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T.BAILEY

TB Amati Investment Funds

Annual Short Report
31 January 2014

TB Amati UK Smaller Companies Fund

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 Ranking¹: 5

Ongoing Charges figure²

A Accumulation Shares – 1.83% p.a.

B Accumulation Shares – 1.18% p.a.*

¹ As calculated in accordance with CESR guidelines. 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 2014. As calculated in accordance with CESR guidelines. The Ongoing Charge Figure ('OCF') includes annual management charges ('AMCs') and other operating expenses (Depositary's fee, audit fee etc).

*On 7th April 2014 the Annual Management charge for the B Accumulation shares was reduced to 0.75% which will reduce the ongoing charges figure.

INVESTMENT REVIEW

Performance	Cumulative returns for the periods ended 31 January 2014 (%)		
	1 year	3 years	5 years
A Accumulation Shares	24.68	32.08	236.93
B Accumulation Shares	25.49	34.71	248.15
Numis Smaller Companies Index (Inc AIM, ex Inv Trust)	26.65	39.90	201.01

Source: Financial Express. Total Return, bid to bid.

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 UK stock market made strong progress during the year. Mid and small sized companies provided sustained outperformance, whilst AIM stocks also joined in with the positive momentum from August, after the ISA rules allowed their inclusion for the first time. December saw the first reduction in bond purchasing activity by the US central bank since quantitative easing began in 2008. This is the so-called process of “tapering”, and the first step towards stopping the money-printing presses from rolling. Global stock markets appeared to take this turning point in their stride, with the transition helped by supportive growth data in the US and other developed economies including the UK, even though news flow from the Eurozone and China continued to cause concern. In January, however, volatility in emerging markets increased, particularly in currencies, as rising yields in the US prompted capital outflows. The combination of a mixed global economy plus an anticipated turning point in interest rates, seemed to induce a change in investor sentiment and to hold in check the general rise of risk appetite.

The variable global picture was reflected in the performance of UK indices for the year, with internationally exposed, large and mid-sized companies underperforming the very strong gains seen from more domestically positioned smaller companies. Sector performance also mirrored this, with the strongest being localised consumer, property and construction areas, whilst export driven resources and industrials lagged.

Performance

The fund rose 25.5% in the period (B Accumulation Shares), underperforming the benchmark gain of 26.7%. However this masked an improving relative performance as the year progressed, coinciding with the pick-up in AIM stocks from August. Post the period end, there has been strong outperformance by the fund through the remaining first calendar quarter of 2014.

The biggest stock contributions came from a diverse range of sectors. Inkjet technology printer, Xaar, had a very strong year on the back of revenue growth of 55% with high operational gearing producing a pre-tax profit uplift of more than twice that. The company grew sales in all its markets, but particularly in China through its ceramic tile product. The portfolio theme around payment processing businesses, also proved successful, with significant gains generated by Optimal Payments, eServGlobal and Earthport. Each company reported strong revenue uplifts during the year, reflecting the growth in mobile and online activity from banking and credit card transactions, international money transfers and e-commerce, including gaming. Entertainment One, the global producer and distributor of film and TV content, continued its organic and acquisitive growth as demand for digital media accelerates. Vectura, the drug-delivery company focussed on inhaler devices and dry-powder drug formulations, had another strong year on the back of several international regulatory approvals for its products. It remains one of very few of the smaller pharmaceutical companies in the UK to achieve truly commercial scale. A new position in Benchmark, the leading provider of healthcare products and services to global agriculture and aquaculture markets, performed strongly post a successful IPO in December.

The biggest disappointment in the year was specialist environmental services provider, Silverdell, which ran into difficulties following a major acquisition and a loss of management control over supplier payments. This resulted in a suspension of its shares, and subsequently, the sale of its bank debt to a recovery specialist for a nominal sum, leaving no residual equity value in the business. Idox, a supplier of software to the public sector and the engineering industry, experienced weakness after delays in licence sales to the latter caused it to miss forecasts. Chinese fruit grower Asian Citrus suffered crop problems due to wet weather and fungal infections, plus pricing pressures and some lax governance. Other underperforming holdings included technical plastics group Carclo, on slower than expected volumes for a new coated film product; online dating services provider Cupid, on allegations about industry practices; and mobile phone tester Anite, on contract slippage amongst its handset manufacturing clients. These three holdings were sold, although we have subsequently re-purchased a position in Carclo at lower levels.

Activity

During the year the fund increased exposure to the domestic UK economy, targeting areas where a combination of government support, rising consumer confidence, and 'lower for longer' interest rates were likely to prove a stimulus to activity. Stocks added included commercial broadcaster, STV, which should benefit from unique 2014 events in the form of the Scottish independence referendum and the Glasgow Commonwealth Games; housebuilders Crest Nicholson, Mar City and Telford Homes, which have capitalised on 'Help to Buy' and prioritisation of affordable housing; online property marketing site, Rightmove; London estate agent, Foxtons; replacement window and door manufacturer, Safestyle; car retailers, Vertu and Cambria; five-a-side football pitch operator, Goals; and energy management consultant, Utilitywise. Other new holdings within the period represented more internationally driven, structural growth opportunities, for example, animal health products supplier, Benchmark; electronic device repairer, Regeneris; and photo booth operator, Photo-Me.

Disposals included a number of stocks which had reached valuation targets, such as property developers, Unite, CLS and Quintain; healthcare specialists, Dechra and Synergy Health; financials, Bank of Georgia and Paragon; oil services provider, Kentz; data centre operator, Iomart; energy group, Genel; and inkjet printer, Xaar. Against a global backdrop of weaker commodity prices, project deferrals, and tightening finance, the fund's overall exposure to resources was also reduced through exiting positions in more junior operators.

Sector	Asset allocation as at 31 January 2014 (%)	Asset allocation as at 31 January 2013 (%)
Alternative Energy	1.1	-
Beverages	1.5	1.5
Chemicals	4.0	7.2
Electronic & Electrical Equipment	1.2	5.9
Equity Investment Instruments	1.5	1.3
Financial Services	5.5	5.1
Food Producers	0.6	5.0
General Retailers	11.6	3.2
Health Care Equipment & Services	-	1.4
Household Goods & Home Construction	3.6	-
Industrial Mining & Metals	-	1.1
Industrial Transportation	0.4	0.8
Leisure Goods	2.7	-
Media	8.0	5.8
Mining	3.3	7.9
Nonlife Insurance	1.2	-
Oil Equipment, Services & Distribution	1.1	-
Oil & Gas Producers	4.8	8.1
Personal Goods	1.2	0.6
Pharmaceuticals & Biotechnology	6.3	5.3
Real Estate Investment & Services	3.1	2.7
Real Estate Investment Trusts	-	0.9
Software & Computer Services	12.9	16.8
Support Services	13.7	8.1
Technology Hardware & Equipment	-	3.4
Travel & Leisure	6.2	3.3
Cash and Other	4.5	4.6
Total	100.0	100.0

Outlook

Post the period end, there has been heightened volatility in global stock markets and a loss of momentum. Investors seem hesitant, caught between gradually reducing stimulus by the US authorities, but also statements that interest rates will not be increased for some time. US Treasury yields appear to be indicating an earlier turning point, however. There has also been uncertainty caused by events in the Ukraine, plus weakening Chinese growth amidst concerns the economy is being distorted by unregulated borrowing or “shadow banking”.

In the UK, there is some uneasiness that widespread stock market gains have been enjoyed despite earnings progress being confined to a narrow range of areas, principally those connected with domestic and consumer activities. This has given rise to increasingly expensive valuations and a correction of sorts is underway, which is helping to reduce prices to more sensible levels. In the meantime, some of the market’s excitement with IPO and fundraising activity seems to be waning as the year progresses, proving that this is an environment in which to be increasingly selective.



Paul Jourdan
Fund Manager



Douglas Lawson
Fund Manager



David Stevenson
Fund Manager

16 May 2014

TOP TEN HOLDINGS

Top Ten Holdings as at 31 January 2014	(%)	Top Ten Holdings as at 31 January 2013	(%)
Optimal Payments	4.0	Idox	4.8
STV Group	3.9	Xaar	3.0
Vectura	3.0	Asian Citrus	3.0
Photo-Me International	2.7	Sabien Technology	2.9
Eservglobal	2.6	Entertainment One	2.8
Tribal Group	2.6	Vectura	2.4
Earthport	2.4	Earthport	2.3
Elementis	2.4	Iomart Group	2.3
Vertu Motors	2.3	Anite	2.1
Entertainment One	2.2	Victrex	2.1

PERFORMANCE

Share Prices and Revenue

Calendar year	A Accumulation shares			B Accumulation shares		
	Highest price (pence)	Lowest price (pence)	Net revenue accumulated per share (pence)	Highest price (pence)	Lowest price (pence)	Net revenue accumulated per share (pence)
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	474.16	367.76	-	533.35	411.02	0.6495
2014 ¹	498.65	476.74	-	561.04	536.27	1.1712

¹Prices to 31 January and net revenue to 31 March.

Net Asset Values

Date	A Accumulation shares			B Accumulation shares		
	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
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
31 Jan 2014	2,012,818	478.40	9,629,297	576,238	538.44	3,102,706

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

Performance	Cumulative returns for the periods ended 31 January 2014 (%)			
	1 year	3 years	5 years	10 years
A Accumulation Shares	24.68	32.08	236.93	188.82
B Accumulation Shares	25.49	34.71	248.15	208.81
Numis Smaller Companies Index (Inc AIM, ex Inv Trust)	26.65	39.90	201.01	155.89

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

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. The above performance data, for periods prior to this date, is relevant for 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.

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OTHER INFORMATION

The Company

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