# Stellar AiM IHT Service

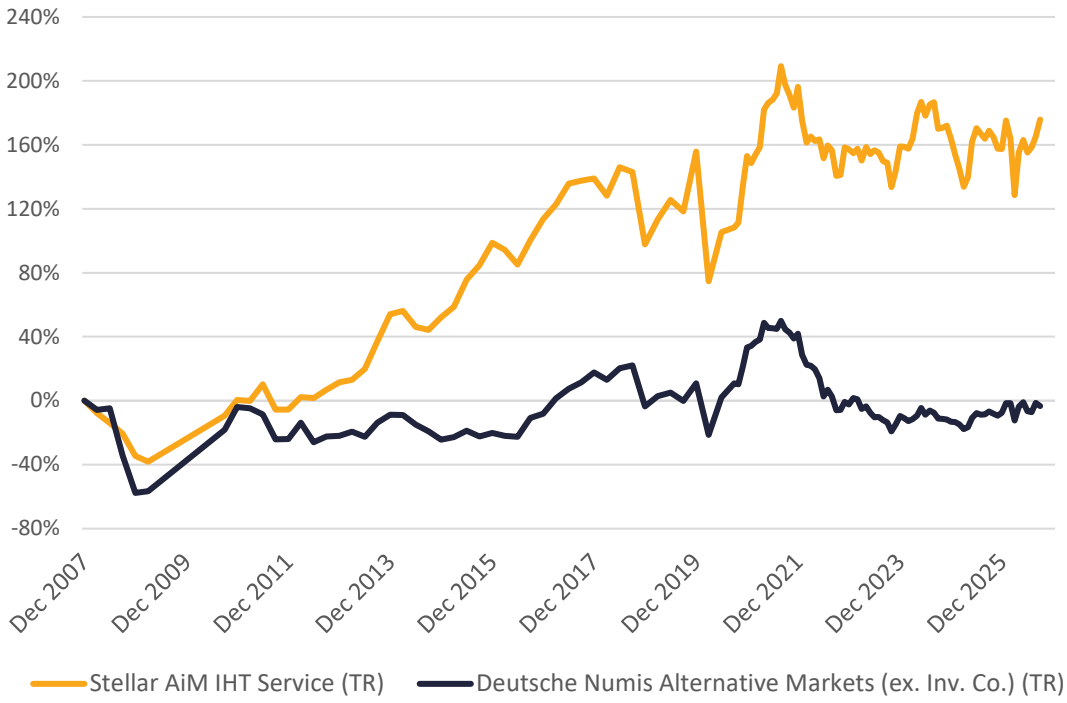
Transact
Performance Factsheet
Q3 2026

STELLAR

# You're going to need a bigger moat

AI remained the dominant theme with warnings the technology could pose an existential threat to humanity. Cynically, such hyperbole just as Anthropic – maker of Claude – readies itself for IPO is probably not a coincidence. More interesting was Anthropic's plea to regulators to force them to slow the pace of frontier model development for "safety reasons", a view immediately endorsed by OpenAI and SpaceX. The trio's true motives appears more selfish than altruistic. Whenever large incumbents lobby for more regulation, it is typically to establish an artificial moat to keep competitors out. Chinese 'Open Source' models, often more than good enough for most tasks, are significantly cheaper to use and taking market share. Arguably, the real existential threat is to US valuations!

## Stellar AiM IHT Service Cumulative Performance




## Service Overview

**Investment Manager**
Stellar Asset Management Limited

**Custodian & Nominee**
Third Financial Services Limited

**Tax Objective**
IHT relief after two years

**Investment Objective**
Capital growth

**Structure**
Discretionary portfolio

**Initial Fee**
Nil

**Annual Management Fee**
1% (exempt of VAT)

**Annual Administration Fee**
0.225% (exempt of VAT)

**Dealing Fee**
0.25%

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

| | Q3 | YTD | 1 Year | 3 Years | 5 Years | Inception |
|---|---|---|---|---|---|---|
| **Stellar AiM IHT Service (TR)** | 8.1% | 7.1% | 2.6% | 10.9% | -7.3% | 175.9% |
| **DN Alternative Markets (TR)*** | 3.5% | 4.6% | 3.6% | 11.8% | -33.1% | -3.3% |

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

Source: Stellar Asset Management Limited

defaqto AIM BR Service 2026 EXPERT RATED

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MICAP ALTERNATIVE INVESTMENT RESEARCH

3D ARC RESEARCH now a part of S&P Dow Jones Indices A Division of S&P Global For Commitment to Transparency 2026

GROWTH INVESTOR 2025 AWARDS Winner Best BR Investment Manager - Listed

## Market news

The macro backdrop remained challenging with global government long bond yields surging to multi-decade highs. In the US, total government debt crossed $40trn for the first time, a reminder its "economic miracle" in large part relies on running a 6% fiscal deficit adding $2trn of new debt per annum. That is sustainable until it isn't. The US 30-year government bond yield rose from 4.95% to 5.63% - the highest since 2002. At least the UK is pretending to try and put its fiscal house in order (spend now, tax later), but here too the UK 30-year gilt yield rose from 5.47% to 5.95% - the highest since 1998[1].

In our case, while there are undoubted fiscal concerns, these shouldn't be overstated. Our debt profile actually compares relatively well to the G7, ranking approximately middle of the pack when measured as a percentage of GDP. Yet, despite this, investors demand a premium when lending to the UK versus our closest peers. The reason is simple; the UK has an inflation problem. From 2008 to 2025 the UK's annual rate of CPI has averaged 2.98% versus 1.98% in the G7, ex-UK[2].

The underlying causes are largely self-inflicted. Years of taxes and regulation, intentional or not, have limited the supply of the key factors of production: capital, energy, land, and labour. Economics 101 teaches us that falling supply set against rising demand means higher prices. Bearing down on these supply-side frictions would unlock the growth "puzzle" that has bedevilled many a recent Chancellor. It really is that simple, on paper at least, but politics and ideologies remain obstinate.

While we wait patiently for a Damascene conversion from self-harm to self-help, a major prop to UK equity returns continues to come from takeover activity (see overleaf). The scale of that was brought into sharp relief in a report by analyst Charles Hall, at broker Peel Hunt[3]. Hall found that, since the start of 2023, there have been 166 bids completed (for market caps above £100m) worth a total of £180bn. Over the same period there have been just 11 IPOs (>£100m market cap), totalling a mere £6bn. The underlying reasons are myriad, but top of the list is UK equities are simply too cheap. Many commentators see such a trend of "de-equitisation" as endemic and structural. That is perhaps too pessimistic, as we feel a lot of factors that appear structural will instead turn out to be more cyclical in nature. A rotation out of US risk assets, where markets are increasingly narrow, would quickly change the structural vs. cyclical narrative.

As we entered the final quarter of the year, our attention inevitably turned to the budget on 28 October 2026. Some lessons appear to have been learned, not least of which was the earlier timing, avoiding the damaging overhang that last year's late-November budget had on retailers' "golden quarter". We also took solace from the lack of "kite-flying" this time around, with Chancellor John Healey keen to avoid trialling prospective policy changes that so undermined sentiment and economic activity in all of Rachael Reeves's budgets. While there was no improvement in the treatment of AIM shares for Business Relief purposes we were not dependent upon such an outcome.

Trumping tax considerations is the sheer value the portfolio continues to exhibit, whether viewed in absolute valuation terms, or relative to its long-term history. On both measures we see strong potential for attractive long-term returns. All that is missing is a soupçon of confidence and a return of fund flows into domestic assets. There is no one silver bullet but there are various levers government could quite easily pull to crowd in capital, re-rating UK equities significantly higher, and reopening the IPO window.

[1] Source for both US and UK yields: Bloomberg (30/09/26).
[2] Source: Panmure Liberum, Simon French, "Ration Pack Britain" (04/03/26).
[3] Source: Peel Hunt, Charles Hall, Thematic Research "M&A" (12/10/26).

## Portfolio Update

The third quarter saw the AIM IHT Service consolidate last quarter's strong rebound, rising a further 8.1%, which again represented significant outperformance versus the benchmark which rose 3.5%. Last quarter, we previously highlighted how vulnerable many UK small- and mid-cap (SMID) stocks were to takeovers, owing to their outright cheapness, and indeed we had two approaches in the portfolio (**Advanced Medical Solutions** and **Animalcare**). That theme continued into the third quarter with bids for **Tribal Group** (higher education software, +70.8%) and **Eleco** (construction software, +95.7%) contributing to overall returns.

Renewed software takeovers are deeply encouraging as they fundamentally challenge AI disruption fears that catalysed the first quarter's 'SaaSpocalypse' sell-off. With technology representing nearly 30% of the portfolio, ongoing sector recovery will have an outsized portfolio impact, with further rotation likely if key AI-protagonists (hyperscalers/semi-conductors) falter.

Tribal is a leading provider of software and services to education institutions, globally. In recent years it has significantly improved its quality of earnings, cash generation, and balance sheet. The share price failed to reflect this improvement, and it was unsurprising that a European private equity firm, Main Capital, proposed a £189.3m bid which was quickly increased to £231.2m, equivalent to 105p per share. The latter represented a 66.7% premium to the undisturbed share price and was recommended by the Board. Unusually, the deal was structured in such a way that only requires 50% shareholder approval, as opposed to a more common 75%. This appears designed to get around 26% shareholder, Jenzabar, who blocked a previous deal three years ago pitched at 74p per share. Just before quarter-end, Jenzabar announced that it too was considering a possible cash offer, at a higher 111p per share. With c. 52.7% irrevocable undertakings to accept Main Capital's 105p bid, we await developments with interest.

**Eleco's** management deserve credit for executing strong organic growth, augmented with astute acquisitions, which has led to sales and pre-tax profit growing 46% and 76% to £38.8m and £5.2m, respectively (FY22-FY25). Such structural growth is hard to replace, and it was somewhat disappointing to see private equity (Accel-KKR) swoop in with a recommended cash bid of 235p per share. This valued the company at £208m - a significant 75% premium to the undisturbed share price. It may seem churlish to quibble over such a premium, which optically looked full at just over 20x EV/EBITDA (FY25 basis), however we felt the most recent trading update left the group on track to upgrade FY26 earnings. Valuing the group on this year's higher EBITDA figure, and factoring in cost and revenue synergies a much larger trade buyer could capture, drops the multiple to more like sub-13x. Viewed through that prism, the price is not quite as knockout.

The other key highlight during the quarter was **Everplay** (games developer, +95.1%) which saw earnings per share (EPS) forecasts upgraded twice, by 22%, on the back of strong releases of Hell Let Loose: Vietnam (HLLV) and Wardogs. By end-Sep, HLLV had sold over 1m copies, while Wardogs had sold approximately 3m copies via early access on PC. We see a strong likelihood of a further upgrade to expectations by year-end and note that, despite the prodigious share price rise, the valuation remains attractive (c. 11x ex-cash P/E), with net cash soon to top £100m.

Key detractors were **Cerillion** (telecom billing software, -35.2%) which saw forecasts cut on the back of a number of new and existing customer orders being delayed or deferred. Sentiment was further impacted by erroneous reports it was having implementation difficulties with its largest contract to date, Omantel. We view the issues more as 'growing pains' with the long-term outlook unchanged.

**Nexteq** (industrial PCs, -26.1%) saw end-customer demand fall on the back of surging memory chip costs. The business has recently restructured and diversified which will reduce customer concentration risk, and its Densitron division is starting to open up new sectors as its latest products reach commercialisation.

## Portfolio Characteristics

| | |
|---|---|
| **Dividend Yield (FY1*)** | **2.09%** |
| **P/E Ratio (FY1*)** | 17.7x |
| **Average / Median Market Capitalisation** | £291.8m/£194.1m |
| **Number of Stocks** | 35 |

* Represents analysts' consensus 12-month forecasts.

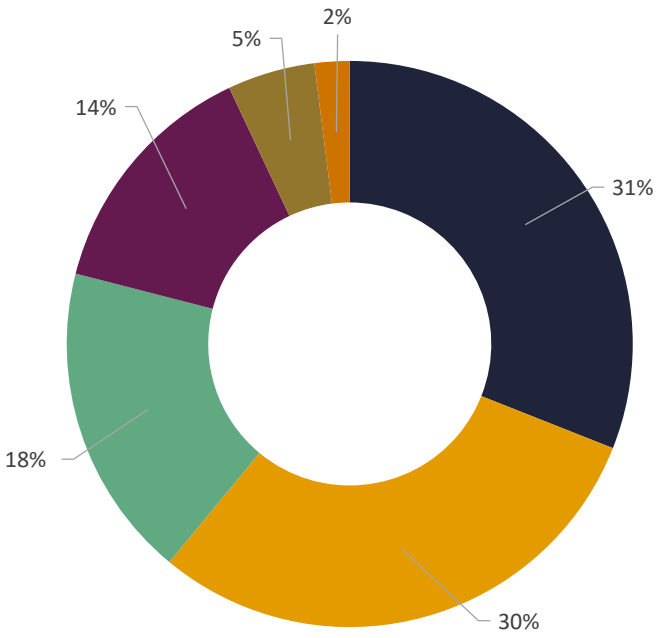
## Platform Availability

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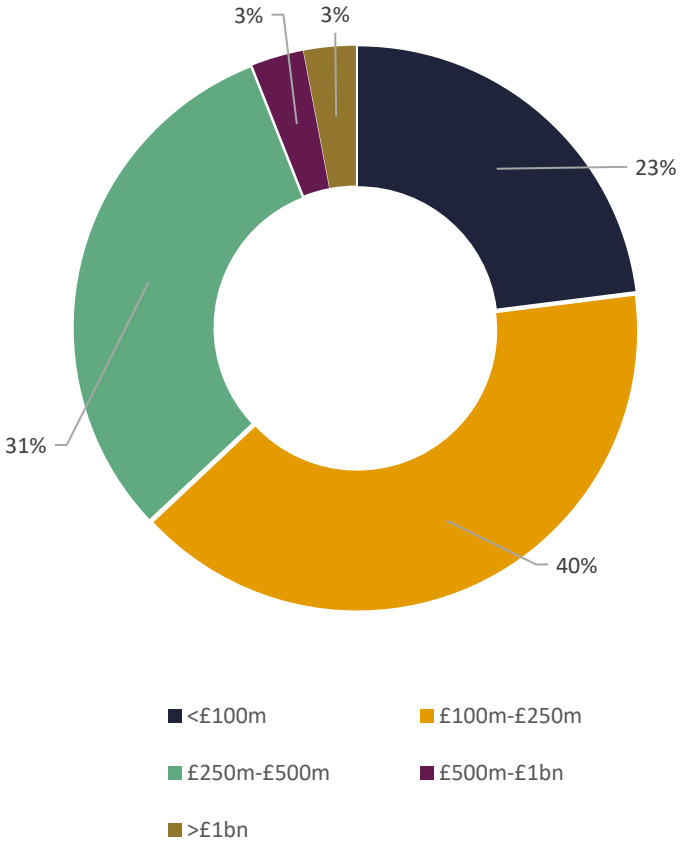
aberdeen

M&G wealth

## Sector Allocation [1]




## Market Cap Allocation [2]




[1] Proportion (by value) of invested portfolio as at 30 September 2026

[2] Number of companies as proportion of portfolio (by value) as at 30 September 2026

Source: Stellar Asset Management Limited

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## Our AiM Team



### Stephen English
Investment Director

Stephen joined the company in 2020 and is the investment principle on the AiM IHT team, ultimately responsible for portfolio construction and investment selection. With 24 years of experience in the industry, he holds the CISI Diploma and the Chartered Financial Analyst (CFA) designation. With a background in art and an interest in psychology Stephen believes that small-cap investment is as much art as science, and the combination of these factors led to the authoring of his own 12-page investment philosophy. A regular and sought-after guest on BR-related investment panels, Stephen is well-regarded throughout the industry for his conviction and passion.



### Jack Pedley
Assistant Fund Manager

Jack joined the company in 2023, having 10 years' experience in the financial services industry and previous experience at both Bank of America and Grant Thornton. The latter being where he trained as a chartered accountant, earning his ACA designation, and the former being where his interest for the investment world was sparked. His financial background pairs well with Stephen's capability in the more qualitative and psychological aspects of investing, meaning they can take a pincer approach to dissecting a company's annual report. Jack also holds the ACSI designation, a forensic accounting qualification and the CFA Certificate in ESG Investing.



### Phil Kirwan
Portfolio Manager

Phil joined the company in 2020 and is responsible for rebalancing portfolios, communicating with clients and intermediaries, preparing reports, valuations and liaising closely with Stephen and Jack on portfolio construction. Phil holds the CISI Chartered Wealth Manager qualification and has 16 years of industry experience. Phil's former role as a discretionary investment manager, mathematics background, and technically-minded nature have resulted in him being uniquely equipped to oversee the day-to-day management of the service whilst also providing technical and sales support to service the firm's adviser customer base.

### 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, excluding the impact of adviser fees, with performance calculated from portfolios held directly with Stellar. The performance of individual portfolios on Transact may differ slightly owing to tiered costs and variable adviser charges.

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