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Amity UK 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)	9.51%	11.06%	26.66%	25.38%	42.10%	161.71%
FTSE All Share TR GBP	4.16%	5.48%	19.17%	22.01%	43.84%	118.28%
IA UK All Companies	7.07%	8.16%	22.37%	24.00%	44.18%	130.73%
Quartile	2	1	1	2	3	2

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

Review

The UK markets performed well in the fourth quarter, despite the political and economic uncertainty. UK indices were in positive territory for the quarter, with the FTSE 250 performing relatively better than the FTSE 100. News flow was dominated by the General Election campaign, whilst the Brexit impasse saw the first step towards a possible resolution, as the Withdrawal Agreement Bill was finally passed by Parliament.

The Conservative Party won the General Election with an eighty seat majority, winning seats in Labour's northern heartlands previously thought to be untouchable. Although the Bank of England held interest rates at 0.75%, it also indicated that it would cut interest rates in the event of a slowing economy and two members of the Monetary Policy Committee (MPC) actually voted to reduce rates in November.

Meanwhile, the US markets continued to perform well, in spite of political volatility and trade war tensions between the US and China. These tensions eased somewhat towards the end of the quarter as it was announced that a Phase One trade deal had been reached. The Federal Reserve held interest rates and signalled that it would continue to hold rates steady throughout 2020.

The oil price rose over the period, largely due to production cuts and geopolitical tensions, now largely defused. Eurozone growth has slowed over worries of global protectionism. The new President of the European Central Bank (ECB), Christine Lagarde, has committed to maintaining her predecessor's ultra-loose monetary policy.

Performance & Activity

The fund's outperformance was helped by its sector allocations, particularly overweight positions in Industrials, Consumer Services and Utilities, underweight position in Consumer Goods and zero-exposure to Oil & Gas on environmental grounds. Performance was impacted by overweight positions in Media and Health Care Equipment & Services, and our zero-exposure to the Tobacco and Mining industries, given our responsible and sustainable investment approach.

A significant tailwind for the fund was its overweight position in mid-cap and small-cap companies. At a stock level, Dunelm (Retail), Morgan Sindall (Engineering & Construction) and Marshalls (Materials) were amongst the biggest contributors to performance. Detractors to performance included Smith & Nephew (Healthcare), Wolters Kluwer (Media) and Rentokil (Building Maintenance).

Portfolio activity for the quarter included selling out entirely of the positions in British Land (Real Estate), Devro (Food Producer), Royal Mail (Logistics) and M&G (Financials). We increased our positions in Lloyds Banking Group (Financials) and James Fisher & Sons (Industrials) and trimmed the holdings in Aviva (Insurance) and Wolters Kluwer (Media).

Outlook

Prime Minister Boris Johnson secured the largest Conservative Party majority since the 1980s, whilst reshaping the UK electoral map. We should therefore expect to see an increased focus on the newly won former Labour seats in the North. Although the Withdrawal Agreement Bill has been passed, negotiations around future trade agreements are likely to be fraught with difficulty. Sterling's volatility against the Dollar will likely continue, so long as the potential for a no-deal Brexit before the end of 2020 still exists.

Although the Bank of England has held interest rates in the face of Brexit uncertainty, this could be open for change as Mark Carney ends his term at the end of January and a new Governor is appointed. Doubts persist over the highly indebted UK consumer remaining the engine for GDP growth, although the recent significant increase to the National Living Wage that was announced could go some way to helping.

More widely, European growth has slowed and there remains the risk that populism, electoral uncertainty and global protectionism will destabilise the region. The erratic behaviour of the US administration continues to cause concern, particularly manifested through its damaging trade war with China, despite a Phase One deal being reached. President Trump's impeachment will unlikely result in his removal from office, given the Republican control of the Senate. Nevertheless, the impeachment proceedings are likely to cast a large shadow over the US presidential elections later in 2020. While, as ever, some political and economic risks lie ahead, we remain focussed on finding new opportunities in companies that meet our strict criteria of strong earnings growth, high margins and strong cash flows.

Further Information

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

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