RATHBONES

RATHBONES SPECIALIST TAX PORTFOLIO SERVICE (STPS)

Business relief (inheritance tax relief) mandates

Q2 2025 REPORT

Q2 2025 was a positive quarter for growth-orientated, UK-listed smaller companies. Indeed, the FTSE AIM All-Share index recorded a 13.8% return over the three-month period, supported by encouraging corporate results, a de-escalation of global tariff threats, and the growing likelihood of further interest rate cuts in the UK.

The gains seen since April are very welcome indeed. The recovery from the challenges of recent years admittedly has some way to go, but this is an important first step. UK market performance has improved, with fewer investors selling and sentiment starting to stabilise[1]. This shift suggests that UK equities may finally be turning a corner. Meanwhile trade agreements with the US and India, as well as improving ties with Europe, support the case that the UK is a stable and credible destination for global investors' money[2].

Governments are starting to recognise the importance of innovation and industrial autonomy. Ambitious initiatives are now in motion, from the UK's Strategic Defence Review[3] to its Modern Industrial Strategy and Germany's €1 trillion commitment to infrastructure and defence. Much of this investment will depend on the innovation and agility of small and mid-sized enterprises – precisely the type of businesses held by our clients.

The AIM market is well-positioned to play a central role in these efforts. Indeed, it already does: AIM-listed companies contributed some £35.7 billion to UK GDP and directly supported more than 410,000 jobs in 2023[4]. Europe's leading junior growth market is more resilient than many assume. To borrow from Mark Twain, reports of its demise have been greatly exaggerated.

Our preferred companies continue to trade robustly despite big policy changes on both sides of the Atlantic, and we remain confident in their long-term potential. Valuations across our investment universe are strikingly low. Research from institutional fund management firm Aberdeen[5] indicates UK small-caps continue to trade at a material discount to their historical average. Against this backdrop, we have been researching compelling new names to add to portfolios.

PORTFOLIO DEVELOPMENTS

Opportunistic bids are perhaps to be expected when the valuations of higher-quality companies are depressed. In most cases, we've opposed these offers, believing them to significantly undervalue the companies in question.

Private equity investor Bain Capital's recent proposal for healthcare business software specialist **Craneware** is a good example. Despite a 29% premium to the undisturbed (pre-bid) share price, management rejected the bid, citing undervaluation—a view we fully support. As Craneware noted, its share price has lagged underlying performance due to broader market dynamics, not company fundamentals. We see similar disconnects elsewhere in the portfolio.

1. https://www.calastone.com/insights/equity-fund-inflows-fell-sharply-in-may-but-investors-are-less-negative-on-the-uk/
2. https://www.gov.uk/government/news/uk-signs-trade-deal-with-india
3. https://www.gov.uk/government/publications/the-strategic-defence-review-2025-making-britain-safer-secure-at-home-strong-abroad
4. https://www.grantthornton.co.uk/insights/report-the-economic-impact-of-aim-companies/
5. https://ukinvestormagazine.co.uk/uk-smaller-companies-valuations-improve-amid-overseas-takeover-interest/

Asthma diagnostic and monitoring equipment maker **NIOX Group** had European private equity buyer Keensight's offer for the company withdrawn due to the macroeconomic uncertainty[6]. While bid interest might well return, we are happy to see NIOX's continued listing on AIM, given its highly profitable economics and the potential to grow sales.

Elsewhere, in a busy quarter, we initiated a position in low-cost holiday provider **Jet2** and participated in the recent IPO of accounting firm **MHA**. We are currently building stakes in several other high-quality companies, which we hope to announce once positions have been filled. We exited kettle component manufacturer **Strix Group.** Additionally, we sold our positions in business management consultancy **Elixirr**, catering and hospitality laundry and uniforms supplier **Johnson Services Group**, and business-to-business digital communications service **Gamma Communications**, all of which are moving to the FTSE Main Market.

KEY PERFORMERS

Volex, a manufacturer of wiring and connectors for specialist industries, saw its share price rise in the second quarter after it reported strong annual results. This was driven by robust growth in its electric vehicle division and demand for data centre cables. Investor confidence was further boosted by upbeat guidance and management's reaffirmed outlook for continued growth. Elsewhere, law firm **Knights Group** gained over 25% on strong results, improving profit margins, and two acquisitions that should boost earnings per share. Despite nearly tripling from mid-2023 lows, shares still trade at just 7.5x earnings. Similarly, shares in polling and market research business **YouGov** rallied yet remain on just 10 times earnings. That compares with a five-year average of close to 30x[7]. Finally, Ireland-based **Uniphar**, which helps get medicines and medical devices to hospitals and patients, surged over 50% in three months, driven by strong results, a €35 million buyback, and upgraded analyst forecasts for future profits.

It was a more difficult quarter for **hVIVO**, which tests vaccines and treatments for respiratory illnesses. Uncertainty in the US pharmaceutical industry caused a contract cancellation that meant the group warned on profits. It remains a valuable partner to the pharmaceutical industry, however, thanks to its ability to make drug development faster and cheaper. Meanwhile, **RWS**, which translates and manages content for businesses globally, dropped sharply after a profit warning tied to changes in the mix of what services made up its sales, and restructuring costs. Shares have since stabilised, with a new strategic vision well received and a refreshed management team set to outline fresh financial targets later this year.

CONCLUSION

We remain confident in the strength and resilience of our preferred companies. Despite an eventful macroeconomic backdrop, these businesses continue to deliver robust operational performance, strategic progress, and, in many cases, earnings momentum not fully reflected in share prices. This dearth of investor interest could now be changing.

We see compelling reasons for optimism. Reforms to encourage UK pension funds to invest more in smaller UK companies are gaining traction. There's a growing recognition of the need to channel long-term capital into productive, high-growth assets here at home. At the same time, industrial and defence investment across the UK and Europe is accelerating, creating powerful tailwinds for innovative, agile businesses, many of which are already represented in our portfolios.

There are clearly still many uncertainties in the world and further geopolitical flare-ups are possible. Yet UK small-caps still feel both attractively valued and well-positioned to benefit from renewed investor attention. We continue to focus on identifying high-quality businesses with durable competitive advantages, little debt relative to their earnings and assets, and long-term growth potential. With a disciplined investment approach and a portfolio of companies demonstrating resilience and innovation, we are excited about the opportunities ahead.

To set up a meeting or to find out more about Rathbones' additional offerings, please get in touch with our intermediaries service desk on 020 7399 0399 or email STPSTeam@rathbones.com

For more information, please visit: rathbones.com

The specific securities described are for informational purposes only and should not be considered investment recommendations.

6. https://www.londonstockexchange.com/news-article/market-news/statement-regarding-niox-group-plc/16985984

7. https://my.apps.factset.com/workstation/navigator/company-security/snapshot/YOU-GB Company/Security - Snapshot - FactSet: Factset 5Y NTM PE: 29.7x

PORTFOLIO STRATEGY

Rathbones STPS invests in profitable AIM-traded companies that offer both attractive multi-year growth prospects and relief from Inheritance Tax. We seek out strong business models and durable competitive advantages, which typically translate into high profit margins over time. This bottom-up stock selection approach favours highly visible revenue streams in growth markets with little direct exposure to the consumer.

ALTERNATIVE INVESTMENT MARKET (AIM)

The AIM set out in 1995 to provide smaller, growing companies with earlier and more efficient access to the public markets - a 'growth escalator'. The combined market cap of constituents totalled £68.4 billion in June 2025, up from £63.4 billion in March.

BENCHMARK

In the second quarter of 2025, the FTSE AIM All-Share Index returned 12%. Rathbones uses this as a benchmark for Specialist Tax Portfolio performance but not all AIM shares qualify for Business Relief, limiting its relevance to this tax-advantaged portfolio strategy.

RISK

Investing in AIM-listed companies is high risk and may not be suitable for all investors. You could lose all of your investment. Past performance is not a reliable indicator of future performance.

ADDITIONAL INFORMATION

Rathbones Group Plc is independently owned, is the sole shareholder in each of its subsidiary businesses and is listed on the London Stock Exchange.

Rathbones is a trading name of Rathbones Investment Management Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered office: Port of Liverpool Building, Pier Head, Liverpool L3 1NW. Registered in England No. 01448919.