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Amity International Fund – Q3 2016 Commentary

Quarter to end September 2016

Performance

	3 Month	1 Year	3 Years	5 Years	10 Years
Fund Performance (B share class)	8.28%	29.03%	24.82%	63.41%	141.36%
FTSE World TR GBP	8.28%	31.18%	48.05%	107.39%	134.85%
IA Global	9.36%	26.78%	34.79%	80.93%	93.91%
Quartile	3	2	4	4	1

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

Review

Global equities put in another strong quarter, taking the total return for the year to around 30%. North Asia, Emerging Markets and Japan stood out returning over 10% in Sterling terms. Conversely, North America returned less than 6%, placing it the lowest region this quarter. Chinese economic data surprised positively, with the manufacturing Purchasing Manager's Index (PMI) reaching its highest level since 2014. Hong Kong continued to perform, delivering 14% total return for Q3, outperforming all major developed market peers. As ever, (low) expectations remain critical to future returns.

Commodities were more volatile, with oil falling almost 20% during the quarter, only to rally back at the end of the September as the prospect of production cuts increased. Coal rose almost 35% over period as China imposed internal production restrictions.

In the UK, the Bank of England cut its base rate by 25bps to 0.25% to mitigate the impact of UK's decision to leave the European Union. A large proportion of the market's gain can be attributable to the weakness of Sterling, which fell by 12% from the date of the "Brexit" vote to the end of September. Fortunately, large proportions of UK-listed companies generate substantial overseas earnings and are primary beneficiaries of the move in the pound.

US monetary policy continues to dominate the global macro backdrop, with the Federal Reserve continuing to procrastinate over interest rates, despite hawkish rhetoric and increasing dissent. Meanwhile, the Bank of Japan introduced yield curve controls to its set of money policy tools, while acknowledging the adverse consequences of negative interest rates. In Europe, the ECB held its policy rate. Signs that monetary policy-makers are questioning the stimulatory effectiveness of negative interest rates will be positively received by savers, bankers, and actuaries.

Performance & Activity

The fund invested in three new sustainable holdings during the quarter. In August, we invested in **NXP Semiconductors**, a global leader in automotive, secure identification and digital networks, enabling increasingly advanced safety and security technology in cars and connected devices. Additionally, the fund invested in **Borregaard ASA**, a Norwegian based global leader in bio-based chemicals, which has recently pioneered the world's first commercial scale micro fibrillated cellulose plant to provide a sustainable, green alternative to petro-chemicals for a wide range of industrial and consumer applications. Finally, in August the fund invested in **Victrex PLC**, which produces PEEK, an exceptionally lightweight yet strong compound which enables the transport, electronics and energy companies to be more efficient. With 97% of earnings overseas, it is a beneficiary of recent Sterling weakness. Finally, we took some profits in two of our largest holdings **GlaxoSmithKline** and **Intel**, both of which have performed well over the last year.

In terms of performance, key contributors were **TechnoPro**, a Japanese engineering collective, and **NCC Group**, the UK cybersecurity leader profiled in the recent Amity Insight. Within Asia, there was strong performance from our Hong Kong holdings with **BYD**, **Comba Telecom**, **Fujikon** and **Hop Fung** all returning between 30-50% over the quarter. Additionally, the Fund's largest holding **NXP Semiconductors** rose sharply on news of an unconfirmed potential bid from US chip-peer Qualcomm. The primary negative detractor was **Ezion**, a provider of marine logistics and support services in Singapore.

Outlook

The uncertainty surrounding the UK's relationship with its largest trading partner remains ever-present. Thus far, this has largely manifested as currency weakness - an outcome that could drive higher inflation. While the Fund remains overweight UK equities, the holdings earn large proportion from overseas benefitting from the Pound's recent weakness.

In terms of US and wider-global market sentiment, a period of uncertainty in the run-up to the election is very much expected. The UK Brexit result should remind markets that polls and election results can vary significantly, and hence exercise caution in making prior assumptions and positioning for binary policy outcomes. Fed Policy appears increasingly dependent on short-term employment and inflation data, which is likely to create incremental volatility in the short-term.

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 such as NXP.

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.