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WS Amati Global Innovation Fund

Quarterly Review

December 2025

By
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Market commentary

The last quarter of 2025 had a more conciliatory tone in US / China trade relations, with China walking back some of its more aggressive rhetoric regarding rare earth metals export controls. There was even hope for some progress in the Russia / Ukraine conflict resolution in another round of talks later in the quarter. But despite this, global economic growth trends remained consistent with previous months, showing improvement in the US, lacklustre growth in Europe and labour market conditions suggesting moderate softness in employment. There was a gradual easing of monetary policy in a number of major economies, as inflation risks continued to subside.

This drove global markets up, with the MSCI All Country World Index (ACWI) posting solid absolute performance of 3.4% during the quarter.

Unsurprisingly, AI continued to dominate the investor debate. An impressive string of deals between OpenAI and various semiconductor vendors and cloud providers earlier in the quarter, featured deal values far in excess of the current revenue base of even the leading AI players. The circular nature of some of these agreements, reminiscent of excesses of the dot com and telecom boom of the late 1990's, gave some investors pause for thought. Later in the quarter some of the more financially fragile AI players, without strong cash flows to fund their investment commitments, saw share prices drop, but the overall sentiment around the AI capex cycle remained buoyant.

At the same time pharma and life sciences sectors experienced some green shoots of optimism after a year of concerns over reduced academic funding, drug pricing pressures, tariff risks and cautious R&D spending by pharma and biotech companies. In addition, high profile and apparently collaborative agreements between the Trump administration and the pharma industry, started by Pfizer, helped to improve the mood.

Performance contributors

Cognex, a US listed machine visions systems supplier, had a steady set of results but issued relatively cautious guidance. The company's business is linked to capital investment cycles in its end markets, and while some are buoyant, others, like the automotive industry, remain subdued. We see a compelling long-term growth opportunity as machine vision proliferates across industries and AI based vision algorithms democratise this technology, making it accessible and feasible for more and smaller industrial users. We think that when capital investment recovers many more industrial machines will be equipped with vision, and Cognex will be a leading vendor. We added to our position in the quarter.


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Chemring, a UK listed defence technology company and a recent addition to the portfolio, was off to a poor start. Concerns emerged about UK defence funding (in contrast to more optimistic political statements of intent) and potential for a resolution to the Russia / Ukraine war caused a broad sell-off in defence stocks. Again, we see an undiminished long-term growth opportunity for Chemring, both for its energetics business, where it is a leading supplier in Europe, and its high growth electronic warfare business. We added to the position.

Finally, **PTC**, a US listed industrial design software provider, had a weak quarter. The business continues to grow and perform well, and while its fortunes are linked to some more subdued industrial sectors, it is a mission critical tool for its customers, with high value add and predictable, recurring revenue streams. Earnings expectations for PTC continued to be upgraded during the quarter. We suspect the stock weakness was due to generic concerns about software industry vulnerability to AI disruption, and maybe even technical factors where AI bets are funded by shorting software stocks. We see these concerns as irrelevant to PTC, where AI is an opportunity to enhance the value of their software tools, not a disruption risk. We added to our position during the quarter.

On the positive side, two of our long held views had been finally rewarded with the market recognition they deserved. We have long believed that photonics and optical communications will play an ever more important role in data centres and networks, as volumes and speeds of data transmission, especially for AI workloads, outgrow traditional copper communication technologies. This has been playing out and **Lumentum**, our favoured stock pick within that innovation frontier, was a stellar performer during the quarter.

Another long held view was that memory semiconductors will be a key beneficiary of AI investment, as more high performance memory in data centres and more conventional memory on enterprise and consumer devices will be needed to handle ever larger volumes of data associated with AI algorithms. This has also played out during the year and during the quarter, with Korean memory chipmakers **Samsung Electronics** and **SK Hynix** contributing strongly to the fund performance. In Samsung's case performance was also helped by increasing evidence that it will fully participate in AI growth, having fixed most technical challenges with its high bandwidth memory product that held it up earlier in the AI boom.

Finally, **Eli Lilly**, a US listed major pharma company, was another strong contributor. It has strengthened its position as a leader in the obesity and diabetes medication category, with its injectable GLP1 products outperforming competitor Novo Nordisk both clinically and commercially, and its newly approved oral GLP1 promising to unlock a large incremental market opportunity. More benign relations between the Trump administration and the pharma industry also helped.

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Activity

During the quarter we added two new stocks to the fund.

We bought back into **Fabrinet**, a US listed contract manufacturer of photonics systems. Our work on the Photonics innovation frontier, including a visit to the Photonics trade show ECOC 2025 in September, reinforced our conviction that the transition to optical communications in data centres is accelerating and we wanted to add to the exposure in this area. Fabrinet remains extremely well positioned, supplying all the key players in this space.

We bought a new position in **H.U. Group**, a Japanese diagnostics company. Its base business is the provision of central lab services to Japanese hospitals and the manufacturing of diagnostics equipment and reagents. However, what attracted us most was its pioneering position in blood-based biomarkers for Alzheimer's disease testing. Clinical practice in Alzheimer's diagnostics is moving to blood tests, a cheaper, less intrusive, but no less precise option, and H.U. Group has a strong first mover advantage. This segment of the business has grown multi-fold in the past year, and we expect that fast pace of growth to continue.

We funded these purchases by selling Taiwanese listed **Yageo**, where our investment case has largely played out, and we see stronger opportunities elsewhere.

Outlook

AI continues to dominate investors' attention spans and as the market moves higher there is more talk about bubbles, in AI, US equities and stocks in general.

While we agree that some AI enthusiasm is reaching fever pitch, there are plenty of innovation opportunities beyond AI, or indeed lateral beneficiaries of AI that are not priced for that benefit.

We also think broad based concerns about market valuations are misplaced. There is plenty of value in the market, where good, growing, innovative businesses are not fully appreciated for their potential, and are also offering the security of profitability, cash generation and strong balance sheets that we look for in our investments.

In fact, our current prevailing feeling is that we have more stock ideas to work on than slots in our portfolio, as our conviction, focus and concentration discipline limits the total number of stocks to 40. Innovation frontiers such as life sciences automation, industrial software tools, machine vision and more, continue to present opportunities and we look forward to reporting on our investment conclusions on those in the upcoming months and quarters.

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Risk Warning

Past performance is not a reliable guide to future performance. The value of investments and the income from them may go down as well as up and you may not get back the amount originally invested. Tax rates, as well as the treatment of OEICs, could change at any time. The return on investments in overseas markets may increase or decrease as a result of exchange rate movements. There may be occasions where there is an increased risk that a position in the Fund cannot be liquidated in a timely manner at a reasonable price. In extreme circumstances this may affect the ability of the Fund to meet redemption requests upon demand. A dilution levy may be applied to the share price when the Fund is expanding or contracting. Should you buy or sell in these circumstances it may have an adverse impact on the return from your investment.

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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