N+1 SINGER

H1 Report 2019

H1 2019
Equity Market Review

Jamie Constable, Equity Partner & Equity Sales

EQUITY MARKET REVIEW

Overview

Markets have been riding a roller coaster of emotions through H1. The half was topped and tailed in January and June by just about every asset class rising together, a phenomenon which has never happened before! Bonds, equities, gold and commodities were all moving in tandem. What has caused this, and particularly in June after an equities pull back through May, has been investors moving to a belief that QE and its variants were looking increasingly likely to be reintroduced as the global growth outlook has slowed. There have been a number of potential drivers of this slowdown which I explore below. On the subject of interest rates we will know a lot more about their path by the end of the summer with the next US Fed FOMC meeting on 30/31st July and the ECB meeting on 25th July with its next meeting then not until 12th September.

Equity markets as a whole generally like the prospects of interest rate cuts, but struggle more with the individual company results that may be the underlying driver for those cuts. The propensity for earnings downgrades has risen of late and the upcoming US Q2 earnings season will be a key test for equities. We are perhaps in that strange period where "bad is good" both for economic data and on company results at the macro level (but not at the micro level) as bad news means the chance of Central Banks recommencing easing / QE increases. Overall, it's notable that global equity indices have enjoyed a solid performance in H1 2019:

The US The S&P was +17.4% with Nasdaq +20.7%	**Far East** In Japan the Nikkei was +6.3%, in Hong Kong the Hang Seng +11.9% and in China the CSI 300 +27%
Europe In Germany the Dax was +17.4%, and in France the CAC +18.4%.	**UK** The CBOE100 was +10.5%, the 250 +11.1%, the Smalls +8.5% and top 100 AIM +9.97%.

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The US and Americas

The US has been the driver of global markets in more ways than one through the first half of 2019. On one hand, there is Trump using his favoured weapon of engagement (namely trade tariffs!) and on the other, the waxing and waning of whether the US Fed will cut or even further raise interest rates.

The US consumer wallet continues to look healthy with good growth in personal income and inflation remaining subdued – the latter being one reason why the interest rate bulls believe that the Fed will cut rates. Non-farm payrolls disappointed for May but were bumper in June and much strong than expected, with wage inflation remaining solid. It is important to remember that the consumer is the dominant driver of US growth.

Manufacturing indicators have drifted of late but are still positive in the US, and the services sector readings remain relatively buoyant with the June PMI services at 51.5 from May's reading of 50.9 and the Composite for the whole economy at 51.5 from 50.9.

What about the agitator in chief then? We all know he wants lower interest rates as he keeps Tweeting about it! Meanwhile the US continues to use tariffs and the threat of them to pursue what appears to be the current administration's global political aims whether they are aimed at China, India, Europe or closer at home at Mexico.

First, Trump removed the steel and aluminium tariffs on Canada and Mexico and it looked like they might be moving forward towards a new NAFTA deal.

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The very next week, Trump slapped a 5% tariff on imports from Mexico to commence from 10th June unless Mexico stopped the flow of immigrants. The tariff was to escalate up to 25% by 1st October if there was no solution found.

After much panic in Mexico, they announced thousands of new Border guards would be sent to their southern borders. A victory for Trump, even if it may only be short term, and the tariffs have been suspended. Why do I relay this story you may ask? Well, the creation of uncertainties like this, which Trump is doing on a regular basis, is a depressant for companies confidence and for their strategic planning for the likes of capital investment, recruitment, M&A and so on.

CEO's don't know whether they are coming or going. One moment they are negotiating an agreement for goods to be supplied from their Mexican plant and the next the customer is saying sorry can you supply it from within the US or from somewhere else! This creation of uncertainty is surely one reason why growth is slowing globally. Despite all this, whilst globally the effects of these policies and other influences are being seen, US economic growth appears to be remaining solid with Q2 GDP growth looking like coming in at 2% annualised so we are looking at c.2.5% for H1. Not bad at all.

Emerging Markets & AsiaPac

The effect of the trade wars is now being seen starkly in the China data with manufacturing contracting according to the PMI's and May industrial production growth at +5% yoy, the worst reading since 2002.

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Maybe it's not by the path that they hoped, but it looks like consumption is starting to drive the Chinese economy after all. The PBOC have been injecting liquidity into the economy again and the authorities have said that they plan to boost demand for autos, home appliances and consumer electronics in 2019-20. They cannot afford to see a rapid slowdown in growth as that could possibly lead to civil unrest. Look what is happening in Hong Kong, although for different reasons. The recent G20 does at least appear to have got US-China trade talks moving forward again.

A quick glance at other emerging markets where Brazil Q1 GDP was -0.2% QoQ and the PMI's are signalling continued contraction. Mexico is being buffeted this way and that by Trump and Q1 GDP here was -0.2% QoQ. In South Africa Q1 GDP was -3.2% QoQ annualised. Across Asia the data looks mixed at best with trade data still looking soggy but the odd signs of light.

There were interest rate cuts in both India and two in Australia to a record low of 1% with the latter no doubt being impacted by the slowing rate of growth in China. Australia also managed to squeeze in a snap General Election.

Bond Yields, the Fed and Interest Rates

Sovereign bond yields have fallen with vengeance through H1. Are bond markets telling us something? The US 10 year, for example, has reduced from 2.78% on 18th January to 2.0% at the end of June, having dipped below that level previously. The recent peak was 3.24% on 8th November last. The German 10 year yield was negative at -0.33% at end June (and now lower) from +0.27% in January and the yield is now more negative than Japan. You can't protect your wealth in a Swiss bank account either as the 10 year yield there is -0.63%!

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In fact, 10 year yields in Europe are also negative in France and the Netherlands. On the other side of the world, Australia and New Zealand are at record low yields.

The US yield curve inverted briefly in March and has subsequently been consistently inverted since the last week of May. Analysts often view an inversion as the precursor to a downturn in the economy and that was in fact the case in both 2000/2001 and 2006/2007.

The last FOMC meeting and press conference in June confirmed again that the Fed believes interest rates are currently at about the right level. There was a split in the vote though, with one member voting for an interest rate cut and 8 further of the total 17 seeing a cut by the end of 2019. Economic uncertainties were noted to have increased with growth expectations taken a notch down to 'moderate' from 'solid'. The Fed will be data watching and the latest bumper non-farm payrolls have certainly set markets thinking again. It should be noted, though, that jobs are typically a lagging indicator on the economy.

It had appeared that equity markets see the "Fed put" as back with vengeance! Equities have historically performed well on the prospects for cuts in interest rates. The story is not quite so bullish once those interest rate cuts start though. Does the US really need to cut interest rates? US interest rate futures have the chance of a US rate cut in July at 100% with the only question being 25bps or 50bps. Ahead of the last FOMC meeting, analysts were moving towards a 50bps cut but that is only put at a 1.5% chance now according to the futures. With that (last) meeting not signalling a cut, it would have been unusual for them to cut at the end of July but Powell's more recent testimony to Congress certainly seems to signal that they are prepared to act.

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Their decision making is further complicated by the question of whether the US and China can come to some accommodation on trade talks. If they do agree a deal – or at least to move forward towards one – then there would clearly be no reason at all for the Fed to cut interest rates with the boost to global growth that could deliver. I feel that Trump may be saving up a deal on trade with China for election year i.e. into 2020 as the final part in his re-election jigsaw.

The UK and Europe

First Europe, where Germany is suffering in a big way from the US-China trade wars and its resultant hit to global trade with the German economy export led. Combine this with the hit to their very large automotive industry from the technological change that the industry is going through, and the German June manufacturing PMI read 45 from 44.3 in May, so signalling a deep downturn. Being a mature economy with the services reading still strong at 55.8 the whole economy Composite though read unchanged from May at 52.6.

For the EU as a whole, the Composite read 52.2 from 52.1 last signalling a not disastrous outlook for the next 6 months. Draghi, though, is poised to restart QE and to cut interest rates from the current level of -0.4% and perhaps restart bond purchases in perhaps his last move before Christine Largarde takes over in the role from her previous job at the IMF. The ECB next meet on 25th July but the 12th September is seen as much more likely for an interest rate cut at 68.2% probability.

The UK remains effectively rudderless but at least we will know who the new Prime Minister will be by the end of this month. In the absence of any "foot in mouth disease" Boris Johnson looks odds on to be the victor. Should we then expect the UK political scene to rapidly resemble the US?

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His first challenge, of course, will be to attempt to bring to the end the uncertainty from Brexit with his "D-Day" as 31st October.

The UK economy is likely to flat line and even contract slightly in Q2 as the Brexit stock building reverses as evidenced by the recent data. The UK June PMI's stand out to the downside globally, with Manufacturing at 48 from 49.4 last, Services at 50.2 from 51 last, Construction at 43.1 from 48.6 last and the Composite 49.7 from 50.9 last. Remember services is nigh on 80% of the economy. These PMI readings could, though, bounce very strongly on a resolution to the UK's particular uncertainties. I feel that a resolution is needed more urgently with each day that passes.

The UK market remains cheap globally trading on December 2019 ratings of PE 13x and EV:EBITDA of 7.5x with a 4.4% yield. There is an increasing risk to the earnings forecasts, given the economic outlook, but that is true around the world. Investors do have cash and are backing sensible deals. Inflows of funds to UK equities would be a nice addition to all of that. The removal of current uncertainties could likely be that trigger. Can investors really go any more underweight the UK market?

Public Markets vs. Private Liquidity

Tim Cockroft, Equity Partner & Chief Executive

PUBLIC MARKETS VS. PRIVATE LIQUIDITY

Interesting developments over the last few months with the situation at Woodford Investments. I'm not going to make any comment on the fund itself, other than to wish them well over the next few months, but it has highlighted the debate of whether public listings offer liquidity benefits that have been forgotten?

Over the last 30 years, I've nearly always worked with listed companies and, on a personal basis, have actively invested in publicly traded shares other than our own businesses. The reason behind this is fairly simple – liquidity. Whilst investing in tax-related schemes involving VCT or EIS relief offers generous tax benefits, it is generally both difficult to access your capital and requires follow on funding, which further drains liquidity. Whilst the majority of funds are invested in publicly-traded stocks, recent events have shone the spotlight on private companies. This world is now hugely well-capitalised, the growth of private funding has eclipsed the stock market for many years and led to a decline in publicly-traded stocks. We have to throw in the enormous funds under management within PE funds to gain a better understanding of the whole picture but 'de- equitisation' has become a much used phrase.

The decline of publicly traded shares has also been due to the regulation arbitrage, and I'm sure many of you reading this will be frustrated by the higher levels of governance and regulation involved with being listed. I for one am baffled why the exchanges and regulators continue to pile on the regulation in our industry as if we are a completely different species to other industries or companies. Quite frankly, it's crazy, and we should all encourage a lighter regulatory touch so all industries and companies are on a level playing field.

PUBLIC MARKETS VS. PRIVATE LIQUIDITY

BUT, and it's a big *BUT*, are people realising that being invested in a private company and not being able to access your capital could be a really bad position?

Take the example of being unable to withdraw money from various funds, compared to almost never being able to sell shares in a private company – why is one viewed as catastrophic and the other not? I'm sure that in a downturn we will have huge problems with private company liquidity, as valuations fail to materialise and people become locked into situations with little or no chance of taking money out.

Part of me also feels that we should do better at creating trading mechanisms for private shares and, again, the US is leading the way with firms now bypassing Wall Street and going straight to listing to give their shareholders liquidity. The free float guidelines should be relaxed

and, with less regulation, we could reduce listing costs to get companies on the market.

There are ways to play this and certain funds like the Scottish Mortgage Trust seem to have a good balance of large private companies and listed stocks – worth signing up for their podcasts – and if you don't agree, then you can simply sell the shares as it's a listed investment trust.

It would be exciting to see more companies coming to the market as part of their next funding solution. Being listed gives you profile and, in normal circumstances, a group of supportive shareholders who let the management team get on with things – maybe we just need the regulators to play their part and we'll see increased 'equitisation' over the coming years.

N+1 Singer
Capital Market Performance

Tom Salvesen, Head of Corporate Broking

CAPITAL MARKET PERFORMANCE

Investment Banking

Despite challenging market conditions and an uncertain political backdrop, we remain focused on supporting our clients as a financially strong, trusted partner intent on *identifying*, *supporting* and *funding* growth companies in the UK small and mid-cap market, and are pleased to see this reflected in our performance year to date.

In the first half of the year, we completed 7 secondary fundraises, taking the total equity we've raised since January 2018 to over £1 billion. We are also pleased to have been selected to partner with 12 new corporate clients across a number of sectors, taking our total number of retained clients to 100, maintaining our market-leading position as one of the top three Nominated Advisers & Brokers by number of clients on AIM.

Transactions

Notable transactions completed in the first half include a raise of £141.5 million for our client Hipgnosis Songs Fund Limited, following on from their admission to the Specialist Fund Segment of the Main Market in 2018, raising £200 million.

HIPGNOSIS

Hipgnosis Songs Fund Ltd.

Date: April 2019
Sector: Investment Funds
Type: Placing raising £141.5 million

Market Cap: £210 million

Selected follow-on equity placings include: RM Secured Direct Lending (Placing raising £13.5 million); Instem plc (Sell-down raising £4.8 million); Tufton Oceanic Assets Limited (Placing raising $50 million); and AVI Japan Opportunity Trust (Placing raising £13 million).

M&A

Our M&A practice has also had a busy start to the year with a number of buy and sell-side mandates completed, including 1Spatial plc in their acquisition of

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Geomap-Imagis, alongside a Placing of £3.1 million in order to fund the cash element of the consideration. We also acted as financial adviser under Rule 3 of the Code and Broker to WYG for their acquisition by Tetra Tech UK.

AVI Japan Opportunity Trust plc

Date: May 2019
Sector: Investment Funds
Type: Placing raising £13 million

Market Cap: £82.6 million

Tufton Oceanic Assets Limited

Date: March 2019
Sector: Investment Funds
Type: Placing raising US $50 million

Market Cap: $184 million

1Spatial Plc

Date: May 2019
Sector: Technology
Type: Acquisition of Geomap-Imagis alongside a Placing of £3.1 million, and Partnership Agreement with Esri

Market Cap: £35 million

IPO

In May we were thrilled to announce that on behalf of essensys plc, the leading provider of SaaS platforms and on-demand cloud services to the flexible workspace industry, we had successfully placed 18,543,046 new and existing Ordinary Shares in the Company at a price of 151 pence, giving the Company a market cap of £72.6 million upon admission.

Mark Furness (CEO) & Alan Pepper (CFO) discuss their IPO

In conjunction with the admission, the Company had successfully raised gross proceeds of £28 million through an oversubscribed Placing. We wish them every success on their journey as a newly formed PLC, and we are delighted to be retained as their Nominated Adviser and Broker.

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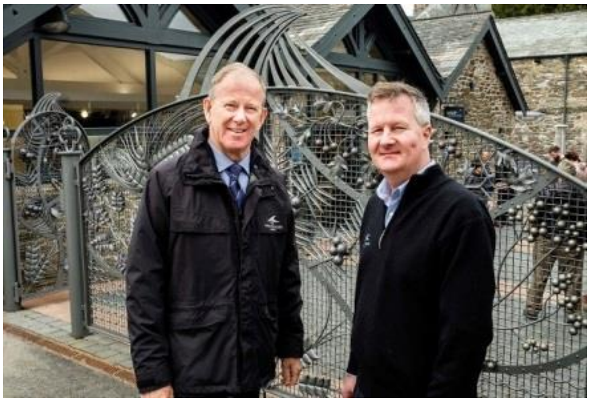
Private Equity

We are also delighted to have been appointed as financial adviser to two companies seeking private equity funding ahead of a potential IPO.

On 24th June, The Lakes Distillery announced they had secured a £3.75 million investment from a group of investors led by Gresham House Asset Management, a specialist equity investment and asset management company. The funding comes on the back of an incredible year for The Lakes, with a number of high-profile spirit and liquor awards. Funding has been provided by means of a secured convertible loan note, structured to provide an 8% yield and an attractive further fixed return through payment in kind. It will convert to equity on a successful flotation.



Nigel Mills, CEO of The Lakes Distillery commented: *"We're delighted about the opportunities this investment opens up. We've been on an incredible journey so far, and Gresham House's investment will allow us to take the business to the next level, grow production capacity and build our brand globally."*

N+1 Singer are also pleased to announce our appointment as financial adviser, sole placing agent and Broker to Rezatec.

The private financing will be managed by N+1 Singer's Technology Investment Banking team, led by Richard Kauffer and Harry Gooden, in conjunction with N+1 Singer's strategic shareholder, Alantra, a global investment banking and asset management firm focusing on the mid-market with offices across Europe, the US, Latin America and Asia. The additional capital will help support the Company's continued international growth and product development.

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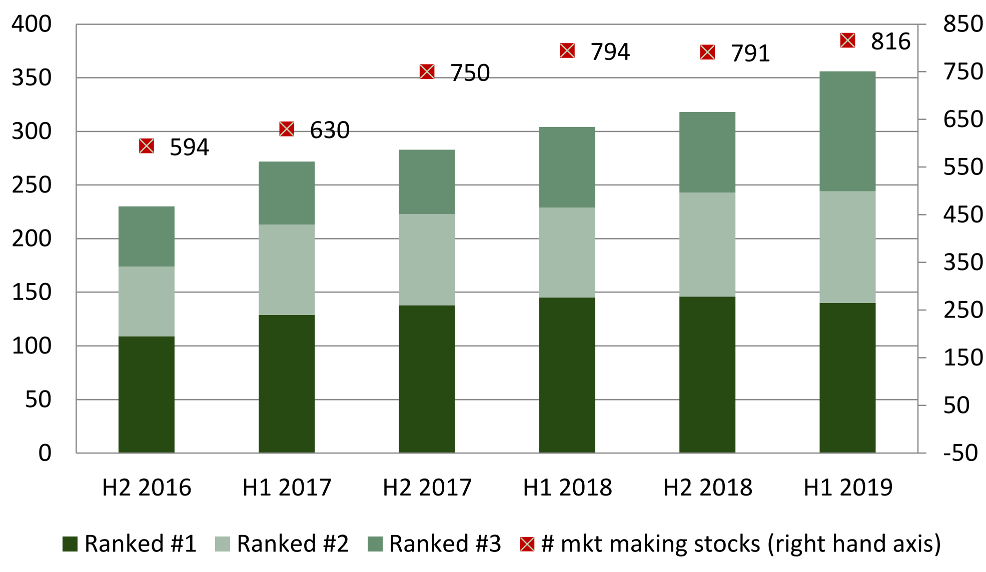
Markets

Market volumes have held up well despite AIM volumes down c.5% on this time last year. Despite political backdrops and market uncertainties, our trading department has continued to build on last year's success, and remains a core differentiator for our business in the competitive landscape. Our trading commissions are up 32% YOY, and we continue to gain significant market share in our focus area of the UK small and mid-cap sector, ranking top 3 with over 10% market share in all AIM companies below £500m market cap.



Over the past few years there has been a steady increase in the number of stocks N+1 Singer makes markets in. At the end of 2016, we were ranked as a top 3 Broker in 230 stocks, and this has since increased by 55% to 356 by June 2019.

In research, we have had an encouraging first half of the year, and are pleased to report a number of positive changes to our research offering, including the launch of our new "Sense & Sensitivities" research product – created to stimulate more informed discussion whilst getting to the heart of the pivotal issues affecting each company.

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We initiated coverage on more than 20 stocks during the first half of 2019, identifying companies that we believe to be either under-broked, under-valued or misunderstood by the market. The average market cap of the companies we have initiated on is c.£280m, which highlights our commitment to the small & mid-cap market, where research coverage generally is at risk (both in terms of quality and quantity) as a result of the introduction of MiFID II. The first half was also a busy period for thematic sector research, which has included significant value-added pieces from our Healthcare & Life Sciences (Digital Health - A quantum leap for healthcare), Financials (Trust & Corporate Services - Global and Growing), Support Services (Legal Services - All rise!) and Consumer teams (Leisure - Things can only get better), all of which have been accompanied by investor roadshows.

At the start of this year, we produced a two-part 'Best Ideas' selection. Firstly, ten 'Core Ideas', which our analysts believe should be considered strong contenders for any portfolio – good, consistent, quality businesses, well managed with good supporting dynamics and financial strength, where there is scope for outperformance. Secondly, six 'Domestic Bouncers' – domestically focused stocks that our analysts would expect to perform strongly in the event of a Brexit resolution and the unwinding of uncertainty more generally.


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Cross Sector Research

New Coverage 2019

Showcasing significant progress in Q1

In 2019 we intend to increase our research coverage significantly, across all our sectors, whilst also improving its quality and impact. Following the launch of our new Sense & Sensitivities research format we have been pleased to see a marked increase in our readership suggesting we are focusing on the right pivotal issues and that our research is adding greater value to our clients. This initiations book showcases our new coverage from the first quarter and highlights our other key sector publications. We hope this provides a useful reference point and stimulates further discussion of our key ideas so far this year.

Initiations – step up in coverage in Q1

We initiated coverage on 12 stocks during the period, identifying companies that we believe to be either under-broked, under-valued or misunderstood by the market. The average market cap of the companies we have initiated on is c. £330m, which highlights our commitment to the small/mid cap market, where research coverage generally is at risk (both in terms of quality and quantity) as a result of the introduction of MiFID II. We include extracts from all our initiations year to date within this note. The full notes are available on request and our analysts are available and always keen to discuss their ideas with investors.

Sense & Sensitivities – new format to stimulate debate

Our new Sense & Sensitivities research format has been designed to distil a company's investment case and to focus on the pivotal issues our clients are grappling with in making investment decisions. We believe it encourages our analysts to get to the heart of the matter and to challenge consensus thinking.

Thematic Research – in-depth analysis

The first quarter was also a busy period for thematic sector research, which has included significant value-added pieces from our Healthcare & Life Sciences (Digital Health - A quantum leap for healthcare), Financials (Trust & Corporate Services - Global and growing), Support Services (Legal Services - All rise!) and Consumer teams (Leisure - Things can only get better), all of which have been accompanied by investor roadshows. Within Retail, we also reviewed in detail the issues facing Superdry amid the ongoing wrangle between the founders and Board.

Best Ideas – outperforming YTD

The political stalemate in the UK and weakening industrial indicators mean that market volatility remains to the fore, with profit warnings coming thick and fast across a number of sectors. In this context, we are very pleased with our Best Ideas Core Holdings performance year to date (+14.9% total return and +9.8% against benchmark), although admittedly it is early in the year to take score.

Maintaining Momentum

Looking forward, we fully intend to maintain our momentum and aim to publish an initiations book each quarter, as we build out our coverage and cement our position as a leading provider of high quality, differentiated small/mid cap equity research. We thank our clients for their continuing support as we make further investment in our product and capability.

Stock summary

AB Dynamics (ABDP LN)

Anpario (ANP LN)

Autins Group (AUTG LN)

Ei Group (EIG LN)

Gateley (GTLY LN)

Huntsworth (HNT LN)

JTC (JTC LN)

Renalytix AI (RENX LN)

Sanne Group (SNN LN)

Smart Metering Systems (SMS LN)

SmartSpace Software (SMRT LN)

XPS Pensions Group (XPS LN)

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We are very pleased with our Best Ideas Core Ideas performance year to date (+26.1% total return and +15.5% against benchmark), whilst the Domestic Bouncers (+4.1% total return and -6.5% against benchmark) may have longer to wait for a period of political stability.