



Issue 6

April 2017



# QUARTERLY NEWSLETTER

**Investment in smaller companies can be higher risk than investment in well-established blue chip companies. Funds investing significantly in smaller companies can be subject to more volatility due to the limited marketability of the underlying asset. Please refer to the risk warning on page 4.**

*“AIM provides a wealth of under-researched opportunities, but the work required to uncover them is significant. Dr Paul Jourdan and the Amati team have the experience and level-headed approach needed to succeed in this market.”*

**Richard Troue, Head of Investment Analysis  
Hargreaves Lansdown**

**Past performance is not a reliable indicator to future performance**

## MATTIOLI WOODS DOUGLAS LAWSON

In February, we announced that Mattioli Woods, an AIM listed wealth management and employee benefits business, had acquired a 49% stake in Amati Global Investors. We have been pleased at the positive response to the announcement. But some of our stakeholders, including advisers, investors and suppliers, have rightly asked us why we chose this path.

Whilst we are a small business, we have always been well capitalised and profitable and, therefore, were under no pressure to seek a partner with deep pockets or greater resources than our own. We have also enjoyed the freedom that comes with running an independent business – this freedom can facilitate quick and decisive decision making and allowed us to develop Amati in a way that was consistent with our culture and values. Finally, we felt fully aligned with the investors in our funds as, not only do we invest in the products that we manage, we also own the business that will prosper through the successful management of these products. Given all these factors in favour of continuing as an independent entity, why did we choose to partner?

When we began our discussions with Mattioli Woods, the most important consideration for us was that they are like-minded people, and that those factors that were most precious to us and that had contributed to the success of the business to date could be maintained. That is to say, we felt it was crucial to continue to operate Amati and the Amati funds as we had done since the creation of the business in 2010 – the same team, the same brand and the same strategy. This was not only accepted but was encouraged by Mattioli Woods, who had no desire to change a formula that appeared to be working. Rather, they felt that they could offer advantages that would enhance our ability to deliver on that strategy.

The first and most obvious advantage that Mattioli Woods can offer is assistance in navigating the changing regulatory environment. These changes (whether they be from MiFID II, MiFIR, PRIIPS, SMCR or GDPR) are unprecedented in number and scope, and present challenges for the whole investment industry and we feel better placed to deal with these with the support of a larger group and all the additional resources at their disposal. Besides regulation, assistance in helping the Amati funds reach a wider investment audience was another attraction. A small fund manager is likely to be constrained in its ability to market its funds. Whilst you are unlikely to see Amati branding on the side of any taxis any time soon, we believe we will see the benefits of the marketing and communication platform that Mattioli Woods can offer. Another factor that helped us reach our decision was the engagement with Mattioli Woods’ own investment management operation to compare our macro perspectives, which in turn help to shape portfolio management decisions. Finally, this combination helps to address the disadvantage that any small business will suffer from, which is the reliance on a small number of individuals. We now feel that we are better equipped to cope in the event of the loss of a ‘key man’.

Negotiating a transaction of this nature can be a laborious process but is one that gives you an opportunity to become very well acquainted with the party on the other side of the table. This process of getting to know the other side can be as important as the financial, legal and commercial due diligence. It is these interactions that allow the seller and the buyer to determine whether they are dealing with people with whom they can enjoy an ongoing relationship. Over the course of our negotiations it became clear that Mattioli Woods was an organisation that, besides offering us comprehensive operational support, understood and shared the ambition and values of Amati.

## PORTFOLIO COMPANIES SPOTLIGHT

The Amati VCTs Top Up Share Issues reached capacity for the 2016/17 tax year on 9th March. Limited capacity remains for the 2017/18 tax year. For more information, please visit our [website](#).

An investment in a VCT carries higher risk than other forms of investment. An investment in the Amati VCTs is suitable only for investors who are capable of evaluating the risk and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. Investors should check their eligibility for income tax relief with a professional adviser.

**Amati**  
Global Investors

Finely crafted investments

**FreeAgent Holdings** - FreeAgent has designed a software application for small businesses and sole traders who find finance tedious, confusing or terrifying. FreeAgent's accounting software replaces Excel spreadsheets for most of its new customers. However, for some users, it replaces an accountant's worst nightmare - the 'brown paper bag', stuffed full of receipts and invoices, which the client hands over at the end of the year. Until recently, the digitisation of accounting (the transition from a paper or spreadsheet based approach to software) has been the exclusive preserve of larger enterprises. More recently, several start-ups have developed accounting applications for small businesses. Amongst these, FreeAgent has targeted the freelancer market and companies with up to ten employees. It has built an intuitive and



unintimidating user interface that was purposefully designed by non-accountants to be accessible to small businesses with little finance knowledge or experience. FreeAgent has two routes to market - direct to the customers; and via accountancy practices that specialise in advising very small businesses. Like many software products, revenues are 'sticky', meaning that customers tend to renew year after year due to increasing familiarity with the functionality. Revenues have been growing at over 30 per cent per annum. FreeAgent has been held in the Amati VCTs since its IPO in November 2016.

**Blancco Technology Group** - Blancco is the global leader in data erasure and mobile phone



**blancco**  
technology group

diagnostics software. This is a market in its infancy, but one which is growing fast as consumers and enterprises recognise the need to properly destroy personal and corporate data and prove that they have done so in conformance with data protection rules. Other methods of removing data, such as deletion and factory resets, do not erase data in accordance with regulations and data removed in this way may be retrievable. Currently, only 8% of companies pay for erasure through the use of software and 7.5% of these businesses use Blancco, making them the clear market leader. The acquisition of Xcaliber allows Blancco to provide mobile

phone resellers with a wrapped service - the Xcaliber software diagnoses the health of the phone,

which determines how much the secondary market buyer is willing to pay for a second hand device; the Blancco software then 'cleans' the phone. Given the number of devices globally that can use Blancco's software, the challenge is educating the market that data erasure software is the only way to effectively destroy sensitive data. To address this market challenge, Blancco is partnering with big resellers. The latest is AT&T, which is offering the service at 6,000 stores across the US. The TB Amati UK Smaller Companies Fund and the Amati AIM IHT Portfolio Service both hold positions in Blancco.



**Gear4Music** - Gear4Music is the largest UK-based

online retailer of musical instruments and music equipment. The company is enjoying rapid sales growth and is stepping up infrastructure spending in order to exploit a significant opportunity in a highly fragmented market. Gear4Music is increasingly focussing on the continental European market, and has opened distribution centres in Sweden and Germany. This market is six times larger than that of the UK, and now accounts for more than a

third of sales. Enhancements to the company's e-commerce platform have led to higher conversion rates from website visits, with active customer numbers now growing at nearly 50%. A rise in sales of own-brand products is also improving margins. After a quadrupling of the share price since flotation in June 2015, Gear4Music is now rated at a high price/earnings multiple, however like-for-like sales increased 58% for the financial year ending February 2017, and the growth trajectory and market opportunity are such that it can justify its premium rating. It is held in the TB Amati UK Smaller Companies Fund.

# AMATI AIM IHT PORTFOLIO SERVICE

## PAUL JOURDAN

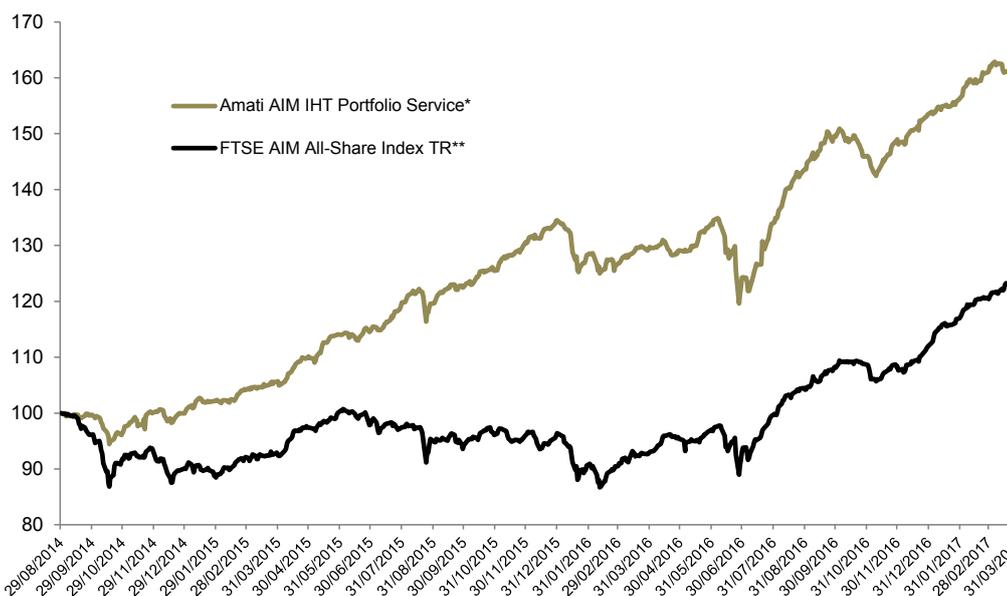
Amati's AIM IHT Portfolio Service is now nearly three years old. The service is designed to allow investors to benefit from a particular tax advantage of AIM stocks, namely that most (but not all) AIM companies meet the criteria for Business Property Relief ("BPR"), which means that after an individual has owned them for two years they can be inherited tax free. To benefit from BPR the shares have to be owned directly, not via a fund. There can be reductions to the relief in some cases, where a business holds assets which are surplus to its trading requirements for example, but these are rarely significant. Since AIM stocks became eligible for ISAs investor demand for them has risen sharply, in part due to the availability of BPR. Over the last ten years the quality of companies on AIM has also been improving steadily.

We started our AIM portfolio service in response to a specific request from a financial advisor. The portfolio is focused on companies which were both stable and relatively mature, preferably dividend

paying, and yet which had the capacity to grow over the long term. The idea is to have a sensible smaller company portfolio that is attractive in its own right, irrespective of the tax benefits. Reflecting that, we set up the model portfolio using £50,000 of Amati's own cash (without any BPR benefits). Our portfolio pays the same charges as every other investor, and we believe we have one of the most cost-efficient structures available. It is currently valued at a little over £81,000. The service is sold through advisors, who undertake a suitability assessment of the service for each investor, and who will have their own advisory charges. Clearly the performance of AIM has been boosted by the flow of money into the market seeking to benefit from BPR, and one of the key risks for investors to consider, beyond the usual risks associated with investing in equities, is the negative impact which would result from tax advantages being withdrawn from AIM stocks. The current government has been very supportive of smaller company investing, however.

### Performance as at 31 March 2017

	1 mth	3 mths	6 mths	1 yr	2 yrs	Since Launch#
AIM IHT*	<b>1.13%</b>	<b>6.22%</b>	<b>9.05%</b>	<b>25.65%</b>	<b>54.21%</b>	<b>63.01%</b>
INDEX**	<b>2.62%</b>	<b>10.45%</b>	<b>14.32%</b>	<b>32.87%</b>	<b>33.67%</b>	<b>23.58%</b>



\*Amati AIM IHT Model Portfolio, dividends reinvested, net of AMC (manual adjustment for Sep 14–Feb 15), platform fees and trading costs, excluding advisory charges \*\*FTSE AIM All-Share Index Total Return #29 August 2014

**Past performance is not a reliable indicator to future performance.**



Amati Global Investors are managers for:

- Amati VCT
- Amati VCT 2
- TB Amati UK Smaller Companies Fund
- Amati AIM IHT Portfolio Service

**Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions. Past performance is not a reliable indicator to future performance.**



We would welcome your feedback/comments on any of the areas covered in this issue. Please either email the team on [info@amatiglobal.com](mailto:info@amatiglobal.com) or call on 0131 503 9100. If you would like to receive our monthly fact sheets by email please send a request to [info@amatiglobal.com](mailto:info@amatiglobal.com).

**This financial promotion is issued by Amati Global Investors Ltd, authorised and regulated by the Financial Conduct Authority and registered in Scotland no. SC199908.**

### **Amati Global Investors**

18 Charlotte Square  
Edinburgh  
EH2 4DF

Phone: +44 (0)131 503 9100  
[www.amatiglobal.com](http://www.amatiglobal.com)  
Email: [info@amatiglobal.com](mailto:info@amatiglobal.com)

Calls are recorded and monitored.



## AMATI VCTs' AGM & INVESTOR AFTERNOON

**Wednesday 28 June 2017 at The Guildhall School of Music & Drama, Milton Court Theatre, Milton Court, Silk Street, London EC2Y 9BH**

Amati Global Investors is delighted to be hosting the Amati VCTs AGMs and investor afternoon again at the Guildhall School of Music and Drama, in the Milton Court Theatre, Level 1 in the Milton Court building

You will have the opportunity to meet the Directors of the Amati VCTs, put questions to the fund managers, who will be represented by Douglas Lawson and Dr Paul Jourdan, and hear from two of the companies in which both Amati VCTs have made investments. We will again be running The Amati Guildhall Creative Entrepreneurs' Award with entrepreneurs pitching for the Amati £2,000 award.

The format for the event will be as follows:

- 12:30 Registration & Sandwich Lunch served (investors only)
- 13:30 Amati VCT AGM followed by Q&A (investors only)
- 14:00 Amati VCT 2 AGM followed by Q&A (investors only)
- 14:30 Company Presentations followed by Q&A (open to investors and advisers):

Stephen Moon, CEO of Science in Sport  
David Hornsby, CEO of Ideagen  
Dr Paul Jourdan & Douglas Lawson of Amati Global Investors

- 15:45 Tea & Coffee
- 16:15 Amati Guildhall Creative Entrepreneurs' Award (open to investors and advisers)
- 17:45 Drinks & Canapés

Please contact Rachel Le Derf at [rachel.lederf@amatiglobal.com](mailto:rachel.lederf@amatiglobal.com) to register your interest in attending or call Rachel on 0131 503 9104. Places are limited and will be offered on a first come first served basis.

## RISK WARNINGS

This newsletter does not constitute investment, tax, or legal advice, and nor does it constitute an offer, invitation or solicitation to invest in the products described.

Amati will not provide any investment, tax, or legal advice, or make any personal recommendations as to the suitability or otherwise of these products. Before investing in our products we recommend that you contact your financial adviser.

These investment products place your capital at risk and you may not get back the full amount invested, even allowing for any tax breaks. The value of your investment may go down as well as up. Past performance is not a reliable indicator of future performance. Investors should be aware that any investment in equities is subject to risk, and that investment in smaller companies, in particular unquoted companies and those quoted on the Alternative Investment Market (AIM), carries an even higher risk than that of larger companies listed on the main market of the London Stock Exchange. This is due to the higher volatility and lack of liquidity often found in smaller company shares, as well as typically higher levels of business specific risks. Illiquidity means that buying and selling portfolio holdings may take some time, and in a worst case scenario portfolio companies could be delisted from AIM, making them very difficult to buy or sell, which in turn could affect the value of your investment. Current tax rules and the available tax reliefs offered on investments into AIM-quoted stocks may change at any time, and there is a considerable risk that if the legislation changed in respect of these tax reliefs, then those portfolio companies that no longer qualified for such reliefs would be subject to heavy selling pressure, potentially leading to significant investment losses.