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Amity International Fund – Q3 2017 Commentary

Quarter to end September 2017

Performance

	3 Month	1 Year	3 Years	5 Years	10 Years
Fund Performance (B share class)	1.18	14.12	31.05	66.41	107.26
FTSE World TR GBP	1.72	15.43	54.67	103.43	139.42
IA Global	1.67	14.79	43.40	83.97	94.22
Sector Quartile	3	3	4	4	2

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

Review

Global equities posted another solid quarter, supported by positive gains in every region during the period. The modest index return in Sterling terms is masked by the weakness of the US Dollar, with the FTSE World TR surpassing 5% in US Dollar terms. Headline US GDP growth of 3.1% for 2Q (annualised) provided a solid sentiment foundation, while the weak dollar was a well-received tailwind during reporting season. The quarter provided it's fair share of noise: bouts of geo-political risk relating to potential escalation risk in the Korean Pennisular, frequent reminders of policy hiatus, and a slew of hurricanes that caused devastation to parts of the US. Judging these impacts as largely transitory, the FOMC appeared to increasing signal a December hike, in addition to reducing its balance sheet from October onwards.

European equities posted the strongest regional returns in sterling terms, 3.7% over the quarter, supported by positive economic data, with few focussing on the potential for European Central Bank to reduce stimulus. The weaker than expected outcome in the German election and ongoing uncertainty in Catalonia provided a reminder of how populist agendas can undermine a fragile recovery. In the UK, the Bank of England (BoE) struck a more hawkish note openly discussing the potential for rate rises. Given August's 2.9% inflation reading surpassed expectations and the Bank's 2% target, this seemed more an exercise of managing Sterling's weakness, to stave off any further inflation, than an outright change in policy.

In Asia, there were continued signs of positive activity, which supplemented by a weaker dollar led industrial metal prices and commodity stocks higher. An improved supply/demand outlook also led to Brent crude rallying 20.1% over the quarter. China continued to perform well, with the CSI300 index up over 10% at one point during the period, supported by improving sentiment and strong second quarter GDP growth of 6.9% yoy. Despite a strong performance in local currency, up 4.7%, Japanese market was held back due to a weak Yen, returning only 0.8% in sterling terms. Political developments dominated the quarter with Mr Abe calling a snap general election in late October, despite his LDP party experiencing a significant defeat in the Tokyo Assembly elections only a few months prior. In terms of monetary policy, there were no surprises from the Bank of Japan, with ten-year yields hovering around 0%.

Performance & Activity

In Sterling terms the Amity International Fund modestly underperformed the benchmark, rising 1.2% over the month vs 1.7% for the benchmark. Year to date, the Amity International Fund has returned 10.5% versus the benchmark return of 8.3%.

Geographical allocation was broadly neutral over the period. Asia ex Japan continued to provide a strong source of outperformance through stock selection with the fund's holdings returning 8.9% vs. 1.9% for the regional benchmark. In terms of contributing stocks, Singaporean precision moulding company **Hi-P** rose 67% over the period following strong results and a 10-fold dividend increase. Year-to-date, Hi-P is up over 200% as beneficiary of rising demand for devices enabling the "internet-of-things". Other strong performers were **Victrex**, the UK-based manufacturer of speciality materials, up 26%, **Hop Fung**, HK based recycled paper maker, up 25%, and **Bingo**, the Australian based waste recycler rose over 16%. **Tarena** (China, Education) was a key detractor as the company signalled greater long-term investment into education would hold back margins in the short-term.

In terms of portfolio activity, we added **Infineon Technologies**, the German based leader in power semi-conductors, given its strong market leadership position in the electric vehicle supply chain. This was funded by the sale of **Verizon Communications**, in addition to a reduction in number of strong performing holdings including **Minth** (auto supplier, HK), **Technopro** (engineering, Japan) and **DBS** (banks, Singapore). We added to our holding in Tarena, illustrating our long-term conviction in the investment thesis, utilising the myopic sentiment. A new holding was also initiated in **Corbion**, the Dutch based specialist in bio-based ingredients and bio-chemicals, which provides solutions for food safety, food wastage and sustainable packaging.

Outlook

While the global economy continues to appear on solid footing, valuations are certainly discounting a fair degree of optimism. As we move towards the end of the year we would expect to see modestly tighter monetary conditions. In the US, the Federal Reserve (Fed) will begin the well-flagged reduction of its balance sheet at a rate of $10 billion a month from October, while the European Central Bank (ECB) has also indicated it is preparing to taper its quantitative easing (QE). While there has been little tangible policy progress by the new US Administration, there appears to be increasing support for credible tax reform. Such fiscal loosening may give the Fed greater scope to normalise rates. With several valuation metrics increasingly indicating that equity and bond markets in aggregate look expensive, it will be intriguing to see the impact of the removal of quantitative easing, given this policy has been widely credited with creating excessive asset price inflation.

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. Globally, we continue to seek companies with strong sustainable fundamentals that are not reliant on political outcomes.

Further Information

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