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

Amity European Fund – Q1 2019 Commentary

Quarter to end March 2019

Performance

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	4.46%	-6.30%	-3.59%	28.69%	34.73%	174.58%
FTSE All Europe ex UK TR GBP	7.98%	-3.79%	2.57%	36.74%	40.85%	176.11%
IA Europe ex UK	7.57%	-6.33%	-1.25%	29.76%	36.16%	171.19%
Sector Quartile	4	3	3	3	3	2

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

Review

After the strong sell-off which came at the end of 2018, equity markets rebounded in January as central banks began to move away from monetary policy tightening towards a more accommodative stance. This temporary rally had all but run its course by the end of March, as forward economic indicators weakened, particularly in Europe where the Manufacturing sector struggled. The European Central Bank (ECB) revised 2019 growth forecasts for Europe down substantially, with even Germany suffering from the slowdown in the automotive industry.

Geopolitical uncertainty also remained high, with a budget standoff in the US and President Trump's trade war with China remaining unresolved. Theresa May put her Brexit deal to a parliamentary vote three times in an attempt to get it across the line – although she lost the vote by an improving margin each time. In Europe, the economic slowdown continues to pressure fiscal stability, with Italy in particular unlikely to keep to its budgetary commitments and the ECB left with few policy tools to soften the impact of any economic slowdown, having prematurely halted quantitative easing back in December 2018.

Performance & Activity

Our sector allocations were responsible for the negative relative performance, with the overweight allocation to Telecommunications the biggest detractor. Telecommunications had outperformed in the market downturn at the end of 2018, but was left behind in the market rally during early Q1. The significant underweight to Consumer Staples, which rallied as bond yields fell, hindered performance further. Investors flocked to defensive assets following the negative guidance from Mario Draghi, President of the ECB. In addition, growth stocks outperformed value over the quarter, which was a headwind for us as the fund is invested on a value orientated basis.

Our best individual performers included Michelin, which reported efficiency savings running ahead of target and thereby exceeded profit estimates. Vivendi continues to benefit from the growth in music streaming, and rose off the back of early bidders emerging for a stake in Universal Music Group.

Telefonica Deutschland fell as upcoming European spectrum auctions create the danger of a fourth operator gaining ground and building out a competing network. Draegerwerk and Société Générale also underperformed on weak results. Trading activity included the sale of RELX PLC, which has performed very strongly since purchase and was trading on high valuation multiples. We also started a new position in Hamburger Hafen, the German port operator and logistics company. The company is operating on attractive multiples and is experiencing growth from the deepening of the main shipping channel into the port of Hamburg.

Outlook

There is no doubt the underlying economic outlook for continental Europe has deteriorated over the last few months, with industrial sectors experiencing a slowdown from weaker export markets, especially China, and from a weaker automotive demand due to the impact of new emission controls for diesel vehicles. The geopolitical backdrop is also uncertain, with the US still aggressively pursuing trade wars and US domestic demand hit by the budgetary standoffs between Democratic Congress and the Republican President. Brexit uncertainty persists in the UK and Europe, which itself is having to cope with the rise of populism. Despite all this noise, the underlying economic situation in Europe remains relatively positive. Unemployment is at relatively low levels, inflation is well under control and domestic demand is still holding up in most areas. We feel the very uncertainty which is depressing equity markets, actually provides a good opportunity to invest in sectors such as Building Materials, Chemicals and Industrials, all of which have fallen to very attractive multiples. High yielding defensive areas of the market, such as Telecommunications and Utilities, also offer good value, especially in the current low interest rate, low bond yield environment.

Further Information

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.