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WS Amati UK Listed Smaller Companies Fund Quarterly Review

December 2025





By Gregor Paterson, Fund Manager

Market Review

The fourth quarter of 2025 marked the beginning of a change in market tone away from US mega-cap and the AI-related exuberance that characterised the summer months. With US valuations largely decoupled from other developed markets, investors began to ask more probing questions around the crisscross of orders in exchange for investment and the increasingly debt funded datacentre capex required to stay in the race to hyperscale capacity. Coupled with the ongoing unpredictability of US policy, US technology and broad equity markets slowed their rate of growth through Q4, helping the UK large cap index to its strongest annual performance since 2009, rising 7% through Q4. The rebalancing did not extend into the small and mid-cap indices with much enthusiasm, leaving our investment universe as an increasing outlier in terms of valuations, with growth stocks continuing to lag value.

The commodities markets held firm in the limelight as gold and silver topped historic bull runs to end the year up 63% and 145% respectively. Notably, cryptocurrency bitcoin sold off in a tough Q4 ending 2025 below \$10k, despite supportive comments and posts from President Trump. Sovereign bond markets had a quieter final quarter, yields drifted back in both the US and UK, as central banks signalled rate cuts and cooling economic signals and labour market data helped to back up their rationale. The level of debt and ongoing fiscal deficits in most large economies continues to rise well above historical standards. For the UK equity market, the fourth quarter closed the year on a positive note, certainly for the larger cap equity index, which reached a new all-time-high. Some clarity came via the Autumn Budget, delivered at the end of November and ending months of speculation and uncertainty. Taxes were duly raised but the absence of any further inflationary policy pressure allowed the Office for Budget Responsibility to increase fiscal headroom, reassuring sovereign debt investors. Moreover, the softer inflation outlook helped to clear the way for the Bank of England to cut rates and a 25-basis points reduction, to 3.75%, was forthcoming in mid-December, with markets suggesting that two more rate cuts are deliverable during 2026.

This is an important milestone for UK equity markets, particularly small and mid-cap companies (SMID), where earnings are highly sensitive to the UK rate cycle. Coupled with the relative valuation of UK SMID compared to large cap peers as well as other developed markets, we start 2026 with optimism. Survey data relating to both consumer and business confidence has also shown improvements since Budget Day, a notable lead indicator given the high rates of savings and balance sheet strength prevalent in the UK versus the historic norm.

While the larger cap UK stocks put in a strong fourth quarter, ending an impressive and encouraging year, the season cheers did not extend with much vigour to the mid and small cap constituents of the Deutsche Numis Smaller Companies Index (pus AIM, ex. Investment Cos), which advanced 1.6%, against which the growth focused companies within the fund fared poorly, declining by 3.4%. That our universe is, in aggregate, more sensitive to UK rates, growing more quickly yet rated more pessimistically than other markets and larger UK peers, gives us some confidence that the current valuation gap is ripe to be filled as we enter 2026. Businesses moving from AIM to the Main Market also acted as a temporary and unhelpful drag, with Ashtead Technology, Gamma Communications, GB Group and Brooks Macdonald all undertaking the painful process throughout 2025.



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Portfolio Review

Positive contributions came firstly from the mining sector as both gold and silver producers **Greatland Resources** and **Hochschild Mining** extended gains as investors sought out producing mining companies with good assets, which offer operationally leveraged exposure to strong underlying commodity prices. Engineer Services business, **Renew Holdings**, recovered well through the second half of 2025 following a tricky start to the year, as rail maintenance spending was delayed as the UK government changed. Full year results in November confirmed guidance and the increasingly diversified group entered its financial year 2026 with positive momentum. Elsewhere, global demand for EVs and data centre infrastructure helped integrated manufacturer **Volex** to contribute positively. Management has been able to navigate erratic tariff regime changes nimbly and the shares have more than doubled since Liberation Day last April. Finally, electronics technology provider **TT Electronics** was the subject of a recommended bid from Swiss peer, Cicor. The shares spiked on the news and although the bid was eventually turned down by the largest shareholder, we took the decision to exit the holding in time to take advantage of the share price strength.

Detractors were stock specific rather than sector led. The rail ticketing platform company, **Trainline**, saw continued weakness, which reflected nervousness that a UK government alternative platform could become a competitive threat once developed and launched. A freeze on UK rail fares was also unhelpful, although the growth trajectory and international potential remain intact. Nervous selling also impacted the utility provider **Telecom Plus**. Despite posting impressive growth from acquired TalkTalk customers, the market focused on slowing organic growth and the rephasing of first/second half energy costs. Peruvian exploration and production (E&P) company, **PetroTal**, fell on a reduction to guidance caused by a lengthy rig commissioning exercise. The company's previously high dividend payments were cut to zero, prompting income investors out of the stock. Finally, our defence names, **Chemring** and **QinetiQ**, succumbed to sector wide profit taking, although both have started 2026 with renewed vigour.

Two new holdings were added to the fund this quarter – **Mears Group** and **Yu Group**. Mears is a support services provider to central, local government and private landlords in the UK. Demand for outsourced support is growing more complex, allowing Mears to expand their service range while growing the underlying business. The company has also coped well with ballooning demands on its UK asylum service, a temporary surge but one which serves to highlight the robust systems and controls embedded in the business. Despite this backdrop, the shares trade on sub 10x earnings, yield over 5% and the share count has now reduced by around 25%.

We also bought a new holding in **Yu Group**, a supplier of gas and electricity to UK businesses. Having seen exceptional growth over the last few years and signed a new five-year supply agreement with Shell Gas, the shares have de-rated significantly, despite having also risen strongly. With a strong balance sheet and the prospect of continued growth in the coming years, we see the shares as extremely undervalued.

Finally, we added to the existing holding of **Alfa Financial Software**, whose high-quality earnings, blue chip client roster and global growth potential remains one of the most underappreciated growth stories in the UK market. As above, we sold out of **TT Electronics**, on the back of a bid, trimmed gold and silver miners **Greatland Resources** and **Hochschild Mining** on the back of the tremendous commodity bull run, and took partial profits from investment platform **AJ Bell**.



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Market Outlook

Overall, Q4 underscored a transition from momentum-driven markets to a more selective valuation-conscious environment. The budget and the Office for Budget Responsibility (OBR) added a dash of hope around UK fiscal policy credibility and UK large cap stocks increasingly found favour. Sustainable earnings and balance sheet strength began to trigger international flows away from the US's seven largest companies, which have attracted a huge swathe of capital from UK savers. As we closed 2025, small and mid-cap stocks were, in aggregate, on a 25% discount to larger peers and come with a higher dividend yield for the first time in 23 years. Given this backdrop and the ongoing bid interest in UK listed companies, we enter 2026 with renewed optimism that the investment environment for UK growth companies has come through the bottom of the cycle at last.

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Risk Warning

Past performance is not a reliable guide to future performance. The value of your investment is not guaranteed and may go down as well as up and you may not get back the amount invested. This is because the share price is determined by the changing conditions in the markets in which the Fund invests. You should regard your investments as long-term. A dilution levy may be applied to the share price whenever the Fund is expanding or contracting. Should you buy when the Fund is expanding and sell when the Fund is contracting, this will have an adverse impact on the return from your investments.

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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