Baronsmead

Baronsmead Venture Trust plc and Baronsmead Second Venture Trust plc

Q1 2025 commentary

Overview – Q1 2025

UK smaller companies remained under pressure in the first quarter of 2025. While the FTSE 100 Index advanced 6.1%, the Numis Smaller Companies plus AIM ex-Investment Trusts Index declined by 5.9%, reflecting persistent risk aversion towards listed UK small caps. Weak consumer sentiment, government policy shifts, and ongoing macro uncertainty weighed on investor appetite during the period.

Against a challenging market backdrop across quoted markets, the Baronsmead Venture Trust declined by 5.3% after accounting for a 2.0p dividend, and Baronsmead Second Venture Trust falling by 5.8% after a 2.25p dividend. It is worth noting that the underlying trading in the portfolio remained generally sound. In particular, the unquoted portfolio saw some modest valuation uplifts, supported by solid operational performance and ongoing M&A interest.

Performance – Q1 2025

In the quoted portfolio, performance was mixed. Positive contributions came from companies with clear strategic progress and capital discipline, including:

- **Inspired plc,** which upgraded earnings guidance following contract completions and a successful equity placing
- **Property Franchise Group,** which announced a strong post-merger trading update
- **Scholium Group,** which has now moved off-market but maintains stable fundamentals

Offsetting these gains were temporary valuation pressures in select names including:

- **Cerillion plc,** which announced a major contract but saw its share price decline
- **Bioventix plc,** impacted by increased research and development costs despite its long-term growth potential
- **Vianet Group,** which saw weakness despite no company-specific news

The investments in the Gresham House equity strategies performed ahead of their respective benchmarks despite a weak quarter for UK small caps:

- **WS Gresham House UK Micro Cap Fund:** –5.6%
- **WS Gresham House UK Smaller Companies Fund:** –5.8%
- **WS Gresham House UK Multi Cap Income Fund:** –5.9%

The quoted VCT portfolio declined by 10.5%, in line with market trends. Valuation pressures across UK smaller companies were a dominant factor, despite broadly positive underlying earnings delivery. As has been the case in recent periods, fundamentals and valuations have diverged, creating a widening gap between company progress and market recognition.

Most portfolio companies have already incorporated the April 2025 UK Budget changes - including increases to the National Minimum Wage and Employer NICs - into their updated business plans. The estimated per-employee cost impact ranges between £1,000 and £2,000 and has been broadly absorbed through forward planning and productivity measures.

Within the unquoted portfolio, we remain encouraged by the stability of cash flows and progress on strategic objectives, including product rollouts, contract wins, and margin improvement initiatives. Our ongoing engagement with management teams continues to focus on value creation, operational execution, and readiness for exit opportunities in due course.

The unquoted portfolio performance remained flat, positively, over half of portfolio companies reporting revenue growth. Gains from high-performing businesses were partially offset by valuation adjustments in four holdings, largely due to delays in public sector spending decisions. We continue to adopt a selective approach to new investments while maintaining close engagement with management teams to support operational delivery.

Outlook – Q2 2025

As we move further into Q2, market sentiment towards UK smaller companies remains fragile, but we believe this reflects broader macroeconomic concerns rather than fundamental issues at the company level. The portfolio is well diversified, predominantly UK-focused, and weighted towards capital-light, recurring revenue businesses with strong financial discipline.

Global trade tensions, which intensified following tariff announcements from the US administration earlier in the year, have started to ease. Notably, Donald Trump has recently softened his stance, walking back on some of the more aggressive tariff proposals. This shift in rhetoric has helped stabilise global investor sentiment and reduced near-term fears of a wider trade war.

Nonetheless, The Baronsmead VCTs remain largely insulated from direct tariff exposure:

- Over 70% of NAV is held in businesses with primarily UK-derived revenues
- Over 90% of holdings are in services-based sectors with low physical supply chain dependency
- None of the unquoted portfolio companies export goods to the US

We continue to monitor second-order risks such as input cost pressures, margin compression, and customer procurement hesitation - particularly in sectors more exposed to discretionary spending or capital project cycles. We remain proactive in engaging with affected companies to ensure readiness and resilience.

Despite short-term volatility, we retain conviction in the quality and long-term value potential of the portfolio. Our focus on high-margin, cash-generative, and well-managed companies positions the Baronsmead VCTs well for recovery as market sentiment normalises. The ongoing dislocation between fundamentals and valuations presents an attractive entry point for long-term investors, and we continue to assess selective follow-on opportunities to support growth across the portfolio.

Risks to be aware of

- Not to be construed as investment advice
- Views expressed are correct at the time of publication but are subject to change
- The value of the Company and the income from it is not guaranteed and may fall as well as rise

- As your capital is at risk you may get back less than you originally invested
- Past performance is not a reliable indicator of future performance
- Tax treatment depends on the individual circumstances of each client and may be subject to change in the future
- Funds investing in smaller, younger companies may carry a higher degree of risk than funds investing in larger, more established companies. Investments in smaller companies may be less liquid than investments in larger companies

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