QuotedData

Monthly summary | Investment companies

June 2017

Economic & Political Roundup

A collation of recent insights on markets and economies taken from the comments made by chairmen and investment managers of investment companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Roundup

With the exception of the UK, markets moved higher. Index moves were flattered by sterling weakness over the month as jitters began to build in relation to the snap election. Government bond yields tightened.

Global

Markets riding high, there are reasons for a stronger dollar and a handful of technologically innovative companies are dominant in their fields

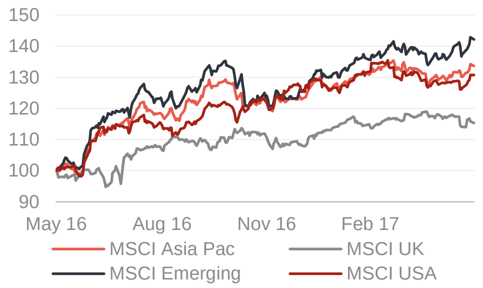
John Scott, the outgoing chairman of Scottish Mortgage, suggests we should focus more on the pace of development and technological change than political risks. James Anderson, one of the managers of that fund, expounds on his views on how money should be managed and warns that equity markets are failing in their primary responsibility of encouraging and enabling future entrepreneurial success. Tom Slater, his co-manager, talks about the increasing dominance of a handful of companies from the west coast of the United States and the east coast of China. He believes that they will have big new opportunities over the next decade and that the enduring competitive moats that they have created are under-appreciated in stock market and valuation terms. Rod Kent (chairman) and Will Wyatt (chief executive) of Caledonia think that markets are reaching the final leg of a sustained bull run with valuations now looking stretched. Peregrine Moncreiffe, the chairman of North Atlantic Smaller Companies, thinks tax changes in the US will encourage the repatriation of cash, supporting the US dollar.

Exchange Rate	31/05/17	Chg. on month %
GBP / USD	1.2890	(0.5)
USD / EUR	0.8894	(3.1)
USD / JPY	110.78	(0.6)
USD / CHF	0.9678	(2.7)
USD / CNY	6.8180	(1.1)

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/05/16 to 31/05/17



Source: Bloomberg, Marten & Co

	31/05/17	Chg. on month %
Oil (Brent)	50.31	(2.7)
Gold	1268.92	0.1
US Tsy 10 yr yield	2.2028	(3.4)
UK Gilt 10 yr yield	1.046	(3.6)
Bund 10 yr yield	0.302	(4.1)

Source: Bloomberg, Marten & Co

United Kingdom

Stronger than expected growth may persist but valuations are vulnerable to disappointment

Mike Prentis, manager of BlackRock Smaller Companies, seems upbeat, citing hopes of an increase in US GDP growth, stronger than expected UK GDP growth and improving growth in Europe and China. Jim Pettigrew, chairman of Edinburgh, is expecting a continued low interest rate environment in developed economies with reasonable growth expectations. Mark Barnett, manager of Perpetual Income & Growth, thinks valuations are vulnerable to disappointment and there is a sense of complacency. Andrew Chapman, chairman of River & Mercantile Micro Cap, advises investors to spread their bets.

Philip Rodrigs, the manager of River & Mercantile Micro Cap, says Brexit is a seismic change that can only be disruptive for the UK economy. The chairman of Shires Income, Anthony Davidson, sees a mutual benefit in agreeing transitional arrangements to avoid a UK crash landing out of the EU. The managers of JPMorgan Income & Capital expect that attention will shift to the micro consequences of Brexit negotiations.

Indebted consumers and rising inflation are a concern but rate rises look unlikely

The managers of Shires Income caution that consumption led growth, as has been evident in the UK, is often debt financed or funded by other means that effectively borrow from the future. Sentiment that is echoed by the managers of Schroder Income Growth. David Warnock, the chairman of Troy Income & Growth, is concerned that the UK's solid economic expansion is not set off course by rising inflationary pressures. Angela Lascelles, manager of Value & Income, doubts that we'll see interest rate rises despite rising inflation. Steven Bates, chairman of F&C Capital & Income, says the year ahead will have some bumps in the road, as it always does, but a car crash looks unlikely.

Asia

Positive earnings momentum and undemanding valuations are a positive but political risk remains

Harry Wells, the chairman of Martin Currie Asia Unconstrained, points out that 12% forecast earnings growth in Asia comes with undemanding valuations. He favours India in particular. The manager of that fund agrees but is surprised by the lack of equity market volatility given the uncertainty around economics and politics. The managers of JPMorgan Asian are positive on the outlook for Asian equities and say consensus estimates for earnings are being revised upwards. The managers of Schroder Oriental Income note heightened geopolitical risks and think much hangs on the personal relationship between Presidents Xi and Trump.

Europe

We may be in a late stage bull market but Europe's economic recovery should continue

Rodney Dennis, chairman of Henderson European Focus Trust, thinks we are in a late stage bull market and expects more merger and acquisition activity before this ends. Craig Armour, manager of the European Trust, looks forward to normalising interest rates in Europe and thinks Europe's economic recovery will continue.

Japan

Achieving inflation targets may be hard but corporate governance improvements will help the stock market

The managers of Aberdeen Japan think that the Bank of Japan will be hard pressed to hit its 2% inflation target as wage negotiations are likely to produce muted pay rises at best. The chairman of JPMorgan Japanese, Andrew Fleming, says that the Japanese stock market is correlated negatively with the yen as investors remain generally sceptical of the prospects for Japanese equities. However, he welcomes a more shareholder friendly approach among Japanese companies. The managers of that fund agree, saying that the continuing improvement in corporate governance is the single most important structural shift that is happening in Japan.

Biotechnology and healthcare

In an extensive round up of the sector, Sven Borho, manager of Biotech Growth discusses reforms to Obamacare, the potential impact of corporate tax changes, more favourable regulation and some of the more exciting developments in R&D, including T-cell therapy and immune-oncology.

Infrastructure

Considerable competition is putting pressure on pricing but a new round of UK-based projects may soon be announced

Ian Russell, chairman of HICL Infrastructure, is optimistic that, in the UK, a new pipeline of public/private partnerships will be announced following the election. The managers of the fund see more opportunity in buying existing projects in the secondary market for the moment. They are also looking overseas. Ian Reeves, chairman of GCP Infrastructure, highlights the considerable quantity of capital entering the sector which has implications for pricing. They see opportunities in social housing.

UK Property

Brexit is weighing on property markets but the associated curtailing of speculative development is supportive for the sector

Chris Grigg, the chief executive of British Land, thinks Brexit will accelerate polarisation in their markets as inflation puts pressure on consumers and uncertainty hangs over demand for London offices. Robert Noel, the chief executive of Land Securities, expected Brexit to increase business uncertainty but says the impact hasn’t been as bad as feared. He is calling for the new government to give businesses as much certainty as possible on areas including tax, regulation, access to skilled labour and public spending. The team at McKay Securities say supply for offices is tight in the South East and think the City of London occupational market remains supported by balanced supply and demand. At Great Portland Estates, they believe capital values and rental values may fall over the next 12 months. Hugh Seaborn, chairman of TR Property, thinks the uncertainty of the outcome of Brexit negotiations may weigh on speculative construction. The manager of that fund thinks investors have become overly concerned about the threat of rising bond yields and a lack of speculative development may support the sector. LondonMetric Property highlights the changing retail model, which has benefits for logistics infrastructure while retailers seek to 'right size' their store portfolios. They say be wary of cash flows at risk from continuing defensive capital expenditure and ongoing structural change. The managers of Value & Income believe investors will favour property on long leases and a low void rate. They say that safe property will rise in value in the UK in 2017.

Other

In addition, we have comment on China (from JPMorgan Chinese), Eastern Europe (from Baring Emerging Europe), Frontier markets (from BlackRock Frontier Markets), Debt (from Invesco Perpetual Enhanced Income). In property, we also have commentary on the healthcare market rom Assura and MedicX and on self-storage from Big Yellow.

Contents

Global

(compare Global funds **here**)

John Scott, chairman, Scottish Mortgage: The world can and does change and sometimes this happens at a faster rate and is more significant than at others. It would be easy to focus on a number of political risks, from President Trump's unpredictable approach to policy making, to questions over North Korea's true intentions, to the escalation of the troubles in the Middle East, but it is important to focus on what will actually make a significant difference to the long run prospects of companies.

The pace of development and technological change not only represents a huge opportunity to some businesses, but is equally a significant threat to the existence of some of the index incumbents who have failed to invest to adapt to the transformations these technologies are bringing. If true investment risk is the permanent destruction of capital, not forcing the managers to hold some of those companies which seem under greatest long-term threat from such changes, in the name of diversification, is also beneficial for long term value creation.

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James Anderson, co-manager, Scottish Mortgage: The more that we can contribute to business stewardship, the better returns for shareholders are likely to be and the more we can play a constructive role in the economic system. If, in contrast, we merely see investment management as speculating - or rather guessing - which stock, sector or geography will give the best returns over the next year then we neither deserve high returns nor are likely to obtain them over anything other than carefully defined short periods. Capital allocation is too serious a matter to be hostage to the bonuses and impatience of fund managers.

We do not accept that risk resides in owning a portfolio that is different from the index or more volatile than the index. Risk is the permanent destruction of capital. The threat of such destruction is less predictable than formulas allow and is frequently unrelated to volatility. It may be that volatility is an essential safety valve. Certainly companies which are run to produce the regular pay-outs that tend to produce low share price volatility frequently endanger their long-term prospects. This means that volatility is not simply a bad synonym for risk but that low volatility frequently translates into high business risk. Or put simply that low volatility is a warning sign.

Yet a still more important issue lurks. We believe that we do nothing more important than taking and embracing risk even when we thereby expose ourselves to the possibility of permanent loss of capital. If we join the multitude and merely place our funds in assets that are already proven and currently solidly profitable, let alone in government bonds with minimal or negative yields, it is hard to see how our shareholders can expect to profit beyond the norm or - at the risk of pomposity - how our economy and society will move forward. The current obsession with pursuing safety, matching liabilities and targeting guaranteed returns is a profound systemic ill. It undermines entrepreneurial wealth creation. Losing money - failing as it is conventionally known - in individual stocks is a necessary and important part of educated risk-taking. We think over-diversification is a far more prevalent and insidious threat than excessive concentration in today's investment world.

Secondly, we do not believe that there are many stocks that offer the possibility of truly superior long-term returns. Long-term equity performance has a much more skewed distribution than is commonly perceived. It is not normally distributed.

Therefore our prime task lies in giving our shareholders the best possible opportunity to capture the extreme winners. For example 33% of the wealth created in the US equity markets between 1926-2015 came from just 30 companies out of a total of 26,000 quoted stocks. This return pattern is true for most successful investors too: however they invest, wherever they invest, whether they embrace it or not, results are highly asymmetric and top-heavy. Moreover we believe that this pattern of returns reflects company characteristics more than random chance (though the latter should not be dismissed). Currently exponential growth, huge addressable markets, frequently low capital requirements and, as ever, an enduring competitive moat are the decisive ingredients that give the opportunity for dramatic returns. Not many companies possess this combination.

Given the relative paucity of outstanding companies, we have to do our best to widen the funnel of opportunity. We increasingly see unquoted companies as an essential part of this process. To put it bluntly: we fear that equity markets are failing in their primary responsibility of encouraging and enabling future entrepreneurial success. The reasons for this are many, well-known and hard to rank but all sad. What we can observe is that companies are finding it easier to build their businesses, raise capital and invest without excessive fear away from early exposure to capital markets. We are finding that the bulk of our emergent opportunities lie in unquoted companies and expect this to remain so for the foreseeable future.

Whilst the companies themselves enjoy a degree of isolation from the detrimental short term focused pressures of the public markets, as investors holding such assets as part of our portfolio, we are not so immune. We would caution that the accepted conventions for pricing unquoted equities frequently fail to capture underlying potential value creation. They tend to stress potentially misleading comparisons with their public competitors and emphasise the general financial market mood of the moment, over the specifics of corporate progress. Moreover any spot price underplays the uncertainties inherent in such investments. In combination, these characteristics can lead to either undue pessimism or excessive euphoria. We will try to indicate our perceptions of such emotions when they seem extreme. At present we would confine ourselves to saying that we do not regard unquoted valuations as generous in absolute terms or full, relative to quoted companies.

We see corporate stewardship as not just a rightful component of our task but as perhaps the essential reinforcing link in our investment philosophy. If we can prove in harsh times that we support teams trying to build great businesses and battling the forces of quarterly fund manager capitalism then these companies will hopefully be strengthened. They will almost certainly want us as shareholders and in turn help us with their time and insights. In turn other companies, quoted or unquoted, appear to want to talk to us rather more than is the norm. Reputation matters.

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Tom Slater, co-manager, Scottish Mortgage: In recent times we have observed the increasing power and dominance of a small number of companies from the west coast of the United States and the east coast of China. This success has important implications for the companies involved but also for the multitudes that compete with and rely upon the services they offer. We believe this is a foretaste of what is to come.

The importance of scale, mobile distribution and machine learning is increasing. There are five and a half billion people over the age of 14 alive today. There are five billion mobile handsets in circulation. This level of usage has created an addressable market far larger than anything that has gone before. The past few years have been about the build out of the mobile ecosystem but that phase is finishing. There is no longer much discussion of wars between the platforms, the technology is increasingly commoditised and the big winners are clear. The companies are now experimenting with what they can build. As they have refined their data gathering and machine learning capabilities through search, or social curation or cloud hosting or retail, they have been building the capability to redefine most other areas of economic endeavour. In last year's report we questioned whether the major and accelerating improvements in core technologies would lead to progress in healthcare, energy and transportation. A year on, the strongest prospects for delivering such an outcome are with the big network companies themselves rather than established incumbents developing or adopting the relevant skills.

In the automotive industry, the past twelve months have seen Tesla make encouraging progress in its bid to electrify passenger cars, but it is the technologies underlying vehicle autonomy that appear to have made the most dramatic gains. If Tesla, Google and Baidu use their data and machine learning capabilities to push the market into full autonomy, the ramifications for the traditional automotive companies are apparent. However, it is the second order implications that are truly enormous. Whither oil demand? What happens to ownership of the vehicle fleet? How would it be insured? What would happen to congestion? How would this affect the geography of our cities and the value of the real estate? What will happen to the logistics industry? These questions arise from just one application of Artificial Intelligence.

The big network companies are not restricting the deployment of their technology to the auto industry. The 'Internet' is the third largest source of high budget television content. Online networks are taking over what we have historically conceived of as offline industries and they are providing the associated products in a way that is more personalised and convenient for the consumer.

Beyond the big networks and aspirants to similarly widespread dominance, it is those businesses that have understood the implications of the new order and refined their offer accordingly that seem most likely to thrive. Rather than competing directly for incremental e-commerce transactions or online advertisements, they offer customers and suppliers something different. We think acknowledgement and adaptation is a far more promising path to value creation than incumbents labouring to minimise the impact of the changing competitive landscape.

We have continued to revisit the investment cases [of the network companies] and ask whether future potential has been more fully reflected in share prices. Thus far, we have been able to answer this question with an emphatic 'no'.

As these network companies have grown large we have not become less demanding in our return expectations for them. We believe that they will have big new opportunities over the next decade. The enduring competitive moats that they have created seem to us to be under-appreciated in stock market and valuation terms.

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Rod Kent, chairman, and Will Wyatt, chief executive, Caledonia: The valuations of equities, bonds, property and non-conventional assets have been driven to high levels by unusually low interest rates. Markets look to be reaching the final leg of a sustained bull run with valuations now looking stretched. The Federal Reserve has increased US interest rates twice recently, taking the first tentative steps towards normalising monetary policy in the world's largest economy. There are signs that the Bank of England is thinking along similar lines albeit with the additional complication of Brexit to negotiate. If monetary stimulus is removed and the cost of capital increases, there will be an equal and opposite effect on valuations. Despite this threat and events such as the Brexit vote in the UK, markets have held firm probably in part due to the promises Mr Trump made in his campaign to become President of the US.

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Peregrine Moncreiffe, chairman, North Atlantic Smaller Companies: While asset prices in developed markets have been supported by a relatively benign monetary environment, the now likely increase in interest rates should reduce investors' propensity to buy equities at demanding valuation levels. Overtime this process should facilitate efforts to identify compelling investment opportunities. Although large US companies face profitability headwinds resulting from Dollar strength, the outlook for smaller companies with domestic sales is positive. The expected easing in US fiscal conditions following President Trump's election will emphasise domestic spending as opposed to the past two decades' expensive overseas commitments which also sapped the Dollar's strength. This emphasis along with a tax-incentivised repatriation of US corporate overseas cash balances will add support to the Dollar particularly with the concomitant likelihood of Fed monetary tightening.

In the UK opportunities are still hard to find with too much capital chasing too few deals. A probable increase in Sterling interest rates and a possible decline in large UK company earnings growth could reduce equity prices overall. Brexit may bring us an improved opportunity set as continental European investors focus increasingly on their domestic markets and Euro weakness has a depressing impact on the earnings of large export-oriented UK companies.

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UK

(compare UK funds **here**)

Mike Prentis, manager, BlackRock Smaller Companies: Markets have taken the outcome of the US election well so far with hopes that this will see an acceleration of US spending and an increase in US GDP growth. The UK now faces a General Election which takes place against a backdrop of stronger than expected GDP growth. A greater Conservative majority and a new five year mandate will give the Government a stronger negotiating hand in BREXIT discussions and will probably be taken well by markets. Within Europe there are some signs of improving growth trends, and investors appear more focused on these rather than possible electoral upsets. Chinese GDP growth also looks to be better than feared.

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Mark Barnett, manager, Perpetual Income & Growth: The steady rise in the UK stock market over the last twelve months has created an environment where the valuation and, in consequence, the index level are vulnerable to disappointment; there is a sense of complacency in several areas. The main driver of improved earnings growth has been a combination of a recovery in commodity prices and a collapse in sterling - in the absence of a continuation in these trends the underlying earnings growth of the market remains lacklustre. It is plausible to envisage an environment which is more positive towards sterling, given the pessimism the market has priced in over the last 12 months, and that factor alone may be sufficient to restrain further gains, particularly in the FTSE 100 index. In addition, the change in the US interest rate environment may act as a headwind for the time being, although given the continued low inflation outlook it is unlikely that the US Federal Reserve will raise rates in big steps or more than four times this year.

The overall political backdrop remains the other major influence on equity markets. There are elections in many major economies, including the UK again, accompanied by a heightened threat from geopolitics which may yet prove disruptive for business confidence. For the foreseeable future it appears likely that the economic backdrop will remain more predictable than the political one. In conclusion, it is expected that the stock market may struggle to make significant overall progress.

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Andrew Chapman, chairman, River & Mercantile Micro Cap: The markets have been dramatic from a political perspective, which has naturally led to an unprecedented era of uncertainty. The UK's EU Referendum was followed by the surprise victory of Donald Trump and clean sweep by the Republican Party. There was universal concern regarding the likely negative outcome and economists, politicians and market commentators alike predicting a "blood bath" unlike anything we have witnessed previously. Against this backdrop of increasing nationalism, smaller companies that tend to be focused more locally are likely to have advantages over their larger global counterparts.

More generally, whilst we recognise that the path ahead has numerous plausible outcomes, experience would suggest that it is extremely unwise to position portfolios in a monoline direction.

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Philip Rodrigs, manager, River & Mercantile Micro Cap: The official commencement of the Brexit process in March 2017 confirms a prolonged period of uncertainty for the UK economy. Investors are well used to European political wrangling continuing until the 11(th) hour. Even then there will be a prolonged transition period thereafter. The short term consequences are becoming clearer - UK consumers have enjoyed a purple patch for rising discretionary income as prices for essentials declined in the last three years but this is now reversing with the early signs evident in Q1. Investors should no longer be in any doubt that the micro end of the UK market offers a diverse range of investment opportunities including great British businesses exporting unique propositions globally. With a generally favourable global economic backdrop, conditions remain good for growing firms.

Since the period end Prime Minister May has called a snap General Election. Riding high in the polls, it is understandable that Mrs May seeks an enhanced majority in order to strengthen her negotiating platform, whilst also elongating the post-Brexit period before the next election is due. This latter reduces risk at the margin, albeit there is no getting away from the fact that such seismic change can only be disruptive for the UK economy.

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Jim Pettigrew, chairman, Edinburgh Investment Trust: The General Election on 8 June 2017 will represent the third time in two years that the UK electorate has gone to the polls. This, coupled with further elections in the EU together with Brexit negotiations, gives rise to an ongoing background of continuing uncertainty.

Whilst a stable environment and continued underlying economic growth in the UK provides a solid base, an improving situation in the US and Europe would also be beneficial. To this end, although President Trump is finding the business of government harder than he thought, it is still likely that some of his election promises -

increased infrastructure and military expenditure, reduced corporation tax - could stimulate the US economy and thus the world's, at least in the short-term.

Whilst the future remains as difficult as ever to forecast, there is an element of confidence in predicting a continued low interest rate environment in developed economies with reasonable growth expectations.

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Anthony B Davidson, chairman, Shires Income: The global economy continued to grow at a sluggish rate over the last year and more of the same is expected by most commentators. With government bond yields still near all-time lows there is an excess of global saving chasing too little demand for investment. This is one of the factors behind the performance of equity markets as investors have continued to search ever harder for those businesses or assets with good growth characteristics. The problem of near zero interest rates is good for borrowers; however it is bad for bank profits, pension funding ratios, rational capital allocation and the ability of central banks to stimulate the economy. The solution, perhaps, is large scale public infrastructure investment and encouraging more corporate investment. This is certainly the plan in the US if President Trump's stimulus measures are still to be pursued, but much of this depends on Congress who will hold sway over the final enactment of the proposals into law.

Despite the prospect of complex and time consuming Brexit negotiations and a looming general election in the UK it would appear that, while growth may slow, it is still likely to be positive. The two year window granted by the Article 50 process is extremely tight to deal with both the exit terms and future trading relationships between the UK and the EU. The challenge for companies held within the portfolio with cross border operations is in not knowing what the future agreement, if any, will look like. Hence the mutual benefit in both sides agreeing transitional arrangements to avoid a UK crash landing out of the EU.

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Aberdeen Asset Managers, managers, Shires Income: The outlook is more uncertain than it has been for some time. We don't yet know how the Brexit negotiations will progress. It is too soon to really define what the impact will be for individual companies. However, the currency effect is not solely beneficial. It is likely to result in inflationary pressures in the UK as the costs of imported goods rise at a time when the potential to combat this through higher interest rates is limited.

Global growth and inflation look set to pick up over 2017, with global GDP perhaps reaching 3.3%. Drivers for this include the strengthening labour markets in the US, UK and Europe and the improvements in the Brazilian and Russian economies. Meanwhile, wage growth and higher oil prices look set to push inflation upwards.

The economic performance in Europe continues to improve and some commentators are now talking about when tapering will commence.

In the UK, the economy is performing better than many observers had expected. Although there have been minor revisions downwards in recent weeks, both the Organisation for Economic Co-operation and Development and the Bank of England have revised their forecasts for domestic GDP upwards in a shift from the very downbeat tone struck immediately following the Brexit vote. However, with consumption rather than investment playing the key role in this growth, investors need to exercise some caution. Consumption led growth is often debt financed or funded by other means that effectively borrow from the future. Conversely, weak investment may signal a general lack of confidence in the future on the part of management teams. Neither factor bodes particularly well for future prospects.

Investors have been enthused by the prospect for significant economic stimulus arising from the election of President Trump. Whilst there are risks that his more protectionist and anti-immigration approach will be detrimental to the economy, there is a belief that a significant reduction to the tax burden alongside a very substantial infrastructure orientated stimulus programme will boost growth. It remains to be seen how successful he will be in implementing his policies. However, for the time being, markets seem inclined to continue to believe that he will be a positive for the US and, by implication, the global economy.

Emerging markets and China in particular have had a good start to 2017. But for many of these economies their prospects are closely aligned with those of the US.

Despite the stronger than expected growth in the UK, it still seems likely that any increase in interest rates is some way off, not least given the uncertainties of the Brexit negotiations and the impact that rising inflation is having on spending power.

Given the above, it would be natural to point to the uncertainty and the likelihood of volatility in markets. However, it has been nearly a decade since the first signs of the financial crisis appeared and, since then, investors have operated in an environment where the abnormal is normal. Whilst we do not wish to belittle the potential risks faced by the global economy, we note that, to date, a focus on investing in good quality companies at the right valuation and controlling the controllable has been the correct course of action.

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David Warnock, chairman, Troy Income & Growth: Despite the European Union having now formally received Theresa May's letter, notifying it of the United Kingdom's intention to leave the bloc, the UK's economic circumstances continue to reflect a "post-referendum" but "pre-Brexit" world. Since the referendum, the All-Share has risen materially. This can partly be explained by sterling's depreciation which has increased the value of the substantial overseas cash flows that are a feature of the UK's global large capitalisation constituents. As negotiations evolve over the next two years, and with a general election announced for the 8 June, there is a material risk that sterling and UK equities become increasingly volatile.

It also remains to be seen whether the recent surge in inflation in the British economy will be transient or sustained. The Bank of England's Monetary Policy Committee faces a delicate balancing act over the coming months to ensure an economy recording solid expansion is not set off course by rising inflationary pressures.

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Sir Laurence Magnus, chairman, JPMorgan Income & Capital: Although market metrics, such as price earnings ratios and EBITDA multiples, remain above long term averages, the global economy is strong and corporate results continue mainly to be in line with or exceed expectations and, in the opinion of the Board and the Investment Managers, appear therefore to justify these multiples. There is considerable uncertainty amongst market commentators as to whether these bullish conditions will continue given the potential impact, inter alia, of the policies of the new administration in the USA, the outcome of elections in Europe (including the forthcoming UK General Election), the possible consequences for the UK of the 'Brexit' negotiations and the continuing warfare in the Middle East.

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John Baker and Sarah Emly, managers, JPMorgan Income & Capital: The UK stock market has remained healthy, with many corporates continuing to deliver good results and encouraging outlook statements. This is also the case globally, with the outlook for the corporate sector improving and growth expectations trending higher, as markets price in a gentle move towards global reflation. Although much of this improvement has been priced in with the strong rally in equity prices since early 2016, we believe that equities can still move higher albeit with more volatility likely. The outlook for UK dividend growth remains mixed, although any further weakness in sterling would clearly be beneficial given the international nature of the UK equity market, particularly amongst large cap holdings.

Political uncertainty is set to continue in 2017, with a number of important elections in Europe (including the forthcoming UK General Election), uncertainty over the impact of Trump's policies on US economic and foreign policy, and domestically, the' Brexit' negotiations. The UK is truly fortunate that the triggering of Article 50 has come at a time when global growth is improving and inflation, whilst rising, is still seen by investors to be under the authorities' control. This could account for the UK stock market's calm reaction to such a momentous recent event.

However, over the coming months, as news trickles out from the long and complex negotiations, the market is likely to move its attention from the supportive macro factors to the micro consequences of any trade deals that are struck. As trade-offs and compromises are made, clear winners and losers will emerge. It would be wrong to pretend that we can predict the outcome of these events with any degree of accuracy; far better that we wait for the facts to emerge. Whilst we will, of course, continue to seek out money making opportunities, at times we have to prioritise simply maintaining capital.

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Steven Bates, chairman, F&C Capital & Income: There is plenty of excitement out there if you choose to look for it. Nevertheless, it is sometimes surprising how little impact the geopolitical events in the world affect stock markets. At the moment this reflects the reality that equities, which are by no means in the bargain bin, are still a lot more interesting as investments than cash or bonds. Sometimes this 'one way' market leads to complacency and these are moments when a correction is due.

Beyond the political sphere, it is certainly true that the global economy remains unbalanced with the capacity to deliver a credit crunch or banking crisis. Those of us who worry about such things fret about imbalances in China, the risks of revisiting the Eurozone debacle and a host of others. It is notable that the economic cycle which began in 2009 is now long in the tooth and is already one of the longest expansions on record, but it is also one of the weakest. As time goes by, the risks of a cyclical downturn increase but nothing looks imminent. The year ahead will have some road bumps, as it always does, but a car crash looks unlikely.

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Schroder Income Growth: The global economy has shown renewed signs of life with developed economies and China leading the way. This has generally been supportive for equity markets and should augur well for corporate profits in 2017.

However, there is now considerable optimism within share price and profit forecasts and we are being very selective given that this economic and stock market cycle is already relatively extended.

The UK economy has fared better than many expected in the immediate aftermath of the decision to leave the EU. Profit growth prospects for the market overall in 2017 should be healthy, driven by the devaluation of sterling and rising commodity prices as well as the pick-up in global GDP growth. However, we can expect bumps along the road to Brexit in 2019. We expect the Bank of England to maintain a cautious approach, given the downside risks to growth, and keep interest rates flat for the rest of the year despite a pick-up in inflation.

With UK growth in large part supported by increased consumer borrowing (despite already high debt levels) and rising inflation leading to a squeeze on households' real disposable income, we believe the outlook will remain difficult for domestic consumer cyclical companies, particularly those without the pricing power to push through cost rises. Additionally, many companies face the challenge of continuing to adapt business models to benefit from the digital age.

Despite all of the Brexit-related uncertainty there are signs of returning business confidence exemplified by improved survey data. We have also seen evidence of big overseas investments into the UK, with, among others, Google committing to invest GBP1bn by opening a new headquarters in London, and Qatar recently announcing a GBP5bn investment into UK transport, property and digital technology, as well as substantial Asian investment in the London property market.

In the US, the recent rise in the equity market and elevated business and consumer confidence indicators reflect stronger economic growth together with excitement about President Trump's deregulation agenda and his plans for fiscal expansion. Consequently, the outlook largely depends on his ability to deliver change and for that change to boost activity over the course of his presidency.

We have witnessed slightly more political reality recently. However, that has illustrated the difficulty of effecting this change - although to date this has not negatively impacted the stock market. If President Trump cannot bring about meaningful reforms to tax and healthcare then there will not be the same war chest available to spend on other areas.

After raising interest rates in the last quarter, the Federal Reserve has signalled further modest rises over 2017 and 2018 as inflation picks up and the labour market strengthens. Any acceleration of this trajectory can upset markets.

In Europe, important elections are yet to be held in the UK and Germany, which, despite victories predicted for the incumbents, will give markets something to think about. We expect the rise in recent inflation data to moderate as the oil price effect annualises and so do not expect tightening from the European Central Bank.

With cheap financing readily available and companies struggling to generate organic growth, it is not surprising there has been a pick-up in takeovers, which we would expect to continue, notably in the UK by overseas acquirers following the devaluation of sterling. The Kraft Heinz approach for Unilever shows that even the largest companies are not immune from this but it also highlights the political sensitivity towards corporate activity. It seems that this area, together with that of remuneration, are places we can expect more government intervention.

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Angela Lascelles, manager, Value & Income: Since a year ago, prospects for the UK economy and the global economy have improved. In this country we have the benefit of a lower sterling exchange rate, which has resulted in higher demand for our exports and improved competitiveness for UK manufacturers serving both overseas markets and those trading here but with competition from overseas. A year ago, forecasts for UK GDP growth in 2017 were considerably less than 1%, but a year later the Bank of England's forecast has risen to 2%. The other significant change resulting from the fall in sterling, is increasing inflation, now moving above the Bank of England's targeted rate of 2%. We do not expect a rise in interest rates to counter the rise in inflation. Article 50 has recently been triggered to take the UK out of the EU and it is very unlikely that any action might be taken which could upset the pace of economic activity. Rising economic growth and rising inflation are both factors which favour investment in equities rather than in bonds. Dividends have continued to rise modestly across the market and the overall yield on the FTSE All-Share Index is 3.5%, which is very attractive compared to other asset classes.

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Asia

(compare Asian funds **here**)

Harry Wells, chairman, Martin Currie Asia Unconstrained: Markets have been spurred on since November by the Trump 'reflation trade' and perhaps by years of global quantitative easing finally having some effect. While global debt might remain as the great deflator, China's recovery appears broad based with nominal GDP growth rising from 7% per annum in the first quarter of 2016 to 11.8% per annum in the first quarter of 2017. While credit concerns seem more manageable, fears have recently resurfaced over the extent of lending in the shadow banking sector particularly on the back of tightening measures directed at the property market. Certainly the renminbi and capital outflows have stabilised and supply side reforms have cut bloated manufacturing capacity in the state owned enterprise sector. Industrial profits have rebounded with commodity prices and a much improved producer price index. ('PPI'). However, Chinese infrastructure investment is growing 18% year on year which raises familiar questions over renewed debt expansion and sustainability. Nevertheless, the likes of the One Belt One Road are huge initiatives and are redolent of the opportunities created by fiscal stimulus elsewhere in the region. World trade has picked up with recovery in Asian exports building on indigenous growth in Asian inter-regional flows.

All this is feeding through to consensus Asian earnings which are forecast to grow by around 12% in 2017. The region's markets command undemanding valuations, with evidence of better governance leading to improved capital management - to the benefit of minority shareholders. Indeed, Asian markets have started to outperform developed markets after a lengthy period in the doldrums with the MSCI Asia ex Japan rising 13% in the first quarter of 2017 (in US dollar terms), significantly outperforming the S&P500. While China takes the headlines, India may be the best structural growth story in Asia with Modi's strong BJP mandate enacting an unprecedented era of radical largely free market reforms including an important housing programme amidst an attractive demographic backdrop auguring well for real increases in disposable income.

Every silver lining has a dark cloud and Asia's growth trajectory depends very much on a stable political backdrop.

While one might have expected Kim Jong-un in North Korea to test an incoming US administration, his rhetoric and behaviour is increasingly volatile, while the new incumbent in the White House is clearly unpredictable. Still, it is positive that Trump is prepared to flex American muscle after years of retreat from foreign policy engagement proselytised by Obama. We must hope that this more robust approach does not unbalance the geopolitical landscape. Equally, Trump's economic policies could usher in a period of protectionism although the recent 10 point US-China 'meat' trade pact is indicative that common sense rather than election or negotiating rhetoric may prevail.

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Andrew Graham, manager, Martin Currie Asia Unconstrained: We have seen good momentum in Asian markets. The regional index (the MSCI AC Asia Free ex Japan) rose 13.4% in US dollar terms during the March quarter, the best start to a calendar year since 1992. Foreign inflows, particularly into Emerging Asia, have been strong and earnings revisions turned positive at the start of the year. They continue to move higher at the time of writing. The regional index has re-rated but still trades at a discount to global developed markets. The resumption of earnings growth means that despite higher index levels, forward valuation multiples are not extended and, depending on the measure, are either a little above (e.g. price-to-earnings) or a little below (e.g. price-to-book value) long term averages.

This much is good. However, in my view many of the things that worried me this time last year still concern me today. And there are some new worries. In geopolitical terms, President Trump has already shown himself to be unpredictable and domestic policy fumbles call into question the extent to which his domestic growth agenda can be enacted. The global 'reflation trade' has also lost some of its momentum, as reflected in recent weakness across the commodities chain. If global growth expectations were to change seriously for the worse, this would have negative implications for the Asian region. The Chinese economy appears to be in decent health and depreciation pressure on the renminbi has abated, as controls on cross-border capital flows and other policy measures have taken effect. However, there is a tricky path to navigate; the People's Bank of China is moving away from its policy loosening bias and the country's debt challenges have not evaporated. Indeed, each incremental unit of GDP growth requires much more debt than in the past; interest rate cuts and debt restructuring may help to alleviate debt service costs in the short term, but ultimately a new growth model is needed.

Although the effect of demonetisation has largely dissipated, economic activity in India is still subdued, as illustrated by recent soft loan growth data. However, Prime Minister Modi's strengthening power base has instilled greater confidence that he can push through his reform agenda.

Elsewhere in the region, we see efforts to step up infrastructure investment, as well as more policies to ease the red tape that stifles business expansion. However, it is difficult to escape the sense that policy uncertainty, whether economic or political, appears elevated globally relative to recent years and I have been surprised by the lack of equity market volatility.

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Ayaz Ebrahim and Richard Titherington, managers, JPMorgan Asian: We continue to remain positive on the outlook for Asian equities, whilst nominal economic momentum has yet to be reflected in hard data such as real GDP growth. The continued improvement in economic sentiment has also led to upward revisions in consensus estimates for earnings. Policy risk has been the biggest concern among would-be investors in equity markets since the US election, and the lack of action on the trade or currency front so far is encouraging.

The pickup in intra-regional trades supports our positive view on markets and companies that can benefit from increasing activity in this area, such as technology in Korea, Taiwan and China. We are also positive towards Indian equities given numerous structural growth opportunities, but valuations are near the higher end of the historical range. Indonesia should also benefit from recovering commodity prices, which, along with political stability, should be sufficient to get the private sector started and drive an earnings recovery.

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Schroder Oriental Income: Recent weeks have seen a distinct moderation in the "reflation" trade that dominated the second half of 2016. Bond yields have retraced much of their rise, commodity prices have softened, and defensive sectors have recovered some of the ground lost in 2016. However, the global economy looks in reasonable shape. Excessive hopes for US growth may be disappointed (partly because the scope to stimulate an economy near full capacity is by its nature limited), but there is no reason to expect a sharp downturn, while other developed economies such as Japan and Europe appear to be on a broad recovery tack.

Less investor focus in general, has been [*placed on*] the importance of China in stabilising global growth. The influence is clear in the strong export numbers evident in the Asian region (Taiwan +28% year on year in February, Japan +11%) and in the buoyancy (until very recently) of commodity prices. For all the talk of fiscal packages and monetary measures in the developed world, the net new stimulus has been almost wholly from China over the last 18 months. In engineering a strong recovery, China has done it by the text book; lower interest rates, real estate stimulus, public investment and continued supply of credit (with credit continuing to grow over twice nominal GDP) leading to an impressive recovery in secondary industry and a swing in the producer inflation index from -6% at the end of 2015 to +7.6% in March 2017.

Recently, the Chinese authorities have signalled a less pro-growth stance (marginal tweaks up in policy interest rates, cooling measures for the largest city real estate markets), but the priority will be to maintain a satisfactory level of growth - not too hot, not too cold, to coin a phrase. The long-term resolution of China's addiction to credit (lower growth, debt work-outs etc) has still to be faced, but on a medium-term time horizon, China should be broadly a supportive influence to global and regional activity.

Trade protectionism remains a salient risk for the Asian markets, although this comes at a time when more cyclical supports are healthy, including a slow repair from the crisis conditions of 2015 for a number of emerging markets (Russia, South Africa, Latin America, Middle East) and steady recovery in Europe, which is at least as important a destination for exports as the United States. External balances in terms of current accounts, trade balances and foreign exchange reserves etc remain healthy, and provide some cushion should we see tighter global monetary conditions/stronger dollar than we currently envisage. Domestic demand drivers (outside China) remain muted, however. It probably awaits a more concerted push on infrastructure spending in places like India and emerging ASEAN for this to change. Most governments have more fiscal room to manoeuvre than they did, so it is political will that forms the main impediment.

Geo-political risk is somewhat elevated for other reasons, most notably the increasingly disruptive actions of the Democratic People's Republic of Korea in pursuit of a credible nuclear deterrent. With the return of a more interventionist US foreign policy, tensions are high as at the time of writing. Much hangs on the personal relationship between presidents Xi and Trump given that it is China that has the power to influence the North Korean regime should it choose to exert it.

At a company level, we take heart from the fact that companies we favour have been disciplined in terms of capital spending over recent years, and have used the opportunity to strengthen balance sheets and concentrate on raising value-added rather than pursuing expansion for the sake of it, which is usually at the expense of shareholder returns. A by-product of this is that corporate free cash flow is growing considerably faster than reported earnings, giving some confidence in the sustainability and growth of dividends in Asia.

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China

(compare Asian single country funds **here**)

Howard Wang, Emerson Yip, Rebecca Jiang and Shumin Huang, managers, JPMorgan Chinese: Without the pressure of rising US yields and thus the US dollar, China has more room for a gradual normalisation of domestic monetary policy as the economy recovers. In addition, the corporate earnings recovery has broadened to consumer-facing sectors, giving policymakers more room to tighten policy on overstimulated sectors such as real estate and autos. Consequently, we expect Chinese equities to begin a gradual shift in sector leadership, mirroring a recovery that began with upstream raw materials and extending downstream to the consumer. The valuations of both onshore and offshore listed Chinese companies are still at reasonable levels after the recent rally. Evidence of further deep structural reform would provide further stimulus to any re-rating. We believe growth sectors should outperform given reasonable valuations, lagging performance compared to value cyclicals and robust earnings growth.

The potential gradual normalisation of domestic monetary policy in China should provide for a supportive backdrop to Hong Kong equities, including persistently buoyant liquidity conditions helped by rising interest from buying from mainland Chinese investors. Continued mainland China flows would benefit the property, gaming, financial and retail segments. While the new Chief Executive of Hong Kong, Carrie Lam, remains focused on increasing land supply, external constraints will cap any significant acceleration of new supply. It is likely that the government will look for incremental measures to rein in market excess. However, any major adjustments will be dependent on market interest rates and supply additions in the long run.

Despite disappointing retail sales growth in February, we believe that retailers and retail landlords should benefit from the normalisation of retail sales both in Hong Kong and China. Exporters should also continue to see strong secular growth opportunities, especially as the risks of trade tension between the US and China subside. In Taiwan strong foreign inflows could continue to drive the market upwards, however, disappointing first-quarter results, due to a strong local currency, could result in potential consolidation in the near term, Ample liquidity and still-undemanding valuations should help minimise the risk on the downside, but we believe we are likely to see earnings growth delayed until the second half of the year.

Against the macro and policy backdrop across the Greater China region, we remain positive on the stock-specific opportunities available in these markets and continue to have the highest conviction in the structural growth companies and increasingly those listed on the A-share market.

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Europe

(compare European funds **here**)

Rodney Dennis, chairman, Henderson European Focus Trust: Political noise has begun to feel like a constant for the investor in European equities. It has been particularly so over the past six months, as we make our way through a series of elections.

The evidence points to a late stage bull market. We anticipate further M&A activity before this particular bull market blows itself out.

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Craig Armour, manager, The European Trust: As the economic recovery becomes firmer, Central Banks are able to start withdrawing the monetary stimulus being applied through bond purchases and ultralow interest rates. The US has led the way with incremental rises in interest rates and it seems likely that Europe will follow suit in due course. We believe this change in the interest rate environment, which reflects an improving economic outlook, will continue to support a normalisation of valuations across equity markets.

As ever, there remain political risks, both within Europe and from the rest of the world. The Brexit negotiations and the implementation of President Trump's promise to put America first both have the potential to increase protectionism, cause disruption and restrict economic growth. However, our central case is that Europe will continue its economic recovery and that the prospects for European equities remain solid.

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Eastern Europe

(compare Emerging European funds **here**)

Steven Bates, chairman, Baring Emerging Europe: The [*recent*] period was dominated in large part by the markets accommodating the arrival of Donald Trump onto the world stage. Initial optimism, though, has begun to fade as economic reality has barged back into the picture, compounded by heightened geopolitical tension in the Far East as well as in Turkey and Syria. This feels like business as usual in our region. In the recent past, the wise counsel would have been to ignore the sound and fury of politics and concentrate on the opportunities at the corporate level. This was because the turmoil allowed investors to acquire decent assets at rock bottom prices. This remains the case. Of course, the ups and downs of Russia's relationship with the rest of the world and the intrigue surrounding Mr Erdogan's creation of a more authoritarian state make the headlines, but behind these, real value awaits the patient and careful investor.

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Matthias Siller, Maria Szczesna and Adnan El-Araby, managers, Baring Emerging Europe: The economic backdrop in most Emerging European economies strengthened recently and makes us look optimistically towards the remainder of 2017. Sentiment indicators such as purchasing managers' indices both in Central Europe and Russia improved on the back of healthy growth in Western European markets and stable oil prices. Turkey, on the other side, has seen a substantial adjustment in asset prices over the last quarter of 2016, which sets the bar for positive economic and political surprises relatively low. Further, we sense that the trend of improving corporate governance standards on Emerging European equity markets is here to stay, a view that is supported by increasing payout ratios and dividends from the companies in the portfolio. We believe Emerging European equity markets remain attractive on a relative basis and offer further upside.

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Japan

(compare Japanese funds **here**)

Aberdeen Investment Management Kabushiki Kaisha, managers, Aberdeen Japan: In Japan, the domestic economy has managed to avoid a technical recession and core inflation may have returned. But the central bank will be hard pressed to achieve its 2% inflation target. With companies choosing to streamline and improve productivity, wage negotiations are likely to produce muted pay rises at best, putting a lid on still sluggish consumer spending.

That said, the best Japanese companies have been those that have evolved their businesses around these perennial challenges. Many are leaders in their field. Examples include industrial companies, which will continue to gain from the ongoing global shift towards automation. As for exporters, they have long circumvented yen fluctuations by moving some production overseas, which in turn places them nearer to key markets. Shareholders have also benefited from improving corporate governance.

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Andrew Fleming, chairman, JPMorgan Japanese: Although economic growth is generally stronger globally the Japanese stockmarket, which has considerable cyclical characteristics, has not performed as well in recent months as might be expected. The stock market continues to be most correlated, negatively, with the yen-US dollar exchange rate. In periods when risk assets sell-off the yen tends to strengthen and Japanese equities tend to fall. Global investors remain generally sceptical of the prospects for Japanese equities usually citing as reasons a shrinking domestic population and a lack of structural reform in Prime Minister Abe's "Three Arrows" change agenda.

Progress on structural reform and changes to corporate governance and implementing a more shareholder friendly approach among Japanese companies is slow. But, it is happening. The Managers and the Board continue to be very encouraged by the investment opportunities to be found among quoted Japanese companies. Share buy backs and dividends are increasing and other more shareholder focussed policies, like return on equity targets, are being put in place.

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Nicholas Weindling and Shoichi Mizusawa, managers, JPMorgan Japanese: Stable politics and an improving domestic economy at present combine with accelerating global growth and a weaker yen to mean that earnings momentum is currently strong in Japan with profit growth for the TOPIX Index projected to rise by 13% in the financial year 2017. The Japanese equity market is more cyclical than the US or Europe and an improving global economic backdrop bodes well for future profits. Valuations are not stretched by historic standards and are at a discount to other developed markets. The continuing improvement in corporate governance is the single most important structural shift that is happening and may mean that the valuation gap versus other markets can start to close.

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Frontier Markets

(compare global emerging markets funds **here**)

Sam Vecht and Emily Fletcher, managers, BlackRock Frontier Markets: We retain our preference for Frontier Markets that are experiencing improving macroeconomic conditions, better political governance, cash flow growth and cheap valuations. Our preferred countries are Argentina, Kuwait, Romania and Vietnam and we have recently been increasing our weighting in Egypt.

We highlight Vietnam as one of the more exciting countries in our universe. The economy is expanding driven by ongoing Foreign Direct Investment. The government is also pushing a stock market reform agenda which we expect will result in companies increasing their free float, lifting foreign ownership restrictions and the launch of a number of IPOs. Valuations are some of the cheapest in Asia.

Frontier Markets continue to exhibit the characteristics that we believe represent a compelling opportunity for long-term investors. The combination of the countries with the fastest growing GDP, the best demographic profiles, the lowest government debt and a substantial commodity endowment, where it is possible to invest in companies on some of the lowest valuations in the world, provides an unrivalled investment opportunity. The low correlation between Frontier Markets and all developed and emerging markets means that the inclusion of a Frontier Markets fund within a portfolio can bring significant diversification benefits.

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Biotech and healthcare

(compare biotech & healthcare funds **here**)

Sven Borho, manager, Biotech Growth Trust: In the past few years, the biotechnology sector has been a net beneficiary of Obamacare, as coverage expansion has increased drug utilisation. However, structural flaws in Obamacare have become evident, as lower than expected enrolment and a sicker patient pool have caused significant premium increases and large losses for insurance companies. This has prompted questions about the sustainability of the law and what can be done to fix the issues. Throughout the Obama administration, Republicans repeatedly advocated for the repeal of Obamacare. However, internal divisions within the party have delayed the process of repealing and replacing Obamacare. Importantly for biotechnology investors, the legislation ultimately passed in the House of Representatives made no mention of drug pricing reform, and in fact called for the removal of a tax on branded drug makers. At this time, the Senate is crafting its own legislation, and it is not clear how close the Senate version will be to the bill passed in the House. President Trump has suggested that drug pricing would be addressed at a later stage. However, the repeal and replace debate has highlighted the difficulty of passing new healthcare legislation. We believe there is not adequate Republican support in Congress to consider pricing reform, and that President Trump will pivot to other priorities where he may be more successful.

New tax changes could be positive for the biotechnology sector. Mr. Trump has also called for significant tax cuts, particularly for businesses. His initial proposal reduces the corporate tax rate to 15% from 35%, and companies would pay little or no tax to the U.S. on foreign profits. While most biotechnology companies already enjoy lower effective tax rates given the multinational nature of the business and foreign domicile of intellectual property, a lower corporate tax as proposed will still benefit those that face high tax rates. Tax reform is also expected to allow repatriation of cash that is held overseas at a low tax rate. As a result of current corporate tax laws, U.S. companies with international operations often hold cash overseas to avoid paying the top corporate tax rate of 35% on those foreign earnings. It is estimated that the eight U.S. major pharmaceutical and biotechnology companies collectively held over U.S.$130 billion in cash offshore at the end of 2016. This repatriation could fuel a new wave of merger & acquisition activity as this cash can be used to acquire U.S. emerging biotechnology companies.

The regulatory climate is becoming more favourable for the industry. President Trump has also pledged to streamline the drug approval process so effective drugs can reach patients more quickly. We see the recent appointment of Scott Gottlieb to head the U.S. Food & Drug Administration (FDA) as a positive development in that direction. Dr. Gottlieb has previously been critical of the FDA's "unreasonable hunger for statistical certainty" when reviewing orphan drugs and has advocated for modernising the generic drug framework to accommodate complex drugs, which could increase competition and potentially lower prices of off-patent drugs. We believe Dr. Gottlieb is a highly capable Commissioner who will take a more pragmatic approach to drug approvals. We would also highlight that the FDA continues to make progress expediting "breakthrough medicines" which allows more interaction between the agency and companies to speed the approval of new important medicines. Last year, 46 additional drugs received breakthrough designation, and nine drugs with this designation were approved.

Innovation continues. Drug approvals and pipeline progress will continue to be major themes for investment in the sector. Within the portfolio, there have been a number of promising new drugs recently approved, these new drugs have shown profound benefits in the treatment of serious diseases lacking adequate treatment options.

2017 is poised to be a landmark year for biotechnology drug development, as we should see the first U.S. approvals of two new classes of therapy: gene therapy and CAR-T cell therapy (T-cells that are genetically modified to fight cancer). These new treatment modalities allow drug developers to address targets and diseases that are not easily treatable by more conventional means. We expect considerable advancement of these methods in the coming years as many biotechnology companies apply these technologies to create new therapeutics.

We have previously highlighted the next wave of immuno-oncology (IO) as the development of combination regimens that further stimulate the immune response against cancer. This year, we are pleased to see significant progress in this field. We continue to believe immuno-oncology combinations will be a major area of investor interest this year.

Debt

(compare debt funds **here**)

Donald Adamson, chairman, Invesco Perpetual Enhanced Income: Your portfolio managers believe that high yield markets have held up well and continue to benefit from the Central Bank quantitative easing policies which are now coming to an end. Yields continue to be at low levels as a consequence of the results of the US general election and widely held sentiment for growth and higher inflation expectations in 2017. Markets are likely to continue to be characterised by volatility impacted by the direction of US policy, election results in Europe and, on the home front, the UK 'snap' general election and the uncertainties that arise from Brexit.

Paul Read, Paul Causer and Rhys Davies, managers, Invesco Perpetual Enhanced Income: The high yield bond market is currently pricing in very little room for disappointment, in terms of earnings and economic data. In our view this means that the likelihood of some form of correction is probably quite high.

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Infrastructure

(compare infrastructure funds **here**)

Ian Russell, chairman, HICL Infrastructure: Following the UK's Autumn Statement, expectations were raised for the announcement of a new pipeline of PPP projects in 2017. The Board remains optimistic that the Government will bring forward new projects after the current election has concluded.

Competition across the infrastructure asset class remains intense. The year has seen continued muted activity in PPP secondary markets.

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HICL Infrastructure:

United Kingdom: PPP procurement has been limited in recent years but, following indications in the Autumn Statement of a new procurement programme, there may be more UK PPP opportunities announced, once the general election in June is over. In the near term, most UK PPP opportunities are likely to be in the secondary market.

The financial year saw significant activity in the regulated asset market segment. This is expected to continue, both with transactions involving assets subject to price controls and also other models such as certain transportation assets and the OFTO programme.

Demand-based assets in the UK include a small number of PPP assets which have usage risk in their revenues, such as shadow toll roads, and an increasing number of university-sponsored student accommodation projects.

Europe: Procurement of new PPP projects has continued, albeit in a limited number of countries (e.g. the Netherlands, Germany, Ireland and Norway) and involving a relatively small number of projects. We expect the current rate of activity to continue in the current financial year, with slightly more deal flow anticipated in the secondary market for PPP projects.

We believe there will be further opportunities to invest in regulated assets in Europe. There was notable deal activity over the last year and this is expected to continue. Sectors of interest include gas and electricity transmission and distribution, district heating and water utilities.

North America: The new US President's clear statements of support for the role of private capital in the US infrastructure market are encouraging. However, our experience since 2008 is that the translation of political will in Washington into PPP procurement activity across the country takes time. Momentum is steady rather than spectacular and the challenge for the Federal Government remains how best to encourage and incentivise new forms of infrastructure procurement - responsibility for which is typically implemented at state or agency level.

The 2016 Canadian federal budget promised to double infrastructure spending over 10 years, with CAD60bn in new funds available to build transport and energy systems meant to grow the economy over the long term. The first CAD11.9bn is expected to be allocated in the next two-to-five years. As one of the most sophisticated infrastructure markets globally, Canada is a popular destination for private investment. The need for pricing discipline in the face of domestic competition is expected to continue to limit the opportunity.

Australia & New Zealand: Competition from domestic investors is fierce. Australia has a long history of PPP procurement and there are some signs that the rate of primary investment is picking up.

Competition: The tight supply-demand dynamics of the infrastructure asset class represent an ongoing challenge to source new investments at suitable valuations. In the current market conditions, where auction processes continue to attract significant demand, relationships remain key to successful origination through bilateral negotiations.

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Ian Reeves CBE, chairman, GCP Infrastructure: The considerable volume of capital entering our sector, not just from listed investment companies but also from direct institutional investors and private funds, means that the infrastructure market continues to be highly competitive. Deal flow on the other hand remains sporadic and somewhat unpredictable.

Whereas the Chancellor expounded at some length in the November 2016 Autumn Statement as to the benefits of infrastructure spending, he was far less forthcoming in his Budget speech in March 2017. The long awaited PF2 pipeline, alluded to briefly in January 2017, is now expected to be announced sometime during the first half of this year. The industry awaits with moderate hope.

The renewable energy market reached a milestone as the ROC regime closed to all new generating capacity on 31 March 2017. Subsidy levels in ongoing regimes such as the FiT or RHI have been reduced to such an extent as to make the majority of new projects uneconomic. The primary mechanism for governmental support for future renewable energy projects are contracts for difference. The results of the next auction round for contracts, expected in the third quarter of 2017, will give much needed clarity as to which projects will be developed in the near term.

In terms of existing projects, the Investment Adviser has reported the emergence of a more active secondary market in renewable energy debt, both from borrowers seeking to refinance existing facilities and from lenders looking to sell loans.

In the social housing sector, there remains a healthy pipeline of opportunities as local care commissioners continue to embrace the benefits of the supported living model.

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Property

(compare UK property funds **here**)

Chris Grigg, chief executive, British Land: Looking forward, the picture is a mixed one. The Brexit process has begun but uncertainty will continue for some considerable time. Though the UK economy has performed well since the vote, we can expect more inflation and increasing pressure on disposable incomes. This will impact consumer behaviour and retailer profitability. London occupiers, particularly financial institutions, are making contingency plans but there is a wide range of possible outcomes here. Our conversations with occupiers tell us that a large majority continue to value London and believe in its place as a global centre, as we do.

Although we are seeing businesses taking longer to commit and being more thorough in assessing options, we see polarisation of both occupier and investor demand accelerating with an increasing focus on the best quality space.

It is nearly one year since the UK voted to leave the European Union. In that time, the economy has outperformed expectations, with GDP projections for 2017 revised upwards to an average of 2% and unemployment below 5%, its lowest in over 40 years. However, we have entered a prolonged period of uncertainty and businesses will face a number of headwinds. Mindful of this background, but facing a clear need to move forward, occupiers are continuing to make decisions, but plans are taking longer to come to fruition.

We expect Brexit-related headwinds to impact our occupational markets. In offices, it will be some years before we have clarity on the impact of proposed regulatory changes which may affect occupier demand, particularly in financial services. However, demand from more creative sectors, which has accounted for a growing share of activity in recent years, has held up well, and we are encouraged that a number of leading global companies have reaffirmed their commitment to London since the referendum. Vacancy rates have risen from low levels to marginally above long term averages in both the City and West End following recent development completions. We expect further supply to apply downward pressure on market rents, but our experience today is that the right space in strong locations continues to command rents around pre-referendum levels. Central London development is forecast to be at elevated levels, but we are increasingly seeing plans being deferred or cancelled, and a significant proportion of the supply proposed in 2019 and 2020 remains uncommitted.

Retailers are facing a more challenging environment with cost pressures from a number of sources including the National Living Wage, business rates in some areas and import cost inflation. These factors will heighten their focus on the best space, where to date, demand has held up well. On the consumer side, confidence will be vulnerable to political and economic uncertainties and we have seen some evidence of softening retail spend in the first part of 2017 with inflation impacting disposable income.

Our view is that Brexit will accelerate polarisation in our markets.

Robert Noel, chief executive, Land Securities: Put simply, our markets remain in good health but they've paused for breath.

In the London office market, we expected the occupational balance to shift from demand to supply during the course of 2017. The Brexit vote brought that inflexion point forward. In last year's report, I said a vote to leave the EU would create business uncertainty, leading to lower occupational demand, falling rental values and a reduction in construction commitments. This is happening, though less than we expected. Overall, the UK economy continued to perform well during the year.

In the retail market, the effect of the referendum was less clear-cut although, faced with pressure on disposable income, shoppers have started to show more caution. Retailers were a little slower to take up new space during the year but we continued to see opportunities to meet the ever-evolving needs of the most successful brands.

We won't be sure of the long-term effect of Brexit on our markets for some time. Negotiations with the EU can only begin in earnest after the general election. Although the business community remains in uncharted territory, that doesn't mean we should wait for change to happen to us. We're taking this time to prepare the business for the opportunities and challenges we see ahead.

We hope the new government can give businesses as much certainty as possible on areas including tax, regulation, access to skilled labour and public spending such as investment in infrastructure - including desperately needed homes. A clear and ambitious strategy for improving digital connectivity would have a particularly powerful impact.

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McKay Securities: The London and South East markets have proved to be resilient in a year dominated by the EU referendum. Two positive market fundamentals have underpinned this stability. Firstly, on the leasing side, there are still low levels of new supply which have helped sustain rental values, while on the investment side, commercial property is still delivering attractive yields relative to other asset classes in a prolonged low interest rate environment.

Throughout 2016, take up levels have been robust despite the uncertainty over Europe, but in many cases landlords are having to retain flexibility to accommodate a greater number of smaller deals, as some larger requirements are being postponed. Our portfolio is well placed for this market dynamic given our relatively small average building size of 44,000 sq ft and our willingness to deliver choice and flexibility in this evolving occupier market. We also have a deliberate policy of owning and procuring buildings capable of multiple occupation.

This increase in smaller transactions was clearly seen in the South East office market which accounts for 59.6% of our portfolio (by value). Take up in this market was steady at 1.96 million sq ft in 2016 compared to the 5-year average of 1.90 million sq ft and the 10-year average of 2.03 million sq ft. However, this quantum was the result of 127 different transactions in 2016 compared to the 5-year average of 109 and the 10-year average of 113. This trend looks set to continue in 2017, which has started positively with a first quarter take up of 554,321 sq ft across 41 transactions.

The supply of good quality office accommodation remains limited in the South East. At the end of the period, total availability stood at 8.83 million sq ft (March 2016: 9.04 million sq ft) which is 10.3% of the total market (March 2016: 10.5%), of which 6.81 million sq ft was either new or Grade A. This means that if a tenant wants to find either a new or Grade A quality office, the choice will be limited to 7.9% of the entire floor space in the South East. If that requirement is specifically for new space, then the percentage choice falls to just 2.7%. Set against this historically low supply is 3.82 million sq ft of named occupier demand, which is just 2.5% below the long term average (source: Strutt & Parker).

The City of London occupational market remains supported by balanced supply and demand and an increasingly diverse tenant base. The EU referendum has raised concerns over future occupier demand, but it has also limited the commencement of new schemes. Although supply has increased marginally, availability in the City core and fringe at the end of the period remains 16.9% below the long term average. Added to this, current named demand of 4.54 million sq ft is 24.4% higher than March 2016, and 14.9% ahead of its long term average.

The City core has a total pipeline of new and Grade A supply of 3.62 million sq ft scheduled to complete up to the end of 2018. Of this, 39.5% (1.43 million sq ft) is already pre-let or under offer. The balance of 2.19 million sq ft compares favourably with average annual take up of 1.70 million sq ft, and a low current vacancy rate of 3.3%. The recent increase in occupier demand is encouraging and, if maintained, will continue to support rental levels and letting prospects generally (source: Knight Frank).

Great Portland Estates: London remains a truly global city with a track record of successfully adapting to changing market conditions. However, while the long-term ramifications of the EU referendum result will likely be unclear for some time, we expect London's commercial property markets to weaken further in the near term given the political and economic uncertainty.

The economic backdrop is more uncertain: The UK proved to be one of the fastest growing advanced economies in 2016 with central London's economy and commercial property markets showing unexpected strength since the EU referendum result. Business and consumer surveys rebounded from immediate post referendum lows and whilst activity levels in our occupational and investment markets have declined, both remain open for business for better quality assets. However, the small increase in office property yields that occurred immediately following the referendum remains and market headline rental levels have fallen marginally.

Most economic forecasters now expect growth to slow as uncertainty about the shape of the UK's future outside of the EU reduces business investment and employment growth. Furthermore, the depreciation in sterling following the vote is expected to increase inflation and suppress consumer spending which has been a key driver of GDP in recent years. Accordingly, Oxford Economics' annual forecast GDP growth over the next three years has reduced from 2.2% a year ago to 1.6% today and recent data shows GDP growth in the first quarter of 2017 of 0.3% was the worst in the last 12 months. Moreover, the recent Deloitte survey of UK CFOs painted a mixed picture with optimism recovering from the lows in the weeks following the referendum, but risk appetite remaining well below the long-term average.

Looking ahead, despite the triggering of Article 50 in March, we remain in the early stages of a likely protracted process to both negotiate our exit from the EU and reshape our trading arrangements with the rest of the world. Furthermore, following seven years of consecutive growth and with both rents and yields at record levels, capital value growth was already slowing ahead of the referendum with the London market in the late stage of the cycle. As a result, our expectation is that London's commercial property markets will weaken further in the near term with the benefits of lower bond yields, weaker sterling and London's continued safe-haven status being offset by reduced rental growth prospects in a potentially more inflationary environment.

However, while the long-term ramifications will likely be unclear for some time, London remains a truly global city with a track record of successfully adapting to changing market conditions and offering significant attractions for a diverse range of businesses and investors as Europe's business capital.

London - long-term growth despite near-term uncertainties: With the largest economy of any city in Europe and generating around 22% of UK GDP, London remains one of the world's dominant commercial, creative and financial centres and continues to lead the Global Power City Index. Against a backdrop of slowing UK economic growth, London is expected to continue to outperform with Oxford Economics forecasting annual GDP growth of 2.3% over the next five years, making it one of Europe's fastest growing cities.

Despite the outcome of the EU referendum, London's population is forecast to increase to more than ten million by 2030 and CBRE/Oxford Economics predict that this will translate into inner London office-based employment growth with 129,000 new jobs (down from 165,000 a year ago) created over the next five years, driven by the professional services and creative industries. With London's deep pool of talented labour and collection of world-class universities and business schools, more than a third of Fortune 500 companies now have their global headquarters in London.

Notwithstanding London's long-term potential, it is likely that the near-term outlook will be dominated by the uncertainty created by our exit from the EU and the resultant negative impact on the London economy and its property market. Furthermore, wider global uncertainties persist given the recent change in the US administration, elections in the UK and Europe, and the outlook for global interest rates, along with a variety of other geopolitical risks. As a result, we continue to monitor closely prevailing market conditions and the fortunes of our diverse tenant base.

Occupational demand resilient: Whilst the growth rate of economic activity in London has reduced, demand in our occupational markets remains resilient. For the year ended 31 March 2017, central London take-up was 11.7 million sq ft, 20.7% below the preceding 12 months but only marginally behind the ten year annual average of 12.4 million sq ft. This take-up was once again from a broad range of industries, including professional and business services (32%), TMT businesses (22%) and banking and finance (18%). Our own leasing successes this year reflect the diversity of the wider market, in particular demonstrating continued demand from the TMT and professional services sectors.

The central London market has witnessed significant growth in the provision of flexible office space in recent years. More recently, since the EU referendum, we have also seen some traditional landlords offering increased lease flexibility, including through shorter lease terms. Whilst this offering may be attractive for some occupiers, our own leasing track record demonstrates that for many businesses securing high quality, well-located space for longer-term occupation is vital, particularly as a tool for retaining and recruiting talent.

Whilst the central London vacancy rate has increased to 4.7%, it remains low in absolute terms which has continued to drive occupiers to secure new space early and ahead of lease events through pre-lets. This in turn has helped to support headline rental values across our key markets, although tenant incentives (including rent-frees) have increased. The average time taken from commencing discussions with prospective tenants to finally signing new deals has also marginally increased.

New office supply remains tight, reflecting more uncertain backdrop: Development completions across central London have been rising, albeit from a low base with Grade A vacancy rates still near historical lows. Central London office development completions for the year to 31 March 2017 rose to 5.8 million sq ft, up from 3.6 million sq ft in the preceding 12 months. However, in the core of the West End, the focus of our development activities, development completions totalled only 2.1 million sq ft over the year. This has helped support rental values and letting activity across our markets as tenants continue to secure space in advance of buildings completing with pre-lets representing around a quarter of central London office take-up during the year to 31 March 2017.

Looking ahead, 20.1 million sq ft of new office space is expected to be delivered in central London over the five years to December 2021, of which 1.6 million sq ft is in the West End core, equating to only 0.6% per annum. Whilst the speculative development pipeline is forecast to increase from the lows of recent years, the heightened uncertainty created by the EU referendum has moderated the forecast growth, with some developers reluctant to commit until greater clarity prevails, particularly as construction costs continue to rise. As a result, the speculative development pipeline between 2017 and 2020 is now lower than the position we reported at 31 March 2016 with forecast completions reduced by 2.5 million sq ft or 13.1% over the year.

West End occupational markets: Over the year to 31 March 2017, West End office take-up was 3.8 million sq ft, 11.5% lower than the preceding year. Whilst availability has increased to 4.6 million sq ft (up from 4.3 million sq ft in the prior year), vacancy rates remain low with Grade A space vacancy estimated by CBRE to be only 3.2%. CBRE has reported that prime office rental values in the West End reduced over the year to GBP110 per sq ft, down from last year's peak of GBP120 per sq ft. In addition, rent free periods on average increased by six months over the last year to around 22 months on a ten year term. Looking ahead, CBRE are forecasting a reduction in rental values with West End prime office rents expected to reduce by around 6% over the next two years.

The West End prime retail market (where 31.2% of our West End portfolio by value is located) has continued to outperform offices. Over the last year, sustained demand for prime retail space has maintained a near zero vacancy, with leasing activity supporting prime rental values. Demand for retail space has been supported by increased spending from tourist visitors benefiting from weaker sterling, although business rates increases and the forecast squeeze on domestic consumer spending are likely to have some offsetting impact.

City, Midtown and Southwark occupational markets: Over the year to 31 March 2017, City office take-up was 4.6 million sq ft, down 23.0% on the preceding year, with availability rising to 6.2 million sq ft (up 26.7%) but in line with the ten year average. Although higher than in the West End, vacancy rates remain low with Grade A vacancy estimated by CBRE to be only 4.0%. CBRE has also reported that prime City rental values remained stable at GBP70 per sq ft.

Midtown and Southwark office take-up was 2.3 million sq ft, down 21.1% on the preceding year, while availability at 31 March 2017 was 2.5 million sq ft, slightly ahead of the ten year average. CBRE reported prime office rents in Southwark remained stable at GBP62.50 per sq ft with Midtown office rents reducing to GBP76.50 per sq ft from GBP80.00 per sq ft a year earlier.

Investment markets: Central London office investment activity was volatile in 2016. Activity slowed in the months leading up to the EU referendum and remained muted in the months immediately thereafter, barring a small number of forced sales by UK open-ended funds experiencing redemptions. However, following the significant weakening in sterling and reductions to both UK interest rates and bonds yields, activity returned to more normalised levels during the last quarter of 2016. In total, investment volumes were robust with CBRE reporting GBP13.1 billion of deals in 2016, a reduction of GBP3.0 billion on 2015, albeit in line with the ten year average. In the first quarter of 2017, investment transactions in central London totalled GBP4.9 billion, an increase on the last quarter of 2016 as investor sentiment remained robust, particularly at the prime end of the market with strong liquidity in large lot size City office properties.

Overseas investors continue to be the largest buyer constituency, accounting for 70% of transactions over the 12 months to December 2016, with Asian investors particularly active. The depreciation in sterling has added to London's attractiveness and it has maintained its reputation as a safe investment haven for international investors seeking to diversify away from their domestic markets. As we reported last year, strong competition for limited stock had driven investment yields for office properties to record lows. Subsequent to the EU referendum, prime yields adjusted upwards by 25 basis points as investors approached pricing with more caution (West End and City rising to 3.75% and 4.25% respectively). However, in the first quarter of 2017, the strength of demand for City offices reversed this outward movement returning the prime City yield to 4.00%, unchanged from March 2016.

2016 proved to be strong for retail investment volumes, with GBP2.2 billion of turnover broadly in line with the five year average of GBP2.3 billion. As a result, prime yields remained firm during the year at 2.25% on Bond Street and 2.50% on Oxford Street.

The central London residential market continues to be muted as increased stamp duty rates, over-supply concerns and cooling measures implemented in some Asian international markets continue to weigh on demand. Whilst transactional activity picked up in the last quarter of 2016, helping to deliver year-on-year house price growth of 1.6%, so did residential construction starts. As a result, the outlook remains challenging.

Weight of money continues to support yields: The excess of equity capital to invest over commercial property available for sale across central London has remained high (estimated at GBP39.5 billion versus GBP5.3 billion respectively) as a number of international investors, particularly high net worth individuals, looked to deploy capital in the London market immediately after the EU referendum.

Whilst London real estate continues to offer relative value in a global environment where yield is scarce, we expect to witness some further modest expansion of prime yields in the medium term given the rental outlook, as the economic uncertainty persists as the UK negotiates its exit from the EU. For some secondary properties, we are seeing additional further upward pressure on yields as buyers look to discount prices to reflect the greater risks these assets possess.

Yield expansion tends to occur ahead of falls in rental values towards the end of a property cycle. With yields moving out last summer, we would expect rents to follow and, therefore, values to reduce.

Our lead indicators have weakened: Given the cyclical nature of our markets, we actively monitor numerous lead indicators to help identify key trends in our marketplace. Over the last 12 months, we have seen our property capital value indicators weaken. Whilst investment activity in the central London commercial property market is robust and the real yield spread over gilt yields remains supportive, yields increased modestly in 2016 and we expect this trend to continue for more secondary properties. Moreover, although forecast rates of economic growth and business confidence levels bounced back from immediate post referendum lows, they remain lower than this time last year. Therefore, we expect further rental value declines over the next 12 months.

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Hugh Seaborn, chairman, TR Property: The UK has performed better than many commentators expected but there are clear risks due to the uncertainty of the outcome of negotiations for the UK's exit from the European Union. Our concern is that businesses will be potentially less able to commit to longer term investment (such as new leases) without clarity on key aspects such as potential trade barriers and cross border supply chains. For similar reasons it is possible that there will be a deferral of the development cycle resulting in reduced speculative construction starts.

Expectations of global growth continue to improve. Although bond yields have risen as a result and there have been some inflationary response, they remain at historically low levels. In this context the income characteristics of real estate coupled to the emergence of economic growth which provides an environment for rental growth, will remain attractive to investors.

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Marcus Phayre-Mudge, manager, TR Property: UK commercial property transaction volumes were, unsurprisingly, considerably lower in 2016 at GBP46.5bn than the record year of 2015 (GBP66.3bn). What was encouraging was the pace of recovery post the summer. In fact Q4 2016 volumes were 31% ahead of Q3 and the highest quarterly figure of 2016. Investors had clearly been reluctant to engage prior to June but even with the uncertainty created by the outcome they have subsequently committed. The weakness of Sterling has played its part, particularly in Central London where transaction volumes doubled between Q3 and Q4 and international investors accounted for more than 80% of volume. However the slowdown ahead of June did drag overall London transaction volumes down to 16% below the five year average.

UK institutions have been net sellers, particularly the open-ended funds whose combined portfolios are significant at c.GBP35bn (this compares to the entire UK listed sector's value of cGBP65bn). The post Referendum redemption 'debacle' resulted in forced sales in the immediate aftermath. Collectively these funds have continued to be net sellers, building substantial cash positions to cope with their structural liquidity concerns. Such high cash positions are a drag on performance but it is encouraging that the FCA have recently published a paper with recommendations on potential investor safeguards within these structures.

Regional markets were encouragingly busy with volumes ahead of the five year average. We also saw international investment in regional markets at an all time high with GBP5.3bn of single asset deals. Another significant cohort of buyers has been the UK local authorities. Fuelled by access to cheap finance from HM Treasury through the Public Works Loan Board they have been attracted by the high margins providing them with a valuable income stream. Investment by English public sector bodies reached GBP1.2bn in 2016 alone.

The capital movement of the IPD All Property Monthly Index saw a fall of -3.7% in the six months to the end of September. However this correction reversed with a gain of +2% in the six months to March 2017. The initial yield has moved modestly from 4.9% in March 2016 to 5.3% in March 2017 and this reflects the ongoing demand for the asset class. Although transaction volumes are lower overall than last year, the pick up post the Referendum is crucial evidence as to the health of the market.

Although we don't have the same depth of transaction data for much of Europe, we do see clear evidence of yields tightening in core city centre office markets, prime shopping centres and logistics. Funding remains liquid and at attractive rates ensuring that acquisitions are highly cash flow generative. With rents recovering in so many of these markets the ability to buy rental growth coupled with a cushion of initial income is an attractive proposition. Bond yields are rising but from extremely low levels and remain historically subdued. The ECB has reduced its bond buying programme and will undoubtedly reduce it further in the coming months but stable bank margins and bond spreads illustrate the appetite to lend to high quality real estate even in these politically charged times.

Offices: Take up of space in Central London was, as expected, lower than in 2015. The City saw total take up of 5.8m sq ft which was 21% below the previous year but still 6% ahead of the ten year average. The West End was more positive at 4.0m sq ft, just 9% below 2015 but 7% ahead of the ten year average. Tech and Media firms continue to dominate and this is set to continue as the financial services sector grapples with its post Brexit location requirements. Our concerns remain focused on the City as opposed to the West End or Midtown. It should be noted that the largest single acquirer of space in the City in both 2015 and 2016 was WeWork, a new entrant to the UK serviced office market with a successful track record in the US. In 2016, they acquired 345,000 sq ft (6% of all take up) on top of 550,000 sq ft in 2015. Serviced office occupiers have always been a key part of any core office market providing flexibility but when they are the single largest driver of demand we see that as a risk. The better news remains the lack of supply and the pre-let status of the development pipeline. This theme of benign supply runs through most markets and the City is no exception. The good news is that over 30% of the 2017-2020 pipeline is already pre-let with new build completions of c2.5m sq ft for the next three years.

The dynamics in the West End remain stronger, both in the context of a broader tenant base which is less exposed to the regulatory difficulties of doing business outside of the European Union but also from a net supply perspective. Although supply rose in Q4 2016 with some high profile completions and vacancy reaching 3.9%, (its highest since 2013) over 50% of all completions set for 2017/18 are pre-let. The recent commitments by global tech giants, such as Facebook and Apple as well as newly listed Snapchat, continues to reinforce London's dominance for Tech and Media who accounted for 35% of all take up.

Most commentary on UK office markets is directed towards Central London but the health of both London's hinterland and the big 6 key regional cities are crucial national indicators. For the fourth year in a row office take up, ex Central London, has surpassed the long term average. An impressive statistic given the political uncertainties. Importantly, supply levels have continued to fall with speculative development unable to match take up particularly when combined with the impact of Permitted Development Rights (PDR). PDR allows owners of commercial property (principally offices) to convert their buildings into residential regardless of the local planning authority's stance. The continuing demand for new, state of the art office space has driven pre-lets to an all time high across the regions, 44% of the 3.6m sq ft is pre-let and rents are responding with Cardiff now over GBP25 per sq ft and Birmingham exceeding GBP32 per sq ft.

Investors have also taken note and 28% of the UK's total office investment turnover was regional, well ahead of the 10 year average of 23%. International investors are not confining their interest to London and high profile purchases such as Green Park in Reading acquired by Mapletree (Singaporean based) for GBP560m and HSBC buying parts of Brindley Place, Birmingham's premier city centre office location for GBP260m are testament to this.

Paris continues to see robust activity with the 2016 Ile-de-France lettings reaching 25m sq ft, 7% ahead of 2015. Within such a large geographical area as Paris there are always huge variations in performance and 2016 was no exception. The core central market (Paris Centre West) performed very well with vacancy now at record low levels (3.1%). The most encouraging statistics were from Southern Paris and La Defense where a number of large transactions (defined as over 50,000 sq ft) were crucial. Although vacancy remains over 9% in La Defense the amount of new build space is much smaller and we are confident that this will support rents near term. Madrid is a good example of a recovering market. Take up was slightly lower in 2016 than 2015 but the political environment must shoulder at least partial responsibility and therefore we are positive that 2017 will see an improvement given greater political stability. Whilst we are confident about the improving Spanish economic outlook which will directly impact the Madrid office market, our concern is supply. The city has an overall vacancy rate of 12.5%, there is over 10m sq ft of space available for immediate occupation. A significant amount is in tertiary locations but even in the core we need to see strong take up to reduce availability. The worry is growth in supply with five high quality refurbished buildings amounting to another 330,000 sq ft. coming onto the market in Q4 2016 alone.

Stockholm continues to astonish with MSCI data showing capital growth of over 13% for the central markets driven by both rental growth and yield compression. Vacancy remains below 7% with new build a tiny proportion of that.

Retail: The retail sector continues to be buffeted by the structural headwinds of multi channel retailing, a subject which has been aired many times in previous reports and will, no doubt, continue to feature for many years to come. Quite simply the way we all shop is now constantly evolving as technology and fulfilment offers increasing ways of satisfying our retail demand without venturing to a shop - unless we want to. Increasing those visits is the sole aim of shopping centre landlords as they seek to persuade retailers that a physical presence in multiple locations is an economically sound strategy.

The UK continues to have the highest penetration of online sales as a percentage of total sales (ex food and fuel) at 15%, it is also growing at 15% per annum when total sales are growing at 2%. Online is, therefore, continuing to take overall market share from physical stores. As identified in the interim report the rest of Europe's online market share is much lower than the UK. That is not to say they won't catch up, we think that is inevitable but that landlords appear to have more time to develop strategies with tenants. The other safety net for European landlords is that overall costs for tenants (the occupancy cost ratio) is lower across much of Europe than the UK.

Another rapidly pressing issue which is impacting UK retailers (and therefore shopping centre landlords) is the burden of consumer credit which has been growing at over 10% over the last year (BoE) and stands at a record GBP196bn. With interest rates at historically low levels and the resumption of real wage growth such amounts, whilst huge, are sustainable. However, inflation caused by rising food prices and the rising costs of imports due to weakened Sterling will mean that real as opposed to nominal wage growth will be negative over the near term. In addition, house prices (ex Central London) have risen consistently since 2011 and the UK house price to income ratio is almost back to the 2007 peak of 4.5x. None of this is good news for retailing.

Across Continental Europe the average level of personal indebtness is much lower and whilst real wages are not rising fast, we have seen dramatic reductions (albeit from a poor starting point) in levels of unemployment particularly in Southern Europe which is clearly helping consumption. Germany and Sweden have both experienced consistent real wage inflation as their economies continue to improve.

The exception in the UK has been Central London where the mix of leisure, retailing and dining has proved highly resilient. The weakness of Sterling has turbocharged tourism. London hotels, retailers and restaurants have all been beneficiaries.

One strong positive for retail landlords has been the dramatic reduction in supply of additional shopping centre space. The market is always eventually self correcting and speculative development dries up in response to weak demand. This year the only two new centres to open are Oxford and Bracknell. Both have large wealthy catchments in need of good quality in town retail offerings.

Distribution and Industrial: MSCI's UK Monthly index recorded capital growth of 3.3% in the Industrial/Logistics sector for 2016 compared to -3.2% for offices. We fully expect this performance gap to continue as rental growth accelerates for distribution assets. Investors are chasing the asset class and yields are falling particularly where there is perceived shortage of sites as well as snapping up large sheds on the principal distribution networks/hubs. Drilling into the data in more detail reveals that capital growth for London industrial/distribution rose 8% and for the South East was 6.2%.

The growth in online retailing continues to drive a reorganisation of the distribution landscape. Amazon alone has been responsible for 23% of the entire take up in UK distribution space in 2016 helping to drive a surge which reached 34.6m sq ft. Online retailers directly accounted for 29% of this as we witness the transformation of retailing from 'shops to sheds'. Supply continues to struggle with the pace of demand and it reached its lowest ever level of 22.7m sq ft in Q4 2016. Although new speculative supply has pushed this figure back up to 27.6m sq ft in Q1 2017 we still see a market where rents continue to rise particularly for units offering proximity to larger conurbations.

The picture across Continental Europe is much the same.

Residential: The performance of the residential sector in the UK needs to be separated into Central London and remainder. The change in stamp duty thresholds combined with Osborne's efforts to remove the tax shield for higher rate payers owning 'buy to lets' has impacted growth particularly in higher value markets. The Referendum result compounded concerns about demand from EU nationals employed in financial services just as the new build Central London market experiences a spike in supply. Whilst we continue to have no exposure to luxury apartments (GBP1,000 per sq ft and above) we do remain confident about the ability of house builders to sell in more affordable locations. CLS announced (just post our year end) the sale of their entire Nine Elms site for GBP148m, 40% premium to the December 2016 valuation. The purchaser was a Hong Kong listed developer and the deal provides a useful reminder that, particularly when viewed from afar, the break from Europe may not be viewed quite so negatively.

Outside of London residential markets continue to be robust but with real wages stagnating and the elevated level of consumer indebtness we remain cautious and have very little exposure. The private rented sector (PRS) remains a market which will grow but we prefer to own those firms creating the product rather than the underlying asset which by its nature is very low yielding.

German residential has been a firm favourite for many years and at the underlying asset level performance remains robust with occupational demand remaining firm, continuing to be buoyed by both domestic household growth and net migration (1.2 million people in 2015). Investor demand has also remained strong and prime Berlin has set a new record price level of 30x the gross rent (a year ago the level was closer to 26x). The average capital value per sq ft has risen 35% in the last year but it still remains relatively affordable when compared with other major European cities.

Elsewhere in Europe we see continuing growth in residential values. Sweden has shown impressive capital growth, particularly in the metropolitan areas in spite of the introduction of macro-prudential tools by the central bank (aiming to restrict borrowing availability).

Hotels and Self Storage: With the ongoing recovery in many European economies we have focused our attention on the more cyclical sectors particularly hotels and self-storage. In the hotel sector we are not seeking exposure to pure operators but businesses which blend ownership and management. Focusing on where they have the ability to manage and improve a hotel but also where the bulk of the income is from leased assets. A consequence of the rise in terrorist atrocities has been the collapse of tourism in North Africa and Turkey. Foreign visitors to Turkey are down 30% in the twelve months to February and the statistics for Egypt are even worse. Northern Europeans are not abandoning their summer sun but instead 'safecationing' with bookings massively ahead of last year in Greece, France, and Spain.

Our self storage focus remains very UK centric due to a lack of opportunity in Continental Europe. Our positive view is driven by an expectation of a steady increase in business usage of short term storage space for 'last mile' distribution purposes. The irreplaceable network of urban and suburban locations bodes well for demand as online fulfilment delivery times shorten further.

Debt and Equity Capital Markets: The era of unorthodox stimulus by all European central banks continued throughout the period. Whilst markets have anticipated a continuing reduction in the amount of asset purchases by the ECB through 2017 the current level of support has allowed many companies to continue to issue debt at record low cost. Not surprisingly the period saw record debt issuance in our sector. However much of this was debt restructuring as companies, particularly European ones, took the opportunity to retire existing bonds and fix for longer periods at these historic low levels. A strategy we applaud wholeheartedly and one which some of the larger UK companies should heed before it becomes more expensive. In total pan European property companies raised EUR19.3bn in the twelve months to March 2017 compared to EUR13.7bn in the previous period. The average LTV, as calculated by EPRA, the industry trade body, has continued to fall over the period which is reassuring.

Unsurprisingly given the geopolitical risks of multiple elections across Europe and the Referendum in the UK, equity capital markets were more subdued with GBP5.7bn raised through rights issues and placings but without a single new IPO into the benchmark index.

Conclusion: Property is a pro-cyclical asset class, without economic growth market rents can't rise. Whilst that is an obvious point it is worth reiterating as investors have become overly (in our view) concerned about the threat of rising bond yields. Given the improving economic backdrop across Europe, bond yields need to begin the slow path to normalisation following the almost decade long effort by central banks to reduce the cost of debt through ultra loose monetary policy. The economic survey data amongst the major euro-zone economies has converged, they are all benefiting from low borrowing costs, good debt availability, a competitive Euro/Dollar rate, a pick up in global demand and improving labour markets. Headline inflation has ticked up but core consumer prices and broad money growth remain muted. If core inflation remains below 2% then the ECB have the latitude to elongate the 'glide path' of reducing their bond buying programme. Few are predicting an increase in the base rate before late 2018 or even into 2019. Meanwhile the gap between property yields and real interest rates remains at an all time high. The combination of the improving economic outlook within Continental Europe, the reduction in short term political risk and the modest performance of property equities (they are not overvalued) reinforces our positive outlook.

The UK has performed much better than many observers expected since the Referendum. Values of commercial property as measured by the MSCI/IPD data remain robust. The very high proportion of international buyers in the Central London office investment market is both a positive (they see an opportunity) and a negative (how far is currency weakness the driver). We are concerned that demand, particularly from financial services, will weaken further as negotiations with Brussels drag on. The good news is that equity prices have quickly adjusted and now represent fair value. The outperformance of the UK economy versus most European economies over the last nine months has been strong but that gap will narrow. The UK has experienced a credit boom and the UK consumers remain far more indebted than their Continental counterpart. We think stagnating real wage growth will be an additional headwind for retail sales growth.

Property will continue to be a valuable source of income for so many investors and whilst we see risks to some sub-sectors capital growth prospects, there are many parts of the market both in the UK and Continental Europe which we view as attractive opportunities for growth. Underpinning the vast majority of markets is the benign backdrop of low levels of speculative construction in commercial property markets and coupled with the strong financial position of most listed property companies leads us to feel confident that the asset class will remain a relative outperformer.

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LondonMetric Property: Retailers are therefore increasingly committing more of their capital expenditure into improving the efficiencies of their fulfilment operation with more investment in digital infrastructure and distribution warehousing. Today it is estimated that retailers and third party logistics operators account for 60-70% of all distribution warehousing real estate take up.

The benchmark continues to be set by Amazon which doubled its UK logistics footprint in 2016 and accounted for c.20% of take up in 2016. The urban logistics infrastructure that they are building is evidence of the importance they attach to same day, even same hour, delivery, something that the rest of the market will also have to address to stay competitive.

The impact of this evolution on traditional retail has never been more pronounced and, as retailers seek to 'right size' their store portfolios, their demand for physical retail space falls. There is clearly going to be pain felt across the sector as retailers continue to adjust to the growth of online shopping. Department stores and apparel retailers feel the most at risk, and whilst the stronger destinations will inevitably fare better, even the owners of super-prime locations will not be immune, as they have to deal with increasing polarisation, impending lease expiries, building obsolescence and/or tenant defaults.

The property markets are increasingly aware of the shifting tectonic plates and are beginning to price in these changes.

Urban logistics is an essential part of modern distribution and enables the retailer and parcel operator to get closer to its point of delivery and fulfil orders quickly. Operators are increasingly looking to move closer to their end customer, albeit there are some severe supply constraints.

The functionality of urban logistics has evolved from a location which stored products previously to an operation today that is designed to maximise speed of delivery. Rising consumer expectations have reduced average delivery times down from 28 days to just a few days, with next day delivery now common.

Looking forward, delivery times are likely to fall further as expectations grow and more demanding younger shoppers, in particular millennials, account for a larger proportion of retail spend. Half of shopping by millennials is expected to be online by 2019.

Vacancy across the urban logistics market is already very low and new supply is very limited, especially around the major UK cities. According to the UK Warehousing Association, there has been a 46% reduction of industrial space across Greater London since 1980. This is expected to fall by a further 30% over the next 20 years.

The sustained low interest rate and uncertain environment has driven strong demand for long duration assets with stable cash flows that are less sensitive to economic cycles.

However, not all income is the same. Whilst strong and sustainable income with structural support will endure, weak and over-rented income will be exposed as structurally challenged assets see their income shortening. We are therefore increasingly wary over the pricing of some assets where cash flows are at risk from continuing defensive capital expenditure and ongoing structural change. The yield gap between the very good and the poor assets has arguably compressed too far. As such we believe that structural changes will put some of these capitalisation rates under outward pressure.

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Matthew Oakeshott and Louise Cleary, managers, Value & Income: Average capital values of UK commercial property bottomed out in September 2016 after a sharp post-Referendum fall over the summer and early autumn and have since been edging higher month by month. Values are still slightly down on balance since June, with offices and retail property underperforming and the industrial and alternative property sectors up. The IPD Annual Index for 2016 as a whole showed a positive total return of 4%, with average capital losses of 1% outweighed by rental income of 5%.

Capital values of office and retail properties fell by 1 1/2 %-2%, on average, over 2016 as a whole with industrial and leisure property gaining about 3%. That divergence in sector performance has continued to widen in 2017. Rental values rose by about 2% in 2016 on average, with industrial/warehouse and office property outperforming retail over the year as a whole. But office rental growth has slowed right down since the Referendum, and has turned negative in London. Within all sectors there is an accelerating flight to safety, with property on long leases strongly outperforming shorter-let, riskier stock - in sharp contrast to the 2013-15 bull market. This trend has helped capital values of well-let supermarkets to grow again after a painful period of underperformance.

It is still too early to form a firm view on the long-term effect of the June Referendum result on the commercial property market, as on the economy as a whole.

The devaluation of sterling gave a short-term boost to domestic tourism, manufacturing and exports, but the pain is only now coming through in import price rises and cuts in real incomes. Consumers are deeply in debt with the savings ratio down to a 50 year low, and they are now starting to retrench, probably quite hard. The sharp falls in medium and long-term interest rates in the third quarter, which have only been partly reversed, gave immediate support to the safer, long-leased types of property, which were also the most saleable by property unit trusts under severe short-term redemption pressures.

Since last June there has been far more evidence of transactions for valuers to analyse in some parts of the market than others. Parts of the commercial property market are still in limbo, with a wall of potential sellers, especially the U.S. distressed debt ("vulture") funds, and buyers few and far between. So the IPD and agents' indices are painting too optimistic a picture of the market - until more properties change hands - for most shopping centres, larger secondary shops and retail warehouses, and short-leased City and South-East offices (where property companies' share prices are discounting further falls in values). Net effective rents are also coming under pressure in these sectors, with rent free periods growing and leases shortening; the evidence of this will feed through into valuations soon. But commercial auction values and volumes have been buoyant. Private investors remain hungry for yield at the smaller (typically sub GBP2 million) end of the market, and are switching out of residential buy-to-let investments into commercial property following tax and regulatory changes. Local authorities are also active buyers of all sorts of provincial property, often outside their own areas, with taxpayers' money borrowed from the Public Works Loan Board. But they have no coherent investment strategy except raising short-term income to lessen the impact of public spending cuts, so this rush to spend will end in tears and the Treasury should close the PWLB funding window soon.

There is also growing upward pressure on capital values and a keen appetite for safe long-term, especially indexed, property income, from pension funds, insurance companies, charities, and risk-averse private investors. The penny has dropped at last with investors that safe property's unprecedently high yield margins over conventional and index-linked gilts cannot last, and that the 15% sterling devaluation is now feeding through fast into consumer prices. The Consumer Price Index rose by 2.3% over the twelve months to March, with the Retail Price Index up by 3.1% and likely to hit 4% later in 2017.

These conflicting pressures on different property types are making 2017 a fascinating year. On balance, capital values may rise by about 3%, in line with inflation, with the office and retail sectors down and the industrial/warehouse and the growing alternative sectors (leisure, pubs, hotels, student housing and motor trade) well ahead. Rental values may be flat on average, with the same sectors rising and falling as for capital values. Total returns on the IPD Annual Index may therefore average around 7%-8%, but with a much wider dispersion than usual. The best single predictor of relative performance this year may be a portfolio's weighted average unexpired lease length (WAULT), currently about 7 years on the IPD Monthly Index (11 years on the Annual). A low void rate against the IPD's 8% will also help portfolios to outperform.

In an unusually uncertain investment world, with significant inter-related geopolitical risks on top of Trump and Brexit, one of the safest havens must be UK commercial property on long, preferably index-related, leases with high yield premia over conventional and index-linked gilts. Safe property will rise in value in the UK in 2017, risky and over-rented property let on short leases or to shaky tenants will fall. Long-term property investment portfolios should stay heavily weighted to the safe side of that divide for the foreseeable future.

Property - Healthcare

Simon Laffin, chairman, Assura: Although the NHS and primary care policy consensus across all mainstream parties is now more positive than ever before, we remain frustrated by the slow progress in transforming policy into meaningful investment in primary care premises. It looks as if the general election will result in a continuity in basic primary care strategy by whichever party wins it. Everyone seems to agree that better healthcare hinges on more care being provided in the primary care sector. Having more doctors and better leveraging of their skills through ancillary healthcare professionals will require more and better premises.

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Jonathan Murphy, chief executive, Assura: Providing a wider range of health services closer to home, from a broader range of primary care professionals, is both more convenient for patients and significantly less expensive for the NHS. Without the right buildings, however, the plans cannot be delivered. The outdated and unfit converted residential stock of surgery premises must evolve into purpose built medical centres, with the capacity and the capability to meet the challenges the NHS will face in the future.

Given the complex pressures on our National Health Service, it is perhaps no surprise that the prosaic matter of bricks and mortar rarely makes it to the top of the policy agenda. However, in the past year the importance of improving the quality of physical infrastructure has been explicitly recognised as being part of the solution.

Local STPs delivered this year set out the optimal design for services in 44 geographical areas. As ever, there is a huge variety in the detail of the documents. There is a common thread across all the plans that the primary care estate will be a crucial enabler of what they are trying to deliver.

The plans highlight the need for a significant increase in the primary care workforce - with the potential scope going significantly beyond the recruitment of new GPs. More community pharmacists, nurse practitioners, physician associates and mental health therapists will operate from the primary care setting; however, if primary care premises do not have the capacity to host them, these desperately needed boosts to staffing levels simply cannot be achieved.

A larger workforce represents a shift into a greater provision of primary care at scale. This reflects that larger scale practices can more easily manage extra services and extended hours, as well as potentially delivering greater efficiencies in operations and back office functions. To this end, there are a number of different ways that GPs can work together: through formal alliances, federations and clusters of merged practices. All models of working at scale rely upon larger and more modern buildings.

Yet the level of government investment in primary care premises remains at historically low levels. The Estates and Technology Transformation Fund, offering GBP900 million of much-needed investment for both GP premises and surgery technology, has not resulted in significant progress for buildings. Demand for funding far outstrips supply, and the pace of projects cannot hope to match this demand. We must wait to see how much of the pledged GBP325 million of additional capital for the most advanced STPs filters through to improve primary care estate, and we await more detail on NHS England's vision to create 150 urgent treatment centres to take the pressure off A&E units.

Of course, health policy and health economics are extremely complex, so we engage regularly with the NHS and government to make the case for further investment in primary care infrastructure, both through our expanding in-house capability and through our chairing of the British Property Federation's Healthcare Committee. We believe that our model offers the best solution to the NHS's capital problem for primary care estate, so we work hard to ensure policymakers have a clear understanding of the benefits it can bring.

There is no doubt that the policy backdrop is more positive than it has been for a number of years. However, there is a risk that this fails to convert into significant investment on the ground. In recent years investment has dropped to historically low levels despite a number of seemingly positive central initiatives.

With a general election just a few weeks away, all eyes will be on the next steps for NHS policy after 8 June. Whatever the make-up of Parliament, however, the fundamentals for primary care estate will remain steadfast: to reduce pressure on hospitals, improve access to general practice and help the people who rely on health services the most to reach them closer to home, GP surgery buildings and primary care premises must be fit for the future.

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MedicX Fund: The need for new modern primary care infrastructure is increasing in both the UK and Republic of Ireland as a wider range of clinical services are required to respond to demographics and society's demand for comprehensive local services available at convenient times.

Politically, cross-party support remains in place for primary care and its front line pivotal role in providing care. Transforming the NHS through improved access to services, better working efficiency and implementing new ways of working are expected to remain as government priorities, which will require investment in new, more efficient and sustainable premises.

Transformation of healthcare is being led by the HSE strategy in the Republic of Ireland, and by GPs, commissioners, the NHS and local councils in England. The 44 Sustainability & Transformation Plans (STPs) provide some clarity on premises requirements as healthcare becomes more integrated and the health budget is shifted proportionately towards primary care.

The Government has provided an additional GBP325m to the NHS where STPs have made the biggest progress in putting in place clear clinical strategies across health and social care, which will deliver better outcomes for patients. In addition, they have identified a number of STP areas where potential Accountable Care Systems are evolving which will lead to a locally integrated health system. In addition to this initial tranche of money there is a promise of more in the Autumn budget.

As well as rising clinical demand and transformation from Government and the NHS, it has been well publicised that pressures on GPs from increased regulation and a need for more GP numbers to deliver longer hours of service are making an impact. The pace of change is accelerating with GPs working more collaboratively with more Federations, Provider Groups and Super Practices emerging which is another driver for new premises, fit to deliver services for larger patient numbers.

In the Republic of Ireland, although the market is less mature, similar demographics and political desire are enabling the HSE to drive forward its programme of putting in place a modern purpose-built estate to deliver provision of world class healthcare.

Overall, the primary care investment sector has continued to see further yield compression during the period due to investor demand and limited supply, further reinforcing the attractiveness of the asset class.

Market rental growth has continued to remain challenging for the sector due to a lack of new schemes to set new rental evidence. The increasing demand for improved GPs premises for the reasons described above is expected to drive forward approvals for new schemes, which in turn, will help drive rental growth. In addition, UK RPI inflation increased 3.5% over the twelve months to 30 April 2017 providing another strong indication of upward pressure on market rents.

Self-storage

Big Yellow: In the recently published 2017 Self Storage Association UK Survey, only 42% of those surveyed had a reasonable or good awareness of self storage, in line with findings from our own research. Furthermore, only 6% of the 2,075 adults surveyed were currently using self storage, or were thinking of using self storage, in the next year. This indicates a continued opportunity for growth and with increasing use of self storage, together with the ongoing marketing efforts of everyone in the industry, we anticipate awareness will grow.

Growth in new facilities across the industry has been largely in regional areas of the UK and in particular in smaller towns. In London in the last year, we believe there were eight new store openings.

The Self Storage Association ("SSA") estimates that the UK industry is made up of approximately 1,430 self storage facilities (of which 317 are purely container operations), providing 42.2 million sq ft of self storage space, equating to 0.6 sq ft per person in the UK. This compares to 9.1 sq ft per person in the US, 1.8 sq ft per person in Australia and 0.1 sq ft for mainland Europe, where the roll-out of self storage is a more recent phenomenon (source: FEDESSA European Self Storage Annual Survey 2016). 390 self storage facilities in the UK are held by large operators (defined as those managing 10 facilities or more), which represents 35% of the total number of self storage centres (excluding container operations), but the SSA estimate approximately 50% of total capacity. Given the dominance of the larger brands in the South East, we would expect the proportion of revenue earned by the top five operators to be in excess of 60% of the annual industry turnover of GBP500 million.

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IMPORTANT INFORMATION