AIM's 2020 Bonanza

EQUITY Development

Market comes of age

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The FTSE AIM 100 Index total return was 20.6% over last year, massively outperforming the FTSE 100, which produced a negative total return of 11.5%. This must be the biggest one-year differential in AIM's 26-year history. The outperformance is not just a one-year wonder: as the table below confirms, AIM is also well ahead over 5 years.

As individuals own 25.1% of AIM companies, against just 11.3% of FTSE 100 companies (*source: "Ownership of UK shares, UK Government, January 2020*"), and with various tax changes (successfully) encouraging individual ownership of AIM shares over the past decade, UK private investors will have benefited very nicely from this outperformance.

Total Returns of UK indices over 1 and 5 years

	1 Year 2020 total return	5 Years 2016 - 20 total return	5 Years 2016 - 20 total return per annum
FTSE AIM 100	+ 20.6%	+ 78.7%	+ 12.3%
FTSE SmallCap	+ 7.1%	+ 55.6%	+ 9.2%
FTSE 250	- 4.6%	+ 34.1%	+ 6.0%
FTSE 100	- 11.5%	+ 26.2%	+ 4.8%

Source: FTSE Russell

Everyone will have their own explanations for the divergent performance in 2020. I would suggest the following are 2 key reasons, both clearly Covid related:

- **"It is a lot easier to change course in a speedboat than in a supertanker"**

  Many FTSE 100 companies, operating in multiple countries and multiple industries all around the globe, had to respond to governments (and customers) reacting in very different, and rapidly changing, ways to Covid. Manufacturing companies faced huge complex problems as factories were forced to close, employees had to stay at home, and essential products and raw materials were often unobtainable.

  By contrast, AIM companies (largely due to their size & ownership) proved generally more entrepreneurial, more service / online based, (with less manufacturing), and just more able to react quickly to 2020's rapidly changing events.

- **Dividends**

  These are a far more important component of FTSE 100 valuations (and therefore obviously share price performance) than for the FTSE AIM 100. Many AIM companies choose to pay no dividends at all, but instead to invest that cash to accelerate the growth of their businesses. Plenty of other AIM companies pay only a nominal (although progressive) dividend – enough to "tick the box" for institutions / private investors, but not a meaningful part of their valuation.

  In sharp contrast the early two thirds dividend cut in spring 2020 by (dividend Goliath) Royal Dutch Shell presaged a bloodbath of share price performance of (supposedly / previously) high yielding FTSE 100 companies.

Data used from **FTSE Russell** and the **London Stock Exchange** website

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The late 2020 vaccine approval news, Brexit (finally!!), and the traditional December "Santa" rally belatedly boosted the end of year FTSE 100 performance, (which has continued strongly into the first week of the new year), but over 2020 it lagged a long way behind AIM and indeed fell very close to the bottom of the worldwide Equities performance league table. Many would argue that this underperformance, and the very recent revival of interest and performance of "value" shares, are reasons to be bullish for 2021.

Composition of AIM

AIM ended 2020 with a record total market cap, at over £131 bn.

This was despite having just 819 listed companies at year end, less than half the number of companies listed on AIM at the end of 2007 (1,694 companies). The number has shrunk significantly over the last dozen years, but the **quality, maturity & average size** in 2020 was materially higher.

This is down, in large part, to the much-reduced significance of oil & gas and mining shares. 10 years ago, oil & gas and mining companies, together made up around 48% of AIM's total market cap. Today that combined number is around 15%. Sectors moving strongly in the opposite direction include Consumer (Goods & Services), up from 10% to nearly 30% over the 10 years, and Healthcare, up from 4.5% to 13% now, the latter boosted in 2020 by potential Covid products & opportunities.

Largest Constituents

The table, below, lists the top 10 constituents of the FTSE AIM 100 Index at the end of 2020. All will be familiar names to sophisticated investors, and several of these have had a broad and enthusiastic retail following for many years.

Top 10 Constituents - FTSE AIM 100 Index

Constituent	Country	ICB Sector	Net Mkt Cap (£m)	Weight %
ASOS	UK	General Retailers	3,207	5.18
boohoo group	Jersey	General Retailers	3,180	5.13
Fevertree Drinks	UK	Beverages	2,587	4.18
ITM Power	UK	Alternative Energy	2,213	3.57
Keywords Studios	UK	Leisure Goods	1,820	2.94
Abcam	UK	Pharmaceuticals & Biotechnology	1,799	2.90
Hutchison China Meditech	Cayman Islands	Pharmaceuticals & Biotechnology	1,503	2.43
JET2	UK	Travel & Leisure	1,489	2.40
Burford Capital	Guernsey	Financial Services	1,428	2.31
Gamma Communications	UK	Mobile Telecommunications	1,392	2.25
Totals			**20,617**	**33.29**

Source: FTSE Russell

In fact, AIM ended 2020 with a record number of £1bn+ M Cap Cos (24), and all-time high records for both average daily turnover of shares by number, and by value. While AIM IPOs were, not surprisingly, in short supply last year, the total of secondary fundraisings on AIM in 2020, at over £5bn, was the highest for 10 years.

AIM has benefited significantly from various tax changes over the last decade.

For a while it has been the case that holding AIM shares can offer inheritance tax planning exemptions/advantages, but the move in August 2013 to permit AIM shares to be held in personal ISA accounts, (and the increase in the annual ISA allowance from £11,520 then to £20,000 now), plus the decision in April 2014 to make AIM share purchases exempt from stamp duty have seen a huge increase in private investor holdings across AIM in the subsequent half dozen years.

Prospects

After last year it is a brave person who predicts how 2021 will pan out. But this week's announcement of a third UK lockdown, quite possibly lasting until Easter, with similar measures in place around (most of) the world, means that many of the factors which were in play in the UK, and indeed globally, for the last 9 months will continue for a while longer yet.

The advantage, both in the short term and looking beyond Covid-19, remains with entrepreneurial, fast moving (and fast growing) companies, many of which are listed on AIM.

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