August 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 Foreign & Colonial, Brunner, F&C Managed Portfolio, Alliance Trust, World Trust Fund, Jupiter Green, Polar Capital Technology,)

UK (thoughts from Aberforth Geared Income, M&G High Income, BlackRock Throgmorton, SVM UK Emerging, Schroder UK Growth)

Europe (thoughts from Fidelity European Values, European Assets)

Brazil (thoughts from JPMorgan Brazil)

India (thoughts from Infrastructure India)

Debt (thoughts from Alcentra European Floating Rate Income)

Financials (thoughts from Polar Capital Global Financials)

Private Equity (thoughts from Aberdeen Private Equity)

Property (thoughts from SEGRO, Schroder Real Estate)

Renewable Energy (thoughts from Greencoat UK Wind)

Resources (thoughts from Riverstone Energy, BlackRock Commodities Income)

Technology (thoughts from Allianz Technology, Herald, Polar Capital Technology)

Global *(compare Global funds here)*

The prospect of a near term US rate rise, stresses in Greece and a Chinese equity market bubble represent three of the numerous risks which markets currently face, reinforcing our expectation that volatility in markets will likely move higher as the equity bull market matures. Despite these issues, our current view is that, with the prospect of synchronised growth across the major regions in the second half of 2015, markets will price in a better economic outlook in coming quarters. This presents a challenge not only for highly valued fixed income markets, as the Fed prepares the way for its first rate rise, but also for equity markets, which have been buoyed by easy monetary policy and which no longer present a strong value proposition for investors. The recovery in US margins and corporate earnings has already been considerable and the tightening labour markets and rising wage pressure may impact profitability from here.

Despite the prospect of interest rates moving upwards from the emergency levels first reached in the Global Financial Crisis the longer-term backdrop for the global economy remains challenging. Growth is improving, but tepid, inflation has troughed but is low, and wage pressures are, so far, limited benefiting overall corporate profitability. The mantle for policy stimulus is shifting from the US towards Japan and the Eurozone and leadership of equity markets has similarly moved on to these areas. It remains our view that a rise in interest rates by the US Federal Reserve will create renewed volatility but will not derail progress in equity markets, so long as the combination of reasonable growth and low inflation along with rising corporate profits is maintained. From Simon Fraser, Chairman, Foreign & Colonial

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We have noted previously that expansive monetary policies, abundant global liquidity and receding concerns over the pace, size and impact of the US Federal Reserve interest rate tightening need to be considered against a market backdrop of relatively full valuations and weaker earnings growth. The considerable uncertainties around Greece's membership of the Eurozone must be thrown into the mix.

However, the risk of contagion across the euro zone should be relatively limited. The institutional architecture of the euro zone has been strengthened considerably over the last few years with the establishment of financial assistance and stabilisation mechanisms that improve the area's resilience to systemic risk. Nevertheless, it will be important to monitor the situation carefully and maintain vigilance against the possibility of a so far unforeseen event that further destabilises the region.

Volatility has picked up across a variety of asset classes and we anticipate that this will eventually flow through to equities as well. Our view remains that market gains over the near term are likely to be muted and active management is required to augment returns.

As the markets begin to gyrate more, it is worth remembering that volatility is not risk. It has been defined as such primarily because it is measurable, and most of the risk modelling tools used to manage portfolios are based on this definition. Despite the great lesson of the Financial Crisis, this situation persists. As every long term investor knows, true financial risk is permanent reduction in capital value, or the failure to achieve financial objectives.

Managing a concentrated global equity portfolio in an environment of greater uncertainty requires strong fundamentally based conviction, balanced exposure and valuation discipline. Strong fundamental conviction is important to take advantage of heightened market nervousness, particularly if generated by short term factors such as currency adjustments, commodity fluctuations or weather. Balanced exposure in a portfolio means ensuring the returns are not driven by one or two macro or style factors, but rather by a diverse selection of stocks with low correlation. Absolute valuations for equities are at the high end of historic ranges. Extreme valuation plus a rising discount rate can be a dangerous combination, particularly if accompanied by earnings disappointment. From Lucy MacDonald and Jeremy Thomas, Allianz Global Investors, managers of Brunner

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The core view remains that we are still in a liquidity driven bull phase to equity markets. Although the policy of quantitative easing is no longer being operated by either the Federal Reserve in the US or the Bank of England in the UK it has been started, albeit rather belatedly, by the European Central Bank in the Euro zone and very aggressively by the Bank of Japan. In a global context the net effect is that monetary policy remains highly accommodative with ultra-low interest rates which is supportive of asset prices generally and equity markets in particular. Levels of economic activity have been below trend in this cycle, however, there appear signs that growth in the US economy is firming, continuing at decent levels in the UK and starting to improve in Europe. Only in certain emerging markets is the rate of growth slowing. In the short term the effect of the substantial decline in the price of oil has, in the US, actually been to depress activity levels as major energy companies have sharply curtailed expenditure. However, over time, as consumers become more confident, the impact on income levels is positive and should be supportive of consumer spending. This is good for growth. A similar scenario is likely in the US, Europe and also Japan.

It is likely that by the time of next year's annual report interest rates in the US will have begun to rise, although that may well not be the case in the UK. Employment levels and real wages are rising which are relevant indicators. On a long view, interest rates are unlikely to rise to anywhere near as in previous economic cycles however that is not to dismiss that volatility in both bond and equity markets will rise with setbacks to be anticipated.

As for equity markets, valuations are elevated, especially in the US, but are not excessive or in "bubble territory". The forward price earnings ratio in the US is between 16 and 17 times whilst for the UK it is around 14 to 15 times earnings. Should valuations rise markedly from here, it would increase the level of risk significantly. Further progress in equity markets requires corporate earnings to display growth, to begin to bring valuations back to more normal ranges. Excluding oil and commodity sectors, there are indications that profits and earnings growth is being achieved although more evidence is needed to confirm the trend.

What is encouraging is the recovery in relative performance within the equity market of medium and small companies as represented in the UK by the FTSE Mid 250 Index and the FTSE Small Companies (ex-Investment Companies) Index.

The recovery began in the second half of the fiscal year and is an interesting forward indicator of a strengthening economy both domestically and in Europe where much of the revenues for medium and smaller companies are reliant. Good earnings and

dividend growth are anticipated and this would help to justify current valuations and create scope for more general progress in equity markets.

From a longer term investment perspective this has been a period of unusually benign economic conditions both in the UK and the US. Combined with highly accommodative monetary policy this has been positive for equity markets. Although it is likely that the direction of interest rates over the next fiscal year may well change in the US which could cause a setback over the longer term, the broad environment in terms of inflation and growth remains constructive for equity markets. Provided corporate earnings and dividends grow as anticipated then that should support further progress in equity markets. From Peter Hewitt, Investment Manager, F&C Managed Portfolio

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Uncertainty looks set to continue for some time. The problems with Europe have not been resolved, only delayed, and we expect them to re-emerge later in the year. In addition, the UK election result, which gave an overall majority to the Conservative party, has added another source of concern to financial markets with the prospect of a referendum on Britain's membership of the EU in 2017.

From a macro-economic perspective the debate as to the timing of the first rise in interest rates looks set to continue. Our assumption is that it will not happen until Q4 this year at the earliest and possibly not till 2016, and we expect the US to be the first major economy to make a move. The UK economy, despite seeing growth, is unlikely to move ahead of the US. Any increase in rates will be gradual and limited and, whilst there are still some deflationary concerns, will be some way off. The situation in Greece is changing almost daily and while we have no direct exposure we do monitor developments because of the potential contagion effect on other Eurozone economies.

We have concerns over the Chinese economy because of the imbalances in credit, savings and real estate which have built up during the period of remarkable economic expansion and call into question the ability of the government to control the economy.

This rather downbeat backdrop and divergence of returns re-emphasises our belief that trying to second-guess the political and economic environment is not the key driver to stock selection. We continue to see opportunities in well-managed companies with strong fundamentals and sustainable long-term business models. From Alliance Trust

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The strongest of all warriors are time and patience," said General Kutuzov in Tolstoy's War and Peace, when faced with the apparently overwhelming French army. However, we expect the future to remain quite volatile. While geopolitical and macro uncertainties are the cause of some of the volatility and inefficiencies in today's market, we believe many to be counterbalanced by the attractive valuations in many markets. Also, discounts remain attractively wide, adding to our positive outlook over the long term. We remain especially focused on emerging markets, and we believe substantial shareholder value can be created in those markets over the long term. From Kun Deng, Lazard Asset Management LLC, manager of World Trust Fund

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Stock market valuations in the US remain at historic highs relative to other markets, especially Europe. In response to the Federal Reserve's recent caution with regard to a rate rise, investors appear confident that the US economy will remain robust in the face of more turbulent times elsewhere in the world. However, we are concerned that the falling oil price may be a mixed blessing for the US and are keeping a close eye on the next steps of the Federal Reserve whose policies can have a big impact

on emerging markets. It has been encouraging to see that the renewable energy sector has by and large bounced back following poor performance towards the end of last year when the price of oil first began to drop significantly. In our view, this illustrates the increasing resilience of renewable holdings in their own right. Economic weakness and political risk remain problems for Europe. However, we think a weak oil price is generally positive for Europe's consumers, deflationary pressure notwithstanding, while the ever-weakening euro (due to quantitative easing) should benefit the region's exporters, including businesses providing environmental solutions.

We await with interest the forthcoming submissions from countries due to participate in the Climate Change conference in Paris in December. The scope and scale of the various pledges will give us a sign as to the level of ambition likely to be on display at the conference and should be significant for the outlook of environmental investment as a whole. From Charlie Thomas, Fund Manager, Jupiter Green

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An overload of UK politics moved me onto an old episode of "Top Gear" where the trio were asked to make economical stretched limos. For me this current equity market has morphed from a "stealth bull market " into a "stretched bull market" where the economic recovery in developed markets is so slow and muted that the business cycle is sustained for longer. Equity markets always enjoy early stages of recovery which is why Europe and Japan are the two most popular developed markets at present and also large beneficiaries of weaker oil and gas prices. In the US the economic recovery is well entrenched but the stronger dollar tends to postpone the need to raise interest rates. Whilst cash yields are zero (negative for the Swiss Franc and the Euro), and government bond yields remain at historic lows it is easy to see why savings continue to leak into equities, property, antiques, classic cars, farmland etc. I have no idea when this financial experiment will end but at least the upper reaches of the US equity market will provide liquidity which may prove to be a rare asset when the zero interest rate music stops. From Michael Moule, Chairman, Polar Capital Technology

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Although markets have got off to a promising start, we are hopeful that equities will add to their gains during the remainder of the fiscal year. As in prior years, further improvements in investor sentiment and risk appetite have seen equity valuations expand yet further with the forward PE on the S&P 500 expanding to 17.6x today from 15.7x twelve months ago. Global equity valuations have also expanded significantly with the FTSE All World index trading at a slightly less demanding 15.4x forward earnings (2014: 14.6x). As a result, absolute valuations are no longer cheap with most traditional measures of value above longer-term averages. Rather than re-hash our healthy scepticism of the usefulness of long-term valuations given the uniqueness of the present investment backdrop, it is worth considering that - based on US data since 1871 - current PE valuations are entirely compatible with the prevailing inflation rate. Furthermore, a number of additional factors this year are likely to support above-average valuations including cheap oil and US dollar strength (both of which have empirically corresponded with equity market strength during non-recessionary periods), while the third year of the Presidential cycle has tended to be the strongest for equity market returns. More importantly, stocks continue to look attractive compared to most alternatives, particularly versus cash where negative real returns look all but guaranteed.

Five years of profit growth has left the S&P 500 with $3.6trillion in cash and equivalents, which - despite the market advance and cumulative buybacks - continues to represent c. 15% of market capitalisation. With much of this 'trapped' overseas, US companies have also become adept at topping up their domestic cash by taking advantage of remarkably low yields via bond sales that raised almost $1.28tr last year. As a result of this balance sheet strength, stock repurchases look set to continue at near-record levels with expectations that companies will return more than $1.0tr via buybacks and dividends in 2015. Likewise M&A activity should continue to prove supportive for stocks following a remarkable 2014 that saw activity increase 47% y/y reaching $3.5tr with Chinese companies entering the fray, announcing a record $46.8bn on outbound transactions, more than ten times the amount spent over the previous decade. If anything, deal momentum has further accelerated in 2015 with $243bn of US deals announced in May alone, inauspiciously besting the previous monthly records of $226bn in May 2007 and $213bn in January 2000. The continuing trend of mega mergers (such as Shell's proposed $70bn acquisition of BG and Avago's $37bn purchase of semiconductor rival Broadcom), M&A premiums that in the US averaged 29% in 2014, and a sharp increase in private equity activity should all continue to support equity valuations over the coming year.

Although our hopes for a second (albeit more muted) wave of bond to equity market rotation did not transpire last year, we remain confident that it will before the current equity bull market is over. Instead, 2014 (and early 2015) saw the bond market enter what may prove a final, 'melt-up' phase with sovereign yields across the world plunging due to pronounced energy price weakness (impacting headline inflation) and vast asset purchase programmes in Europe and Japan. In the US, during the last calendar year ten year US sovereign yields fell dramatically from 3.03% to 2.17%, the first time since 1982 that long-term Treasuries have outperformed stocks when the S&P has returned more than 10%. As a result, traditional valuations such as the 'Rule of 20' (which deducts CPI from 20 to generate a target PE) and the 'Fed Model' (which compares earnings and bond yields) are essentially unchanged from where they stood twelve months ago, continuing to strongly favour equities compared to bonds. This dynamic is hardly unique to the US: equities continue to look attractive relative to bonds in almost every market as a result of declining sovereign yields. As the global recovery extends and deflation fears subside (and are potentially replaced by nascent inflation concerns) the fear of losses and/or negative real returns should drive further reallocation into equities - an asset class that - lest we forget - has outperformed bonds two-thirds of the time since 1971. While lost on investors today, corporates appear to recognise the relative allure of equities with global bond sales at record levels while net buybacks accounted for c. 3.6% of market capitalisation last year.

Of course we expect our constructive view to be tested during the coming year given that valuations and the duration of the present bull market already exceed long-term averages. This year may prove more volatile than last because modest earnings progress in the US (primarily due to dollar strength and lower energy prices) will make it more difficult for companies to grow into their above-average valuations. However we believe investors are likely to consider these earnings headwinds 'one-time' in nature and - rather than selling positions that appear fully valued on current year earnings - are more likely to look into 2016 and discount back. The length of the current bull market does not overly concern us either because sub-trend recoveries "tend to persist". We also continue to see limited immediate risk to record margins as the mean-reversion view fails to acknowledge structural improvements associated with the superior growth and richer margins of large index constituents like Apple, Facebook and Google. However, we are mindful of the risk posed by higher interest rates (reversing the benefits of lower interest expense) while corporate tax reform remains a significant medium-term concern given that lower taxes are said to have accounted for c. one-quarter of margin improvement since 1990. While we know a number of indicators are approaching levels previously associated with previous

market tops (especially relating to private equity / venture capital / M&A activity) these are largely coincident indicators and entirely consistent with a bull market mid-way through its seventh year.

That said, we are certainly alive to the fact that each year of above-average equity market returns (particularly when PE expansion plays such a crucial role) makes the next intrinsically less attractive. With this in mind there are a number of potential negative catalysts that could require us to change course more materially. The first relates to the high-yield market because widening spreads have tended to precede equity bear markets. Our concern here relates to the c. 14% of the $1.3tr US high yield market accounted for by energy bonds but thus far there is limited evidence of contagion. Market breadth has also proven another useful forward indicator because "bull markets tend to end when leadership significantly narrows"; here we are encouraged by the fact that roughly half of the S&P500 outperformed in 2014. Responsible for the most painful bear markets, recession risk represents another key concern but here we are emboldened by the fact that (with very few exceptions) a recession has never followed a significant oil price decline. We are also relatively sanguine about what we might call 'recovery risk' - what happens to valuations and markets once investors genuinely start believing in a global recovery? While it is true that PE ratios have typically fallen following the first US interest rate hike we suspect that some good economic news would go a long way in a world fearing deflation and as such think this question may prove more pertinent for bond investors. Instead we remain most focused on the loss of policymaker support that has underpinned risk assets post the financial crisis. While we are confident that monetary policy will remain data dependent (and comfortably 'behind the curve'), wage inflation represents the most potent risk to the current alignment of interest between policymakers and investors. Rising wages could also signal a peak in profit margins, which have typically preceded stock market peaks by twelve to eighteen months

To be absolutely clear - we are not bearish. It just feels appropriate that as this bull market extends we spend a little more time thinking about what will help us ameliorate the impact of a setback (and communicate that to investors). To conclude this paragraph on a more typically upbeat note, we think that the present bull market is more likely to end following a powerful surge akin to what we have recently seen with bonds. Retail investor sentiment remains muted while US household equity ownership at c. 55.7% is well below the c. 63% achieved at 2000 highs. In a bull case, cheap oil delivers stimulus right on cue resulting in a global economic recovery that doesn't aggravate inflation, policymakers remain behind the curve and equities enter a self-fulfilling cycle of outperformance that ends with an explosive final phase. Amid all the fashionable talk of market 'bubbles', it is easy to forget that this bull market has been remarkably orderly and characterised by reluctance, rather than ebullience. Should the final years of this bull market end in a bubble, investors can 'look forward' to prices that, on average, move c. 4.4 standard deviations above their ten-year moving average as compared to just c.1.4 today. From Ben Rogoff, manager, Polar Capital Technology

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UK *(compare UK funds here)*

With the S&P 500 in its fourth longest bull market in 100 years and with a bubble in the Chinese stockmarket apparently in the process of bursting, it is not hard to spot reasons for caution among equity markets. This is particularly so because they continue to feel the pleasant effects of extraordinary monetary stimulus: the Eurozone has finally adopted quantitative easing, Japan continues its own programme and China is now loosening monetary policy. In contrast, the US is confronted by the prospect of tighter monetary policy: short term volatility is inevitable as markets

attempt to anticipate and react to the Federal Reserve's first interest rate increase in the current cycle.

The 125% total return from the Numis Smaller Companies Index (ex investment companies) over the five years to 30 June 2015 suggests that small UK quoted companies have also benefited from this climate of extremely accommodative monetary policy. Much more recently, their share prices have received an additional boost from the outcome of the general election, as the prospects of domestically oriented businesses have been re-evaluated. The upshot of this strong performance is a PE valuation for the NSCI (XIC) as a whole that is one fifth higher than its long term average. This again counsels caution.

In mitigation, small companies are, in general, trading well. Though austerity and nascent wage inflation bring their own challenges, the promising outlook for the domestic economy and the cautious optimism on the part of boards appear justified. The Managers also take reassurance from the wide range of valuations within the small company universe: From Aberforth Partners LLP, Managers, Aberforth Geared Income

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In May, the market briefly rallied in response to the re-election of the Conservatives with an overall majority for a new parliamentary term, as the result removed the prospect of increased levies and regulation on the corporate sector under a Labour administration. However, the outcome of the election means that the UK now faces further austerity measures and the potential consequences of a referendum on its continued membership of the European Union in at most two years' time, and the possible effect on business of a vote in favour of an exit. In the short term, the remainder of 2015 is likely to prove quite testing as investors fret about US interest rates and Greece. Encouragingly, dividend announcements outside the resources sectors have generally been positive so far this year on the back of a satisfactory earnings season and a stronger US dollar. Companies also continue to return cash to shareholders in the form of special dividends and share buybacks, which is helping to underpin the market. A more broad-based recovery is likely to occur when companies start to increase their capital expenditure, which in turn should result in a pickup in productivity - this remains low and was acknowledged by the Chancellor in a post-election speech to the CBI to be holding back the economy. Mergers and acquisitions have returned after two years of relative inactivity, as companies seek to take advantage of low borrowing costs and strong share prices, in a somewhat unsatisfactory alternative to organic growth, to increase their earnings. From F C Carr, Chairman, M&G High Income

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Whilst it is encouraging to see the advance made by equity markets over the period under review, one of the main concerns for the newly elected Conservative government, and investors in UK equities, will be the long term future of the UK in Europe. Market volatility is likely to remain whilst the uncertainty between Greece and its creditors persists. Over the longer term, slower growth in China is also likely to impact market sentiment. However, these challenges should also create attractive investment opportunities.

On a relative basis, we are encouraged by the fact that small and mid cap company valuations continue to be supportive and growth expectations are looking more attractive for these companies, than their larger counterparts. From Crispin Latymer, Chairman, BlackRock Throgmorton

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There remain various economic and political issues for markets to worry about, notably the prospects for the Chinese economy and developments in Greece. However, UK consumer goods and services companies are exposed to an economy that continues to strengthen with employment and wages rising, whilst energy costs have fallen. We have witnessed encouraging results from these companies in recent months. We expect these good performances to be sustained, although we are mindful of impending rises in UK interest rates. From Mike Prentis and Dan Whitestone, BlackRock Investment Management (UK) Limited, managers Of BlackRock Throgmorton

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The global economy is growing, with the help of stimulation in Europe, China and Japan. Around the world, interest rates and inflation remain extremely low. Any renewal of strength in the US Dollar could put further pressure on emerging economies. Recovery in the US, Eurozone and UK continues to exceed most forecasts. Central banks remain vigilant about the risk of global deflation. Europe has followed the UK in taking measures to reduce the risk of deflation via bond buying and money printing. Returns on cash deposits and bonds will remain very low, and so equities that offer growth and attractive dividend yields are being sought by investors. Overall, a strengthening UK economy and the prospect of growth in the global economy offers a favourable background for UK equities. From Peter Dicks, Chairman, SVM UK Emerging

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Share valuations have moved into slightly expensive territory. The relative argument underpinning these levels, however, remains intact as bond yields remain historically low. This valuation anomaly is one of the factors that should encourage greater levels of mergers and acquisitions; and the stimulatory effect of quantitative easing is expected to provide cyclical support to earnings. The prospects for the market's more domestically-focussed companies remain reasonably positive. Falling unemployment and real wage growth should support the British consumer. Interest rate rises, when they materialise, have been well telegraphed and are likely to be relatively small.

The market has placed certain companies, whose earning streams appear relatively resilient, on high multiples. However, valuation dispersion also appears reasonably narrow and we are nervous that the trade-off for lower valuations could be at the expense of earnings quality. From Philip Matthews, Schroder Investment Management Limited, manager of Schroder UK Growth

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Europe *(compare European funds here)*

The main cause for concern is the level of valuation which is high by historical standards and is probably propped up to an extent by liquidity from QE. Although there are some signs of a cyclical improvement in the economies of continental Europe, thanks to a triple tailwind from QE, a lower Euro and a lower oil price, this does not seem to be feeding through into an accelerating rate of growth in companies' earnings or dividends, which is probably needed to justify current stock prices. While Europe is, in economic terms, enjoying slightly better times, the rate of global growth appears to be slowing and this is relevant for European companies which, in aggregate, derive the majority of their sales and earnings from outside Europe. There are also a number of longer term headwinds, such as stubbornly high levels of

government debt and unfavourable demographics, with which European companies will have to contend. From Sam Morse, manager of Fidelity European Values

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Valuations, on aggregate, do not look obviously attractive to us and rely on improving profit levels. On this front, however, there is room for some optimism. Europe is enjoying the benefit of a weaker currency, lower energy costs, a more liquid banking system and the start of quantitative easing. Profit levels are well below previous peaks, in contrast to the US, and are starting to recover. The US had led the economic recovery, but it is now Europe which is showing improvements from a low level. If this were to continue, any meaningful profit recovery has the potential, in retrospect, to make current valuation metrics much more attractive. This will also of course disproportionately benefit smaller companies, who are more domestically focused then their larger counterparts. Betting on profit recovery is always a dangerous game though. From Sam Cosh, manager of European Assets

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Brazil *(compare country specialist Latin American funds here)*

Brazil is going through a period of pain as the distortions introduced by the first Rousseff administration are unwound. However, as long as Levy's current trajectory is maintained, we expect the economy to return to healthy growth. We believe we are nearing rock bottom, and that confidence could pick up later in the year. In the short term, we expect unemployment to continue to rise, with a knock-on effect on consumption. Importantly, though, rising unemployment is in part driven by rising participation in the workforce - a sign of improving sentiment.

Looking ahead we view the currency as a neutral factor for sterling investors. The Real had looked expensive against the US dollar, so the depreciation, though painful, was necessary. We believe the Real at R$3.2/USD is fairly valued but we could continue to see short term volatility.

Brazil is home to many well-run companies with valuation no longer being a concern for the medium term. Following the weakness in the currency over the last couple of years, we believe it is now fair value and we do not see significant downside risk. The yield of the market is around 4% compared to the usual 2.5% and we believe the market expectations of earnings are much more reasonable now. We are much closer to the moment where the companies begin to see the virtuous cycle of increase of capacity utilisation and improved operating leverage translating to earnings growth that should translate into investment returns but the economic environment continues to be difficult. Investing in this challenging environment requires fund managers to be selective and more demanding on valuations, particularly in sectors that are facing currency or policy headwinds. From Luis Carrillo and Sophie Bosch De Hood, investment managers, JPMorgan Brazil

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India *(compare country specialist Asian funds here)*

Infrastructure will remain in the spotlight as India aims to get back on a trajectory of high economic growth. Recent upward revisions to India growth projections from the World Bank and the International Monetary Fund, along with progressive reform and the drive to improve the business and regulatory environment, should enhance investor confidence in the country.

In February 2015, when presenting the national budget in Parliament, the Indian Finance Minister said that the country would make further investment in roads, railways, ports and other infrastructure projects, with significant allocations for roads

and rail. The administration is also focused on reforming the regulatory structure in an effort to revive stalled projects and attract private investment. The budget announced a new National Investment and Infrastructure Fund and long-term tax-free infrastructure bonds. Manufacturing is also a focus with the much-hyped "Make in India" campaign. It is recognised that the success of this campaign ultimately relies on stable and efficient infrastructure.

The Indian Finance Minister has also said that the government is on track to implement the proposed national standardised goods and services tax ("GST") from April 2016, despite setbacks in Parliament. GST is to replace a number of state and federal taxes to ease compliance and facilitate business. For the logistics sector, the implementation of uniform GST will allow businesses to centralise distribution through much larger regional hubs.

Rail haulage charges, which are levied by Indian Railways, were increased by more than 24% during the year for different slabs of tonnage. Container train operators, including DLI, believe that they will be able to pass on substantially all of these increases to customers. However, the rise in freight costs may reduce demand for rail transportation while also increasing the competitiveness of road transportation on certain routes.

Progress continues on the Dedicated Freight Corridor ("DFC"), with construction reportedly accelerating on both the Western DFC and the Eastern DFC. This project involves construction of six freight corridors providing much needed infrastructure and, crucially, capacity, allowing higher freight throughput at greater speed. DLI, with its large rail-linked terminals, is strategically well placed to benefit from the DFC. Phased commissioning of the DFC remains on target to commence in 2018. The emphasis on increasing manufacturing and exports has made logistics and the ability to efficiently move goods a key consideration in achieving sustained growth.

In an effort to provide electricity to more homes in India, the central government has promised investment and grid improvements. Renewable energy is a key focus, with installed capacity jumping 13% in the year to March 2015, exceeding government targets for the first time.

The total installed capacity for renewable energy stood at almost 36 GW at the end of the fiscal year - with the government targeting to increase this capacity to 175 GW by the end of 2022. India suffers a current peak deficit of 7 GW (total installed capacity 272 GW in March 2015), and rapidly rising demand. With the commercial power sector in India dominated by coal, the support for renewable energy attempts to balance development and growth with cleaner and more sustainable sources of energy. From Infrastructure India

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Debt *(compare Debt funds here)*

Global financial markets are likely to remain volatile over the coming months given the unpredictably that is evident in the Eurozone, in Commodity prices, in Emerging Markets, and in regions of heightened political tensions. But the loan market looks set to remain relatively robust and defensive, with returns not as reliant on GDP growth as other asset classes. From Ian Fitzgerald, Chairman, Alcentra European Floating Rate Income

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Financials *(compare specialist Financials funds here)*

The period under review has seen improved sentiment towards global financial companies, and in particular banks, following last year's de-rating. The wider market

faces event risks, for example from continued unpredictable strains within the Eurosystem, or the pending reversal of the secular decline in interest rates and yields in the US and UK. Some residual litigation risk for banks in Europe and the US can also not be discounted. However, the Board is encouraged by the underlying improvements that have become increasingly evident over the last year. In general, earnings are improving, balance sheets are strengthening, and provisioning and loan losses are declining. The quality of earnings is also improving, in particular in financial institutions in the West as they move away from capital intensive, high risk non-recurrent income to fee and commission income, and asset and wealth management annuity income which offer more stable and better quality returns on capital. In some countries there is also the prospect of higher net income margins as interest rate cycles reverse and easy money is withdrawn. The dislocation across traditional banking sectors in countries such as the UK has also thrown up opportunities for new entrant challenger or specialist lender banks. Without legacy issues and taking up the space vacated by traditional lenders, the prospects for these emerging players are very encouraging. From Robert Kyprianou ,Chairman, Polar Capital Global Financials

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At the time of writing equity markets have recovered most of the falls related to the closure of banks in Greece and imposition of capital controls following the decision by Eurozone leaders to offer Greece a third bailout. This has also led to a sharp bounce in the equity markets of Spain and Italy which were both seen as susceptible to further contagion.

European banks have very little direct exposure to Greece and importantly Greek government bonds are almost entirely held by the ECB, the IMF and Greek banks themselves. Economically therefore, should the situation deteriorate again, there should be limited impact. Furthermore, the ECB has stated its willingness to intervene if necessary, the implication being it would increase its purchase of government bonds. As a result we would be surprised if there was further significant weakness in financial markets. From Nick Brind & John Yakas, managers of Polar Capital Global Financials

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Private Equity *(compare Private Equity funds here)*

Demand for private equity owned assets continues to be strong from public market investors, trade buyers and in many cases from private equity itself (via secondary transactions). In the absence of a major geopolitical or economic global shock, it is likely that good returns from private equity investment strategies will continue for the immediately foreseeable future. Nonetheless, with purchase multiples for new private equity buyouts having hit the highs of 2007 at 9.7x trailing earnings, it has become ever harder for managers to source and transact on compelling and differentiated investment plans. Looking further out, it is the Board and your Manager's view that we could see a return to more straitened times for private equity. Any constraint on the current relatively easy availability of debt for leveraged buyout deals, combined with these higher purchase costs could well act as a brake to the outsized returns we have seen more recently.

Private equity GPs are, on the whole, being more discerning in investing in companies with greater resilience of cash flows which should provide some support should we

see any renewed global weakness. Howard Myles, Chairman, Aberdeen Private Equity

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Private Equity as an asset class has had a strong year, with good momentum seen in fundraising, exits and value accretion within portfolios. What has often been missing from the headlines is the work that is happening behind the scenes to build value, particularly in the area of operational intervention. Much of the uplift in valuation that we are seeing in portfolios is coming from these efforts, though we recognise that increases in comparable valuation multiples are also playing an important role in this value creation story.

We don't know when the cycle will end or for how long strong returns will continue but believe it reasonable to assume that the chances of a recently raised primary fund encountering recessionary-like conditions within in its investment life are greater now than they were 12-18 months ago.

We do not see an immediate cessation to the steady rate of exits and returns over and above valuations at which businesses are being held at, or demand for private equity owned businesses from trade buyers which is fuelling exits. At some stage, however, the effect of increasing purchase price multiples could impact on exit multiples and compress eventual returns to investors in this asset class.

With regard to the secondary funds market we have seen significant firming in pricing this year. From Alexander Barr, Aberdeen SVG Private Equity Managers Limited, managers of Aberdeen Private Equity

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Property *(compare Property funds here)*

The main drivers of our business continue to provide grounds for optimism: economic growth is improving in both the UK and Continental Europe; supply of high quality big box warehouse, urban logistics and light industrial space is tight in our key markets with little sign of imminent over-supply; and there is healthy demand from logistics operators, parcel delivery companies and retailers for space both in major distribution hubs and near large cities to cater for e-commerce and convenience customers. In addition, the weight of money chasing real estate in Europe continues to drive the value of industrial and logistics warehouses higher.

The level of investor demand, particularly for big box logistics properties, has driven yields down to levels where we believe the risk-adjusted return of investing in our development pipeline comfortably exceeds the returns from most of the acquisitions we review. This has been our experience in the first half of the year and is likely to remain so for some time.

Over the medium term, we are confident that rental value growth will become a more important driver of valuation increases, especially in the UK. This should translate into improving operating metrics and, therefore, overall profitability. From SEGRO

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Against the backdrop of a growing UK economy, continued strong demand for commercial property and an improving occupational market, the potential returns available from the UK commercial property market remain attractive. The potential for tightening monetary policy and rising yields means that rental growth will be an increasingly important driver of property returns,

requiring a strong focus on good stock selection and proactive asset management. From Lorraine Baldry, Chairman, Schroder Real Estate Investment Trust Limited

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Looking forward, whilst we expect interest rates to remain lower for longer than originally indicated by the Bank of England, future returns will be more heavily influenced by occupational demand and the ability to capture rental growth. We therefore expect cities and towns with diversified, growing economies and favourable supply and demand characteristics, to perform best. In addition to some locations in London, cities such as Manchester, Cambridge and Leeds should benefit from above average levels of investment and employment growth which should, in turn, translate into higher levels of rental growth. For example, office employment growth in Manchester city centre was 8% during 2014 with projected office employment growth forecast as the highest in the UK at 2.4% per annum between 2014 and 2019 (Source: Oxford Economics). This growth combined with an undersupply of new offices underpinned the recent acquisition of City Tower in Manchester.

Against the backdrop of GDP growth, restricted new development and increasing occupational demand, we expect strong demand for UK commercial property to continue. Whilst this should lead to good returns in 2015, rising interest rates could reduce the relative attractiveness of the sector, particularly for the lower yielding sectors such as prime West End offices, where initial yields are at historic lows.

Whilst this is currently an attractive operating environment, we remain vigilant to the longer term impact of rising interest rates on all asset classes, as well as the potential for shorter term volatility due to the EU referendum. Some pricing of trophy assets is difficult to justify. From Duncan Owen, Schroder Real Estate Investment Management Limited

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Renewable Energy *(compare Renewable Energy funds here)*

The regulatory outlook for operational wind farms in the UK remains stable owing to the UK Government's policy of "grandfathering" for operational projects. Notwithstanding this, the announcement of the loss of the Climate Change Levy exemption for renewable electricity from 1 August 2015 in July's Budget has had a negative impact, although this was largely offset by announced reductions in the Corporation Tax rate. The removal of the exemption is effectively an increase in taxation (including on imports of foreign renewable electricity) and benefits HM Treasury accordingly. The Group was previously assuming the removal of the exemption from 2022.

In contrast to operational wind farms, regulatory risk is the key risk faced by renewable developers. In particular, the Renewables Obligation is now closed to solar assets larger than 5MW from March 2015 and, given policy changes following the general election, will be closed to onshore wind from March 2016 (subject to certain grace periods in each case). The CFD regime, which replaces the Renewables Obligation for new projects, brings considerable uncertainty for developers, particularly onshore wind and solar.

There is currently over 8GW of operational onshore wind capacity plus over 4GW offshore. Installed capacity is set to grow over the next few years to over 12GW onshore plus over 12GW offshore, despite recent policy changes to the Renewables Obligation for onshore wind. In monetary terms, the secondary market for operational UK wind farms is approximately GBP30 billion, increasing to GBP60 billion in the medium term.

In general, independent forecasters expect UK wholesale electricity prices to continue to rise in real terms (in the short and long term), based on tighter UK capacity margins in the short term and global energy supply and demand in the long term, together with the ongoing phasing out of coal-fired power stations. However, long term power price forecasts have fallen over recent quarters, reflecting downward revisions in commodity price forecasts. From Greencoat UK Wind

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Resources *(compare Resources funds here)*

Over the past year, surging North American oil production and subsequent oversupply has resulted in significant volatility in the price of oil as OPEC has ceded its traditional role in balancing the market. The near term outlook for oil prices is further complicated by the ongoing crisis in Greece, continued headwinds in China, the potential for an agreement on Iranian sanctions and intermittent flare-ups in the Middle East. Unsurprisingly, energy companies have responded to this volatile and uncertain environment by reducing spending, increasing efficiency and targeting lower-cost production.

While the degree and speed of the recent oil price decline has obviously put pressure on industry participants, we believe that the resulting market dislocation has also created an opportunity. From Riverstone Energy

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Commodity prices remain under pressure, a result of moderating growth in China, US dollar strength and growing supply, yet the industry has responded well with companies aggressively cutting costs and curtailing spend on future growth. At current prices, high cost supply is leaving the market, which should result in the higher prices required to support investment over the medium term. Despite the falls in commodity prices, companies with robust balance sheets and high quality assets remain well positioned to marginally grow dividends. Overall, we remain cautiously optimistic. From Ed Warner, Chairman of BlackRock Commodities Income

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We are now seeing many of the classic signals associated with the low point of the cycle for the natural resources sector. Companies have responded to lower commodity prices by cutting operating costs and capital expenditure and instead focusing on returns and dividends. In certain commodities we are beginning to see supply and demand rebalance. A number of high quality companies are trading at cyclical lows, offering attractive dividend yields, with both the energy and mining sectors trading at good dividend yield premiums to the market. While the ultimate timing of a recovery in the sector remains uncertain, investors are being 'paid to wait' for commodity markets to rebalance.

While the outlook is likely to remain volatile, action taken by industry, in particular the significant reduction in capital spending, is expected to lead to a rebalancing of markets over time. It is clear that the rebalancing of the energy market is already underway, with demand growth accelerating and US production starting to roll over. Among mining commodities this rebalancing will take longer, with a number of base metals (copper and zinc) approaching deficit markets over the next twelve months.

However, bulk commodities (iron ore and coal) look well supplied over the medium term.

Following a period of weak commodity demand, recent measures taken by the Chinese government to support the economy, have to an extent improved sentiment for the sector. Should these measures translate into a pick-up in underlying demand, we would expect to see a re-rating of both company share prices and commodity prices. As we have seen in the past, an improvement in global macro-economic conditions would likely bode well for the sector, but, this does require China to follow suit given the country's importance to global commodity demand.

From a company perspective, we would expect action taken by the industry to cut cost, curtail capital expenditure and sell non-core assets to remain in place. At current commodity price levels, dividend growth will be modest and likely to be confined to the major producers. In the absence of a re-rating of share prices, this is likely to see the sector trade at a meaningful dividend yield premium to the market. Today, we see a number of quality companies trading at attractive valuation levels, in particular when compared to valuation levels in broader markets. This has already been recognised by a number of corporates with the level of M&A increasing in the sector. Whilst we are seeing a number of classic signals associated with the low point of the cycle, the ultimate timing of a recovery remains uncertain and investors are receiving strong yield support while they wait. From Olivia Markham and Tom Holl, BlackRock Investment Management (UK) Limited, managers of BlackRock Commodities Income

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Technology *(compare Technology funds here)*

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 some cloud and internet companies appear lofty. In this sense, we think the pause in appreciation of their shares was a healthy way of purging some of the overenthusiasm 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.

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

1. 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.
2. 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 with 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.
3. 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.

4. 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 is breaking out. 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 are on it again in 2015. The new product cycle has been extremely strong, and channel checks are showing that the cycle still has legs. While the product cycle may be 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.

From Walter Price, Allianz Global Investors US LLC, managers of Allianz Technology

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Although worldwide IT spending is expected to fall 1.3% in 2015, this decline reflects significant headwinds associated with US dollar strength. On a constant currency basis, IT budgets are somewhat healthier with growth more broadly inline with global GDP (3.1% vs. 3.5% respectively) this year. Whether or not an improved economic environment and less 'uncertainty' result in a pick up in capital spending remains a moot point. Dollar strength represents a significant incremental headwind this year because c. 56% of US technology sector sales come from overseas, more than any other sector except energy. However, nearly all semiconductor sales are conducted in dollars, which means that only c. 37% of US technology revenues will face direct headwinds from dollar strength. This is expected to generate a c. 4% drag on top-line growth. The sector's exposure to energy related spending (c. 10% of total IT spending) is an additional downside consideration given sharply lower oil prices and reduced capital spending intentions. In any event we continue to believe that low single digit IT spending growth remains entirely at odds with computing needs that are growing inexorably; this makes a further reallocation of budgets appear inevitable. As in prior years, this budget reallocation is likely to disproportionately benefit cheaper next-generation technologies and vendors with little to lose and much to gain.

The internet is continuing to offer exciting disruptive opportunities, which give scope for smaller companies to exploit. The UK seems to be particularly innovative, albeit constrained by lack of capital. However, modern technology also reduces the capital needed because IT companies can inexpensively rent hardware from the proliferating datacentres. The US is innovative too, but is largely funded privately at valuations that seem hard to justify. Furthermore the valuations that some of these emerging companies are attaining is distorting the labour market, because employees have hit the jackpot in gains on share options and restricted stock units. This bubble seems focused on Northern California, with less inflated expectations on the East Coast and even in Seattle and Southern California. The influx of these West Coast companies

to London is conspicuously tightening the UK labour market, but provides valuable training.

The Manager is confident in the outlook for the portfolio companies, albeit this enthusiasm is tempered by the evolution of financial markets both in the UK and elsewhere, and by global economic uncertainties. From Julian Cazalet, Chairman, Herald Investment Trust

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As with the broader market, the technology sector re-rated modestly over the past year leaving it trading on a forward PE of 17.5x (2014: 16.7x) in line with longer-term averages (the median forward PE since 1976 averaging 15.3x). However, large-cap technology companies continue to boast some of the strongest balance sheets with cash equivalent to c. 8% of market capitalisation which - at par value - would reduce cash-adjusted valuations to an undemanding c. 14x forward EV/NOPAT. Unfortunately much of this cash is held (trapped) offshore and therefore would be subject to repatriation tax. As in previous years market-capitalisation weighted measures of value continue to be flattered by a number of cheap mega caps. On a relative basis, the technology sector continues to trade at/around 1.0x the market multiple (ignoring balance sheets) which suggests relative downside is limited but at the same time it is difficult to argue for a material re-rating given that overall IT spending is barely keeping pace with global GDP. Fortunately, most technology incumbents have now at least begun to acknowledge their slower growth profiles via greater capital return programmes in the form of both buybacks (the sector reducing its shares outstanding by c. 2% in 2014) and dividends. While the aggregates are somewhat flattered by Apple's remarkable $68bn capital return between Q1'14 and Q1'15, each of IBM, Intel, Oracle and Microsoft returned more than $10bn to shareholders over the same period. This trend looks set to continue given strong cashflow generation and over-capitalised balance sheets - with Apple, Microsoft, Cisco and Google combined holding $345bn in cash reserves, equivalent to 23% of total corporate cash reserves in the US.

Although there is no denying that most growth-challenged incumbents have become better stewards of capital this has done nothing to alter our view that enterprise computing is looking increasingly anachronistic and our belief that the new technology cycle has entered a more disruptive phase where newer technologies will increasingly replace, rather than augment existing ones. Although budget reallocation and technology deflation may only appear marginal today - after all, leading public cloud company Amazon Web Services (AWS) boasts 'only' $5bn in annualised revenues versus total corporate IT spending of c. $1.7tr - it is likely already having a meaningful impact on incumbents because 'all' of the industry's incremental growth is being captured by new technologies and vendors. This likely explains why IBM was forced to abandon its long-term (financially engineered) earnings targets last year when it cited the "unprecedented pace of change" in the industry.

IBM's travails are likely to be more widely felt over the coming years as large legacy technology areas continue to slow and/or contract. Having grown at an average annual rate of 7.8% over the past ten years, PC unit growth turned negative in 2010 with the advent of tablets. After a terrible 2013 (where PC units fell 10% y/y) the PC market (2013: $202bn) stabilised last year due to developed market growth where the expiry of support for Windows XP helped drive a corporate replacement cycle. However, these tailwinds appear to have largely played out with current expectations for 5% unit declines in 2015 reflecting an increasingly commoditised, mature industry. The tablet (c. $80bn) market also looks increasingly mature with single digit unit growth expectations reflecting cannibalisation from larger-screen smartphones. Printing ($50bn) looks set to continue contracting with hardware and supplies expected to decline at an annual rate of 1.4% and 2-3% respectively though 2018.

Servers (2013: $51bn) are likely to fare somewhat better (c. 4% growth this year) aided by Windows Server 2003 support expiration, offset by the trend of higher workload density. However, demand for UNIX servers (c. 10% of the overall market and dominated by IBM, Oracle and HP) is expected to decline 18% this year, having already contracted by 15% in 2014. Mainframes (2013: $4.7bn) have been a relative bright spot (especially for IBM which enjoys c. 71% market share and c. 60% margins) but the number of mainframe customers globally has fallen to 3,500 from 5,000 five years ago. Storage (2013: $35bn) has also fared relatively well with capacity growth of c. 26% in 2014 expected to accelerate to c.39% through 2018. However, price declines of c. 25% mean industry revenues are likely to grow under 4% through 2018. Incumbents such as EMC and Network Appliance will also have to contend with market fragmentation with converged, all-flash and hyper-converged alternatives (dominated by new vendors) growing at the expense of the traditional network (NAS) and storage attached (SAN) markets.

While deflation as an industry constant is well understood, over time its impact can be truly staggering. For instance, DRAM costs have dropped from c$80k/Mb in the 1970s to around 1c today, while HDD storage has declined from c$315/MB in the early 1980s to less than 1/10,000th of a cent today. Compute costs have also fallen precipitously with the same dollars buying more than 3000x the number of transistors today than they did in 1989. The impact of open-source infrastructure, upon which many of the webscale companies are built, is also likely to play an increasingly deflationary role going forwards. Fortunately, the same deflation that is causing havoc in legacy markets (where volume growth is insufficient to offset pricing) significantly increases the reach of technology - from 1m mainframes to 5bn mobile Internet users and, in time, 30bn connected devices. This makes it possible to 'reimagine' major global industries such as advertising, commerce, payments and travel. However these new opportunities have very little to do with legacy incumbents, explaining why they embark on M&A activity designed to offset the impact of the new cycle. As the current cycle becomes increasingly pernicious we expect this type of 'defensive' M&A activity (epitomised by SAP's $8.3bn acquisition of Concur at c.10x sales last year) to re-accelerate. Underlining this point, Hewlett Packard CEO Meg Whitman recently declared that one-time serial acquirer HP was "back in the M&A game" which should remind investors that free cash flow yields are a flawed measure of value when M&A is required to ameliorate the impact of a new cycle that - in the case of HP - has resulted in year over year sales declines in every one of its business divisions.

Despite more challenging fundamentals, many of the legacy companies in our sector are today trading at their highest relative price earnings ratios for years because of broader market PE expansion and their attraction to incremental buyers due to capital return programmes and/or the articulation of Cloud strategies. In contrast, most of our favoured next-generation companies with modest (if any) exposure to challenged areas - are materially cheaper today than eighteen months ago despite most having continued to deliver strong performance. While we have previously acknowledged that the valuation 'elastic' between the sector's 'winners' and 'losers' had become stretched in early 2014, the sentiment-driven readjustment that has persisted since then has been substantial. While we cannot know if the present reset will prove sufficient (or if it has already 'overshot'), at time of writing the relative valuation spread between legacy and next-generation assets is significantly less demanding that it was a year ago. We expect these respective growth profiles to continue to diverge as foreign exchange headwinds, slower EM growth and a weaker PC market will weigh disproportionately on incumbents.

We also expect M&A activity to support small / mid cap valuations although recent deals have involved large-cap peers combining using cheap debt to generate immediate financial synergies in the style of private equity which have been cheered by shareholders. One key risk to our new cycle thesis (beyond trying to establish appropriate premiums for next-generation assets) is whether or not strong cash

generation / capital return can trump weak / negative organic growth. This question will be brought into sharper focus by increased shareholder activism as well as potential private equity activity. Other risks include a repatriation window, access to remarkably cheap debt / de-equitisation and equity flows that favour passive funds, all of which could dilute or even overwhelm our 'diverging fortunes' thesis. From Ben Rogoff, manager of Polar Capital Technology

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