Amati Global Investors
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WS AMATI UK LISTED SMALLER COMPANIES FUND

# Quarterly Review

December 2023

By
**Scott McKenzie, Fund Manager**

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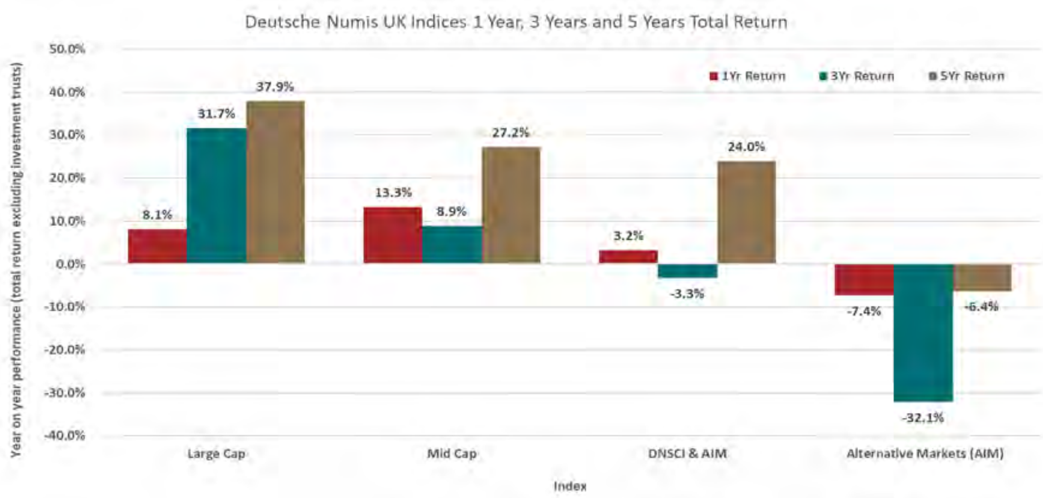
After a very difficult period in October global markets saw a strong recovery in the final two months of 2023, driven by hopes that interest rates may have finally peaked in most of the key economies. The Fund rose by 3.2% during the final quarter against a rise in our Numis Smallcap plus AIM benchmark of 6.9%. However, the UK market in general continues to lag other world markets, notably the US, where very strong performance from large tech companies and NASDAQ made 2023 a vintage year.

Looking at our universe the small and midcap indices finished the year strongly and returns ended up ahead of UK largecap for the year as a whole, as shown in the chart below. It is notable though how the AIM market in particular continues to lag materially, with liquidity at the lower end of the UK market in general remaining problematic. Our exposure to the AIM market has proven to be a significant headwind for the Fund in recent years and AIM has also suffered from a dearth of new company IPOs coming to the market.

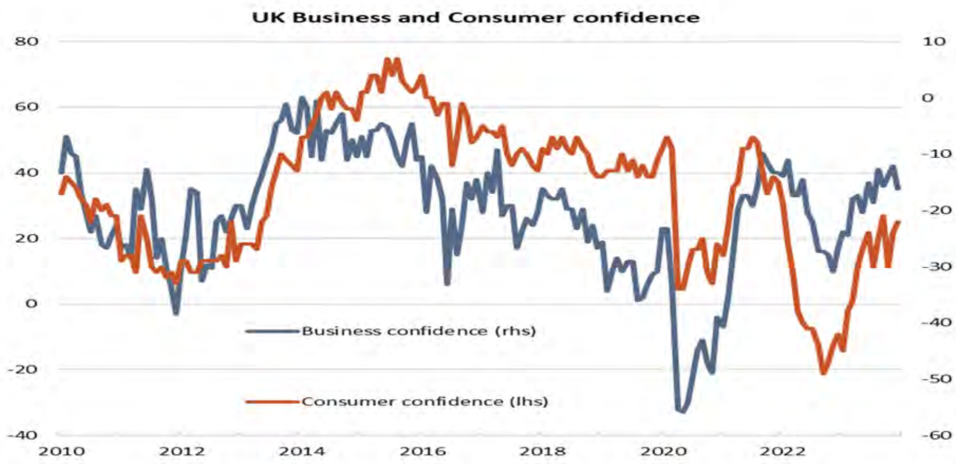



Source: Deutsche Numis as at 31/12/23

Despite ongoing conflict in the Middle East risk assets began to rally over the three months , particularly in interest-rate sensitive sectors of the markets. Having risen to fifteen year highs as recently as October, US Treasury yields fell nicely towards the end of the year, and this spilled over into the UK, where 10 year gilt yields reduced sharply, from 4.5% in October to 3.6% at the year end.

UK economic data overall remains very mixed with a negative third quarter GDP number being offset by rapid falls in UK inflation, with a reading of 3.9% in December being far better than expected. This is now being reflected in improving consumer and business confidence, driven by rising real wage growth and early signs of better conditions in the mortgage market. There is now increasing optimism that interest rates have not only peaked but may be in a position to start falling in 2024.

The welcome reduction we have seen in gilt yields recently may begin to provide some respite to mortgage holders, businesses and governments as debt financing costs look to have peaked. UK economic growth will remain moribund and the outlook therefore remains somewhat fragile and volatile, but there are increasing grounds for optimism.




Source: Berenberg as at 31/12/23

Turning to the performance of the Fund, whilst we finished the year relatively strongly it was a disappointing quarter overall and a challenging year, with the Fund well behind its benchmark.

We did however see a number of positive contributors during the quarter. The first key positive theme was a sharp recovery in a number of the more interest rate sensitive stocks in the Fund, with the improvements in inflation and falling bond yields boosting our large holdings in buy-to-let mortgage bank **OSB Group** , housebuilder **MJ Gleeson** and building products distributor **Brickability**. All of these businesses saw sharp price recoveries from a low valuation point, with OSB in particular having suffered during the summer months . Another pleasing trend was the recovery in a number of quality growth businesses which had been oversold. These included our new holdings in **YouGov** and **Trainline** as well as established growth companies such as **Craneware** and **Bytes Technology**. All of these businesses delivered upgrades to expectations during the period. Once again **Ashtead Technology** was a notable performer and was boosted by an attractive UK acquisition. An earlier stage business, **Creo Medical**, also made strong progress in commercialising its key surgical product.

Offsetting these positives there was weakness in a number of holdings. The biggest disappointment for the fund has been the performance of a recent IPO, **CAB Payments**, which had a profit warning in October and fell sharply. Another major laggard was **XP Power**, where the company had to raise equity at a discounted price to reduce debt. There were also some smaller businesses which warned on profits and endured major price falls, notably **The Pebble Group** and **Randall and Quilter**. The US-based pharma business **Indivior** struggled to convince investors that its recent litigation battles were now behind them and the shares remain depressed.

Having endured a number of such disappointments in recent years we took action to deal with some of the problem children during the latter months of the year. Holdings such as **CMC Markets**, **Randall & Quilter**, **Energean** and **i3 Energy** were sold and we continued to build positions in growth companies such as **Keywords** and **YouGov**. In difficult cases such as **CAB Payments** and **XP Power** we took the decision to increase the holdings at what we believe will prove to be severely depressed valuations. Overall much has been done in recent months to reduce our exposure to smaller, less liquid companies across the portfolio in general and the liquidity position in the Fund is healthy, with a cash balance of just over 5% available for further investment.

These changes have been made to ensure that the Fund puts the recent difficult performance behind us, allowing us to enter 2024 with increased confidence that we have a portfolio of high quality businesses with significant upside potential. The chart below highlights the changes in valuation we have seen in the Fund over the past two years. We remain focussed on owning companies with strong balance sheets and proven management teams. These are the types of businesses which should be able to prosper during challenging times and emerge stronger than ever.

| Valuation (12m forward) | Fund 31/12/2023 | Quest UK SMID 31/12/2023 | Fund Q3 2021 30/09/2021 |
|---|---|---|---|
| PE ratio | 12.3x | 11.2x | 25.4x |
| EV/sales | 2.7x | 1.4x | 4.8x |
| Dividend Yield | 3.1% | 4.0% | 1.8% |
| Price to book | 1.8x | 0.8x | 3.6x |
| EV/EBITDA | 7.6x | 6.8x | 11.3x |
| FCF Yield | 5.3% | 7.0% | 3.7% |
| Net Debt/EBITDA | 0.2x | 1.3x | -0.9x |
| EBIT margin | 19.6% | 13.1% | 17.3% |

Source: Canaccord Quest / S&P Capital IQ, Amati Global Investors

As we look ahead it is crucial that action is taken to re-establish the UK market as an attractive place for companies to list and raise capital, especially in the AIM market where confidence is low. Market sentiment towards UK equities is fragile and we continue to see outflows from UK equity funds, continuing the weak trend of recent years. However, in recent months we detect a far broader acknowledgement of the issues which have been holding back UK capital markets and we are seeing a greater sense of urgency from the Chancellor, the FCA and the LSE, all of whom are actively looking at possible solutions to incentivise increased investment and listings in UK growth businesses. These initiatives are broadly supported across the political spectrum.

Whilst the environment for UK smaller companies continues to be challenging, there have been signs of light at the end of the tunnel, with the small and midcap indices showing good recovery in the final quarter. It should not take much for confidence to improve and we have seen a number of takeover bids for smaller businesses in recent weeks. This confirms our belief that there is compelling value on offer in UK public markets. We look to the year ahead with confidence and we are fully committed to improving our investors' returns in 2024 and beyond.

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

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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. 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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