Amati
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Quarterly Review

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WS Amati Global Innovation Fund



By
Graeme Bencke, Fund Manager



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One must feel some sympathy for central bankers at the moment. A tool kit with only a hammer and no nails in sight. Rising bond yields are certainly a reflection of the more hawkish inflationary environment, but the causes, rising energy prices and the huge AI capital spending boom, are not issues that can be readily influenced by increasing short term borrowing rates to banks. Particularly as bank lending, in the US at least, is constrained by demand not by capital. While bond markets are feeling the heat, global equity markets remain comfortably unruffled, with no change to the dominance of technology-related stocks. The fact that both the S&P500 and the NASDAQ are close to or at all-time highs suggests equity investors have yet to notice the rising cost of debt or are choosing to ignore it. This makes some sense when we consider the very strong earnings growth on average across these benchmarks, combined with the extreme concentration of AI-related winners underpinning the performance.

Look a little deeper, however, and the picture is more mixed, with around 60% of company share prices actually declining over the quarter. Even some of the higher octane, 'pure play' AI stocks have fallen from their end of June peaks as concerns have started to mount about the sustainability of the AI investment, the economic returns on this investment, the defensibility of the "frontier" AI lab business models, and the associated regulatory and political risks. Some of the more economically sensitive sectors such as Industrials and Retail have been notably weak since the inflation concerns began but were simply dominated by the sheer scale of the Technology sector where the top 5 companies represent ~28% of the index and the top 10 almost 40%. A level of concentration and risk likely underappreciated by many passive index investors.

The performance across the fund in some ways reflects these broader trends, albeit with some stock specific nuances. The largest negative contributions came from two companies in industrial tech and one enabler of the infrastructure boom, all three US listed. **MKS** provides a range of specialist industrial and scientific components from sensors to lasers, and benefits from a number of growing innovation areas, not least semiconductor proliferation. After reporting strong results, investors appear to be concerned that the demand outlook will weaken into 2027 and have sold in advance. We are more optimistic and believe the demand over our investment horizon (3-5 years) remains very attractive. The story is similar for **Allegro Microsystems** which manufactures high precision motion and position sensors for industrial end markets such as robotics. An industrial recession would impact demand across the sector and again investors have been quick to pre-empt this. Rather than second guessing the cycle we look to the structural drivers of increasing automation and near-shoring of supply chains and see significant upside over the coming years. The third company, **Mastec**, benefits from the huge and growing infrastructure build-out across the US from energy pipelines to power grids, data centres and telecom networks. This last segment was weaker than expected at the results in August, leading to a sharp fall in the share price. The issues appear to be timing related rather than a change in trend and the rest of the business continues to see expanding demand. We see the current sell-off as a very attractive buying opportunity.

Perhaps unsurprisingly the strongest contributions in the quarter came from companies operating in the less cyclically sensitive Healthcare sector.



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Swiss listed **Tecan** manufactures specialist laboratory equipment enabling the robotics and automation transition that is currently sweeping the laboratory markets, partly driven by the efficiency benefits of AI. US listed **Repligen** saw a reversal of earlier weakness as the shares rallied through the summer months on the back of an improving demand outlook for bioprocessing equipment. Pharma and biotech spending had seen pressure in late 2025 into H1 this year but is now recovering well. Timing these changing dynamics is only easy in hindsight, underscoring our focus on the longer term, more structural drivers for our investments. Lastly, **IQVIA**, the US pharmaceutical trials and drug marketing service provider also rose with the improving healthcare spending outlook. This company's software products have been seen by some as at risk from AI disintermediation, overlooking the vast datasets built up over years of trials, regulatory interactions and customer activity. In recent results calls the management have made strong efforts to explain and dispel these concerns.

There were three new names added to the fund in the quarter, representing three distinct innovation frontiers. Dutch-listed (but Greek-headquartered) defence equipment company, **Theon**, was first of the three. As the leader in night vision equipment outside of the US, Theon is a significant beneficiary of Western, Middle Eastern, and Asian reinvestment in defence equipment. Following a well-timed series of acquisitions over the last few years, the company has added a number of new strings to its bow and is using its wide sales infrastructure to enter large new addressable markets, including drone and anti-drone equipment. US listed **Belden** is a beneficiary of an innovation rea we have spoken much of recently, often referred to as 'physical AI'. Belden provides ruggedized wired and wireless network equipment and connections for industrial settings in particular. This is a specialist niche in which they hold a commanding position at a time when companies are looking to invest in automation and digitalisation to gain the efficiencies promised by AI. The recent acquisition of the wireless leader Ruckus has materially enhanced their offering, something we feel the market has yet to fully appreciate.

The third and most recent addition has been the US listed specialist IT Services group, **CI&T**. The shares have suffered to a greater degree than many of their peers as investors worry that AI is undermining the role of service companies. We think the opposite is true and that the seven consecutive quarters of double-digit organic growth from CI&T reflect the quality of their AI related offering. We believe the shares offer significant upside when investors start to take a more considered view.

As followers of the Fund will know, we make little attempt to forecast short-term macroeconomic events or cycles, as we feel we add little value in that regard. A rapid end to the Iranian conflict and reopening of the Hormuz Strait could lead to a sharp fall in energy prices globally, a fall in bond yields and a resurgence of risk appetite. But the reverse is also true, and we leave that assessment to others. The companies we buy benefit from structural demand drivers which will assert themselves over time, regardless of the shorter-term cycles. Over the next 3-5 years, the world will see higher levels of automation and robotics, an increase in biological and radio pharmaceutical medical treatments, as well as more robust and capable electrical infrastructure. These are some of the many technologically inevitable innovation areas we invest in through the strongly capitalised and efficient businesses that are best placed to benefit.

We are grateful for your continued interest and support.

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This review does not provide you with all the facts you need to make an informed decision about investing in the Fund. Before investing you should read the Prospectus and the Key Investor Information Document (KIID). The Prospectus sets out the main risks associated with the Fund and the KIID shows you how costs and charges might affect your investment. If you are in any doubt as to how to proceed you should consult an authorised financial intermediary.

Fund documentation is available on request and can be downloaded from Waystone here or from our website.

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