

Amati
Global Investors

Newsletter

Summer 2021 : Issue 18



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"We have been overwhelmed by the level of support that investors have shown for Amati AIM VCT in this fund raising. It allows us to continue to play a significant role in financing at an early stage innovative and dynamic companies coming to the UK market and helping to shape them over a substantial period of time as long term shareholders."

Dr Paul Jourdan
CEO & Fund Manager

"We are delighted that the first major VCT launch of the 2021/22 tax year has seen such strong support from investors. This is a testament to the strong track record and healthy dividends that the stewardship of Dr Paul Jourdan has provided to the Amati AIM VCT shareholders over the years. This fund raising also bodes well for a strong year for VCT fund raising, with TER estimating over £950m of VCT supply."

Hugh Rogers
Tax Efficient Review

Signatory of:



Amati AIM VCT Prospectus Offer 2021/22 Record Fund Raising — £40m raise in less than a week

We are pleased to confirm that we have reached the £40m sought in our Prospectus Offer 2021/22 in a record of under 6 days after opening on 30 July 2021. We'd like to thank all of you who supported the offer and hope that those who missed out will have the opportunity in the near future.

We do not currently intend on utilising the over-allotment facility of a further £25m at the current time, but are closely monitoring potential investment opportunities and if appropriate, we will seek to raise further funds under this facility prior to the Offer closing in July 2022.

As many of you will know, we made the decision to move the application process entirely online (developed by The City Partnership (UK) Ltd) and have been delighted with how well this has been received. It helps streamline investor and financial intermediary engagement, centralises offer oversight, delivers real-time offer statistics and eliminates the administrative delays associated with paper-based application processes.

If you have any feedback on the recent raise or would like to be alerted should we trigger the over-allotment facility, please contact the team at info@amatiglobal.com or call us on 0131 503 9115

TB Amati Strategic Metals 6 month portfolio update

Georges Lequime & Mark Smith will be offering investors an update on the portfolio since launch in March 2021 via Brighttalk on Thursday 16 September at 11am. To register, your attendance please [click here](#)



Amati Fund factsheets now published to end July 2021

To view Amati fund factsheets, please click on the relevant factsheet thumbnail below:



TB Amati UK
Smaller Companies



Amati AIM IHT



TB Amati Strategic
Metals



Amati AIM VCT



Portfolio company
Spotlight



Saietta Group is an engineering company based in Oxfordshire. It has developed a new design of electric axial flux motor for vehicles, initially targeting low voltage motors optimised for motorbikes, but now also larger higher voltage motors suitable for larger vehicles. Saietta's motors combine a low built cost with higher torque density and power efficiency than has hitherto been available to vehicle manufacturers.

Amati AIM VCT currently holds 3.7 % within the fund and TB Amati UK Smaller Companies fund holds 0.8 %.

We first met Saietta in mid January this year. The company had a compelling story to tell about having developed a new design of electric motor suitable to replace 110-125cc combustion engines in motorbikes and light vehicles. The transition to electric vehicles is beset with significant challenges. We expect that motorbikes and light vehicles will go electric at scale some years before cars do. This is because the cost of further lowering harmful pollutants from the engines is becoming greater than the cost of moving to electric motors in bikes. It is also a relatively easy way to help meet carbon emission reduction targets. A big stumbling block for cars is not yet having a sufficiently scaled network of charging points. For motorbikes, this issue can be solved by having instantly inter-changeable batteries. From the point of view of a motor designer, this is also the biggest market by volume in the world, given the numbers of vehicles involved in Asia. 20m new motorbikes are sold each year in India alone. Whilst billions have been invested in new battery technology, a tiny amount by comparison has gone on motors. There are three key performance metrics in electric motors: torque density (how much power can you get from a given size of motor); power efficiency (how far can you go with a given amount of battery energy); cost and scalability of manufacture (can it become low enough cost for the mass market). Saietta's design breaks new ground on each of these. Beyond this we were impressed both by the depth of automotive experience in the management team and the way that this translated into end market focus for product development.

Over recent years Toyota and Tesla and other EV manufacturers have improved the design of radial flux motors greatly, and have shown that even an extra 1-2% efficiency will be hugely sought after. Saietta's motor started with an axial flux design, however. In an axial flux design the conductors (copper windings) fan out in a radial direction away from the axis point, whilst the magnetic flux runs in the same direction as the axis. This means that the motors are much thinner and have a larger diameter than radial flux motors. The larger diameter means that the point at which the magnetic fields apply rotational force is further away from the axis, meaning there is greater leverage and therefore it is easier to achieve higher torque density. This is of course a competitive market, although there are perhaps surprisingly few players. It appears to us that Saietta's design has the potential to satisfy the requirements of the 110-125cc motorcycle market in a way that others are still a long way from doing.

One of the challenges for a company like Saietta is to find the stepping stones to allow the scaling up process and cost reductions which come with volume to take place. Many brilliant engineering designs fail to get past this challenge. It isn't possible to go straight from prototype scale production to ultra-low cost mass production. There needs to be intermediate steps taken in less price sensitive markets first. For Saietta this is the European market for outboard motors for boats, where regulations are driving a move from combustion engine to electric motors. Saietta has incorporated their motor into a full outboard motor design and can sell this at high enough prices to make a good margin from smaller production runs and still be a good deal less expensive than competitors. A subsidiary called Blue Marine has been set up to market this product and a European distributor network is being built. Concurrent to this, work is being done to scale up motor manufacturing at a disused 1950s airport base near Oxford. This means it has access to a large amount of test track space, and low cost office and manufacturing space. The £31m raised in the IPO will provide funding for the creation of a medium scale manufacturing site at this location, capable of making at least 100K motors per year. Whilst it is still at a very early stage in scaling up, we think the potential for the company is substantial.



Portfolio company
Spotlight



Victorian Plumbing is held within Amati AIM VCT with a 1.2% weighting within the fund

Victorian Plumbing floated on AIM on 22 June, and is the largest AIM IPO with a market cap on listing of over £800m. Compared to many other companies we see, it is unusual in that it has never had private equity involvement or outside investors. It was founded by Mark Radcliffe in his parent's back garden in 2000 and now has around 14% share of the bathrooms in the UK. Mark owns 75%, and his brother and parents own around 20%. They sold some of their shareholdings down, and raised an additional £10m primarily to cover the costs of the IPO. Mark retains over 45% of shares outstanding.

It was clear from our discussions with Mark that he is passionate about his business and committed to the long term. When I asked him about the reasons for IPO he said he and his parents want to realise some value, but also in itself the process he is finding genuinely motivating, because he thinks he will get extra 'energy' from being a PLC. The Victorian plumbing brand will also be strengthened by IPO.

Mark has built his own proprietary tech platform, which is well-invested and scaleable. When he set up, he used an off-the-shelf product but found it so limiting that he designed his own. Leeham Mason joined in 2017 as Chief Technology Officer and together with 30 IT individuals have continued to build bespoke software which they describe as 'their life, and a huge differentiator'.

Marketing spend has been significant but effective at creating a deep moat around the brand, and the metrics would certainly indicate that, with 64% brand awareness. They do their own in-house marketing and are even bringing their media buying in house because they feel that they know the market so well that they don't need to outsource. They know the channels they want to be on, they know where to target. Mark wants to dominate the bathrooms market. His view was that he was getting there, and then just at the point of making life difficult for other bricks and mortar and underinvested ecommerce businesses, the pandemic actually threw some of their competitors a lifeline, in the form of furlough payments and rent reliefs. As these reliefs unwind, he sees a further uptick in Victorian Plumbing's market share to come.

Victoria Plumbing is profitable from the first order a customer makes. They sell across every price point, so entry level B&Q products to high end CP Hall bathrooms are all represented. 75% of sales are from their own brands developed in house, and they believe they produce at a much faster cadence of design and production than sleeper counterparts. They believe they are good at spotting high end trends and bringing them quickly to market.

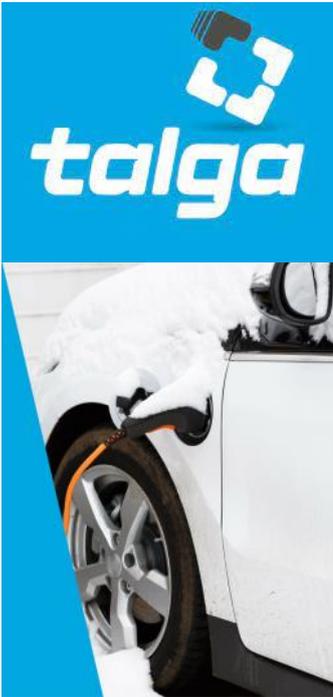
There are some adjacent areas in the UK, particularly in tiling and floors that make sense to grow in either organically or by acquisition. Management view France as a perfect medium term opportunity as it's immature and underserved. B2B (business-to-business) is another area of interest and they are already 15% selling to trade without deliberately going down this route. The range is being expanded to have the numbers of products that Screwfix would have for example in taps, lights, and fittings in order to make Victorian Plumbing a more complete destination for professional bathroom installers. Mark has the scale and ambition to make life hard for the trade competitors.

The stock came at a free cash flow yield discount to other listed e-commerce companies and the flotation was significantly oversubscribed.

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 of future performance.



Portfolio company
Spotlight



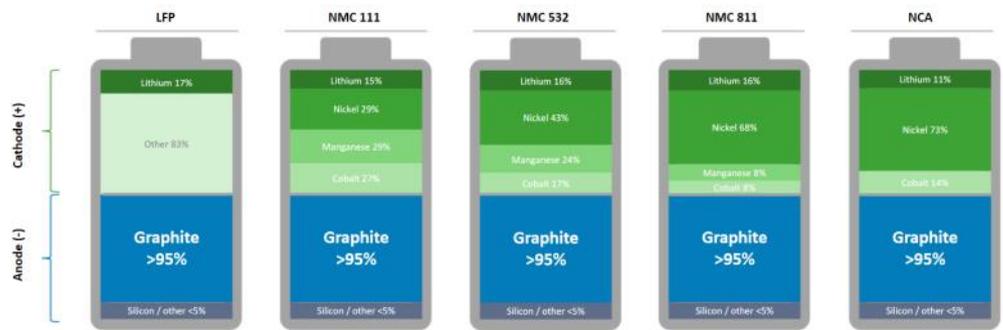
Talga Resources is currently held within TB Amati Strategic Metals Fund with the weighting representing 3.2% of the fund

Investing to benefit from the potential resource nationalism drive

Countries accounting for more than 70% of today's global GDP and emissions have committed to net zero emissions, implying a massive acceleration in clean energy deployment. An evolving energy system calls for an evolving approach to energy security; policy makers must expand their horizons and act to reduce the risks of price volatility and supply disruptions. Many mineral supply chains lack diversity. Production and processing of many minerals such as lithium, cobalt, graphite and some rare earth elements are geographically concentrated, with the top three producers accounting for more than 75% of supplies.

It is well documented that demand for battery energy storage is set to soar as the planet tries to decarbonize the energy supply. **Graphite** is fundamental to every battery chemistry, and dominates over half of the lithium-ion battery (1.2kg per Kwh).

Figure 1: Battery chemistry



LFP=Lithium iron phosphate; NMC=Lithium Nickel Manganese Cobalt oxide; NCA=Lithium Nickel cobalt Aluminum oxide

Source: Pallinghurst-Traxys battery analysis

Figure 2: Lithium-ion battery raw materials supply chain by country



Source: Benchmark Mineral Intelligence



Portfolio company
Spotlight



“One of Europe’s first vertically integrated producer of battery anode materials”

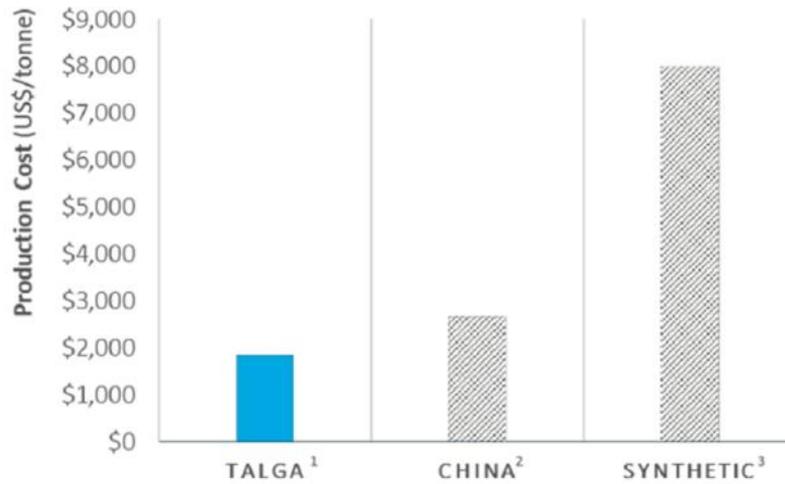
The TB Amati Strategic Metals Fund invests in companies that have operations in developing markets and which therefore may be subject to higher volatility due to political, economic and currency instability.

Talga (ASX:TLG) Developing into a significant and vertically integrated producer of lithium-ion battery anode products and technologies. Talga is building an Integrated graphite anode facility in Sweden running on 100% renewable electricity, to produce ultra-low emission coated anode for greener Li-ion batteries. With a full mine-to-product ownership resulting in cost and quality advantages with maximum margins, the company has growing partnerships with confidential qualification processes under active customer engagements including majority of announced European Li-ion battery manufacturers and six of the world’s major automotive OEMs.

Talga is developing its anode refinery fed by graphite from Talga’s Vittangi Swedish project. The company Plans 19,000tpa of anode production for 22 years from 2023 following Electric Vehicle Anode (EVA) pilot plant in 2021. The Prefeasibility study shows strong financial potential with pre-tax annual revenue of US\$188m and IRR 55%. Life of mine net profit before tax is US\$3,133m and current NPV8 (real) is US\$1,056m. Talga’s position in the battery supply chain means expressions of interest for >300% of planned capacity have already been received, so the company is considering an expanded production scenario.

The company is adopting a high margin business model allowing Talga to upgrade its graphite ore to high value advanced anode material for direct use in lithium-ion batteries capturing margins from the complete supply chain (Figure 3). Low costs are driven by the very high grade graphite ore, access to low cost, low CO2 hydro power and unique natural anode sized flake with much higher process yield compared to standard energy intensive milling processes.

Global low cost producer of coated anode

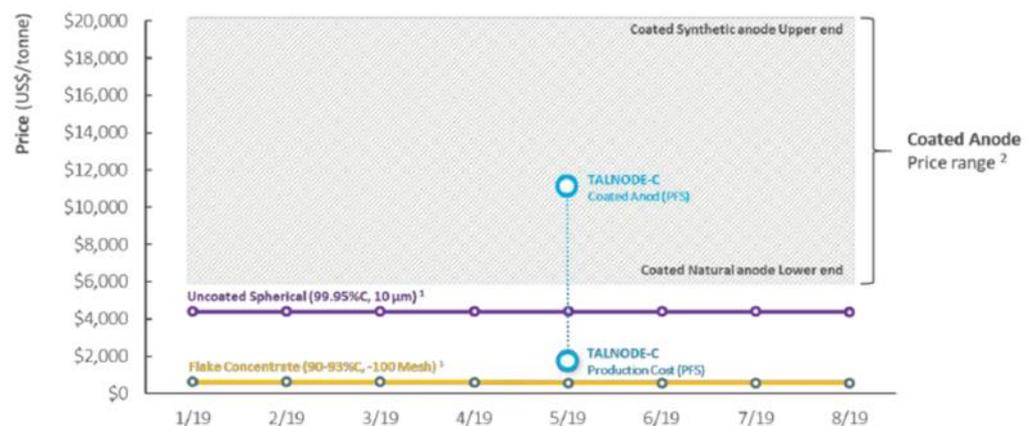


1 = ASX: TLG 23 May 2019

2 = China refers to coated natural graphite anode produced in China, based on bulk sales & mid-point average costs of H1 2018

3 = Synthetic refers to coated anode made from synthetic graphite source e.g. needle coke

Anode price vs. graphite price





Portfolio company
Spotlight



Sumo received a cash offer on 19th July from Tencent valuing the group at 513p per share, over 40% above the previous day's share price. Tencent have owned around 8.75% of Sumo since November 2019, and this, added to Perwyn Capital's 16.7% stake and management's holdings, accounted for over 33.4% of the company given as irrevocable undertakings in favour of the bid. Tencent's market capitalisation has fallen back since the announcement, owing to pressure on the gaming sector from Chinese authorities and, despite this being a cash offer, Sumo is trading at a discount to the offer price. We reduced our holdings in the stock shortly after the bid, but expect that the deal will go through as Sumo, despite its £1bn market capitalisation, remains a small deal for Tencent which is a \$550bn business. The deal highlights a scarcity of video game making talent, with Sumo employing over 1000 developers, as well as Tencent's desire to increase its exposure to Western markets.

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Amati People



Amati Global Investors are managers for:

- Amati AIM VCT
- TB Amati UK Smaller Companies Fund
- TB Amati Strategic Metals Fund
- Amati AIM IHT Portfolio Service
- Combined AUM of c £1.3bn (as at 31 July 2021)

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

Past performance is not a reliable indicator of future performance

We are delighted to announce the appointment of Sally Ammar to the role of IHT Operations Administrator. Sally graduated from the University of Buckingham with a degree in International Financial Services in 2020 having also gained experience as a Trainee Trust Officer at IQ EQ in Jersey working both in the Private Client & Corporate Services Department. We look forward to welcoming Sally to the Sales team on 1 September 2021.

Sally Ammar
IHT Operations Administrator



Amati AIM IHT Portfolio Service

Amati AIM IHT Portfolio Service targets a diversified portfolio of between 25-40 holdings in well-financed companies which fit one of the following **Four Baskets**:

Owner-Managed <ul style="list-style-type: none"> • Significant founder stake • Prudent management • Attractive growth 	Established technology <ul style="list-style-type: none"> • Profitable • Cash generative • Clear USP & strong barriers to entry
Family <ul style="list-style-type: none"> • Long-term family ownership aligned with professional management • Established Brand, well underpinned, growing dividend, strong balance sheet 	Durable-Defensive <ul style="list-style-type: none"> • Attractive yield, well covered dividend, defensive qualities, non-cyclical

Key Benefits

- Experienced UK Small cap team with decades of experience
- Investing in carefully selected growth AIM stocks
- Portfolio benefits from ideas promoted from VCT
- Faster IHT exemption than traditional trust planning
- Access to investment if needed
- Supporting UK growth businesses

Charges

- Annual 1% plus VAT
- 0.3% annual admin & custody
- £35 annual nominee fee
- No initial charges
- No additional dealing charges
- No performance fee
- Other charges as agreed between the client & their financial adviser

Key Elements

- Minimum investment £50,000
- Standardised portfolio based on Amati's model portfolio template
- Online access of your investment
- Can be held in an ISA or non ISA
- For fully qualifying investments, 100% IHT exemption on share transfers following shareholder's death
- Shares must have been held for at least two years to qualify (must be held as shares on death)

Cumulative Performance to 31/7/21 of Amati AIM IHT Portfolio Service

Time Period	6m (%)	YTD (%)	1 year (%)	2 year (%)	3 years (%)	5 years (%)	Since Launch (%)
AIM IHT Return*	21.43	22.57	50.79	38.76	30.33	111.21	182.71
Index Return**	8.24	9.20	41.21	36.23	19.07	75.56	74.10

*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

** Numis Alternative Markets Total Return Index. The stocks comprising the Index are aligned with the Fund's objectives, and on that basis the Index is considered an appropriate performance comparator for the Fund. Please note the Fund is not constrained by or managed to the Index.



Should you have any questions regarding the content of this newsletter or any other information regarding Amati or Amati funds, please don't hesitate to contact one of the Sales Team at info@amatiglobal.com or call us on (0131) 503 9115

Amati Charitable Donations

Amati Global Investors gives 10% of its net profits to UK registered charities. These are chosen by Amati's shareholders in proportion to the percentage that they own.

One of the recent charities that has been supported is “**Just Wheels**”. The charity's aim is to reduce poverty and hardship for people with mobility issues in Tanzania. The charity's first base is in Tabora where infrastructure is poor and travel is difficult particularly for disabled people for whom there are basic or no health care services. Without a wheelchair which many disabled people cannot afford, they are left to their own devices. The charity funds the building of wheelchairs for disabled people, supports the ongoing maintenance of those wheelchairs and provides physiotherapy. The charity's longer term aim is to complete by 2024 the building of the Tabora Just Wheels Mobility Centre, a purpose built centre with wheelchair workshops, physiotherapy rooms, training rooms, a café, dormitories and relaxation space. <https://justwheels.org.uk/>



Last October Amati supported “**Mahogany Opera**” in their commission of a new work, *Dido's Ghost*, which is being performed at the Edinburgh International Festival this week, having premiered at the Barbican in early June. The opera

takes up the story of what happens to Dido's surviving sister, Anna, after she flees Carthage and finds herself washed up on the shores of Aeneas' new kingdom. Composer Errolyn Wallen has composed a new score around Henry Purcell's renowned opera, *Dido and Aeneas*.

Photograph by Mark Allan, reproduced by kind permission of Mahogany Opera



Amati Global Investors Ltd
8 Coates Crescent
Edinburgh
EH3 7AL

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

Email: info@amatiglobal.com

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RiskWarning

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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.