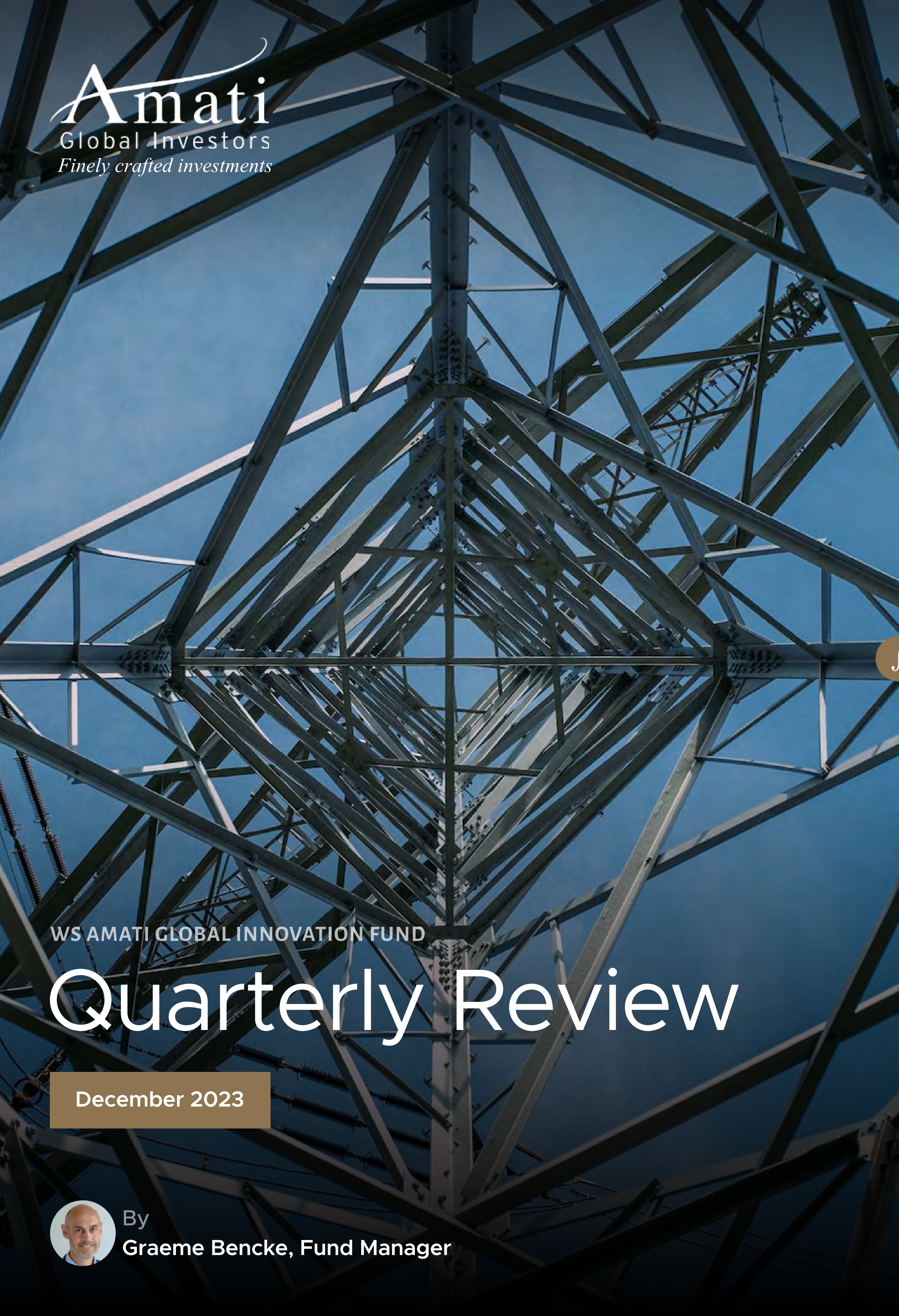

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WS AMATI GLOBAL INNOVATION FUND

Quarterly Review

December 2023

By
Graeme Bencke, Fund Manager

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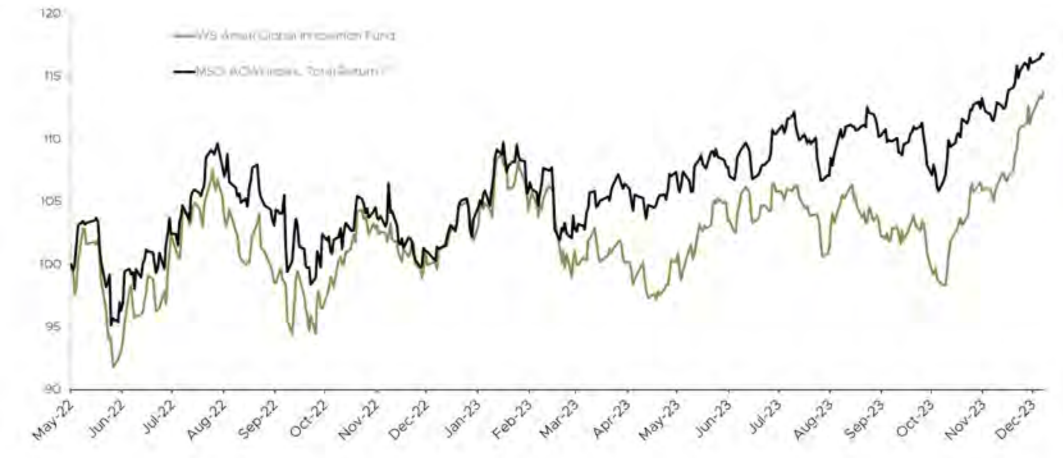
The global equity markets in the fourth quarter of 2024 were overwhelmed by a sharp reversal in inflation expectations and hence the interest rate outlook. The US Consumer Price Index (CPI) declined by more than expected in October, falling below expectations and comfortably below the prior reading. Even US Treasury secretary Janet Yellen confirmed inflation was coming down “meaningfully.” As a result investors moved quickly to anticipate a soft landing in economic conditions rather than a ‘hard’ recession. The positivity spread beyond the previous very limited focus on the now famous ‘Magnificent 7’ companies, with many mid and smaller sized stocks performing well into year end.

Beyond the knee-jerk change in sentiment we believe the timing was helpful looking into 2024 as many companies face a more buoyant outlook just as they are setting budgets for the coming year. This is likely to benefit capital investment which has seen considerable restrictions in the face of the universally expected recession.

In this context many of the fund’s holdings performed well over the period with the consequence that the portfolio overall returned 10.6% against a 6.3% return from the benchmark (MSCI All Countries World Net Total Return in GBP).

Figure 1: Fund performance vs benchmark



Source: Refinitiv

Novozymes was the strongest contributor to performance over the period of review following a positive Q3 earnings report and upgraded guidance into the end of the year. The short term investor concerns regarding supply chain destocking appear to have been overdone and again highlight, in our view, the perils of trying to trade quarterly fluctuations. As the merger with Chr. Hansen approaches fruition, attention should start to move back to the fundamental opportunities for the combined business across their strong microbial culture product offerings. The Danish powerhouse created by the merger brings together two of the best positioned companies in these segments with expanded opportunities for product development and growth that is far from priced into the stock.

PTC, the US listed design software group, enjoyed a similarly positive performance after their quarterly update. The core Windchill and Creo products continue to perform well and drive growth in recurring revenues. PTC remains exceptionally well positioned as a beneficiary of the continued improvements in design and simulation, combined with the early stages of the revolution in generative artificial intelligence. The recent expansion post-design into monitoring and management of equipment deployed in the field provides an additional avenue for growth and deepening customer relationships. Both PTC and Novozymes remain amongst our largest holdings.

A third positive contributor to the quarter was **MOOG**, the US based motion control equipment provider. MOOG’s products are a crucial component of control for equipment across aviation and defence, industrial equipment and even space. MOOG’s precision components are relied upon in numerous mission critical applications such as control panels on aircraft or missiles, in scanning and diagnostic healthcare equipment and even Formula One. The company’s renewed focus on growth and profitability has been largely unappreciated by investors but was partially rewarded by a strong quarterly report in November and upgraded guidance for 2024. We feel the shares have plenty more to offer as the relatively new management team continue to deliver on their roadmap.

While the outperformers materially outnumbered the weaker companies over the period there are always relative losers as well as winners. **Jacobs Solutions** weakened in November following the release of their fiscal fourth quarter results. Guidance for the US listed engineering group was more conservative than expected for 2024 and the mechanics of the upcoming spin-out of the Critical Mission Solutions division remained somewhat opaque. This combination of factors was an incremental disappointment to near-term hopes, but in our view do not alter the investment case. As a more streamlined business post the divestment, Jacobs' core engineering and consulting capabilities remain exceptionally well placed to benefit from the innovation investment that is driving infrastructure and energy spending, as well as life sciences, space and advanced manufacturing.

Edenred, the French employee benefits group, fell in early October on news of a review of pricing in a segment of their French paper vouchers business. Despite the share fall significantly over-compensating for any possible negative actions, the review concluded with no change to the status quo, suggesting a storm in a teacup. However, despite a consistent rally in the shares from the November lows, the more defensive nature of the business caused it to lag the full extent of the 'risk-on' sentiment of the broader market. We continue to see a very attractive opportunity for the business over the coming five years, and the impending spin-out of competitor, 'Pluxee', from within Sodexo should help to remind investors of the attractive fundamentals.

The final quarter of the year remained difficult for UK listed **Indivior**, despite the litigation settlement and the continued growth in demand for opioid addiction treatments. A more conservative guidance for their Schizophrenia product led to some disappointment around their third quarter results but did not warrant the share price reaction in our view. The company's decision to increase their share buy-backs suggest they agree with us. Looking forward we expect the clouds to lift from the shares over the coming year as investors look past the recent litigation issues to the wider opportunities from the huge unmet need in the opioid crisis.

During Q4 we added three new names to the portfolio, **Impinj**, **Avery Dennison** and **Eli Lilly** and divested of two others, **Nordic Semiconductor** and **Ciena**. Our work looking at improving supply chain automation and industrial automation highlighted the rising importance of radio frequency ID tags (or RFID). While not a new technology, recent innovation has led to a pronounced reduction in costs per tag which is taking the devices into mainstream applications. The tiny semiconductors can assist in tracking goods along the full warehousing and delivery chains leading to improvements in speed of processing, more granular monitoring of inventories and even a reduction in losses. As a result, more and more businesses are looking to roll them out with notable adopters including Walmart, Inditex (Zara, Massimo Dutti) and UPS. Our investment approach is based around identifying innovations which are proven, but still at an early stage in their lifecycle and so these developments piqued our interest. After assessing the landscape, we concluded that there are several players who are strategically advantaged and stand to materially benefit as this technology rolls out. Impinj is a pioneering US listed semiconductor group which is the leading provider of RFID chips and holder of important process based intellectual property. We added the stock on the weakness caused by short term noise in their own stocking cycle, again benefitting from the market's obsessive short term focus. The other company that surfaced during our analysis was Avery Dennison, also US-listed but a much more mature business with an incredibly strong position in the provision of labels and associated materials. Avery is a clear adopter and beneficiary of RFID tags with an unmatched customer base and reputation. Their scale and reliability advantages create a wide competitive moat but again the growth potential is mispriced in our view.

The two divestments were both positions that we have held since the fund inception, but where the investment case has not developed as we expected. For Norwegian company, **Nordic Semiconductor**, the weakness in consumer electronics over the past 2 years has led to disappointing sales of their newer generation Bluetooth chips. Despite the fact that the end market is now improving, there are signs that Nordic is lagging its competitors in design-ins for new products, suggesting erosion of their competitive strength during this hiatus.

In case of **Ciena**, the US listed optical communication equipment supplier, we are concerned that the recovery and growth in the photonics market will accrue more to their suppliers such as Lumentum and Fabrinet, and that in some cases component suppliers can start competing with Ciena's products more directly. We felt it prudent to stand aside in both cases at least until the outlook is less uncertain.

The key characteristic of our investment process is identifying areas of innovation where we see significant economic value added and on companies pursuing that innovation where this value is not fully recognised by the market consensus. While we take note of macro and geopolitical risks across our research these are not the drivers behind our investment decisions. Indeed our 3-5 year time horizon on investments is designed to remove the short term cyclical 'timing' element from our decisions in order to focus on the structural growth stemming from the innovation and change.

As mentioned above, we purchased a position in **Eli Lilly** during the quarter. The US pharmaceuticals giant is a meaningful beneficiary of the new 'GLP-1' weight loss drugs and has performed well as a result. However, having focused significant attention on this innovation area we believe the prospects are still markedly underappreciated. Lilly's novel 'direct to consumer' approach, broader product efficacy and burgeoning pipeline of new products offer considerable upside over our investment horizon. Equally interesting, however, is the impact these new compounds have had on other areas within healthcare. Investors have been characteristically quick to discount declines in the need for diabetes treatments, bariatric surgery and even fast-food consumption as a result of the new drugs. Clearly in the long run there is the potential for these drugs to have a meaningful impact on alternative weight loss therapies and for treatments of comorbidities, but this will take time. In the meantime we have taken the opportunity to add to positions impacted by the noise. **Intuitive Surgical** is one such example where we increased our position earlier in the period ahead of their strong earnings 'surprise' just after the period end.

We don't aim to second guess whether the dovish investment community or the more balanced central bank cohort will ultimately prove correct about the trajectory for interest rates. Instead, we continue to look for and hold strong companies which benefit from innovation and can grow over the next few years regardless of which group is ultimately proved right.

Should you wish to watch the video summary with the fund manager, please **click here**.

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