

Client: Chi Med
Source: The Sunday Telegraph (Money)
Date: 07 July 2013
Page: 4
Reach: 435036
Size: 763cm2
Value: 17457.44

Citigate
Dewe Rogerson

Take Aim at total tax freedom

Shares listed on the junior market, which are often free from IHT, are to be allowed in Isas, says **Andrew Oxlade**

Brave investors in Aim-listed Asos, an en vogue online fashion retailer, have seen a £1,000 punt turned into £4,900 in just three years.

It is success stories of such companies on the junior stock market that may help explain the excitement last week after it was confirmed that Aim stocks would qualify for inclusion in tax-free Isa wrappers by the autumn.

However, advisers also urge caution, as these market minnows are often the riskiest.

The Isa rule change, first proposed in the March Budget, is now particularly important because it offers the rare opportunity of backing an asset that is protected not only from income tax and capital gains tax but from inheritance tax too.

Although Isas are seen as tax-free, assets within them form part of their owner's estate on death and are therefore liable for inheritance tax (IHT).

However, most, although not all, shares listed on Aim are exempt from IHT if held for more than two years.

Experts have hailed last week's move as the birth of the IHT-free Isa.

To add to the appeal, stamp duty on Aim share transactions, usually 0.5pc, will be scrapped from next April.

Patrick Connolly, a certified financial planner at Chase de Vere, said: "There is the potential to make big gains but also the risk that you could suffer major losses."

Mr Connolly pointed out that the FTSE Aim All Share index had fallen by 76pc since 2000, although largely because the index was loaded with technology stocks.

It has also done badly recently because it is home to so many oil and gas stocks, which have

been hammered of late.

But the trick, as ever, is to pick out the gems – and who better to ask than star fund managers who have consistently picked more winners than losers.

Paul Mumford is a guru of

smaller company shares. He has run the hugely successful Cavendish Opportunities fund for a quarter of a century and more recently the Cavendish Aim fund.

He told *Telegraph Money* of two companies raising capital on Aim that have caught his eye and which he will be backing. OMG, the Oxford Metrics Group, announced last week that it was looking to raise £9m for expansion. It makes an eclectic mix of technology products. Around 60 of its hi-tech cameras were recently used in the filming of the new zombie movie *World War Z*. But its cameras are also used by councils for taking pictures of roads and street furniture in an annual audit, providing a steady flow of income.

"The real reason I get quite excited about this one is that it has developed intelligent, wearable camera technology," said Mr Mumford. "It's the first camera in the world that's been made like that and will be sold exclusively through Amazon. Remember what happened when Amazon sold the Kindle exclusively?"

He is also backing Keywords, a firm that translates computer games into different languages and wants to float on Aim for £10m.

Among bombed-out oil and gas stocks, he likes Ithaca Energy and Faroe.

Alex Wright is one of the best-performing smaller company fund managers of recent years. His Fidelity UK Smaller Companies fund became

so popular that it had to close to new business. He has also been given the Fidelity Special Values investment trust to run.

His top Aim picks are Conygar, a "very cheap property company trading at a significant discount to the value of its assets", and Snoozebox, which provides temporary hotel rooms with mobile units at big events, such as the Jubilee celebrations, the Olympics and the British Grand Prix.

"A recent fundraising has improved

the company's financial position, leaving it well positioned for growth," said Mr Wright.

He also likes the oil and gas explorer Rockhopper, which is focused on the Falklands, and Victoria Oil & Gas. Of the latter, he said: "It is a company going through a transformation that because of its size and history, the wider market has not yet realised. It is currently building a gas pipeline in an area of Cameroon that is experiencing regular power outages. The cashflows the company can expect to receive if it executes this project make the shares look extremely cheap."

Of Rockhopper, he said: "For the long-term investor, the shares are extremely cheap compared to the value of the oil that should start coming out of the ground then. However, there is upside in the nearer term, as the company will be drilling exploration wells in the area, and could well be subject to a takeover bid given the cheap share price."

Mark Slater, son of the legendary investor Jim Slater, is another highly regarded fund manager who hunts for value in the smaller end of the market. Among growth stocks, he backs Hutchison China MediTech,

a drugs and health care company, although because it is a Caymans-based holding it does not qualify for inheritance tax protection.

His MFM Slater funds also hold stocks that pay decent income. Peat and compost maker William Sinclair pays nearly 4pc. Not only is the company in line for government compensation for not harvesting threatened peat bogs but consolidation and cost cutting at its sites should help to grow profits "threefold" in the next four years.

Mr Slater is also very keen on Motivcom, which has a yield of more than 4pc. It offers companies advice on employee loyalty and communications and includes the Post Office, Royal Mail and Lloyds among its clients.

Client: Chi Med
Source: The Sunday Telegraph (Money)
Date: 07 July 2013
Page: 4
Reach: 435036
Size: 763cm2
Value: 17457.44

Citigate
Dewe Rogerson



He also backs Alliance Pharma because it buys established health care brands very cheaply to generate solid profits.

He said: "The problem with Aim is that the vast majority of companies should be avoided. But the minute you screen for profits and yields you get rid of most of the rubbish."

Another option is to back a fund such as one of those mentioned, although inheritance tax protection won't apply. Brian Dennehy of Fundexpert.co.uk likes the Liontrust UK Smaller Companies fund. "Yes, it has 61pc in Aim stocks, but it is the 30pc in small UK tech companies which excites me – much more interesting than Google and Apple. And the fund has a very tight discipline in stock selection – no seat of the pants stock picking here."

Investors should always be aware of the bigger risks they are taking. But as Jim Slater famously said of his preference for market minnows: "Elephants don't run."



Client: Chi Med
Source: The Sunday Telegraph (Money)
Date: 07 July 2013
Page: 4
Reach: 435036
Size: 763cm2
Value: 17457.44

Citigate
Dewe Rogerson



Aim-listed OMG makes hi-tech cameras, used in the filming of the new zombie movie *World War Z*, starring Brad Pitt



Client: Chi Med
Source: The Sunday Telegraph (Money)
Date: 07 July 2013
Page: 4
Reach: 435036
Size: 763cm2
Value: 17457.44

Citigate
Dewe Rogerson



**Asos, modelled below,
which is listed on
Aim, has turned a
£1,000 investment
into £4,900 in just
three years**