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WS AMATI UK LISTED SMALLER COMPANIES FUND

Quarterly Review

September 2024

By
David Stevenson, Fund Manager

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The third quarter of 2024 saw the UK mid and small cap sector register continued momentum, with the Deutsche Numis Small Cap plus AIM index rising by 2.5%. Within this overall gain, however, AIM suffered a decline of -2.6% principally as concerns about the removal of inheritance tax relief in the Autumn Budget weighed heavily across the quarter.

Despite a backdrop of growing military conflict, global equity markets have been boosted by a turning point in interest rates, notably in the US, and further monetary and fiscal stimulus in China. Whilst the UK market managed to keep pace with its European counterparts over the quarter, it lagged the continued strength in the US. UK mid and small cap indices strongly outperformed larger stocks in the quarter, but as mentioned already, AIM was an outlier in an otherwise positive picture.

UK economic data continues to present a mixed picture. Inflation is trending towards the target rate of 2%, but the services component is proving to be stickier than hoped. Job vacancies are declining whilst pay pressures are easing, but business and consumer confidence levels are softening, whilst GDP growth has slowed. Nevertheless, overall, the UK economy is performing better than expected in 2024, with the prospect of further interest rate cuts to come, following the Bank of England commencing its easing cycle in August.

Turning to Fund performance for the period, there was a disappointing grouping of profit warnings within the portfolio, which resulted in the outperformance of the previous six months being reversed. In the quarter to September the Fund fell -1.3% against the benchmark gain of 2.5%. This leaves it 5.9% ahead for the calendar year to date, compared to a benchmark gain of 6.8%.

The largest negative contribution followed a warning from industrial manufacturer, TT Electronics. Interim results in early August were taken well by the market, showing ongoing margin improvement following significant cost-cutting. However, only six weeks later the company was forced to warn, due to a recurrence of de-stocking headwinds within its North American components business, plus factory operational inefficiencies. The shares fell by one third in September. Ticketing and e-commerce platform provider, Accesso Technology, downgraded sales expectations based on weaker summer activity and poor weather impacting their US theme park customers; whilst speciality pharmaceuticals company, Indivior, similarly downgraded its US revenue outlook. Developer and manager of build-to-rent and student accommodation, Watkin Jones, saw slower market conditions than expected in the period as interest rate uncertainty impacted project activity in the sector. Subsea equipment rental and solutions provider, Ashtead Technology, reported in-line, record interim results and confirmed unchanged expectations for the full year. Despite this, the shares fell nearly 25% in the period, which looks overdone.

Offsetting this, the Fund saw strong performance in the period from business communications specialist, Gamma Communications, which announced strong first half results plus several acquisitions which progress the group's strategy in terms of new service offerings and geographic expansion. Consistency of growth has driven a significant re-rating of Gamma's shares over the last year. Specialist affordable housebuilder and land promoter, Gleeson, reported improving market conditions as purchasers benefit from the cut in interest rates and a competitive mortgage market. Gleeson's customer reservation rate has increased 28% year-on-year. Vistry, which is also a specialist builder in social housing, similarly reported positive trading; as did insolvency specialist, FRP Advisory; DIY retailer, Wickes; investment platform, AJ Bell; and bathroom supplier, Victorian Plumbing. The common feature to all these holdings is a predominantly UK trading focus, which in turn should be supportive of the outlook for the UK stock market.

In terms of portfolio activity, several new holdings were introduced to the Fund. This involved additional domestic exposure, through package holiday operator, Jet2, which, despite an excellent trading record remains a very lowly rated, quality business; household multi-utility provider, Telecom Plus, which is likely to continue to take market share in an environment of much reduced competition; and wholesale distributor of food, drink and tobacco, Kitwave, which raised funding in the period to acquire a major nationwide food service business. The Fund also participated in a fundraise for mining company, Greatland Gold, involving a gold-copper project located within its core Australian activities. Both of these transactions should be significantly accretive to the companies involved.

We continued the process of reducing the number of holdings in the portfolio, with disposals of takeover targets Keywords Studios and Tyman; plus smaller positions in Halfords and Dianomi; and also Indivior.

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The scale of demand for the large, oversubscribed fund raises carried out by Kitwave and Greatland Gold is noteworthy, and offers encouraging signs of support for AIM - but a significant headwind remains for potential buyers of AIM shares as they wait to see what happens to tax reliefs in the Autumn Budget on the 30th of October. There has been much discussion of this in the press, particularly from those who have little sympathy towards AIM, but Government officials have, as yet, said nothing on the subject. Given the level of negativity stemming from speculation about what might happen, there is the potential for a substantial rally in AIM shares if the rules around AIM and IHT reliefs are not changed in the Budget, even more so, if other feared tax changes, such as an increase in the rate of capital gains tax, turn out to be more benign than expected. A recovering AIM would greatly benefit the Fund’s current index exposure.

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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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