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AIM at 30: Why advisers should take a fresh look at the UK's junior market

'We see AIM as a jewel in the crown with long-term appeal for the right clients'

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Image: Oliver Brown is investment director at RC Brown Investment Management

Oliver Brown takes an in-depth look at AIM as the UK's junior market reaches a significant milestone...

As the Alternative Investment Market (AIM) quietly marks its 30th anniversary on 19 June – with no fanfare and very little fuss - now may be an ideal time for advisers to revisit the UK's junior market.

After what's admittedly been a difficult few years for both AIM and UK smaller companies, there are early signs that many of the headwinds which have held the sector back are easing.

Over the past three months, the AIM All-Share Index has been positively flying - up around 12% - outperforming the FTSE 100 at around 7% and both the FTSE 250 and Small Cap indices over the same period - that's before dividends. While the market still has ground to make up over a one-year timeframe, the recent rally suggests that investor confidence may be returning.

AIM has clearly faced challenges in recent years - a combination of market volatility, global inflation concerns, regulatory uncertainty and falling institutional interest, but there is now growing evidence to show that valuations may have reached a sweet spot for investors. UK equities are still waiting for a clear turn in net investor inflows, but the appetite for high-quality UK companies is gaining momentum.

In our view, the AIM market has genuinely strong, well-run businesses - many trading at multi-year low valuations. Solid balance sheets, healthy cash flows, growth and, in many cases, dividends. In that sense, AIM continues to provide fertile ground for active stock pickers and long-term investors.

At RC Brown, examples of companies we favour include Ashtead Technology, a service provider to the offshore energy sector benefiting from growth in offshore wind, and Sigmaroc, which has become the market leader in lime and limestone supply in Northern Europe. Both reflect the kind of specialist, scalable, and resilient businesses still available on AIM.

What's more, despite shrinking listing numbers and muted market sentiment, AIM continues to serve a vital role in providing capital to UK growth companies. Since launch in 1995, it has enabled over 4,000 companies to raise more than £135bn in capital, and in 2023 alone contributed around £68bn to UK GDP, according to recent research by the London Stock Exchange. Whilst the IPO market has been subdued of late, good quality companies with a strong proposition have successfully floated. MHA, Amcomri & RC Fornax have all performed strongly since listing in recent months.

AIM's valuation appeal has not been lost on overseas buyers. The market has seen sustained takeover activity over the past 12–18 months, with private equity and overseas investors stepping in to snap up undervalued assets. High-profile takeovers such as Hotel Chocolat and Keyword Studios have highlighted the interest. Within our own AIM portfolios, Lok'nStore and Mattioli Woods were taken private and recently, Marlowe, a Fire and Water testing company, has received a takeover approach from FTSE 250 support services company Mitie.

But while these premiums are often welcome in the short term, they raise the question of what longer-term value clients may be giving up when companies exit the public markets prematurely. For advisers, this trend strengthens the case for active oversight and long-term allocation.

Tax-planning

For advisers, one of AIM's advantages is its role in inheritance tax (IHT) planning. A large proportion of AIM-listed companies qualify for Business Relief (formerly Business Property Relief), meaning shares held for at least two years can be passed on free from IHT.

From April 2026, the relief has been halved, meaning that the effective inheritance tax rate will be 20%. This has clearly been a drag on the AIM market with some investors giving up on the market, but we believe that an AIM portfolio of good quality companies that provides investors with attractive returns, can still be an important part of inheritance tax planning. It offers a growth profile unmatched by the unlisted inheritance tax schemes, which incidentally cannot form part of an ISA to their unlisted nature.

This makes AIM-based portfolios a flexible and attractive option for clients looking to manage IHT exposure without resorting to gifts, trusts or irrevocable structures. Unlike many estate planning tools, AIM shares remain in the investor's name, accessible and adjustable as personal circumstances change.

Advisers working with a discretionary AIM manager, such as ourselves, can build portfolios of 30–40 carefully selected AIM companies that combine both IHT benefits with a diversified growth mandate tailored to a client's risk profile.

Of course, AIM is not without risk. The market is more volatile than its large-cap peers, and liquidity can be a factor. Advisers must ensure allocations are appropriate for a client's time horizon and capacity for loss. But this is where long-term active management adds value — through disciplined selection, monitoring and responsive rebalancing.

With valuations reset, and more supportive policies finally being encouraged by the government, such as the larger UK pension funds committing to invest at least 10% in private markets (AIM is expected to be classified as a private market) there's a growing sense that AIM might just be entering a more favourable period.

As AIM reaches its 30th birthday, we see the junior London market as a jewel in the crown with long-term appeal for the right clients. After a bruising period, its combination of growth opportunity and tax efficiency make it worth a fresh look.

Oliver Brown is investment director at RC Brown Investment Management and head of AIM/IHT portfolios