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Amity International Fund – Q4 2015 Commentary

Quarter to end December 2015

Performance

	3 Month	12 Month	3 Years	5 Years	10 Years
Fund Performance (B share class)	8.35%	-2.58%	18.50%	16.12%	121.60%
Sector Performance	8.10%	2.80%	33.84%	32.84%	69.27%
Quartile	2	4	4	4	1

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Sector – IA Global

Review

After a difficult third quarter, the final three months of 2015 proved to be a more benign environment for equity markets. The majority of major indices finished in positive territory with the China A-Shares index leading the way, bouncing back from its Q3 falls to post a healthy double-digits return. In Europe, German equities were the best performers due to their exposure to China. Japan and the US also finished the year with strong returns, although the FTSE 100 offered a more muted 3% performance for the quarter, weighed down by its commodities exposure. Oil continued to slide lower after the Organization of the Petroleum Exporting Countries (OPEC) announced that it remained committed to maintaining market share rather than attempt to bring the market back into balance by reducing production. Brent Crude finished the year at $37.3, capping a 35% decline for 2015. Miners were dragged lower by weak commodity import data from China and after Anglo American followed Glencore and Vedanta in announcing the suspension of its dividend.

The main economic news of the period came in December when, after nine and a half years of record low borrowing costs, the Federal Reserve finally raised interest rates. The move, a twenty-five basis points hike to 0.50%, was widely anticipated but the accompanying commentary from the Fed was rather ambiguous, emphasizing that future rises would be 'gradual' while at the same time saying the trajectory would be the same as outlined in the September press conference, which would mean four more hikes in 2016. The market is currently pricing in a more dovish approach and the Fed's additional comment that future hikes would be dictated by incoming data gives them plenty of wriggle room in the year ahead.

Elsewhere, China cut its interest rate for the sixth time in twelve months and also reduced the reserve requirement ratio for its banks in an attempt to stabilise growth. In Europe, the European Central Bank (ECB) announced it would be extending its Quantitative Easing (QE) programme by six months to March 2017 and lowered its deposit rate by ten basis points to -0.30%, although this disappointed investors who had been expecting more. There was no clear winner in the general elections in Portugal and Spain but both countries witnessed a surge in support for anti-austerity parties, which is likely to increase political risks within the Eurozone over the coming quarters.

Performance

Within this context, stock selection had a positive impact on performance but asset allocation was negative during the quarter. The fund's underweight allocation to US equities proved detrimental to performance as US equities outperformed the global index. The overweight exposure to the UK also acted as a drag on performance as the UK lagged behind other markets. At sector-level, the fund's underweight exposure to commodities aided performance due to the ongoing sell-off in mining and oil stocks.

The holding in General Electric was the biggest positive contributor for the fund during the quarter; the company's shares jumped on better than expected quarterly results and news that activist investor Nelson Peltz had accumulated a $2.5bn stake in the company. The position in Japan Residential

Investment Company was also a strong performer following an announcement by US asset manager Blackstone Group that it would acquire the company for an amount that valued it at a 32% premium to the current share price.

Positions in Tesco, Luk Fook and two oil services companies, Baker Hughes and Vard, were the largest detractors from performance during the quarter. Tesco was weighed down by news that it had abandoned attempts to sell its data analytics unit, Dunnhumby, the proceeds for which it could have used to lower its debt. The company also underperformed over fears of a weak Christmas period. Baker Hughes and Vard were hit by the sharp decline in the oil price during the quarter, while Luk Fook's shares were hit by a poor set of results.

Outlook

2015 draws to a close with many markets in negative territory for the year and global growth receiving ongoing downgrades. Many of the themes that have dominated markets in 2015 look set to endure as monetary policy continues to diverge around the world and an era of low commodity prices potentially becomes entrenched. Within such an environment, we continue to look for companies with strong balance sheets and healthy cash-flow generation that can ride the current storm and whose long-term outlooks remain bright. The fund retains its overweight exposure to Asian equities where markets have de-rated considerably in recent times and look very attractively valued. We also maintain our underweight exposure to the US on concerns around elevated valuations that have reached unsustainable levels.

Further Information

To obtain further information please speak to your normal EdenTree representative, visit www.edentreeim.com or call our support team on 0800 011 3821.