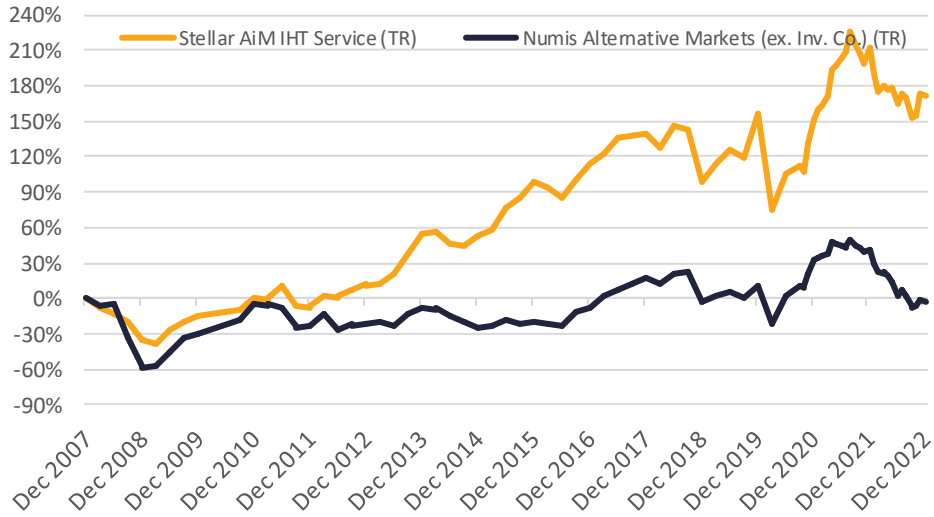
STELLAR

AiM Inheritance Tax Service Performance Factsheet Q4 2022

Bailey's hangover

Investors can be forgiven for feeling discombobulated after the trials and tribulations of a vexing year; some, no doubt, sought succour in an Irish cream liqueur (or two). Inflation-induced volatility, that pervaded much of 2022, was exacerbated further by the inaptly named "mini-budget" which briefly broke the Gilt market, sent mortgage rates spiralling, and rapidly chilled an already slowing housing market. Bank of England governor, Andrew Bailey, has warned of a lingering "hangover effect" from the financial instability but markets, forward looking as ever, rallied into the year-end. For Q4, the portfolio delivered a 6.9% gain, against the benchmark's 3.7% return, and over the full year posted a 13.2% decline. This was in the context of a 31.2% decline in the benchmark.

Stellar AiM IHT Service Cumulative Performance



Service Overview

Investment Manager
Stellar Asset Management Limited

Custodian & Nominee
CACEIS Bank

Administrator
WealthTek LLP

Tax Objective
IHT relief after two years

Investment Objective
Capital growth

Structure
Discretionary portfolio

Initial Fee
Nil

Annual Management Fee
1% (plus VAT)

Annual Administration Fee
0.225% (plus VAT)

Dealing Fee
0.25%

Minimum Investment
GIA £40,000 | ISA £20,000

GROWTH INVESTOR 2022 AWARDS | ONE TO WATCH BEST BR INVESTMENT MANAGER (LISTED)

	Q4	YTD	1 Year	3 Years	5 Years	Inception
Stellar AiM IHT Service (TR)	6.9%	-13.2%	-13.2%	0.6%	7.6%	157.2%
Numis Alternative Markets (TR)*	3.7%	-31.2%	-31.2%	-11.9%	-17.0%	-2.4%

*Numis Alternative Markets ex. Investment Companies Index (Total Return)

Source: Stellar Asset Management Limited

Important Information

Investors should note that past performance is not a reliable indicator of future performance and investors should not rely upon past performance when considering whether or not to invest in the Stellar AiM IHT Service. All calculations are on a total return (TR) basis, with performance calculated from portfolios held directly with Stellar. The performance of portfolios held on platform may differ slightly owing to differing trade execution and timing impacts. While we transition the existing portfolio to align with our new in-house model, new clients will be invested in the latter, whose performance may differ from the established portfolio performance the above refers to until the two merge which is anticipated in early 2023. **January 2023**

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Portfolio Characteristics

Dividend Yield (FY1*)	2.4%
P/E Ratio (FY1*)	23.6
Average / Median Market Capitalisation	£308m/£170.6m
Number of Stocks	38

* Represents analysts' consensus 12-month forecasts.

Market news

If all you have is a hammer everything looks like a nail and central banks continued hammering away with yet more rise interest rates to try and moderate consumer demand. There is now near unanimity that a 2023 recession is a foregone conclusion. Admittedly, the portents are not good; of the last 12 full monetary-tightening cycles in the US, 9 ended in recession. For what it's worth, if the global economy does enter recession, we see any slowdown being relatively shallow and short lived. Our sanguine outlook is predicated on a well-capitalised banking sector, unlike in 2008/09, and we suspect excess savings accumulated during the pandemic will be run down as consumers lean into the cost-of-living crisis.

High and rising inflation, at least initially, acts like gravity to equity valuations, with the most expensive stocks falling the most. In AIM, we have consistently highlighted a dangerous bubble in the valuation of the largest stocks. It was not a surprise then, to us at least, to see these perform so poorly in a rising interest rate environment. The latest Numis Annual Review (Evans and Marsh) showed the largest AIM stocks fell on average 47% in 2022, against a more modest 23% decline for the smallest stocks. We seek to maximise returns, not funds under management, and by dint of our size and focus on sub-£250m market capitalised companies, we largely avoided the most overpriced AIM stocks.

The outlook for 2023 is actually more upbeat, in our view, than the data, media, and investor sentiment would indicate. Inflation is (finally) beginning to moderate, interest rates will soon stop rising, the consumer is still spending, and forward gas prices have fallen significantly. More importantly, however, valuations have reset across the board to levels that should deliver attractive returns over the medium- to long-term. We see the stars increasingly aligned for smaller-sized companies, over their larger-sized peers, as discussed in our recent webinar "Twinkle, Twinkle Small-cap Stars." That said, we expect inflation to remain higher and be more volatile than in the last decade, which should feed into shorter and more volatile economic cycles. We are excited by the opportunity set and will seek to fully leverage our nimbleness.

Company Updates

In a busy quarter company results were largely more resilient than expected in an increasingly nervous market. **Quixant** (gaming machines) upgraded FY22 earnings for the second time on the back of buoyant demand as casinos rapidly recovered post-lockdowns.

Our AiM Team

Stephen English
Investment Director

Joined the company in 2020 and is responsible for analysing, selecting and monitoring stocks for the Stellar AiM IHT Service. He holds the CISI Diploma and the Chartered Financial Analyst (CFA) designation.

Phil Kirwan
Portfolio Manager

Joined the company in 2020 and is responsible for rebalancing portfolios, communicating with clients and intermediaries, preparing reports, valuations and liaising closely with Stephen on portfolio construction. Phil holds the CISI Chartered Wealth Manager qualification.

MICAP
ALTERNATIVE INVESTMENT RESEARCH

Platform Availability

M&G wealth

WealthTek

Standard Life

transact
take control

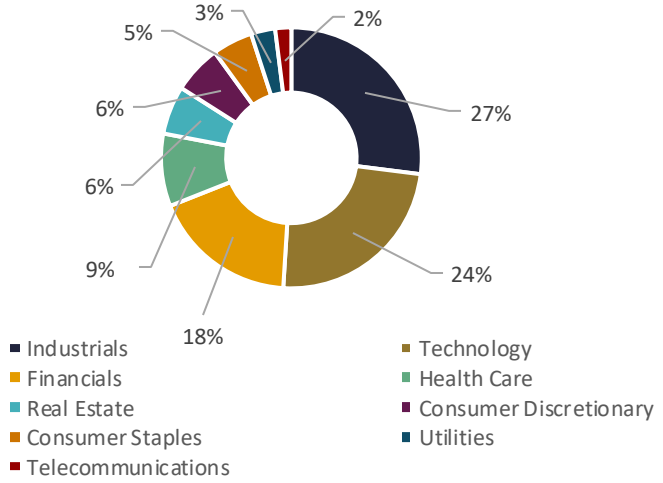
We see further upside as gross margins continue to recover to historical levels. **Alpha Group International** (FX hedging) changed its name from AlphaFX, but it was very much business as usual with another upgrade to profit estimates. Since March 2021, FY22 earnings per share expectations have been upgraded six times and have increased by 45%. This time the main driver was higher interest earned on its significant cash pile. There were also upgrades from **Franchise Brands** (B2B & B2C franchisor), **DX Group** (courier), **Oxford Metrics** (motion measurement technology), and **Kitwave** (delivered wholesaler). The latter completed its twelfth acquisition since 2011 with the purchase of WestCountry Food Holdings, a specialist fresh produce wholesaler, for £29m. In response, their broker raised FY23 and FY24 EPS forecasts by 13% and 15% respectively.

Negatives included **Inspiration Healthcare** (medical technology) who warned on profits as demand didn't come through as hoped in the second half of its year. We thought management should have downgraded expectations much earlier in the quarter and not surprisingly the CFO fell on his sword. The rating is now well below peer multiples which should hopefully provide a floor to the share price while they rebuild credibility.

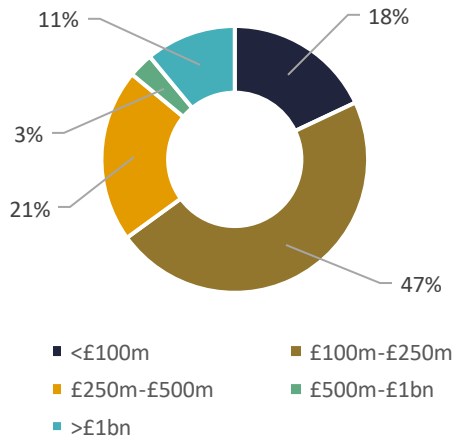
Another company where we feel expectations could and should have been managed better was **Strix Group** (kettle controls), which warned on lower-than-expected demand, issued new equity, and made an acquisition in the hot water tap segment. China's zero covid approach and draconian lockdowns also impacted demand for Chinese pork and poultry, two key markets for **Eco Animal Health** (animal pharmaceuticals). **Tribal** (university software) posted solid results across the bulk of its business, overshadowed by losses on one specific and large contract that was taking longer and costing more to implement than budgeted.

Bid activity was seen in takeover approaches for **K3 Capital** (SME support services) and **Curtis Banks** (SIPP administrator). The former was a private equity backed approach, while the latter was a private equity backed trade buyer (Nucleus). In both cases the premiums offered, at 17% and 32% respectively, were at the lower end of what we felt both businesses were worth. There is no shortage of attractive reinvestment options, however, and we look forward to updating you on new additions to the portfolio.

Sector Allocation [1]



Market Cap Allocation [2]



1 Proportion (by value) of invested portfolio as at 31st December 2022.

2 Number of companies as proportion of portfolio (by value) as at 31st December 2022. Source: Stellar Asset Management Limited