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WS AMATI GLOBAL INNOVATION FUND

Quarterly Review

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By
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Market commentary

The first quarter of this year brought with it a sharp change in sentiment from the final months of 2024. The initial euphoria over the Republican victory, and the pro-growth stance of the new president, proved to be short-lived as the uncertainties surrounding changes to trade policies led to further delays to capital investments. No sense in building a new factory or distribution centre if the terms of trade are about to change. While initially affecting the capital goods sector, this lack of activity then echoes through the economy, with fewer jobs created and incrementally slower money supply growth. As public companies report to investors they are more cautious in their outlooks, which tends to weigh on stock prices. This vicious cycle was in evidence from mid-February and has accelerated at the time of writing. The response of investors has been to reduce risk and migrate to safer haven assets. In the broader financial markets this has meant a flight into gold and other precious metals, and in stock markets a shift to less economically sensitive sectors such as utilities, telecoms and consumer staples. Not typical hunting grounds for innovation investors.

Performance contributors

The delays to investment in new projects and expansionary capital investment certainly weighed on a number of our holdings. However, the issues for the most material detractor over the period, **Impinj**, the US listed specialist semiconductor group, were more idiosyncratic. Their radio frequency identification chips have been benefiting from steadily increasing demand across retail and industrial applications, but supply-chain stocking and de-stocking issues can lead to short term volatility in earnings and cash flows. The recent quarter suffered a destocking phase and while this spooked shorter term investors, our recent discussions at trade shows across Europe gave us comfort that the mid-term trajectory of demand is undiminished.

Bruker, the US listed life sciences equipment company, was again a notable detractor from performance. The laudable focus on government cost savings from the new US administration, extended to research funding within the US National Institute of Health (NIH). Given Bruker's strong position in cutting edge research equipment, across areas such as biotechnology and materials science, investors have read through a material impact on demand from this customer. While the company refutes this issue, only time will provide full clarity. In either case for the longer term, the structural growth outlook for Bruker's expanding product range remains undiminished and we have been gently adding to the position.

Soitec, a French listed semiconductor materials group, also weighed on performance during the quarter, after lowering revenue guidance for the current year. The business is highly exposed to products for use in the automotive industry, and the weaker demand for European vehicles is impacting demand more than previously expected. Soitec's leading Silicon-On-Insulator technology continues to take share as chips become more efficient or begin to integrate photonics, but the product end markets remain cyclical. Given the materiality of the slowdown across the European automotive sector, and the additional tariff concerns, we have yet to add to our holding.

Although the first quarter in 2025 was clearly a difficult period for the Fund, we enjoyed strong performances from several of our holdings, most notably our German listed defence equipment company, **RENK Group**. When we purchased the holding in December 2024, there were clearly rumblings from President Trump that Europe was not pulling its weight in military spending, but this was largely overlooked by investors who had heard such rhetoric before. Our decision to buy the shares was driven more by the attractive hybrid-electrification capabilities of the group, which we believe will gain share in battlefield equipment over the coming decade. The shares were not pricing in this growth, and certainly not any sharp increase in defence spending. However, the change in tone and pressure from the US in early 2025 drove a dramatic increase in planned expenditure across Europe, particularly in Germany, which in turn led to a similarly dramatic rise in demand for the limited number of quoted European defence companies. RENK Group was a clear beneficiary, and after reaching even our stretched price target we decided to take profits.

Like RENK Group, the other two most significant contributors in the first quarter were also listed in Germany, although not in the Defence arena. **GEA Group**, which produces advanced process machinery used in the food, pharmaceutical and chemical industries; and **Eckert & Ziegler**, which is one of the leading global suppliers of radioactive isotopes for medical and industrial uses. For GEA Group the positive performance resulted from continued execution of their growth strategy, and in particular further growth in their service business, a higher quality earnings stream for the company. They produced better than expected results for the final quarter of 2024, with a very solid order book for the year ahead.

While GEA Group has been a relatively longstanding holding for the fund, Eckert & Ziegler was a relatively recent addition, acquired in January this year. Having looked across the quoted landscape of radiopharmaceutical exposed businesses we were excited to discover this one. The rapid expansion of this form of cancer treatment is still in its very early stages, with a deep pipeline of new treatments looking for approval. The company holds a very strong position in this highly regulated industry and will be a key beneficiary of the burgeoning demand.

Activity

We had a few changes to the fund over the quarter after some of the holdings reached our intrinsic valuation targets. In addition to RENK Group mentioned above, we also sold out of **Arista Networks** and **Wolters Kluwer**. Both companies became somewhat embroiled in the Artificial Intelligence (AI) mania and ran up to our updated target levels. In those situations we prefer to reinvest our clients' money into ideas with greater upside potential. Wolters Kluwer had been a holding since the inception of the fund and Arista Networks for more than 18 months. Both holdings were sold towards the end of January.

The newly acquired holdings included **Eckert & Ziegler**, the radio-isotope supplier mentioned above, as well as **Telix Pharmaceuticals** and **MercadoLibre**. Telix Pharmaceuticals is our first Australian listed company and, like Eckert & Ziegler, it is a beneficiary of the rapid penetration of targeted radio-isotope based cancer therapies. While Eckert & Ziegler is an enabler of this process, Telix Pharmaceuticals is a pioneering treatment company. The group already enjoys approvals for a number of products, with more in the pipeline. Surprisingly, however, financial markets are not pricing in any of the upside beyond the current approvals. In our view there is a strong earnings upgrade cycle ahead, as both the number of treatments and the geographic markets continue to expand.

MercadoLibre (MELI), the well-known Latin American online retailer (listed in the US) is another Pioneer in our terminology, and the leading ecommerce company in what is still a materially under-penetrated market. With numerous growth opportunities ahead, MELI has built a substantial logistics advantage in the region from which to keep expanding.

Outlook

At the time of writing this report, financial markets have entered a tailspin over President Trump's "Liberation Day" tariff announcements. The extreme levels of the suggested tariffs led to genuine concerns about the economic ramifications of such dramatic changes. Stock markets around the world whip-sawed violently on headlines and rumours, as investors tried to make sense of events. While periods such as these are often deeply uncomfortable in the moment, in our experience investors are typically rewarded for keeping a cool head and focusing on where they are most confident. For us, this is about identifying innovation frontiers which are technologically inevitable, but are yet still in their early rounds of adoption. We have mentioned some in this commentary, but others will be well known to regular readers. Think about the current Republican initiative to 'reshore' manufacturing and production to the US, a country with little spare employable capacity. When near full employment, factories will be forced to turn to ever greater uses of automation and robotics, which are inherently more reliable and efficient and do not face wage inflation. Beyond the industrial settings, surgery is in a multi-decade journey to shift to robotic assistance. As well as improving the productivity of practitioners, this technology also improves patient outcomes. The advancement of new medical therapies continues, from engineered antibodies to proteins and ever more targeted nuclear radiation. If we stop and ask ourselves will there be more or fewer of these things in 3 years' time, we can be confident of the answer. The managers continue to have the vast majority of their own wealth invested in the fund, and we thank you for your trust and support.

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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 review 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 and the Key Investor Information Document (KIID). The Prospectus sets out the main risks associated with the fund and the KIID shows you how costs and charges might affect your investment. If you are in any doubt as to how to proceed you should consult an authorised financial intermediary.

Fund documentation is available on request and can be downloaded from Waystone here or from our website.

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