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Amity International Fund – Q2 2019 Commentary

Quarter to end June 2019

Performance

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	7.92	14.45	3.04	33.52	45.31	153.21
FTSE World TR GBP	6.53	16.71	10.44	48.38	86.85	264.39
IA Global	6.44	16.87	7.34	44.98	68.15	196.68
Sector Quartile	1	3	4	4	4	4

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

Review

Global equity markets performed strongly in the second quarter of 2019, cumulating in a c.20% recovery since the Christmas Eve lows' in Sterling terms. In USD terms, global markets were more muted producing around a 3% total return, a reflection of Sterling's weakness. Overall, global economic data continued to soften in Q2, leading bond and equity markets to rapidly price in two rate cuts in the US for 2019. The Fed and the ECB led markets, indicating that support mechanisms were available in the form of further monetary stimulus, resulting in strength in both risk assets and bonds. Commodity markets were broadly weak, most notably industrial metals, amid increased concerns over the outlook for global economic growth.

US equities returned largely in line with the broader global equity index in Q2 and the S&P 500 set a new record high. Economic data was mixed as GDP grew 3.1% in Q1, revised down from 3.2%, while the unemployment rate remained stable at a 49-year low of 3.6%, despite. In terms of inflationary pressures, average hourly earnings climbed 3.1% year, yet despite these labour market data points the Fed remains concerned around deflationary pressures.

Asia, specifically China remains a mixed picture with trade concerns dominating sentiment and clouding economic data. Chinese imports of US products remains inconsistent with signs of immediate resolution. Reported growth is currently at the higher end of the government's 6%-6.5% 2019 target range, however, forward-looking indicators remain varied. The key trade proxy economies of Hong Kong and Singapore remain exposed to trade, specifically consumer electronics, with Singapore exports falling to lowest level since May 2013. In emerging Asia, India re-elected Prime Minister Narendra Modi in a landslide victory, with a primary commitment to improving the economy.

In Europe, Mario Draghi cleared the way for significant further stimulus. European equities made robust gains against this backdrop, but not without significant volatility, driven by concerns that US Administration was set to impose further protectionist tariffs against the key European industries including Autos. June saw German bund yields falling to new all-time lows after the ECB put the prospect of asset purchases back on the table. In the UK, Prime Minister Theresa May's resignation was perceived to have increased the probability of a no-deal Brexit scenario, effectively the primary driver of Sterling's weakness over the quarter.

Performance & Activity

The Amity International Fund returned 7.92% in Sterling terms, outperforming the FTSE World return of 6.54% and finishing first quartile for the period. In a quarter where growth stocks were supported by a return to dovish policy, value underperformed growth by 3.2% yet the fund still outperformed despite its consistent value orientation. Europe, a key overweight, was the strongest performing region, up 8.8%, while key underweight the US was largely in line with the index returning +6.8%. Other regions delivered sub-index returns with Asia ex Japan up +3.4%, UK +3.3% and Japan +2.9%. Overall, stock selection was the largest driver of outperformance, best illustrated by the fund's Japanese holdings returning 15.6%. In terms of sectors, financials were top-performing despite the monetary easing bias. The fund benefitted from overweight exposure to industrials, with positive stock selection leading to a c.5% outperformance. Oil & Gas (1.6%) was the weakest sector in the benchmark and sub-sector Tobacco (-11.6%) reversed from the best performing sub-sector in Q1 to the worst in Q2. The portfolio's zero exposure to both areas was a moderate positive.

In terms of individual stocks, the largest positive contributor was Bingo Industries, which recovered sharply following its retracement earlier in the year as the central bank in Australia implemented back to back rate cuts, supporting construction activity and hence construction waste volumes. Tarena was the largest single detractor, with the stock correcting following a statement regarding the revenue recognition restatements as the company transitions to longer University programmes. Stock selection in Japan that was the most the significant factor in portfolio outperformance. The key contributors here were Nintendo (31%), following news China was permitting access to its gaming market via Tencent, while Sony (27%) gained on signs that recent shareholder engagement and activism was driving proactive changes by management.

In terms of transactions, we sold out of Novartis as the stock hit new highs, following the divestment of their eye-care business Alcon, using the proceeds to invest in Swiss peer Roche, where we like its strong leadership in diagnostics. Over the quarter, we became shareholders of Mueller Water, a US based water infrastructure and technology company. The US has an ageing infrastructure problem, where up to 30% of treated water is lost or unaccounted for in the water system due to failing pipes, driving significant replacement demand. Towards the end of the quarter, we invested in Nordic telecom equipment company Nokia, which is increasingly part of the 5th Generation global rollout, with features that can reduce energy consumption by up to 50% compared to 4G. Nokia recently raised a €1.5 billion credit facility, known as a "positive incentive loan" due to being tied to binding reduction targets for GHG emissions. Having significantly added to our position in Bingo in February post an excessive correction, we cut our holding for risk management factors, following an 85% gain.

Outlook

Second quarter trends continued to support our expectations that global growth would moderate as we progress through 2019. The primary surprise remains how quickly debt markets have priced in monetary easing and the resultant buoyancy of equity markets from the implied lower cost of capital and liquidity. The stop start nature of US/China trade talks and prospects of additional US tariffs on Europe make for an increasingly opaque investment backdrop. Early indications are that trade tensions are impacting companies in the front-line, specifically autos, agriculture and logistics. Should this persist, there is significant risk that negative earnings surprises broaden out and drive composite estimates lower. For central banks, there remains an acute challenge to assess the impact of inconsistently variable trade policy and set an appropriate monetary response. Excessive reliance on monetary policy as a support remains a concern, given the reality that interest rates remain a relatively blunt tool with delayed impact on the underlying economy. We continue to observe pockets of over-valuation, reflecting crowded positioning, for example, in Europe growth stocks are now valued at an all-time premium to value stocks. Overall, we remain cautiously positioned seeking investments outside the elevated valuations we have observed. As ever, we look to navigate the ongoing volatility 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.