Q1 2020 COMMENTARY
AMITY UK FUND

QUARTER TO END MARCH 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-25.57%	-18.49%	-13.67%	-10.52%	0.57%	85.50%
FTSE All Share TR GBP	-25.13%	-22.02%	-18.45%	-12.19%	2.89%	53.57%
IA UK All Companies	-28.09%	-23.01%	-19.29%	-14.68%	-1.70%	56.29%
Sector Quartile	2	1	1	2	2	1

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

REVIEW

UK markets performed poorly in the quarter largely due to the impact of the coronavirus, with the UK indices in negative territory, although the FTSE 100 performed relatively better than the FTSE 250. The US also performed poorly due to similar reasons.

Chancellor Rishi Sunak announced his first budget which was later overshadowed with an unprecedented intervention by the government in paying up to 80% of salaries of employees who have been furloughed, measures to help the self-employed and also business rates breaks and government grants to businesses. The Bank of England initially reduced interest rates by 0.5% to 0.25%. This was then further cut to 0.1% with a commercial paper facility announced to assist with medium and larger enterprises. The Prime Minister announced strict measures in order to prevent the spread of coronavirus, with social distancing measures enforced, non-essential travel reduced to a minimum and most shops closed.

The quarter was dominated by the coronavirus, which has turned Europe into a hotspot and seen large swathes of economic activity being shut down. The President of the European Central Bank (ECB), Christine Lagarde, announced a Pandemic Emergency Purchase Programme of bonds and non-financial commercial paper and issued a “no limits” commitment to defend the Eurozone.

The Federal Reserve reduced interest rates aggressively, also announcing the unlimited purchases of US Treasuries and mortgage-backed securities guaranteed by government agencies, on top of also providing loans and guarantees to US corporate organisations.

Elsewhere, the oil price fell precipitously over the period largely due to aggressive Saudi production measures. The UK also officially left the European Union, although as part of a transition agreement not much will change until the end of 2020.

PERFORMANCE & ACTIVITY

Our outperformance was aided by underweight positions in Oil & Gas and Financials and overweight positions in Utilities and Healthcare. The large and mid-cap holdings in the fund outperformed the relative indices, but the overweight in small-cap holdings acted as a drag on performance.

At a stock level Genus (Animal Health), Halma (Electronic and Electrical Equipment), Pennon (Utilities), Greencoat UK Wind (Renewables) and Dechra (Pharmaceuticals) were amongst the biggest contributors to performance. Detractors included AstraZeneca (Pharmaceuticals), Scapa (Materials), Next (Retail), John Menzies (Transport) and National Grid (Utilities).

Fund activity included topping up in Porvair (Electronic and Electrical Equipment), Inland Homes (Real Estate), Johnson Matthey (Chemicals), DS Smith (Industrials), Prudential (Insurance), RELX (Media), Clinigen (Healthcare) and James Fisher & Sons (Transport). We also sold our holding in Synectics (Support Services).

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OUTLOOK

The Prime Minister, Boris Johnson, has ordered strict lockdown measures in order to prevent the spread of coronavirus. These measures are likely to continue into the foreseeable future, which will have a devastating impact on economic activity.

Further unprecedented measures could also be launched by the Chancellor, in order to mitigate the economic fallout from the coronavirus, which will have a negative impact on the government's fiscal position. The Bank of England has reduced interest rates to 0.1% and further policy action measures could be undertaken in coordination with the Treasury.

The United Kingdom has left the European Union but negotiations around a future trade agreement could be delayed, as governments are preoccupied with tackling the coronavirus outbreak. Sterling has been volatile against the Dollar and this is likely to continue in light of economic uncertainty.

Wider European economic activity has ground to a halt in accordance with strict quarantine measures, which again is likely to continue for the foreseeable future. The US administration has become increasingly erratic and this has manifested itself during the handling of the coronavirus outbreak. Trade tensions with China have cooled, although they are always simmering beneath the surface. While, as ever, some political and economic risks lie ahead, we remain focused on finding new opportunities in companies that meet our strict criteria of strong earnings growth, high margins and strong cash flows.

To obtain further information please speak to your normal EdenTree representative, visit **www.edentreeim.com or call** our support team on **0800 011 3821**

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