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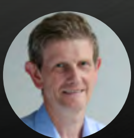
WS AMATI UK LISTED SMALLER COMPANIES FUND

Quarterly Review

September 2023



By
Scott McKenzie, Fund Manager

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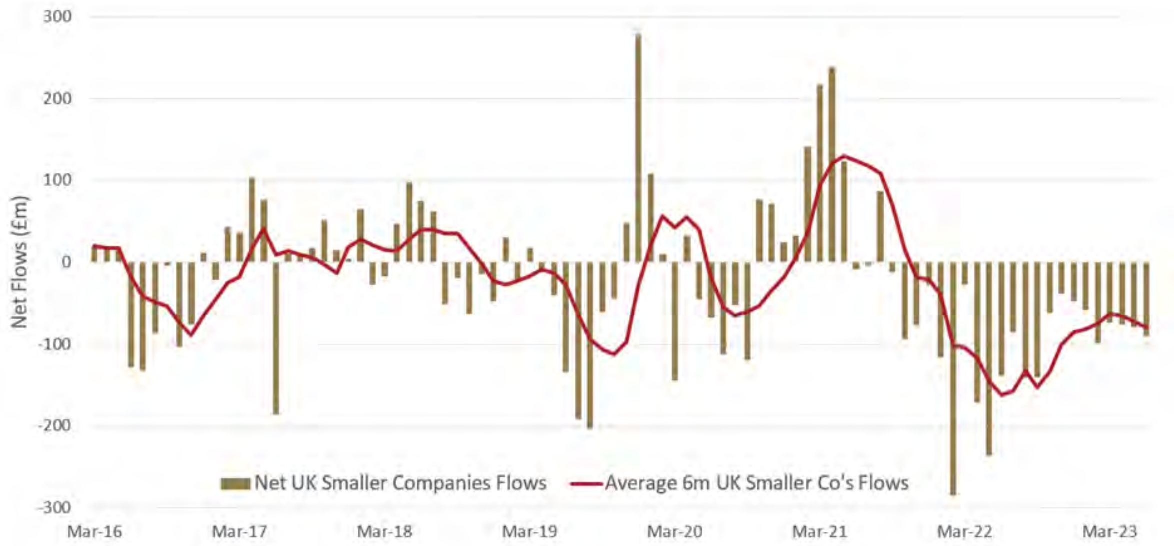
Markets continued to drift slightly over the summer and the Fund fell by 1.9% against a fall in our Numis Smaller Companies plus AIM (excluding Investment Companies) benchmark of -1.3%. Outwith the UK we saw larger falls in global markets with the US indices seeing some profit taking after good gains during the first half of 2023.

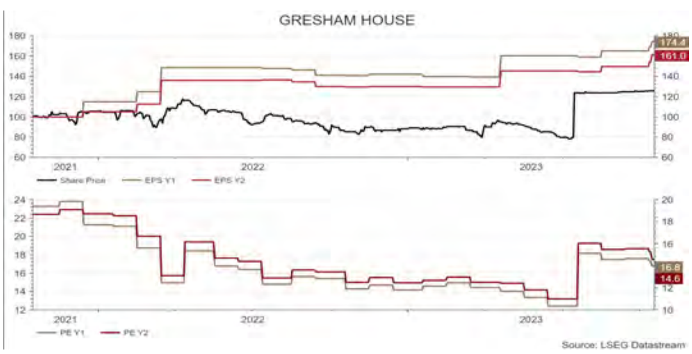
As we discussed in our previous quarterly review there is continued pressure on the valuations of UK listed companies as a result of fund outflows across the UK equity market generally. This trend has continued from 2022 into 2023 and has been exacerbated by the rise in interest rates that we have seen over the past year which have made returns on cash deposits attractive for the first time in many years. In the UK Smaller companies sector this is having a disproportionate effect on what can be an illiquid asset class and we have seen the AIM market in particular being affected by this ongoing trend.

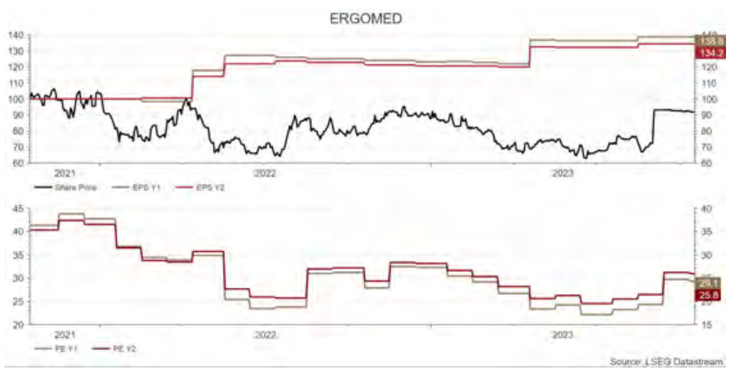


Source: Panmure Gordon, Refinitiv as at 31/07/2023

On a more positive note we do now see some light at the end of the tunnel with regard to interest rates and inflation here in the UK and indeed elsewhere. After almost two years of monetary tightening we finally saw a pause in rate hikes from the Bank of England in September. This was in response to a better than expected inflation report that month which has brought hope that we are getting closer to peak base rates now in the UK. It remains to be seen how quickly inflation will fall from here but we do believe that there is scope for further improvement between now and the end of the year.

Turning to the performance of the Fund we did see a number of positive contributors during the quarter and we would highlight in particular the return of takeover activity within the portfolio. We saw agreed bids from private equity for two of our holdings , Gresham House and Ergomed





Source: LSEG Datastream

P/E = Price to earnings

EPS = Earnings per share (A company's net profit divided by the number of shares it has outstanding)

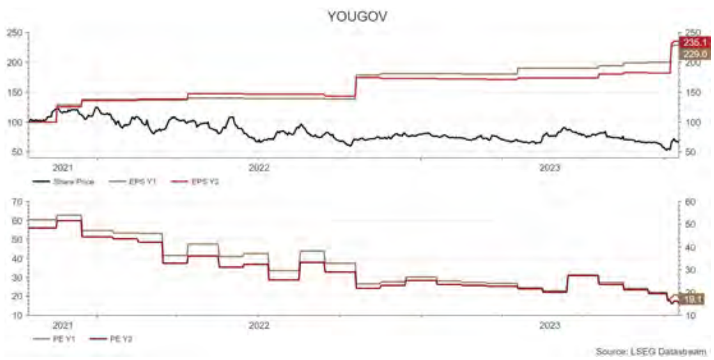
Gresham House is an alternative asset manager which has continued to grow consistently in recent years despite headwinds from rising debt costs and weaker asset markets more recently. We have been invested in the business for several years and have been disappointed by the poor valuation investors have recently attached to the company, so it's with something of a heavy heart that we have accepted an offer at a healthy premium here. The other takeover announced was in healthcare services provider **Ergomed**. This is something of a similar story to Gresham House with the company being lowly valued by the UK market leading to an agreed private equity transaction. In both cases we are sorry to lose such good businesses from the fund, but we do have some sympathy with the management of both companies who were clearly frustrated by their low valuations as listed companies.

The pause in interest rates was also helpful for the performance of some of the more cyclical elements of the portfolio and we saw good recoveries in two of our retail holdings, **Victorian Plumbing** and **Wickes**. Despite the challenges facing consumers both of these companies appear to be taking market share in tough markets. Our main housebuilding investment **Vistry** also fared well with the company maintaining guidance despite a deterioration in new house sales over the summer. More importantly they announced a big strategic review which will mean that they will shift further into affordable housing partnerships and away from purely new home sales over the next few years. We think that this makes them fairly unique amongst major housebuilders and aligns them to the future housing policies of both Labour and the Conservatives.

Other notable contributors included **Ashtead Technology** which has continued to perform strongly, with demand from the renewables and oil and gas sectors for its equipment remaining robust. A new holding in ticketing business **Trainline** also made a positive initial contribution as rail tickets sales continue to recover and the company announced a share buy back.

Offsetting these positives we did see weakness from a couple of holdings. The biggest disappointment for the fund came from one of our larger holdings, the mortgage bank **OSB**. In July they announced provisions related to changes in the accounting treatment of a small part of their buy-to-let mortgage book and this caused the shares to fall sharply. Whilst this should have a very limited impact on their ability to return capital to shareholders, in a nervous market the shares fell materially and have yet to recover. The build to rent property developer **Watkin Jones** suffered from another profit warning as their investors continued to postpone investment decisions in the light of ongoing interest rate volatility. The CEO of the company has now left the business and a strategic review is ongoing. The performance of a recent IPO, **CAB Payments**, has also been disappointing so far and the shares trade well below the flotation price, despite confirming their 2023 targets in a recent trading update.

In more general terms we continue to see share price pressure on companies which are exposed to the broader technology sector in the UK, and despite quite a lot of weakness already in this area some of the more highly rated businesses in the portfolio continue to de-rate, including holdings such as **Big Technology**, **discoverIE** and **Accesso**.



Source: LSEG Datastream

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We continue to introduce new holdings to the portfolio and are finding lots of opportunity in high quality growth stocks which have been significantly derated in recent years.

An investment was made in ticketing platform **Trainline**, which is a market leader in digital rail tickets here in the UK and is expanding rapidly into Europe with good positions in markets such as Italy and Spain. It is a business we have tracked for some time and it is set to grow strongly from here after a period of considerable investment. Another new holding is the digital research business **YouGov**. Again it is a company we have known well for a number of years but it is only more recently that the valuation has fallen to attractive levels for the Fund to invest in the shares. They have recently announced a major European acquisition which we think will enable YouGov to become a truly global business. A small investment was also made in an exciting emerging growth company, **Kooth**.

Kooth operates a platform offering mental health support to children and young people. Having built a strong foundation here in the UK they have recently won a major contract in California. This has potential to transform the company from here and the Fund has taken a modest initial holding reflecting the high risk and reward profile it offers.

One of the benefits of the takeover approaches we have seen in Gresham House and Ergomed is that we have been able to realise the value in both of those businesses and sell our holdings in the market ahead of the takeovers completing. We also sold our holding in online retailer **Gear4Music** during the period. This was a small AIM-listed business which had seen some share price recovery from very low levels. These sales have enabled the Fund to keep making the new growth investments we referred to previously whilst maintaining a strong liquidity profile and keeping a positive cash balance for further investments. We think that this management of liquidity is a crucial advantage in what remain difficult markets for investors in UK smaller companies.

The summer months have undoubtedly been challenging and the poor sentiment attached to the UK equity market continues to act as a drag despite trading conditions in the UK being no worse than the gloomy commentators would have you believe. Most market analysts would now acknowledge that UK smaller companies are currently an exceptionally cheap if unloved asset class, but it is clear that more has to be done to revive investor interest in UK smallcap, with the Chancellor, the FCA and the LSE all looking at possible solutions to incentivise increased investment and listings in UK growth businesses.

We continue to believe that there is compelling value in UK public markets and we expect to see a pickup in takeover activity reflecting these current low valuations. Many of our holdings are already discounting a significantly worse economic outcome than we foresee, and we remain focussed on owning companies with strong balance sheets, high profit margins and proven management teams. These are the types of businesses which should be able to prosper during any downturn and come out stronger than before. If liquidity conditions improve and outflows reduce then we believe there is considerable scope for recovery in the UK smaller company sector from today's very low starting point.

Should you wish to hear the audio/video presentation from the fund manager, please click **here**.

Sales Team Contacts

Rachel Le Derf
Head of Sales & Marketing
rachel.lederf@amatiglobal.com
07979601223

Colin Thomson
Head of Intermediary Distribution
Northern England, Scotland & NI
colin.thomson@amatiglobal.com
07884026517

Jonathan Woolley
Sales Director
London, Midlands, SW England & Wales
jonathan.woolley@amatiglobal.com
07818203013

Thomas Whitfield
Sales Director
London & SE England
thomas.whitfield@amatiglobal.com
07714839155

Samantha Dalby
Sales and Insights Manager
samantha.dalby@amatiglobal.com
+44 (0) 131 503 9116

Olivia Pattison
Senior Sales Support Executive
olivia.pattison@amatiglobal.com
+44 (0) 131 503 9126

Milly Stevenson
Sales Support Executive
milly.stevenson@amatiglobal.com
+44 (0) 131 503 9125

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. Full details of the WS Amati UK Listed Smaller Companies Fund, including costs and risk warnings, are published in the Prospectus of the WS Amati Investment Funds. This factsheet does not provide you with all the facts that you need to make an informed decision about investing in the Fund. You need to read the associated Key Investor Information Document (KIID) and the Supplementary Information Document (SID) and decide whether to contact an authorised intermediary. If you do not already have a copy, please contact Waystone on 0115 988 8275 (https://www.waystone.com/our-funds/waystone-fund-services-uk-limited/). The SID details your cancellation rights (if any) and the KIID shows you how charges and expenses might affect your investment. Tax rates, as well as the treatment of OEICs, could change at any time.

Smaller Companies - Investment in smaller companies can be higher risk than investment in well established blue chip companies. Funds investing significantly in smaller companies can be subject to more volatility due to the limited marketability of the underlying asset.

Please ensure you read the Risk Warnings above. Before making an investment, you should ensure that you have read and understood the relevant Key Investor Information Document, available from Smaller Companies Fund Literature.

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