April 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 Martin Currie Global Portfolio, EP Global Opportunities, Witan, Murray International, Alliance Trust, Foreign & Colonial)

UK (thoughts from Mercantile, Dunedin Income & Growth, Henderson High Income, JPMorgan Claverhouse, Athelney Trust)

Asia (thoughts from Asia Total Return, Pacific Assets, Aberdeen Asian Smaller Companies)

Europe (thoughts from Fidelity European Values, European Assets)

Japan (thoughts from Schroder Japan Growth, Baillie Gifford Japan, Baillie Gifford Shin Nippon)

Emerging Markets (thoughts from BlackRock Emerging Europe, VinaCapital Vietnam Opportunities, Advance Frontier Markets)

Commodities & Resources (thoughts from RAB Special Situations, BlackRock World Mining)

Infrastructure (thoughts from International Public Partnerships, John Laing Infrastructure)

Private Equity (thoughts from F&C Private Equity, Hg Capital)

Property (thoughts from Raven Russia, Hansteen, AXA Property Trust)

Renewables (thoughts from Foresight Solar)

Technology (thoughts from Allianz Technology)

Debt (thoughts from JPMorgan Senior Secured Loan, GLI Finance, JPMorgan Global Convertibles Income)

Hedge (thoughts from DW Catalyst, BH Global Macro)

Global *(compare Global funds here)*

The world is faced with some real political crises. Among them:

- How to resolve the Ukraine crisis and reintegrate Russia while Russia maintains its sovereignty over Crimea.
- How to allow Greece to remain in the eurozone while maintaining any credibility in the union.
- How to end religious terrorism.

While this list is not comprehensive, it is at least well known and much discussed. As such, there is probably scope for both negative and positive surprise as these situations develop. Not helped by these issues, however, the global economic outlook continues to deteriorate. Deflation has reappeared in our vocabulary as a present threat and the best efforts of central banks to stimulate broad economic recovery have thus far failed. Even in the US, the economy is not yet out of the woods, which is important because the rest of the world is increasingly reliant on that US recovery.

All that said, I concluded last year that 'the valuation of US equities... has risen considerably but could rise higher, history would suggest' (I use the US as a proxy for global equities because they have performed best of late and therefore look most expensive on simple measures). Those valuations have indeed risen higher and could continue to do so. Markets are vulnerable to shocks, be they economic or political. However, our experience in these times of zero or low interest rates is that a wall of money greets any market setback.

That sounds complacent but, clearly, it is hard to make value-added comment on the 'big picture' political outlook. As such, I will concentrate on the 'small picture', seeking out companies whose products or services continue to find appeal in uncertain times and whose share price appears underrated. *From Tom Walker, manager, Martin Currie Global Portfolio*

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Equity markets ended the year on a firm note, as optimism for the economic outlook improved. In January 2015, the ECB finally announced a large programme of quantitative easing. Central banks generally continue to operate stimulative monetary policies with a number of countries, including China and India, reducing their short-term interest rates. The dramatic fall in the price of oil since mid-2014 is a major stimulus to economic growth for those countries that are importers of energy. It will put further downward pressure on inflation, which in turn is likely to delay any upward pressure on interest rates. Equities are good value relative to bonds, particularly after the drop in long-term interest rates last year which saw rates in the developed world fall to historically low levels.

However, it is important to remember that stock markets lead economic activity and much of the positive outlook may well be priced into share prices, which have risen substantially since the depth of the financial crisis in 2008. Many shares look to be fully priced and this is particularly true in the US, which has benefitted from its lead in technology and its relatively low energy prices. The global fall in energy prices plus the strength of the US dollar has reduced the relative advantage of US companies. Japan and Europe are major beneficiaries of the lower oil price and equities in both countries now offer better value. The issue of Greece's relationship within the euro currency block remains a potential concern, but it is the strains within Europe which have held back European share prices and created such good value.

We remain positive about our emphasis on Japanese and European equities with both the Bank of Japan and the ECB printing money through quantitative easing. With low interest rates and many central banks still inclined to ease monetary conditions, this should be supportive for equities generally but with shares becoming more expensive we find our optimism tempered with a degree of caution. *From Teddy Tulloch, Chairman, EP Global Opportunities*

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We currently see a world where inflation remains dormant; we are not believers that the falling oil price is a consequence of a demand shortfall and thus, do not reside in the deflationary camp. Global growth can continue at its moderate pace and there is no need for precipitate government action to dampen growth.

As a consequence, corporate earnings can continue to expand. Valuations are stretched in a number of areas, most notably in the US, and risk increases directly with valuation expansion. The most dangerous period occurs when the economic cycle reaches its final phases but valuations assume continued growth. This is some distance away and the dangers of being absent from equity markets are well documented. We are not at the stage where we see markets as being dangerously high, but we are at the stage where progressive risk reduction is prudent. *From Dr Sandy Nairn, Edinburgh Partners, managers of EP Global Opportunities*

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In retrospect, 2014 appears to have been a transition year, between the eager anticipation of improving conditions factored into markets in 2013 and the achievement of those improvements which has occurred somewhat more slowly than hoped.

Economic growth was generally stronger last year than in 2013 but failed to buoy already elevated spirits. Europe remained dogged by economic differences between the more competitive and the weaker countries (notably Greece) and by the lack of consensus over how to manage the stresses. The crisis with Russia has undermined confidence at a vulnerable point in this process. Japan's economy has yet to recover momentum following the tax rise a year ago, while investors are focused on whether the re-elected Prime Minister Abe will implement reform measures to boost his country's growth potential. The UK grew more strongly than most in 2014 but faces political uncertainty in the form of the forthcoming general election as well as equity market pressures from the significant exposure to mining and oil companies. On a more positive note, the decline in sterling will help companies with exports and overseas earnings.

One of the greatest surprises in 2014 was that, in an environment of improving economic growth and speculation of interest rate rises in the US and the UK (albeit so far unfulfilled), government bond yields declined from what were already low levels. This can perhaps be rationalised by a reassessment of how long the current period of low interest rates needs to be to sustain convalescent economies around the world and by the low level of inflation, affected by the recent plunging oil price. Nonetheless, the market has been troubled periodically by concerns that low bond yields might be a warning of coming recession, although the distortions caused by quantitative easing policies appear a likelier explanation. The fact that central banks in Japan and Europe are set to be buyers of government bonds even as the US Federal Reserve withdraws from the market means that supply-demand factors are set to remain positive for another year. This does not mean bonds represent good value from an investment point of view but if yields remain suppressed it would provide a continuing boon for companies and governments seeking to borrow at current low rates. 2015 begins with a similar question to that a year ago - will the world economy grow sufficiently to meet expectations for corporate profits growth and to enable debt-laden Western economies to get on top of their problems? Geopolitical events have complicated the normal economic judgments during 2014 and risks remain but the fall in the oil price has the capacity, if sustained, to generate a growth surprise in economies that have so far failed to recover as rapidly as normal from the 2009 recession. *From Harry Henderson, Chairman, and Andrew Bell, Chief Executive, Witan*

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In the business of investing, when attempting to predict the future, the past often provides some useful guidance. The unfortunate truth is just how unrecognisable today's global economic landscape has become. Government balance sheets bear the strain of record debts and unsustainable financing obligations. Central banks have presided over an expansion of their balance sheets that defies any prior experience. Negative inflation rates are pressurising consumers to delay future purchases now that expectations of lower prices tomorrow are gaining credence. Banks are beginning to charge customers to deposit cash and bond yields have reached unprecedented lows. For investors the search for income has become a real challenge. Such economic conditions offer little guidance for the future, other than to illustrate how difficult the investment landscape ahead might be. In a world that is increasingly inter-

dependent and reliant on free movement of capital, finding safe havens for savings at attractive valuations remains the challenge. Your Board believes that the best way of navigating this environment is broad portfolio diversification, emphasising high quality companies with diversified income streams, sound business models and competent management. *From Kevin Carter, Chairman, Murray International*

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Neither a borrower nor a lender be. Not so much a global maxim, more a Scottish mantra. A philosophical concept built on common sense and fiscal prudence, yet in today's world, unfortunately, neither possible nor pragmatic. For without some debt to oil the wheels of commerce the global financial system simply could not function. Alas debt dependency, built up over decades, has disfigured private and public sector balance sheets beyond any point of recognition. Fearing widespread austerity and fragile democracy, policy makers pump even more credit into the financial arteries of an already desperately indebted system. In the United States alone, the national debt is on pace to double during the eight years of the current administration. In other words, from the most recent two-term presidency the US government will accumulate as much debt as it did under all the other presidents in US history. For those advocates of easy money and blinkered short-termism, none of this matters. Unfortunately in the real world it most certainly does. Crippling debt-financing commitments condemn numerous global economies to a future of lower growth, persistent unemployment, lower wages, lower living standards and few opportunities. Companies operating in such environments can expect intense competition, constant pressure on margins and capital constraints on innovation. Cost control will reign supreme. For those more fortunate to have global presence, the focus on higher growth, higher profitability markets become paramount. To find these, companies must embrace regions with abundant savings, countries not constrained by irresponsible credit cultures and consumers benefitting from rising real incomes and increasing confidence. Whether in Asia, Africa or South America the challenge remains the same: identify solid growth businesses with strong balance sheets and proven management teams willing to return cash to shareholders, then invest for the long term. *From Bruce Stout, Aberdeen Asset Managers Limited, managers of Murray International*

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In terms of events which will make headlines in 2015, we have an election in the UK in early May, with the prospect of another referendum, this time on EU membership, creating uncertainty. Whatever the outcome it will take time for any changes to make a material difference to the profit and loss accounts of the companies in which we invest. We believe that the reduction in the rate of inflation in December 2014 to 0.5% will mean that interest rates are going to remain low for longer. Commentators have been predicting that interest rates in the UK will rise “next year” for at least the last two years, there is a high probability that they will be using the same words this time next year. The US economy is regaining momentum while Europe, China and Japan are all struggling to return to a more normalised level of growth. Monetary policy will therefore become more divergent globally over 2015. The US continues to recover, with the employment and housing markets both contributing to improving economic activity. Current expectations are that the Federal Reserve will begin raising interest rates in the second half of 2015. The strength in the US dollar looks set to continue, whilst we believe underlying economic momentum will increase over the first half of the year.

The European economy is struggling to recover from the recession triggered by the sovereign debt crisis of 2011. The breakage of the Swiss Franc’s peg to the Euro caused shock waves across currency markets. Germany’s economy has slowed as exports have struggled with a slowdown in China and sanctions on Russia. Recovery in Europe’s periphery has stalled, as a tough fiscal stance continues to hamper growth. Further monetary easing from the European Central Bank worth €1.1trn has been announced. The situation in Greece is of concern to those governments and institutions that have a financial exposure to the fall-out from an exit from the Euro. We do not view this possible outcome as something that would result in destabilisation of global markets or economies. The bigger concern to us is the political

precedent it may set for other members of the Eurozone. In the event that Greece does leave the Euro, it could lead to a reduced commitment to the European ideal and possibly to the break up to the European Union.

In Asia, the Japanese economy is struggling to digest the increase in sales tax in April 2014. Policy initiatives have been successful in depreciating the Yen, but the Abe administration has not yet implemented the crucial reforms necessary in areas such as the labour market. The Chinese economy also continues to slow, with a knock-on effect in demand for commodities. *From Katherine Garrett-Cox, CEO Alliance Trust*

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Uncertainty over the global economy remains high and underlying economies are diverging markedly, with the US and UK moving closer to increases in interest rates, while policy is being eased in Europe and Japan. Financial markets have been buoyed by central bank largesse - in terms of easy monetary policy - and distortions in fixed income markets continue to drive a global reach for yield that is benefiting most financial assets.

In our view, equities remain attractively priced relative to other financial assets, particularly those in fixed income. For investors, however, the fragile underlying environment and finely balanced risks makes a conservatively managed growth portfolio which is globally focused an attractive prospect. *From Simon Fraser, Chairman, Foreign & Colonial Trust*

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We are mindful of short-term risks and opportunities. The global economy is diverging; growth and monetary policy are moving in different directions between the US, Europe, and Asia. Currency volatility is picking up and has already proven to be a key determinant of returns for investors in 2014. The bull market is maturing and stock markets are no longer a one-way bet for investors. In the coming year I expect that volatility will be on a rising trend and, while risks rise, there are also likely to be some great opportunities. *From Paul Niven, Fund Manager, Foreign & Colonial*

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UK *(Compare UK funds here)*

Following two years of exceptional returns, last year saw volatility increase and markets consolidate gains as geopolitical events took centre stage, overshadowing the UK economy's strongest year since before the recession. Looking forward it now seems that the recent decline in the oil price and ongoing excess supply issues are likely to be a net positive for the UK domestic economy and in particular should favour smaller companies over the FTSE 100 which is more heavily weighted towards natural resource companies.

Global GDP growth by contrast has continued to disappoint, with conflict in Ukraine, Greek economic instability and slowing growth in China all concerning investors. Central banks have increasingly looked to further rate cuts and quantitative easing in order to stimulate economies and avoid deflation.

In the UK, companies and investors have already moved their focus to what is currently being described as the most uncertain General Election in almost a century. *From Hamish Leslie Melville, Chairman, Mercantile*

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There were a number of events in 2014 that shaped how the overall market and individual stocks performed. In hindsight, the surprise decision of OPEC, driven by Saudi Arabia, to hold crude oil production levels unchanged was certainly one of the more significant. This decision led to a 40% fall in the price of crude oil in just two months, resulting in a near 60% fall from the peak of $115 per barrel of Brent crude in June to the trough of $46 in January. All market changing events have repercussions, but this was the catalyst for an accelerated shift in the shape of the portfolio (as outlined above), and informs our outlook for the current year.

The UK is a net importer of energy and whilst there are a multitude of second order effects, this reduction in import costs is positive for the UK consumer and for UK GDP. The price of commodities declining has a temporary downward effect on inflation, which in turn has two

clear derivatives. First, it increases the likelihood of consumers experiencing real wage growth for the first time in the last five years. Second, it pushes out, for a period of time, the point at which interest rate tightening will commence. The combination of these factors has made us incrementally more positive on the outlook for household cash flows and consumer discretionary expenditure, and consequently for those companies, such as retailers, that will benefit from this directly.

Conversely, this dramatic fall in the price of crude oil is negative for those companies that are positively correlated to the commodity price. As a result, and given our view that this is not yet fully reflected in valuations and earnings expectations, we are currently negatively positioned in energy and related industries. However this situation is monitored closely, as a time will come when it will be prudent to reverse this positioning. *From Guy Anderson, Martin Hudson, Anthony Lynch, Investment Managers, Mercantile*

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We remain reasonably cautious on the outlook for both income and capital generation. 2015/16 is likely to be challenging from an earnings perspective amidst a sluggish global economic backdrop and specific challenges facing a number of our larger holdings such as those in the oil and gas industry. From a total return perspective, equity valuations remain reasonably full and corporate earnings growth looks likely to be modest which, we suspect, will constrain the potential for capital gains. It seems that investors are increasingly seeing equities as an attractive home given the pitiful yield available on cash and bonds and these factors may continue to positively influence market prices.

There are, though, positives for income generation; firstly, currencies are likely to have a more neutral effect, having been an income headwind in 2014/15; secondly, the balance sheets of many companies remain in excellent shape and could potentially support more substantial distributions to shareholders. *From Rory Macnamara, Chairman, Dunedin Income & Growth*

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While stock markets have produced strong returns in the first few weeks of our new financial year we remain relatively cautious and would be surprised if returns were much higher than that experienced in the year to January 2015. Against a reasonably tough global economic backdrop revenue growth remains a prized asset and stocks continue to be largely driven upwards by increases in valuation rather than improvement in profits. Early signs of sustained recovery in economies in continental Europe may perhaps be one additional positive that could emerge over the course of the year with consequent benefits for both the UK and wider markets. *From Jeremy Whitley and Ben Ritchie, Aberdeen Asset Managers Limited, managers of Dunedin Income & Growth*

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I suspect 2015 may well turn out to make 2014 look like a walk in the park. As I write this we have a number of storm clouds appearing such as the consequences of a very uncertain UK election outcome in May, Greece's apparent determination to play a version of 'Call My Bluff', the prospect of deflation in some economic areas, the stand-off between a US Republican Congress and a Democratic President and that is without the activities of Mr Putin or Islamic extremists. Notwithstanding all these, there are some positives like continued very low interest rates and the economic benefits of a substantially lower oil price. So there will be attractive opportunities and with the prospect of still low interest rates, *From Hugh Twiss, MBE, Chairman, Henderson High Income*

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We are now a number of years into recovery since the last recession but there still remains uncertainty. Despite the European Central Bank finally launching quantitative easing in the

Eurozone, worries are focused on deflation and the impact of a Greek debt default or its exit from the Euro, the repercussions of the sharp fall in the oil price and continued slowing economic growth in emerging markets. In the UK, the General Election and the prospect of another hung Parliament will throw up its own uncertainties. The formation of a Coalition Government could prove complicated. US and UK economic growth for 2015, however, is forecast to be above trend and with wage inflation in the UK picking up, low interest rates and lower energy, petrol and food bills, the outlook for the consumer is robust. *From Alex Crooke and David Smith, co-Fund Managers, Henderson High Income Trust*

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In absolute terms, UK equity valuations are reasonable, but given the low yields available in other asset classes, equities represent very good value. The Company's exposure to bonds remains at its lowest level historically and this is unlikely to change unless bond yields become more appealing.

The sharp declines in commodity prices could mean aggregate earnings do not grow in the UK market this year given the weighting of the equity market toward resource stocks. In other parts of the market, however, companies are experiencing robust growth as on the whole the global economy is recovering, especially in the US. Good growth in dividends is expected (consensus forecast a 6% market dividend growth in 2015) given pay-out ratios are only in line with the long term average and corporate balance sheets remain strong. We remain positive on equities as the dividend yield and dividend growth on offer should underpin the market.

There have been occasions in my time as a Director when markets have sorely tried the patience and resolve of the Board and the Investment Managers. A year ago I referred back to the dark days of March 2009 when there was no obvious light at the end of the tunnel. Since then, as shareholders are aware, as they have profited from handsomely, the UK stock market has been on an apparently unstoppable rising trend, albeit, as always with markets, with periods of doubt and short-term corrections. The past five years have amply supported my guiding tenet. Long-term investors in equities must keep faith with the asset class when everything looks black. Few people have the ability to call the turning points in markets and it is all too easy for emotion to overtake analysis. In such circumstances the most reliable guide is that of history which demonstrates the importance for long-term shareholders of remaining invested.

In addition to returns from capital gains, dividends are an extremely important component of return to equity investors and are generally more predictable than market movements.

Stock markets in the UK and in the USA, which country remains a powerful driver of economic activity and market sentiment, have powered forward despite significant geo-political and economic uncertainties, some of which are without precedent in modern memory. Any report I have written, or indeed any investment meeting I have attended since I started in the City in 1968, has always had uncertainties to analyse and consider. That is no different today. At present it seems to me that any of Eastern Europe, the Middle East or the Eurozone have the capacity to shake confidence, or possibly even worse. Then there are future events which are invisible at present and cannot be predicted but are nevertheless out there ahead of us. So I feel that I am standing down as Chairman at a time of very considerable uncertainty, possibly even of political or economic danger. Nevertheless personally I will stick with my mantra that investors in equities should keep faith with the asset class. *From Michael Bunbury, Chairman, JPMorgan Claverhouse*

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We remain positive on the outlook for UK equities if only because the consensus amongst investors is so negative. There are, as ever, no end of things to worry about: the Greek Euro crisis, the impending UK general election, the slowing Chinese economy and fears of

spreading global deflation, to name but a few. But there are always things to worry about and consensual fears, by definition, are known and must surely therefore be priced in. What is not priced in is that the consensual view may be wrong and that not all these worries may come to pass. The contrarian in us leads us to be more optimistic, recognising that both the US and UK economies continue to grow in a non inflationary way, allowing interest rates to stay lower for longer. Even with the Greek chaos, the large economies of Europe are starting to look a little less bad, particularly as the ECB has now launched a quantitative easing programme of significant proportions.

We view the recent dramatic fall in the oil price to be a net positive for world growth. The cost of production for companies will benefit and lower petrol and heating bills will be akin to a significant tax cut for consumers. This is a non consensual view, with markets preferring to believe that oil at $60 a barrel is a gloomy harbinger of ever-spreading Japanese-like deflation. We believe that the combination of the sheer size of the stimulus from central banks together with (albeit slow) structural reform in European economies will bear fruit for economies and investors alike.

We expect current uncertainties, both political and economic, to make markets more volatile this year than recently. *From William Meadon and Sarah Emly, Investment Managers, JPMorgan Claverhouse*

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Even as Britain enters the sixth year of recovery, economists find excuses to be dismal. Every silver lining has a cloud, high consumer confidence is stoking a large trade deficit and housing boom. Normality will only be reached, they say, when interest rates lift off the floor but this could push householders over the edge. Economic growth is failing to generate much needed tax revenues. Yet the chancellor taking over after the General Election in May will find a red box full of goodies: economic output should be rising, employment strong and inflation near to five-year lows. Looking further ahead, the sort of economy to prosper will be flexible and open. Britain has a head start while continental rivals argue about structural reform. The U.K. has clear advantages - the English language, an adaptable labour market which is quick to switch workers between industries and is attractive to skilled people from all over the world. While U.K. manufacturing has been in relative decline, what is left is highly productive. It can remain that way thanks to a strong science base and every big city has its own Silicon quarter. Politics, though, poses the greatest threat to economic prosperity. A dysfunctional planning system, held hostage by local politics, has resulted in chronic housing shortages. Major projects like high speed rail or a new airport runway take decades to complete. Politicians love to rail against the imagined weaknesses in the immigration laws. By the 2050s (sorry to say that I will not be there), Britain's deep strengths could propel it towards being Europe's largest and most prosperous economy - we have nothing to fear but our politicians.

Deflation is bad for you, ergo cheaper oil is bad for the EU. Assuming that the average crude oil price is $70 for 2015, this would save the Eurozone the handy sum of $145 billion, or 0.9 per cent of economic output even before knock-on effects. Maybe Europe should be our contrarian bet for 2015?

It looks like being another tricky year. I defy anyone (including the respective heads of the central banks which have dominated markets since 2008/9) to know the answers to: will Vladimir Putin succeed in dragging America into a proxy war in Ukraine, how will the coalition dislodge IS from the towns of Iraq and Syria, will the problem of Greece be fixed, will China deliberately devalue the reminbi thus exporting even more deflation, will quantitative easing in the euro zone and Japan be enough to counteract any tightening or threat of tightening (i.e. raising interest rates) in America and Britain? What will happen to commodity prices such as oil, gas, iron ore and gold and what effect will that have on investor confidence? How will all these various factors impact on equity markets? My opinion, for what it is worth, is that smaller companies are better value than blue chips and that, with a decent tail-wind, a modest uplift in asset prices of equities and commercial property is the most likely outcome. *From H.B. Deschampsneufs, Chairman, Athelney Trust*

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Asia *(compare Asian funds here)*

Despite the quantitative easing undertaken by the USA and UK, and the more recent expansion of money supply by both the EU and Japan, the prospects for global growth remain relatively anaemic, and concerns continue to be expressed regarding deflation, actual or potential, in a number of countries. Until such time as growth recovers more strongly or inflation picks up, it seems, therefore, that the global interest rate environment will remain benign. Indeed, within Asia, there is scope for further interest rate reductions in a number of countries.

Given this background, the search for income will no doubt continue. Meanwhile, despite the relative fiscal and monetary health of much of the Asian region, with perhaps the exception of China, investment flows into the region remained relatively subdued for much of the year. It is to be hoped that Asian markets may become more in demand in this Chinese year of the Goat as global growth and the prospects for regional economies gradually improve. *From David Robins, Chairman, Asia Total Return*

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Going forward, we maintain our view that global growth will remain sluggish amid moderate growth in the US (with little prospect of a major acceleration), a difficult backdrop for Europe and Japan, and a subdued economic outlook for emerging markets. With commodity prices weak and most currencies falling against the US dollar, our base case is that the Fed is unlikely to raise rates by more than 50bps, and we see outside risks of QE4 in the US as deflationary forces continue to build.

The key immediate problem for Asian markets, however, is the likely flux from Emerging Market bonds as the conflux of a strong dollar and collapsing commodities leads to potential corporate and sovereign bond defaults, thus triggering chaotic redemptions from emerging market and Asian bond funds. With the property sector in China facing large oversupply, exacerbated by highly leveraged corporates that exhibit questionable accounting practices, we believe the default by Chinese developer Kaisa Group on its offshore bonds is likely to be the first of many to come.

Meanwhile the China A-share market represents another bubble which, in our view, is at risk of bursting. With the Producer Price Index in China running at -3.3%, financial stress and clear signs of non-performing loans rising, we see few fundamentals underpinning the 60% rally in the domestic market. While we do not anticipate a major financial crisis, with stock brokers universally bullish on China and valuations for certain sectors looking downright expensive, the A-share bubble bursting will be a headwind for markets to get through.

The longer term outlook, however, remains more constructive for the region given generally solid sovereign, corporate and household balance sheets - especially relative to most developed markets - while demographics are also supportive in India and most ASEAN economies. Overall we are a little more bullish given poor sentiment towards Asian equities, relatively low valuations and five years of underperformance. *From Robin Parbrook, King Fuei Lee, for Schroder Investment Management Limited, managers of Asia Total Return Trust*

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Taking a top-down view, Asia-Pacific markets currently can be argued to look cheap, at least on a relative basis. In early 2015, Asia ex Japan is trading at a forward looking P/E (price-to-earnings ratio) of below 12x. This is a little lower than the region's historic average. For comparison, the US trades currently on over 16x, Japan on 14x and even Europe, in the economic doldrums and struggling with looming deflation, on almost 13x. Investors in the Company might be forgiven, therefore, for thinking that the Company's Investment Manager is currently having a comfortable time. The reality could scarcely be further from the truth.

Whenever we travel in the region or conduct fair market valuation exercises on our favourite companies, we find that many of them trade on very stretched valuations.

At least part of the answer to this paradox lies in the relative popularity of different parts of Asia and the weightings of those markets in the composite figure. That China and Korea, Asia's two largest markets by representation in the index, are both unpopular at present contributes a lot to the overall figure. Primarily for reasons around corporate governance, we have struggled to find many high quality companies in these markets in which to invest our clients' funds. Better to sit and be patient than to chase share prices up, particularly given the state of markets currently. *From First State Investment Management (UK) Limited, managers of Pacific Assets*

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In the year ahead, global stock markets should still be awash with liquidity as major Central Banks are likely to maintain or extend loose monetary policy. The Federal Reserve could delay interest rate hikes given patchy wage growth and unemployment data. In China, authorities will likely announce more easing measures against the backdrop of restructuring and slower growth. Japan and Europe may expand stimulus amid tepid growth and elusive inflation targets. These actions would continue to artificially support asset prices, delaying a return to fundamentals. Meanwhile, global geopolitical risks, including the still-fraught discussions between Greece and its creditors, tensions between Russia and Ukraine, as well as violence in the Middle East, could keep the outlook uncertain. Further oil shocks would also buffet stock markets although consumers and businesses alike should benefit from lower energy costs.

Despite these uncertainties, Asia's longer-term outlook remains bright. Consumption is rising. Business and political frameworks are changing for the better. Finances at the government, corporate and consumer levels remain healthy and leverage well contained, even though household debt has crept higher. This is fertile ground for small-cap companies that have clear and sustainable growth strategies, are prudent and take a long-term view, which should buffer them against short-term headwinds. *From Nigel Cayzer, Chairman, Aberdeen Asian Smaller Companies*

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Europe *(compare European funds here)*

The outlook for Europe appears to be mixed. On the one hand, long term structural challenges remain, real growth is hard to come by and Greece's attempts to renegotiate its debt burden continue to cloud the future direction of the Eurozone. On the other hand, there are a number of tailwinds for the Eurozone recovery in 2015. A weaker euro is likely to give European exporters a significant boost. At the same time, with the exception of Greece, narrowing credit spreads for peripheral European government debt indicates improving investor confidence. Finally the impact of falling energy costs and continuing absence of wage inflation in real terms should make Europe more competitive going forward. Recent economic indicators along with survey-based confidence indicators signal that growth is expected to remain moderate in 2015. There are downside risks to the economic outlook: a loss in economic momentum may dampen private investment and heightened geopolitical risks could have a further negative impact on business and consumer confidence. *From Humphrey van der Klugt, Chairman, Fidelity European Values*

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2015 has already been an interesting period. January has seen some major events; some were anticipated, others not. Three, in particular, come to mind. The first, the removal of the peg between the Swiss franc and the euro, was dramatic but will probably prove less significant, in time, than the other two events.

The second major event was positive for the stockmarkets and economies of Europe. President of the European Central Bank ("ECB"), Mario Draghi, announced a massive monetary expansion or quantitative easing, through the purchase of sovereign bonds of Eurozone countries. This will start in March this year, with the purchase of euro 60 billion of bonds each month by the ECB, and will continue, at least, until September 2016 and maybe beyond. The impact of this initiative is much debated, especially given that the US (and UK) central banks may be tightening monetary policy at the same time. I believe it is likely to

support asset prices in Europe but I am sceptical of the benefits to the real economy. In any case, the link between stock price performance and the domestic economy is, as proved in many academic studies, tenuous. This is because the direction of share prices is driven by many other factors such as industry structures, corporate governance and valuation, which in the case of European companies is already high, at least relative to history.

The third major event was the result of the national election in Greece. The victory of Syriza has reminded investors that, often, politics trumps economics. Politics will have a big influence in 2015 with six more general elections in Europe including the UK. The fragmentation of voting and the rise of populist parties such as Syriza in Greece and Podemos in Spain will keep investors on their toes. Geo-political risks, such as ongoing tensions in Ukraine and the Middle East and elsewhere, may continue to unnerve investors this year, as they did in 2014.

In theory, 2015 should be a better year for earnings and dividend growth in continental Europe, given monetary easing, euro weakness and softening commodity prices. Current equity valuations probably require good news (earnings and dividend growth) for the market to make further progress. Likewise, these valuation levels may well prove vulnerable to disappointing news. *From Sam Morse, investment manager, Fidelity European Values*

European equities have got off to a strong start in 2015 following further monetary intervention by the European Central Bank and some encouraging leading indicators. We are also optimistic that Europe can begin to show some economic progress with the triple stimuli of lower energy prices, a weaker currency, and tentative improvements in lending and borrowing data. Valuations look attractive to us, and companies appear to be in fine shape. If profit levels improve from here, returns for European equity investors could be very attractive. We must however take note of rising geo-political tensions which can cause volatility even for long term investors. *From Sir John Ward CBE, Chairman, European Assets*

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2015 has started strongly for European equities. The latest European Central Bank intervention and announcement of quantitative easing combined with a decent result from the Purchasing Manager's Index, possibly the most closely watched leading indicator of economic activity, has helped to renew some optimism in the region. Heading into the year though, expectations of European economic growth, and corporate earnings progress, were excessively low. This was reflected in the strong performance of quality assets in the second half of last year, as investors searched for a combination of scarce growth and yield. There is however the potential for a positive growth surprise this year due to the combined effects of lower energy costs, a weaker currency and improving credit conditions. While we would not expect the effects of these powerful influences to filter through immediately, for a region where little growth is expected, and indeed where valuations discount little growth, this could, through the year, provide a significant fillip to growth and consequently equity market performance in a region where the investment world is under-invested.

Admittedly, we do not want to base our stock decisions based on expectations of economic growth, however, smaller companies should benefit from any improvement in the domestic European economy. The last decade has seen global growth related companies lead the market, as China embarked on a once in a generation capital formation binge. This is something that will take some time to absorb and potentially leads to a structural over-supply in those regions. Europe, in contrast has seen a painful period of capital destruction. Indeed this is why expectations are so low. If economic growth were to surprise positively, this could have a powerful effect on the domestic businesses who have been re-adjusting their cost bases. The improvements in returns would be powerful, yet the expectations of this occurring are low. European Smaller companies are by their nature more domestically focused then their larger counterparts and should feel the benefits of this disproportionately. *From Sam Cosh, Lead Investment Manager, European Assets*

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Japan *(compare Japanese funds here)*

The stock market (in terms of the broad Topix index) has risen to an 8 year high in the month following the Company's half year end. This may invite short term profit-taking but we believe that the fundamental outlook for the stock market remains relatively positive in terms of

economic performance, falling oil prices and economic policy backdrop. The pace of profits growth may slow but looks likely to remain positive. In addition new incentives to improve corporate governance and balance sheet efficiency, such as the introduction of a Corporate Governance Code, are being reflected in enhanced dividends and buy-back activity. It is also encouraging that, amongst domestic investors, the shift from disproportionately bond-centric portfolios held by large public pension funds more in favour of equities, is taking place. *From Andrew Rose, manager of Schroder Japan Growth Trust*

The Japanese economy is recovering gradually from the effects of the consumption tax increase in April 2014 but the overall level of growth in the last quarter of 2014 was disappointing with GDP only rising 0.4%. However this figure masks other encouraging trends in the economy with the labour market tightening further, female participation in the workforce increasing, wage growth beginning to accelerate, an ongoing property recovery both in city land prices and the office market, exports growing and a surge in inbound tourism particularly from China and other countries in East Asia. As a result of this, profits have continued to increase and there are good prospects for further growth in both the economy overall and corporate profitability.

The yen, which had already weakened significantly, was again depreciating against sterling in the first half of the period under review. However since the end of November there has been a shift and the yen has now risen marginally against sterling. Whilst direct influences on currency levels are difficult to analyse there seem to be a number of factors involved. The adoption of quantitative easing by the ECB, the weakening of the oil price, the resumption of export growth may all have had an influence. If Japan does restart some nuclear power stations, as seems increasingly likely, energy imports will fall significantly and this should also help support the yen. At current levels Japan is a competitive place to manufacture and there are many news stories of production being returned to Japan and further investments being made in upgrading production capacity.

We have commented in previous reports on the encouraging improvements in corporate governance in Japan and there have been further positive developments since then. A Corporate Governance code has been announced recently in addition to last year's Stewardship Code. Company behaviour is clearly changing, with more emphasis on increasing returns to shareholders via higher targets for return on equity, more share buy-backs and increased cash dividends. Baillie Gifford welcomes the opportunity for more constructive engagement with company managements and we feel that our long term outlook is well aligned to the time scales that corporate Japan considers. Recent shifts in domestic asset allocation and the need for Japan to increase returns to support an ageing population means that pressure for action is increasing and the scope for improvement in balance sheet management is very large as cash balances have built up through the years of deflation.

Economic policy in Japan remains supportive of the corporate sector with continued quantitative easing from the Bank of Japan as it tries to reach an inflation target of 2%. The government was returned to power with an improved majority after a snap election in December and is aiming to enact a significant structural reform programme. Cuts to corporate taxes have been announced and further reductions seem likely as the tax system is reformed. Tax revenues overall are rising strongly as the tax base is extremely cyclical, although there is still a budget deficit. Whilst hopes for Mr Abe's Third Arrow have perhaps faded the positive impacts of various policies are beginning to be felt. *From Baillie Gifford Japan*

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The pace of political change in Japan continues to be rather slow, but its general direction has continued to be very encouraging. In November the Prime Minister, Mr Abe, took the opportunity to call a snap election to seek a delay in the implementation of a sales tax rise and strengthen his mandate for political and economic reforms. He gained a good majority and is in a strong position to continue his growth and change agenda, thus providing a positive backdrop to the Japanese stockmarket.

The corporate sector is also in good heart, with strong balance sheets and buoyed by Japan being a major beneficiary of lower energy prices. There have also been encouraging signs that wage rises are being granted in a variety of industries, giving hope of increasing consumer demand in the future. The Board is also encouraged by improving corporate governance in Japan. *From Barry M Rose, Chairman, Baillie Gifford Shin Nippon*

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North America *(compare North American funds here)*

We expect the trend of higher market volatility that began in the second half of 2014 to continue for some considerable time. Higher volatility may present challenges but also should create opportunities.

We are encouraged by the scale and speed of adjustments made by those companies affected by the recent slide in commodity prices. For the best companies, abundant cash flows have been sufficient to satisfy the need for disciplined reinvestment as well as growing dividends, buying back company stock and leaving scope for strategic acquisitions.

Using the Manager's own company earnings forecasts and the belief in sustainability of profit margins, company prospects look fairly valued with scope to improve if official interest rates stay lower for longer than expected. *From James Ferguson, Chairman, North American Income Trust*

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We recognise that the bull market is entering its seventh year, that there are signs of emerging wage inflation and the Fed is closer to raising rates than it was last year. On top of this, external risks, whether economic or geo-political refuse to dissipate. Against this backdrop, we expect the trend of higher market volatility that began in the second half of the year to remain with us for some considerable time. Higher volatility will present challenges to our investment views but also create opportunities to add to our favourite holdings at lower prices.

Our expectations for mid to high single digit cashflow growth in the year ahead are similar to the prior period and are driven by the prospects for higher levels of economic growth and a continuation of disciplined expense management. The rebound in corporate profitability since the financial crisis has been impressive and remains durable. We do not expect meaningful profit compression from higher labour, commodity or financing costs. We are believers that many US companies, including select financials, are in the best shape they have been for a generation having reaped the positives from the advance of technology, globalisation and cheap money. *From Aberdeen Asset Management as managers of North American Income Trust*

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So where do we go from here? We have always been somewhat reluctant to make specific predictions about the market, as we think our talents lie in analysing and selecting specific stocks and building a portfolio from the bottom up, rather than making macroeconomic forecasts. However, we believe US equities can deliver reasonably good returns, although probably accompanied by rising volatility as equity valuations are higher now and the transition to more normal interest rates that lies ahead may result in periodic turbulence for equity investors. There are two reasons for our positive view on equities. Firstly that profits are very strong and likely to rise more before this cycle ends, and secondly the comparison of values between equities and bonds is still somewhat favorable for equities as an asset class.

Current consensus earnings expectations for US small caps is growth of 18% in 2015, which seems too high to us given that expectations for the S&P 500 have come down to about 5%. Even if earnings growth for small caps comes down, at a fundamental level profits are exceptionally strong, with margins at records and still rising. Strong profits and cash flows should encourage continued stock buybacks, higher dividends and acquisitions too.

In terms of valuations, despite the relative underperformance of US small caps in 2014, the relative valuation spread on forward P/E is still above the historical average, suggesting small caps are slightly expensive versus large caps. However, investors may overlook valuations in the search for more domestic exposure and less exposure to USD strength, both factors which

favour small caps. Given our expectations for a more muted return environment, we believe stock selection will be key. *From Don San Jose and Dan Percella, Investment Managers, JPMorgan US Smaller Companies*

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Emerging Markets *(compare Emerging market funds here)*

Emerging Europe

The political and economic environment of the region has endured a truly challenging period. The long-term ramifications of the Ukrainian crisis have yet to be fully understood, while the Greek sovereign debt issues have yet to reach a satisfactory resolution. While this does add to future uncertainty, valuations in the region remain extremely depressed, and equities should rally strongly if any thaw in political tensions, or perceived improvement in economic fundamentals, were to materialise. Nor should the headlines over geo-political issues overshadow continued strong economic fundamentals in countries such as Poland, Hungary and Romania, which continue to lead Europe in terms of economic growth and competitiveness. It is also important not to let the oft-repeated macro-concerns about the region overshadow multiple exciting individual companies. Across the region, there are firms, particularly in the technology sector, which are able to grow revenues, profits and ultimately generate significant shareholder value almost regardless of the `bigger picture'. Earlier this month the Board met with several Russian government ministers and heads of major companies to understand the prospects for the economy and for specific investments. This reinforced our view of a gradual normalisation of the political and economic environment to support the prospects for the broader region during the forthcoming year. *From Neil England, Chairman, BlackRock Emerging Europe*

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At the time of writing, the situation in the east of Ukraine remains calmer under the Minsk 2 agreement. The Russian economy will likely have a truly difficult 2015 but the worst pressure for the financial markets could be behind us. We continue to identify stocks for investment, concentrating on cash generative exporters and domestic stocks that can deliver growth even without rising oil prices. Despite the problems, much of the bad news appears to be already priced in. Valuations are very low, dividend yields are high and a re-rating is possible if the ceasefire is preserved.

The difficult economic environment is also providing an impetus for improved governance at a company level.

We retain a positive outlook for Turkey which should continue to benefit from lower oil prices and accelerating economic growth. However, upcoming parliamentary elections have the potential to upset the market, so our positive view on the country is more moderate than it was last year. Over the past 18 months, the Company has benefited from correct positioning through the interest rate cycle. Such movements are likely to be less pronounced in the coming months and so opportunities away from the financial sector are becoming increasingly interesting.

In Greece, it is the necessary political will to provide financing which will ultimately generate confidence in the markets. Both the European Union and Greece lose from Greece's exit, so we think an agreement is likely to be found. We believe that the Greek government is most likely to make reform concessions in order to gain some fiscal flexibility, which could then be used to support economic growth and social measures. Excluding the possibility of a Greek exit from the Eurozone, valuations in selected stocks are now at levels which are extremely interesting. If a solution, even a partial one, to the debt challenges, is found the market has the potential to be one of the best performers globally. We note the extreme disparity between 5 year Greek bonds that have a yield over 15% at the time of writing, whilst countries like

Portugal, Ireland, Italy and Spain are circa 1%. If the political and economic situation were to allow some harmonisation between these levels of yield, the market could rally sharply.

In Poland, the economic benefit from the European recovery is finally arriving. The country will be further helped by the oil price move, and also by the prospects of lower yields due to the European version of QE policies recently announced. Inflation remains subdued but relative to other countries valuations may not offer the most interesting opportunities. We continue to see select opportunities in countries such as Romania, where the banking sector should benefit from entering a new credit cycle, with more loan growth and lower cost of bad debt, and Lithuania, where economic growth continues on a steady path despite the difficulties in neighbouring Ukraine.

In summary, the outlook for emerging Europe equities is better than it has been for some time. There are few areas of the world that have been de-rating for 8 years and could yet surprise on the upside in 2015. As a result, whilst we are aware that many of the issues that arose in 2014 remain live concerns, we are optimistic for the coming 12 months. *From Sam Vecht and David Reid, BlackRock Investment Management (UK) Limited, managers of BlackRock Emerging Europe*

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Vietnam

Since the end of the year, the Vietnamese market has risen and is ahead of the general emerging market benchmarks which continue to struggle in this era of US Dollar strength. Vietnam itself has seen inflation fall substantially while GDP growth marginally exceeded expectations in the last year. The effect of the dramatic swing in oil prices is minimal, as Vietnam is both a producer and an importer of oil. The country continues to attract increasing levels of foreign direct investment; this was estimated at $12.4 billion in 2014, a 7% increase over the previous year. Much of this investment is in manufacturing and a $2 billion trade surplus was achieved in 2014. It is well known that economic growth does not necessarily correlate with stock market returns but given a market which does not look as overvalued as some, and some foreign investor interest, the prospects for the year ahead are reasonably positive. *From VinaCapital Vietnam Opportunities*

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Frontier Markets

I remain positive on the long term structural case for frontier markets despite recent weakness. Healthy demographic profiles, increasing personal consumption levels, maturing political and social institutions and strong economic growth projections should provide the business environment for well managed companies to continue to grow earnings in a sustainable manner. This should result in share price appreciation and, ultimately, sustained capital growth for long term investors in the asset class. *From Grant Wilson, Chairman , Advance Frontier Markets Fund*

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Equity valuations in frontier markets remain undemanding when compared with both emerging and developed markets, whilst growth has proven reasonably resilient and debt levels remain low. On a trailing basis the MSCI Frontier Markets Index trades on a Price to Earnings multiple of 10.5x and a Price to Book multiple of 1.6x while delivering a dividend yield of 4.2%.

In Nigeria, despite the macro headwinds posed by lower energy prices, the long term opportunity presented by its demographics, combined with low valuation levels, will outweigh any further currency or economic weakness in the near term. Elections, currently scheduled for March, may prove a catalyst for some of this value being unlocked. The rest of the African continent presents a myriad of opportunities, especially for managers willing to conduct in-depth fundamental analysis on mid and small-cap companies, which are under-researched and often undervalued. The extreme pessimism surrounding the mining and energy sector has led to exceptional opportunities for those with the knowledge and focus to select those with sound long term fundamentals. The extent of the fall from grace of these sectors and the divergence with other "new economy" sectors was brought to our attention recently in a report by Bank of America Merrill Lynch that showed Apple Inc's market capitalisation is now a third greater than the combined total of every listed mining company globally. The sector remains

of particular relevance in an African context given the continent's natural resource endowment, even if it is not represented in frontier indices.

The larger Middle Eastern markets were, prior to the start of the period, seen by investors as relative safe havens on account of their currencies being pegged to the US dollar, strong sovereign balance sheets and stable politics. The region faces a potentially challenging environment if lower energy prices persist. In Kuwait, valuations fail to compensate investors for the complex web of cross holdings between companies and the unexciting macroeconomic outlook.

Argentina is amongst those markets likely to be driven by political change in 2015, as elections in October will almost certainly see President Cristina Fernandez de Kirchner replaced by another candidate from within the Peronist party. A transition to a less confrontational, rational leader could see significant improvement if the economic mismanagement of the last decade can be unwound.

In Asia, we continue to favour Vietnam where we find an economy that is on a solid footing with low inflation, a stable currency and reasonable growth. However, its stock market has languished and our locally based managers are able to find numerous attractively valued stocks. We also like Pakistan, where companies continue to deliver healthy levels of growth despite the negative headlines.

Whilst the global outlook remains uncertain and geopolitical matters continue to present concerns in a number of regions, the recent sell off has presented attractive entry points at which to add to core exposures in our favoured markets. We remain convinced of the benefits of our strategy of investing with skilful managers in those markets where we can identify the most compelling combinations of quality, value, growth and positive change. *From Advance Emerging Capital Limited, managers of Advance Frontier Markets Limited*

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Commodities and Natural Resources *(compare commodities and natural resources funds here)*

As we enter the seventh year of the post-Lehman world. While there remain many headwinds for commodity prices, with the lagged impact of a lack of capital spending on supply growth, fundamentals are now starting to improve. Given the pace and scale of the recent retrenchment, we believe opportunities are re-emerging for a price rebound in certain natural resources markets. Lacklustre demand for industrial metals and stabilising macro conditions in China are likely to keep base metal markets tighter than bulk commodities in 2015. *From Philip Richards & Team, managers of RAB Special Situations*

Growing concerns over a slowdown in the Eurozone and emerging economies, a strong US dollar and a well-supplied oil market have contributed to a weakening of many commodity prices since the summer of 2014. This does not paint a particularly optimistic outlook for 2015, especially as commodity markets are likely to remain volatile, with continued concerns over emerging market growth, inflated inventory levels and a buoyant US dollar creating headwinds. It is hoped that the second half of the year may see an improvement, as capital expenditure reductions made in prior years take effect on the rate of supply growth and concerns over commodity demand growth abate. With mining company management continuing to deliver operationally and with a focus on capital discipline and improved returns to shareholders, absent a further deterioration in the global macroeconomic environment, these factors should be supportive of valuations. *From A W Lea, Chairman, BlackRock World Mining*

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Last year we had expected an improving world economy to support commodity demand, and in turn, commodity prices. Sadly, supply growth managed to overwhelm demand and resulted in many commodity prices falling sharply. This year we are faced with a more sombre tone to

the demand outlook but, thanks to continued under-investment, the industry is edging towards a time when metals markets will move into deficit.

At the same time, mining companies are doing more to improve returns for shareholders. The under-investment in new capacity bodes well for all stakeholders in the sector and, most importantly, for the Company and the companies in which we invest. In the near term, recent falls in metal prices might take some of the momentum out of expectations for increased dividends, but if we can look past this towards the end of the decade then we see a far more supportive market. *From Evy Hambro and Catherine Raw, BlackRock Investment Management (UK) Limited, managers of BlackRock World Mining*

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Infrastructure *(compare infrastructure funds here)*

Public finances continue to be stretched and many governments see private sector finance as an enabler of investment in this space. However, competition in the secondary market for assets such as those in which the Company invests is intense.

United Kingdom

The UK Government continues to view high-quality infrastructure as means to increase productivity and competiveness. Its 2014 edition of the National Infrastructure Plan indicates a programme of over £460bn in investment until 2020 and a priority list of its top 40 projects. It also notes that over 80% of the investment will either be full or partly financed by the private sector.

Much of the emphasis of the Plan is on energy and transport. It is also actively supporting innovation in private sector infrastructure finance. For example, as an alternative to traditional bank or government financing, the Education Funding Agency procured a funding scheme which aggregated the financing of five batches of schools being delivered through the Priority Schools Building Programme. This 'aggregated' model of financing has the potential to be replicated across other centrally procured government projects.

We have highlighted for some time the attractive characteristics of the offshore transmission ('OFTO') sector - where investment is made into the cables that link offshore wind farms to the national electricity grid. These projects continue to be amongst some of the most attractive in our sector as they provide long-term income without demand risk i.e. no exposure to volume of electricity generated by the wind farm. In most cases these have historically also provided full inflation linkage. The regulator, Ofgem, has reaffirmed its estimates of a further £8bn of investment in OFTOS by 2020 with the prospect of significantly more in the years thereafter.

Although there is a UK general election in May 2015, all main UK political parties appear to currently support the ongoing investment in UK infrastructure.

Australia

Australia has long involved private sector organisations in the provision and financing of its public sector infrastructure. It also has a well developed market for investment, not only by local superannuation funds and similar investors but it has also developed a large pool of international investors who have invested widely there on the basis of the attractive market dynamics.

While each state government also has its own long-term infrastructure strategy delivery organisation there is a unified method for the delivery of PPP Projects, the National PPP Policy Framework which provides a consistent approach and streamlined procedures that encourage private sector investment in public infrastructure.

Currently Australia's infrastructure priorities include multi-billion Australian dollar transport projects such as improvements and developments to highways and rail rebuilding and modernisation together with water and communications infrastructure.

Europe - excluding UK

The Company remains very positive about prospects for further investment in Northern Europe. Jurisdictions including Belgium, the Netherlands, Germany and Scandinavia continue

to offer new primary market PPP opportunities across a range of sectors including accommodation and transportation. Ireland [*also*] has an active PPP programme. Elsewhere in Europe, austerity measures and fiscal constraint have limited the capacity of governments to fund infrastructure projects, particularly in southern Europe.

United States

The PPP (or P3) market in the United States is seen as one of the largest growth markets for infrastructure in the developed world, notwithstanding the additional complexities arising from slightly different procurement processes in the different states.

Other Countries

PPP in Canada is well established. However, the market is dominated by domestic pension funds making entry into new investment opportunities more challenging. New Zealand continues to also be of interest. The government in that market has been pursuing a privatisation process of several state-controlled energy and infrastructure businesses. *From International Public Partnerships*

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Our opinion is that the secondary market in the UK is showing signs of reaching a valuation peak, with evidence of some investors chasing prices in order to invest. *From Paul Lester CBE, Chairman, John Laing Infrastructure*

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Generally, the UK's infrastructure sector has seen a reduction in primary activity over the past few years and there is some uncertainty over the short and medium term future, in part due to the upcoming general election in May. Over recent years there has been a focus on value for money by the incumbent coalition government, demonstrated by both the introduction of PF2 and HM Treasury's initiatives to drive efficiencies in operational projects.

There were 21 new PPP deals signed across the UK in 2014, comprising a combined total of £7.4bn in investment. Significant projects such as the Mersey Gateway scheme and the Lincolnshire OFTO project helped support a £1.7bn increase on investment levels from 2013 while legacy PFI projects also supported this performance, with five deals reaching financing close for a combined total of £3.2bn. Of this figure, however, £2.7bn was the second phase of the Intercity Express Programme. With only a few legacy PFI deals remaining to reach financial close and only a relatively small number of PF2 deals currently in procurement, the model is unlikely to contribute significantly to the overall UK PPP figures in the near future.

In Scotland, the non-profit distributing ("NPD") model has started to see a growing number of projects reach financial close. In 2014, five NPD deals closed, including two large road projects, totalling investment of £1.3bn and a further £1.0bn of additional projects were announced, indicating that Scotland is likely to play host to the majority of primary activity in the sector over the next few years.

In terms of the secondary market, this means that until further greenfield projects can be procured, competition for brownfield projects will continue to be active placing upward pressure on pricing and compressing project yields. The extent of further compression in 2015 will be partially connected to the Bank of England's interest rate policy. Given the current low level of UK inflation, it seems unlikely that interest rates will rise significantly in the near future.

Continental Europe saw more than 50 infrastructure projects reach financial close in 2014. As at December 2014, a total of 140 schemes were currently at different stages of procurement across the region demonstrating a high level of activity. With less developed secondary markets than the UK, Continental Europe has the potential to offer growth at good value.

The Canadian economy suffered towards the end of 2014 with a significant fall in oil prices. This placed pressure on public sector budgets resulting in delays to certain capital projects. Should this situation persist it could affect the Canadian government's traditionally exemplary standing as a reliable counterparty. However, with its vast geography and pressing need for new and revamped transport links and social services, JLCM does not expect the opportunity in Canada to disappear quickly. Furthermore, should oil prices recover budget shortfalls and impacts on capital projects would be a short-lived and limited phenomenon.

The US market continues to represent a market of potentially huge scale. According to IJ Online, the largest proportion of the current pipeline of transport sector deals globally are the Americas (161 deals). While the number of short term secondary market transactions may remain limited, as the primary market matures it is expected that a growing number of operational projects will come to market providing opportunities that may be attractive.

In 2014, Australia emerged as the largest destination of commercial non-recourse bank debt having seen several multi-billion dollar deals reach financial close in the second half of 2014 including the Sydney Rapid Transit - North West Rail Link project and the Westlink M7 Refinancing. The federal government has announced the earmarking of approximately A$6.1bn of spending on infrastructure projects suggesting a healthy primary pipeline over the next few years. *From John Laing Capital Management as managers of John Laing Infrastructure*

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Private Equity *(compare private equity funds here)*

Recovery in the private equity markets of Europe and further afield is well established with the problems of the banking sector having receded substantially and fund raising of new private equity funds in full swing. The provision of debt to buy-outs is being facilitated by healthier banks and non-bank lenders such as unitranche debt funds. In all parts of the private equity market the price of new deals is now approaching historic highs when enterprise value is measured as a multiple of earnings. Whilst this should give pause to investors, as acquisition price is the key determinant of the success of an investment, with prospects of future profits growth improving in most markets the most skilled and perceptive investors will continue to find value. *From Mark Tennant, Chairman, F&C Private Equity*

The prevailing popular assessment is that current conditions comprise a sellers' market for private equity backed companies. Whilst exits have been and continue to be healthy, it is a mistake to believe that it is not possible to deploy capital into new deals at attractive prices. There are clearly some areas and geographies where securing an attractively growing company at a 'low' price is very difficult, but there are other niches defined by geography, size or sector where skilled and diligent private equity investors can continue to deal well. We have traditionally focused on the European mid-market for a reason. Namely that it is a very broadly diversified market comprising many attractive niche companies which often fall below the 'radar screen' of larger private equity houses and even trade buyers. If anything, current conditions tend to reinforce our enthusiasm for this market tier. Despite the obvious threats to economic stability posed in certain quarters by political or geo-political events, the background is of improving and increasingly healthy economies which is a good portent for producing the constructive growth which, through our partners, we are striving to capture. *From Hamish Mair, Investment Manager, F&C Private Equity Trust*

Within Northern Europe, the broader macro-economic environment remains challenging and there is a divided picture in terms of relative economic performance across the region. For example, the UK – which is the region's most mature private equity market – was also the strongest performing economy in the developed world throughout 2014. In contrast, during the same period, Finland experienced a triple dip recession with perhaps the most challenging economic environment seen for a generation. *From Hg Capital Trust*

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Property *(compare property funds here)*

Russia

Landlords, developers, banks and tenants are all in search of the "new normal" following six months of turbulence. In Moscow new supply rose by 1.6m sqm during 2014 with take up

decreasing to circa 860,000sqm according to JLL. They also estimate the year end vacancy rate in Moscow at 7.9%.

It is clear that the depreciation of the Rouble against the US Dollar has made rents more expensive for tenants, many of whom had not hedged their US Dollar exposure. This has led to a raft of requests to renegotiate rents. Some developers have also delivered large schemes into a falling market and in certain locations there is a lot of competition for tenants. There is however, a two tier market: that for vacant space, where developers are competing for tenants very aggressively; and the lease renewal market. The latter is somewhat different, and whilst tenants are seeking competitive rents, the cost and aggravation of moving, training new staff and disruption to the supply chain is such that better rents can be achieved. Many developers with vacant space today are offering Rouble rents.

Supply is expected to continue to rise over the first half of 2015 in Moscow as schemes already started are brought to the market. By the end of 2015 we expect take up to have eroded the amount of vacant space leaving the vacancy rate at around 5.5%. Looking further ahead into 2016 we do not expect much new supply. Development finance simply is not available and with rents where they are, it does not make sense, currently, to build speculatively even after allowing for the fall in construction costs in US Dollar terms. If there is continued demand and the stranglehold on supply caused by lower rents and the lack of finance remains, then the market could quickly swing back into equilibrium and even to an undersupply by the end of 2016.

Investment volumes fell from $8.1bn in 2013 to $3.5bn in 2014 according to JLL, caused by the uncertain geopolitical and economic outlook. Approximately 76.2% of this investment was from Russian sources. Yields have also moved out. Comparatively, yields for warehouses in Athens are 10.5%, Brazil 10.5% and China 7.5%. Russia still looks good value in that context. The cost and availability of investment and development finance has changed as banks both local and international are more risk conscious and dealing with sanctions. This is likely to reduce development (a good thing) but also restrict investment (not so good) over the next year. *From Raven Russia*

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European property

Our optimism for the future must however be tempered by the current uncertainties in the euro zone and the potential for the volatility of the Euro.

At the time of our last half year results we highlighted that the then current interest rate environment was extraordinarily low. Since then rates have approximately halved and there is a general acknowledgement that these rates are likely to stay low for longer than was hitherto expected. Such a background to the operation of a high yielding property business is outside the experience of most people working today but the likelihood must be that it will provide scope for continued yield compression and further liquidity in the property sector. *From Jamie Hambro, Chairman, Hansteen*

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Although the investment market in our sector in the UK has improved significantly in a short time, it feels as if this momentum will continue for a while due both to the proliferation of well priced capital (both debt and equity) and to the gradual but real improvement in the occupational market and resulting rental growth.

We believe the investment market in our sector in Germany is also improving and, as with the UK, we may be surprised by how far and fast values improve. Over the last year our experience has been of a confident, successful economy benefitting from low interest rates and an artificially low currency. In our world that has translated into a strong occupational market, a competitive job market, rising construction costs and rising house prices, providing a positive back drop to our activities.

The Benelux market is lagging behind Germany and the UK both in terms of the strength of the occupational market and investment values but it appears to be following a similar path.

Having a view on the property cycle is vital in setting the direction of the business over the next few years. Our business will be affected by the broad economy, interest rates and the

availability of money and currency/cross border risks. Although every property cycle is unique, this current one is particularly different and difficult to read due to the unprecedented and ongoing intervention in financial markets by the world's central banks resulting in what looks likely to be a long period of relatively low growth and low interest rates. It feels to us that the current strength in both the occupational and investment markets has further to run and although there are clearly significant geopolitical risk concerns, were they to materialise, a diverse, high yielding industrial property portfolio is likely to be as good a place to be invested as any.

Risk adjusted returns from industrial property look high relative to many other investments and there is a significant weight of capital looking to invest. *From Ian Watson, Morgan Jones and Richard Lowes, Joint Chief Executives and Finance Director, Hansteen*

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Italian Industrial

The Industrial segment in the last quarter of the year has been once again characterised by renegotiations of existing contracts, with most letting activity concentrated in the regions of Lombardy and Emilia Romagna. Activity in Q4 2014 lost a bit of momentum, recording a lower take up compared to the previous quarter, at 35,000 sqm vs. 45,000 sqm in Q3 2014. Although weak in Q4, strong portfolio deals earlier in 2014 helped boost the year-end logistics investment volume to EUR341m, significantly higher than in 2013 (EUR112m). Re-pricing strategies remain commonplace, with landlords more flexible in considering lower headline rents on the back of longer leases. With Grade 'A' space most sought after, availability in northern Italy has been decreasing over the year, particularly in light of the scarcity of new speculative developments in the pipeline. Leasing out lower quality space remains challenging nevertheless, in the longer term - provided that current credit conditions improve - Grade 'B' and 'C' space is expected to attract demand from owner occupiers who can benefit from the good availability of space and the decreasing property values.

Netherlands Logistics

In the Netherlands, the industrial market is continuing to benefit from the country's economic recovery, due to its central location along the European logistics corridor. The Central and East Brabant and Limburg regions, which are focused on European distribution and high-tech sectors, continue to benefit from cheaper rents and good accessibility to the rest of Europe. Occupiers are actively looking to relocate to more modern facilities with good accessibility, but overall demand growth looks set to remain weak over the next few quarters, given the current uncertainty in the Eurozone. While prime rents along the European corridor have recorded strong increases in 2014 (up 7.1% in Rotterdam), this has not been the case in markets focused on national distribution where net effective rents for modern space are currently under downward pressure. The Dutch industrial investment market has recorded a 32% increase in 2014 to EUR1.2bn. Anticipated improving demand and stronger rental value growth prospects compared to other European markets are expected to lead to further yield falls in 2015.

German Retail

Retail sales in Germany have been increasing in recent months, culminating in retail sales in December 2014 climbing 4% year-on-year. One of the main reasons behind the rise in retail sales in December was the positive effect of falling oil prices, leading to spending on other items. As this is likely to remain the case over coming months, there could be further strength from the German consumer. In 2014, almost EUR9.2bn was invested in German retail property, EUR500m or 6%, more than in the previous year. Compared to 2013, investors have significantly increased their investment into retail warehouses and retail parks located in secondary locations, a reflection of their higher risk tolerance. Prime rents have been flat over the last quarter, with the exception of Munich, which saw a EUR10/sqm/month increase to EUR390/sqm/month. *From AXA Investment Managers UK Limited, managers of Axa Property Trust*

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Renewable Energy *(compare renewable energy funds here)*

The March 2015 1.4 ROC branding deadline for assets over 5MW has so far driven large amounts of activity this year in terms of new capacity being installed, with total UK solar capacity expected to reach approximately 7GW by the end of the Quarter. This scale of UK installed solar capacity has created an active market in large-scale secondary assets.

Following the March 2015 deadline, the ROC regime for assets over 5MW will be replaced by the Contracts for Difference ("CfD") mechanism. The results of the first CfD auction were released on 26 February 2015 with five Solar PV projects being awarded contracts. We had expected a limited number of solar projects to compete in this first auction as developers focussed on the completion of ROC projects before the 31st March 2015 deadline. Moving forward we expect to see more large scale projects entering the auction process following the end of the ROC subsidy for assets over 5MW and as installation costs in the UK solar sector continue to decrease. This should lead to solar becoming cost competitive with onshore wind in the short term, allowing for an increase in CfD allocation in the next auction rounds.

We also expect large portfolios of up to 5MW 1.3 ROC assets to deliver significant pipeline volume going forward, *From Foresight Group CI Limited, Investment Manager, Foresight Solar Fund*

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Technology *(compare technology funds here)*

The world's financial system continues to face significant issues, which currently include questions as to the solvency of a number of countries in the Eurozone, the impact of the sudden and dramatic decline in the oil price and significant political stresses in a number of 'hot spots' around the world. However, the recent trajectory of economic growth in the United States has been encouraging. It is to be expected that some of the more mature industries will continue to see limited growth. Technology, however, can create new markets, provide lower cost ways of doing things and generate growth when other sectors are less buoyant. Whilst many technology share prices reflect demanding multiples, company balance sheets in the sector are unusually strong and your managers are seeing a wave of innovation in the sector that they believe has the potential to produce attractive returns for companies with best in class solutions. Stock selection will be of paramount importance, but we expect that a carefully selected portfolio of technology investments should be able to outperform over the longer term despite current headwinds. *From Robert Jeens, Chairman, Allianz Technology Trust*

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Looking forward, we continue to believe the technology sector can provide some of the best absolute and relative return opportunities in the equity markets – especially for bottom-up stock pickers. At present, we are seeing a wave of innovation in the sector that we believe has the potential to produce attractive returns for companies with best-in-class solutions. We also see a number of companies with present valuations that, in our view, do not fully reflect positive company- and/or industry-specific tailwinds.

We agree that the valuations on many cloud and Internet companies appear lofty. In this sense, we think the pause in appreciation of their shares during the year was a healthy way of purging some of the over enthusiasm that built up in the markets. That said, we continue to see massive addressable markets for these dynamic areas of technology that are much larger than the revenue today. However, we have consolidated our exposure to these areas in select companies we believe have the most compelling solutions and whose business models demonstrate a discernible path to deliver strong earnings and cash flow growth over the next few years.

We believe that the following will be key themes during 2015:

The major IPOs of this year will be in the area of ‘sharing apps’ – Uber, Airbnb and Lyft are moving closer to IPO and look set to command significant valuations. These are exciting technologies, but our participation will be governed by the valuations at which these companies come to market.

1. We are optimistic on higher growth companies at the moment. In 2014, the more ‘optimistic’ valuations were quashed by the market. Those companies with good revenues, but without the earnings growth to match, saw their valuations slide. Markets have preferred those companies with lower valuations, but more clarity on earnings – Apple or Microsoft, for example. As a result, there has been a convergence in valuations, and higher growth companies look relatively more attractive at the start of 2015.
2. Security will continue to be a major theme in 2015: It is just getting started and companies are still only in the early stages of adjusting to the various threats presented by a new, more sophisticated, breed of hacker. We believe this trend will persist for several years, and companies that continue to enhance security technology stand to benefit over time.
3. Although software as a service is well-established as a trend, it remains underpenetrated. Companies are just starting to realise the flexibility and cost-efficiency outsourcing can provide. In 2014, this trend went mainstream and in 2015 we believe it will break out.
4. Additionally, components makers in the hard disk drive and memory spaces, previously thought to be casualties of languishing PC sales, are finding good demand from the expansion in data centres needed to store data and deliver cloud services, and these companies are also benefitting from more stable profitability profiles because of industry consolidation. We think these companies could see significant re-ratings of their earnings multiples.
5. Technology is likely to have a profound effect on the media and advertising market in 2015. The ability to measure effectively is replacing ‘gut feel’ advertising with clear science. TV advertising will come under greater stress, but for Internet advertising – which can be clearly measured and targeted – it could be a strong year.
6. And finally the resurgence of Apple was one of the biggest stories of 2014 and all eyes will be on it again in 2015. The new product cycle has been extremely strong – revenues topped a record-breaking $74.6bn in the most recent quarter. While the product cycle may moderate for the new high end iPhones in 2015, products such as the Apple Watch and a broader line of phones may offset this moderation. In addition, Apple seems to be gaining share from other manufacturers, and the company’s large cash position gives it substantial control over shareholder returns in 2015. As a result, we are maintaining our enthusiasm for Apple.

From Allianz Global Investors US LLC, managers of Allianz Technology Trust

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Debt *(compare debt funds here)*

Senior loans

The market is currently in the mid-cycle portion of the credit cycle, supported by improvement on the economic front, strong credit fundamentals and a robust new issue market. As the market progresses further into the credit cycle we expect to see more aggressive underwriting and weaker credit structures, so we will look to maintain a balanced portfolio and continue to be quite selective of higher risk positions and total return opportunities.

Although the current decline in energy prices has been severe, it is not unprecedented; in fact, the oil price fell faster and more significantly in both absolute and percentage terms in 2008. We expect to see continued volatility in both commodity prices and the price of the debt of commodity producers and servicers, as the markets seek to find an equilibrium between supply and demand and shed excess capacity. We will continue to seek out the credits that we believe can weather both a short term severe shock to prices and a material decline in the longer term equilibrium price for the commodity.

We believe that the economies of the US and other developed markets are likely to strengthen in 2015, supporting continued strong credit fundamentals, and that default rates will continue

to be below long term averages in 2015. *From James P. Shanahan Jr. and William J. Morgan, Investment Managers, JPMorgan Senior Secured Loan*

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SME Finance

As flagged in our last annual report issued March 2014, this year has seen an increasing institutionalisation of the alternative finance sector. This reflects both the increasing scale of the asset class and the diversity of paper available. Once platforms can reach a certain size, institutional interest is now significant, but the challenge remains for many to achieve that initial scale.

We have seen the first handful of securitisations in the US of marketplace lending, and we would expect Europe to start to see more this year. As securitisations become more commonplace the funding of loans becomes potentially easier and cheaper, although the question will become whether these alternative finance platforms should become more akin to balance sheet lenders if they can fund the business themselves.

As the alternative finance industry grows, so the increased attention has naturally brought in other potential investors wishing to participate in the equity of the platforms themselves. This is putting some upward pressure on the valuation of platform equity. *From Geoffrey Miller, Chief Executive Officer, GLI Finance*

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Convertibles

The announcement of full-scale quantitative easing in Europe may lead investors to seek yield from alternative sources, as well as providing potential support to the valuations of risk assets. Against this backdrop, convertibles can provide an attractive combination of income and the potential to participate in equity market returns. The convertibles market has been volatile in the second half of 2014 and certain selling has been indiscriminate. This has uncovered a number of interesting opportunities for new investments which create the opportunity for enhanced returns in the future. In addition, recent selling has pushed up yields across the board, which embeds attractive future value that can be unlocked over time. *From Simon Miller, Chairman, JPMorgan Global Convertibles Income*

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Hedge *(compare hedge funds here)*

The difficult market conditions that made the second half of 2014 challenging have created investing opportunities as we begin 2015. Challenges certainly remain: quantitative easing in the US has done what it was intended to do, taking asset prices higher across bonds, real estate and equities.

But pockets of opportunity have opened up. Europe again looks to be flirting with recession, which would create opportunities for troubled companies and portfolios there. In the US, for the first time in years the high yield sell-off has created opportunities to buy sound, albeit leveraged, companies at expected compound returns in double digits.

While we have begun to set toe-hold positions in high conviction names in the energy space as well as in other sectors, we are looking to move at an appropriately cautious pace given continued uncertainty around energy prices and global growth broadly. Committing capital to truly distressed energy companies is likely but will not happen overnight. Part of the reason oil prices continue to decline is that many US shale producers have not yet decreased their output in response to lower prices. They see themselves as the low cost producers, often with high sunk costs in relation to the marginal cost of production. While it seems probable that the

sharp decline in oil prices will turn into a broad distressed cycle for high yield energy companies, it will take time.

We see significant opportunity for 2015 in commercial real estate: we have finally arrived at the wall of commercial mortgage loan maturities due 2015 - 2018, which means key decisions must be made by many borrowers. We believe this should lead to opportunities for those who understand both local market fundamentals and transaction structures, and who are experts in negotiating solutions.

As is often the case, for us the excitement for 2015 is not about being long the broad markets; rather it is excitement about idiosyncratic opportunities across structured finance and corporate credit, particularly in areas requiring deep fundamental research, strong risk management and the ability to assess complex situations. *From David Warren, Chief Investment Officer DW Partners, LP, mangers of DW Catalyst*

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Looking forward, the opportunity set for macro trading appears to be improving markedly. The US economy turned the corner last year. Although there are cross-currents that may affect the exact timing of the lift-off in interest rates, the Fed appears committed to begin to normalize policy this year. In stark contrast, the Euro area has slipped into deflation and suffers from a chronic lack of demand. The economic differences between the US and Euro area should continue to put pressure on the exchange value of the Euro. Policy actions only add to the pressure as the European Central Bank seems on the precipice of large-scale sovereign bond purchases. European elections add an additional dimension of uncertainty to the policy backdrop. In Greece and Spain, populist political parties are running strong on calls to relax fiscal austerity, and, in the case of Greece, debt renegotiation. Similarly, populist sentiment in the UK could exacerbate tensions with Europe on a range of issues that may spill over into asset pricing.

In Japan the scale of commitment to Quantitative Easing is quite extraordinary. As we enter 2015, Japanese five-year yields have fallen to zero and it's hard to imagine that such dramatic policy-led moves will not have further significant impacts on other markets. Reforms in government pension plans and corporate governance could be additional positives for Japanese equities.

The collapse in oil prices appears to be a net benefit to global growth that creates many winners and losers. Oil importers like China and Japan benefit. The net benefit in the US is smaller because of its large energy sector, whereas the oil exporters in the Middle East, Russia, Nigeria and Venezuela will likely suffer.

Perhaps just as important as the direct impact of lower oil prices is how central banks are responding. The Fed appears to a large extent to be looking through the oil price shock, maintaining a relatively hawkish reaction function. However, the European Central Bank and Bank of Japan are doing the opposite, easing further because actual inflation and inflation expectations are falling too much. These different reaction functions could cause large moves in asset prices.

Indeed, the increasing divergence between the major global economies and their respective central bank policies is a significant change in the status quo seen over the last few years. When the major economies were all performing poorly and policy everywhere was stuck at the zero lower bound, the opportunity set for trading was fairly limited. The new environment we see in 2015 should lead to increased levels of volatility across multiple asset classes and geographies and paves the way for large moves in FX markets, as we are already starting to see. *From Brevan Howard Capital Management as managers of BH Global Macro*