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Amity European Fund – Q3 2019 Commentary

Quarter to end September 2019

Performance

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-0.25%	8.78%	1.93%	27.01%	52.88%	125.72%
FTSE All Europe ex UK TR GBP	1.59%	10.54%	6.35%	33.12%	59.31%	114.58%
IA Europe ex UK	0.53%	9.14%	2.24%	27.06%	56.61%	113.46%
Sector Quartile	3	3	3	3	3	2

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

Review

The third quarter of 2019 was one of caution and high sensitivity within investment markets, with a series of geo-political events leading to increased volatility that was particularly bad in August, a month which saw negative returns for equity markets. However, within this context European ex-UK equities still managed a positive return, gaining 1.6% over the period.

Perhaps the most significant event of the quarter was the move by the European Central Bank (ECB) to cut interest rates to -0.5% and to relaunch its quantitative easing programme, which is capped at €20 billion per month. Christine Lagarde's nomination to be the replacement of Mario Draghi at the helm of the ECB was greeted positively, as she is broadly seen as a leader that will continue to strike a dovish tone.

The US-China trade rollercoaster continued, with Donald Trump announcing fresh tariffs in August. Tensions then faded in September, following news that previously announced tariffs were to be delayed, paving the way for potential truce that could be a salve to the slowing global economy.

Performance & Activity

The Amity European Fund underperformed compared to its benchmark over the period under review, primarily due to its value-oriented strategy which was a headwind amid the strong outperformance of growth stocks, although this impact did begin to dissipate towards the end of the period during the month of September. Utilities and Healthcare were the best performing sectors over the period, as they are defensive sectors that weren't impacted by the value rally at the close of quarter. September notably saw Consumer Staples, the fund's largest underweight, experience its first month of losses for the year. Industrials and Technology stocks both generated marginal losses, with the funds' investments in industrials narrowly outperforming.

At an individual stock level, Draegerwerk unexpectedly announced negative earnings for the second quarter, impacted by higher than expected costs whilst undergoing a restructuring programme. Imery's was also a significant detractor, as it deconsolidated its North American talc business and revised guidance for 2019 net income, to fall 10% amid the difficult market environment. Michelin fell on the back of a weak auto market and lower volume demand, whilst Bank of Ireland struggled in the face of a no deal Brexit.

On the upside, PostNL was the top contributor, with positive news in September as the Dutch government ruled in favour of a merger with Sandd to create a single postal services firm. Autoliv was also among the top performers, benefitting from easing US-Sino trade tensions.

Trading in the fund included the sale Vaisala, as the share price reached a compelling exit valuation. We also took profits from our long standing top performer Wolters Kluwer, re-investing proceeds in Rexel.

Outlook

The economic outlook has been dealt some positives, with the ECB providing support to the Eurozone whilst Germany has announced it is prepared to provide fiscal support when needed. Various geopolitical risks still exist, as a trade resolution remains far from a certainty at the whims of an unpredictable US administration. However President Trump's expected announcement of a 2020 presidential candidacy could provide a trigger for a resolution.

Weakening macroeconomic data is potentially a cause for concern, but this may also be a trigger for a sustained recovery for value stocks, a taster of which we saw in September. Such a reversal could act as a tailwind for the fund. Brexit has at least appeared to have been dealt an economic positive result ahead of the final deadline, with "no deal" exit removed as a possible outcome for Boris Johnson. Our investment positioning remains focussed on high yielding, cyclical businesses in defensive areas of the market.

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.

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