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Amity International Fund – Q1 2017 Commentary

Quarter to end March 2017

Performance

	3 Month	1 Year	3 Years	5 Years	10 Years
Fund Performance (B share class)	5.72%	27.65%	33.41%	63.35%	131.50%
FTSE World TR GBP	5.62%	32.90%	57.88%	99.61%	149.45%
IA Global	5.39%	29.03%	43.44%	76.53%	99.50%
Sector Quartile	2	3	4	4	2

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

Review

Global equities have started 2017 well, putting in another decent quarter of returns, following on from last year's strong performance. The primary driver of market sentiment was the continuing trend of improving economic indicators. As we have moved through the quarter, signs of improving economic activity have been noted globally, with Asian and European leading indicators reporting positive developments. This inflection was a main driver of the regional benchmark performance disparity, with Asia returning 11.2% and Europe ex UK returning 7.4%. In contrast, the US returned 5%, marginally below the 5.8% global benchmark return, while UK and Japan lagged further at 3.7% and 3.6% respectively (all Sterling terms).

Within Asia, Korea was a strong performer returning over 12%, despite the ongoing tensions with the North and ongoing political/corporate governance scandals. Additionally, Taiwan continued to benefit from broader technology activity and sentiment. The extent of outperformance from the technology sector is best reflected in the performance of the Philadelphia Semiconductor Index ("Sox"), which has returned over 83% in Sterling terms since the start of 2016, and over 10% in the last quarter. The historical concern over the cyclical nature of this index remains a valid one; however it would be fair to note that there are several longer term structural drivers such as artificial intelligence, industrial automation "4.0", automotive active safety & EV, and the *Internet of Things*, in addition to the ongoing penetration of smartphones. M&A in this sector remains ongoing, however serves as another reminder of elevated expectations and valuations.

Commodities were again volatile, with oil falling just under 10% during the quarter as concerns relating to inventory build persisted despite the OPEC cuts. The oil price rebound in 2016 has played an important part in forming reflationary expectations and dictating the pace of future monetary policy, despite most central bankers' preference for core "look-through" measures. US monetary policy continues to dominate the global macro backdrop, with the Federal Reserve raising rates by 25bps as expected and indicating a further two to three increases in their dot-plot analysis. ECB policy remains exceptionally loose, with limited core inflationary concerns likely to drive any near term tightening bias.

In the UK, the decision to trigger article 50 and begin the "Brexit" process finally took place, however it is likely that any meaningful decisions on issues such as trade will not be taken until 2018.

Performance & Activity

In terms of performance, the fund returned over 6.1% in Q1 2017, finishing second quartile relative to the wider global equity sector. A key driver of outperformance was stock selection within Japan, with the portfolio returning 9.7% vs 3.6% for the wider market. The contributors to this outperformance were two of the top three holdings, Sony and Technopro, both of which rose c.19% over the quarter. Other stand-out stock performers in Asia ex Japan were BYD Electronic (37.6%); Minth Group (28%); Hi-P International (26.2%); Tarena International (24.3%) and Samsung Electronics (24%). Europe ex. UK stock selection was also positive, although in UK we underperformed marginally, driven by cybersecurity specialist NCC, which announced a strategic review, resulting in the company falling over 25% during the period. We continue to engage with the Company's Board.

In terms of portfolio activity, in Europe we initiated three new positions, namely: ING Groupe & WPP, both of which are digital leaders in their respective sectors of personal banking and media; Autoliv, the Swedish-based global leader in passive and active auto safety devices. In Asia, we exited BYD Electronic, following strong performance and extended valuation. We added to our existing holding in Dah Sing Bank, a resilient, conservatively managed Hong Kong bank unfairly valued at sub 1x Book. In UK telecoms, we consolidated our holdings, selling Vodafone in favour of BT Group, following a review of the extent of value destruction accruing

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from the Italian impairment charge and uncertainty relating to regulatory separation of the Openreach business. Finally, we continued to add to Tarena International, the vocational IT programming provider addressing the chronic skills shortage in the new economy.

Outlook

Although US data has continued to be strong, signs of a slowdown in corporate credit need to be monitored. Significant delays in US corporate capital expenditure may be influenced by the uncertain policy environment created by the incoming US administration. Despite significant grandstanding, the US administration has struggled to implement any of the hard-line campaign promises in the first hundred days, culminating in the failure to pass the Affordable Care Act as a replacement for Obamacare. Since November 9th, investors have given the new administration significant credibility in terms of implementing the fiscal reform programme. Expectations of corporate and consumer tax reforms were identified as key to supporting net profit margins, discretionary spending and equity market valuations. The bi-partisan resistance encountered with health reform and increased attention on foreign policy illustrates the reality and challenges of governing. Meanwhile the stronger dollar, rising mortgage costs, immigration restrictions and international trade protectionism continue to pose headwinds to both the domestic economy and markets. Finally, the Republican administration's attitude towards sustainable and environmental issues are a cause for concern and are likely to hinder the positive progress experienced in 2016.

Market leadership over the last five years has been predominantly growth-orientated, however we would expect improving relative performance from value-characterised stocks as the global economy continues to recover from its low-growth trajectory. Regions in the infancy of their recovery, namely, Europe and Asia, continue to be attractive regions from this valuation perspective. Political risk remains the wildcard for both regions, with the upcoming French elections and ongoing tensions in the Korean Peninsular being the major potential flash-points

In terms of regional allocation, the Amity International Fund remains cautiously positioned, maintaining a significant relative underweight exposure to the US equity market. Those US companies we do hold are either defensive in nature or have a global earnings stream that provides some insulation from domestic volatility. Globally, we continue to seek companies with strong sustainable fundamentals that are not reliant on political outcomes.

Further Information

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