

Quarterly Report **AIM Portfolio Service**

Q2 2024



BROOKS MACDONALD



Objective

The AIM Portfolio Service (APS) provides clients with exposure to a carefully selected portfolio of Alternative Investment Market (AIM) listed companies. Preference is given within our investment process to financially sound, profitable, and growing companies. In addition, investors can also derive potential Inheritance Tax (IHT) benefits from the service via the UK's Business Relief for Inheritance Tax policy, which seeks to encourage investment in certain qualifying companies by providing investors with an IHT exemption after two years of ownership.

Tax treatment depends on individual circumstances and may be subject to change in the future.

Past performance is not a reliable indicator of future results.

Business Relief is not guaranteed and remains, always, at the discretion of HMRC (to be determined on the death of the individual). It is important to note that any individual subject to the BR tax regime could pass away before the two year qualification period has been achieved (which may effect the application of some, or all, of the relief sought) and that the BR tax regime itself could be withdrawn by the UK Government at any point in the future.

Quarterly commentary - Q2 2024

In the second quarter of 2024 our AIM Portfolio Service returned 5.5%, compared to the benchmark Deutsche Numis Alternative Markets (Total Return) Index which returned 3.3%.

During the quarter we witnessed a reasonably broad-based recovery amongst the portfolio holdings. Inflation has now fallen back to a more 'normal' level, however, service sector inflation remains more stubborn which has resulted in interest rate cut expectations being further delayed. Underlying economic resilience and the health of corporate profits have been supportive and helped drive markets higher.

Keywords Studios (+78%) was subject to a possible bid from EQT Group, a Swedish based private equity institution. Keywords has been a long standing holding within the service having initially been bought in 2015 at under £2 per share. The possible bid is for £24.50 per share and at the time of writing we await the conclusion of the bid process.

Alpha Financial Markets (+53%) was also subject to a bid by Bridgepoint, a UK based private equity institution. Although not finalised, the acquisition for the consultancy business is expected to complete in the third quarter.

GB Group (+26%) had a strong quarter after reporting a return to growth in their fiscal 4th quarter. The new CEO, appointed in January, has now had a chance to start to implement some strategic changes to the business including a continued efficiency drive which should allow for healthy profits growth going forward.

Team Internet Group (+26%) increased in value after announcing the acquisition of Shinez, a technology platform in the online media space. The business' scalable, data driven products will complement the existing Team Internet offering in providing comprehensive online marketing solutions for their customers.

“During the quarter we witnessed a reasonably broad-based recovery amongst the portfolio holdings.”

Zoo Digital (+82%), a smaller holding in the portfolio, continued to recover following the significant adverse impact suffered due to the Hollywood actors and writers strikes last year. The company provides solutions for subtitling and dubbing services for many of the major streaming platforms and production studios.

YouGov (-59%) announced a reduction in expected profits for their full year. The business had been investing to support ongoing growth, but sales fell short of expectations and the company was unable to adjust the cost base in time to protect profit margins. Whilst a disappointing update, YouGov remains a high-quality business and their customised research and data products continue to be highly valued by customers. We believed the sell-off to be overdone and added to the position on the weakness.

Tracsis (-20%) updated the market informing that profits would not meet prior guidance. The unexpectedly early announcement of the UK general election has meant that pre-election restrictions are temporarily impacting central government, local authority and train operating company decision making. Given the short-term nature of these issues, again we believe the share price movement was an overreaction and we maintain conviction in the investment.

Continued next page

Quarterly commentary continued - Q2 2024

Next Fifteen Group (-14%) stated that trading had remained resilient despite a tough macroeconomic environment. As in prior years they expect the second half of the year to be stronger than the first, however, the apparent shortfall in their first half led to some selling pressure. There was also an element of profit-taking with the stock having recovered some 45% from the lows of last summer. We continue to believe the stock to be undervalued trading on a price to earnings multiple of just 9 times.

Ashtead Technology, a leading subsea equipment rental and solutions provider to the offshore sector, was added as the first of three new holdings. The business targets low double-digit annual revenue growth supported by steady growth in their end markets and by a higher propensity for customers to rent rather than own equipment.

“Since September last year, nine of the portfolio holdings have been subject to either full acquisition approaches, or bids for a significant piece of the business.”

Eagle Eye Solutions, was also added as a new holding. The company manages and provides the software for retailers' loyalty schemes. Loyalty schemes for supermarkets and other retailers provide greater insights into customers' preferences and buying habits. Increasingly they are not just a means for retailers to enhance profits but are becoming a 'must have', to keep pace with competitors. There is a huge potential market for Eagle Eye in both the UK and US, where they have already begun gaining traction.

Cerillion was the last addition to the portfolio. The business provides mission critical, enterprise resource planning (ERP) software predominantly to the global telecommunications sector. Their market leading product is standardised and quick to implement compared to more complicated bespoke offerings, and they have been gaining market share as a result. They currently have less than 1% of the total potential addressable market and therefore there is a huge opportunity ahead for the group.

RWS was sold due to a period of disappointing earnings progression. There has been some concern around the pricing model and the broader impact of generative AI on the business, also it was recently announced that the CEO was departing. Confidence in the investment had waned, hence we decided to deploy the capital elsewhere.

We also exited **Bango**. The company profit warned earlier in the year and following meetings with management we were not satisfied with the level of disclosure nor the clarity of the strategic messaging.

Lok'nStore was sold following a bid for the company by competitor Shurgard Self Storage. The shares had rallied 26% in the quarter as a result.

Since September last year, nine of the portfolio holdings have been subject to either full acquisition approaches, or bids for a significant piece of the business. This has, of course, driven the share prices of those companies higher, but more broadly has helped buoy the entire portfolio as it draws attention to the undervalued nature of the holdings. This bid activity has resulted in a requirement to reinvest capital, our pipeline of potential new investment ideas has been well stocked, resulting in several exciting new investments being added to the portfolio.

It feels as though we have turned the corner from the lows witnessed in October last year, and with valuations remaining supportive we look forward to the rest of 2024 and beyond with optimism.

If there is anything the team can do to help, or if you would like to discuss any aspect of our AIM Service in greater detail, please do let us know.

Ewan Millar
Senior Investment Director
Head of AIM

Performance of AIM Portfolio Service

Fund summary

Launch date:	July 2011
Number of holdings, including cash	39
Minimum investment	£100,000

Cumulative performance % to 30 June 2024

	3 month	6 month	1 year	3 year	5 year	10 year	Since inception in July 2011
AIM Portfolio Service	5.54	5.26	13.58	-25.19	-8.51	83.11	158.66
Deutsche Numis Alternative Markets Total Return	3.29	1.02	2.16	-36.37	-12.50	9.84	2.60
Relative performance	2.25	4.24	11.41	11.18	3.99	73.27	156.06

Discrete 12 months performance to 30 June (%)

	2020	2021	2022	2023	2024
AIM Portfolio Service	-4.00	27.39	-19.03	-18.65	13.58
Deutsche Numis Alternative Markets Total Return	-3.29	42.19	-28.51	-12.88	2.16
Relative performance	-0.71	-14.81	9.48	-5.77	11.41

Sources: Brooks Macdonald and Deutsche Numis to 30 June 2024.

Past performance is not a reliable indicator of future results.

All performance figures shown on this factsheet are net of Brooks Macdonald but gross of professional adviser management fees. Deduction of these fees will impact on the performance shown.

Investment team



Ewan Millar | Senior Investment Director and Head of AIM

Ewan joined Brooks Macdonald in 2020 and is the head of our Alternative Investment Market (AIM) Portfolio Service. Ewan sits on our Direct Equities research team. Previously, Ewan was a Senior Investment Manager at Cornelian Asset Managers before its acquisition by Brooks Macdonald. Prior to that Ewan spent ten years at Kempen Capital Management (UK), working in their Small Cap team where he was the co-lead manager of their flagship European Small Cap fund. Ewan is a Chartered Financial Analyst (CFA) Charterholder.



Joe Capaldi | Investment Director

Joe joined Brooks Macdonald in 2022 and is an Investment Director on our Alternative Investment Market (AIM) Portfolio Service and sits on our Direct Equities research team. Prior to joining Brooks Macdonald, Joe worked at CS Investment Managers in Edinburgh for eight years where he was an Investment Director and head of the AIM IHT Service. Joe attained a first-class honours degree in Management & Business Enterprise from the University of Strathclyde in 2011 and is a Chartered Financial Analyst (CFA) Charterholder.

For further information on the AIM Portfolio Service please contact:

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Important Information

All data provided by Brooks Macdonald Asset Management Limited accessed as at 30 June 2024 unless otherwise stated.

Investors should be aware that the price of investments and the income from them can go down as well as up and that neither is guaranteed. Past performance is not a reliable indicator of future results. Investors may not get back the amount invested. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

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AIM companies can be illiquid in nature, meaning that it can be difficult to implement purchase or sale decisions during periods of volatility.

Business Relief is not guaranteed and remains at the discretion of HMRC to be determined on the death of the

individual. The individual could die before the two year BR qualification period has been achieved. It is important to note that the BR tax regime itself could be withdrawn by the UK Government at any point in the future.

Tax treatment depends on individual circumstances and may be subject to change in the future. Brooks Macdonald does not provide tax advice and independent professional advice should be sought.

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