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WS AMATI GLOBAL INNOVATION FUND

Quarterly Review

June 2024

By
Mikhail Zverev, Fund Manager

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During the second quarter of 2024 market remained preoccupied with watching month-by-month macro data and inferring the timing and magnitude of the central banks' response. To that end, April had seen the "hawks" prevail, while in May softer data was an argument for the "doves", and in June speculation about the elections in France and UK and outlook for the US presidential candidacies dominated the debate. Followers of our fund and process know that we regard this short-term volatility as noise, which at times presents a buying opportunity.

More substantially, we continued to see market enthusiasm about AI, now bordering on exuberance. For a short period of time NVidia had become the most valuable company in the world, overtaking Microsoft. Other stocks associated with the "AI basket" had also seen accelerated share price gains. We acknowledge the transformative potential of AI in a number of use-cases, and our Fund clients had benefited from our own portfolio holdings in AI-related stocks over the past two years. However, at this point we view this somewhat uncritical market enthusiasm for AI with concern. We see emerging sceptical commentary from the venture capital community, from some experts with deep experience in the field of AI and very close to the leading edge of the computer science. They highlight that there is no clear visibility of revenue models that justify the investments being made, that there is evidence of a bubble in the valuations, fundraising rounds and companies' behaviour, and they expect substantial capital destruction before a winning business model emerges. We see very little such debate in the public markets.

In the meantime, NVidia and Magnificent 7 continue to be a headwind for our relative performance: Fund has returned 1.56% in the quarter, compared to 2.94% return of the benchmark. Magnificent 7 which includes NVidia now represent about 20% of the MSCI ACWI benchmark – a near unprecedented level of concentration.

This reinforces our view that our research should be broadened out from the AI spotlight, NVidia and the "Magnificent 7" stocks, looking for innovation which is less discovered, publicised and priced in.

The Fund's top contributor has little to do with AI directly, but inadvertently may benefit from AI capex. **Prysmian,** Italian listed global leader in high voltage cables for electric grid, reported reassuring set of results and seen a swathe of broker upgrades, reminding the market that global electricity infrastructure is in a multi-year upgrade cycle, needed to accommodate renewables, EV charging and electrification of other areas of life and business. AI data centres, which are particularly power-hungry, add to this demand.

Fabrinet, US listed contract manufacturer of photonics and optical communications equipment, also had strong results somewhat linked to the AI boom. The company is a supplier into NVidia GPU clusters, where the need for ever faster data speeds necessitates adoption of photonics. This transition from electronic to photonic data transport is broadening out to other data centre and communication uses, in line with our Photonics Innovation Frontier thesis.

Future, a UK listed specialist publisher, was perceived to be under threat from AI, as its core business of special interest and review publications could potentially be disrupted by the AI-generated content. We did not share that view, and company reported solid results showing that its business fundamentals are intact. Stock recovered strongly from the over-sold levels.

Negative contributors in the quarter shared a common theme of transitory headwinds which obscured longer term structural growth opportunity.

Autostore, Norwegian listed global leader in warehouse automation equipment, continued to see cyclical pressures in industrial investment and the logistics and e-commerce industries work through COVID capacity build-out, combined with negative impact of interest rates. In the long run, warehouse automation is in the early innings, Autostore competitive position remains strong, and its specialist solutions will retain an important role as investment cycle comes back.

Bruker, US listed life sciences tools supplier, is a recent addition to the fund. During the quarter it suffered a combined impact of lacklustre results, competitor warning about China demand and investors taking cautious view on its acquisition of Nanostring. We take the opposite view: we see current cyclical slowdown in life sciences tools demand as transitory and its Nanostring acquisition as a great addition to its capabilities at an attractive price.

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IQVia, US listed global leader in clinical research, also reported results that underwhelm some expectations and had seen some project cancellations. We see long-term structural growth in demand for clinical research intact, as more and more innovative biologic and cell and gene therapy candidates progress through clinical trials and into clinical use. We continue to see IQVia clinical research and data business as well positioned for that growth.

We have switched our holding in **SK Hynix,** which we held since Fund inception, into a new holding in **Samsung Electronics**. Both companies are suppliers of memory semiconductors. This is a consolidated industry, which is very cyclical but also highly profitable through the cycle. It stands to benefit form relentless growth in the collection and storage of data, lately accelerated by the growth in AI, which makes data even more valuable. Immediate benefit from AI Innovation Frontier accrues to “high bandwidth memory”, a high performance variant that is directly incorporated into GPU systems in AI datacentres. Longer term benefit accrues to the whole product class, as more data collected and stored in the cloud or on devices drives memory content across the board. SK Hynix had an early lead in HBM, which accelerated its growth out of downcycle and made it a very strong performer for the Fund. Samsung Electronics has historically been scale and technology leader, but is temporarily behind in the HBM product cycle. We expect the company to catch up and potentially overtake in HBM and to benefit from a broader memory market growth in the long run.

We have sold our position in **Future** following the recovery in its share price. Our original investment case was predicated on structural change in digital advertising on the “open Web” as ad targeting mechanisms such as “cookies” and IDFA are phased out. We believed that specialist, interest-based publishers such as Future will be big beneficiaries of this technological change. This is proving to be wrong as advertisers are shifting ever more of their budget to social networking and search and as Future particular mix of titles does not seem to capitalise on that change. We see better opportunities for our clients’ capital elsewhere.

We have also sold our position in **Motorola.** Company’s transformation from emergency radio communications supplier into a broad-based technology vendor to law enforcement and first responder services continues but is now well understood and priced in by the consensus. Motorola has been a great contributor to our returns and we now see better opportunities elsewhere.

Long term followers of the fund know that we have particular interest in industrial software, as part of our Industrial Digitalisation Innovation Frontier. As software business model transitions to SAAS and cloud and as more and more functionality is layered on top of the core software tools, vendors of complex and niche industrial software should benefit. They often enjoy particularly deep moats through user training, accumulated libraries of data and designs and incorporation of their tools into customers process workflows. **Autodesk,** leading vendor of industrial software for architecture, engineering and construction, is a case in point. Its position in its core verticals is almost unassailable, and it is continuously adding more valuable software tools to cross-sell into its loyal customer base. Autodesk valuation is relatively depressed by the concerns around commercial construction and real estate cycle, but the mission critical nature of its software and company’s recurring revenue model mean that business has become more resilient to cyclical downturns.

Another new addition to the portfolio, **Bruker,** represents a new Innovation Frontier, Proteomics and Spatial Biology. We see a compelling long-term opportunity in this area. Biologic discoveries increasingly translate into actionable protein detection and analysis techniques which help identify, assess and monitor the progression of diseases, creating demand for specialist tools and consumables. It is a fast-growing area for which Bruker is extremely well positioned. We had established a position in Bruker in April and added to the position on weakness following the Nanostring deal news. We see Nanostring as a complementary asset which Bruker had acquired out of bankruptcy opportunistically, at an attractive price.

We remain optimistic about a range of Innovation Frontiers represented in the portfolio and the companies we picked to take advantage of these opportunities. While AI dominates headlines, we see flourishing of innovation in many other promising areas, from Proteomics to Logistics Automation to Industrial Digitalisation. A lot of these advances are technologically inevitable and poised to create economic value regardless of the prevailing shorter term economic sentiment.

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Risk Warning

Past performance is not a reliable guide to future performance. The value of investments and the income from them may go down as well as up and you may not get back the amount originally invested. Tax rates, as well as the treatment of OEICs, could change at any time. The return on investments in overseas markets may increase or decrease as a result of exchange rate movements. There may be occasions where there is an increased risk that a position in the Fund cannot be liquidated in a timely manner at a reasonable price. In extreme circumstances this may affect the ability of the Fund to meet redemption requests upon demand. A dilution levy may be applied to the share price when the fund is expanding or contracting. Should you buy or sell in these circumstances it may have an adverse impact on the return from your investment.

This factsheet does not provide you with all the facts you need to make an informed decision about investing in the fund. Before investing you should read the Prospectus, the Key Investor Information Document (KIID) and the Supplementary Information Document (SID). The Prospectus sets out the main risks associated with the fund, the KIID shows you how costs and charges might affect your investment, and the SID details your cancellation rights. If you are in any doubt as to how to proceed you should consult an authorised financial intermediary.

Fund documentation can be requested from Waystone or Amati using the contact details above, and is available to download from our website.

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