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AIMing for better outcomes: What the 2026 tax changes mean for advisers today

Since the UK government's budget announcement in October 2024, the upcoming reduction from 6 April 2026 in Inheritance Tax (IHT) relief obtainable for investors in companies listed on the Alternative Investment Market (AIM) to a maximum of 50% relief (i.e. an effective rate of 20% on the value of their assets) has given prospective investors pause for thought when considering investment on AIM. Additionally, lack of clarity on other key areas relating to IHT, such as the tax treatment of pensions, has left investors unable to update their asset allocations to position themselves effectively for the new, upcoming tax landscape.

For many clients, though, regardless of the changes to the IHT reliefs available through different Business Relief (BR) schemes, **AIM continues to play a valuable role in their estate planning, offering diversification, flexibility, control, and attractive potential investment returns, particularly where an investor may have already used their £1m allowance through other non-AIM BR schemes.**



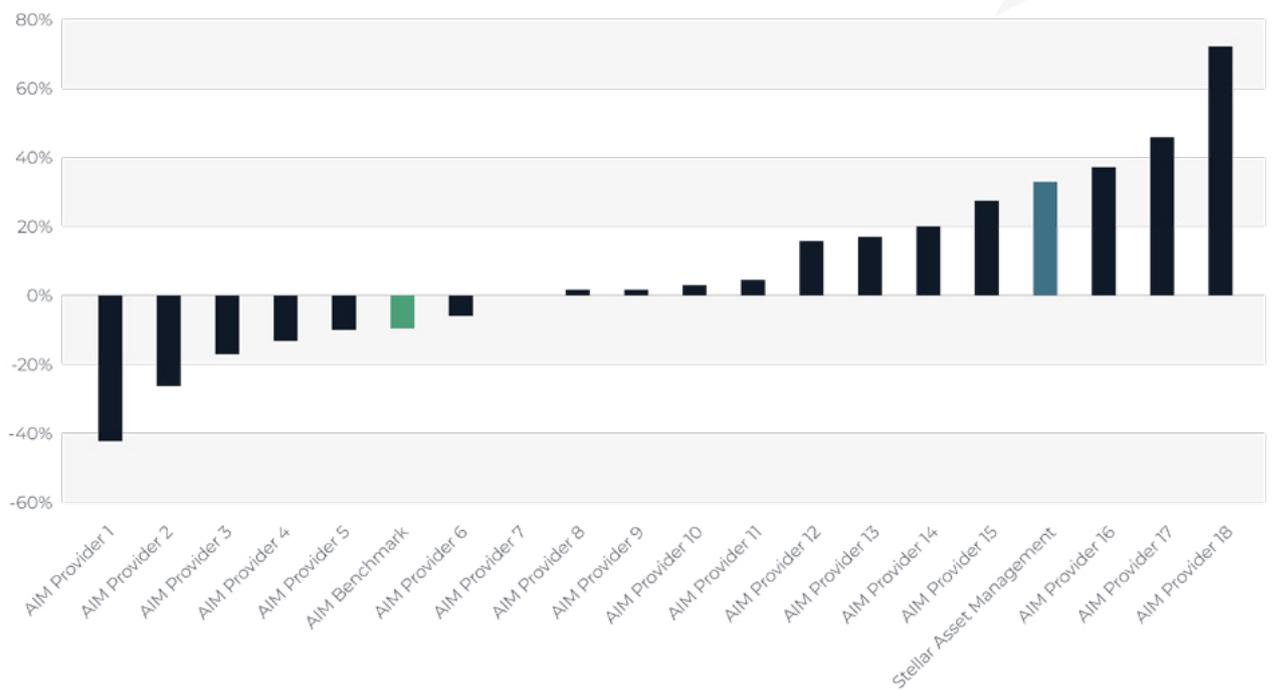
In such cases, 50% relief on IHT is still a generous relief, and the control over the investments which AIM BR schemes offer investors whilst also allowing for speedier qualification than other avenues, such as gifting, AIM remains an attractive solution to many high-net-worth (HNW) clients. In a world of often complex and opaque solutions, AIM remains a simple and cost-effective solution. AIM shares can also be held within an ISA, further embellishing its tax efficient credentials.

In a marketplace with nearly 40 providers, these changes to BR have brought into sharp focus the need for investors to demand more from their chosen provider. The fallacious argument that AIM investors will still be better off as long as their portfolios fall less than 40% shows an astonishing lack of belief in the potential for growth on AIM and their own ability as equity fund managers.

Like all good equity markets, AIM offers investors the potential to consistently grow the value of their assets over the long-term but, when reviewing historical performance, the dispersion between different AIM providers has been vast, with many failing to beat the benchmark in the past 5 years, let alone provide their investors with a positive return.



5-Year Performance Dispersion on AIM to 30 June 2025



Performance as of 30 June 2025. Source: Stellar Asset Management, Industry factsheets

The reasons for differing performance amongst providers are myriad. Like with any equity fund, stock picking relies on numerous factors for success, such as quality of research, analytical skills, timing of investment, and that most ineffable of factors, dumb luck. AIM, however, is unique in the sense that there are also several structural factors that impact AIM fund managers, specifically, and we believe that the upcoming changes to the IHT rules presents an opportune time to highlight these factors, their historical impact, and how they could impact investors going forward.

On AIM, the playing field is not level for all participants. Perversely though, unlike the Premier League heavyweights that dominate English football, on AIM we find that a fund manager's size can also be their biggest weakness, where their inability to be able to effectively diversify or execute trades at the speed of their smaller counterparts can lead to chronic underperformance.



Proven in volatile markets: Why Stellar's AIM IHT portfolio stands apart

In our first instalment we suggested that there was a direct link between the size of an AIM fund manager's AUM and the performance outcome for those clients invested. As we made the claim, it's only fair that we provide evidence to support this theory and, more importantly, explain what we do differently and why that matters.

There is a reason that we have picked the three largest providers on AIM to compare our performance against. **As an AIM IHT manager with c. £100m of AUM, currently, we believe our biggest differentiator is our Go-Anywhere Ability.**

Our "sweet spot" for investment in companies at around £250m market cap. or below tends to be lower than our peers which has several key benefits:

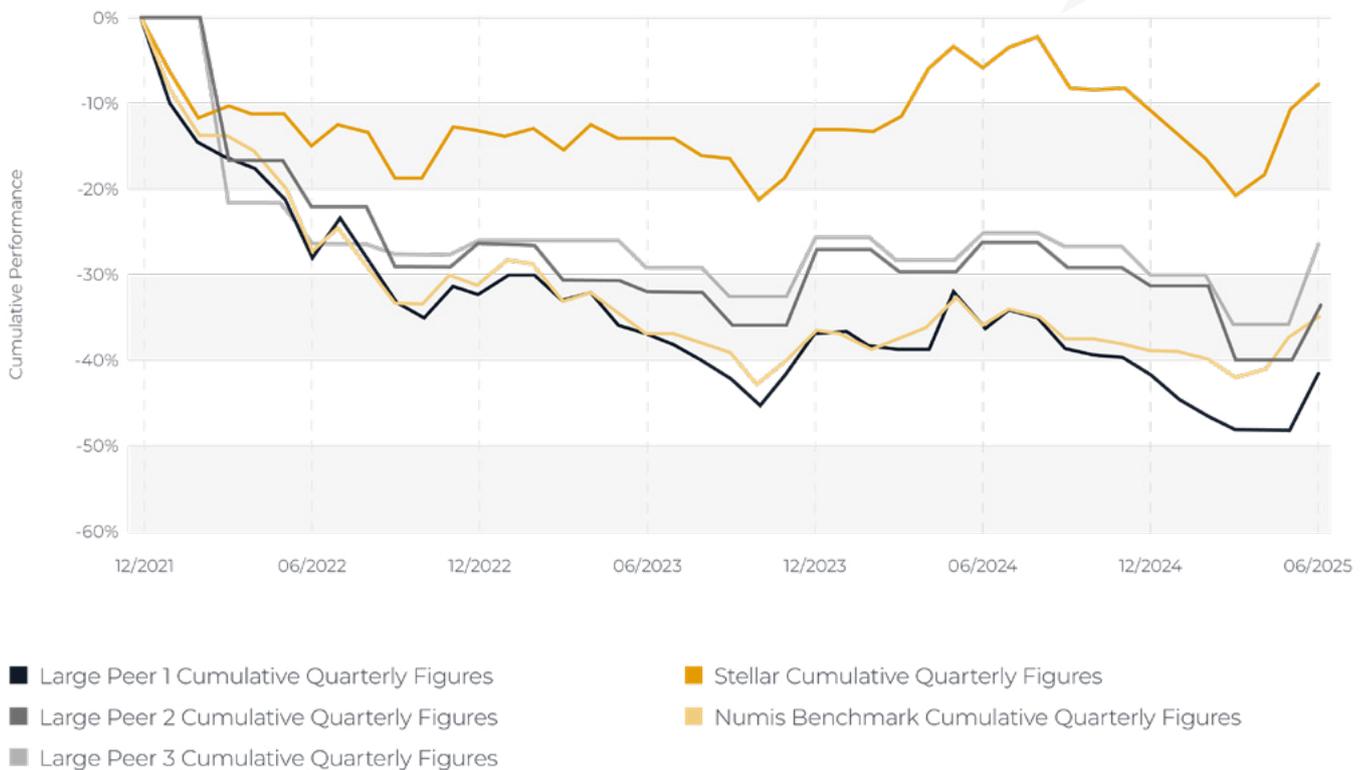
1. It gives us a larger investable universe than many of our (larger) peers.
2. Those companies tend to be more attractively priced than larger companies that may be on much higher P/Es.
3. Less crossover with other AIM IHT investors allowing us to be a strong portfolio diversifier while being less exposed to any 'forced selling' by peers.



This small-cap bias also allows us to provide a double kicker to returns. By buying companies not yet on the radar of our larger-cap. focused peers, we can invest when they're still trading on relatively lower Price to Earnings multiples (P/Es). As they grow their earnings, they become larger and thereby more coveted by larger investors who can now buy the stock, driving prices higher. And, when we get it right, as they re-rate to a higher P/E it is as a result of both sides of the equation, the 'P' and the 'E' rising, which gives us our double-kicker to returns. A stock that remains on a P/E of 10x that doubles its earnings will deliver a 100% return. If that same stock sees the P/E expand to 20x the return is amplified to 300%.

Throughout the past 5 years, we have traversed very different and incredibly volatile economic conditions. In 2021, we were in a low interest rate, low inflation environment, one very

Stellar AiM IHT Service vs. Large Peers vs. Numis Benchmark Cumulative Return 1 Jan 2022 to 30 June 2025



Performance as of 30 June 2025. Source: Stellar Asset Management, Industry factsheets

conducive to strong investment returns. 2022 saw Russia invading Ukraine, prompting sharp interest rate and inflation increases. As we acclimatised to the global geopolitical changes, we were thrown a domestic curveball in 2024 with the announcement of a general election, and subsequent changing of the BR rules in October 2024.

At Stellar, we are very proud of the performance of our AIM portfolio, particularly when compared to the larger AIM IHT providers. The below chart shows the performance of the Stellar AIM IHT portfolio from 1 Jan 2022 to 30 Jun 2025 against our benchmark, the Deutsche Numis Alternative Markets (ex. Inv. Co.) (TR), and the three largest AIM IHT providers by AUM.

Despite difficult market conditions, the Stellar AIM IHT Service (dark orange line) has

significantly outperformed the benchmark (light orange line). Unfortunately, the same cannot be said for the three largest providers on AIM, who have either marginally outperformed or, in one provider's case, even underperformed.

Recent estimates suggest that AIM IHT managers represent around £6bn of the total £70bn funds under management (FUM) on AIM. Based on data published by the providers themselves, the three largest providers account for around £2.7bn of this £6bn, or c. 45% of all managed IHT money in AIM.

Over the past three and a half years, investors in the largest AIM providers have not only struggled to outperform the benchmark, at various points in this period they have come close to falling, or have already fallen, more than 40%, completely negating their IHT benefit even before considering the upcoming tax change.



Put another way, if a client invested £100k in each of the 4 different services on 1 January 2022, an investor in the Stellar AIM IHT Service would need to grow by 8.7% to return to its original investment value. Conversely, an investor in the largest AIM provider would need to grow by 69.5% to return to their initial investment value. Past performance is no

guide to future performance, so we need to ask ourselves two obvious questions:

1. Why did Stellar outperform larger providers over the past three and a half years?
2. Would we expect these factors to have a similar impact on performance going forward?

Outperformance by design: How flexibility sets Stellar apart on AIM

With over 600 companies to choose from, the bulk of which are below £50m market cap. (our minimum initial investment size), our sweet spot of £250m and below still gives us a large investable universe (200+ companies). The three providers we have discussed in our previous instalments are managing funds of up to nearly £1.5bn in size, and it is this size which prohibits them from investing in these smaller companies in the way that we can.

For a £1.5bn fund to invest 2% of their portfolio in a £100m market-cap company, they would have to buy 30% of the company. While it is not unheard of for AIM IHT managers to own double-digit stakes in individual companies, we believe that the concentration and liquidity risk that this adds is simply not prudent. Managers running funds of a certain size have to decide whether to:

1. Own large proportions of their investee companies (up to 29.99% allowed before they would have to bid for the whole company).
2. Run a less concentrated portfolio with an enormous tail of smaller holdings where they start to resemble an index tracker.
3. Run multiple different portfolios where the performance outcomes will differ considerably as opposed to one model portfolio all clients align to.
4. Reduce the size of their fund to maintain investment integrity(!)

With regards to AIM funds, we firmly believe that **size is the enemy of returns**, which is why we are, as far as we know, the only manager to have pledged to cap the strategy's AUM to retain our nimbleness, i.e. we will soft close the fund when our size prevents us from executing

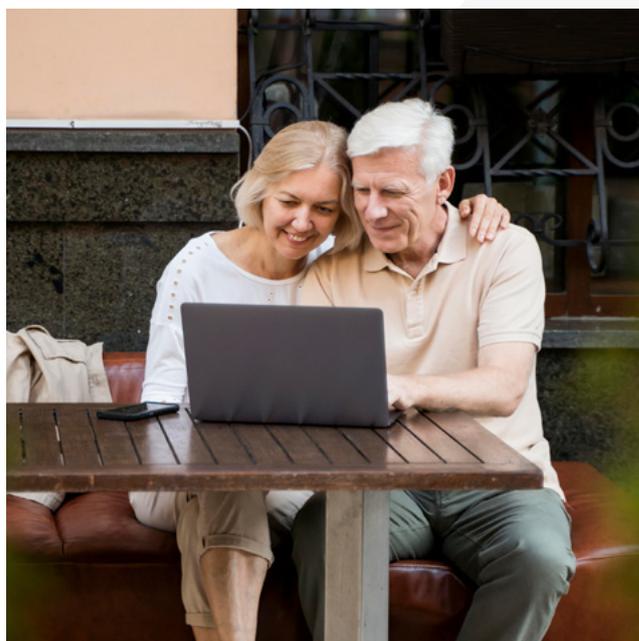


our investment strategy. We do not want to be in a situation where we can only own companies of a certain size or, worse yet, where we own more than 10% of any of our investee companies. At maximum capacity, we target a 3% ownership, on average, of our investee companies, with a maximum of 5%.

It's important to note, we are not dogmatic in our market cap. focus and invest in larger companies where we believe the share price represents a good entry point for the stock.

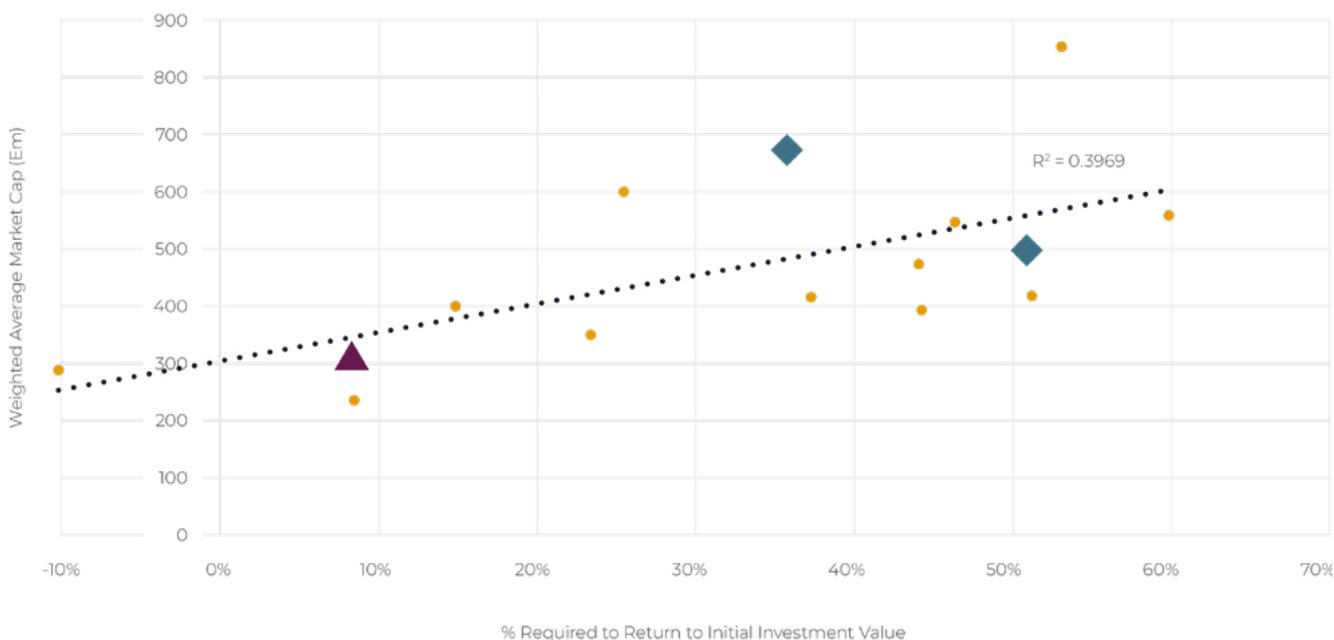
It is not that we don't want to buy large companies, we simply want to be able to choose *when* we buy them. Something our larger peers are less able to do, given their size, meaning they are often buying the largest AIM companies even when they appear to be trading at unsustainably high P/Es, as they were in January 2022.

To further demonstrate the impact of an AIM manager's size, the below chart plots the weighted average market cap. of each service (where the information was made available) against the percentage return required to return our exemplar client to their original £100k investment. Stellar is represented by the purple triangle, two large peers (the largest does not



provide such data) by the blue diamonds, and the remainder represent a selection of our other peers to help demonstrate the relationship. There is a clear trend demonstrating that, for those fund managers whose portfolios have a larger weighted average market cap., performance has been worse for the three and half-year period starting 1 January 2022.

3.5 Year Performance to 30 June 2025 by Weighted Average Market Cap



Performance as of 30 June 2025. Source: Stellar Asset Management, Industry factsheets



While three and a half years is a relatively short space of time to review performance (we ourselves believe five- to ten-years is far better for being able to conclusively demonstrate a trend), the above data highlights a key element of our outperformance versus the larger AIM IHT providers in recent times. This, we believe, is structural in nature, not merely cyclical, and so likely presents a persistent trend. It also provides an opportunity to make some informed predictions on what might happen over the next three years.

For the larger AIM IHT managers, their opportunity to demonstrate their effectiveness as an equity manager is impacted by two main factors:

1. The number of companies in which they can invest, which we know is likely to be limited more to the largest companies listed on AIM, and
2. Their ability to transition between different stocks as market conditions change and the outlooks for their investee companies change.

In order for these larger AIM IHT providers to significantly outperform those with a broader market-cap. focus, very specific market conditions are required and also required to not change for an extended period of time. It also requires the smaller-cap. focused AIM IHT managers to not adapt their strategies to increase their portfolio's weighted average market cap. to account for this shifting dynamic where the larger companies on AIM are structurally positioned to outperform the rest of the market over the long-term. We see these very specific set of market conditions as an extremely low probability.

In our final instalment we will explore the risks larger AIM IHT managers face when trying to exit sizeable positions, and why liquidity can become a serious constraint—particularly in times of market stress.

Your clients deserve better on AIM: Why advisers are choosing Stellar

In our last article, we proposed a scenario where a larger AIM IHT fund manager may have invested 2% of their portfolio in a £100m market cap. company. Should the need then arise for that fund manager to quickly exit that position (if that company has had a profit warning, for example), the manager will have to find a buyer for 30% of a listed company's shares. Given liquidity AIM can often be very thin, even disposing of a 10% stake can be a hugely difficult ask. Liquidity is even harder to come by in times of crisis where, say, that company has already lost 50% of its value.

This inability to trade out of a stock in a matter of days, weeks, or even months can mean investors are locked into stocks that the manager would very much like to dispose of, compounding both the loss on the stock held and the opportunity cost of not being able to move those funds into a new, better idea.

It also greatly blunts the manager's ability to react to and take advantage of the inherent volatility in share prices, where companies can become significantly overbought or oversold. By selling/reducing expensive companies and

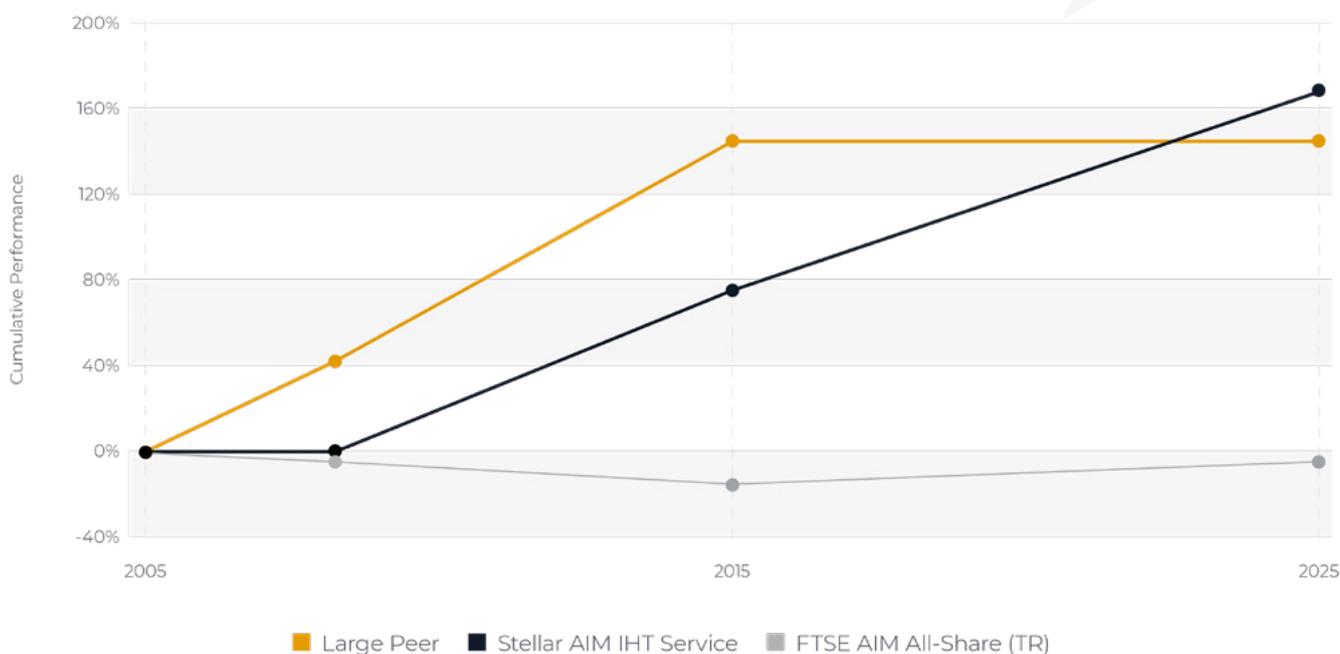
buying/adding to cheaper companies, Stellar is better positioned to capture this "rebalancing alpha" when the opportunity presents itself. By harvesting volatility in this manner, we can turn a perceived risk into an opportunity.

Since the beginning of 2008, the AIM market, as a whole, has posted a negative return to the end of June 2025. For AIM IHT providers who have run portfolios over this same period, the majority have provided their clients with triple-digit returns. AIM investment is one that demands skilled stock picking and portfolio construction, but we believe that the days of judging investment performance solely by reference to the benchmark is over. Relative returns offer insight, but absolute returns matter most.

The quality of the companies on AIM has improved dramatically over the past 20 years, and the reputation in the late 2000s/early 2010s for AIM being home to, in the main, a bevy of badly run companies was not without merit. In 2025, times have changed, and it is no longer possible to easily outperform the benchmark simply by herding into the largest AIM companies.



Large Peer vs. Stellar Inception 10-year Performance Comparison



Performance as of 30 June 2025. Source: Stellar Asset Management, Industry factsheets

The above chart shows how the bulk of one of the largest AIM provider's investment returns have stagnated since 2015, with almost all of their investment returns over that twenty-year period coming in the initial 2005 to 2014 period. At Stellar, despite our inception date in 2008 meaning our first decade missed 3 crucial years of performance compared to the large provider, noted above, we have demonstrated our ability to provide investment returns on a consistent basis.

The changes to the IHT rules should serve as a catalyst for investors and advisers to review their IHT mitigation schemes. Where AIM remains a suitable investment, which we believe it will do for a significant proportion of existing investors, it is vital that investors understand the structural reasons which could impact their investment returns moving forward, particularly with the reduced IHT relief available from 6 April 2026.

Stellar remains well-positioned to navigate the many challenges that inevitably rise as an equity manager. Our portfolio strategy is designed to allow us to stay nimble and take advantage of the pricing opportunities that arise at all levels

of the market cap. spectrum. Our commitment to cap the strategy ensures investment integrity for existing and future clients both now and well into the future.

From a costing perspective, Stellar's IHT Service is also cheaper than the aforementioned three largest providers from both a management fee and dealing perspective, and represents compelling value for money, even more so in light of recent performance.





We believe the time has come for investors to become much more discerning about how they invest on AIM, and we would welcome the opportunity to provide further information on how our investment strategy has resulted in such strong performance and how your clients can benefit from our service.

Switching AIM providers has never been simpler, and Stellar's dedicated in-house transfer team are here to assist in making the process as easy as possible.

- 1. Complete the form below and a member of our team will contact you to begin the transfer.** Once an application is submitted, Stellar's dedicated in-house transfer team will manage the process, liaising directly with the ceding provider to make switching as smooth as possible.
- 2. Seamless Asset Transfers & Market Continuity.** To preserve Business Relief (BR) qualification, assets can be transferred in specie with all necessary cost details for accurate CGT reporting. If stocks need to be sold, replacements are purchased the same day, ensuring clients are never out of the market and benefit immediately from Replacement Property Relief (RPR).

3. Cost-Effective Portfolio Rebalancing.

With a low 0.25% dealing fee, rebalancing is affordable. Detailed illustrations provided before onboarding outline anticipated costs, and CGT 'what if' scenarios are available on request for added clarity.

Complete the switch form

Important Information

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Get in touch

We're here to help

Investors

We recommend you speak to a Financial Adviser in the first instance, as we cannot offer investment or tax advice.

If you have any other questions please contact us on 020 3195 3500 or email us at enquiries@stellar-am.com

For further information, please visit www.stellar-am.com

Stellar Asset Management Limited
20 Chapel Street,
Liverpool,
L3 9AG

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