating the portfolio.





Source: AIM, MSCI. Data as of 31 December 2021.

Part Three: Lessons Learnt in 2021

Andrew Strasser, Investment Analyst

For us as an investment team, the largest lesson of the year no doubt was to maintain a balanced portfolio that was not just positioned any one way, but instead positioned to hold up under most market conditions.

As we've already noted thus far in this Annual Report, market sentiment shifted multiple times in 2021. We saw some egregious bubble-like behaviour from retail investors in meme stocks, zealot-like praising of ultra-long-duration stocks promoting new technologies (e.g., variations of the 'Buy Now Pay Later' formula and cryptocurrencies) and material swings towards commodity producers and traditional 'value' names as fears of sustained inflation gripped the market. As tempting as it may have been to try and chase all these market trends for outsized returns on a quarter-by-quarter basis, the market gyrations in 2021 were also very punishing if you didn't time your entry and exit on these trades perfectly. Many 'growth' companies in the technology sector who saw their stock prices heavily supported in the early parts of the year, found that by the fourth quarter their prices had fallen as far as fifty percent from their highs. Thankfully, we do not play this game, because to be frank we don't think it fits in with our pathway to compounding your wealth. Instead, throughout 2021 we endeavoured to maintain a balanced portfolio of diverse companies, even finding ourselves increasing the balance as the year progressed and the variance in potential outcomes (notably, due to inflation) widened.

We finished the year with our top 5 holdings being Berkshire Hathaway (US Cyclical), HEICO Corp. (US Cyclical), Thermo Fisher Scientific Inc. (Medical Devices), Accenture PLC (IT Services) and Constellation Software Inc. (Software): hardly a list representing a one-way bet. It should be noted that throughout most of the year Microsoft Corp. (Software) and Alphabet Inc. (Internet Platform) were also at the top of the portfolio. With all of this said, we were not (and will likely not be in future) immune from major rotations towards sectors where we generally don't invest: Energy, Financials, Materials and Real Estate.

The second major lesson of 2021 was to largely ignore these swings in market sentiment and remain focused on company fundamentals but use the changes in market valuations to one's advantage.

As equity research analysts, we spend most of our time and effort developing a long-term picture of what we believe our companies' business and financial destination will look like in 5 years' time (noting that we're not clairvoyant and all estimates carry forecast risk; hence our use of scenario analysis). However, when determining weightings in the portfolio we can use short-term gyrations in market multiples to help us manage risk by adjusting positions as the risk-reward profile changes.

Let's use Alphabet as an example. At the end of 2020 the company's stock price was around US$1,750, which was well below our assessment of intrinsic value at the time, largely due to the market's focus on regulatory concerns. Whilst we noted that the regulatory environment had been heating up for data collection and push-mechanism-based advertising amongst mega-cap tech companies, we thought the downside risk to Alphabet's core business, search advertising, was overblown. Additionally, we had strong conviction that online advertising volumes (particularly search advertising) would not only rebound in 2021, but that they would continue to grow at an accelerated rate thereafter as eCommerce usage accelerated and advertisers shifted marketing spend away from linear media formats towards online advertising. In other words, we ignored the market narrative and focused on the company's fundamentals: growth would re-accelerate and continue, and margins would rebound and remain steady. Helpfully, this rebound played out, and the market became more optimistic on the future of online advertising, particularly search advertising. Alphabet remained a top 3 holding for most of the year.

However, by September 2021 the company's stock was trading closer to US$2,850 and the gap to our estimate of intrinsic value had narrowed. Whilst we still firmly believe in the company's long-term opportunity set, dominant competitive advantages and management's ability to allocate capital appropriately, we reduced the weighting in the portfolio, as the risk-reward profile had changed. The regulatory concerns and left-tail risks that existed at the end of the prior year were (and still are) very real, but the margin of safety being offered at the market price in the latter part of the year was significantly lower.

This is one of the benefits of being investors with a 'business ownership mindset' in publicly listed equities: even if we still believe in the long-term fundamentals, we have the ability to reduce our exposure when the risk-reward profile of a position meaningfully changes. To be clear, we don't intend to exit the position unless the fundamentals (which includes the possible impact of regulatory changes) deteriorate, but we will continue to use short-term changes in the market valuation to our advantage where possible.

Part Four: Winning the Season, not the Game

Daniel Gerdis, Portfolio Manager

There are many components – both quantitative and qualitative – that go into a successful investment strategy. Among these are the stability, experience and focus of the investment team managing the fund; having an objective risk management process for understanding, acknowledging and controlling for human biases is another. Two key attributes would certainly be clarity of investment philosophy (i.e. continually asking oneself 'what kind of businesses are we looking to invest in?') and the repeatability of the investment process. Each of these individually play key roles in both generating investment returns and importantly, managing the risks that are taken in generating those returns. In this section we discuss what binds these elements together for repeatable decision-making success.

Knowing where you are on the field of play

The equity market is a living creature, one that is constantly evolving and adapting. Therefore, understanding where you are in the cycle of the market at any given time is equally as important as understanding how far into the season you are in sporting terms (or alternatively for short-term focused investors, how far into a particular game you are). An effective sports coach will have a good understanding of how many games have been played in that season, as well as what has worked particularly well and what has not. Each game presents new information that – if incorporated – ideally contributes to future success and avoiding the repetition of tactical errors. Successful coaches and managers understand when it is time to play offensively vs. defensively, and know that the skills and qualities that make a team successful today are not necessarily the ones that will lead to future success in seasons to come.

Any coach worth their salt will constantly reassess their decisions made by asking themselves "do I have the right mix of players in any one game, and at any given point in time, based on the outcome I am trying to achieve"?

These concepts apply similarly to the world of investing. A successful decision-making process is one that is constantly reviewed, with decisions interrogated post-mortem to enhance the process going forward.

Having the right team

One can think about a portfolio of companies in the same way as a team of players. Repeatable success means having the right balance of companies within the portfolio, not filling a portfolio with offensive goal shooters and leaving oneself exposed with no defensive qualities for downside protection. Understanding what you are playing for will determine what decisions are made in the composition of the portfolio.

Our goal is to compound your wealth through cycles. This means we do not bet the farm on any one company in the fund (akin in sporting terms to betting on any single player in the team) or aim to outperform every single day/month/quarter (again, in sporting terms, aiming to win every single game by the widest possible margin). Instead, we ensure the portfolio possesses a range of businesses (across geographies and industries), each with uncorrelated characteristics that play an important role in generating long-term sustainable returns through each cycle.

Having a winning framework

Through our time in markets, we have found that having flexibility built into our investment process allows for an adaptive way of thinking. The strategy that works in generating returns today could be one focused on deep value, earnings revisions, reversion to the mean, hyper-growth, or any one of numerous other concentrated approaches that are widely available to you as the investor. Tomorrow's winners are certainly not all to be found by looking at what has worked in the past.

Our framework marries a flexible approach in portfolio construction with rigorous and studious bottom-up stock picking. We have found this to be the best strategy to weather the risks and opportunities that lie ahead through various cycles. We believe the flexibility that has been purposefully built into not having to rely on or concentrate into any one investment style, sector, or theme, is of great advantage to our investors.

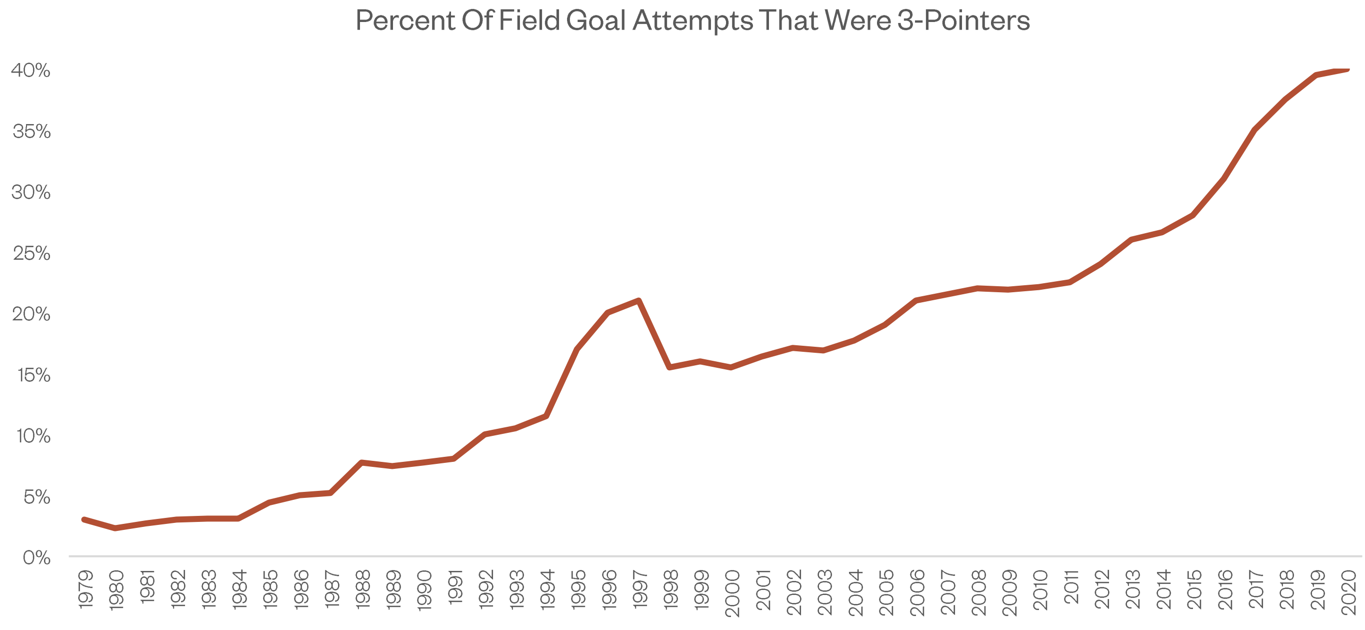
Game changer

In their research paper entitled *Turn and Face the Strange* (Counterpoint Global Insights, 2021), authors Michael Mauboussin and Dan Callahan draw parallels between professional sports teams striving to win games and investment managers who similarly aim to earn excess returns. Their work (which we have referenced in our writings to you on a number of prior occasions) details how in the 1979 basketball season in the United States, the NBA introduced a line on the court behind which a player had the opportunity to score 3 points for making the shot rather than the usual 2 points closer to the net. This has subsequently become familiar to basketball lovers worldwide as the '3-point line'. The idea behind this innovation was to reduce player congestion around the net and make the game more exciting for you, the viewer.

As the 3-point line was an innovation, at the time of its introduction there were few if any specialist 'long range' shot-makers playing in the NBA to take immediate advantage of this rule change. Mauboussin confirms this statistically in that fewer than 3% of all goal attempts in the five seasons post this introduction were from the 3-point line. When the facts changed in this case, it collectively took the coaches, managers and players the better part of 5 seasons to adapt their strategies to this rule change. Why did it take so long, one may ask? Heuristics and human cognitive biases almost certainly would have played a part. Coaches may have been slow to adapt their decision-making, anchoring instead around their tried and tested strategies of old. Similarly, team managers may have suffered from the common mental bias of loss aversion in their decision making, unwilling to risk a period of underperformance (and its related financial impact on the franchise) as new tactics and players are introduced to adapt to the new rules.

While the math is straightforward (the expected 'return' of a successful 3-pointer shot is literally 50% higher than that of a closer 2-pointer) the skill set required and the strategy needed to effectively take advantage of this rule change were very different. Clearly, there are numerous factors that go into the relative advantage of choosing to shoot for a 3-pointer over a 2-pointer (relative skill sets of the attacking and defensive teams are but one consideration) but suffice it to say that when the 3-point rule was introduced, there existed an arbitrage opportunity for a period of time post its introduction.

Recognising that the rules have changed yet anchoring to the status quo in order to preserve short-term wins can be a recipe for disaster in the long-term. To paraphrase the legendary Benjamin Graham quote, in investing (as in sport) there are times when a decision may in the short run be perceived to be detrimental to performance as the market acts as more of a voting machine. In other words, making the popular decision is perceptibly the right decision in the short-term. (Who doesn't want to see their team win every game they play?) But in the long run, when the market acts as a weighing machine, the popular decision can materially handicap performance. Returning to the NBA and fast forwarding to today, close on 40% of goal attempts are now 3-pointers. Those that anchored to the status quo at the time of the rule change by not embracing the 3-point line, would have been left for dead.



Source: Turn and Face the Strange (Counterpoint Global Insights, 2021), Michael Mauboussin & Dan Callahan, AIM estimates.

How we generate returns for you as an investor is as important as the quantum of the return, as it scores the risk we are taking. Knowing what outcome you are playing for means that you do not need to take unnecessary or excessive risk to achieve it. We are playing for multiple tournaments and multiple seasons, not individual games. In this context, we make very different decisions regarding risk and volatility than going all in on any one game. We believe this is a key element of repeatable, successful investing.

In investing terms, what has worked historically is not necessarily what will continue to work into the future. By having a process and philosophy with inherent flexibility built in, we adapt to changes in the market. This means continually finding the right companies (akin to players that are skilled at 3-pointers) that will compound returns when the environment around them changes.

Where we differ perhaps from the sporting analogy is that as a spectator, one may be drawn to teams that excel at 2-pointers as they are more entertaining to watch. Our investment approach focuses on less visual excitement and more on the consistent delivery of 3-pointers. While the composition of our fund may look boring and unsexy at times, it is for good reason. We are planning to win the season, not to entertain the crowd in any one game.

Part Five: Outlook

Etienne Vlok, Portfolio Manager

One thing we learnt from 2020 was that making big macro-economic or market predictions can be extremely costly if wrong. (We were not, and still aren't, epidemiologists.) Instead of optimising for one specific scenario, we try to ensure the Fund could weather a range of possible outcomes by following a "prepare, don't predict" approach. So: expect no big pronouncements here!

However, we would be remiss if we didn't flag an issue that we think could potentially pose a risk at *some* point. (Conversely, it may never eventuate; "risk means more things can happen than will happen", after all.)

Excess leverage

It doesn't take much searching to find signs that there is a lot of "non-fundamental" (to put it euphemistically) activity in capital markets these days. Meme-stocks, NFTs, promotors who seem to unwittingly be describing an actual Ponzi scheme when explaining how the price of new cryptocurrencies of dubious nature will go up as more people buy into it… there's a lot to suggest that in the rush to participate in the "everything-rally" of the last 18 months, a lot of common sense has gone out the window in the name of not missing out. To quote US venture capitalist Josh Wolfe of Lux Ventures: "excess is in excess."

Most people will likely blame this behaviour on the low interest rate regime we currently find ourselves in. If capital is virtually free, then taking on debt to buy the proverbial lottery ticket is not the worst idea in the world, mathematically speaking.

As it relates to our job of investing in public equity markets, low rates have resulted in increasing amounts of leverage being employed by many participants to increase their exposure to certain types of equities, such as unprofitable but assumed hyper-growth businesses.

Oddities in market structure today

As more and more capital has shifted to passive indexing over the last several years, it means prices are increasingly set by price-agnostic index ETFs (often of market-moving size) that are seeing inflows (or indeed, outflows.) Combined with the increased popularity of algorithmic or quantitative strategies targeting specific statistical style factors (value, growth, cap size, etc.), it should then come as no surprise that people buying businesses (and not trading their securities) make up an increasingly smaller percentage of trading volumes. In fact, a fascinating statistic that was recently shared with the investment team is that less than 10% of daily trading volumes in the US still relates to active, fundamental investing (i.e. buying a stock with the intent of long term ownership based on some assessment of intrinsic value.)

The implication of all the above is that the vast bulk of daily volumes now relate to systematic/quantitative or passive investing strategies. In our opinion, this change matters quite a lot, and is very likely partly behind the ever-decreasing average holding period of stocks in the US (now estimated to be as short as somewhere between six and eight months).

A potentially fragile market

We think the *combination* of high levels of leverage and non-fundamental trading volumes creates a risk that markets could be particularly fragile, and vulnerable to a tightening of financial conditions. To paint one potential scenario:

- Imagine that overnight rates rise sharply. As the cost of capital suddenly goes up, the math on being leveraged long a lottery ticket of dubious value may not be as attractive, and the resulting unwind as positions are taken off could be fierce.
- Such a de-grossing event (to use the industry term) inevitably leads to a spike in volatility, which then leads to risk models at quantitative fund managers to start flashing red, prompting risk officers around the world to tap their portfolio managers on the shoulder and telling them to take exposure off the table.
- Selling begets selling. Before you know it, major indices are down sharply. Large index ETFs start to experience outflows as passive investors head for the hills, leading to more price-agnostic selling.

- Amid all of the above, algorithmic strategies trying to navigate the carnage find that the statistical signals normally guiding their trading activities no longer reliably function. Eventually, the flow of money leaving markets overwhelm any rational price-setting function, causing prices to overshoot to the downside.

Effectively, we have described a market crash… and in case you thought we were purely engaging in conjecture, the above is an over-simplified summary of how the February/March 2020 crash played out until central banks stepped in to provide liquidity.

To be clear, we have absolutely *no idea* of when such an event might happen. We certainly expect financial conditions to tighten over the course of 2022 as central banks increase rates and look to taper their quantitative easing programmes, so there is every risk that something like the above *could* happen. We cannot ignore the possibility; to quote Josh Wolfe yet again, "failure comes from a failure to imagine failure."

Of course, such volatility can also provide opportunity. As we wrote in Part One of this letter, we see our job being "to prudently allocate your hard-earned capital to trustworthy people at an attractive price, and then to let them get on with creating value."

It will be important to discern if such a crash is due to the scenario painted above (i.e. a liquidity-driven crash) or whether something fundamental has worsened in the long-term outlook for the businesses we look to purchase. We'll do our best to communicate our thinking on this matter to you as the year progresses, but if a liquidity-driven crash is the cause of more attractive opportunities, we will gladly take advantage of it

A final word on indices and benchmarks

As mentioned earlier in this document, we think we delivered an acceptable absolute return in 2021, though our benchmark-relative return was more modest. This did prompt a discussion amongst the investment team: what is an acceptable benchmark in 2021?

Certainly, it's easy enough to find a broad equity index to measure us against; in fact, the MSCI World does exactly that. You might also choose to compare our returns to the S&P 500, the Nasdaq, the Dow Jones, the ASX 200, the FTSE 100, the Nikkei, the Hang Seng, etc. etc. You get the point.

In reality, an index is nothing more than a possible opportunity set, but it is one of many; it is certainly not the 'best' opportunity set by default. We find that a surprising amount of people use an index as a 'risk-free' starting point from which to reason out their investment decisions, or indeed, to which they can compare their investment returns. Equity indices are many things, but risk-free they are not. (Cheaply accessible, in many cases, but not risk-free.)

We would argue that if one were to study the composition of many widely used indices as at the end of 2021, there is a lot of concentration risk in particular industries or businesses. (A lived, real-world experience: a few years ago, the largest constituent of the Johannesburg Stock Exchange All Share Index amounted to ~23% of the index weight; the business in question was Naspers, the South African holding company that owned a meaningful chunk of Tencent. Is that a 'good' index to measure returns against, or would it be too lopsided and risky? Said more plainly, would one comfortably own 23% of the portfolio in one stock?)

In addition, the average index contains a lot of businesses we wouldn't consider investable due to their track record of earning returns on capital that do not exceed the cost of capital.

It is an interesting problem to consider, particularly in markets where fundamental investing makes up so little of the trading volume. Putting aside for a second that we manage client capital in a competitive market, it could be argued that the 'true' benchmark for most individuals is simply inflation-plus, since that's the bogey which – if you can't beat it over the long term – would cause your quality of living to deteriorate.

We will consider this issue in more detail in the coming months. We run a high active share (~89% at December 2021) relative to the index we benchmark against, but there may come a time when that active share may need to push even higher if we find opportunities elsewhere. That may lead to results that are different – possibly meaningfully so – from the benchmark. But if benchmarks become increasingly skewed, we'd prefer to keep on doing the right thing by investors – seek value that compounds – rather than be beholden to an index as benchmark merely because 'it is there.'

In Closing

We are focused on one objective: compounding your wealth through cycles by maintaining a balanced portfolio of businesses that do not rely on any single macroeconomic outcome, nor the performance of any individual company, investment style, sector or geographical territory. As we have communicated with you in the past, we have positioned the fund to navigate multiple risks, both fathomable and unforeseeable. When it comes to long-term investing, survival matters.

In a handful of prior cycles, a key risk to wealth creation was the threat that inflation posed to the purchasing power of investors' hard-earned capital. Following the Global Financial Crisis of 2008/9 (and in part due to the response by central banks globally), the enormous amount of wealth created has reduced this risk in investor's minds for the better part of the last decade. While the current environment remains firmly 'risk-on' (given how freely available and inexpensive access to capital is for both investors and corporates alike) the ramp-up in both actual inflation and inflation expectations reinforces how important inflation beating returns are for long term wealth preservation.

In a world of low interest rates (albeit beginning to rise across numerous developed markets), we continue to prefer equities as the asset class of choice for inflation-beating returns. Our approach remains one of owning uniquely positioned businesses with considerable pricing power. We believe that in a potential inflationary scenario going forward, our businesses are best placed to preserve your wealth in real terms.

As we have highlighted, the Fund owns a handful of businesses that we expect will be long-term beneficiaries of wage inflation playing out in the US at present. Microsoft, Accenture and Keyence are three of these, as they sell – in a very literal sense - productivity. In a world where demand for goods is fundamentally strong and is driving the inflationary wage increases we read about daily, businesses that do not have the inherent ability to raise prices to offset cost increases are faced with a choice of either cutting expenses or increasing productivity to prosper. We believe demand for technology-enabled productivity solutions is a multiyear driver that all three of these companies are well-placed to capitalise on.

As a number of businesses learnt during the pandemic-induced recession of 2020, liquidity and access to funding can be capricious: plentiful when you do *not* need it, and exceedingly scarce when you do. Rising interest rates, a reduction in the relative growth rate, or even the withdrawal of monetary stimulus that much of the world has become accustomed to in recent years will be a significant headwind for overly indebted companies as well as poorly equipped governments and central banks. Our geographical exposure in the fund takes cognisance of the risk that not all country's balance sheets will withstand this withdrawal of global liquidity to the same degree. We expect there will be both relative winners and losers. Your investment team have lived and gained investment experience in numerous countries over multiple cycles, both in emerging markets and developed markets. We believe this withdrawal of liquidity is a time for caution in knowing not only *what* your money is invested in, but *where* your money is being invested.

Most would agree that 2021 saw strong asset price appreciation across numerous asset classes, in particular global equities. Consequently, the starting valuations in 2022 are elevated. As a result, we believe investors should expect more modest equity returns over the next year or two, given the elevated starting base: multiple expansion cannot continue forever.

At a bottom-up fundamental level, we continue to uncover excellent quality companies that, at the right price, should generate more-than-acceptable returns for investors through time. As a reminder, volatility in asset prices provides us with the opportunity to invest in these companies at more attractive starting valuations. We can promise you a disciplined and prudent approach to allocating your capital in the year ahead, just as we believe we have delivered on over the past two-and-a-half years. What our investors can bring to the table is the patience to stay the course to allow your wealth to compound as opportunities present themselves.

The US consumer remains the most critical driver of growth in the world's single largest consumption market; by logical extension, the US consumer forms to a large degree the engine of global growth. As US consumers' propensity to buy anything from TVs to Teslas has been boosted in recent years by declining interest rates and a strengthening housing market, many have been in the fortunate position to refinance their mortgages at lower rates, access home equity, and then do what they do best: spend! We recognize that there may come a time when higher interest rates and slowing home equity appreciation impact negatively on the confidence of the US consumer, which will impact economies around the world. As risk managers, we remain alive to this and many other hazards.

As we see the opportunities presented to us globally, we plan to remain nimble enough to take advantage of them on your behalf, which is why we continue to have only one, global high conviction fund made up of our best investment ideas, and communicate clearly how we invest your capital. We thank you for your support through a highly unusual year in markets.

With regards,

The AIM investment team

January 2022

How AIM Invests Your Capital

We are 'business-first' rather than 'security-first' investors, and see ourselves as part owners of the businesses we invest in. Because we subscribe to a business ownership mindset, the quality of the businesses we own matter a great deal to us.

We look for the following characteristics in the businesses we want to own:

- Strong competitive advantages that enable consistently high returns on capital throughout an economic cycle, combined with the ability to reinvest surplus capital at high marginal returns.
- A proven ability to generate and grow cash flows, rather than accounting based earnings.
- A strong balance sheet and sensible capital structure to reduce the risk of failure when the economic cycle ends or an unexpected crisis occurs.
- Honest and shareholder-aligned management teams that understand the principles behind value creation and have a proven track record of capital allocation.

We look to buy businesses that meet these criteria at attractive valuations, and then intend to hold them for long periods of time.

We will manage a concentrated portfolio of businesses and intend to own between 15 and 25 businesses at any given point.

We do not seek to generate returns by constantly having to trade in and out of businesses. Instead, we believe our long-term return will approximate the underlying economics of the businesses we own.

We are bottom-up, fundamental investors. While we are cognizant of macro-economic conditions and geo-political risks, we do not construct the Fund to take advantage of such events.

We are an equity fund and intend to be between 90% and 100% invested in this asset class. We operate under the belief that if you entrust us with your capital, you want it managed in line with the process and philosophy we follow; you do not expect us to make an asset allocation decision. We believe in time in the market, rather than timing the market.

We do not engage in shorting, nor do we use leverage to enhance our returns.

Our investable universe is global, and we look for businesses that have a market capitalisation of at least $7.5bn to guarantee sufficient liquidity to our investors.