

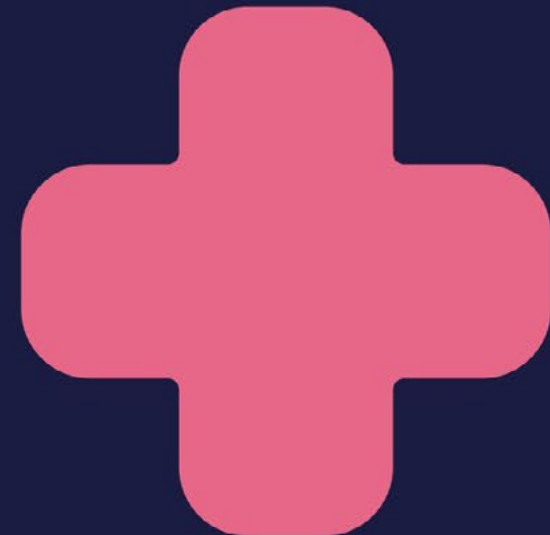
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FTSE AIM

**Market update and analysis report
from the Quoted Companies team**

March 2026

octopus investments
A brighter way



FTSE AIM

Where are we, how did we get here, why AIM matters, and what is the opportunity going forward?

The FTSE AIM market has experienced a more prolonged and sharper decline than seen in previous cycles. For private investors — particularly those using AIM within diversified or tax efficient portfolios — this has prompted understandable questions about whether the current downturn reflects a typical market cycle or a more structural shift.

This period has been notably different from previous downturns. The scale and duration of the weakness stems, not only, from geopolitical and macroeconomic uncertainty, but also from government policy changes that have affected smaller quoted companies listed on AIM.

With many AIM listed businesses now trading at what we view as once in a generation valuations, the potential for recovery is significant. Understanding the factors behind the recent decline is therefore essential when evaluating both the risks and the opportunities that currently exist.



Past and forecast performance is not a reliable indicator of future results. Investments in listed companies can fall as well as rise. You may not get back the full amount you invest.

The shares of small and mid-cap companies should be considered higher risk than those of larger companies listed on main markets such as the FTSE 100. Their share price can rise or fall faster than those of companies listed on a main market, and their shares may also be harder to sell.

Where are we?

AIM share prices have faced a sustained downturn since the market peak in October 2021. This weakness reflects several external factors, **but it is largely not due to poor operational performance.** In fact, the strength of delivery is reflected in earnings growth across the FTSE AIM 50 — the market’s largest constituents — which has risen by more than 70% over this period, whilst their collective market value has declined by over 40%.

These dynamics have left AIM companies trading on exceptionally low valuation multiples, particularly relative to their growth prospects.

The table on the bottom right shows Earnings Per Share (EPS), which are reflective of the underlying annual profit growth of key equity indices, on a compound annual growth rate basis (CAGR), and prospective valuation multiples using EV/EBITDA — a common measure of operating profitability. EPS shows how much profit each share generates, while EV/EBITDA reflects the price investors are paying for a company’s operating earnings, independent of capital structure.

Despite the FTSE AIM Index being forecast to deliver nearly 20% annual earnings growth up until 2027, it currently trades at a significant discount, to both the similarly high growth Nasdaq Composite, and the slower growing FTSE 250 ex IT, and FTSE 100.

Although FTSE AIM’s forecast EPS CAGR is broadly comparable to Nasdaq, the FTSE AIM index currently trades at less than one third of Nasdaq valuation multiples, highlighting the substantial disconnect between growth prospects and current valuations on AIM.

FTSE AIM 50¹



FTSE AIM²

Strong forecast growth, at a discounted valuation

	3 year Earnings Per Share CAGR to 2027	Prospective EV/EBITDA valuation multiple to 2026e
Nasdaq Composite Index	22.81%	17.62x
FTSE AIM All Share	19.24%	6.5x
FTSE 250 ex IT	12.55%	7.52x
FTSE 100	7.19%	8.61x

¹ Source: FactSet, Covers period 31 August 2021 to 31 December 2025 — NTM (Next Twelve Months)

² Source: FactSet 30 January 2026

Past performance is not a reliable indicator of future results.

Discrete 1-year performance % return to 30 Sep

	2025	2024	2023	2022	2021
FTSE AIM 50 TR	4.11	9.12	-10.88	-32.88	25.89
Nasdaq TR	12.80	31.89	36.48	-24.04	23.30
FTSE AIM All Share TR	7.85	3.90	-8.28	-34.34	30.79
FTSE 250 (ex Investment Trust) TR	6.69	21.41	13.62	-26.79	40.85
FTSE 100 TR	17.53	12.39	14.66	0.90	25.36

Source: Lipper, as of 30 September 2025. Returns are based on published dealing prices, single price mid to mid with net income reinvested, net of fees, in sterling. Investment Association performance represented by the average fund performance of respective Investment Association total return sectors.

How did we get here?

A combination of macroeconomic, geopolitical and policy driven factors has contributed to significant outflows from UK equities. As widely highlighted across financial media, UK equity flows have been consistently negative in recent years, affecting all investor groups — from pension funds to retail investors.

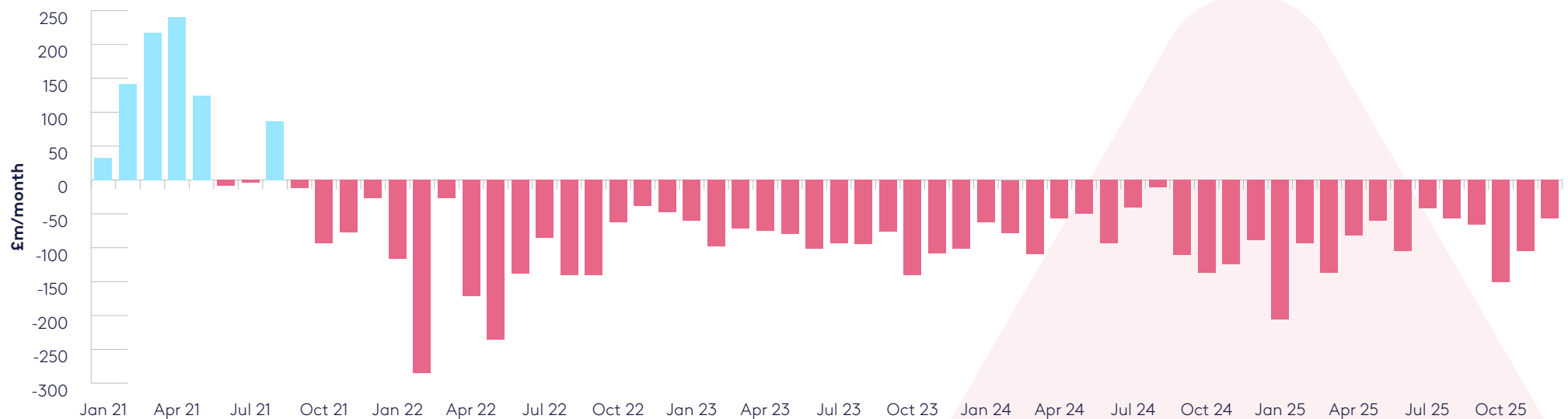
Since 2021, the Investment Association UK Smaller Company sector alone has experienced £4bn (circa) of net outflows and now represents Assets Under Management (AUM) of only £7.8bn.

Pension funds and large asset managers have increasingly shifted towards global equities and private markets, whilst retail investor participation has also declined. At the same time, higher interest rates have had a disproportionate impact on AIM companies. Many AIM listed businesses are long term growth focused, making their valuations highly sensitive to the discounting of future earnings. The sharp rise in inflation and interest rates has therefore reduced the present value investors place on those future profits.

From April 2026, Business Relief (BR) available via qualifying AIM shares is set to reduce from 100% to 50% for new holdings, which has weighed on flows into AIM BR products.

Despite these headwinds, it remains important for private investors to separate short term issues from long term fundamentals. Extended periods of weakness often create attractive entry points, particularly when high quality businesses are trading at meaningful discounts to their intrinsic value. Historically, AIM recoveries tend to build gradually, driven by improving confidence, liquidity and underlying company performance.

Investment Association UK smaller company retail flows



Source: Octopus Investment/Investment Association — to end November 2025

Why AIM matters?

“AIM plays a vital role in supporting innovation and entrepreneurship and we will work with the LSE and regulators to strengthen its position.”



Chancellor Rachel Reeves – Mansion House Accord May 2025

Despite recent weakness in AIM share prices, the market remains one of the most successful global growth platforms. It is home to more than 600 companies and over the past 30 years has enabled over £138 billion of capital to be raised for more than 4,000 businesses.

According to a recent LSE/Grant Thornton report, AIM listed companies are almost 50% more productive than private company peers, export more than four times as much as their private counterparts and support close to 800,000 jobs across the UK. For a government focused on growth, strengthening AIM has therefore become an increasingly explicit policy priority.

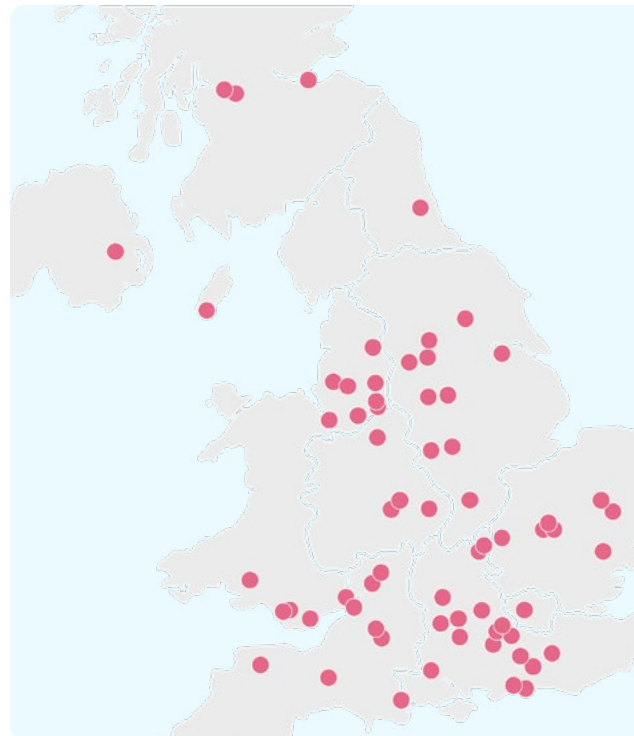
Any initiatives designed to support UK growth companies and long term investment have the potential to materially improve sentiment and help revitalise valuations across many AIM listed businesses. With fundamentals remaining strong and AIM’s economic contribution widely recognised, such policy momentum could act as a powerful catalyst for recovery.

The Alternative Investment Market (AIM)

Providing long term growth capital across the UK

- Launched by the LSE in 1995**
- Home to 619 companies**
- Aggregate value of £64.6 billion**
- Average market cap of £104 million**
- Raised more than £138 billion in growth capital for over 4,000 companies**

Octopus AIM regional presence (VCTs)



AIM’s economic contribution to the UK

	Gross Value Added to UK GDP	Jobs
Overall	£68bn	778,888
Direct: Profit, wages & employment	£35.7bn	410,311

Global sales

Aggregate overseas turnover for AIM companies

4x higher than private company counterparts in the UK

AIM company productivity

49% higher productivity than their private counterparts

Post-IPO growth on AIM



AIM’s exposure to key growth sectors

Compound Annual Growth Rate %

Healthcare +17.2%	Financial Services +12.8%
Technology +14.0%	Consumer Discretionary +11.0%
Consumer Staples +13.1%	Industrials +10.0%

Source: Grant Thornton Report 2024, The Economic Impact of AIM

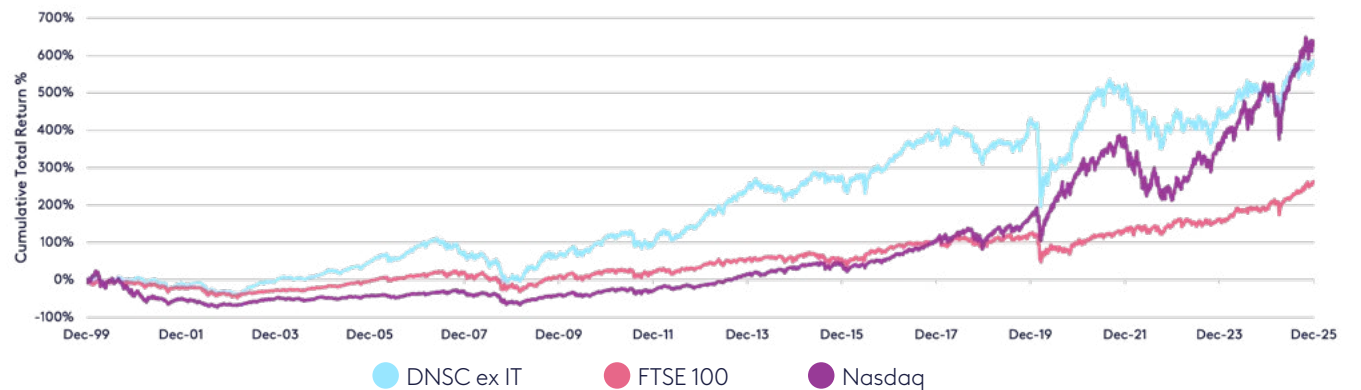
What is the opportunity going forward?

Looking ahead, several factors could help improve conditions. Interest rates are now declining and a sustained shift towards lower rates would support valuations and encourage investors to re-engage with growth assets. Even modest institutional inflows — particularly those aligned with the Mansion House Accord of 2025¹ — could have a meaningful impact on valuations given today’s subdued levels. Policy measures aimed at strengthening UK growth companies and long term investment would also provide an additional tailwind.

Whilst recent commentary has understandably focused on AIM’s near term challenges, it is important to recognise the strong, long term track record of UK growth companies. Since the start of the century, the Deutsche Numis Smaller Companies index (the smallest 10% of companies listed on the main list of the FTSE) has delivered cumulative returns of almost 600%, comparable to the Nasdaq, and materially ahead of the FTSE 100. This history of sustained strong performance by growth companies underscores the long term opportunity and highlights why a recovery from current levels could be significant.

Why UK SMID? — Compelling long-term returns

Cumulative total returns — similar to Nasdaq; well ahead of the FTSE 100²



Discrete 1-year performance % return to 30 Sep³

	2025	2024	2023	2022	2021
DNSC ex IT	12.67	9.48	10.14	-17.87	21.92
FTSE 100	25.82	9.66	7.93	4.70	18.44
Nasdaq	12.80	31.89	36.48	-24.04	23.30

Past performance is not a reliable indicator of future results.

¹ The Mansion House Accord (2025) is a voluntary agreement among 17 major UK pension providers to invest at least 10% of their default Defined Contribution (DC) funds into private markets (including 5% in UK firms) by 2030. Led by the Association of British Insurers and the City of London Corporation, it aims to boost, it aims to boost investment in UK businesses and improve long-term returns for savers.

² Bloomberg and Octopus Investments. Covers period 31/12/1999 to 31/12/2025.

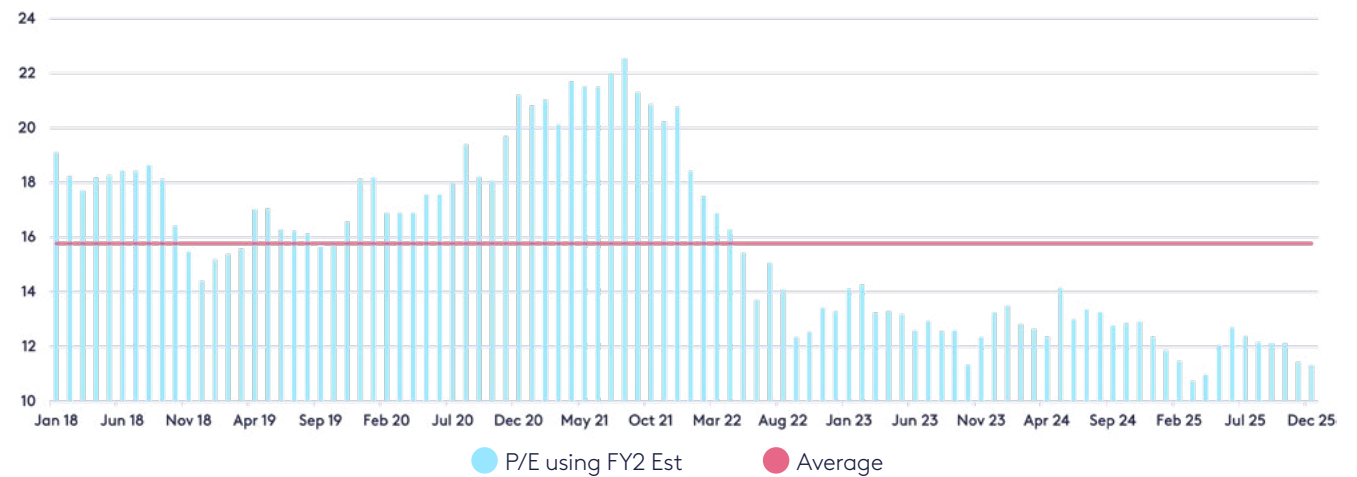
³ Lipper, as of 30 September 2025. Returns are based on published dealing prices, single price mid to mid with net income reinvested, net of fees, in sterling. Investment Association performance represented by the average fund performance of respective Investment Association total return sectors.

Since 2021, valuation multiples across the Octopus AIM Inheritance Tax Service portfolios have compressed, despite continued solid earnings growth from the underlying companies. As risk appetite improves and the broader narrative around growth equities — and AIM in particular — begins to normalise, we believe the recovery potential is compelling, as share prices start to reflect the underlying strength and profitability of these businesses once again.

After several years of UK equity underperformance, we are beginning to see early signs of recovery in some parts of the market. In 2025, a commodity driven rally in Energy and Materials supported strong performance among companies in those sectors. Although resource stocks do not qualify for Business Relief, their strength contributed, in part, to the FTSE 100's +21.5% return for the year. FTSE AIM also delivered a credible +8%, though it is notable that non-qualifying metals and mining companies accounted for over +11% of that performance.

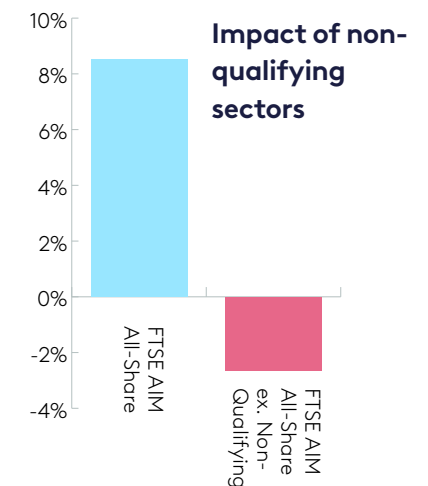
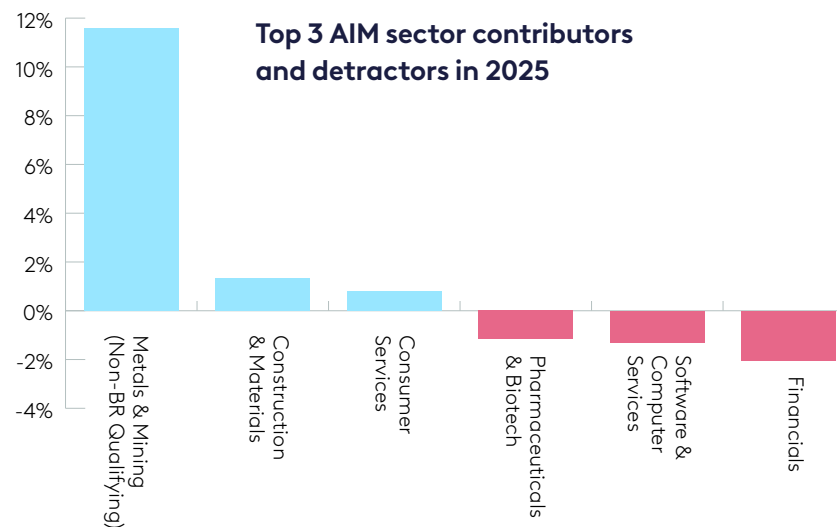
We note that previous recovery cycles have followed a similar pattern, with non-qualifying resource and mineral focused companies leading the initial rebound, following the last significant market pullback, after the Global Financial Crisis (GFC) in 2008/2009. As conditions improved and inflation eased, the recovery broadened, and higher quality growth sectors, such as Pharmaceuticals and Technology, which feature strongly across the Octopus AIM Inheritance Tax portfolios, ultimately outperformed.

Price earnings multiple of the portfolio



FTSE AIM all-share — sector performance

Non-BR qualifying sectors contributed 11.2% to AIM Performance in 2025

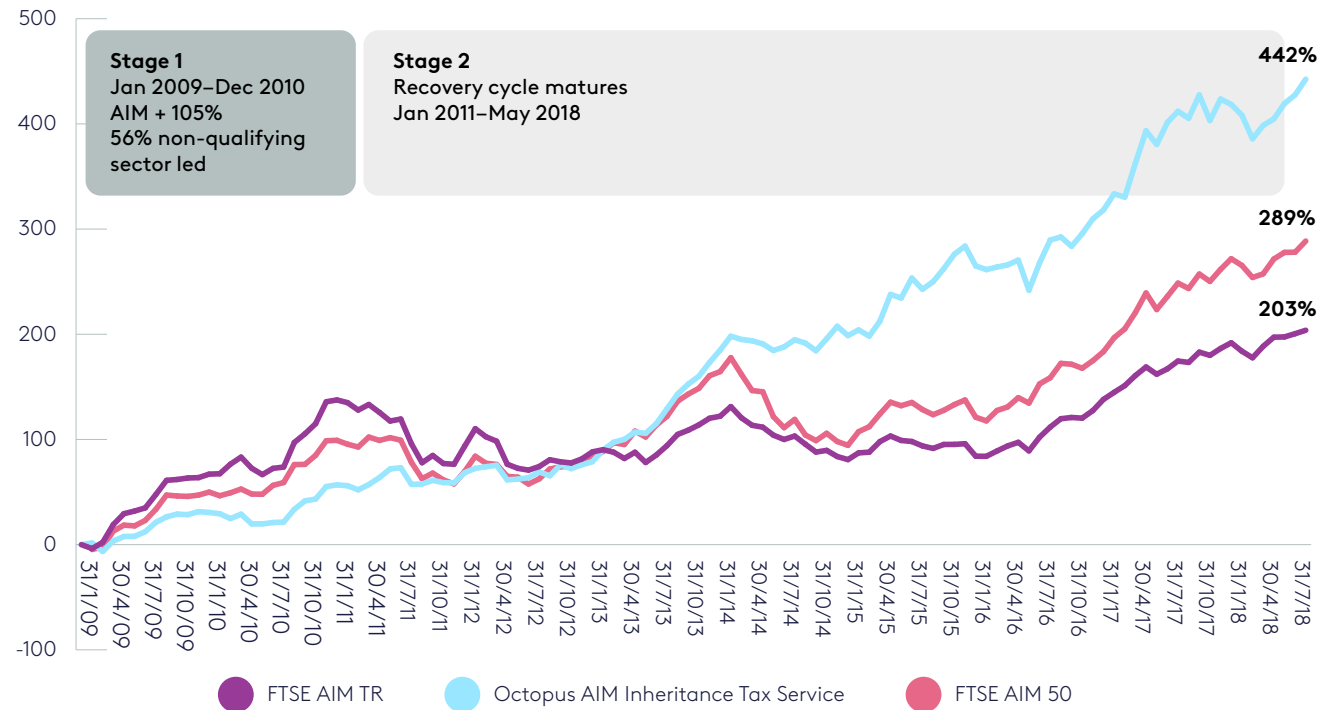


Past performance is not a reliable indicator of future results.

Encouragingly, IPO activity has also begun to return, with several high profile companies listing in the final quarter of last year and a growing pipeline expected in the months ahead.

In conclusion, our conviction in the long term value of many of our core portfolio positions remains strong. We continue to engage actively with policymakers to emphasise AIM's significant contribution to UK GDP, and we are encouraged by the increasing recognition of its importance. While the current AIM downturn has lasted longer than anticipated, it largely reflects broader factors that have weighed on capital flows — many of which are now showing signs of easing. While this has been a challenging period for investors, it reinforces the importance of selectivity, diversification, and maintaining a long term perspective.

AIM previous market cycle recovery



Past performance is not a reliable indicator of future results.

Source: Octopus Investments / FactSet

Discrete 1-year performance % return to 30 Sep

	2025	2024	2023	2022	2021
Octopus AIM ITS TR	-6.79	6.04	-13.12	-34.12	39.32

Source: Octopus Investments, as of 30 September 2025



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