Q2 2020 COMMENTARY
AMITY UK FUND

QUARTER TO END JUNE 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	13.98%	-15.16%	-5.77%	-1.78%	11.20%	122.18%
FTSE AllSh TR GBP	10.17%	-17.51%	-12.99%	-4.60%	15.17%	91.84%
IA UK All Companies	14.24%	-17.72%	-11.00%	-4.89%	11.97%	98.05%
Sector Quartile	2	2	1	2	3	2

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

REVIEW

UK markets performed surprisingly well for the quarter, despite the impact of coronavirus. Prime Minister Boris Johnson announced a 'New Deal', in which planning restrictions would be eased, hospitals and schools rebuilt and refurbished, in addition to an acceleration of infrastructure schemes. The Bank of England stated that the medium term outlook for the economy was troubling and voted to hold interest rates at 0.1%, and also increase Quantitative Easing by an 8-1 margin. The economy is heading for one of the deepest recessions ever, as consumer demand has collapsed and businesses have had to close or significantly reduce operations. The government has also extended its furlough scheme for employees. Despite this gloomy outlook, UK indices were in positive territory in the quarter with the FTSE 250 performing relatively better than the FTSE 100.

US markets also performed well. The Federal Reserve increased the emergency actions it was taking, which included new loan facilities for businesses and municipalities and also the unprecedented purchasing of high yield debt from Exchange Traded Funds.

Elsewhere, following an initial continued decline, the oil price rose precipitously over the period largely due to a deal between OPEC and Russia to significantly reduce production. Europe is slowly re-emerging from lockdown. The President of the European Central Bank (ECB), Christine Lagarde, announced an increase in the Pandemic Emergency Purchase Programme of bonds and non-financial commercial paper despite the German constitutional court ruling against it.

PERFORMANCE & ACTIVITY

Fund outperformance was aided by sector allocations; our zero-exposure to Oil & Gas on ethical grounds, an underweight to Financials and overweight positions in General Retailers and Healthcare. Our overweight to small and mid-cap companies was also a tailwind for fund performance.

At a stock level, Dunelm (General Retail), Halma (Electronic and Electrical Equipment), Rentokil (Support Service) and Dechra (Pharmaceuticals) were amongst the biggest contributors to performance. Detractors included Sabre (Insurance), AstraZeneca (Pharmaceuticals), Scapa (Materials) and Victrex (Chemicals).

Fund activity included topping up in Porvair (Electronic & Electrical Equipment), Clinigen (Healthcare) and Victrex (Chemicals). We also sold our holding in Elementis (Chemicals).

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OUTLOOK

Lockdown restrictions have been eased across the country, although this decision was rolled back in Leicester due to a flare up in coronavirus cases. Therefore, local lockdowns are likely to be a feature in the landscape of UK life for the foreseeable future. The Chancellor is likely to announce further measures to stimulate the economy and mitigate the impact of coronavirus, although this could be accompanied by announcements of future tax rises.

Brexit talks with the European Union (EU) have taken an acrimonious turn, and the negotiations are likely to drag on into the autumn. European economic activity is slowly starting to recover, although this will likely be accompanied by ongoing localised coronavirus flare ups.

Sterling has been volatile against the Dollar and this is likely to continue in light of economic uncertainty. The US administration has become increasingly erratic and this has manifested itself with the handling of the coronavirus outbreak. This is only likely to continue with the countdown towards the Presidential election.

Relations with China are simmering and this will likely continue especially in light of the situation in Hong Kong. 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 sustainable earnings growth, high margins and strong cash flows.

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