Q4 2020 COMMENTARY
AMITY EUROPEAN FUND

QUARTER TO END DECEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	10.78%	12.28%	5.91%	5.42%	52.05%	105.08%
FTSE World Europe ex UK TR GBP	9.21%	10.76%	8.62%	18.47%	66.65%	121.19%
IA Europe ex UK	9.93%	12.94%	10.64%	16.99%	60.77%	120.57%
Sector Quartile	2	2	3	4	3	3

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

REVIEW

European equity markets closed 2020 with a strong quarter. The biggest event of the quarter, and possibly the year, was BioNTech and Pfizer winning the Covid-19 vaccine race following successful phase 3 trials. This discovery followed shortly by other successful attempts saw markets post record monthly gains in November. As coronavirus cases continued to rise, lockdown measures were still implemented to limit the spread but with vaccine roll out beginning in December, markets easily looked past any further economic impacts. Elsewhere, Joe Biden was the victor in the US Presidential Election and global markets reacted positively to the likely improved global trade outlook and greater stimulus. Shortly before Christmas, the UK and EU managed to find an agreement for a post Brexit trade arrangement, further de-risking the geopolitical uncertainty that has surrounded markets for quite some time.

PERFORMANCE & ACTIVITY

The Fund outperformed its benchmark and the wider sector average over the quarter. The market events led to a reversal of trends that had been seen for much of the year. Economic cyclical stocks and sectors rebounded whilst some of the defensive “Covid winners” declined. These trends translated to the Value investment style significantly outperforming Growth and was a major tailwind for fund returns.

The best performing sector over the quarter was Oil and Gas which rebounded most after a terrible year. This was a minor detractor as the sector is less than 5% of the benchmark index and we do not invest on environmental grounds. Financials were the next cyclical sector to rebound strongly and were the greatest attributor to overall fund performance with our narrow overweight combined with strong selections working well. Sector allocations were also positive with our largest underweight segment in Consumer Staples which was weak.

The fund’s strongest individual performers came in the banking sector. Bank of Ireland was the fund’s top holding as shares more than doubled over the quarter. Santander and Societe Generale were also strong and all three were beneficiaries of market moves combined with further accommodative policy from the European Central Bank, which extended its TLTRO programme. The fund’s highly economic and business cyclical stocks were strong with Advertising group Publicis shares gaining 45% whilst electrical component supplier Rexel and REIT Covivio also posted strong gains. Some of the fund’s strongest stocks of the year gave up some gains in the quarter with both Respiratory healthcare specialist Draegerwek and sustainable insulation leader Rockwool detracting.

Trading in the period was limited but holdings were reduced as Envea was officially delisted following its acquisition by Carlyle Group. We also sold holdings in Siemens Energy which was spun off by Siemens Group. Our position in water utility Suez was reduced on the back of the continued Veolia acquisition. Sale proceeds from Insurance giant Munich Re were reinvested in the smaller cooperative insurer Talanx, which appears better value and offers greater upside.

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OUTLOOK

The immediate outlook for the developed economies is clouded by the resurgence of more contagious variants of the Covid virus but the equity markets tend to look 3 to 6 months forward and here the picture is improving. Vaccines are now being distributed across much of the developed world, the US and EU are starting large fiscal stimulus packages, and much of the uncertainty over Brexit is resolved. Out of this, much of the future focus will be on the economic growth and recovery out of the pandemic recession. A sustainable and environmentally focused push in this direction has already seen associated stocks perform well. Economic growth is likely to come and with it, leading to rising inflation, interest rates and bond yields which may puncture the valuation bubble in technology and growth stocks. In contrast, the higher growth rates should be expected to lift earnings in the more cyclical areas of the market driving value areas of the market higher. The fund is well positioned to benefit from this environment having increased its bias to value and high yielding areas of the market.

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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