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Amity UK 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)	1.42%	5.91%	0.63%	15.75%	36.61%	147.17%
FTSE All Share TR GBP	1.27%	4.57%	2.68%	21.69%	38.89%	121.04%
IA UK All Companies	1.03%	4.83%	0.02%	20.10%	36.87%	122.54%
Sector Quartile	2	2	3	3	3	2

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

Review

The UK markets had a relatively mixed performance over the quarter, arguably reflecting the political and economic uncertainty that persists on a wider scale. Boris Johnson became Prime Minister, although he has had a rocky start to his premiership. He has been faced with many of the same problems as his predecessor, and the end result is that the Brexit impasse remains unresolved. The nine members of the Bank of England's Monetary Policy Committee (MPC) unanimously voted to keep interest rates at 0.75%. The UK indices were in mixed territory in the quarter with the FTSE 250 performing relatively better than the FTSE 100.

Elsewhere, the US continued to perform well in spite of volatility driven by political developments and ongoing trade tensions with China, which have meant a deal between the two countries has remained elusive. Interestingly, the Federal Reserve took the decision to cut interest rates, although there was open disagreement among the Federal Open Market Committee over this.

Eurozone growth has also slowed, over worries of global protectionism. In response, the European Central Bank (ECB) reduced interest rates, and loosened monetary policy by implementing a bond buying programme to the tune of €20bn a month. The oil price fell over the period, notwithstanding a brief and sharp spike in September relating to short-term demand fears.

Performance & Activity

Fund outperformance was aided by overweight positions in Household Goods & Home Construction, Utilities and Support Services and our underweight position in Banks. The Oil & Gas and Mining sectors also suffered, a tailwind for us given our zero exposure to these sectors as responsible investors. Detractors to performance included our overweight positions in Pharmaceuticals & Biotechnology, Financial Services and Electronic & Electrical Equipment, as well as our zero exposure to Tobacco and Aerospace & Defence on ethical grounds, as these sectors performed well during the period under review.

At a stock level, Rentokil, Smith & Nephew and Bellway were amongst the biggest contributors to performance, whilst Sage, AstraZeneca and Spectris held back performance.

In terms of portfolio activity, we exited our positions in HSBC, Travis Perkins, Renewi, Marks & Spencer, N Brown, Picton Property and Galliford Try. The holding in Marshalls was trimmed on the back of very strong performance. We added to the positions in Johnson Service, NCC, Close Brothers, Prudential, Lloyds Banking Group, TT Electronics and Sabre Insurance. New positions were established in James Fisher & Sons and Clinigen. 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

Now with a negative parliamentary majority for Prime Minister Boris Johnson, the question of a general election seems to be not a matter of if, but when. Market sentiment is unlikely to be helped by fears that, in the case of an election, the Labour Party could become the party of government. This primarily stems from their adoption of populist economic policies under the leadership of Jeremy Corbyn.

Sterling has long been volatile against the Dollar, largely due to sentiment around Brexit and this seems likely to only continue. The Bank of England has held interest rates in the face of Brexit uncertainty, although this could be subject to change in the case of a no-deal Brexit. Furthermore, doubts continue to persist over the highly indebted UK consumer remaining as the engine for GDP growth.

In Europe, the risk remains that growth will continue to slow and that populism, electoral uncertainty and global protectionism will destabilise the region.

The increasingly erratic US administration means that a final deal with China and resolution to the trade war seems unlikely in the short-term. There have been growing calls for impeachment proceedings against President Donald Trump, and this will likely continue to loom large over his administration.

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 that can perform regardless of the political or economic backdrop.

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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