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Amati Global Investors

T.BAILEY

# TB Amati Investment Funds

**(Formerly CF Amati Investment Funds)**

**Annual Short Report**
31 January 2013

**TB Amati UK Smaller Companies Fund**
(formerly CF Amati UK Smaller Companies Fund)

# TB AMATI UK SMALLER COMPANIES

## INVESTMENT OBJECTIVE & POLICY

The investment objective of the TB Amati UK Smaller Companies Fund is to achieve long-term capital growth. The Fund invests in UK smaller companies though there may be occasions when the Investment Manager chooses to hold large degrees of cash or money market instruments. The Fund will primarily invest in companies which are either incorporated in the UK or are listed in the UK and have the majority of their economic activity in the UK. The Fund may also invest in companies which are listed in the UK but are not incorporated and do not have the majority of their economic activity in the UK.

The Fund may invest up to 100% of its assets in collective investment schemes and over 35% of its assets in certain government and public securities.

The benchmark of the Fund is the Numis Smaller Companies (inc AIM ex investment trusts) index.

## FUND FACTS

**Launch date:** 29 July 2008
**Ex-dividend date:** 1 February, 1 August
**Dividend payment date:** 31 March, 30 September
**Synthetic Risk and Reward Indicator Ranking[1]:** 6
**Ongoing Charges figure[2]**

| | |
|---|---|
| A Accumulation Shares – | 1.88% p.a. |
| B Accumulation Shares – | 1.24% p.a. |

*[1] As calculated in accordance with the FCA Handbook, COLL 4. It is based on historical data and uses a scale of 1 to 7. The higher the rank the greater the potential reward but the greater the risk of losing money.*

*[2] To 31 January 2013. As calculated in accordance with the FCA handbook COLL 4, Annex 1. The Ongoing Charge Figure ('OCF') includes annual management charges ('AMCs') and other operating expenses (Depositary's fee, audit fee etc).*

## CHANGE OF AUTHORISED CORPORATE DIRECTOR (ACD)

From 1 August 2012 the Authorised Corporate Director (ACD) of the Fund changed from Capita Financial Managers Limited to T. Bailey Fund Managers Limited. As a result the name of the Company changed from CF Amati Investment Funds to TB Amati Investment Funds. Also on this date the Depositary of the Fund changed from BNY Mellon Trust & Depositary (UK) Limited to National Westminster Bank Plc and the Auditors changed from Kinetic Partners Audit LLP to Deloitte LLP.

The above changes were classified as a significant change under the FCA Handbook and were therefore notified to shareholders in advance.

## INVESTMENT REVIEW

| Performance | Cumulative returns for the periods ended 31 January 2013 (%) | | |
|---|---|---|---|
| | 1 year | 3 years | From launch |
| A Accumulation Shares | 10.90 | 64.20 | 88.59 |
| Numis Smaller Companies Index (Inc AIM, ex Inv Trust) | 18.44 | 45.14 | 54.20 |

*Source: Financial Express. Total Return*

*Note: Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.*

*Note: The TB Amati UK Smaller Companies Fund (formerly CF Amati UK Smaller Companies Fund) was seeded by the transfer of the First State British Smaller Companies Fund to CFM on 29 July 2008. Those investors who held shares in First State British Smaller Companies Fund and transferred their holdings to the CF Amati UK Smaller Companies Fund at this date should refer to the additional performance data shown in the appendix.*

## Market review

The first half of the year was dominated by the Eurozone sovereign debt crisis, the US budget negotiations, and concerns over a slowdown in growth in China. After a positive start, stock markets fell sharply in May after an inconclusive election in Greece, and the resurfacing of concerns about the Spanish banking system. In response Eurozone leaders agreed in June to recapitalise the banks directly and in July ECB President, Mario Draghi, said: "Within our mandate, the ECB is ready to do whatever it takes to preserve the Euro. And believe me, it will be enough". This was a "shock and awe" statement, based on the theory that betting against the promise of unlimited liquidity would be seen as pointless and so in practice little actual market support would be needed. It turned out to be a big enough gesture to change the underlying tone of both equity and bond markets, which, from that point on have been in a rising trend. Markets were given further impetus following the US Presidential election as a consensus formed around the likelihood of an agreement to avert the fiscal cliff. In addition there has been a smooth transition of power in China through the change of leadership, and there is a growing expectation that a 'hard landing' has been avoided in the Chinese economy.

So far stock market sentiment has been improving faster than average earnings have been rising, so a significant portion of gains have come from upwards re-rating of share prices. In this sense the stock market appears to be forecasting a successful "muddle-through" for the sovereign debt crisis, and a resumption of normal growth conditions over the next few years. During the second half of the year it became evident that the US economy is showing a much stronger return to growth than that of Europe. In addition to having a more flexible economy, the benefit of cheap energy from shale gas and shale oil is now really starting to show for the US. From a European (including the UK) point of view this is disconcerting as it is hard to see how this balance can be redressed and with such high levels of government debt and intractable budget deficits, Europe is sorely in need of some good news.

## Performance

The fund rose by 10.9% during the year as a whole, after falling by 2.3% in the first half. However, the benchmark index rose more strongly, rising by 18.4%, nearly all of which was also in the second half. The cautious stance we adopted during the year proved unhelpful, particularly in the strongly rising markets towards the end of the period. In addition, the resources sector, in which we maintained some exposure, continued to come under pressure throughout the period. The only two significant contributors from this sector during the year were oil companies which were subject to takeovers, namely Cove Energy, and Nautical Petroleum.

The biggest contributions to performance came from a diverse mix of stocks. Idox, a software company, in which we purchased a holding during the first half then added in the second half, rose strongly, becoming the largest holding in the fund. The performance reflected both underlying growth in the business, and an element of catch-up in the rating, which was at a substantial discount to larger peers. Vectura, a drug-delivery company focussed on inhaler devices and dry-powder drug formulations, also rose strongly as its lead products passed certain key milestones. The fund has gained exposure to a number of companies involved in the rapidly developing arena of payment processing, and several of these performed strongly during the period, including Paypoint, Earthport and Optimal Payments. Two gaming stocks, Sportech and Sportingbet, also performed particularly well for the fund, and both have now been sold.

The biggest disappointment of the year was Hargreaves Services, a vertically integrated coal company, whose largest mine was forced into closure during the year due to disruption caused by the presence of oil and gas in a structure above one of the work areas. In addition the company discovered fraud at one of its subsidiaries, which caused us to exit the position. Asian Citrus was also disappointing, with a second half rally being cut short due to a badly timed sale of stock by the CEO, and poor results caused by the incessantly wet weather last year in China, which pushed up costs and lowered yields. Most resources stocks that we held also fared poorly, including New Britain Palm Oil, Kenmare Resources and Petra Diamonds, all of which we exited.

## Activity

During the year we have focussed on companies which we believe can grow through the current tough economic conditions,which results in a bias towards companies which own and develop valuable intellectual property and technology. Significant new purchases in the first half included Idox, the software company; Dignity, the funeral provider and operator of crematoria; and Victrex, the pre-eminent manufacturer of PEAK (a high-performance polymer). Sales have generally been motivated by valuations looking too full, or specific economic concerns. In the first half sales included Advanced Medical Solutions, GB Group, Kenmare Resources and RPC.

During the second half significant new purchases included Zotefoams, a specialist in cellular material technology; Paragon, a buy-to-let mortgage specialist finance company; Tribal Group, a provider of student records management software and services, focussed principally on the UK and Australia; Anite, a provider of software internationally to the mobile phone network and leisure travel industries; Lo-Q, a company which specialises in electronic queuing devices; and Blinkx, which operates an internet media platform offering advanced video search and categorisation technology. Sales during this period included a number of natural resource and related companies, as well as some holdings which we saw as fully valued, such as Oxford Instruments.

One theme that has emerged in the fund during the year is that of payment processing, a market where we see significant developments arising from new technologies. We hold an investment in EservGlobal, which we added to during the year, and which is developing a platform suitable for cost-effective small international remittance payments to be made using the transfer of mobile phone top up payments. During the year we also purchased holdings in Earthport, which has some unique infrastructure for enabling banks to facilitate international payment services in compliance with the new Dodd Frank regulations in the US; and Optimal Payments, which specialises in processing online payments.

| Sector | Asset allocation as at 31 January 2013 (%) | Asset allocation as at 31 January 2012 (%) |
|---|---|---|
| Beverages | 1.5 | - |
| Chemicals | 7.2 | - |
| Electricity | - | 0.8 |
| Electronic & Electrical Equipment | 5.9 | 9.2 |
| Equity Investment Instruments | 1.3 | 0.8 |
| Financial Services | 5.1 | 6.3 |
| Food Producers | 5.0 | 7.1 |
| General Industrials | - | 3.2 |
| General Retailers | 3.2 | - |
| Health Care Equipment & Services | 1.4 | 1.6 |
| Industrial Engineering | - | 0.5 |
| Industrial Mining & Metals | 1.1 | 1.0 |
| Industrial Transportation | 0.8 | 0.6 |
| Media | 5.8 | 7.8 |
| Mining | 7.9 | 11.1 |
| Oil & Gas Producers | 8.1 | 8.7 |
| Personal Goods | 0.6 | - |
| Pharmaceuticals & Biotechnology | 5.3 | 3.5 |
| Real Estate Investment & Services | 2.7 | 0.1 |
| Real Estate Investment Trusts | 0.9 | 1.2 |
| Software & Computer Services | 16.8 | 2.9 |
| Support Services | 8.1 | 10.9 |
| Technology Hardware & Equipment | 3.4 | 1.8 |
| Travel & Leisure | 3.3 | 7.9 |
| Cash and Other | 4.6 | 13.0 |
| **Total** | **100.0** | **100.0** |

## Outlook

The strong momentum in the market during late 2012 and early 2013 has resulted in many stocks appearing fairly fully priced, albeit that this is less true further down towards the micro-cap end of the market. There has been a strong sense that investors who have been sitting on cash or very low yielding bonds, waiting for safer times before investing in equities have given up waiting, attracted by the sustained rally and the revival of growth, albeit tentative, in the US. This momentum has the attraction of offering quick rewards, but it also presents the danger of some sudden setbacks, for which there are plenty of potential triggers. Amongst these, however, it is difficult to guess which might have the weight to significantly damage sentiment. What the central bankers probably worry about the most remains deflation. What would probably be the most hazardous development for investors would be a significant rise in core-Eurozone, UK, or US bond rates, and it is noteworthy that the twenty-year-plus bull market in these government bonds looks like it has finally peaked, or is in the process of peaking.

In the UK it appears that, for all the political rhetoric over austerity and growth, there is in reality very little room for manoeuvre. Any Chancellor must appear to be prudent, because if bond rates rise sharply a destructive and self-feeding crisis would rapidly ensue, which would then lead to enforced spending cuts. However, he or she will also be well-briefed on the so-called "Paradox of Thrift", which is the phenomenon whereby spending cuts reduce overall income in the economy, and therefore don't generally cause the budget deficit to shrink, as government revenues fall at least as fast as the spending does. The tightrope being walked requires there to be a convincing impression of austerity and budgetary responsibility, whilst at the same time minimising cuts in reality. Because this leaves inflation as the only reliable tool for dealing with the high level of debt and the budget deficit, it also requires a delicate balancing of public policy statements aimed at keeping inflation low (and therefore not causing bond yields to rise), whilst all the time hoping inflation will in fact come out as much above target as possible. We therefore expect UK fiscal policy to remain broadly unchanged from its current course, and inflation to remain above expectations.

**Paul Jourdan**
**Fund Manager**

**Douglas Lawson**
**Fund Manager**

**David Stevenson**
**Fund Manager**

**14 May 2013**

## TOP TEN HOLDINGS

| Top Ten Holdings as at 31 January 2013 | (%) | Top Ten Holdings as at 31 January 2012 | (%) |
|---|---|---|---|
| Idox | 4.8 | Hargreaves Services | 4.4 |
| Xaar | 3.0 | Asian Citrus | 4.1 |
| Asian Citrus | 3.0 | XP Power | 4.0 |
| Sabien Technology | 2.9 | Eros International | 3.9 |
| Entertainment One | 2.8 | Anglo Pacific Group | 3.6 |
| Vectura | 2.4 | Sabien Technology | 3.5 |
| Earthport | 2.3 | RPC Group | 3.2 |
| Iomart Group | 2.3 | Sportingbet | 2.7 |
| Anite | 2.1 | Entertainment One | 2.7 |
| Victrex | 2.1 | Faroe Petroleum | 2.5 |

## PERFORMANCE

### Share Prices and Revenue

| | A Accumulation shares | | | B Accumulation shares | | |
|---|---|---|---|---|---|---|
| Calendar year | Highest price (pence) | Lowest price (pence) | Net revenue accumulated per share (pence) | Highest price (pence) | Lowest price (pence) | Net revenue accumulated per share (pence) |
| 2008[1] | 248.74 | 135.16 | – | 268.67 | 147.08 | – |
| 2009 | 228.55 | 135.80 | 1.3007 | 250.43 | 148.03 | 2.5679 |
| 2010 | 339.82 | 229.96 | – | 374.79 | 252.16 | – |
| 2011 | 377.03 | 313.84 | – | 417.28 | 347.89 | – |
| 2012 | 386.10 | 325.32 | 0.3894 | 429.23 | 361.24 | 3.1523 |
| 2013[2] | 388.95 | 367.76 | – | 436.25 | 411.02 | 0.6495 |

*[1] From 29 July. [2] Prices to 31 January and net revenue to 31 March.*

### Net Asset Values

| | A Accumulation shares | | | B Accumulation shares | | |
|---|---|---|---|---|---|---|
| Date | Total shares in issue | NAV per share (pence) | NAV (£) | Total shares in issue | NAV per share (pence) | NAV (£) |
| 31 Jan 2011 | 2,533,094 | 359.99 | 9,118,760 | 105,866 | 397.26 | 420,562 |
| 31 Jan 2012 | 2,672,491 | 343.63 | 9,183,434 | 358,587 | 381.71 | 1,368,778 |
| 31 Jan 2013 | 2,359,334 | 381.40 | 8,998,429 | 951,283 | 426.50 | 4,057,218 |

*Note: Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.*

## RISK PROFILE

Please remember that both the price of shares and the revenue derived from them may go down as well as up and that you may not get back the amount originally invested. Furthermore, changes in foreign currency exchange rates may cause the value of your investment to increase or diminish. Capital appreciation in the early years will be adversely affected by the impact of initial charges which by their nature are not levied uniformly throughout the life of the investment. You should, therefore, regard your investment as medium to long term. Past performance is not a reliable indicator of future results.

## APPENDIX

### Additional Performance Data

| | Cumulative returns for the periods ended 31 January 2013 (%) | | | |
|---|---|---|---|---|
| | 1 year | 3 years | 5 years | 10 years |
| A Accumulation Shares | 10.90 | 64.20 | 74.48 | 325.98 |
| Numis Smaller Companies Index (Inc AIM, ex Inv Trust) | 18.44 | 45.14 | 33.62 | 222.90 |

*Source: Financial Express. Total return, bid to bid.*

*Past performance is not a reliable indicator of future results. Investors are reminded that the price of units and the revenue derived from them is not guaranteed and may go down as well as up.*

## OTHER INFORMATION

### The Company

TB Amati Investment Funds
64 St. James's Street
Nottingham NG1 6FJ

### ACD (prior to 1 August 2012)

Capita Financial Managers Limited
Ibex House
42-47 Minories
London EC3N 1DX

### ACD (from 1 August 2012)

T. Bailey Fund Managers Limited
64 St. James's Street
Nottingham NG1 6FJ

| | |
|---|---|
| Tel: | 0115 9888 200 |
| Fax: | 0115 9888 222 |
| Website: | www.tbailey.co.uk/amati |

Authorised and regulated by the Financial Conduct Authority.

### Investment Manager

Amati Global Investors Limited
18 Charlotte Square
Edinburgh EH2 4DF

Authorised and regulated by the Financial Conduct Authority.

### Depositary (prior to 1 August 2012)

BNY Mellon Trust & Depositary (UK) Limited
The Bank of New York Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

Authorised and regulated by the Financial Conduct Authority and by the Prudential Regulation Authority.

### Depositary (from 1 August 2012)

National Westminster Bank Plc
Trustee & Depositary Services
7th Floor, 135 Bishopsgate
London EC2M 2UR

Authorised and regulated by the Financial Conduct Authority and by the Prudential Regulation Authority.

### Auditors

Deloitte LLP
4 Brindleyplace
Birmingham B1 2HZ

Registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Further information regarding the activities and performance of the Fund for this period is available on request from the ACD as are copies of the Annual Report and Financial Statements.

TB
FUNDS