Amati
Global Investors

Issue 9

April 2018

INVESTMENT WEEK
FUND MANAGER OF THE YEAR 2017
WINNER
UK Smaller Companies

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.

AMATI VCT & AMATI VCT 2 JOINT PROSPECTUS OFFER

We are delighted to announce that the Joint VCT fundraising launched in October 2017 by Amati VCT plc & Amati VCT 2 plc has reached its target of £20m and therefore the Offers are now closed. In view of continued interest from investors and advisers, later this year the Directors of the Company may look to make use of some or all of the £10m over-allotment facility which becomes available under the Offers subject to the completion of the proposed Merger. The extent to which this facility might be used will depend on the availability of new investment opportunities over the next few months. Should you wish to register interest in reserving a slot, please contact info@amatiglobal.com to request to be added to the waiting list.

VCT MERGER

On 4 May 2018 we announced the successful merger of Amati VCT into Amati VCT 2. Amati VCT 2 plc has been renamed Amati AIM VCT plc with effect from 8 May 2018 as elected by shareholders. Share certificates in respect of new shares in Amati AIM VCT will be issued to Amati VCT share holders only and will be issued w/c 14 May 2018. Should you have any queries, please contact 0131 503 9115 or email info@amatiglobal.com. The new Board of Directors are Peter Lawrence (Chairman), Julia Henderson, Susannah Nicklin, Mike Killingley and Brian Scouler.

"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

AMATI AIM VCT AGM & INVESTOR EVENT

We will be hosting Amati AIM VCT plc's AGM again at The Guildhall School of Music & Drama, Milton Court, Silk Street, Barbican, London EC2Y 9BH on Wednesday 27 June 2018. The event will give shareholders and advisers the opportunity to meet the Directors of the Amati AIM VCT, put questions to the fund managers and hear from two of the portfolio companies, LoopUp and FairFx, in which Amati AIM VCT has invested. Should you wish to register interest in attending, please contact info@amatiglobal.com. Please note that places are limited and will be offered on a first come first served basis. For full details of the programme, please click here.

We will again be running The Amati Guildhall Creative Entrepreneurs' Award with entrepreneurs pitching for the 2018 Award. AGI will announce details of the participants and the full judging panel on their website shortly. You can view last years pitches on our website which include winner Gestalt Arts.

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.

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UK Smaller Companies Feature

David Stevenson

In the current environment, why allocate to UK small caps?

With the UK at the bottom of international league tables for economic growth, and fund managers voting with their feet in terms of UK asset allocation, this is a reasonable question to ask. And since UK smaller companies have historically shown greater volatility than the market as a whole, the current shake-out may not seem like the best time for investors to get involved. Whilst these negative headlines create sentiment headwinds, they don't alter the day-to-day challenges of active portfolio management. At Amati, our job remains the same – to identify individual companies which are, by virtue of competitive advantage, intellectual property, or market opportunity, capable of producing superior earnings growth and hence superior investment returns.

All companies are sensitive to the macroeconomic environment, but some have specific growth drivers which are more heavily influenced by structural trends within their end markets. These drivers might be to do with technological product breakthroughs, or a "faster/cheaper/better" service capability. They might involve consolidation of fragmented markets, or regulatory, compliance and government policy changes, or any number of secular growth dynamics which offer visibility beyond the immediate prospects for the economy. The reason why such trends might favour small companies is that smaller organisations are generally more entrepreneurial and innovative, and, if successful, will enjoy significant growth leverage on a relatively low earnings base.

A compelling investment rationale for UK small caps lies in the long term data series analysed by London Business School academics Dimson, Marsh and Evans*. Over a 63 year period from 1955 to 2017, they calculate the annualised total return for the Numis Smaller Companies Index ("NSCI" - the bottom 10% by market capitalisation of full list UK companies) to be 15.2%, which compares to an equivalent return for the FTSE All-Share Index ("ASI") of 11.8%. Over such an extended time horizon, the compounding of outperformance creates a materially different investment outcome - £1 invested in 1955 produces a total return of £1,095 for the ASI in 2017, versus £7,209 for the NSCI. Proof positive of the old saying that it is time in the market which counts, not timing the market.

Why has AIM enjoyed a resurgence in performance?

After many trials and tribulations during its 22 year existence, the recent performance of AIM has been noteworthy. Over both three and five years, the total return from AIM (capital plus income) has comfortably beaten the FTSE All-Share, with the three year differential particularly dramatic. A number of factors can be identified behind this trend. A key tax advantage accruing to companies which have an AIM quotation is a potential exemption from Inheritance Tax ("IHT") through Business Property Relief ("BPR"). This has been the catalyst for major growth in IHT portfolios, with fund managers tending to invest on a "buy & hold" basis. This one-way investment flow is creating distortions on AIM, with some bubble-like valuations appearing for companies which offer qualifying, but otherwise unremarkable, earnings streams. This also serves to increase the average market capitalisation of AIM stocks, as companies have a disincentive to graduate to the full list where they would lose BPR. The structural tailwind to AIM performance adds to a quiet revolution which is already taking place, as the UK's junior stock market establishes itself as one of the most active in the world for smaller companies. AIM now attracts the best of the UK's innovative growth businesses, operating in both domestic and overseas markets.

You can view the rest of David's interview and the full feature on UK small caps **here.**

Portfolio Companies Spotlight

Autotrader — Autotrader (AT) dominates the market for the sale of used cars in the UK and Ireland. The last print copy of the magazine was published in 2009 as they have successfully transitioned and developed the business online. 85% of consumers browsing for a 'new' used car will view autotrader.co.uk. AT now helps dealers sell cars more efficiently by providing data driven intelligence, and this enables them to manage their stock and pricing more effectively. Around 90% of the sales of new cars are using Personal Contract Purchase (PCP) plans and these plans have now been developed for used car transactions. AT enables dealers to show monthly pricing on their listings, as well as providing dealers without their own financing arrangements to sell PCPs to their customers. AT has recently signed arrangements with car manufacturers to list new cars on their website too. These initiatives will help counteract a used car market which is under a little pressure. We feel that AT will be able to build upon its dominant market position in a similar way to Rightmove (indeed, the ex CEO of Rightmove is Chairman of AutoTrader) and that this is not reflected in its substantial valuation discount. The company is held in the TB Amati UK Smaller Companies Fund.

Premier Technical Services Group ("PTSG") - PTSG is the UK's leading provider of a range of building maintenance and safety services. These include tall building access and fall arrest equipment, lightning protection and electrical testing, steeplejack and rope access services, and fire solutions. The group employs more than 600 people across 17 UK sites, and services more than 150,000 buildings for over 17,000 customers. Despite more than twenty acquisitions over the last ten years, PTSG has no more than a 9% market share across its divisional activities, which illustrates both how fragmented its end markets are, and also the potential for further consolidation. By their nature, PTSG's services are mainly non-discretionary and recurring, often linked to annual insurance reviews or building inspections, and involve skilled engineers so that margins are attractive. Alongside its acquisitions, PTSG is achieving solid organic growth with the potential to enhance this through cross-selling. At present, 90% of clients take only one service line. Following the Grenfell tragedy, there is significant demand for the sprinkler systems and dry risers supplied by the fire solutions division. PTSG is run by a very experienced management team, who previously built and sold a similar services group to Interserve plc for £120 million in 2006. The company is held in the TB Amati Smaller Companies Fund, the Amati AIM VCT and the Amati AIM IHT Service.

Sabre — Sabre is unusual in the motor insurance sector for making its profits from underwriting, whereas for the mainstream players most of the money is made from ancillary income (the bulk of which comes from the financing charge for turning an annual payment into a monthly premium). In 2010 it launched three direct brands, Go Girl, Insure2Drive and Drive Smart, although 70% of Sabre's business continues to be written through brokers. What differentiates Sabre is being willing to underwrite non-standard cases. They compete effectively at the high premium end of the market, where they are the only company to have 15 years of consistent specialist data. They rely on being able to spot the good risks which fall foul of other insurer's filtering. They give prices on 96% of quotes sought in the market by retail customers, but their pricing model segments out only the small fraction of this that they want. They insure 1% of UK drivers, but take 2% of the gross premiums written. There is room for some steady growth in this market share over the next five years, whilst the strong cash flow generation should allow for a healthy and rising stream of dividends to be paid if they can maintain their disciplined approach to risk. The company is held in the TB Amati UK Smaller Companies Fund.

Amati Global Investors

Amati Global Investors are managers for:

- Amati AIM VCT
- TB Amati UK Smaller Companies Fund
- Amati AIM IHT Portfolio Service

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.

FURTHER AMATI FUND UPDATES

We are delighted to welcome Anna Wilson to the fund management team. Anna joins Paul Jourdan, David Stevenson & Douglas Lawson across all Amati funds. Anna brings her expertise of having run the successful AIM listed portfolio service at Adam & Company as well as a breadth of experience in managing substantial OEICs, private client and charity portfolios

MORNINGSTAR Bronze™

In February of this year the TB Amati UK Smaller Companies fund received a Bronze Morningstar Analyst rating – analyst report available here

TB Amati UK Smaller Companies Fund Cumulative Performance Table (B Class) as at 31/03/2018

Period	1yr	3yrs	5yrs	10yrs
Fund Return %	23.41	84.91	140.10	349.89
Benchmark Return %	6.98	34.50	58.22	121.48
Average Sector Return %	14.85	47.52	87.24	192.69
Quartile Ranking	1	1	1	1

Past performance is not a guide to future performance. Statistical sources: all performance data as at 31 March 2018: Source - T. Bailey Fund Services Ltd, Financial Express Analytics and Numis Securities. Further details: Issued by Amati Global Investors Ltd., authorised and regulated by the Financial Conduct Authority. Registered in Scotland, number: SC199908. Registered address: 18 Charlotte Square, Edinburgh, EH2 4DF

RISK WARNINGS

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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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