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Amity International Fund – Q3 2015 Commentary

Quarter to end September 2015

Performance

	3 Month	12 Month	3 Years	5 Years	10 Years
Fund Performance (B share class)	-10.84%	-10.99%	13.03%	14.81%	112.62%
Sector Performance	-7.39%	-1.47%	26.41%	35.80%	66.77%
Quartile	4	4	4	4	1

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Sector – IA Global

Review

The third quarter of 2015 saw sharp falls on markets as global equities posted their worst quarterly returns since 2011. Just as fears of a Greek exit from the Eurozone were receding after terms for a third bailout were agreed at the last minute, the baton of uncertainty was passed onto China. The trigger was the Chinese authorities' devaluation of the Yuan in early August, a move that was immediately interpreted as a signal that the economy was in a worse state than previously thought. As a result, markets plunged with the Shanghai stock exchange continuing the freefall that had begun in mid-June. Downward revisions to Chinese demand caused a sharp decline on commodity markets already suffering from chronic oversupply.

With hindsight, it now appears that the devaluation has been misinterpreted. It is important to note that in the prior twelve months to the announcement, the Yuan had appreciated by almost 20% against a number of major currencies. Therefore revaluing the currency was a logical step to take even if its timing, just days after a plunge in export figures, allowed the decision to be misread as a sign of deteriorating fundamentals. The Chinese economy continues to slow but this is to be expected as the country transitions towards lower but more sustainable, domestic consumption-led growth.

In the US, September's anticipated rate hike by the Fed never materialised. Concerns over the fragility of the global economy were highlighted as the reason to keep rates on hold, and this acted to further stoke investor concerns over the global outlook and reinforced the sell-off. In Europe, European Central Bank (ECB) chief Mario Draghi announced that Quantitative Easing (QE) could be expanded in both size and duration in order to support the region's recovery, although this failed to prevent European equity markets from posting negative returns.

Within the UK, Consumer Price Index (CPI) inflation continued to fluctuate around 0% as falling food and fuel prices continued to soften. Wage growth remained at healthy levels but other economic data presented a more mixed picture and external pressures may see the Bank of England follow the Fed in delaying the first interest rate rise. As with everywhere else, UK equities posted negative returns with large caps the worst performers due to their commodity exposure.

Performance

The fund has faced a number of headwinds during the quarter. Its geographical allocation has had a significant impact on performance; Asian equity markets, where the fund is overweight, have underperformed due to concerns around China's outlook. The fund's exposure to Hong Kong small caps was particularly detrimental to performance as the asset class followed the Shanghai stock exchange down and sold off sharply. The fund's lower exposure to US equities also proved costly as the US market outperformed most other markets, albeit still posting a negative return for the quarter. On a Style bias, the fund's return was hampered by the under-performance of value during the period.

Asian holdings were the main stock-level detractors from performance as positions in smartphone casings manufacturer BYD Electronic, Singapore bank DBS Group and corrugated paperboard manufacturer Hop Fung all suffered sharp share price falls. Positions in Singapore-listed offshore marine logistics company Ezion Holdings, engineering firm Boustead Singapore and Brazilian oil giant Petrobras were also amongst the largest fallers, due largely to their sensitivity to the declining oil price. Similarly, a position in Standard Chartered was detrimental to performance due to concerns over its commodities exposure. More positively, a relatively new position in Japanese staffing agency TechnoPro continued to add value, as did holdings in UK utility National Grid and US technology company Intel.

Transactions during the month included opening a new position in Cisco Systems, the world-leading supplier of data networking equipment and currently trading on a depressed valuation as the market under-appreciates the company's gradual transition towards higher growth segments of data centre, security and wireless.

Outlook

Investors will breathe a sigh of relief that the third quarter of 2015 has drawn to a close. While there is good reason to believe the global economy is not in as healthy a state as was perceived just three months ago, there are also reasons to be more optimistic as we enter the final quarter of the year. Sentiment has reached very low levels with bears vastly outnumbering bulls; it is hard to see how sentiment could deteriorate much further from here and historically this has often proved to be a good time to invest, given various apocalyptic scenarios have been fully priced in. In recent months we have started to see property prices in China rising again; property is a significant part of the Chinese economy and falling prices last year have been one of the reasons for concern over the economy's outlook. Therefore property market stabilisation is a welcome development and could lead to a re-rating of Asian stocks, many of which are now currently trading at multi-year lows.

A delay to rates lift-off in the US will provide some short-term respite to emerging markets, while the announcement by the ECB that QE could be expanded should support European equities, which are trading at attractive levels following Q3's falls. Therefore even after an extremely volatile and testing summer, we could see some positive returns on equity markets in the final quarter of the year.

Further Information

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