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PROFESSIONAL

Herald Investment Trust

Investment companies | Update | 28 September 2026

New chapter, same compelling story

The cloud of uncertainty that has hung over Herald Investment Trust (HRI) for almost two years, following Saba Capital's stake-building and attempts to take control of the trust, has finally lifted. A tender offer in July gave Saba a full exit, and a three-year standstill arrangement is now in place, allowing manager Katie Potts and her team to focus fully on HRI's portfolio of pioneering technology companies.

As part of the arrangements, the trust has moved to Aberdeen Investments, where it continues to be run with the same mandate while benefitting from additional research and marketing resources. Although smaller, HRI remains a substantial trust and now has a cleaner share register made up of investors who understand its proposition.

HRI continues to identify and profit from several powerful themes, many linked to artificial intelligence. These include the broadening of AI-related capital expenditure to smaller suppliers, and the shift from the infrastructure to the application stage of AI, which should increasingly create opportunities for smaller technology companies.

Small-cap technology, telecommunications and multi-media

HRI's objective is to achieve capital appreciation through investments in smaller quoted companies in the areas of technology and communications. Investments may be made across the world, although the portfolio has traditionally had a strong position in UK stocks.

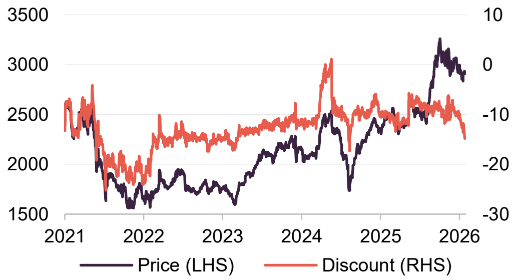
12 months ended	Share price total return (%)	NAV total return (%)	Deutsche Numis ex IC plus AIM (%)	B'berg US 2000 Tech TR (%)
31/08/2022	(32.0)	(22.4)	(21.9)	(15.8)
31/08/2023	7.3	(4.4)	(4.1)	0.7
31/08/2024	22.0	17.8	14.6	5.5
31/08/2025	9.0	6.4	3.0	9.2
31/08/2026	27.2	27.7	15.3	29.7

Source: Bloomberg, Marten & Co

Sector	Global Smaller Companies
Ticker	HRI LN
Base currency	GBP
Price	2,910p
NAV	3,408.6p
Premium/(discount)	(14.6%)
Yield	Nil

Share price and discount

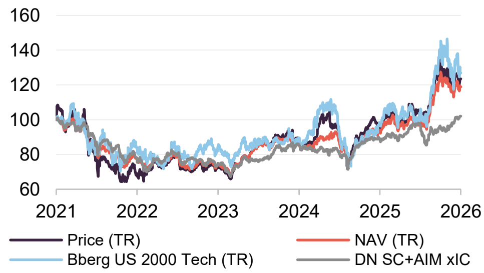
Time period 31/08/2021 to 24/09/2026



Source: Bloomberg, Marten & Co

Performance over five years

Time period 31/08/2021 to 31/08/2026



Source: Bloomberg, Marten & Co

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Domicile	United Kingdom
Inception date	21 February 1994
Manager	Katie Potts
Market cap	£555.9m
Shares outstanding (exc. treasury shares)	19.1m
Daily vol. (1-yr. avg.)	117.0k shares
Net gearing	0.0%

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Click for an updated HRI factsheet

Click for HRI's peer group analysis

Analysts

David Batchelor
db@quoteddata.com

Matthew Read
mr@quoteddata.com

Click to provide feedback to the company

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Aberdeen Investments

Katie and team have moved to Aberdeen Investments.

As part of the package that facilitated Saba Capital's exit, Aberdeen Investments replaced Herald Investment Management Limited (HIML) as HRI's AIFM on 1 August 2026. Katie Potts and several members of the HIML team moved to Aberdeen on that date.

Aberdeen brings greater scale and access to a broader pool of investment expertise. This should be particularly helpful in Asia, where markets can be complex and Aberdeen's established Asian smaller companies franchise complements HRI's exposure to the region. Aberdeen also has a strong track record of marketing investment companies to private investors, an increasingly important source of demand as institutional ownership of the sector declines.

Market update

War in Iran, trade uncertainty and AI have dominated market sentiment this year.

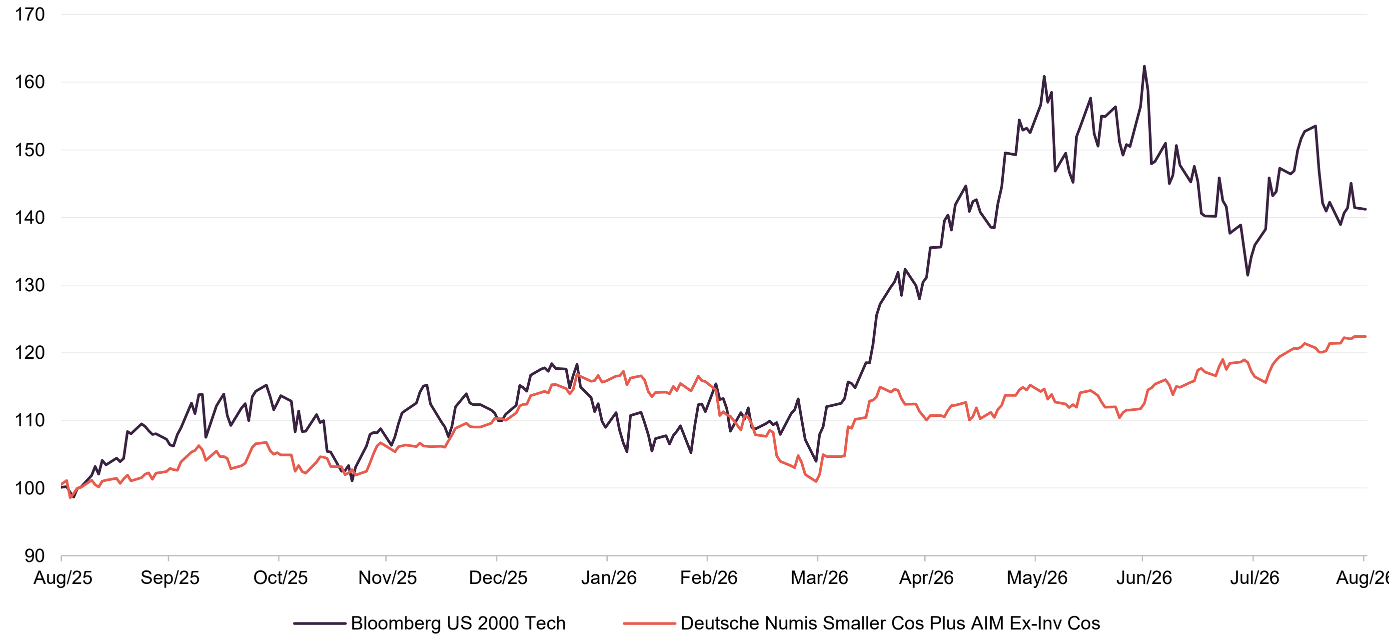
Market newsflow this year has been dominated by the war in Iran, renewed trade uncertainty and continued enthusiasm for artificial intelligence. The conflict, which began at the end of February, disrupted shipping through the Strait of Hormuz, drove energy prices sharply higher and triggered a broad market sell-off. Smaller companies and growth stocks were particularly sensitive to the resulting rise in inflation and interest-rate expectations.

Markets subsequently recovered strongly from their March lows, as fears of a prolonged energy-supply shock eased and corporate earnings remained resilient. The rebound was led by AI-related shares, particularly semiconductor, memory, networking and data-centre equipment companies, as major technology groups maintained high levels of infrastructure spending.

More recently, that trend has partially reversed. Profit-taking and growing doubts over the returns that companies will earn on their AI investment have weighed on semiconductor and other technology shares, while investors have rotated towards cheaper and less crowded areas of the market. Nonetheless, equity markets remain firmly higher for the year: as at 18 September, the S&P 500 had gained 11.8%, while the S&P SmallCap 600 was up around 15.2%. UK equities have also performed strongly, with the S&P United Kingdom index rising about 7.3% year-to-date and trading close to its record high.

Of particular relevance to HRI is the performance of smaller company indices. Figure 1 shows two representative indices: the Bloomberg US 2000 Technology Index, covering small- and mid-cap US technology stocks, and the Deutsche Numis Smaller Companies Plus AIM Ex Investment Companies Index, representing the bottom 10% of the UK market.

Figure 1: Markets over 12 months to 31 August 2026, indices rebased to 100



Source: Bloomberg, Marten & Co

The two indices followed a broadly similar path until the beginning of March 2026, when they diverged sharply and the Bloomberg US 2000 Technology index pulled ahead. This coincided with the market low following the initial shock caused by the Iran war, and the subsequent recovery in risk appetite. The rally broadened beyond the largest US technology companies, with smaller technology stocks particularly strong.

More recently, the gap has narrowed as investors took profits in technology shares, questioned returns on AI spending, and showed greater support for UK smaller companies. This is shown by the convergence of the indices in Figure 1.

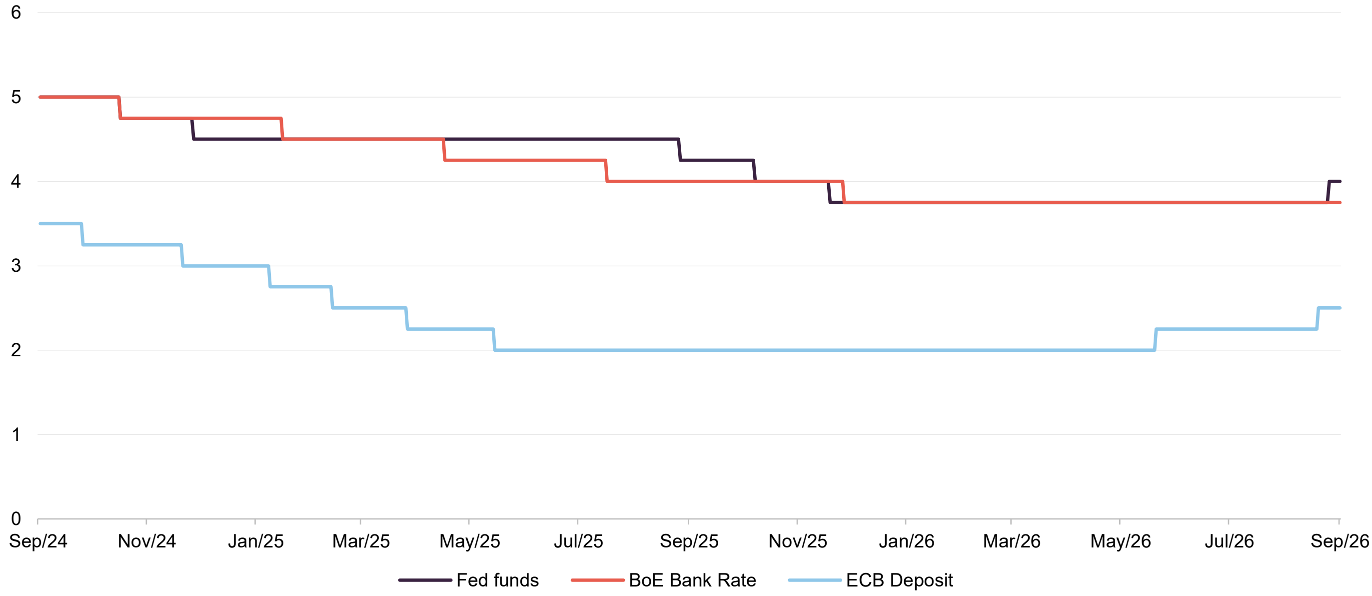
Less supportive monetary policy

> The Federal Reserve and ECB raised interest rates in September, with the Bank of England keeping its on hold.

The Federal Reserve increased its target interest rate to 3.75-4% on 17 September, while the European Central Bank (ECB) raised its deposit facility rate by 25 basis points to 2.5% at its latest meeting. The Bank of England held its policy rate at 3.75% at its September meeting, although three of the Monetary Policy Committee's (MPC) nine members voted for an increase to 4%.

Across all three regions, higher and more volatile energy prices have disrupted the disinflationary trend and raised concerns about second-round effects on wages and other prices. This has reduced expectations for near-term rate cuts and kept bond yields elevated – normally a headwind for smaller companies and highly valued growth stocks, whose expected future earnings become less valuable when discounted at higher interest rates.

Figure 2: Interest rates over two years to 22 September 2026



Source: Bloomberg, Marten & Co

HRI – benefitting from the AI capital expenditure boom

AI capital expenditure has broadened to benefit smaller suppliers.

HRI has benefitted from the surge in AI-related capital expenditure, particularly as the opportunity has broadened beyond the handful of larger companies that initially drove returns. Earlier gains for HRI had been concentrated in larger holdings such as Super Micro Computer, Fabrinet, and BE Semiconductor Industries, but more recently the market has increasingly recognised that a much wider range of smaller suppliers are also benefitting from ongoing hyperscaler investment.

HRI has identified 49 such smaller holdings exposed to this investment boom, which collectively outperformed its larger AI beneficiaries during the first half of its financial year. These holdings generated an internal rate of return of 146.7%, compared with 97.0% from HRI's top 10 AI holdings. Contributors included Silicon Motion Technology and Vicor, alongside newer positions such as DigitalOcean and Vishay Precision. In the latest Interim Report, the chairman noted that effectively all of HRI's NAV growth since the start of 2023 has come from companies in the AI supply chain.

Katie cautions that the current pace of capital expenditure and the pricing power enjoyed by infrastructure suppliers cannot continue indefinitely. The sharp re-rating of AI-related holdings in the second quarter gave the team a timely opportunity to realise profits and raise cash to help fund the tender offer and more. With share prices having since eased from those levels, the team is now selectively adding to positions where valuations have become more attractive.

Moving from the infrastructure to the application stage of AI

Katie believes the AI opportunity will move from infrastructure to applications.

While HRI has benefitted strongly from the build-out of AI infrastructure, Katie feels that the next phase of the opportunity will increasingly lie in applications. She draws a parallel with the development of the internet, where early beneficiaries such as Cisco Systems and EMC supplied the networking and storage infrastructure before companies such as Amazon, Alphabet and Meta emerged as the bigger application-layer winners.

Katie believes that AI is currently still in the infrastructure phase, but that applications will come next. The emergence of agentic AI systems, which are already extending beyond coding into broader knowledge work, provides an early indication of how this transition could develop.

This shift should create a different opportunity set for HRI. Software shares came under pressure in the first quarter of 2026 as investors worried that cheap, AI-native products could displace incumbent software-as-a-service providers. Katie believes this pessimism was overdone, and the sector subsequently recovered during the second quarter. Even so, valuations across much of the technology sector outside the AI infrastructure winners have fallen, creating potentially attractive opportunities as HRI looks to redeploy cash. However, identifying those companies that are capable of translating AI into commercially successful applications will be key.

Asset allocation

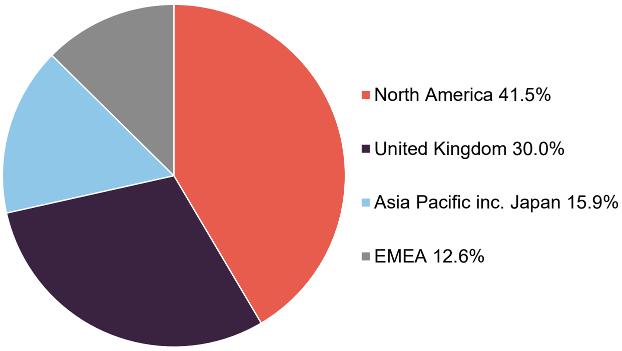
HRI has continued to shift assets away from the UK.

A consistent theme in our notes on HRI has been the steady increase in exposure to North America, and corresponding decline in the UK. In recent months, to 31 August 2026, the North American exposure ex-cash has reduced a little, to 38.3%. UK exposure saw a further fall to 24.8% from 30.0% as at the time of our last note (which used data as at 30 September 2025). In comparison, less than five years ago HRI had double the allocation to the UK compared with North America (47.7% and 22.3%, respectively, in December 2021).

The most recent figures, as at 31 July 2026, were distorted by the high cash weighting of 19.5% that was built up ahead of the July tender offer. HRI's manager raised liquidity gradually to avoid becoming, or being perceived as, a forced seller of often relatively illiquid holdings. The numbers in Figures 3 and 4 are therefore ex-cash. With the tender now complete, we expect cash to return towards its more normal, single-digit level.

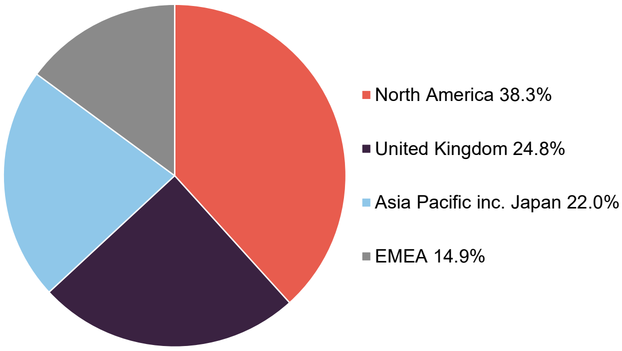
Whilst geographic allocation remains an important consideration, Katie and the team emphasise that most portfolio companies generate revenues internationally rather than relying on their domestic markets. They generally favour businesses with a global reach, as these tend to have stronger competitive positions and a broader opportunity set.

Figure 3: Geographic allocation as at 30 September 2025 (ex-cash)*



Source: Herald Investment Management *Note: as a proportion of gross assets

Figure 4: Geographic allocation as at 31 August 2026 (ex-cash)*



Source: Herald Investment Management *Note: as a proportion of gross assets

Top 10 holdings

Figure 5 shows HRI's top 10 holdings as at 31 August 2026 and how these have changed since our last note (which used data as at 30 September 2025). BizLink has risen to become the largest holding, with the previous top holding Celestica dropping out of the top 10.

Figure 5: Top 10 holdings as at 31 August 2026

Holding	Sector	Country	Allocation 31/08/26 (%)	Allocation 30/09/25 (%)	Percentage point change
BizLink	Tech hardware & equipment	Taiwan	1.8	1.1	0.7
Red Violet	Software & computer services	US	1.4	0.6	0.8
Nordic Semiconductor	Tech hardware and semiconductors	Norway	1.4	1.4	-
Volex	Tech hardware & equipment	UK	1.3	1.3	-
Diploma	Support services	UK	1.2	1.8	(0.6)
Tripod Technology	Tech hardware & equipment	Taiwan	1.1	0.7	0.4
Trustpilot	Software & computer services	UK	1.1	1.4	(0.3)
Pegasystems	Software & computer services	US	1.1	1.9	(0.8)
BE Semiconductor Ind.	Tech hardware and semiconductors	Netherlands	1.1	2.0	(0.9)
Varonis Systems	Software & computer services	US	1.1	1.2	(0.1)
Total of top 10			12.6	20.4	

Source: Herald Investment Management, Marten & Co

There are four new names in the top 10: BizLink, Red Violet, Tripod Technology and Varonis Systems. These have replaced Celestica, Fabrinet, Silicon Motion Technology and Super Micro Computer. We look at these new entrants in some detail below. These are not new names in the portfolio, but instead companies where positions have been built up over time, and in many cases have enjoyed very strong recent share price performance.

The allocations across the top 10 holdings are lower than would ordinarily be expected. Again, this is due to the need for HRI to hold significant cash prior to the tender offer.

BizLink

Figure 6: BizLink (TWD)

Source: Bloomberg

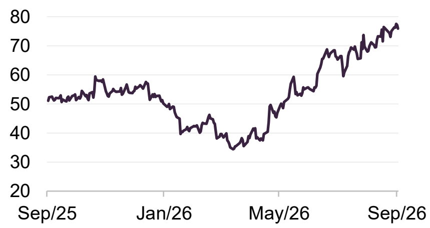
BizLink (www.bizlinktech.com) is a Taiwan-listed manufacturer of cables, connectors and other interconnect products used to transmit power and data. Its products are supplied to a broad range of markets, including data centres, semiconductor manufacturing equipment and medical technology. The company has progressively moved beyond individual components towards more complex, higher-value connectivity systems.

As computing density within data centres increases, considerably more power has to be delivered to servers while much larger amounts of data need to move between processors and other components at high speed. BizLink supplies both power and data connectivity equipment into this infrastructure. It is also expanding its role within the AI server rack: in June 2026 it agreed to acquire Interplex Datacom, which manufactures mechanical and structural components used within the rack.

Recent growth has been strong. Second-quarter 2026 revenue increased 37% year-on-year to NT$23.3bn, while net income rose 47% to a quarterly record NT$3.0bn. BizLink was already among HRI's strongest performers in 2025, and moved into the trust's top 10 AI performers during the first half of 2026.

Red Violet

Figure 7: Red Violet (USD)



Source: Bloomberg

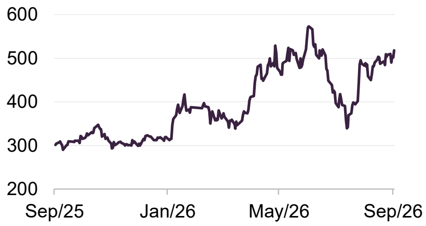
Red Violet (www.redviolet.com) is a US data and analytics company specialising in identity intelligence. Its technology brings together large amounts of information relating to people, businesses and assets, using this to help customers establish identities, assess risk and identify potential fraud. Its main platforms are IDI, which is used by businesses including financial services providers, insurers and debt collectors, and FOREWARN, which provides identity and safety information to real-estate professionals.

An important part of the investment case for HRI is the combination of Red Violet's proprietary data with its technology for determining connections between otherwise disparate pieces of information. The company describes its platform as cloud-native and AI-embedded, with an identity graph that is continually updated as new data is added. This gives the business characteristics of a scalable software platform: once the underlying data and technology infrastructure have been built, additional customers and searches can be supported without costs increasing at the same rate.

Growth has accelerated during 2026. Second-quarter revenue increased 23% year-on-year to a record $26.7m, while adjusted EBITDA increased 48% to $11.2m. Red Violet also added a record 447 new IDI customers during the quarter, taking the total above 10,800, while FOREWARN had more than 417,000 users at the end of the preceding quarter. The company subsequently raised $115m through a share issue, leaving it with more than $160m of cash to invest in further growth.

Tripod Technology

Figure 8: Tripod Technology (TWD)



Source: Bloomberg

Tripod Technology (www.tripod-tech.com) is a Taiwanese manufacturer of printed circuit boards (PCBs), the boards on which electronic components are mounted and connected. Its products are used across servers, memory modules and consumer devices. Although PCBs are a mature part of the electronics industry, increasingly powerful computing systems require boards capable of handling greater data speeds, power requirements and component density.

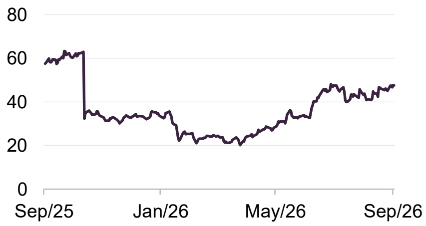
Tripod has been held by HRI for several years, but its recent move into the top 10 reflects the much stronger earnings environment for the Asian hardware companies benefiting from AI-related infrastructure spending.

Demand has been particularly strong for server and memory-related PCBs as investment in AI computing has increased. At the same time, other PCB manufacturers have been directing more capacity towards the most advanced GPU and AI-server products, creating opportunities for Tripod to pick up additional conventional server business. Higher-value products have also improved the company's sales mix and profitability.

The effect was particularly visible in its latest results. Second-quarter 2026 revenue increased 39% year-on-year to a record NT$24.9bn, while net profit rose 59% to NT$3.9bn.

Varonis Systems

Figure 9: Varonis Systems (USD)



Source: Bloomberg

Varonis Systems (www.varonis.com) is a US cybersecurity software company specialising in protecting corporate data. Rather than concentrating primarily on networks or devices, Varonis monitors where organisations' sensitive information is stored, who can access it and how it is being used. Its platform can identify excessive permissions, classify sensitive information and detect unusual behaviour that could indicate either an external cyberattack or misuse by an employee. HRI has been a long-standing shareholder.

Varonis has expanding from its traditional data-security products into securing AI applications themselves, including through its Atlas AI Security Platform and integrations with widely used AI tools. Another major change is Varonis's transition from self-hosted software to a cloud-based software-as-a-service (SaaS) model. This has proved disruptive: the shares almost halved on 29 October 2025 after disappointing third-quarter results and a reduction in full-year annual recurring revenue guidance.

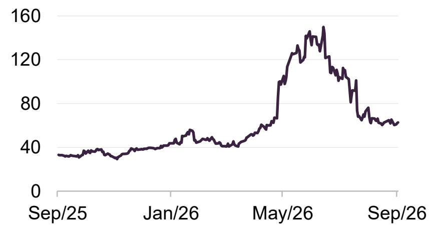
Subsequent results have demonstrated continued growth in the cloud business. SaaS annual recurring revenue reached $726m at the end of the second quarter of 2026, up 52% year-on-year, or 25% excluding customers converted from the old model. The shares have since recovered part of their losses, with takeover interest providing an additional catalyst.

New holding

Vishay Precision is a relatively new position that performed strongly after purchase; albeit much of the gain has been subsequently given back.

Vishay Precision

Figure 10: Vishay Precision (USD)



Source: Bloomberg

Vishay Precision Group (VPG, www.vpgsensors.com) is a US-listed specialist in precision measurement and sensing technologies. Its products include high-precision resistors, strain gauges, load cells and measurement systems, which are used in applications where accuracy and reliability are particularly important, including semiconductor manufacturing equipment, data centres, aerospace and defence, industrial automation and transportation.

Through VPG, HRI gains exposure to several growing technology markets through components that are often relatively small but critical to the performance of the systems in which they are used. Demand for VPG's precision resistors is benefitting from investment in AI-related semiconductor equipment and data centres, while the company is also developing an interesting position in robotics. Indeed, during the second quarter, VPG received a vendor nomination from its first humanoid robotics customer, potentially positioning it to supply sensors as production ramps.

Q1 results in May were well ahead of expectations, and the shares subsequently performed exceptionally well. More recently, most of this gain has been given back, with forward guidance not supporting the pace of growth that investors had been pricing into the shares.

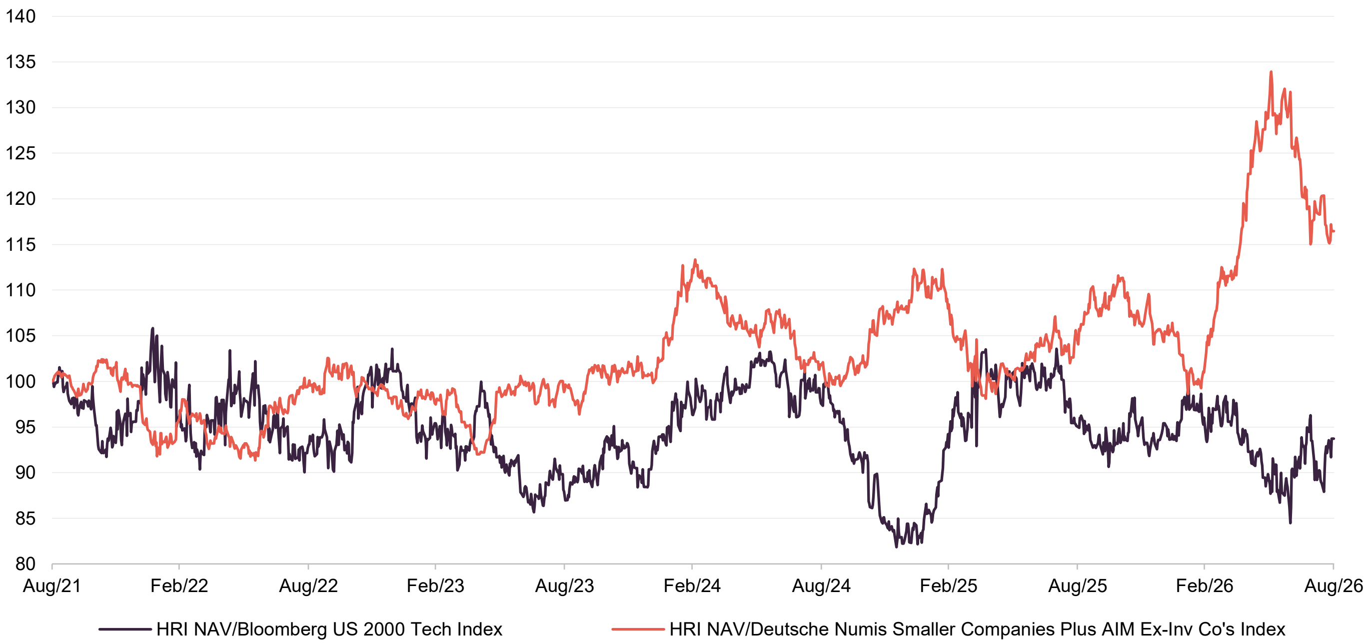
Performance

HRI has strongly outperformed the Deutsche Numis Smaller Companies plus AIM ex-Investment Companies Index.

As Figures 11 and 12 show, HRI has substantially outperformed the Deutsche Numis Smaller Companies plus AIM ex-Investment Companies Index – which captures the performance of the wider UK small-cap market – in NAV terms over the five years to 31 August 2026, primarily due to a strong first half this year. Relative performance was volatile during 2024 and 2025, but was very strong during the first half of 2026, as HRI generated strong absolute returns while the UK small-cap benchmark made comparatively modest progress against a difficult backdrop, including the war in Iran. Conversely, it was a very strong half-year for the technology sector. Some of this outperformance has been given back in recent weeks.

HRI's performance relative to the Bloomberg US 2000 Technology Index has been more challenging. HRI recovered much of its earlier relative underperformance during the first half of 2025 and briefly moved ahead of the index, but this improvement subsequently reversed, with the divergence becoming particularly pronounced during the first half of 2026, despite strong absolute NAV returns. This reflects the particularly strong returns generated by US smaller technology companies. That trend reversed sharply during July. As detailed on pages 6-7, HRI's allocation to the US has increased over time, but the portfolio remains considerably more geographically diversified than this US-focused comparator.

Figure 11: HRI's NAV total return relative to relevant indices, over five years to 31 August 2026



Source: Bloomberg, Marten & Co

Figure 12: Cumulative total return performance over periods ending 31 August 2026

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
HRI NAV	3.3	(4.3)	20.3	27.7	60.2	18.8
HRI share price	1.5	(7.0)	17.2	27.2	69.2	23.5
Deutsche Numis Smaller Cos plus AIM ex IC	4.2	5.8	4.3	15.3	36.2	2.0
Bloomberg US 2000 Technology	3.0	(8.3)	23.2	29.7	49.4	26.8

Source: Bloomberg, Marten & Co.

HRI's elevated cash position ahead of the tender offer has had a mixed impact on performance, limiting participation in stronger markets but potentially providing some protection during periods of pressure on growth stocks.

Dividend

HRI is focused primarily on generating capital growth, and dividend income makes up only a small part of returns. The consequence of this is that HRI only declares a dividend where this is necessary to retain investment trust status, and in practice, no dividend has been declared since 2012.

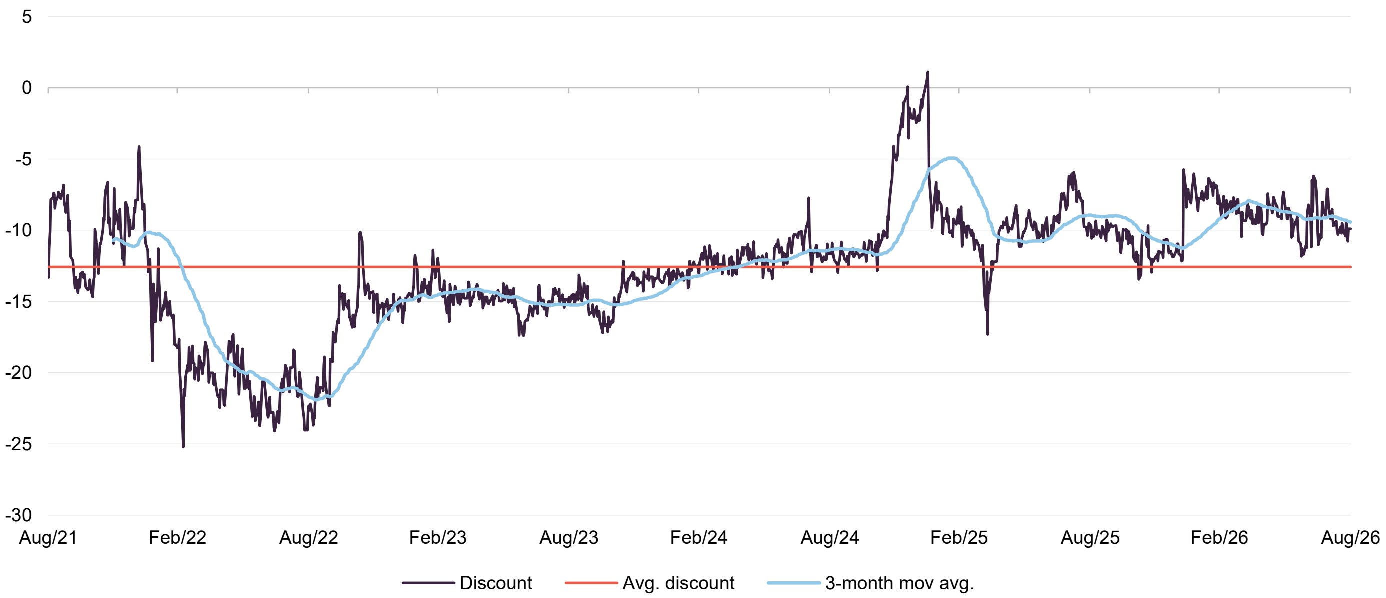
Premium/(discount)

Over the five years ended 31 August 2026, HRI traded on an average discount of 12.6%. However, over the last 12 months the trust has traded at a narrower average discount of 9.5%. The range over the 12 months was between 5.7% and 13.4%.

As shown in Figure 13, HRI's discount narrowed sharply towards the end of 2024, with the shares briefly trading at a premium around the year-end and again in early 2025. This was driven in large part by substantial buying by Saba. Following the defeat of Saba's proposals, the shares returned to trading at a discount, although this generally remained narrower than the five-year average through 2025 and the first half of 2026.

The recent tender offer has removed the overhang associated with Saba's large shareholding. All else being equal, this should see a lower discount. However, the full impact will become clearer once trading in the substantially reduced share capital has settled.

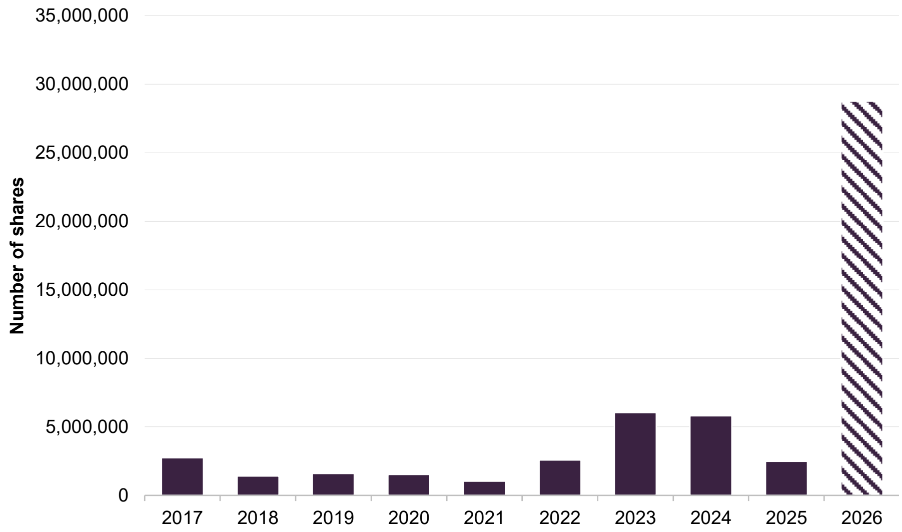
Figure 13: HRI premium/(discount) over five years to 31 August 2026



Source: Bloomberg, Marten & Co

Whilst the board's general policy is not to attempt to control the discount, given the limited liquidity available within the underlying portfolio companies, the trust will repurchase shares opportunistically. As shown in Figure 14, 2023 and 2024 saw particularly high levels of repurchases compared with previous years, before activity moderated in 2025. However, such ad-hoc purchases have been dwarfed by the repurchase made in the tender offer in July.

Figure 14: HRI share repurchases over the past 10 calendar years



Source: Herald Investment Trust

Fund profile

More information can be found at the trust's website: www.heralduk.com.

Established in 1994, HRI invests globally in small technology and communications companies with the aim of achieving capital growth. It is the only listed fund of its type. The trust invests globally. Historically, it has had a strong bias towards the UK, although this has been reduced significantly in recent years.

New investments in the fund will typically have a market capitalisation of $5bn or less, but are generally much smaller when the first investment is made. If successful, these can grow to be a multiple of their original valuation. This type of investing is longer-term in nature and so the trust's portfolio tends to have low turnover. Reflecting the risks inherent in this type of investing, and the liquidity constraints of having a small-cap investment remit, the trust maintains a highly diverse portfolio of investments (typically in excess of 250) to help mitigate this risk.

HRI's lead fund manager, Katie Potts, has managed HRI from its launch, and continues to do so after its recent move to Aberdeen Investments. Her track record shows the importance of experience in markets such as these.

Aside from the numerous advantages of HRI we outline in this note, one notable benefit has been the considerable experience provided by Katie and her team. Katie was a highly-regarded technology analyst at SG Warburg (later UBS) prior to launching the fund.

Katie is supported by a specialist investment team that combines longstanding Herald experience with the broader research resources available through Aberdeen. This provides continuity in the trust's investment process, and preserves much of the specialist technology and smaller-company expertise that has been built up over many years.

The move has therefore changed the organisational structure around HRI without altering its investment mandate or the stock-picking approach developed under Katie. Aberdeen also brings greater distribution, marketing and investment-trust resources, while the core investment decisions remain with Katie and the team that has moved across from Herald.

Noteworthy members of the team include Danny Malach, CFA, who joined Herald Investment Management in 2016, supports the UK portfolio and is responsible for client liaison and shareholder communications; James de Jonge, CFA, who joined in 2022 and manages the European portfolio, with analytical responsibility for the communications sector globally; Hao Luo, CFA, who joined in 2004, leads HRI's Asian portfolio and retains global responsibility for the hardware sector; and Matthew Lloyd, CFA, who joined in 2019, co-manages the Asian portfolio and has analytical responsibility for the semiconductor sector globally.

HRI's closed-ended structure can be advantageous during market selloffs.

The HRI team has navigated several downturns and has benefitted from its ability to select companies capable of weathering difficult conditions. HRI's closed-ended structure has also been used to great effect. Whilst open-ended funds are often forced sellers, HRI can capitalise on its ability to gear and to pick up lines of stocks at attractive prices.

HRI's size and focus on smaller companies, and the depth of expertise within the management team, all mean that it plays an important role as a provider of much-needed capital to listed technology companies looking for expansion capital. This is particularly valuable in a downturn and has offered HRI further opportunities to generate alpha when others may not have been able to.

HRI offers a liquid route for any investor looking to gain access to this part of the market, and we believe that an investment in HRI complements an investment in one of the large-cap technology funds.

SWOT analysis

Figure 15: SWOT analysis for HRI

Strengths	Weaknesses
HRI benefits from a highly experienced specialist management team led by Katie Potts, who has managed the trust since launch. Its closed-ended structure and highly diversified portfolio are particularly well suited to investing in smaller, less liquid technology companies. The portfolio has benefitted from the broadening AI investment cycle. HRI has identified exposure across a wide range of smaller suppliers, while Katie believes the opportunity should increasingly extend from infrastructure into AI applications. The resolution of the Saba dispute removes a significant source of uncertainty, while the move to Aberdeen Investments gives the team access to greater scale, broader investment expertise and additional distribution capabilities.	The tender offer has substantially reduced HRI's scale, cutting the share count from around 47.9m to 19.1m and leaving the trust with net assets of approximately £650m. This could reduce liquidity in the shares and increase the relative impact of fixed costs HRI remains exposed to smaller technology and growth companies, which can be particularly sensitive to higher interest rates and changing investor risk appetite. HRI is focused almost entirely on capital growth and has not paid a dividend since 2012, making it unsuitable for investors seeking regular income.
Opportunities	**Threats**
The completion of the tender allows the manager to redeploy the unusually-high cash balance built ahead of the transaction. The team also sees potential opportunities in technology areas whose valuations have fallen as investor attention has concentrated on AI infrastructure. The next stage of AI development could broaden the opportunity set further as value shifts towards applications, potentially creating opportunities among smaller software and specialist technology businesses. Saba's exit removes a significant potential share-price overhang. All else equal, this could support a narrower discount once trading in the reduced share capital settles.	The current level of AI-related capital expenditure may not be sustainable indefinitely. A slowdown in hyperscaler spending or weaker pricing power among infrastructure suppliers could affect some of the portfolio's strongest recent contributors. Higher-for-longer interest rates and renewed inflationary pressure would remain a headwind for smaller growth companies, particularly those whose valuations depend heavily on future earnings. Many underlying holdings are relatively small and illiquid. This can make portfolio repositioning more difficult during periods of market stress, and increases the importance of maintaining a diversified portfolio.

Source: Marten& Co

Bull vs. bear case

Figure 16: Bull vs. bear case for HRI

Aspect	Bull case	Bear case
Performance	HRI has materially outperformed the UK smaller-companies benchmark over five years, helped by strong exposure to AI-related technology companies. Its recent performance is particularly notable given the large cash balance held ahead of the tender.	Performance has been weaker relative to the Bloomberg US 2000 Technology Index, highlighting the risk that HRI can lag during periods when US technology leadership is particularly strong. Some recent outperformance has also been given back.
Outlook	AI spending is broadening beyond the largest beneficiaries towards smaller suppliers, while the eventual shift towards applications could create a fresh source of opportunities. The move to Aberdeen may also strengthen research, marketing and distribution capabilities.	AI infrastructure spending and supplier pricing power cannot continue at their current pace indefinitely. Higher interest rates could also continue to weigh on valuations across the smaller growth-company universe.
Discount	Saba's departure removes the major shareholder overhang that had created uncertainty around the trust. This could allow HRI's discount to settle at a narrower level.	The trust is now substantially smaller following the tender offer. Reduced liquidity in HRI's shares could limit the extent of any re-rating and the discount may remain volatile.
Other	HRI combines a highly experienced specialist team, a diversified portfolio and a closed-ended structure that allows the manager to take a genuinely long-term approach to smaller technology companies.	Smaller technology companies can be volatile and difficult to trade in stressed markets.

Source: Marten & Co

Previous publications

Readers interested in further information about HRI may wish to read our previous notes. You can read the notes by clicking on them in Figure 17 or by visiting our website.

Figure 17: QuotedData's previously published notes on HRI

Title	Note type	Date published
Invest in the future	Initiation	16 August 2016
Tech bids demonstrate value	Update	20 December 2016
Backing growing businesses	Update	11 July 2017
Who wants to be a billionaire?	Annual overview	7 December 2017
From small acorns….	Update	12 June 2018
Shifting sentiment	Annual overview	12 February 2019
"Profits are only profits when they are realised"	Update	8 October 2019
Change is a coming	Annual overview	4 April 2020
Hot chips	Update	5 November 2020
The future is bright	Annual overview	2 February 2022
Efficiency Savings	Annual overview	11 January 2023
Patience and power	Update	13 November 2023
Heralding in the age of AI	Annual overview	25 June 2024
Vote against Saba to protect your investment	Update	15 January 2025
Focused on the future	Annual overview	17 November 2025

Source: Marten & Co

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50 Gresham Street, London EC2V 7AY
0203 691 9430

www.QuotedData.com

www.martenandco.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ