This information is for Investment Professionals only and should not be relied upon by private investors.

Amity International Fund – Q4 2017 Commentary

Quarter to end December 2017

Performance

	3 Month	1 Year	3 Years	5 Years	10 Years
Fund Performance (B share class)	4.7	14.4	38.6	68.6	111.88
FTSE World TR GBP	5.0	13.8	53.2	108.6	150.27
IA Global	4.8	13.9	43.8	85.5	102.13
Sector Quartile	3	2	4	4	2

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

Review

The final quarter of the year saw global markets continue to perform in the same positive vein. The degree of optimism pervading global markets increased as the quarter progressed with economic and earnings data indicating the breadth of the global recovery. Prior geopolitical concerns such as Japanese elections, North Korean escalation risk and Catalonian independence abated as the quarter developed.

In the US, the primary source of optimism stemmed from the much fan-fared passage of US tax reform. US GDP growth of 3.2% for 3Q (annualised) provided a solid sentiment foundation, coupled with strong employment and housing indicators. A weak US dollar remained a feature in Q4 despite the passage of the tax bill, leading to bullish expectations for repatriation of overseas corporate cash piles. Similarly, post the approval of this fiscal stimulus, increased expectations for the Federal Reserve to tighten monetary policy three or more times did not reflect in stronger dollar. Contrary to market expectations the dollar fell c.8.5% over 2017 on a trade-weighted basis. This translated into a consistent upward trajectory for the S&P 500 which delivered positive returns for 11 out 12 months in 2017.

European equities were the weakest region globally returning 0.4%, despite the increasingly positive economic data. The political stalemate in Germany and Catalonia independence concerns have been replaced by increasing signs that the European economic recovery is broadening from the Northern exporting countries to Southern economies such as Spain and Italy that have struggled since the GFC. With that backdrop, the Euro continued to strengthen, and there was increased talk of the European Central Bank tapering its quantitative easing program.

Japan was the top performing region up 7.9% in Sterling terms, with the quarter starting well as Mr Abe won a clear mandate in a snap election, lifting market sentiment in Tokyo. In neighbouring China, the twice a decade leadership transition reflected the underlying priorities in China, namely stability and progressive reform. The primary concerns around China continued to relate to the deleveraging process and the extent to which such tightening may impact the underlying economy.

Performance & Activity

In Sterling terms the Amity International portfolio delivered largely in-line performance rising 4.9% in gross terms. For the whole of 2017, the Amity International portfolio outperformed the benchmark returning 16.0% (gross) versus the benchmark return of 13.8%. Additionally, the fund outperformed the IA Global peer group average of 13.9%, finishing in 2nd quartile.

There was significant disparity in performance by style with MSCI World Growth total return of 17.3% vs. MSCI World Value total return of 7.7%, an underperformance of c.9.6%. At a regional level, there was further disparity with Asian Growth stocks outperforming Asian Value by 17.5%, while US Growth outperformed US Value by over 12%. In contrast, European Growth outperformed Value by only 4%, partly reflecting the improving economic picture in Europe and the lower Technology sector weighting. Year to date, the global technology sector is up over 28%, significantly above global market total return of 13.8%. The narrow tech orientated leadership in the US has been a strong contributor to the c.10% outperformance of Global growth stocks over value, for example Amazon, rose 21% for the quarter and 43% for 2017 as a whole.

Geographical allocation was flat over the period. Flat returns from Europe were offset by Asia which continued to provide a strong source of outperformance through stock selection with the fund's Asia ex Japan holdings returning 13.5% vs. 7.5% for the regional benchmark. In terms of Asian contributors, Australian waste recycling leader Bingo Industries appreciated 26% following an attractive acquisition in early December which materially expands footprint. Elsewhere in Asia, Taiwanese measuring and testing company Chroma ATE rose strongly (53%), and is perhaps indicative of the current attention given to technology stocks. There was a similar story within Japan, outperforming by 7%, driven by contributions from Sony, up 20.5%, following a positive earnings update with management delivering continued positive transformation. In terms of detractors, stock selection in UK, such as Glaxo, and underweight position in Oil & Gas hurt as a result of a sharp rally in crude prices. Within materials sector, Borregaard retraced 13% as it cautioned there may be short term excess supply in lignin market due to a one-off contract ending at a competitor.

In terms of portfolio activity, in the US, a new holding was initiated in Medtronic, a global leader in cardiac, diabetic and minimally invasive medical technologies. In Europe, the fund initiated a new position in Smurfit Kappa, a leader in sustainable packaging and a strong beneficiary of e-commerce penetration. In Asia, a new investment was made in Taiwanese electro-magnetic compatibility tester Sporton International, which benefits from the requirement for conformance testing in an increasingly connected world. To fund these purchases, outright exits included Amgen, Fugro and TLG Immobilien. In terms of reductions, Hi-P (manufacturing, SG), Sekisui Jushi (road safety, Japan), Luk Fook (consumer, HK) and Vaisala (scientific testing, Finland) were all reduced following strong performance.

Outlook

The global economy continues to demonstrate increasing breadth with almost all global PMIs indicating expansionary conditions. While earnings estimates for 2018 continue to see upgrades, supporting the case for investing in equities, aggregate valuations appear to be discounting a fair degree of investor optimism. Given the role that excess liquidity has played in elevating valuations of most asset classes, the quantum of the withdrawal needs to be commensurate with the strength of underlying economic activity. The key variable dictating the pace of withdrawal remains core inflation. Despite prolonged price stability, there are incremental signs that inflation could surprise on the upside in 2018, with extremely tight labour markets and the timing of the US fiscal stimulus package. Janet Yellen's replacement as Fed Chair, Jerome Powell, faces a challenging task of overseeing the withdrawal of quantitative easing in well-managed, transparent process without impacting market volatility. Globally, we continue to seek companies with strong sustainable fundamentals within a value framework.

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.