Amati
Global Investors

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Quarterly Newsletter

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 refer to the risk warning on page 4.

"AIM provides a wealth of under-researched opportunities, but the work required to uncover them is significant. Dr Paul Jourdan and the Amati team have the experience and level-headed approach needed to succeed in this market."

Richard Troue, Head of Investment Analysis

Hargreaves Lansdown

Past performance is not a reliable indicator to future performance

Awards 2018

Throughout the course of 2018, Amati funds have been recognised across the industry and have won the following accolades:

- TB Amati awarded Morningstar Bronze Analyst and 5-Star Rating
- TB Amati awarded Lipper Best UK Small and Mid Cap Fund 2018 (over a 5 year period)
- Dr Paul Jourdan wins Best UK Smaller Companies FE Alpha Manager 2018
- Awarded Gold Group Rating from Citywire
- TB Amati awarded Best UK Smaller Companies Fund at Citywire's UK Fund Manager Awards 2018
- TB Amati awarded rating by Rayner Spencer Mills
- Amati AIM VCT received Commended Award for Best VCT Provider at the Investment Life & Pension Moneyfacts Awards 2018
- TB Amati wins Highly Commended Award at The Moneywise Fund Awards 2018
- The Amati AIM IHT Portfolio Service awarded Best AIM IHT Portfolio Service at Investment Week's Tax Efficiency Awards 2018/19
- TB Amati awarded Best UK Small/Mid-Cap Equity Fund at the Morningstar Fund Awards 2018

Amati AIM VCT Top up offer Tax Years 2018/19 & 2019/20

The Directors of Amati AIM VCT are pleased to announce that they intend to launch a top up offer. The capacity of this offer will be subject to the rules governing non-prospectus offers, which over the course of 12 months will enable the Company to raise up to approximately £7m. Funds raised under the offer will be used by the Company to make investments in accordance with its existing policy.

Full documentation and application forms will become available as soon as the offer is launched which is expected to be in February 2019. For further information on the offer, please contact our investor line on 0131 503 9115 or email: info@amatiglobal.com.

An investment in a VCT carries higher risk than other forms of investment. An investment in the Amati AIM VCT is suitable only for investors who are capable of evaluating the risk and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. Investors should check their eligibility for income tax relief with a professional adviser.

Amati Global Investors

Review of 2018……….

The headlines from a year ago have a familiar ring to them. In December 2017, the government suffered an embarrassing defeat in a key Brexit vote, which saw Conservative rebel MPs win an amendment limiting the government's powers to press ahead with a deal without full parliamentary scrutiny. 2018 started with the expectation that it would prove to be a year of politically motivated volatility, and that this might further depress Sterling which would be good for the largest companies in the UK which have a focus on overseas earnings. As a consequence, some observers thought the UK index of the largest 100 companies would register gains in 2018. Another expectation was that after the first UK rate rise for 10 years in November 2017, inflationary pressures would prompt further rises during the year. In the event, we did indeed experience a year of almost unending political turmoil, and Sterling did indeed weaken against the US Dollar (by about 6% to date), but against the Euro it has been more stable (down about 1% to date). Unfortunately this didn't protect the index of the largest 100 companies which has fallen around 10% thus far, a fairly similar result to mid and small cap stocks which have been dragged down by domestic economic news and sentiment. The UK CPI inflation rate has in fact fallen fairly steadily from its 3.0% starting point to 2.4%, and this, alongside sluggish GDP growth, put a cap on rate rises with only one August increase during the year. Another surprise in 2018 has been the unwinding of the picture of synchronised global economic growth which was much discussed at the beginning of the year. Whilst the US has kept going, aided by Trump's tax cuts, there has been a softening in China, and also in Europe where Germany in particular has been impacted by slowing global trade caused by tariff tensions. As a consequence, the German stock market has actually underperformed the UK thus far, with other European bourses also

weak; China has been in a bear market; and only the US is holding onto some gains.

In terms of the sector mix within the UK stock market, it is unsurprising that domestic cyclical areas such as retailers, construction, property and banks were under pressure during 2018, reflecting economic and Brexit uncertainty. Less expected was weakness in industrials, which were impacted by growing global economic unease; and also the sell-off in software, following the underperformance of US technology stocks in the last quarter. These factors combined to create a situation in which there were relatively few ways in which to protect portfolios from the sell off in stock markets which began in October. In fact, the major outperforming areas in 2018 have been limited to fairly classic defensive sectors such as pharmaceuticals, personal goods and food retailers, which are dominated by large cap stocks. AIM has had a poor 2018, particularly amongst its larger technology stocks which were impacted by the US sell-off.

At this juncture, it is almost impossible to call 2019, other than to repeat the perceived wisdom with which we started 2018 – that it will be another ("groundhog") year of politically motivated volatility. But the UK market is unloved, and possibly underowned. Positive political developments and an improved economic scenario could lead to a sharp rebound in share prices and reinvigorate domestic investment and spending by corporates and households. However, to coin a BBC phrase, other types of political development are available!

David Stevenson

Portfolio Companies Spotlight

Bonhill Group — was a struggling business-to-business media company which had been undergoing substantial transformation since Simon Stilwell took it over. He has built an impressive management team with the right experience to grow the business, bringing on James Robson from DC Thomson, Lawrence Gosling from Incisive Media/Investment Week and Niki Dowdall from DMG Events. The Group covered Financial Services (whatinvestment.co.uk); Tech (Information Age) and Diversity (Women in Investment awards). The events side of the business is going particularly strongly, and there is potential to add new regions and related conferences, awards and summits. We saw the company when Vitesse were raising funds to build their platform further, and acquiring Investment News (IN) from Crain Communications, a privately owned US company. IN is under-invested - it delivers 30% margins, however print advertising has been in steady decline and the title needs more care and attention. IN is an industry leading title, 2.5x bigger than its nearest rival, and it serves Wealth Managers and Financial Advisers. Combined, the group will generate £20m Dec 19 revenues, £3.9m EBITDA, growing 10% and 28% respectively into Dec 20 with £22m revenues and £5m EBITDA. The company is held in Amati AIM VCT.

Learning Technologies Group — held a Capital Markets Day for analysts and investors to highlight the potential for the company and the opportunities afforded it by the recent acquisition of PeopleFluent, which we supported by taking shares in the placing in April. The share price performance had been very strong up to and in the immediate aftermath of their September interim results. However, shares in LTG, and other AIM stocks, have fallen sharply as investors took fright of the UK market as a whole. The wider market is trading on much lower multiples and this has thrown the higher rating of growth stocks into sharper relief. However, we believe that LTG will continue to deliver on our expectations of around 30% compound annual growth in earnings up to 2020. LTG services the growing corporate e-learning market, which remains highly fragmented. LTG has shown itself to be a successful consolidator, and the acquisition of PeopleFluent and NetDimensions has transformed the group to one focussed in the US and UK, with high levels of recurring revenues – 70%, which provide long term visibility. Strong cash flow generation means that LTG returns to a net cash position in 2019, giving them the firepower to make further earnings enhancing acquisitions. The company is held in TB Amati UK Smaller Companies Fund, Amati AIM VCT and the Amati AIM IHT Portfolio Service.

AB Dynamics — In November's results, AB Dynamics delivered strong numbers, with revenues up 51%, earnings up 70% and strong year end net cash, leading to upgrades for 2019. Whilst the automotive industry has been through well-documented travails, demand for AB Dynamics advanced driving robots and guided soft targets has been strong. Carmakers are having to invest through the cycle, in new product development, to meet ever-stringent environmental and safety legislation. Vehicles are becoming ever more complex and require accurate and efficient measurement and testing. AB Dynamics will invest further in capacity to be able to meet strong demand, which may hit operating margins in the short term, but these should recover. AB Dynamics has a healthy cash position and a new CEO, Dr Routh, who comes from Diploma, a global distributor of technical products. They have revenues generated in all regions of the globe – North America 14%, Europe 33%, Japan 11%, China 32%, Rest of World 8%, UK2% - and they supply all of the top 20 auto manufacturers. Whilst the stock trades on a significant premium to the sector, the upgrade momentum to earnings forecasts suggests that this rating should be sustained. The company is held in TB Amati UK Smaller Companies Fund, Amati AIM VCT and the Amati AIM IHT Portfolio Service.

Amati Global Investors

Amati Global Investors are managers for:

- Amati AIM VCT
- TB Amati UK Smaller Companies Fund
- Amati AIM IHT Portfolio Service
- Combined AUM of £320m (as at 21 December 2018)

Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions. Past performance is not a reliable indicator to future performance.

We would welcome your feedback/comments on any of the areas covered in this issue. Please either email the team on **info@amatiglobal.com** or call on 0131 503 9115. If you would like to receive our monthly fact sheets by email please send a request to **info@amatiglobal.com**

On behalf of the Amati team, we would like to wish all our investors a very Merry Christmas and a Happy New Year!

This financial promotion is issued by Amati Global Investors Ltd, authorised and regulated by the Financial Conduct Authority and registered in Scotland no. SC199908.

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Risk Warnings

This newsletter does not constitute investment, tax, or legal advice, and nor does it constitute an offer, invitation or solicitation to invest in the products described. Amati will not provide any investment, tax, or legal advice, or make any personal recommendations as to the suitability or otherwise of these products. Before investing in our products we recommend that you contact your financial adviser.

These investment products place your capital at risk and you may not get back the full amount invested, even allowing for any tax breaks. The value of your investment may go down as well as up. Past performance is not a reliable indicator of future performance. Investors should be aware that any investment in equities is subject to risk, and that investment in smaller companies, in particular unquoted companies and those quoted on the Alternative Investment Market (AIM), carries an even higher risk than that of larger companies listed on the main market of the London Stock Exchange. This is due to the higher volatility and lack of liquidity often found in smaller company shares, as well as typically higher levels of business specific risks. Illiquidity means that buying and selling portfolio holdings may take some time, and in a worst case scenario portfolio companies could be delisted from AIM, making them very difficult to buy or sell, which in turn could affect the value of your investment. Current tax rules and the available tax reliefs offered on investments into AIM-quoted stocks may change at any time, and there is a considerable risk that if the legislation changed in respect of these tax reliefs, then those portfolio companies that no longer qualified for such reliefs would be subject to heavy selling pressure, potentially leading to significant investment losses.