



Rathbones Enterprise Investment Scheme (EIS) - Q4 2025 Report

A changing backdrop for investors

The Autumn Budget dominated the conversation during the final quarter of 2025. The period leading up to it created understandable uncertainty for households and businesses. While the Chancellor's televised reassurance—promising no changes to headline tax rates—brought some calm, confidence remained fragile. Uncertainty lingered, particularly in retail sales with the Office for National Statistics (ONS) noting a decline¹.

This caution extended into the business community. A snap survey by the Institute of Directors showed a near record low for investment intentions in recent years².

What the Budget means for AIM and EIS investing

For AIM-listed companies, the impact of the Budget has been widely discussed. Tighter business relief rules did not materialise. While our

EIS strategy does not invest primarily for business relief, AIM's overall health is essential to our ecosystem.

Performance over the quarter reflected the uncertainty. The FTSE 100 and FTSE Small Cap ex-IT produced gains of 6.2% and 2.5% respectively, while the AIM All Share dipped slightly by -0.3%. These impacts were seen in the IPO market, with various new issues pushed into the new year.

A meaningful step forward for EIS

Despite this backdrop, the Budget brought significant changes for both EIS and VCT investors. In recent years, some of the weakest returns across the market have come from businesses that had reached the limits of their EIS/VCT funding allowances. With sentiment towards smaller UK companies still subdued, this scarcity of capital has contributed to opportunistic takeovers and highly dilutive fundraises.

¹ <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/latest>

² <https://www.iod.com/news/uk-economy/iod-press-release-director-confidence-still-at-near-records-lows-before-and-after-the-budget>

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This was particularly pertinent in our Q1 2025 commentary where we discussed two risks in determining when the compression in smaller company valuations will reverse. Firstly, businesses may be compelled to delist and secondly, takeovers at opportunistic prices which we think are well below the company's worth.

The following three amendments we believe will result in a major step change in opportunities available to the EIS mandate³:

1. Increase the gross assets requirement that a company must not exceed for the EIS and VCT to £30 million (from £15 million) immediately before the issue of the shares or securities, and £35 million (from £16 million)
2. Increase the annual investment limit that companies can raise to £10 million (from £5 million) and for knowledge-intensive companies to £20 million (from £10 million)
3. Increases the company's lifetime investment limit to £24 million (from £12 million) and for knowledge-intensive companies to £40 million (from £20 million)

For us, the combined effect is powerful. Many companies we meet who have high technological potential have matured into larger businesses and are now considered investable. These changes allow companies to raise capital to fund accelerated R&D projects to supplement profitable operations.

Following the changes, at Rathbones we have undertaken a review of existing companies and listed businesses who should benefit, as a result, our target list has expanded significantly.

The Finance Bill 2025-2026 took place in February with Royal Assent expected in the new tax year. However, its influence is already visible with two companies successfully raising capital on the condition of the legislation passing. Both companies raised amounts that were greater than any total over the last three years at highly attractive valuations given their maturity.

Staying disciplined as opportunities expand

While we welcome these developments, we remain highly cognisant of our investment criteria. In periods where capital is scarce, many

of the businesses we favour have shown strong capital discipline when scaling in constrained environments.

As these new allowances unlock more opportunities, we continue to expect these companies to display the following criteria:

- a clear track record of hitting product development milestones
- strong validation of their offering from industry or academic partners
- early commercial traction and the ability to manage delays
- product development costs that are proportionate to the company's market capitalisation

Growth capital investing carries risk by its nature. The EIS framework exists to support companies through the early stages of their journey. No single approach can eliminate these risks, but our strategy, combined with expanded allowances, presents opportunities for companies to achieve self-sustained growth and continually reinvest in world-class products and services.

Mandate activity through the quarter

Budget uncertainty slowed activity earlier in the year, but the final months of the year proved far more active. We participated in four qualifying transactions out of ten opportunities; a welcome step-up compared to the single deal we undertook in Q3. Over the year as a whole, we took part in eight fundraises out of twenty nine, lower than our three-year average of 45%. The year so far has seen a significant uptick in activity.

Several factors contributed to this. Various fundraises were in companies that didn't meet our criteria. The US administration's tariff policies and the renewed focus on onshoring have had knock on effects for UK businesses. The ongoing bifurcation of the global economy we believe will lead to an increasing number of critical industries, such as aerospace, life sciences and autonomous technologies being sourced more locally than has been seen over the last forty years.

Several of our holdings are already responding.

- **Abingdon Health** has raised capital to scale its US manufacturing footprint.

³<https://www.gov.uk/government/publications/enterprise-investment-scheme-eis-and-venture-capital-trusts-vct-changes/venture-capital-trusts-enterprise-investment-scheme-investment-limit-increase-and-restructure>

- **Aurrigo**, our largest holding, have noted that their lead customers, such as Changi Airport require sovereign sourcing and deployment of their technology.
- **Hardide** has displaced a major rival thanks to both better technology and the ability to supply from its US facilities.

Not all the effects have been positive. Production challenges at Airbus and Boeing have delayed volumes for certain aircraft platforms, which has affected **Velocity Composites**, though there are signs of improvement later this year.

UK Government procurement also slowed across rail, defence and healthcare. Higher employer National Insurance contributions absorbed parts of departmental budgets, delaying tenders and contract decisions especially within Rail. The UK defence industry was also hit by uncertainty surrounding the Strategic Defence Review and its ongoing funding requirements negatively impacting the consultancy **RC Fornax**, who is listed on AIM. Despite these short-term challenges, early signs suggest activity is normalising, particularly in digital transformation. We expect holdings such as **Cordel** and **Feedback** to benefit from this.

Looking ahead with confidence

Geopolitical tension and market volatility remain part of the landscape, and we remain mindful of the uncertainty this brings. However, there is genuine reason for optimism. Across 2025 we held over 160 company meetings, visited more than 25 facilities and drew heavily on the scale of Rathbones' research and stewardship capabilities.

Our team also took its inaugural board observer position to support one holding through a particularly challenging period.

AI continues to be a powerful theme. While much of the public conversation focuses on the largest firms, smaller companies often stand to benefit the most. We are already seeing examples of:

- productivity improvements that allow teams to scale without increasing costs
- deep learning algorithms seeing increased use within regulated sectors such as rail and life sciences
- The interface between 'AI' and hardware materially improve - enhancing imaging technologies and manufacturing productivity

Falling interest rates over the next year should support risk assets and ease conditions for UK smaller companies. Combined with the near doubling of EIS and VCT allowances, we believe this will significantly expand the opportunities available to us at valuations that are fractional compared to global peers. The extension of the EIS/VCT sunset clause to 2035 provides long term certainty to the mandate in an increasingly volatile world.

For the first time in several years, it is an exciting moment to be investing in UK small companies.

Our team is available to discuss the service or any of your clients' portfolios, and we are always happy to provide more detailed information on request.

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 stps@rathbones.com
For more information, please visit: [rathbones.com](https://www.rathbones.com)

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