Q3 2020 COMMENTARY
AMITY EUROPEAN FUND

QUARTER TO END SEPTEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	1.27%	23.23%	-3.46%	-4.28%	45.05%	99.08%
FTSE All Europe ex UK TR GBP	1.41%	20.54%	0.37%	8.89%	61.85%	111.91%
IA Europe ex UK	2.73%	24.07%	3.20%	7.51%	56.21%	116.95%
Sector Quartile	3	2	4	4	3	3

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

REVIEW

The positive investor sentiment from previous quarter faded over Q3 as Covid-19 cases surged as previously feared. The summer months saw regional spikes across much of Europe whilst global cases continued to rise as India and Latin America continued to deal with the first wave spread. Travel restrictions were put in place along with quarantine measures for tourists from particular regions whilst later in the quarter localised lockdowns and early closing of services were implemented to limit the spread. These negative virus headlines mostly saw investors move defensively but there were some positive developments that helped keep markets calm. July saw the European Union finally agree its fiscal recovery package of €750bn. After considerable time on disagreements from the “frugal four” nations, €390bn worth of grants are available for weakened nations.

PERFORMANCE & ACTIVITY

The Amity European Fund narrowly underperformed its benchmark and the wider sector average over the quarter. As the fund follows a value orientated investment approach it faced a significant headwind in terms of style as ‘Value’ investments considerably underperformed their ‘Growth’ counterparts. At a sector view, Consumer Services were the strongest performer over the quarter. Some cyclical investments were strong as the economic recovery continued albeit at a slightly weaker pace with Materials and Industrial sectors the next best performing areas. Telecoms were the weakest sector of the market closely followed by Financials and Energy. Sector allocations had a positive factor impact with overweight positions in the strong performing Industrials and Consumer Services sectors, whilst having no exposure to Oil and Gas continued to be positive. On a relative return basis, Utilities were strongest primarily driven by bid activity. The stock selection in Industrials was also very positive but this was offset by Telecommunications.

At an individual stock level, French Water treatment company Suez was the Funds top contributor as its competitor Veolia began efforts to takeover and merge the two. Early attempts were rebuffed but as the quarter came to a close a higher offer looked to be progressing events, with shares rising over 50% in the quarter. Dutch postal company Post NL had a strong quarter too, with parcel volumes surging and the group upgraded profitability guidance for the year. We continued to see sustainably focused businesses trend higher with holdings in Saint Gobain, Prysmian and Rockwool particularly strong. On the downside, Telefonica was the weakest individual name with revenues in Latin America causing concern whilst the wider sector also suffered with Orange and Dutch operator KPN other detractors. Financials were also weak this quarter and this showed with Talanx, Banco Santander, Société Générale and Axa all in the top 10 detractors.

We started a new position near the close of quarter with Landis+Gyr, the global leader in smart metering technologies. The group has seen installations slow as a result of the pandemic and lockdown measures, but with positive regulatory encouragement and the longer term energy saving push, the company is well poised to benefit over the long term.

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OUTLOOK

The EU is currently locked in another battle relating to the fiscal relief package with the “frugal four” seeking to benefit from higher rebate agreements as the EU enters a new budget season. Europe being quite exposed to global trade is also awaiting positive news from the rest of the world. We await news on the USA for their fiscal plan and response to Covid-19 with democrats and republicans quite far apart on the size of stimulus. Given the pending US election to be held in November, the size of relief is likely to depend on the outcome and victor. We believe that ‘value’ segments of the European equity markets are trading at an unsustainable discount to the wider market and appear very attractive in absolute terms and have consequently increased the ‘value’ bias of the Fund.

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