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Amity International Fund – Q1 2019 Commentary

Quarter to end March 2019

Performance

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	6.08%	-6.13%	-0.84%	32.12%	38.09%	165.45%
FTSE World TR GBP	9.56%	-2.38%	11.09%	51.42%	79.88%	263.50%
IA Global	9.80%	-2.87%	8.74%	44.33%	60.45%	201.18%
Sector Quartile	4	4	4	4	4	4

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

Review

Global equities returned 9.6% for the first quarter of 2019, rebounding strongly from a volatile and challenging end to markets in 2018. The main driver for equities was the dovish turn of the Federal Reserve, whose prior hawkish stance spooked markets with fears of further interest rate hikes. Interpretation of US economic data proved more challenging due to a US Government's shutdown into January, however economic data in Europe was clearly weaker leading the ECB to cut back growth forecasts, echoing the Fed. Global politics continued to heavily influence equity markets in Q1.

The original date for UK's exit from the EU came and went, with relatively limited clarity regarding a resolution, bar parliament voting against a "no deal scenario". In Asia, Chinese indicators remained under pressure, however there are signs of increased willingness for stimulus, coupled with further progress in trade talks with the US.

Performance & Activity

The fund returned 7.2% in Sterling terms, underperforming the index return of 9.6%. The primary source of underperformance was the portfolio's value style. The significant dovish orientation of central banks, led by the Fed, fuelled a sharp rally in Growth stocks, which already appear highly valued. The deteriorating global growth outlook hurt Value stocks, particularly rate-sensitive Financials. The MSCI World Growth outperformed the MSCI World Value by approximately 5% over the quarter. In terms of benchmark sector performance since the start of 2019, Tobacco was the best performing sub-sector (+20.6%), followed by Oil equipment & Services (+18.9%); Mining (+15.4%) and Aerospace & Defence (+15.2%). The fund's zero exposure to these sectors was a modest negative. In terms of regional allocation, US continued to dominate, returning with 11.2%, although positive stock selection offset the fund's underweight allocation. Conversely, the overweight to Asia ex Japan detracted with the region returning 3.6% as stocks reflected the weaker Chinese data. In contrast to the prior quarter, cyclical sectors Industrials and Technology performed strongly within the portfolio.

In terms of stock selection, renewed optimism around a trade resolution saw the Fund's trade-exposed stocks rebound, specifically Hi-P (70%), IPG Photonics (31%) and Horiba (32.8%) stood out. Australian waste recycler Bingo Industries was largest single detractor falling -16.9% following conservative guidance reflecting lower residential building activity resulting in lower construction and demolition waste volumes. In Japan, Sony had a more challenging quarter, falling 15% as concerns were voiced around the lack of restructuring momentum, despite the compelling valuation.

In terms of fourth quarter transactions, we sold out of Ericsson following strong performance, the valuation more than reflected the substantial operational turn-around and overlooked the ongoing execution challenges in Digital Services. At the start of the year, the fund initiated a new position in

Dutch materials science company, DSM NV which strives to find sustainable solutions for agriculture emissions, air quality, animal and human nutrition. Their “Clean Cow Project” aims to reduce the 148 billion kg of CO_2 equivalent emissions produced by dairy cows by 25%, which is equivalent to lighting Switzerland & Denmark. The Fund entered a new position in enterprise software leader, SAP, which we view as increasingly enabling corporate demand for resource efficiency through cloud-based enterprise planning solutions.

Outlook

Equity market’s exceptionally strong first quarter of 2019 was clearly fuelled by the return of dovish monetary policy and resultant impact such liquidity has on risk assets, whilst suppressing global bond yields. Second quarter economic data will be particularly interesting to ascertain whether the rate of deterioration justified such a significant dovish pivot. The Fed’s willingness to tolerate higher inflation through cycle, implies that the current inflationary environment would need to materially escalate to drive policy rates higher. Our expectations are global growth to modestly slow during 2019, with the key caveats being a trade war resolution, and a material tilt by the PBOC to favour credit availability over financial deleveraging.

In terms of corporate earnings, the upcoming reporting season contains greater asymmetric risk following the strong equity market rebound. This looks particularly evident in the elevated valuations of US growth stocks, where we feel markets have overly reflected the dovish rhetoric. Excess liquidity and low cost of financing continues to support an active M&A environment, with excessive premiums being offered in Biotech particularly. A focus on “active users” as an indicator of future profitability to justify IPO valuations is a further concerning illustration. Opportunities to outperform expectations remain in both Europe and Asia due to the depressed valuations and prevailing sentiment. Overall, we remain cautiously positioned seeking investments outside the elevated valuations we have observed. As ever, we look to navigate by investing in responsible and sustainable companies with long term potential at attractive valuations.

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.