2010 – 2020
Amati Global Investors

Issue 14
February 2020

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 5.

Latest News

Amati AIM VCT wins two awards from Investment Week

Amati received two Awards for Best AIM VCT at the end of 2019 at The Investment Week Tax Efficient Awards and The Investment Company of the Year Awards. To find out more click here: visit Amati Global

Amati AIM VCT Prospectus Offer 2019/20 and 2020/21

We are seeking a £25m raise in our Open Offer and to date have raised £16m with a remaining capacity of £9m. Full Prospectus, Investor Guide and Subscription forms are available from our website.

We also have an online application facility which you can access by clicking here.

Should you require any further information on the Offer, please don't hesitate to contact: info@amatiglobal.com

'SAVE THE DATE'
Amati AIM VCT Investor Afternoon 3 June 2020, London

We will be hosting our VCT AGM and Investor Afternoon in London again at the Guildhall School of Music and Drama on the afternoon of Wednesday 3 June 2020. The event will give shareholders the opportunity to meet the Directors of the VCT, put questions to the Fund Managers and meet with two of our qualifying portfolio companies.

Should you wish to attend, please email:

info@amatiglobal.com to register your interest.

Ratings

We are delighted to announce that TB Amati has recently been awarded the following fund ratings:

- Morningstar Silver Analyst Rating (upgraded from bronze)
- Square Mile A Rating
- FundCalibre Elite Rating

Signatory of:
PRI Principles for Responsible Investment

Past performance is not a reliable indicator to future performance

Amati Global Investors are managers for:

- Amati AIM VCT
- TB Amati UK Smaller Companies Fund
- Amati AIM IHT Portfolio Service
- Combined AUM of £587.13m (as at 31 January 2020)

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10 Years of AMATI

Amati was founded in January 2010, in the wake of the Great Financial Crisis, with assets of just over £20m under management. The decade since has been a remarkable one in so many ways, a coming of age both for Amati as a business, which now manages £600m, and for the age of digital technology, the origins of which lie at the start of an industrial revolution which can be thought of as dating from the first commercial personal computer in 1971. Being a fund manager requires us to understand the present in order to think intensely about the future. So, reflecting on the sweep of the past requires pausing for a different mode of thought.

Let's start with some contrasts. Ten years ago many investors had been so traumatised by the 2008 crash that there was a huge reluctance to take stock market risk again. Investors were easily spooked. Quantitative easing and ultra-low interest rates – the monetary policy antidotes to the crisis – were new measures greeted with much suspicion. Capital was scarce, and many of the large fund raisings on the stock market were financial rescues of one kind or another. The best stocks traded at an earnings-yield (earnings per share divided by share price) below 10%; most did not. 20% or higher was not unusual.

Investors have made such phenomenal gains from stock markets over the last decade that today a new acronym, FOMO – the Fear of Missing Out – has entered industry parlance. And rightly so, as anyone who has relied solely on cash deposits over the last decade has impaired their financial position greatly. The highest rated stocks now trade at an earnings yield below 3%, with 10% or higher the territory of those heavily out of favour. It would be wrong to conclude from this that it is now too late to invest in the stock market, because no-one can say when this trend will end or reverse. But it would be right to conclude that we should only invest in the stock market fully mindful of the risks of doing so, understanding that returns over the next decade are unlikely to match those over the last ten years. The main problem with FOMO is that people forget that markets can go down.

Inflation, the spectre which haunted late 20th Century Britain, features as the dog which didn't bark over the course of the last decade. Where did it go? Simplistically perhaps, we can say that it has gone into the prices of "risky" assets – above all, equities and real assets such as property. These price increases don't get directly measured in the RPI or CPI indices, as the rise in asset prices is broadly offset by the decline in interest rates and mortgage payments.

Above all, the last decade has been a golden age for growth investors. The economist Carlota Perez has analysed the sequence of industrial revolutions over the last couple of centuries. She describes two broad phases for each, punctuated by a crisis. The first is the Installation Phase, which has two sub-phases of Irruption and Frenzy. The second is the Deployment Phase, which also has two sub-phases of Synergy (which she calls the golden age) and Maturity. This has provided a good road map for the revolution based around digital technology.

The first phase, 1970-2000, clearly ended in the most extra-ordinary frenzy with the dotcom boom. This gave way to a period of crisis in the recession of 2001-2002 which in turn led to the great financial crisis of 2008. In the last decade we entered the Deployment Period, and we have seen the degree to which what she calls the Syngery portion of this produces a golden age for investors, when the new technology has reached the level of availability and accessibility where it becomes readily commercialised by a myriad of young entrepreneurs. In many ways this has been the key theme of Amati's first decade, one we have discussed many times, and it was our good fortune that our beginning coincided with this period.

On Carlota Perez' road map, the sub-phase of Maturity comes next, and it would not be unreasonable to believe that it has already started. It will be characterised by an increase in regulations, an adjustment of the global tax system to accommodate new trading patterns, a better understanding of the problems that the new technologies bring as well as the possibilities that they open up, a period when it becomes harder to start new companies and easier to grow those already dominant.

Road maps are of course overly simplistic. In the real world there are thousands of tributaries from an industrial revolution, some of which will go on to power the next one. What is the next one likely to be based on? Perhaps it will be based on cell biology, in particular our power to edit DNA. If this proves correct, then we are already 20 years in, and possibly a new Deployment Phase is nearly ready to start.

Investment in decarbonisation has been a feature of the last decade, as is evident in the wind farms now found around the UK. But broadly only the easiest steps towards decarbonisation have been taken so far, mostly those involving intermittent electricity generation from wind and sun. Few big decisions on the replacement of existing energy infrastructure or the scaling of new technologies have been taken. Both take at least 30 years to do. For those developing new technologies this is frustrating. It has been a lonely place to be. Recently, however, we have noticed a significant uptick in the level of investor interest in such technologies. This sector above all is dependent on smart policy making by governments. We hope it will find growing representation in our portfolios over the next decade.

In 2019 more than 80% of global power consumption was still derived from fossil fuels. It is easy to forget the degree to which oil and gas still matters in geopolitics, and therefore the degree to which a shortage still causes a crisis. Amati started life in the same year as the Arab Spring, which briefly raised hopes of the democratisation of the Middle East. According to the EIA, at that point the US imported 22% of its energy consumed. Ten years on, the EIA predicts that in 2020 the US will become a net energy exporter for the first time since the 1950s. How does this matter to us? When the Twin Towers were brought down in 2001 the US was dependent on Saudi Arabia for oil. Under the Obama administration energy independence was the strategic goal, enabled by oil and gas produced from shale. Under Trump, a new strategy has emerged, energy dominance. In this landscape it is OPEC which acts to curb supply when prices fall, whilst the US continues to increase domestic production. Ten years on from the Arab Spring, the US appears to have little strategic interest left in the Middle East beyond asserting its dominance over Iran, leaving the ruins of Syria and Yemen for the birds.

Energy dominance perhaps explains why the US administration has turned its back on decarbonisation. The need for industrial nations to satisfy energy demand with fossil fuel has created much of the worst violence in the world since the end of WWII, and it was a growing understanding of this which led Amati to help found the human rights charity Clean Trade in 2018 and to develop and adopt Clean Trade principles for investing in the energy sector from 2017. It is to be hoped that moves to decarbonisation, when they get serious, will bring with them a more peaceful and humane dynamic in the coming decades.

Come to mention it, a peaceful and humane dynamic is something we aspire to at Amati as we manage funds through the challenges that the next ten years will bring. Many thanks to you, our investors, for your trust and for being part of Amati's journey thus far.

DR PAUL JOURDAN

Past performance is not a guide to future performance. Investment in smaller companies, in particular those quoted on the Alternative Investment market (AIM), carries a higher risk than that of larger companies listed on the Main Market of the London Stock Exchange.

CITYWIRE AAA

CITYWIRE PLATINUM

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‘Alternative’ Assets

A noteworthy feature of capital markets over the last decade has been growing institutional demand for “alternative” assets. These are assets offering long term visible returns, with low correlation to equities and bonds. The catalysts for this investor appetite can be found in the last financial crisis and the global monetary policy response which followed, driving interest rates to structural lows; but also in the regulatory pressures imposed on life companies and pension funds to match long term liabilities with long duration assets. Exposure to alternatives, and their Income streams, can come from a variety of different asset types. These range across specialist property (such as self-storage or healthcare), renewables, infrastructure, and also financial instruments such as royalties, debt and leases. In the UK market there have been many ways to play this theme. Three examples within the TB Amati UK Smaller Companies Fund portfolio are:

Intermediate Capital Group (ICG) is a global asset manager with a long history of providing mezzanine debt to private equity investors, which has broadened its product range to include senior debt, infrastructure debt, and some specialist private equity funds. In an environment of falling interest rates, ICG’s high yielding investments have been in strong institutional demand, and the group has progressed from investing its own balance sheet to raising third party funds, with a significant scaling of capacity. This has also been fuelled by the growth in the private equity sector and its deal activity over many years. ICG remains well placed for these trends. ICC is held within TB Amati UK Smaller Companies Fund.

Watkin Jones is a contract builder of purpose built student accommodation (“PBSA”), and build to rent (“BTR”), assets. WJG is therefore a second order beneficiary of appetite for these alternative assets. PBSA is well established in the UK, providing modern accommodation attractive to both domestic and, importantly, international students. WJG targets city centre, high occupancy developments which generate durable yields for institutional investors - to whom they also provide a property management service. BTR is a similar bespoke build for institutions, but is at an earlier stage of development in the UK compared to countries like the US. Watkin Jones is held within TB Amati UK Smaller Companies Fund and the Amati AIM IHT Portfolio Service.

Grainger is the UK’s largest listed residential landlord. It has been migrating its business from legacy regulated tenancy properties, which are sold once vacated, to private rented sector (“PRS”) properties. Grainger is a play on a generational shift within UK housing, where there is now significant unmet demand for quality rental properties. The decision to rent may still be based on affordability, but for a growing demographic it has become a lifestyle preference. Grainger develops, acquires and manages PRS properties, and competes with institutional investors for newbuild assets. However, it has recently established a joint venture with Transport for London to create PRS homes in close proximity to tube stations. Grainger is held within TB Amati UK Smaller Companies Fund.

Investing in homes since 1912

grainger plc

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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.

Amati People

We are pleased to welcome **Peter McCourt** to the Amati team. Peter joined Amati in January 2020 as a System Administrator as part of the IT team. Prior to Amati, Peter held various roles within the IT sector including System Administrator at Clearwater Analytics, EMEA Technical Support team lead at IndigoVision PL and Senior Technical Support Analyst at Exterity LTD.

We are equally delighted to announce that **Colin Thomson** is to join the Sales Team at Amati in March 2020 to further enhance the firm's client relationship capabilities. Colin will be based in Edinburgh and will be responsible primarily for the Midlands and North of England. Having worked at SVM Asset Management for over 16 years, latterly as Head of Wholesale Distribution with overall responsibility for business development, he will bring a depth of experience in intermediary sales. Prior to that he held intermediary sales positions at major life assurers Prudential and Zurich.

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.

We would welcome your feedback/comments on any of the areas covered in this issue. Please either email the team on **info@amatiglobal.com** or call on 0131 503 9115. If you would like to receive our monthly fact sheets by email please send a request to **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 Ltd

8 Coates Crescent
Edinburgh
EH3 7AL

Phone: +44 (0)131 503 9115
www.amatiglobal.com

Email: info@amatiglobal.com

Calls are recorded and monitored.

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