Amity UK 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)	9.21%	-4.98%	0.51%	14.67%	25.87%	221.41%
FTSE All Share TR GBP	9.41%	-1.80%	6.36%	31.32%	34.47%	186.82%
IA UK All Companies	9.01%	-4.61%	2.81%	24.77%	28.76%	192.71%
Sector Quartile	2	3	3	4	3	2

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

Review

The UK markets performed surprisingly well during the first quarter of 2019, despite the political and economic volatility, whilst the US markets continued to perform well in spite of political volatility and trade war tensions. The trade tensions between China and the US seem to be at somewhat of a standstill, and an agreement between the two countries has so far remained elusive. The Federal Reserve held interest rates steady and signalled that it will continue to hold rates throughout the year at current levels.

In the UK, the Brexit deadline has been pushed back, as Prime Minister Theresa May's proposed deal was rejected three times by Parliament. There remains no obvious resolution in sight, meanwhile businesses have continued to be increasingly vocal about the dangers of a no-deal Brexit. The nine members of the Monetary Policy Committee (MPC) unanimously voted to keep interest rates at 0.75%. The UK indices were in positive territory for the quarter, with the FTSE 250 performing relatively better than the FTSE 100.

Elsewhere, the oil price continued to rise over the period as geopolitical tensions have escalated. Eurozone growth has slowed over worries of global protectionism. The European Central Bank (ECB) has continued to give signals that monetary policy would remain loose at least until the end of the year.

Performance & Activity

Our performance was aided by overweight positions in General Retailers, Electronics & Electrical Equipment, Pharmaceuticals and Construction & Materials. Underweight positions in Beverages and Financials also helped. The underweight positions in Mining and Tobacco and overweight in Support Services and Chemicals were detractors to performance. At a stock level, Dechra, Dunelm, HSBC, Halma and Next were amongst the biggest contributors to performance, whilst Mears, Scapa Group, Pearson and Lloyds Banking Group held back performance.

Portfolio activity was very light, consisting of a top up in Porvair and Morgan Sindall following positive meetings with management. Both companies have quality long-tenured management, robust balance sheets and strong market positioning leading to superior cash flows. The holding in Fever-Tree was trimmed on the back of a strong run in the share price. Our greater exposure to mid-cap companies has been a tailwind year to date, with the FTSE 250 up over 12.3% in the period versus 11.6% for the FTSE All-Share on a total return basis. The exposure to small-cap companies has been a headwind, with the small cap index rising only 7.8% so far this year. Despite the market's volatility, we continue to find companies meeting our demanding criteria of business models that can generate earnings growth across the economic cycle.

Outlook

Political and economic uncertainty is very likely to continue until a Brexit deal is passed in Parliament. Tensions within the Conservative Party are at an all-time high, with the party threatening to tear itself apart. Fears of the Labour Party becoming the party of government is unlikely to help market sentiment, especially with their promotion of populist economic policies. Sterling has been volatile against the Dollar largely due to sentiment around Brexit and this is likely to continue.

The Bank of England has held interest rates in the face of Brexit uncertainty. Doubts persist over the highly indebted UK consumer remaining the engine for GDP growth. European growth has slowed and there remains the risk that populism, electoral uncertainty and global protectionism will destabilise the region. The US administration has become increasingly erratic and this has manifested itself with increasing concern over a potential damaging trade war with China. Although tensions seemed to have cooled, a deal could continue to prove to be elusive.

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.

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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