Amati
Global Investors
Finely crafted investments

WS AMATI UK LISTED SMALLER COMPANIES FUND

Quarterly Review

June 2024

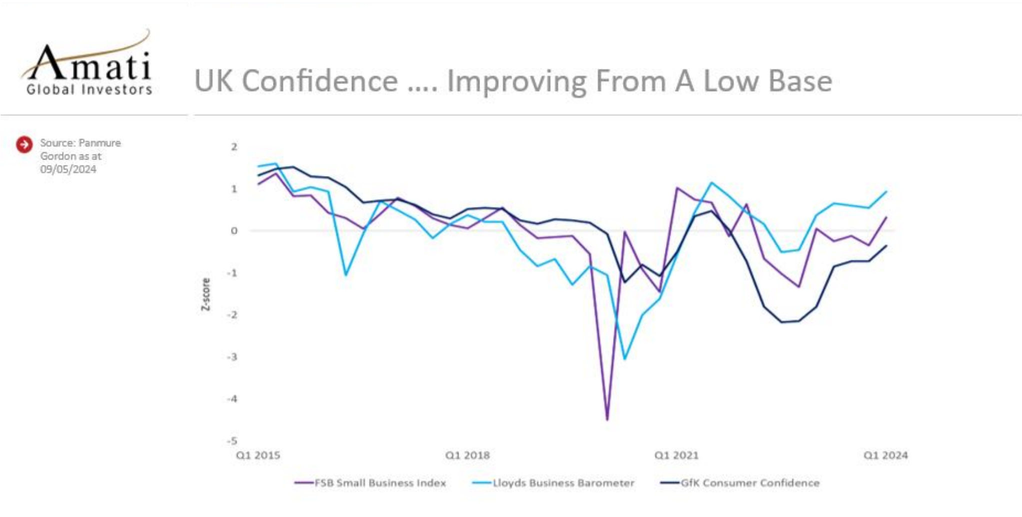
By
Scott McKenzie, Fund Manager

By Scott McKenzie, Fund Manager

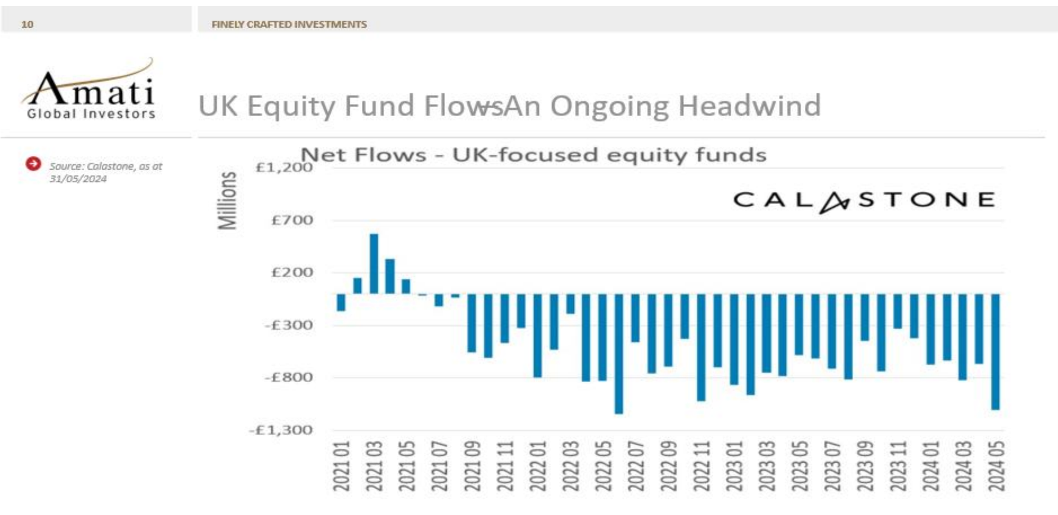
The second quarter of 2024 saw a positive recovery in the UK mid and smallcap sector with the Deutsche Numis Smallcap plus AIM index rising by 5.0%.

Global equity markets continued to move upwards during the period despite the tempering of rate cut expectations and increased political uncertainty in key economies such as France and the US. UK market returns over the quarter were broadly in line with global equity markets, being slightly behind the US, where AI continued to dominate returns for the Big Tech stocks, but well ahead of Europe.

All of the key UK indices were in positive territory and we are finally seeing signs of life in UK small and midcap companies, with takeover activity and share buybacks supporting valuations. The UK election has now concluded with a decisive win for Labour as expected and both gilt yields and sterling have remained fairly stable throughout the campaign, suggesting that markets are relaxed about this outcome and may even welcome a new era of stability. Prior to the election the key UK business and consumer surveys were showing consistent signs of improvement and hopefully this will continue as the new government begins to implement its agenda for change.



UK economic data overall remains very mixed but the recent GDP figures have shown some modest recovery. It is pleasing to note that inflation has now reached the 2% target. Allied to this there is increasing optimism that interest rates may finally start to decline in the months ahead. There have been some initial attempts at capital market reform with the introduction of the 'Brit ISA' and increased UK pension fund disclosure. Hopefully there is more of this to come. Negative fund flows to UK equity funds remain the main headwind to this improved picture as the chart below confirms. Despite this, markets made strong progress, suggesting that momentum could be quite positive as and when the selling stops.



By Scott McKenzie, Fund Manager

Turning to fund performance, we saw a strong recovery during the quarter with performance well ahead of our benchmark. The Fund rose by 7.7% against an increase in the Deutsche Numis Smallcap plus AIM index of +5.0%. After a quiet start to 2024 it was pleasing to see a much firmer tone to our results in the second quarter.

Against this more benign background the Fund had a number of positive contributors during the period with several of our larger investments performing particularly well. Positive returns came from a noticeable pickup in takeover activity and we had no less than four takeover bids during the period as well as an approach for **XP Power** which came to nothing. In April bids were announced for **Gresham Technology**, a supplier of financial software and services, and **Tyman**, a US-focused supplier of building materials. In the case of Gresham, the bidder was a US private equity firm, whilst one of its US competitors bid for Tyman. The next day bid premiums were 35% and 26% respectively. In May **Keywords Studios**, a video games outsourcer, announced a potential bid from private equity group EQT which was confirmed towards the end of June. The shares rose by 80% over the quarter. Finally in June mining royalty business **Trident Royalties** was subject to a bid at a 20% premium.

There has been an ongoing trend towards share buybacks with seven of our ten largest holdings recently seeing active buyback programmes. This had a beneficial impact on the prices of businesses such as **Future Group, Qinetiq** and **Alpha Group International**, all of whom rose sharply during the period. The latter two holdings are currently the largest two investments in the Fund.

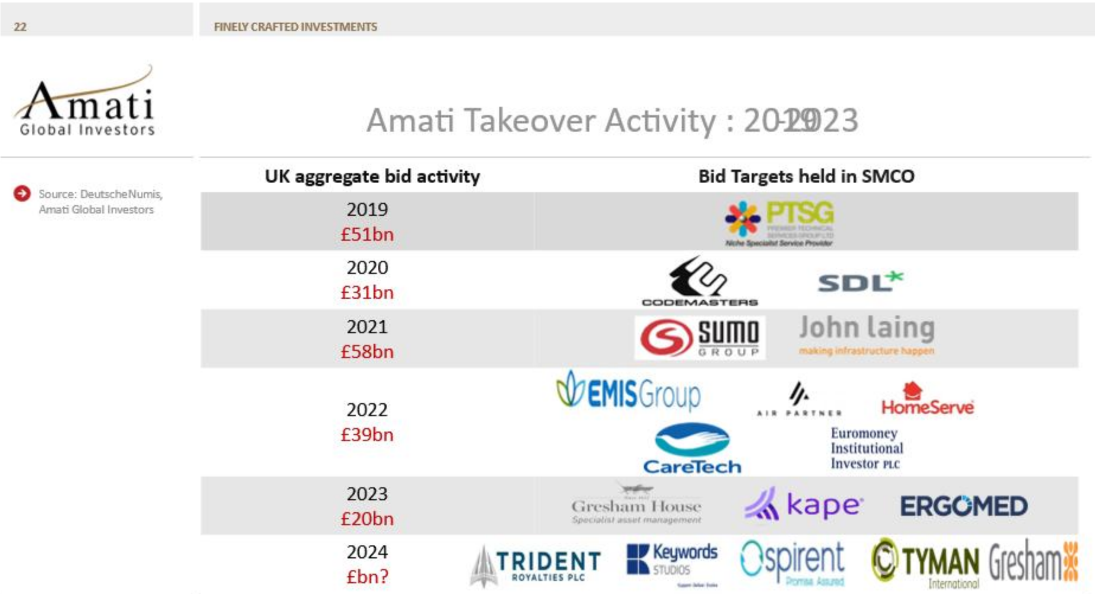
In addition our increased allocation towards the financials sector began to bear fruit in what was a more supportive market environment. We saw continued strong momentum in earnings for **AJ Bell** and **Polar Capital** as well as meaningful share price recovery in **CAB Payments** and **OSB.**

Inevitably there were some holdings which let us down and we endured two profit warnings in June. The main culprit was data analytics company **YouGov**, which fell by 50% on a shock profit warning towards the end of its financial year. This has exposed poor forecasting and cost control within the group and will require a robust management response from here. In a similar vein rail software business **Tracsis** also failed to make its year end forecasts and delivered a warning which saw the shares fall by 30%. Another laggard was **Franchise Brands,** where delays to their report and unexpected changes to their senior management caused the shares to fall by 20% on results. We are confident that these issues are temporary and expect recovery in the shares from here. Pharma business **Indivior** continued to see faltering sales patterns in its key opioid treatments and reversed its share price recovery from early 2024. Despite strong results and earnings upgrades **Trainline** suffered from a perception that a Labour government would be a threat to their model. Our belief is that the opposite will be true and their prospects remain as bright as ever.

In terms of portfolio activity, two new holdings were added to the Fund. An investment was made in **Boku**, a global mobile payments network which specialises in direct carrier billing and mobile solutions for non-card payments. It has exciting growth potential and is a highly scaleable business which already enjoys high margins. **Renew Holdings** was also added. Renew is a well-established engineering services group providing repairs and maintenance for critical infrastructure in sectors such as rail, water and environmental. It enjoys excellent long-term visibility supported by major spending commitments across its key sectors. We continued to build our holding in alternative asset manager **Foresight Group** and also participated in the rights issue for real estate business, **GPE**. Management at GPE are clearly calling the bottom in their market and see a significant number of exciting investment opportunities in the current depressed London office market.

The various takeover approaches gave us an opportunity to realise some meaningful gains and we sold the holdings in **Gresham Technology, Spirent** and **Trident Royalties** as a result. We also began taking profit in **Keyword Studios** and **Tyman** in the light of their bid premiums. After strong performance some profits were taken in **Accesso, Ashtead Technology** and **CAB Payments.** As we reported in our previous quarterly update we have continued to reduce the number of holdings in the Fund – in resources, **Atalaya Mining** and **Ecora** were sold, whilst smaller positions in **Halfords** and Inspecs were exited following persistent earnings disappointments.

The table on the next page details the various takeover bids we have seen in the Fund since 2019 and it already feels like 2024 will be a vintage year in terms of the scale of M&A activity we are now seeing. This activity is broadly based by sector and features both trade and private equity bidders.



Our priorities remain as before - capturing the upside we see in UK smaller companies whilst sharpening the focus and improving the liquidity profile of the Fund. We approach the second half 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, despite some good recovery in the past nine months, we believe that the valuation metrics remain strongly supportive of further positive returns.

20 FINELY CRAFTED INVESTMENTS

Amati Global Investors

Portfolio Valuation Metrics

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

Valuation (12m forward)	Fund 30/06/2024	Quest UK SMID 30/06/2024	Fund Q3 2021 30/09/2021
PE ratio	12.4x	11.6x	25.4x
EV/sales	2.9x	1.4x	4.8x
Dividend Yield	3.1%	3.8%	1.8%
Price to book	2.0x	0.8x	3.6x
EV/EBITDA	7.9x	6.9x	11.3x
FCF Yield	6.8%	6.3%	3.7%
Net Debt/EBITDA	0.1x	1.2x	-0.9x
EBIT margin	23.9%	14.3%	17.3%

We are hopeful that there is a now a far better tone emerging for investors in UK mid and smallcap. Takeover activity across the UK market has escalated rapidly which provides evidence that valuations remain at very attractive levels compared to history. With Keir Starmer and Labour now entering government with a significant majority we are hopeful for a period of relative calm after the chaos of recent years. The ongoing selling of UK equities by domestic investors remains a challenge but, if we can address some of the issues which have been holding back UK capital markets in recent years, then one can paint a far brighter picture for smaller UK quoted companies. The need for change is broadly supported by various key stakeholders and we hope that Labour will not disincentivise investment by changing taxation radically.

The ongoing takeover activity and share buybacks amongst UK listed companies is supportive of valuations but we hope also to see a return to new businesses listing in the UK and for a pickup in economic growth now that we have greater political stability.

The vast majority of the businesses we own have strong balance sheets, high margins and proven management teams and we are confident that our portfolio returns can continue to improve from 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 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.

Issued by Amati Global Investors Ltd, which is authorised and regulated by the Financial Conduct Authority.

Amati Global Investors