February 2015

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.

In this month's roundup:

Global (thoughts from British Assets, Bankers, F&C Managed Portfolio)

UK (thoughts from BlackRock Income & Growth, Henderson Smaller Companies, Diverse Income, Aberforth Geared Income)

Europe (thoughts from Jupiter European Opportunities)

Emerging Markets (thoughts from Advance Developing Markets)

Russia (thoughts from JPMorgan Russian)

Vietnam (thoughts from Vietnam Holding with particular emphasis on the impact of the falling oil price on the country)

Commodities (thoughts from Baker Steel Resources Trust)

Debt (thoughts from TwentyFour Select Monthly Income, Henderson Diversified Income)

Property (thoughts from Safestore with particular emphasis on the self-storage market in the UK and France)

European Property (thoughts from Invista European Real Estate)

Global *(compare Global funds here)*

Global economic growth will likely remain positive but muted over the next three to six months. However this masks considerable disparity amongst regions and even countries, as US and UK momentum continues whilst continental Europe and certain emerging economies face headwinds. It remains difficult to see where inflationary pressures may emerge and, consequently, it is expected that monetary policy will remain accommodative. Even in economies where growth is pushing down unemployment, policy makers remain reluctant to increase interest rates amid fears that sentiment remains fragile. This backdrop should continue to be supportive of risk assets, such as equities and corporate bonds, provided companies are able to produce decent earnings growth to support valuations which are no longer cheap.

The consensus among central banks to support growth via asset purchase programmes and fiscal stimulus will likely start to fracture as policy makers in the US and UK anticipate rate rises. On the continent, renewed deflationary fears support continued action although the European Central Bank has thus far stopped short of full-on quantitative easing. Recent Japanese GDP figures disappointed those who believed Prime Minister Abe's "Three Arrows" policies to be having a stimulative effect and it is likely that further structural reform is needed to sustain growth. Finally, in China - one of the mainstays of global demand in recent years - growth is slowing as the economy adjusts from being export-led to one more driven by domestic consumption. Against this background of mixed growth, it should also be noted that sentiment over the next six months will also be dominated by oil as OPEC production continues despite a near 50 per cent price drop in price. At the same time, geopolitical tension in Eastern Europe and the Middle East will continue to affect market performance. *From Lynn Ruddick, Chairman, British Assets*

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The global economic outlook is more polarised than for some time. Strong growth is being witnessed in both North America and the United Kingdom, whilst Continental Europe and many emerging markets continue to suffer downgrades to growth expectations. Japan seems to oscillate on a quarterly basis between growth and recession. Headwinds of deflation are now apparent to all central banks, albeit the policy response is far from uniform (if indeed it is in evidence at all). Corporate profit expectations for 2015 are slowly being reined in as these competitive pressures create an unhelpful backdrop for earnings growth. Valuations, even with flat market levels, are becoming more stretched as corporate profit warnings become more prevalent.

Against this broad macro-economic scenario it is difficult for even the most optimistic of Chairman to be more than cautiously optimistic for the year ahead. If policy makers do halt the advance of deflation, if the decline in the oil price does help western economic growth, if China is able to maintain its current GDP growth rates and if the various elections result in investor friendly governments, then we could witness better markets next year, especially in the second half. The problem remains that there are a lot of 'ifs'. Patience and careful stock consideration will again be a key requisite for outperformance in the year ahead. *From Richard Killingbeck, Chairman, Bankers*

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The magnitude of the fall of the oil price has certainly caught markets by surprise. Clearly it is bad news for oil producers and good news for oil consumers, basically Europe, Asia and the US. It should be helpful for growth which is important for Europe where the ECB have just cut their growth expectations for the Euro zone in half for 2015 to 1% pa. It will also have the effect of reducing inflation in the Euro zone which may well turn negative during the first half of 2015. Lower energy prices are the equivalent of a tax cut, particularly for the US where 70% of the economy is consumer based. This underpins the outlook for growth in the US which could well strengthen further in 2015 and bring with it the likelihood of the first interest rate increase for

many years. The UK should also do well though the prospect of a rate increase is somewhat further out. The area of most concern remains Europe.

Prospects for corporate earnings and dividend growth are good in the US, reasonable in the UK and less clear in the Euro zone. Equity markets, particularly in the US, have come a long way; however bull markets tend not to end until either valuation levels massively overshoot fair value or there is premature monetary tightening, of which there is no sign yet. There should be more to go for in this market cycle, though there is little room for error. *From Richard M Martin, Chairman, F&C Managed Portfolio*

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UK *(compare UK funds here)*

Economic growth prospects in the world have shown market variation in recent months. Whilst the US and UK have shown relatively strong growth, activity in the Eurozone, together with China and other emerging markets has slowed. The recent precipitous fall in oil and gas prices is likely to provide a boost to businesses with high energy costs. However, for producers such as Russia, which is already facing significant recessionary pressures, the negative impact will be severe. The subdued outlook for inflation and the lacklustre/negative growth in many parts of the Eurozone can be expected to prolong the current period of extraordinarily low Interest rates.

Given the extent of overseas earnings for most UK listed companies, these global factors will continue to drive sentiment as much as more local concerns, including the forthcoming UK general election. It is therefore prudent to anticipate greater market volatility in 2015. *From Jonathan Cartwright, Chairman, BlackRock Income & Growth*

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While the outlook for the global economy has improved in recent years, it remains fragile. Eurozone economic activity remains subdued despite an increasingly supportive policy response from the European Central Bank, whilst in the US the ending of quantitative easing is contributing to uncertainty. *From Adam Avigdori and Mark Wharrier, BlackRock Investment Management (UK) Limited, managers of BlackRock Income & Growth*

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You may have recently read many articles making economic predictions for 2015. The general message was of a positive outlook, predicting that the economy will continue to grow. It is evident that the average person has more money to spend and this is benefiting businesses of all sizes and many key bodies are forecasting growth to be in the order of 2.5%. However, "Obvious prospects for physical growth in a business do not translate into obvious profits for investors," was a frequent mantra of Benjamin Graham and never truer than now. There is uncertainty in the Eurozone and at home, with May's election result being extremely unpredictable, recent figures showing growth in service industries and construction tailing off and the oil price falling dramatically. *From Jamie Cayzer-Colvin, Chairman, Henderson Smaller Companies*

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The period under review has been a more difficult one for equity markets. The outlook remains challenging with mixed economic performance across the globe and the threat of rising interest rates in the UK and US. Politics will again play a big part in the short term with an increased risk of a Greek exit from the EU and an uncertain result from the UK general election in May. On a more positive note the collapse of oil prices will provide a boost to global growth, although certain oil producing economies will see a significant negative impact on their economic performance.

In terms of valuations, over the last 2 years the equity market has gone from being cheap to more fairly rated and is now more in line with long term averages. To see the market make progress we need to see earnings growth accelerate, a situation which failed to happen in 2014 when the wider corporate sector saw minimal earnings growth, partly reflecting sterling's relative strength.

Balance sheets are strong and dividends are growing. M&A activity in 2014 has been subdued. However if corporate confidence improves, M&A will increase, especially as little or no return can currently be generated from cash and the cost of debt is historically low. This is a trend which will help smaller companies in particular as mergers and acquisition activity tends to be focused in this area. *From Neil Hermon, Fund Manager, Henderson Smaller Companies*

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Whilst all companies (including smaller quoted companies) may find the lack of world growth a challenge going forward, smaller stocks have greater potential to buck the wider trend. Finally, many of the smaller quoted companies have better dividend cover than some larger companies, offering greater opportunity for them to increase dividends. *From Michael Wrobel, Chairman, Diverse Income Trust*

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[*Amongst*] mid and large cap stocks, there are some that continue to have attractive dividend growth, but with world growth stalling, many are finding it harder to grow, and some may be vulnerable to cutting their dividends. In contrast, many smaller companies have not been under pressure to pay dividends during the credit boom, so their dividend cover tends to be somewhat higher. However, with interest rates remaining lower for longer, many investors are now asking for smaller quoted companies to consider increasing their dividend distributions. After all, they are in a better position to grow dividends than mainstream stocks. This is in part due to their higher dividend cover, but also often because they have unusually strong balance sheets. Indeed, some smaller companies do buck the wider economic trend and sustain growth too. *From Gervais Williams and Martin Turner, Miton Asset Management Limited, managers of Diverse Income*

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At the global level, the economies of the Eurozone and Japan continue to find growth elusive, while China's rate of expansion has fallen further. Russia's actions in Crimea and the events in Ukraine, together with the Islamic State conflict, have added to investors' nervousness. Closer to home, although the UK survived Scotland's referendum, political uncertainty remains and may undermine a domestic economy that has been one of the better performing among developed markets. While these factors have been in evidence for some time, the new development was the collapse in the oil price, which brings a further set of risks - and opportunities - to the investment landscape.

A contrast to these pressures has been the strengthening of the US economy, assisted by its shale boom. Continued progress in the US should offer some compensation for struggling demand elsewhere, although dollar strength can be problematic especially for emerging markets. In the case of the UK, there are clear signs of improvement, although the recovery has its vulnerabilities. Further austerity is inevitable, irrespective of the hue of the government after May's general election. While ultimately the state of public finances limits room for manoeuvre, it is plausible that uncertainty about the nature of the next government might affect businesses' investment decisions in the early months of 2015. It is unambiguously the case that the UK faces a less clear political and constitutional outlook than has been evident for some time. *From Jonathan Cartwright, Chairman, Aberforth Geared Income*

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From a macro-economic perspective, the world's rediscovered reliance on the US economy became increasingly obvious in 2014. Japan resorted to another round of quantitative easing and the Eurozone continues to flirt with embracing quantitative easing for the first time. However, the US appears to have succeeded in weaning itself off the need for incremental stimulus. The pre-eminence of the US has been reinforced by the transformation of its reliance on the rest of the world for its energy requirements: self-sufficiency, by virtue of the shale boom, appears within reach. The implications of these developments were reflected by financial markets in 2014: US treasury yields, though down over the year, are higher than those of other major bond markets; US equities are at all-time high levels; the dollar has strengthened considerably; and the oil price has collapsed.

It is likely that implications of the US's leadership, while crucial to the overall health of the global economy, will prove painful for some. Such uncertainty comes on top of Europe's and Japan's sluggish performance, heightened tensions with Russia, and an intensification of hostilities in the Middle East. So, as usual, there is plenty for the boards of small UK quoted companies to worry about. And uncertainties also loom for the UK. These are less to do with the economy's direction in the immediate future, which, despite some disappointment with the budget deficit, still seems more akin to the US's than the Eurozone's. More significant is the perpetuation of a period of political and constitutional uncertainty, which started with 2010's coalition government, continued with the Scottish referendum and could persist until 2017 with an EU referendum. This type of risk is not one with which the boards of small UK quoted companies, or indeed their investors, have had to cope for generations.

In spite of these top down concerns, there are signs of a general cautious optimism among smaller companies. This contention is based on the combination of three factors that have been individually addressed above: the pick-up in M& A, the willingness to utilise more fully strong balance sheets, and the continuation of the impressive dividend performance of recent years. While the risk remains that this growing optimism might prove a lagging rather than a leading indicator, it is encouraging that such nascent animal spirits are in evidence.

On reflection, the present situation is not unusual since macro-economic risks of one type or another are ever-present. However, more often than not, there is a disparity between the pessimism of the top-down perspective and the optimism from the ability of individual businesses to adjust and cope. The macro-economic challenges of the global financial crisis were particularly severe, but the experience of small companies, perhaps benefiting from relative nimbleness, again give reason for hope. The Managers take additional comfort from the attractive valuations presently accorded by the stockmarket to many companies. *From Aberforth Partners LLP, Managers, Aberforth Geared Income*

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Europe *(compare European funds here)*

It is somewhat perplexing that a sharp fall in energy costs, resulting chiefly from oversupply rather than lack of demand, should have been taken - initially at least - so negatively by equity investors. Certainly this will lead to a bout of deflation; in Europe it has already happened. But there is good and bad deflation. The latter comes about when consumers (as has been the case in Japan) defer making purchases in the knowledge that such purchases will become cheaper later on. Yet there seems no logical reason why Mr. and Mrs. Average, who are paying considerably less for a litre of petrol than was the case a few months ago, should hoard such a saving rather than go out and spend a little more. In the UK, at least, it appears that wages are at last running ahead of inflation, which should lead to greater confidence on the part of consumers.

However, we also face a General Election [*in the UK*] which, according to the bookies, is likely to result in no single party winning an overall majority and could be followed by a second Election later in the year. As regards Europe, we wait to see whether the European Central Bank does enough by way of quantitative easing (viz. printing money) to satisfy the markets and whether the result of the Greek election hastens the long-predicted breakup of the eurozone with its "one size fits all" business model.

But markets, they say, climb a wall of worry; and if a company invents a mousetrap superior to all others, to paraphrase Emerson, investors will beat a path to their door. *From Hugh Priestley, Chairman, Jupiter European Opportunities*

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Emerging Markets *(compare Global emerging markets funds here)*

2014 proved to be another year of negligible returns for investors in emerging market equities, extending a frustrating period, with the benchmark index essentially range-bound since the start of 2010. Global investors appear to be unexcited and sentiment towards the asset class is lukewarm at best. The headwinds facing the asset class include the impact of the eventual end of ultra-loose US monetary policy, uncertainties over the health of the Chinese economy and financial system, a lack of positive economic or earnings momentum and geopolitical risks in a number of countries.

A more bullish view rests on whether the aforementioned issues are priced in and whether some emerging markets can deliver positive surprises in terms of growth, reform or political change. Earnings growth estimates for emerging markets in 2015 are the most conservative we can recall, with consensus at just 9.6%. Valuations are reasonable with the asset class trading on 10.4 times 2015 earnings. On a price to book basis emerging markets are the cheapest they have been compared with developed markets since 2004, although we would caution that the relevance of these aggregate numbers has diminished as the fortunes of individual sectors and markets have diverged over the recent past. In general, we see an increasingly polarised landscape, with what people perceive to be high quality assets (dividend paying, cash generative, low debt companies) trading at expensive valuation levels while more cyclically exposed companies and many state controlled enterprises trade at seemingly appealing levels of valuation, but in many instances for good reason.

Many emerging currencies have returned to levels at which those economies now look more competitive. JP Morgan's Emerging Market Currency index, which measures the strength of emerging market currencies against the US dollar, recently fell to its lowest level since the index was created almost fifteen years ago.

With regards to how emerging markets fare in a tighter monetary policy environment, historical analysis indicates that emerging market equities typically underperform in the immediate aftermath of the Federal Reserve's first hike, but soon recoup their initial loss. If the rate hike cycle is associated with an improving US economy, then emerging markets should have little to fear.

We are cautiously optimistic but we acknowledge that the environment remains challenging for the medium term. From a bottom up level, we continue to see interesting opportunities to invest in closed-end funds at discounts to net asset value across many geographies. We note that 2014 was the fifth consecutive year in which underlying managers, in aggregate, outperformed their respective parts of the benchmark index. *From Bernard Moody and Andrew Lister, managers of Advance Developing Markets*

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Russia *(compare European single country funds here)*

The risks associated with the Russian market have not been as acute since the financial crisis of 2008/9. The market may have priced in much of the bad news, but with the current degree of uncertainty in the political arena, and the likelihood of negative fallout in the economy, Russian equities may see further downside. On the other hand, our Investment Manager believes that the Russian economy will not collapse in 2015 under the significant pressures of Western economic sanctions, Ruble devaluation and the falling oil price. The Russian market remains cheap relative to other emerging markets, and dividend yields remain attractive relative to historical levels and to bond markets. In this environment, our Investment Manager sees grounds for caution but believes there are good reasons to remain invested. *From Lysander Tennant, Chairman, JPMorgan Russian*

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Sentiment towards the Russian market is overwhelmingly negative at present, as investors focus on the economic fallout from the falling oil price, sanctions and political risk. We believe that given the possibility of further political turbulence and worsening of the economy, there is a continuing risk of further downside in the Russian market, despite cheap stock valuations. Nonetheless we also consider that the fundamentals for economic growth and prosperity exist in the Russian economy.

Further reforms supporting property rights, privatisation and competition would be very welcome but are perhaps unlikely in the current environment. High costs of capital force companies to generate extraordinarily high returns, from which investors with a higher risk tolerance and a longer time horizon will benefit. We believe that the fundamental case for investing in Russian equities is in place and is supported by low valuations and high dividend yields, while remaining cognisant that the current risks of investing in Russia are significantly higher than they have been historically.

Once the negative news has been discounted by the market and there is greater clarity on the political front, we would expect to see an improvement in investment returns. The currency seems unlikely to get substantially cheaper, unless the price of oil falls further, and valuations appear to have discounted much of the bad news. Earnings may stabilise and improve as we see recovery in GDP and potentially the oil price. Perceptions of political risk may erode investor value for some time to come, but we strongly believe that the market is cheap on both historic and relative bases. Whilst recognising an unusually high level of current risks, we believe the market presents an opportunity for the patient, long-term investor who is prepared to accept these risks. *From Oleg I. Biryulyov and Sonal Tanna, Investment Managers, JPMorgan Russian*

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Vietnam *(compare Asian single country funds here)*

In 2015, Vietnam will prepare for the 12th National Congress of the Communist Party of Vietnam, which is expected to take place in early 2016. The drafted documentation presented at the 12th National Congress will be available for discussion via mass media channels, and Party meetings to discuss these will occur at the communal and provincial levels. The increasing political pressure ahead of the 12th National Congress should encourage the Government to make a stronger push for reforms.

The restructuring of the economy, including the restructuring of commercial banks and State-owned Enterprises (SOEs), will be accelerated. Privatisation programs will be significantly improved. For instance, not only should the number of SOEs being equitised reach 532 by the end of 2015, so too should the number of SOEs in which state ownership is below 49%

increase noticeably. It is expected that more foreign-attractive SOEs will be available in 2015. The Government plans to divest its interests in its semi-administrative organisations within the State Groups and General Organisation, including highway transportation projects and water transportation projects, which may prove to be attractive for financial investment.

It is expected that Vietnam will sign FTAs [*free trade agreements*] with Korea and with the Customs Union of Russia, Belarus and Kazakhstan in 2015. In addition, the important FTA between Vietnam and the EU should be signed in Q2 2015. Furthermore, the planned Trans-Pacific Partnership (TPP) might conclude its negations in March 2015 and be signed in May 2015.

The ASEAN Economic Community (AEC) should be operational by late 2015. The treaties of 8 FTAs that have already been signed require further reductions in tariffs and market opening in order to adhere to the committed roadmap. Thus, both opportunities and concerns will be present. The reason is that local businesses will need to have the necessary expertise to compete with foreign companies as the competition in the domestic market will increase rapidly as soon as AEC is in effect. The Vietnamese economy has faced enormous challenges which require aggressive institutional reforms to become more resilient and responsive to global changes and in order to grow sustainably. However, it is a possible trepidation that at present time, the government and businesses are not fully prepared to overcome these challenges.

Growth in the economy and exports might not be easy to achieve due to high market risks and rising competition. Vietnam needs to show some effort in implementing reforms to achieve the forecast GDP growth rate of 6.2% while controlling inflation at 5% in 2015.

Smaller and weaker commercial banks might be merged into the stronger and larger ones. This could lead to investment opportunities in the banking industry as it gets more accessible to foreign investors. Bad debts should be resolved more aggressively, and VAMC [*Vietnam Asset Management Company – a State “bad bank” for delinquent Vietnamese debt akin to Ireland’s NAMA*] might be granted more power to do so. The reduction in impaired loans will benefit future credit growth rates.

Min-Hwa Hu Kupfer
chairperson
Vietnam Holding

Private enterprises shall need to restructure to move from doing business based on preferential relationships for short-term gains to a more sustainable strategy, participating in the global value chains, leveraging technology benefiting businesses and improving the quality of human resources. Severe market competition may pressure businesses to become more agile and to grow domestically and regionally, especially within the AEC.

Ultimately, it is important for government authorities to accelerate institutional reforms, improve the business environment, enforce the strict implementations of laws and resolutions and increase transparency and disclosure in government activities in order to curtail corruption and eliminate unnecessary bureaucracy.

In summary, it is predicted that 2015 could be an exciting year for Vietnam's economy - even more so if the reform and restructuring processes are implemented effectively.

Impact of Low Oil Prices on Vietnam

The tumbling oil price has a negative effect on the state revenue, which is expected to decrease between USD 1.5 and 2.0 billion. This is in part because crude oil export revenues as well as taxes on the domestic production of oil and oil related products will be sharply reduced, and in part because the taxation of imported oil and oil-related products will also suffer from the low oil prices. The government estimates that for 2015 the absolute contribution will reach USD 4.3 billion, or 10.2% of the budgeted revenue. The state budget of 2015 was created with a crude oil price assumption of USD 100 per barrel.

On the other hand, as a net importer of refined oil products Vietnam will definitely gain from lower oil prices because of low inflation, sharp price drops in imported goods, and increasing GDP growth rates as forecasted by global financial institutions such as the IMF and the ADB. While all these are encouraging developments, the forecast made by the Frontier Strategy Group, a US advisory firm servicing emerging market business leaders, that if the oil price drops to USD 70 and USD 50 per barrel, Vietnam's GDP would grow 8.5% and 10% respectively, could be unrealistic at least in 2015.

As companies and consumers benefit from the low oil prices, the government could very well end up being better off, despite the reduced income from oil revenue taxation. Fuel remains a primary input cost for many consumer goods and services, and the amount of savings brought on by the current oil prices could reach up to USD 6 billion. This in turn would translate to higher consumption and companies paying more taxes due to increased profits.

Inflation in Vietnam will also be affected by low oil prices. Decreased production costs will keep inflation low enough that the government could even ease monetary policy and cut interest rates which may further boost GDP growth.

Additionally, the manufacturing sector, which still has the largest impact on the country's GDP, will most likely profit from the low oil prices. It is therefore less likely that Vietnam's GDP will be negatively affected by the current situation on the world's energy markets.

Analysing other sectors, the following conclusions can be reached:

Oil & Gas Sector - in general, all of the oil & gas sector, be this downstream, midstream or upstream are negatively impacted by the low oil prices. But it is safe to say that not all subsectors of oil & gas will be equally affected. In fact midstream companies may profit from cheaper transportation costs - provided contracts held with companies from the other two subsectors are not renegotiated as a result of low oil prices.

Production of Synthetic Goods - the production of goods such as plastic pipes used in construction and car tires will profit from reduced oil prices, as crude oil accounts for a large percentage of the cost of sold goods (COGS). In terms of the plastic pipes market, this reduction of production costs will most likely be passed on to the consumer as the market is quite competitive. For car tires, synthetic ingredients derived from crude oil are estimated to make up 20% of COGS. This is estimated to add a possible 5% to the gross margin of tire manufacturers.

Steel Industry - the indirect impact of low crude oil prices on Vietnam's steel sector may be significant if the Ruble continues to weaken and transportation cost from Russia reduces materially, making steel from Russia more competitive. And with Vietnam possibly entering into a Free Trade Agreement with the Russia-Belarus-Kazakhstan Custom Union, in which export tariffs on steel products is 0% compared to the current 10%-15%, this may exacerbate the effect. However, there is expectation that steel will be included in the list of special products to be protected by local government by committing gradual tax reduction over 2-3 years rather than having an immediate implication after the FTA agreement.

Textile Industry - the cost of polyester has historically shown minimal adjustment for plummeting oil prices. As such the drop in oil price should have minor impact on the industry.

Food & Beverage Sector - with fuel for transportation accounting for an average of 2.5% of COGS of companies in this sector, the resulting increase of their margins should not exceed 1%, taking into account that consumer prices remain the same.

Logistics & Transportation Services - Taxi and Bus companies, as well as logistical transportation and shipping companies in Vietnam will profit from the low oil prices. However the government will most likely significantly increase taxes on fuel and diesel. Also, as Taxi companies such as Vinasun have their drivers pay for fuel out of their own earnings, the companies themselves may not see much of an increase in revenue. *From Vietnam Holding*

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Commodities *(compare Commodity & Natural Resources funds here)*

The mining sector is a naturally cyclical one as oversupply leads to a decrease in commodity prices which in turn leads to a closure of mines and a reduction in funding for exploration and development of new mines. Once demand increases sufficiently to exceed supply, such is the long lead time between exploration and actual production, this leads to increased commodity prices and a consequent increase in margins for producers and an increased appetite for funding new projects. The current downturn has been exacerbated by the lack of availability of debt finance since the global financial crisis in 2008.

The market for mining shares has fallen 47.5% since the end of 2010 as measured by the Euromoney Global Mining 100 Index in Sterling terms. This compares to the previous two downturns of 39% (1990-1991) and 58% (1996-1998) respectively. The Investment Manager believes that the mining cycle is close to its trough and hence that current market conditions represent an attractive time to be investing in mining assets which are priced well below their risk adjusted fair values and that the value of the development curve is set to rise in the next up-cycle. *From Baker Steel Resources Trust*

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Debt *(compare Debt funds here)*

The recovery across the established economies remains fragile and the sluggish growth across the majority of emerging nations remains disappointing. In addition, the Eurozone continues to be challenged with high levels of unemployment, low inflation and a high burden of indebtness. The recovery process is therefore expected to be slow with continued Central Bank intervention.

The Portfolio Manager believes that the current macro backdrop is highly likely to result in continued Central Bank intervention and support and this in turn is expected to result in further tightening of credit spreads. As such one of the key challenges going forward is the re-investment risk in order to maintain the minimum dividend, without a deterioration in asset quality. Fortunately, a combination of reduced market liquidity and heightened uncertainty continues to result in spikes of volatility.

Since the Company was launched yields have cheapened quite significantly, meaning bonds maturing now can be reinvested at better yields than previously achieved. With geopolitical, Eurozone, oil and UK and US rate-rising risks currently to the fore, it is unlikely that yields could rally to the extent that reinvestment risk becomes a major factor, in the medium term at least. *From TwentyFour Asset Management LLP, managers of TwentyFour Select Monthly Income*

Looking forward, the market backdrop remains familiar with low economic growth, low inflation and little likelihood of any increase in interest rates in the short term. That said, the continuing low default environment has meant that credit has performed well. Going forward the majority of return is expected to be driven by income. Against that we must reconcile ourselves to the occasional spike in volatility. *From Helen Green, Director, Henderson Diversified Income*

Looking forward we expect loans to deliver a return closer to 5% over the next 12 months broadly in line with the average coupon. We see the potential for modest capital gains as the majority of European loan prices are again below par (100) (source Credit Suisse 31 October 2014). We expect a low default environment as companies continue to maintain their profitability in the current low growth, albeit relatively stable, macro environment and given they continue to limit capital expenditure spend and other drains on cash flow. We see a supportive technical backdrop to the European loan market given the continued growth of CLO demand - issuance

in 2014 to date being €11.9bn as compared to €5.7bn a year ago (source LCD 10 November 2014). Credit has performed well over the period. Defaults remain at very low levels but we are aware of a pick-up in stock volatility. *From John Patullo and Jenna Barnard, managers of Henderson Diversified Income*

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Property

The self-storage market

The self-storage market in the UK and France remains relatively immature compared to geographies such as the USA and Australia. The Self Storage Association ("SSA") Annual Survey (April 2014) confirmed that, in the UK, self-storage capacity remains in line with 2013 at 0.5 square feet per head of population as compared with 7.3 square feet in the USA and 1.4 square feet in Australia. While capacity increased significantly between 2006 and 2009 with an average of 34 stores per annum being opened, new additions have been limited to an average of 9 stores per annum between 2010 and 2013.

In the Paris market, we estimate the density to be even lower at around 0.36 square feet per inhabitant.

New supply in London and Paris is likely to be limited in the short term as a result of planning restrictions and the availability of suitable land. Respondents to the SSA survey indicated that the majority of the limited future anticipated development of new stores will take place outside these markets. In fact, capacity in London is expected to contract in the short term as the limited planned openings are offset by site closures as alternative use opportunities have been realised.

The supply in the UK market, according to the SSA survey, remains relatively fragmented. Safestore is the leader by number of stores with 97 wholly-owned sites, followed by Big Yellow with 68 wholly-owned stores, Access with 55 stores, Storage King and Lok'n Store with 24 stores each and Shurgard with 22 stores. In aggregate, the six leading brands account for less than 30% of the UK store portfolio. The remaining c.700 self-storage outlets (including 141 container based operations) are independently owned in small chains or single units.

The Paris market is significantly more concentrated with three main operators. Our French Business, UPP, is mainly present in the core wealthier and more densely populated inner Paris and first belt areas, whereas our two main competitors, Shurgard and Homebox, have a greater presence in the outskirts and second belt of Paris.

Consumer awareness of self-storage is increasing but is still low, providing an opportunity for future industry growth. The SSA survey indicated that 62% of consumers either knew nothing about the service offered by self-storage operators or had not heard of self-storage at all. The opportunity to grow awareness, combined with limited new industry supply and improving economic conditions, makes for an attractive industry backdrop.

There are numerous drivers of self-storage growth. Most private or business customers need storage either temporarily or permanently for different reasons at any point in the economic cycle, resulting in a market depth that is in our view the reason for its exceptional resilience. The growth of the market is driven both by the fluctuation of economic conditions, which has an impact on the mix of demand, and by growing awareness of the product.

Our domestic customers' need for storage is often driven by lifestyle events such as births, marriages, bereavements, divorces or by the housing market including house moves and developments and moves between rental properties. It is estimated that UK owner-occupied housing transactions drive around 10-15% of new lets. *From Safestore*

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European property

Following a relatively benign start to 2014, the second half of 2014 was characterised by a heightened level of volatility across capital markets with European equity indices finishing the year broadly flat and 10 year bond yields down 75-150 bps in 'safe haven' markets of the US and Germany (Bloomberg). These trends reflect concerns that global and Eurozone economic growth is slowing, with political risks in Russia and Greece, lower growth in China and the threat of a prolonged period of Eurozone deflation all weighing on market expectations. However, the dramatic decline in energy prices over the same period could provide a timely boost to the global economy if the reallocation of resources stimulates demand in economies that are net importers of energy (i.e. Western Europe), as it has done in the US where growth has accelerated in recent quarters. However, given the higher structural cost of energy in Europe there is some debate as to whether Europe can expect a similar boost to real wages and subsequent domestic demand. Economic weakness and deflationary fears have prompted the ECB to further ease monetary policy with asset purchases commencing in December and the implementation of full quantitative easing in January. An easing in monetary policy has led to a depreciation in the Euro, which recently hit a 9 year low against the US Dollar and which should further support the Eurozone's export sectors.

The French economy continues to battle headwinds having barely escaped entering into recession in Q3 with growth of 0.3% q/q recorded (Eurostat). A stuttering economy has created an uncertain environment for businesses that have primarily adopted a wait-and-see approach. Take-up in the logistics sector totalled 1.8m sqm over the first nine months of 2014, a decline of 9% y/y (BNP Paribas Real Estate). Activity remains highly concentrated within the four main markets (Lille, Paris, Lyon, Marseille), with Paris and Lyon capturing 50% of national take-up volumes recorded in Q1-Q3 2014. Availability within 1 year increased by 7% over Q1-Q3 to 3.8m sqm with higher levels driven by the release of Grade B and C stock as occupiers seek opportunities to upgrade operational space where possible (BNP Paribas Real Estate).

Take-up in the eight largest German office markets totalled 2.1m sqm in the Q1-Q3 2014 period and represents a modest decline of 6% y/y (BNP Paribas Real Estate). Whilst unemployment levels reached new historical lows in December (6.5%, Destatis), a recent decline in business confidence has started to delay occupier commitments to new leases in the short term. Despite lower take-up volumes vacancy rates continue to decline across all of the major office market where the average vacancy rate currently stands at 7.8%, 50bps lower than in September 2013 (Savills). Vacancy rates have been on a downward trend since Q4 2010 although the pace of decline has started to slow. In the secondary office market, demand has improved for B locations with some agents reporting that rental values have started to increase for the assets benefiting from high specifications.

Rolling 12 month investment volumes for European real estate totalled €194bn as at the end of Q3 2014 (CBRE). This is the highest level reported since Q2 2008 and reflects the market momentum prevalent across many European markets as domestic and international investors continue to chase opportunities to deploy significant amounts of capital within the region. Investment in the recovery markets continues to strengthen particularly for Spanish and Irish assets where quarterly investment totalled €3.5bn and €1.6bn and brings year-to-date investment totals to €6.5bn and €3.0bn respectively (CBRE). The UK and German markets experienced robust growth of approximately 20% q/q with €18.4bn and €8.5bn completed in Q3 (CBRE). The underlying trend within these markets has been for investors to widen the criteria for target investments to include assets/locations outside of prime assets in London and tier 1 German cities with investment outside of the top 6 German markets reportedly growing by 51% y/y in Q3 (Savills). The prevailing low interest rate environment and improving debt market conditions within core European countries has facilitated liquidity and attractiveness for these assets with portfolio sales becoming increasingly prevalent. *From Invista European Real Estate*