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WS AMATI UK LISTED SMALLER COMPANIES FUND

Quarterly Review

March 2024

By
Scott McKenzie, Fund Manager

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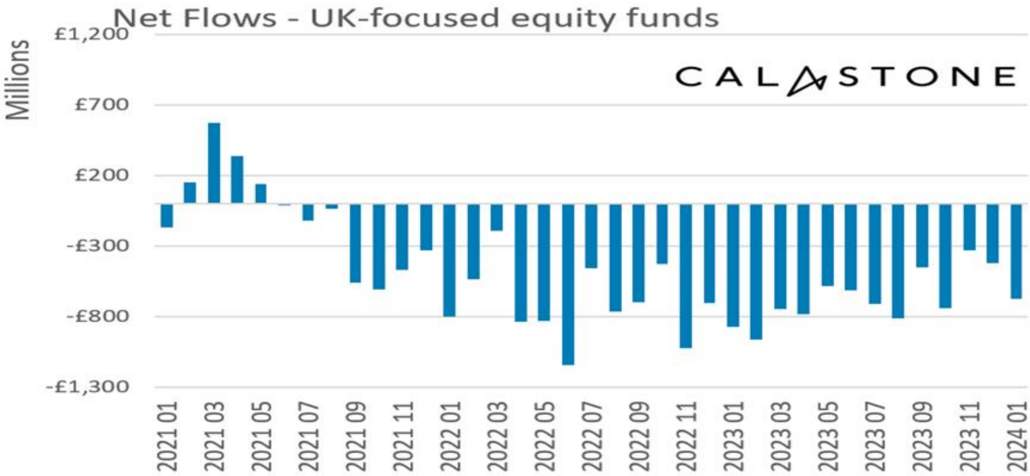
Hi, I'm Scott McKenzie, part of the investment team here at Amati who manage the UK Listed Smaller Companies Fund. Welcome to our latest quarterly review for the three months ending 31st March 2024.

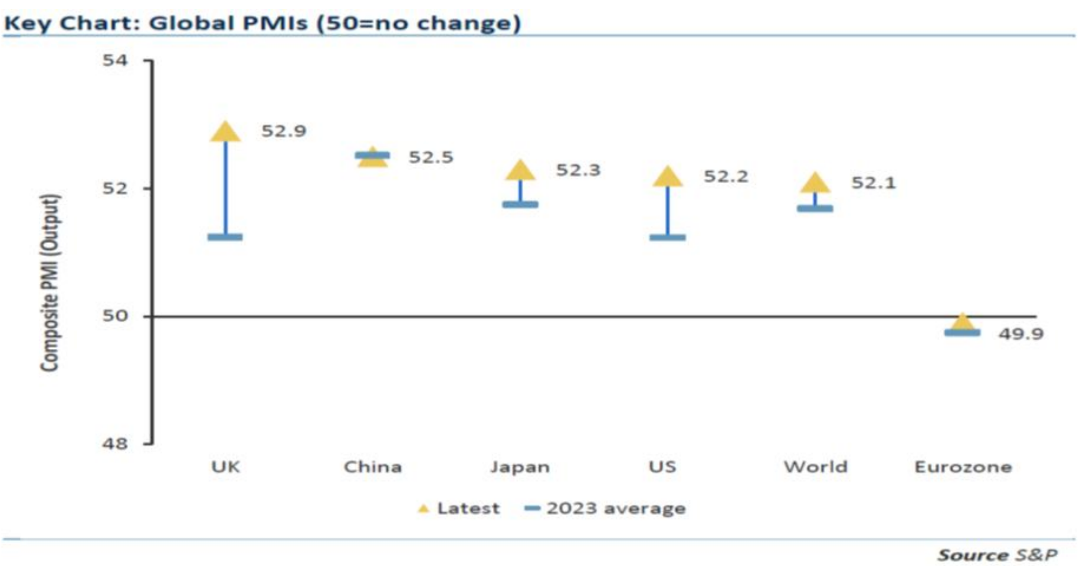
After a strong recovery in the final quarter of 2023, it was a more sedate start to 2024. The Fund fell by -0.3% during the first quarter against a decline in our Deutsche Numis Smaller Companies plus AIM benchmark of -0.8%. The UK market continues to lag the key global markets, with the US, Europe and Japan all delivering strong, positive returns over the quarter. UK smaller companies and AIM remain out of favour, with liquidity at the lower end of the UK market in general remaining problematic.

These trends in market performance continue to be reflected in UK retail fund flows, and the first quarter saw yet another outflow from UK equity strategies as shown in the chart below. There was a corresponding inflow into US equity funds despite the markets there reaching all time highs.

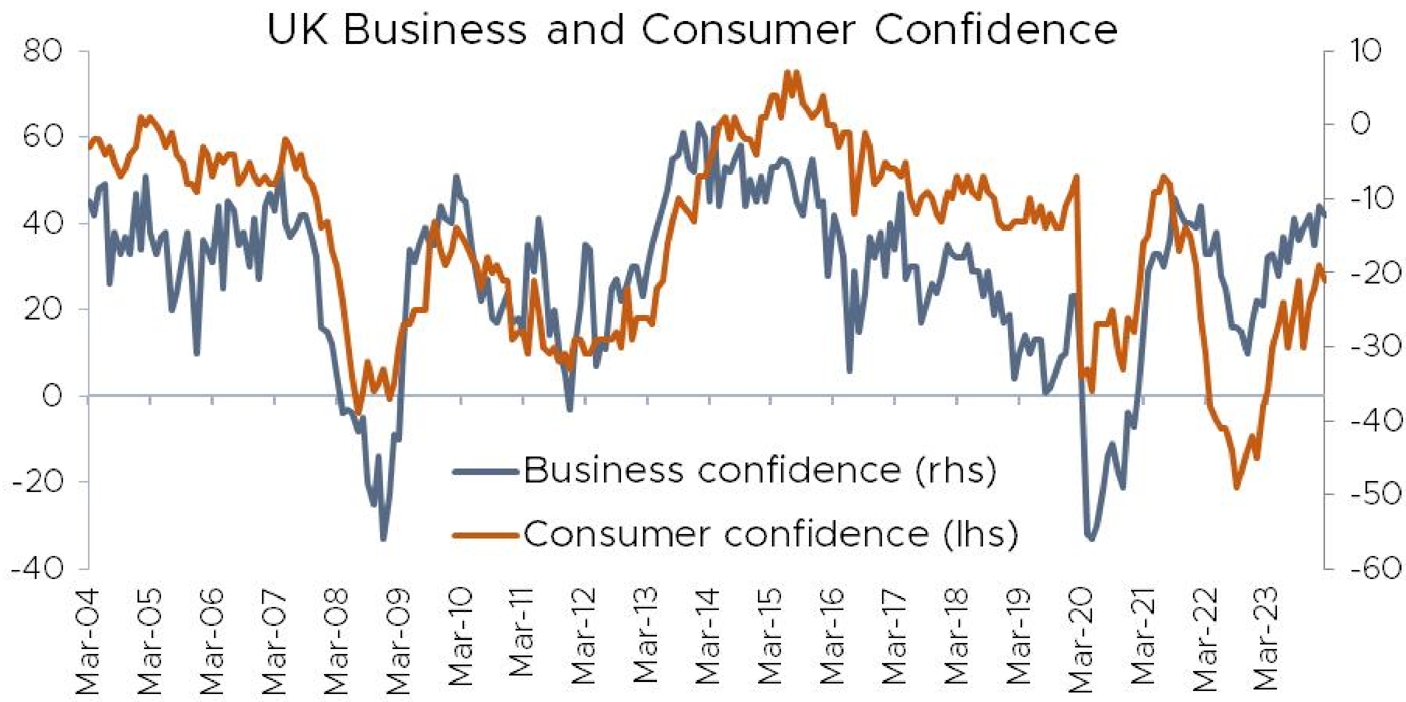


Global equity markets continued to move upwards during the period as investors responded well to a generally positive results season and an improving economic growth backdrop. The momentum effects seen in global equities in late 2023 persisted into the first quarter with markets reaching new highs during March in the US, Europe and Japan. Rate cut expectations have been tempered somewhat across the UK, US and Europe with no major policy announcements from central banks of late and we saw a rise in government bond yields over the quarter as the year end optimism faded.

However, there was a notable improvement in the PMI surveys globally, with all major economic blocs reporting an upturn in these indicators during March. Despite reports to the contrary the UK economy also saw improved confidence numbers leading to a positive outlook overall.



UK economic data overall remains pretty mixed but the shallow recession confirmed in the Q4 GDP data appears to be showing signs of reversal already, with the main business and consumer surveys suggesting some improvement and UK inflation continuing to fade. There is a perception that interest rates have peaked and may start to decline in the months ahead and we are already seeing better conditions in the mortgage market along with a modest uptick in house prices and stronger activity levels. The recent Budget was accompanied by more positive forecasts from the OBR for GDP and inflation and there were some initial attempts at capital market reform with the introduction of the 'Brit ISA' and increased UK pension fund disclosure.



Source: Berenberg, as at 15/03/2024

Turning to fund performance, we saw a modest outperformance against our benchmark, with the Fund falling by -0.3% during the first quarter against a decline in our Deutsche Numis Smaller Companies plus AIM index of -0.8%. This quarter was a period of consolidation after the recovery seen in late 2023.

We did however see a number of positive contributors during the quarter and several of our larger holdings performed particularly well. Vistry rose 34% as investors began to appreciate the merits of its move towards partnership housing whilst Qinetiq rose 17%, benefitting from ongoing concerns about under spend in the global defence sector. Indivior enjoyed a strong recovery (+42%), announcing a share buyback whilst beginning to convince investors that its recent litigation battles are now behind them. The Fund benefitted from takeover activity in Spirent, which saw two competing bids and rose by 66%. A new holding in alternative asset manager Pollen Street also made a positive initial contribution, supported by strong asset growth and a buyback announcement. Advanced ADVT attracted new investor interest in its recent M&A and rose by 55%. Momentum remained strong for two of our best performers at the end of 2023 - once again specialist hire provider Ashtead Technology delivered, rising by 24% whilst healthcare software business Craneware rose by a further 27%. Other notable positives were communications service provider Gamma, which rallied by 22% in response to positive results and a share buyback being announced, and Trainline, which rose by 18% as analysts upgraded their expectations once again.

These strong performers were offset by others which let us down. Most notable was vets business CVS, where the prospect of a full CMA investigation caused the shares to fall by 43%. Mortgage lender OSB Group saw their shares fall by 10% as they guided to lower interest margins in 2024 and a smaller share buyback than anticipated. Keywords Studios remained friendless, falling a further 22% despite delivering results as expected. We were impacted by some profit warnings – Halfords again struggled with poor weather and weak markets and fell by 17% whilst Big Technologies lost a contract in Latin America and fell by 24%. Some of the smallest businesses in the portfolio also suffered – Inspecs fell by 43% on a profit warning and Watkin Jones dropped by 27%, despite results which were largely uneventful and well flagged. Creo Medical saw significant profit taking and fell by 27%.

In terms of portfolio activity, two new holdings were added to the Fund, both in the alternative asset management sector. Pollen Street is a fast growing manager, with a focussed niche in European private equity and credit, backed by a strong tangible asset base. Foresight is invested predominantly in real assets. Fundraising has been temporarily impacted by rising interest rates, leaving the shares offering excellent long term value. We added further to Alpha Group, which is a relatively new holding and now a key investment for the Fund. We took further profit in Ashtead Technology after a stellar performance and also in Craneware and Vistry, where the position sizes had become significant following recent strong runs. We also took advantage of the takeover bid to begin reducing our holding in Spirent. Three holdings were sold during the quarter – Kainos, Alphawave and CVS Group. The latter was particularly disappointing given the damage which has been done by the possible CMA investigation. As part of our ongoing refocussing of the portfolio several very small positions were also sold, leaving the Fund with 62 investments overall.

We continue to focus on capturing the upside within the Fund, improving the liquidity profile whilst introducing new businesses with exciting prospects. We approach the rest of 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 since valuations peaked in late 2021 and how attractive the valuation metrics appear today. We remain focussed on owning companies with strong balance sheets, high returns and proven management teams. These are the types of businesses which should be able to prosper during challenging times and emerge stronger than ever.

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Portfolio Valuation Metrics

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

Valuation (12m forward)	Fund 31/03/2024	Quest UK SMID 31/03/2024	Fund Q3 2021 30/09/2021
PE ratio	12.0x	11.5x	25.4x
EV/sales	2.9x	1.4x	4.8x
Dividend Yield	3.3%	3.9%	1.8%
Price to book	1.8x	0.8x	3.6x
EV/EBITDA	7.8x	6.8x	11.3x
FCF Yield	6.5%	6.3%	3.7%
Net Debt/EBITDA	0.1x	1.2x	-0.9x
EBIT margin	22.4%	13.6%	17.3%

Given the ongoing challenges UK equity funds have faced from the relentless outflows we have seen in recent years, it is important to note that the valuation attributes we highlight above are now being noticed by others. One particularly supportive trend is the significant increase in share buybacks now being undertaken by UK listed companies. Indeed, of the ten largest holdings in the Fund no less than nine of them are currently doing buybacks. This is unprecedented in the history of the Fund and demonstrates not only the attractive valuations of the businesses but also their financial strengths.

It has been a slow start to 2024 for UK smaller companies but we firmly believe that there are increasing grounds for optimism. Many of the issues which have been holding back UK capital markets (and AIM in particular) are now receiving greater attention from the Chancellor, the FCA and the LSE amongst others, and the need for change is broadly supported across the political spectrum.

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Top 10 Fund Holdings – Share Buybacks A Key Feature

Source: Amati Global Investors as at 31/03/2024

*(Companies undertaking share buybacks marked *)*

Company	Portfolio Weighting	Description
Qinetiq Group plc *	4.0%	A science and engineering company, providing products and services to Western defence and security markets.
Trainline Plc *	3.1%	UK online rail ticketing platform.
Vistry Group plc *	2.9%	UK housebuilding and social housing partnerships.
Alpha Group International *	2.9%	High-tech, high-touch financial services firm offering corporate treasury services internationally and alternative banking solutions for offshore funds.
OSB Group Plc *	2.8%	Specialist UK buy-to-let mortgage lender
Gamma Communications *	2.8%	A provider of integrated digital communications to corporates and the public sector in Western Europe, underpinned by cloud transition.
Pollen Street Group *	2.6%	Pollen Street is an alternative asset manager specialising in private equity and private credit, with a focus on the fintech and financial services sectors.
Indivior Plc *	2.5%	Pharma company focused primarily on the treatment of opioid addiction.
Grainger Plc	2.4%	Market leading residential property owner and manager
Accesso Technology Group *	2.4%	Global ticketing solutions for the leisure industry
Total	**28.4%**	

The ongoing selling of UK equities by domestic investors is a dispiriting trend but there are some early signs that this may diminish going forward. We have seen a significant pickup in takeover activity during March and share buybacks amongst UK listed companies are becoming ever more prevalent. These trends provide clear evidence that valuations for UK listed companies are now at extremely attractive levels, with corporates, trade and private equity buyers as well as non-UK investors all beginning to take advantage of the bargains available. We believe that the Fund is well positioned to benefit from an upturn in the market for UK smaller companies and we are increasingly confident that our portfolio returns can improve meaningfully from 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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