RATHBONES

RATHBONES ENTERPRISE INVESTMENT SCHEME (EIS)

Q2 2025 REPORT

A CHANGING WORLD

The second quarter of 2025 saw the continuation of transformation across the global economy. President Trump's self-declared 'Liberation Day' on April 4th and the continued unpredictability of US foreign policy has led to many nations, especially within major trading-blocs, reflecting on their position in the world.

On March 18th, Chancellor Merz scrapped Germany's long standing 'debt brake'[1] - a rule introduced in 2009 to limit government borrowing. In its place, Germany has committed to €500 billion to infrastructure[2], with half of that going to rail and renewable energy[3]. On top of that €650 billion has been set aside for miliary upgrades. The consequences for Europe, not only for the EU are worth following closely especially in light of recent spending commitments announced by NATO. We will see if these efforts are enough to improve the strained relationship between Europe and the Trump administration.

Although the UK isn't in a position to spend at the same scale, we benefit from greater clarity in our trade relationships with both the EU and US. This will be particularly important when assessing and implementing new technologies in critical sectors such as Aerospace, Rail and Health where many of our companies operate.

RELATIVELY QUIET ON THE WESTERN FRONT

Despite the plethora of major events the FTSE AIM All-Share produced a highly improved performance, up +13.8% over the period. For the year to date the index is up +8.2% compared to the FTSE Small Cap Ex IT and FTSE 100 which have risen +7.6% and +9.5% respectively. Interestingly the AIM market has meaningly outperformed the S&P 500 in sterling terms by 11.1% so far this year. Considering the significant outperformance of US equities over the long term, UK smaller companies have some way to go to close that gap.

With regard to portfolio activity, we participated in one out of a possible seven transactions this quarter. For the year to date we have participated in three transactions out of a possible fifteen giving a participation rate of 20%. This is significantly below our three-year average of 30%, this is largely due to timing and sectors of interest, and we expect the number of investments to pick up materially.

Due to the very early-stage nature of the business, we only invested for highly time sensitive clients in the IPO of Quantum Base. The company was spun out of Lancaster University by Professor James Young, a former director of the Quantum Technology Centre. The group apply quantum theory to recognise random and unique properties of certain materials which allow for the creation of near unbreakable identification tags. These tags are then printed on items such as tax stamps and can be authenticated on devices such as smartphones and are deemed near unbreakable. They have signed a framework agreement with the global leader of tax stamp manufacturing (and a household name). We spoke to this customer during our due diligence process which offered strong independent validation of the technology. However, the company have milestones to achieve as a listed business and we will look to invest further as and when their track-record develops.

1. https://www.bbc.co.uk/news/articles/cvgp22zlrgko
2. https://www.lw.com/en/insights/germanys-500-billion-infrastructure-fund-practical-insights-and-opportunities
3. https://www.cleanenergywire.org/factsheets/qa-germanys-eu500-bln-infrastructure-fund-whats-it-climate-and-energy

Looking forward, there are a number of companies that we are particularly keen to invest in. Interestingly, the number of AIM IPOs bookmarked for the second half of this year have grown significantly. Should they proceed, it would indicate a return to previous levels of success for London's junior market.

PORTFOLIO MACHINATIONS

Some of our widely held companies performed well in the period with Aurrigo, Velocity Composites, Hardide, Directa Plus and Strip Tinning all producing returns greater than 25%.

Velocity Composites, who manufacture composite materials for the aerospace industry announced a major contract renewal with BAE Systems. Strip Tinning noted an acceleration in demand for its battery connection technologies from Amazon (on behalf of their autonomous division Yoox). Other significant developments were that Cordel, who provide AI related analytics to the rail industry signed a major contract with the largest Class I railway in the US. Aurrigo and Swissport, the worlds largest baggage handling company, announced a strategic partnership where Swissport would start introducing Aurrigo's autonomous technology at Zurich Airport with further sites to follow. Hardide and Directa Plus, detailed much improved trading in their respective industries with directors of both companies buying shares thereafter.

However, it was not all positive news. Northcoders, who provide coding classes to individuals who want to change careers, announced that their major contract with the Department of Education would not be proceeding. This is in light of the UK Government's aim for such contracts to be tendered via local authorities. We believe this is a mechanical issue and unaffected due to the national shortage of software engineers. Ocean Harvest Technologies, an IPO we invested in during 2023 announced the suspension of its shares from trading. The suspension is due to the group being unable to attain funding via the AIM market, partly due to the groups poor financial performance since listing.

We also saw the receipt of proceeds from the takeovers of Learning Technologies and Equals which we have communicated separately. Shortly prior to period end we also saw the receipt of proceeds from the takeover of Science in Sport and will be writing to the relevant holders.

During the period we met with over forty businesses, visited four sites across the UK as well as listened in to a multitude of conference calls with some of the worlds largest businesses. What has been increasingly evident, especially when visiting businesses, is the importance of supply chains. This is not a new phenomena as a consequence of the recent US tariffs. Understanding and being able to provide certainty on component origination will be critical in years to come.

LOOKING FORWARD

As noted previously, we expect to see a meaningful uptick in the number of investments we will make, some in new businesses and some in existing holdings. These businesses must demonstrate that their products and services are valued by their customers and that they are sourced and manufactured in alignment with certain requirements. Considering the relative youth of the businesses, their supply chains are more likely to fit the increasing customer demand, especially in the US.

So, whilst the recent performance across various holdings is welcome, we acknowledge that there remains more to do. The opportunities that could arise from a European led spending boom are significant. So whilst the US starts to look inward, UK businesses now have the opportunity to fulfil customer needs across the world even as the EU and US look to move in opposite directions.

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

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