Amati Global Investors
Finely crafted investments

WS AMATI GLOBAL INNOVATION FUND

Quarterly Review

September 2024

By
Mikhail Zverev, Fund Manager

By Mikhail Zverev, Fund Manager

The global equity index enjoyed healthy returns in the third quarter, although the ride was not always smooth. Recessionary concerns in Europe and to a lesser degree in the US, as well as continued weakness in China definitely ruffled investors' feathers during the quarter. Anecdotal evidence from company reports also remained cautious, pushing out hopes for a rebound in capital spending. However, in the end the central banks stepped up to revive spirits, with a larger than expected cut from the Federal Reserve as well as easing measures from the European Central Bank and the Bank of England, amongst others. The Chinese government also took action to spur growth, giving the banks greater latitude to lend as well as providing additional funding in industries considered to be of strategic national importance such as biotechnology and new energy vehicles.

At the index level the excitement regarding generative AI remains considerable, although the very tight focus of investment into only the very largest companies ('Magnificent 7') has begun to broaden out. Companies supplying components or services into this rarified group have received more attention as they started to demonstrate the positive commercial impacts in their results.

Beyond AI, however, the reduction in the cost of borrowing, with further cuts expected, should help to bring out some of the pent-up investment demand that has been anticipated and frequently discussed by the companies likely to benefit. Investments in areas such as factory automation and life sciences equipment are likely high on the agenda. The longer term benefits in efficiency and improved service delivery make these types of investment largely inevitable over time, but not essential in any given quarter, and the elevated borrowing costs have led to some delays in commitments.

One area where the benefits are so significant that even the higher borrowing costs are not depressing demand is RFID. Radio Frequency Identification chips have been discussed in our reports before. They provide a low cost and highly accurate means for goods to be tracked and monitored as they move through supply chains. Increasingly used by retailers and logistics companies alike, these tiny chips can be attached to bar-code labels or even sewn directly into garments. Impinj is one of the two companies globally that produces the chips and was notably the strongest contributor to performance during the quarter. Investors were avoiding the company due to short term inventory concerns, overlooking the bigger picture, an increasing issue across the investment landscape but a benefit to those prepared to be more patient. Other positive contributors also included Lumentum, the photonics components provider, and Zebra Technologies, which produces data capture and identification equipment and is an adopter of RFID. While not directly correlated, Zebra's strong performance resulted from some of the same dynamics that benefitted Impinj, and the stock continues to offer considerable scope for growth in our view. Lumentum's performance, however, owes more to the wider focus of companies benefiting from AI investment. The vast numbers of AI chips (GPUs in particular) being purchased need to be connected and this is done using optical technologies where Lumentum excels. While the shares have performed well recently we firmly believe the opportunity for photonics components is still in the early innings.

One area where the AI demand has been unhelpful on the portfolio was in Samsung Electronics. The company produces a wide range of consumer related electronics products which have been somewhat lacklustre in a period of weaker economic sentiment. However, beyond this traditionally cyclical end market Samsung is also one of the three dominant memory semiconductor companies globally. AI datacentres are incredibly memory hungry and specifically demand the newest, highest specification 'High Bandwidth Memory' (HBM). Samsung has experienced teething problems with these very advanced semiconductors and has disappointed investors over the quarter. While the delays are unhelpful, this is not uncommon for cutting edge technologies of this kind and we believe investors' immediacy bias is working against the shares which will likely rebound as the company irons out the issues. Very different issues have affected Edenred, the French listed digital vouchers network over the period. Unhelpful headlines regarding isolated contracts have been unnecessarily inflated to the detriment of the share price, along with broader weakness in the French stock market overall. Certainly the business faces challenges of competition and changing regulation, but the impacts are exaggerated in our view and we have added to our holding on weakness. MKS Instruments, the US listed manufacturer of components and consumables for semiconductor and electronics manufacturing equipment, was the third most notable detractor for the quarter. A period of weaker PC and smartphone demand led to lower production of associated electronic components which impacted numerous companies across the sector. Again, we see these cyclical events as often being good buying opportunities and we also added to our position here.

By Mikhail Zverev, Fund Manager

Activity:

We made a number of new additions to the fund over the quarter, largely focused on the broad area of life sciences. This is an area of extremely rapid innovation with developments in cell and gene therapies, as well as identification of new disease biomarkers leading to more effective tests and diagnoses. However, it can be a risky space for drug developers with low success rates and rising costs of development, and so can be a minefield for investors. To avoid this we look for companies exposed to the growth but without the binary outcome risks. Often these are companies supplying products or services to the developers, referred to in our parlance as 'Enablers'. One such example is Sartorius, a German listed equipment provider of specialist equipment for biopharmaceutical research and manufacturing. As one of a small niche of companies supplying this space Sartorius benefits from limited competition and high barriers to entry for new players. Over our investment horizon we expect demand for their products to continue to rise.

Procept BioRobotics, as the name suggests is again a specialist equipment company, but this time for Benign Prostatic Hyperplasia surgery. The condition, a non-cancerous enlargement of the prostate, is the most common prostate disease, impacting 40m men in the US. Removal of prostate tissue is notoriously difficult with poor outcomes and life changing side effects. As a result, only a minority of men opt for surgery after exhausting other options. Adoption of Procept's AI powered robotic surgery system is growing quickly, driven by ease of use for surgeons, minimal side effects and market leading outcomes for patients.

The third Life Sciences exposed investment was in Dexcom, the US listed provider of continuous glucose monitoring (CGM) products. While the new GLP-1 weight loss drugs are a huge step forward for the treatment of obesity and diabetes, the incidence of diabetes continues to rise and will remain a problem for many years to come. CGMs have been shown to help diabetics manage their disease, keeping them within a normal range of blood glucose for longer. Deviations from the normal range are dangerous to health and lead to organ damage, ulcers and in extreme cases death. Dexcom has a leading position in the US and continues to build out its international infrastructure to drive CGM use to benefit the health of diabetics globally.

To fund the new ideas we sold three existing holdings, and for three different reasons. Firstly, Prysmian, the Italian high voltage cable manufacturer reached our intrinsic valuation target. With limited further upside relative to other ideas we decided to sell. With a concentrated portfolio of only up to 40 holdings we have a constant competition for capital. Nagarro, a German listed IT services company simply fell from our top 40 ideas and so was replaced with one of the newer names. Lastly we sold Indivior, a UK listed provider of innovative treatments for substance abuse. While the demand is sadly very large and the competition limited, Indivior has experienced a number of operational challenges that suggest poor execution. As a result, we no longer had confidence in the stock and decided to sell.

Outlook:

While central bank support is helpful for markets and supports the near term outlook, our investment approach looks beyond the shorter term cycles to identify real frontiers of change and innovation, and the companies best placed to benefit. In this regard we remain extremely busy, and positive for the future. There are a number of new areas for research that we are only just uncovering and we hope to be able to share new and compelling ideas and holdings in the coming months.

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

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

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.

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

Amati Global Investors