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

Amity European Fund – Q4 2019 Commentary

Quarter to end December 2019

Performance

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B share class)	1.06%	0.80%	14.83%	18.29%	55.06%	121.58%
FTSE All Europe ex UK TR GBP	0.91%	2.52%	20.45%	28.18%	61.62%	115.34%
IA Europe ex UK	2.54%	3.08%	20.38%	24.18%	58.75%	116.94%
Quartile	4	4	4	4	3	2

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

Review

The closing quarter of 2019 saw a positive breakthrough in geo-politics, with the US-China trade saga reaching the beginnings of a resolution. Both sides agreed to sign a Phase One trade deal that will see the US drop some of its previously installed tariffs and apply no further penalties, whilst China will boost its purchases of American produce and also remove its retaliatory tariffs. The deal was announced in December to be signed in January, before Phase Two negotiations will begin later in the New Year.

These breakthroughs were positive for equity markets and cyclical stocks in particular were strong, with the Stoxx 600 Cyclical Index gaining 3.9%. We also saw some improved macroeconomic data in November, with German Services delivering a positive surprise, which suggests that we may be entering a more stable period. Within Europe, Christine Lagarde delivered her first interest rate setting speech as president of the European Central Bank (ECB). She gave an optimistic tone, but also revised GDP forecasts narrowly down to 1.1% for 2020.

Performance & Activity

The Amity European Fund outperformed its benchmark over the quarter, amid favourable market conditions with Value investments narrowly outperforming Growth. At a sector level, strong performance came from the Industrials, Technology and Materials sectors, which are the ones most likely to benefit from improved trade relations. The fund's overweight allocation to Telecommunications stocks was a headwind, as this was the worst performing sector over the quarter.

Offsetting this, however, was our underweight to Consumer Staples, which was also weak and therefore was a positive contributor at an allocation level. Furthermore, our selections in Consumer Staples were more robust when compared to the benchmark.

The fund's best individual performance came from Draegerwerk, which surged in October following guidance upgrades to full year sales. The stock then continued to perform well throughout the quarter. Smurfit Kappa performed well, along with other cyclical stocks including Rexel and Randstad. Bank of Ireland also made gains in December, following the UK general election in which Boris Johnson secured a large majority that will hopefully bring an end to the Brexit impasse.

On the downside, Nokia surprised with a cut to its outlook and suspended future dividends in order to fund further investment in 5G. Hugo Boss also cut its full year outlook as sales in Hong Kong were impacted by protests and North American sales faced pricing competition.

Trading in the fund was fairly light but included the divestment of Centrotec Sustainable and ElringKlinger, following strong performance for both amid the trade relief. We also added to Imerys and Hugo Boss, due to recent weaknesses in share price, these are now trading at attractive levels.

Outlook

The outlook for European equities remains positive. With the fading trade tensions between US and China, global economic growth has a strong chance to improve. That would be a positive for Europe as a region dependent on exports. Monetary policy remains supportive and the scope for fiscal assistance remains.

Given our long term approach, there is no change to our view or positioning, and we remain invested in strong free cash flow generative, high yielding undervalued businesses. Our overweight to the telecommunications sector remains

despite the sector being out of favour amid short term concerns. 5G spectrum costs proved higher than expected but we continue to believe these highly cash generative businesses will deliver strong returns for shareholders over the long term.

Further Information

To obtain further information please speak to your normal EdenTree representative, visitor call our support team on 0800 011 3821.

This document has been prepared by EdenTree Investment Management Limited for Financial Advisors, other intermediaries and other investment professionals only. It is not suitable for private individuals. This document has been produced for information purposes only and as such the views contained herein are not to be taken as advice or recommendation to buy or sell any investment or interest thereto.

A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass. Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. Past performance is not necessarily a guide to future returns.