

Q1 2020 COMMENTARY

AMITY EUROPEAN FUND

QUARTER TO END MARCH 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-22.48%	-21.66%	-14.78%	-15.39%	8.35%	60.83%
FTSE All Europe UK TR GBP	-17.49%	-16.74%	-7.96%	-1.58%	20.62%	70.84%
IA Europe ex UK	-19.07%	17.01%	-9.43%	-5.37%	15.65%	68.54%
Sector Quartile	3	4	4	4	3	3

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

REVIEW

The optimism for 2020 that many investors had following a positive close to 2019 quickly evaporated as Covid-19 spread from China to Europe. Italy was particularly hit, early and hard before the virus made its way to France, Spain and Germany. The outbreak quickly led to strong containment measures including lockdown and social distancing that has dramatically changed the way the majority of the world live and work.

These measures have had a profound, and as yet unknown, economic shock that saw governments and central banks step in to provide support. The European Central Bank (ECB) suspended its fiscal stability and growth pact that limits member states to particular deficit to GDP levels, in order to allow countries independence in dealing with the potential fallout. This has been accompanied by a recommencement of large scale quantitative easing, with huge bond buying by central banks in all major economies.

Also in the quarter, negotiations between OPEC and Russia turned sour. When combined with the demand side hit from coronavirus containment, the oil price crashed. Government policies to support businesses and the economy had a mildly soothing impact on markets late in the quarter, but could not prevent steep losses.

PERFORMANCE & ACTIVITY

The Amity European Fund underperformed its benchmark over the quarter, with the positioning in cyclical and value stocks the most notable reasons for weakness. At a sector level, Healthcare was the best performing area of the market and our selections here outperformed. The Consumer Staples and Utilities sectors were fairly defensive performers given businesses here are broadly shielded from any immediate impacts of the lockdown. Our underweight to Consumer Staples was a major detractor, although our small exposure did generate higher absolute returns.

Financials were the worst performing sector, with banks making up nearly half the hardest hit; they were among the worst sub sectors in terms of performance along with Aerospace, Travel & Leisure and Real Estate Investment Trusts (REITs). Energy companies also underperformed, struggling with the adverse move in oil prices but this was a positive for the fund as we hold no investments here. Our overweight to Industrials was perhaps the biggest detractor as the sector was particularly hit by its cyclical exposure.

At an individual stock level, Drägerwerk was our best performer benefitting from its exposures in manufacturing ventilators and facemasks that have seen rocketing demand from the epidemic, with an order from the German government for 10,000 ventilators boosting revenue forecasts. Other positive contributors came from pharmaceutical giant Roche, renewable energy fund Greencoat renewables and supermarket supranational Carrefour.

On the downside, our biggest detractor came from Bank of Ireland which was also joined by other banks; Société Générale, ING Groep and Banco Santander as bottom 20 constituents. We also saw industrial names detract, with Mersen and Hamburger Hafen fall quite heavily. REIT Covivio was hit particularly hard with its geographical locations in Italy and France, two of the worst impacted areas combined with its office and hotel space that is viewed particularly vulnerable by investors.

Trading in the fund was limited, but we took profits from Drägerwerk given its strong performance that saw it become a sizeable position in the fund.



OUTLOOK

The longer term picture is harder to assess given the uncertainty over the duration of the economic shutdown and the effectiveness of governments and monetary authorities in improving the situation.

Many commentators have drawn comparisons to the 2008/09 credit crisis where a coordinated response was lacking, which certainly isn't the case this time. We believe that once normality resumes, most people will resume consumption habits and could potentially deploy some accumulated savings that should see a recovery in economic activity. We continue to believe that the fund is well positioned to benefit from an economic recovery once the covid-19 outbreak, with its unprecedented social, economic and financial consequences, passes.

Given our long term approach, there is no significant change to our positioning, and we remain invested in strong free cash flow generative, high yielding undervalued businesses. We do see these market moves as an interesting opportunity to look for new additions to the portfolio and will look to deploy capital in due course.

To obtain further information please speak to your normal EdenTree representative, visit www.edentreeim.com or 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.

EdenTree Investment Management Limited (EdenTree) Reg. No. 2519319. Registered in England at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, United Kingdom. EdenTree is authorised and regulated by the Financial Conduct Authority and is a member of the Investment Association. Firm Reference Number 527473.