Amati Global Investors

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INVESTMENT WEEK FUND MANAGER OF THE YEAR AWARDS 2019 WINNER UK Smaller Companies

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 limited marketability of the underlying asset. Please refer to the risk warning on page 6.

Fund Manager of the Year Award 2019

Dr Paul Jourdan, David Stevenson & Anna Macdonald are delighted to have won the prestigious Fund Manager of the Year award 2019 from Investment Week presented on 27 June 2019 at Grosvenor House in London.

The aim of the Investment Week Fund Manager of the Year Awards is to highlight funds that produce consistent performance and where there is, in the judges' opinion, a high chance that the manager will not disappoint in the future.

Dr Paul Jourdan commented "The team at Amati is thrilled to have been awarded Investment Week's UK Smaller Company Fund Manager of the Year 2019 award for the TB Amati UK Smaller Companies Fund. Investment Week is a leading finance industry journal and this has become a sought after award. We are delighted with this vote of confidence in our investment philosophy and process."

David Mitchell presents to Amati Sales Directors Carol Cunningham and Jonathan Woolley.

Amati Investor Afternoon 26 June 2019

Amati again held its annual investor afternoon at the wonderful Guildhall School of Music & Drama on 26 June 2019. We were delighted to be joined by two of our portfolio companies, Bonhill Media and Block Energy who both offered an overview and insight into their businesses. We also hosted our 2019 Amati Guildhall Creative Entrepreneurs' Award 2019 and if you weren't able to join us on the day, you might like to take a look at the presentation videos on our website here along with portfolio updates from Anna MacDonald & Dr Paul Jourdan.

Amati AIM VCT Prospectus Offer 2019/20 and 2020/21

Amati AIM VCT plc announced on 26 June 2019 its intention to launch a prospectus offer for subscription to raise funds towards the end of 2019. Should you wish to be notified as soon as we have further information on timing, then please email us at info@amatiglobal.com or call our investor line on 0131 503 9115.

Signatory of:

PRI Principles for Responsible Investment

CITYWIRE PLATINUM

Past performance is not a reliable indicator to future performance

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.

Long Live The Digital Revolution?

On 26th June Amati AIM VCT held its AGM and following this, as is now customary, a series of investor presentations and the Amati Guildhall Creative Entrepreneurs' Award. Last year I had referred to the work of the British-Venezuelan scholar Carlota Perez on the shape and phases of industrial revolutions as a way to offer an explanation as to why the ten years since the great financial crisis (of 2008) had been so fruitful for Investors who were backing companies riding the waves of the industrial revolution based on digital technology, which had began in the early 1970s with the invention of the microprocessor. The period from 2008 on could perhaps be seen as the "implementation" phase of this 50 year industrial revolution, and this co-incides with what Perez calls the "Golden Age".

To bring home the astonishing potential of artificial intelligence I showed a move in a chess match between Stockfish 9, the most powerful conventional computer chess engine, and AlphaZero, a neural network based self-learning computer chess engine written by Google's Deep Minds last year. In this move Alpha Zero sacrifices a piece where the compensation comes 19 astonishing moves later. This was a tale of optimism, tempered by the question of when this particular industrial revolution matures and morphs into something else.

This year, perhaps coloured by a more difficult period in markets, I suggested that these trends have matured significantly and that some dark stains have begun to appear on the hitherto almost universally admired character of the digital age. I suggested that the two dominant giants of personal data, namely Facebook and Google / You Tube (or Alphabet as its parent is called), both the embodiment of digital cool, had perhaps unwittingly become as much a threat to the values on which we build our society, as they are facilitators of cutting edge of the digitally aided life. As a perfect metaphor for this shift Google dropped its famous dictum "don't be evil" from its code of conduct in mid-2018.

The problem I was drawing attention to has been eloquently described by Roger McNamee, long standing Silicon Valley investor, and one time adviser to Mark Zuckerberg in his book "Zucked: Waking Up to the Facebook Catastophe". The problem he outlines is just as apparent with You Tube, and it relates to the way that both Facebook and You Tube (together with all of Google's other digital platforms) capture vast amounts of information about users, whilst at the same time being trusted by them to deliver them content that is thrown into the mix of the things they were looking for, or into the flow of conversations with friends, and it does this based on calculations which maximise profitability.

McNamee puts it like this: Facebook "is a massive artificial intelligence that influences every aspect of user activity, whether political or otherwise. Even the smallest decisions at Facebook reverberate through the public square the company has created with implications for every person it touches". He adds, "The fact that users are not conscious of Facebook's influence magnifies the effect. If Facebook favours inflammatory campaigns, democracy suffers." And it turns out that in the business models of both Facebook and You Tube profit is maximised by increasing consumer engagement, and the most powerful way to do that is to appeal to the so-called "Lizard brain" emotions of fear and anger, as these produce "a more uniform reaction and are more viral in a mass audience".

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In its 4th May edition the Economist carried an article entitled “The Tricky task of policing YouTube”, which touched on the same issue. “An algorithm and user interface engineered to maximise ‘watch time’ keeps users on the site in part by serving them progressively more extreme videos on whatever subject they happen upon – a ‘rabbit hole’ that can lead those curious about a global tragedy into conspiracy theories or rants by white nationalists. A senior executive said in 2017 that recommendations drive 70% of the site’s viewing. The site’s engagement-driven model in turn rewards those who provide more outrageous content”.

If we want to understand why it should be that the maturing of the Golden Age of the digital revolution should coincide with the emergence of a depressingly post-truth public sphere and dangerous resurgence of populist politics the business model and detailed workings of Facebook and Google/You Tube have to be a major factor in any explanation. Even if there were no so-called “bad actors” this would be enough to tilt the world towards angry and extreme politics. But the problem is made worse because since 2016 it has become painfully obvious that there are powerful “bad actors” who are largely unseen, who have magnified the effects. Cambridge Analytica was just one that happened to get caught, thanks to the diligent detective work of journalist Carole Cadwalladr. In her now famous Ted Talk, “Facebook’s role in Brexit – and the threat to democracy” she concludes that she has stumbled on an issue which is bigger than Brexit, bigger than Trump, bigger than Silicon Valley, and implores us to wake up to this threat before it consumes the freedoms that we have long come to take for granted.

The same extraordinary power of artificial intelligence which is beautiful to behold in Alpha Zero’s chess becomes something terrifying when applied to the science of manipulating public opinion via the new media platforms which the public treat as innocent play things, and are therefore to which they are still utterly susceptible. Those who think that Brexit and Trump (the first major consequences of this phenomenon in Western politics) are good things for the world might be tempted to dismiss this whole issue as the ravings of sore losers. This would be a profound mistake. This becomes clear by reflecting on its manifestation in other parts of the world, of which perhaps the most appalling example was the Rohingya massacres in Myanmar. The title of an article in the New York Times from 15 October 2018 sums up the gist, “A Genocide Incited on Facebook, with Posts from Myanmar’s Military”. Facebook itself has apologised for not doing more to prevent this genocide. The pressing question is this: how do we uphold confidence in the democratic process and rule of law with such a potent ability to manipulate public opinion in ways that are largely invisible being available for sale. We have enjoyed fantastic fruits of the digital revolution for the last few decades, now we have to come to terms with some extraordinary threats as well.

DR PAUL JOURDAN

Related links to this Article

Carol Cadwallandr

Ted Talk: "Facebook's role in Brexit - and the threat to democracy"

Interviewed by Kara Swisher for Recode Decode podcast

Roger McNamee

Interviewed by Sam Harris for Making Sense podcast

Preview of "Zucked: Waking Up to the Facebook Catastrophe" on Amazon

Dominic Cummings lecture for Nudgestock 2017 which outlines the role that data analytics and targeted Facebook ads played in the success of the Leave.EU campaign.

New York Times article: "A Genocide Incited on Facebook, with Posts from Myanmar's Military"

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 £443.90m (as at 31 July 2019)

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.

Portfolio Companies Spotlight

Sumo floated on the Alternative Investment Market (AIM) in late 2017 and we have held the stock in TB Amati UK Smaller Companies Fund since July 2018 and more recently also included it in our Amati AIM IHT Portfolio Service. Sumo provides higher value-added support services to the gaming industry. This market is growing at high single digit rates, as games creators outsource more work to specialists.

Gaming is now bigger than both movies and music and the tech giants such as Apple and Google want a piece of it. Google have announced 'Stadia' – a Netflix style subscription model launching in November – and Apple are going down the route of a carefully curated 'arcade' of exclusive games. This means that games content is in more demand than ever. Sumo provides that support to enable the creators to make and market their games from initial concepts to artwork. Successful support services manage their employees time carefully their employees time carefully in order to maximise returns.

Capacity utilisation at Sumo runs at over 90%, as they are able to plan given the longer term nature of their contracts. Availability of skilled employees is always a challenge, and by basing their main offices in Sheffield, Sumo are able to make the most of their substantial links with Sheffield Hallam University. Employees can participate in monthly 'game jams' and design and present their own creations – one of which is now an established game and another of which is in development. Employees receive a proportion of the revenues from games which go on to be developed and sold. Sumo has made some small, accretive acquisitions and will continue to do so, in what is still a fragmented market. Given the predictability of their workflow, and the high value services they provide, the shares rate on a December 2020 20.7x P/E. Sumo is held within TB Amati UK Smaller Companies Fund and the Amati AIM IHT Portfolio Service.

SUMO GROUP

Intermediate Capital Group (ICG) ,which floated in 1995 and we have held the stock in TB Amati UK Smaller Companies Fund since February 2019, has been one of the leading investors in specialist debt instruments provided to private equity owned businesses for several decades. It suffered badly going into the Great Financial Crisis as it was then primarily a direct investor from its own balance sheet, and it required two rounds of additional financing during the liquidity crunch which proved very expensive.

However, its book of investments proved solid, and since that time it has changed the emphasis of the business to become primarily a fund manager which makes direct balance sheet Investments in order to seed its own fund range. This strategy, combined with diversifying the range of specialist debt funds that the company offers from being European focused to being globally focused, has been highly successful.

At the end of June 2019 assets under management stood at EUR38.6bn, with EUR2.1bn raised during the first quarter of 2019. The assets are all managed through fund structures which give the company many years of revenue visibility. We believe that demand for these type of specialist debt funds is likely to be rising for some time, as large institutional Investors around the world are seeking to increase their exposure to these kind of assets. ICG funds generally offer higher levels of returns relative to their risk profile by sacrificing liquidity, a trade-off which their investor base is happy to live with. ICG has become a trusted partner to a number of the world's largest Institutional investors and that places them in an attractive strategic position. ICG is held within TB Amati UK Smaller Companies Fund.

ICG

Past performance is not a guide to future performance. Investment in smaller companies, in particular those quoted on the Alternative Investment Market (AIM), carries a higher risk than that of larger companies listed on the Main Market of the London Stock Exchange.

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Polarean, a company in which Amati AIM VCT has now participated in two rounds of financing, has developed a propriety imaging device for the visualisation of pulmonary function in MRI scans. The image is obtained through the patient inhaling hyperpolarised ^{129}Xenon gas which is a non-radioactive isotope. We believe this device represents a major step forwards in the diagnosis and assessment of the many different types of lung diseases, because it not only shows which parts of the lung are being ventilated, but also shows both the regional lung microstructure and the extent of pulmonary gas exchange (i.e: whether oxygen from ventilated parts of the lung can pass into the blood stream). The device is going through a clinical registration study in the US currently in which it has to prove non-inferiority with ^{133}Xenon ventilation scintigraphy, a 40 year old technology which requires the patient to inhale a radioactive isotope.

We see this as a relatively low risk trial, which if successful in leading to an FDA approval, should open the door to significant adoption of the device. In the meantime the company is already selling the device for research use, and 24 systems are in use or on order each of which sells for around $500K. Once approved by the FDA (which all being well will happen in 2020), Polarean will be able to charge for the supply of the Xenon isotype as the "drug" involved in the imaging, and this will create the recurring revenue from consumables which should allow the company to become highly profitable if it can successfully commercialise the product. At a recent Capital Markets Day held by Polarean a good deal of excitement was produced by various presentations of recent research being carried out by centres which are early adopters. One particularly striking paper was suggesting that the images from the device can be classified to produce disease signatures, making various hard-to-diagnose lung conditions immediately apparent. We see potential for the device to become embedded in protocols for the treatment of several lung diseases. There are also indications that there will be applications in cardiology in the future. Polerean is held within Amati AIM VCT.

AMATI PEOPLE

We are pleased to announce that Dr Gareth Blades joined Amati in July 2019, as an analyst supporting the fund management team.

Prior to Amati, Gareth worked as an independent consultant supporting early stage, life science companies in their operational and strategic decision making. In 2016 he worked for the College of Medicine and Veterinary Medicine at the University of Edinburgh building and spinning-out therapeutic med-tech, diagnostic and e-health companies. In 2015, Gareth worked in healthcare corporate finance PharmaVentures in Oxford. During his time at PharmaVentures he delivered expert reports, business development, licensing and due diligence projects for international clients. Prior to this he worked for White Space Strategy in Oxford, a leading market analysis and strategy consultancy serving financial services, TMT, manufacturing, energy and public sector clients. Gareth has a DPhil in Systems Biology Biochemistry from the University of Oxford, an MPhil in Micro and Nanotechnology Enterprise from the University of Cambridge and a first in Neuroscience from Cardiff University.

Gareth's role at Amati will involve working with the fund managers in researching potential new investments, as well as carrying out ongoing monitoring of existing portfolio companies. Amati will benefit from his background in life sciences, providing greater insight to its coverage of the healthcare, pharmaceutical and biotechnology sectors. This expertise will prove particularly valuable to Amati's due diligence process into investments for its AIM VCT, where the legislative emphasis on "knowledge based" companies is generating an active pipeline of early stage, life science companies. It is intended that Gareth's future sector coverage will expand beyond his initial responsibilities, as he gains public market experience.

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Recent Ratings Awarded:

- RSMR Award Rating
- FE Trustnet 5 Crown Rating
- Citywire AAA
- FE Invest Approved List

Amati Quiz With Chance To Win An Isle of Harris Gin Gift Set

Congratulations to Mr Dominic Paes (an Amati AIM VCT & TB Amati UK Smaller companies investor) for winning last newsletter's competition. Mr Paes commented "I first came across Amati Global Investors through the Money Observer fund awards for Smaller Company funds and fund managers. After my own research, I invested in the UK Smaller Companies OEIC and the AIM VCT with the medium to longer term objective of capital growth and dividends free of tax for the VCT - excellent stock pickers with an established record of long term success!"

Answer the following questions correctly for the chance to be in the draw to win an Isle of Harris Gin Gift Set

1. Which VCT's merged to create Amati VCT 2 in 2011?
2. What was the last dividend to be paid by Amati AIM VCT?
3. What is the minimum investment for the Amati AIM IHT Portfolio Service?
4. Who won this year's Amati Guildhall Creative Entrepreneurs' Award?
5. How long has Dr Paul Jourdan been managing the TB Amati UK Smaller Companies Fund?
6. How many years experience of UK smaller companies do the Amati fund managers collectively have?
7. What is the AMC (annual management charge) of our VCT?
8. Who is the ACD (Authorised Corporate Director) for our small cap fund?

Answers to info@amatiglobal.com by 30 September 2019 for the chance to win an Isle of Harris Gin gift set. Winner will be announced in our next Amati Newsletter.

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.

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**

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