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Amity International Fund – Q2 2017 Commentary

Quarter to end June 2017

Performance

	3 Month	1 Year	3 Years	5 Years	10 Years
Fund Performance (B share class)	2.09%	22.13%	32.90%	75.49%	115.25%
FTSE World TR GBP	0.51%	22.88%	54.73%	107.89%	138.84%
IA Global	1.39%	23.47%	43.21%	89.64%	92.94%
Sector Quartile	2	3	4	4	2

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

Review

Global equities consolidated their strong first quarter to remain firmly in positive territory for 2017. The primary driver of market sentiment has continued to be the trend of improving economic indicators. The signs of improving economic activity have remained broadly supportive, with European and Asian leading indicators reporting positive developments. This dynamic was again reflected in the regional benchmark performance disparity, with Europe ex UK returning 5.1%, while Asia ex Japan recorded more of a marginal gain of 1.3%. The fund's main underweight exposure to the US benefitted with US markets recording a fall of 0.7% (all Sterling terms).

Commodities continued to experience downward pressure, with oil repeating it's first quarter fall of 10%, as concerns continued to linger on inventory overhang, closing below the $48 per barrel level it averaged in 2016. The oil price rebound seen in second half of 2016 will begin to fall out of the inflation data, becoming a stronger year-on-year comparator in terms of inflationary contribution.

The US Federal Reserve enacted another interest rate increase as widely anticipated, although the ongoing political stand-off has delayed the announcement of any fiscal stimulus. In Europe, the ECB was close to changing its forward guidance on asset purchases, reflecting lower downside risks to growth and inflation. In the UK, the lacklustre result in the General Election in June had a limited impact on Sterling with the currency actually strengthening against the US Dollar by over 3% during the quarter, in part reflecting what appears to be the adoption of an increasingly softer Brexit stance.

Performance & Activity

In terms of performance, the fund returned 2.1% over the period, versus the benchmark of 0.5%, finishing both the quarter, and the first half, in the second quartile relative to the wider global equity sector. A key contributor to outperformance was stock selection in Asia, while global financials, industrials and basic materials sectors also stood out. Hi-P International, a Singapore-based precision moulding company, continued to perform very strongly (+42.6%), while in Finland, our holding in environmental testing company Vaisala rose 27.4%, following a positive set of results. Finally, Dutch life insurer ASR Nederland rose 20% over the period due to improving outlook and an attractive valuation. In terms of stock specific detractors, the oil price weakness drove **Ezion**, a marine support service provider, down 37%. However, more broadly, the fund benefitted from commodity weakness due to the significant underweight allocation to the oil & gas sector.

In terms of portfolio activity, in the US we exited **Intel** due to concerns on future growth in their data centre business and recent acceleration in M&A activities. During May, in the pharmaceutical sector, we initiated a new position in **Amgen**, a diversified global leader in biopharma which is trading on an attractive valuation, which was funded from a timely sale of Roche. We added to Cisco (network equipment) post a harsh market reaction to 1st quarter results. In Australia, we established a new position in **Bingo**, which is a circular economy enabler through their waste management services. Elsewhere in Asia, we took profits in strong performing mid-cap positions. Finally, in the UK we initiated a new position in **IP Group**, which develops and commercialises intellectual property via relationships with leading academic institutions in the UK, US and Australia. Access to highly innovative sustainable solutions across the broad healthcare and emerging technology space was a key attraction

Outlook

Despite a relatively uncertain inflationary outlook for the next year, US monetary policy is expected to continue to tighten with the Federal Reserve expected to raise rates at least once, if not twice, by year end. Despite encouraging data and recent hawkish comments, the European Central Bank's policy remains exceptionally loose, with limited core inflationary concerns likely to drive any near term tightening bias. In the UK, we remain relatively cautious on the outlook for consumer given the ongoing uncertainty over Brexit, although recognise that policy clarity supporting a softer Brexit stance is likely to be positively received by markets.

Last quarter we articulated our concerns on the pace of policy implementation in the US, and in the last three months there has been little progress to alter this view. Concerns remain regarding significant delays in US corporate capital expenditure arising from this political uncertainty - the slow pace of nominations by the Senate has been a frequently cited factor. One example area is energy infrastructure, with the Federal Regulatory Energy Committee (FERC) unable to form a quorum to approve projects since February. Ongoing challenges in implementing the Affordable Care Act, a key campaign promise for the first hundred days, is increasingly looking like a political game with high stakes for those citizens taken out of coverage. The bi-partisan resistance encountered with health reform has resulted in a delay in the House and Senate's five-week recess, illustrating the reality and challenges of governing. Meanwhile, rising mortgage costs, partial immigration restrictions and strong international trade protectionism continue to pose headwinds to both the domestic economy and markets. The recent meeting of G20 leaders, or G19 plus one, illustrated the Republican Administration's unwillingness to lead on critical global issues, which has provided European and Asian leaders with an opportunity to embrace the resultant void.

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 exposed to attractive long-term sustainable themes, and tend to have a global earnings stream that provides some insulation from domestic volatility. Regions in the infancy of their recovery, namely, Europe and Asia, continue to be attractive regions from this valuation perspective. Political risk seems an ever-present, with ongoing tensions in the Korean Peninsular being one potential wildcard. Globally, we continue to seek companies with strong sustainable fundamentals that are not reliant on political outcomes.

Further Information

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