Q2 2020 COMMENTARY
AMITY INTERNATIONAL FUND

QUARTER TO END JUNE 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	19.10%	-1.61%	2.36%	11.94%	45.24%	103.55%
FTSE World TR GBP	19.92%	0.57%	5.82%	27.78%	79.98%	213.82%
IA Global	19.20%	0.50%	4.91%	23.20%	63.32%	157.47%
Sector Quartile	2	3	3	3	4	4

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

REVIEW

Global equity indices rebounded sharply in the second quarter as markets moved from experiencing dislocation and fear, to discounting the substantial global central bank stimulus while embracing lockdown exit scenarios. The sharp rally witnessed since equity markets bottomed on March 23rd continued to gain traction as the quarter progressed, as investors rediscovered their risk appetite both in equity and credit markets. April saw the S&P produce the strongest monthly rally in 30 years (+12.8% in USD), despite US initial jobless claims reaching 20 million in April, and with continuing claims around 30 million. In contrast, safe havens such as US government bonds were modestly unchanged over the course of the quarter. Global monetary and fiscal response has been rapid and unprecedented, with the US announcing stimulus equating to c.10% of GDP, bettered only by Japan's 20% of GDP, with a similarly impressive co-ordinated package from Europe. Nevertheless, while unemployment and claims have been falling steadily since April, the absolute level remains uncomfortably high.

In the US, the spread of the virus lagged both Asia and Europe, however the early but severe outbreaks across Eastern states such as New York and New Jersey became contained as the quarter progressed. Southern US states moved quickly to re-open economies recognising the financial damage, however as we moved through June, states of Texas, Florida, Arizona and California witnessed a significant acceleration in cases resulting in the US in aggregate reporting daily cases of over 50,000 versus the previous peak of around 30,000 in mid-March. The Federal Reserve (Fed) continued to indicate that monetary policy would remain exceptionally loose, stating the Fed had no intention of thinking about raising rates. In terms of promoting maximum employment, a key part of the Fed's mandate, June saw c.20 million people continuing to receive claims, despite the unemployment rate falling from 13.3% to 11.1%. With persistently high unemployment and rising case count, Congress have increasingly signalled that further fiscal stimulus may be necessary to support the economy. Despite this backdrop, the current Administration continues to heighten geopolitical tensions between US and China.

In Europe, the region ended the quarter showing significant positive signs of recovery in contrast to how it fared relatively at the start. Several countries in the bloc benefitted from a well-organised lockdown period, resulting in the ability to open up economies earlier than expected. The more severely impacted European periphery countries such as Spain and Italy retained a more cautious opening programme, given the extent of their outbreaks and consumer caution. With respect to stimulus, initial hesitance and reluctance gave way to a co-ordinated stimulus package. April's €540 billion rescue package was accompanied by the EU Commission proposing a €750 billion green recovery package, accelerating the region's aim to reach "net zero" emissions by 2050. The plan targets green building renovations, such as insulation and rooftop solar; EV and zero-emission trains; clean hydrogen as well as 15GW of renewable energy tenders over the next two years. The targeted nature of the package was positively received by European investors, who had questioned the bloc's willingness to prepare a co-ordinated response. Positive trends in lead indicators, coupled with continuing opening of economies led Europe to outperform the US in May for the first time since September 2018. In the UK, equities rose on signs the economy had bottomed in April, where activity seemed to fall over 20% in the first full month of lockdown. The Office for Budget Responsibility revealed second quarter GDP could have fallen up to 35% if the lockdown remained in place, however subsequently signs of improving activity suggest this was overly pessimistic. Across UK and Europe, dividend reductions, delays and omissions were a prominent feature in the second quarter, with those companies that sought near term Government assistance being strongly encouraged by regulators, while others have prioritised cash flow flexibility, preserving stakeholder relationships and investing for the future. Sterling managed to

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recover its March low, hovering around £/$1.25 levels, despite the return of Brexit to the political agenda.

PERFORMANCE & ACTIVITY

The Amity International Fund rose 19.1% in Sterling terms, modestly below the FTSE World return of 19.9% in the second quarter, finishing second quartile for the period. Style variance continued on trend despite expectations for a typical value rally, with MSCI World Value index rising 13%, underperforming MSCI World Growth by 12.8%, as the latter rose 25.8% over the quarter. Year to date, MSCI World Value index has fallen 11.5%, while MSCI World Growth has risen 14.3%. This 25.7% underperformance has been driven by a combination of ultra-loose monetary policy, coupled with the COVID-19 accelerating digitalisation, which in aggregate can favour growth orientated businesses. This was particularly evident with the mega-cap FAANGs in the US, with not holding Apple (+44%), Amazon (+42%) and Facebook (+36%) resulting in c.1.4% headwind at portfolio level.

At a regional level, the Fund outperformed in all regions with the exception of Asia-ex Japan. Our key underweight allocation to the US was a headwind as the index rose c.22.2%, driven by FAANGs and Tech, making it the top performing region. However, this was offset to some degree by our holdings outperforming, rising 24.7%. The Fund's overweight allocation to Europe ex UK was positive as our holdings rose 23.8%, outperforming the 18.9% regional return. The primary allocation headwind came from the overweight to the UK, which was the worst performing region up only 8.7% at index level, with the Fund's holdings modestly outperforming, up 9.5%. In Japan, the fund's small underweight was modestly positive with the region returning 12.2%, again with the Fund's holdings outperforming, rising 13.5%. Finally, in Asia ex Japan the Fund's holdings modestly underperformed with a total return of 17.1%, versus the 19.7% total return for the regional index, closely mimicking the global benchmark.

In terms of sector allocation, the largest positive contribution came from Consumer Goods sector, with the Fund's holdings rising almost 26% against 15.7% for the sector. This was driven primarily by Aptiv, an enabler of future mobility through its leading electrical architecture, which rebounded 59%. The Fund's 10% overweight allocation to Industrials sector contributed positively as markets began to price in an economic recovery with the sector rising 22.2%. The Fund's industrial holdings also outperformed rising 24.2%, led by communications chip tester Sporton International, which rose 52.4%, as well as renewable energy cable producer Prysmian, which rose c.47%. The Fund's overweight position to Technology also contributed positively with the Fund's holdings rising 28.1%, modestly below the 30.1% sector return. Infineon, the leader in power chips for electric vehicles, was the largest gainer in the Fund, rising 62.7%, while recent addition Verra Mobility, a leader in digital tolling and road safety, gained 45%. The Fund's financial holdings also outperformed rising 18.1% against the sectors modest 13.3%, with ING Groep, the primary contributor (+31.2%). In terms of headwinds at a sector level, the more defensive sectors understandably failed to keep pace in the rebound, with Utilities and Telcos the primary laggards, up 7.7% and 9.2% respectively. Despite being one of the strongest performing sectors in the first quarter, Healthcare almost kept pace in the recovery, rising 15.5%. However, the Fund's exposure to medical technology companies, Medtronic and Boston Scientific, suffered due to deferrable surgical procedures, which led to c.5% sector underperformance. In terms of individual stocks, the strongest positive contribution came from NXP Semiconductors (+39.2%), the leader in ADAS auto safety chips, NFC and mass-transit mobility payment solutions. In terms of negative stock contributors, Tarena, the China based vocational educator, reversed some of triple digit percentage first quarter gain, while defensive holdings such as Tesco, rose less than the market.

In terms of fund activity, we took advantage of ongoing market volatility and short-term bearish sentiment to invest in a number of companies that have been on the watch-list due to valuation concerns. Following a number of recent engagements with the company around their innovative "three loop strategy" and leadership in sustainable footwear, we initiated a new holding in Adidas as valuation contracted on short-term retail sales concerns. Having reduced our holding in Australian waste recycling leader Bingo Industries in the first quarter, we initiated a new holding in UK waste leader, Biffa, following several meetings with CFO exploring the company's transition to a sustainable strategy via significant investments in closed-loop plastic recycling ahead of the upcoming plastic packaging tax in April 2022. In the US, we established a new position in Verra Mobility, the market leader in road safety cameras in the United States and digital toll management services in North America (95% market share). These automated safety programs are proven to positively change driver behaviour and enhance road safety by reducing the number of collisions, injuries and fatalities that occur. Verra Mobility is uniquely positioned to benefit from a number of secular opportunities that include, a greater use of toll roads and congestion zones to alleviate pressure on infrastructure in urban areas, and within the sharing economy, the rising penetration of personal mobility services, such as ride-hailing, coupled with the migration to digital payments. Finally, later in the second quarter we reinvested in Novartis, having seen a positive corporate response from our long-term engagement. The stock has materially underperformed since we switched into Roche, driven partly by Roche's response to the COVID-19 crisis. As a result of this strong performance we reduced the large holding in Roche, by establishing a new holding in Novartis.

OUTLOOK

With global benchmarks barely changed from year-end levels, it would be fair to expect that the majority of the longer-term uncertainties that have developed since the COVID-19 outbreak to have been resolved. However, instead of improving visibility, the over-arching driver has been excess liquidity, with central banks globally implying almost unlimited monetary policy support whenever necessary. From an equity market perspective, this excess liquidity has divorced valuations from underlying fundamentals, inflating risk-assets to levels that imply minimal tail-risks from resurgent infections or persistently impaired employment markets. Taking a cue from fixed income markets, 13 out of the largest 20 developed market indices trade at P/E multiples three turns higher than this time last year (i.e. 19x vs 16x). Whilst there are over 100 COVID-19 vaccines in development, ultimately until one is shown successful, approved and manufactured at scale, the outlook will remain relatively opaque with higher than average tail risk. Until then, there remains the need to continuingly assess the likelihood for second waves as lockdown conditions are eased.

While digital orientated business models have thrived, COVID-19 is expected to accelerate the structural decline in a number of other sectors such as traditional retail, while key elements of the service sector will likely continue operating substantially below full capacity for the foreseeable future. While only accounting for around 5% of GDP, the travel and leisure sector accounts for c.10% of overall employment.

We remain concerned regarding the potential for unemployment to remain stubbornly high, with companies assessing how to manage their cost-base, or face administration as we have seen already in this past quarter. For now, central banks and governments have provided a temporary safety economic net, with estimates of over $16 trillion added to the global debt stock. Given this issuance, chances of interest rates rising before 2022 looks very low, while in the longer term, the neutral rate of interest, will be closer to 2% than 4%, due to debt servicing constraints.

Despite the unprecedented volatility seen in the first half of the year, we could see this continue in the second half of 2020, with ongoing geopolitical tensions between US and China exacerbated potentially by an untimely US election in early November, while we will culminate the year with the conclusion of Brexit. The electorate's assessment of President Trump's handling of the crisis has appeared to have deteriorated based on polls towards the end of the quarter, raising the probability of a successful election for Democratic nominee Joe Biden. As long-term investors, looking beyond the immediacy remains key, as we continue to adhere to our bottom-up, stock-picking process, searching for sustainable and responsible companies with strong cash flows, robust balance sheets and healthy long-term growth outlooks that are trading on attractive absolute and relative valuations.to invest responsibly in well-managed companies