September 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:

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Global *(compare Global funds here)*

Equity markets continue to be underpinned by moderate growth in the world economy and low levels of inflation. This has permitted interest rates to be held at very low levels for a prolonged period of time. The central banks in the UK and USA have been warning for some time that they expect to start raising short-term interest rates in the not too distant future. Interest rates are likely to be raised very gradually, as there will be a great desire not to tip their economies back into recession. Meanwhile, in most other countries, central banks are still pursuing very stimulative policies. The Japanese and Continental European central banks are aggressively buying back their government bonds. This helps to underpin the equity markets in both areas.

Equity valuations are expensive but, in general, not yet at levels where cash is uniformly a better option. Being expensive, they are vulnerable to negative events such as the Greek crisis and events in China. The Greek government has agreed terms for further financial support from the rest of Europe, which again kicks the can down the road. The Chinese government has taken direct action to support share prices and avoid the short-term collapse in Chinese shares developing into a financial panic.

While the upside may be limited by valuation levels, we continue to believe that there is good value in many Japanese companies and, to a lesser extent, in Europe. This is where our investment emphasis remains. From Teddy Tulloch, Chairman, EP Global Opportunities

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For over six years financial markets have traded against a backdrop of virtually zero interest rates. During this period of unorthodox and unfamiliar policies, many unrecognisable financial relationships have evolved. During the last six months we have witnessed: negative deposit rates and negative bond yields in some countries; record levels of stock buy-backs in the US; and constant intervention from all major Central Banks. In addition to numerous other economic consequences, this financial landscape has proved particularly harsh on savers. The current financial environment is uncomfortable for savers and investors alike. Additional uncertainty also prevails for companies operating in this environment. Delivering progressive profitability and dividend growth against a back drop of intense competition, unpredictable final demand and downward pressure on selling prices will be difficult to achieve. From Kevin Carter, Chairman, Murray International

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Looking to the future, we are particularly mindful of our principle of capital preservation at a time of diminishing growth forecasts for world economies, while stock market valuations remain high. There are so many factors which cause concern: for example growth in China is slowing down, reflected in the worldwide sell off in commodities; we cannot but be alarmed by the political and economic situations in the Middle East, Greece, Russia and Ukraine; the burden of vastly increased and often unproductive debt must surely undermine prospects for future growth. We continue however to search for compelling investment opportunities, recognising that the climate is one where the wind may well not be behind us. From Lord Rothschild, Chairman RIT Capital Partners

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The developed world entered the second half of the year with economic growth improving and becoming more synchronised after the contrasting fortunes seen in recent years. The US and UK economies are growing at rates that have brought forward expectations that current near-zero interest rates will soon start to rise, although the authorities have been careful to reassure that the pace of tightening will

be gradual. Within Europe, growth is unevenly distributed but, with the clear exception of Greece, generally at a faster pace than 2014.

The main areas of concern centre on emerging economies. China's economy has been slowing for some years, amid concerns that a period of excessive property and infrastructure investment had left its banks exposed to bad debts. This year has also seen the puffing up and bursting of a domestic stock market bubble, which risks undermining confidence in China's nascent financial markets. The jury is out on whether the authorities will be able to steer the economy towards a soft landing. Some other emerging economies have been hit by the weakness in oil and other commodity prices, as well as worries that they will suffer capital outflows if the US Federal Reserve tightens liquidity.

Despite the adjustment pains in some emerging economies and in parts of Europe, there appear to be more economic tailwinds than headwinds. Corporate earnings are improving, the effect of low oil prices should support consumer demand in oil-importing countries and liquidity trends remain positive, with central banks in Europe, Japan and a number of Asian economies easing policy, while rate increases in the US, and possibly the UK, seem likely to be very gradual. An environment of moderate economic growth and subdued inflation should favour equity investment, although there are few windfalls after the gains seen in recent years. This argues for selectivity, both in the markets and individual stocks invested in and in avoiding pockets of speculative excess, such as have occurred in government bond markets in early 2015 and more recently in the Chinese domestic market. From Harry Henderson, Chairman and Andrew Bell, Chief Executive Officer, Witan

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Looking forward, the closed-ended sector is evolving through a new issue boom. The sector has recently welcomed alternative asset classes such as aircraft leasing, litigation financing, catastrophe bonds and solar farms. The preponderance of such highly specialist mandates will make it challenging for generalist investors and brokers to accurately assess the prospects for many of these newer ventures. This should create far more pricing inefficiencies in the future.

Equity markets continue to make progress, with central banks generally continuing to operate stimulative monetary policies. Whilst this leaves equities looking much better value than government debt, they can hardly be described as cheap in relation to the ratings attributed to them historically. Leverage within the financial system is a concern, as margin debt lent by US brokers to their clients dwarfs that outstanding at the peak of the credit bubble in 2007. It is impossible to call when such loans will be unwound

[*There has been a*] substantial issuance of new vehicles offering generous income streams to yield-starved savers. The closed-ended structure is ideally equipped for creating income but there is now a generous supply of this type of product. At some point, there will be some form of normalisation of interest rates. Once clients of the wealth management industry can obtain a measurable income from conventional sources, they will return to these at the expense of the more esoteric offerings. This will lead to supply swamping demand. From Nick Greenwood, Miton Asset Management Limited, manager of Miton Worldwide Growth

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UK *(compare UK funds here)*

Smaller quoted companies tend to have greater growth potential than larger companies. During the recent decades of global economic expansion, this differential has not been especially relevant. Investor expectations for the trajectory of growth appear to have changed, evidenced for example by the scale of the fall in the oil price. If this is the case, then the extra growth potential of smaller quoted companies may become more important once again.

Of course, all companies (including smaller quoted companies) may find the reduction in world growth a greater challenge. Many smaller quoted companies also have better dividend cover than many of the largest companies, again offering greater opportunity for them to increase dividends by meaningful percentages. From Michael Wrobel, Chairman, Diverse Income Trust

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In March and April, prior to the UK election, around £1.7bn of capital was redeemed from the Open Ended Investment Companies in the UK All Companies OEIC universe of funds. This rate of redemptions actually exceeded the worst months in the middle of the financial crisis in 2008. With a UK election result that was rather clearer cut than anticipated, UK investors can look forward to a stable, business-friendly Government for the coming five years. In contrast, the polls and the result of regional elections in mainland Europe suggest that their direction of travel is more uncertain.

All this suggests that there may be room for renewed allocation of investment capital into UK equities, most particularly into stock with attractive valuations such as many within the small/micro caps universe. The valuation differential between the mainstream stocks and the micro caps appears particularly wide at present. Whilst the smaller companies sector has been somewhat less favoured over the year to May, it is interesting to note that those generating good and growing dividends have continued to enjoy premium performance. From Gervais Williams and Martin Turner, Miton Asset Management Limited, managers of Diverse Income Trust

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UK economic growth has been acceptable, although the recovery so far has been stimulated largely by the housing market. Encouragingly, growth is now beginning to broaden out as wage increases show signs of coming through. However, there are some clear warning signs of trouble ahead. Our current account deficit - which shows how much more we pay out overseas than bring in - is the worst since records began in 1948. This is not yet causing a problem for sterling but this is probably down to the European Central Bank's quantitative easing programme which is printing €15bn per week. However the pound may well weaken next year when this QE programme finishes and the UK moves closer to its referendum on EU membership.

Regarding the current boom in corporate activity, we have commented for some time that M&A is the inevitable outcome when growth is slow, balance sheets are strong, liquidity is cheap and plentiful, equities are relatively cheap and CEO confidence is rising. We hope to benefit from this trend as we own many fantastic businesses where the value available to an acquirer is meaningfully in excess of the value being attributed to them in the market. In addition, although valuations seem stretched in several areas of the market, uncertainty due to global geopolitical events could present opportunities to add to our favoured names.

The outlook is challenging, there is a lot to think about, but we are very clear that UK equities are a reasonable place to be and our track record in good old-fashioned stock picking should continue to deliver decent returns going forward. From Chris Kinder, Portfolio Manager, Columbia Threadneedle Investments, manager of UK Select Trust

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We remain positive on the medium term outlook for UK equities but expect returns to come in a more volatile manner over the next twelve months. The UK economy is still in pretty good shape with growth currently the strongest of any major advanced economy whilst inflation and interest rates remain at historically very low levels. However, with continuing uncertainties in Greece and the huge Chinese economy slowing rapidly, the immediate outlook is uncertain.

Against the backdrop of a slowing global economy, it is difficult to predict the short term direction of the UK stock market. However, we remain encouraged by the prospects for our shareholders over the medium term. The UK now has a shareholder-friendly, centre-right government for at least five years. This is a global, political rarity which should provide a more predictable backdrop for both companies and investors to plan their affairs. Excess corporate cash continues to be utilised in shareholder friendly ways and we expect mergers and acquisitions to accelerate. The hunt for secure yield is still one of the biggest global investment themes and, in this regard, equities are one of the most attractive asset classes. With UK inflation at zero, a prospective nominal yield on the FTSE All-Share Index of 3.7% is a real one of the same amount, which is not unattractive, especially when dividends are still growing strongly. From William Meadon and Sarah Emly, Investment Managers, JPMorgan Claverhouse

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The last six years have been very positive for equity markets and particularly the smaller companies sector. Recent events like the UK general election have bolstered that performance, so investors may be concerned about how long this can last. Yet bonds and cash remain unattractive to investors, so there will continue to be a steady flow of funds into equities, which should help to maintain present levels. Smaller companies' stocks are also less well-researched and followed than those of large companies, which means that value can be found by stock pickers. There will continue to be uncertainty about the UK's position in Europe until the referendum. From Jamie Cayzer-Colvin, Chairman, Henderson Smaller Companies

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The year under review has been a positive one for equity markets. The global macro-economic environment has been gradually getting better with world GDP forecast to show good growth in the current year with some modest acceleration in 2016.

The UK economy has shown steady progress. The housing market has remained strong, with a rise in prices and solid transaction levels, aided by low interest rates and Government initiatives. The unemployment rate has fallen and there are signs that wage inflation is starting to rise. The unexpected majority that the Conservative government achieved also removed uncertainty about short-term political direction in the UK. All these factors are boosting consumer confidence. There remains the strong possibility of a rise in interest rates, but with inflation remaining low, the timing of the move has been pushed back to a consensus view of early 2016. However, as it currently stands, rates are expected to rise slowly and to levels well below historic levels, which should allow the UK economic recovery to continue.

After the rise in the past few years, stock market valuations are now at around long-run historic averages. Corporate profitability has proved robust but has not shown much growth in recent years. It is difficult to see the market making material progress

from current levels without an increase in corporate earnings. However, given an improving economic backdrop, we are hopeful that the outlook for corporate profitability is improving. Mergers and acquisition activity has been relatively subdued as management teams are unwilling to take on financial leverage in the face of perceived economic uncertainty. But there are more recent signs, particularly in sectors such as healthcare, telecoms and technology, that this trend is reversing. An increase in M&A would be helpful for smaller companies in particular as mergers and acquisition activity tends to be focused in this area. From Neil Hermon, Fund Manager, Henderson Smaller Companies

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North America *(compare North American funds here)*

Little has changed since I wrote my 2014 annual commentary to affect our outlook for the US equity market and we continue to remain somewhat constructive on the outlook for US equities. Our view of overall profitability has not altered much; our 2015 forecasts have stabilised after the sharp downwards revisions required by the rise in the Dollar and fall in the oil price, and our long-term estimates actually edged slightly higher over the period. Upwards revisions were concentrated in the healthcare, media and financial sectors, with the industrials the focus for lower forecasts. For most companies, fundamentals still look pretty strong, with an improvement in domestic consumer spending a healthy antidote to weak demand in many foreign economies. And even with operating margins close to record levels, revenue gains are still being enhanced by operating margin improvement. This "golden age" of profitability will suffer another cyclical interruption at some point, but we see little chance of that in the domestic economy for at least a couple of years. And from a long-term viewpoint, eventually competition must rise and high margins will be undermined, but so far most American companies have proved resilient to global competition. Overall we see little growth in profits this year thanks to the strong Dollar and weak oil price, but the underlying growth rate looks solid enough to sustain operating profits growth in the mid-single digits.

Meanwhile the use of capital remains a huge theme and differentiator in the current market. Stock buybacks at record levels are boosting earnings growth by about 2% this year, although the market is rewarding buybacks less these days, which is a logical response to the much higher prices that companies now have to pay when repurchasing their own shares. The M&A cycle is now in full swing, driven by abundant cash flow and cheap financing. Deals are coming thick and fast, especially in the healthcare sector, while the market is still often rewarding acquirers as well of course as the targets. Eventually M&A booms end in tears with companies overreaching and overpaying, but we do not think we have reached that stage just yet.

For this outlook, investors are paying around 19 times forward earnings estimates for the small cap market; not cheap at all, and a premium to large caps, though valuation levels in equities do seem more reasonable relative to fixed income alternatives, especially when comparing today's earnings yields with the yield on the ten year government bond and long-term interest rates. We would expect equities to be a bit more volatile in the second half, especially as the Fed begins to increase rates. While the stock market has been very easy to live with in recent years history tells us that

single-digit returns and double-digit volatility are the norm. Setbacks of 8-10% in the market are both inevitable and impossible to forecast, but bigger declines usually come at the end of the business cycle, though we suspect that this cycle may have a few years left to run. From Don San Jose and Dan Percella, Investment Managers, JPMorgan US Smaller Companies

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Fundamentals in both Canada and the United States should continue to provide a supportive backdrop for equity markets. Canada, in particular, will benefit from a weaker dollar and the strength in the U.S. economy. Looking forward, we believe global growth will continue to accelerate, led by the ongoing recovery in developed economies, including Europe. From Nicholas Villiers, Chairman, Middlefield Canadian

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It is particularly difficult to be confident about the direction of the US equity market at this stage. There is an expectation that interest rates will rise in the second half of the year - although expectations of rising interest rates have turned out not to be well founded over the last few years. It might be reasonable to expect some turbulence as rates rise, as even if equity markets would not on their own be too troubled, the impacts on bond markets might be significant. As we now know, sharp movements in any market tend to reveal a few flaws and tensions among participants in those markets.

However, the US market is not in very expensive territory, innovation seems to be persistent and inflation seems to be subdued. It is possible that US growth will strengthen over the rest of the year, and newsflow may surprise investors. The range of opportunities provided by the US market continues to be attractive. From Sarah Bates, Chairman, JPMorgan American

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Employment trends continue to show slow, steady growth and the cyclical areas of the US economy continue to improve from their depressed levels of a few years ago. Consumer confidence has also rebounded as consumers are more able to enjoy the benefits of this economic recovery. The second quarter earnings season is quickly approaching. We are optimistic that earnings may improve as economic growth has rebounded from the tepid 1st quarter pace, while the US dollar and oil prices have stabilized. Given risks present overseas, such as in Greece and increasing concerns over Chinese equity markets, volatility could be here for some time. The noise around the Federal Reserve's initial interest rate increase will have to be dealt with over the next few months as well. However, a US economy which is expanding, along with continued stability in the US dollar and oil prices, gives us optimism that equity markets can regain their upward trend. From Garrett Fish, Investment Manager, JPMorgan American

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Latin America *(compare Latin American funds here)*

Although the slowdown in demand for commodities has hit the region hard in recent years, there remain a number of reasons why optimism about the medium-term future is warranted. Whilst the political environment in Brazil is currently preventing the implementation of much needed structural change, it does now appear that the reform process in Mexico is beginning to bear fruit. Following weak currency and equity markets the valuations of some Brazilian companies now look reasonable, and, if inflation subsides, the prospect of falling real interest rates may well begin to provide

a more supportive environment for Brazilian equities. Although Mexican shares are more fully valued, confidence in future earnings prospects is also accelerating. From Peter Burnell, Chairman, BlackRock Latin American

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Asia *(compare Asian funds here)*

During the second quarter of 2015, we saw considerable volatility in financial markets, which was predominantly driven by developments in Greece, a slowing Chinese economy, weaker commodity prices and an anticipated shift in US monetary policy. With the avoidance of Greece exiting the EU, these remaining factors, and concern over slowing global growth, continued to impact financial markets in the third quarter.

The Greek bailout program and its future in the Eurozone dominated the spotlight in the second quarter of 2015 despite a gradual broad economic recovery in the EU. The possibility of a 'Grexit" has dissipated after Greece agreed to creditor demands that released funds to avoid a default on payments to the European Central Bank in August. The new aid package has put Greece in a more stable position, but the long-term merits of the package have come under scrutiny as a long-term viable solution.

In China, the central bank cut reserve ratios and interest rates twice during Q2 to ease liquidity conditions and stimulate growth while it continues its structural growth transition from investment-led to consumer-led growth. Despite its efforts, the Chinese economy is expected to slow and this may impact overall growth prospects for emerging markets. The Chinese stock market boom has been dampened as a result, which has rapidly reversed much of the gains made over the past 12- months. The slowdown and stock market reversal has created concern over the impact on households, financial institutions with exposure to margin finance, commodity markets and overall economic growth in the region. China unexpectedly moved to devalue its currency in early August, which heightened concerns over emerging market currencies.

The International Monetary Fund ("IMF") reduced estimates for global economic growth for 2015 to 3.3% from 3.5%. This revision was driven by headwinds in emerging markets, the Eurozone and weaker than expected preliminary US economic indicators. In this context, Asia is forecasted to see weak economic performance.

In addition, the Asian Development Bank ("ADB") reduced its 2015 aggregate growth forecast for Developing Asia to 6.1% from 6.3% (reversing last quarter's increase) and reduced the growth forecast for 2016 to 6.2% from 6.3%. The forecast for India remained consistently strong however China saw a reduction in 2015 growth projections to 7.0% from 7.2%, and for 2016 to 6.8% from 7.0%.

The long-term outlook for Asia remains positive based on global reflation, lower oil prices and structural factors, though there are risks from slowing global growth. Most Asian currencies weakened against the US dollar, which was driven in part by risk aversion to emerging markets and an anticipated interest rate increase in the US during the third quarter of 2015. From Symphony International

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The impending US interest rate hike continues to loom large, especially because dividend-paying stocks may find less favour with investors as a result. Higher-yielding stocks have undeniably lost some of their lustre compared to a few years ago, when it appeared that near-zero interest rates would be part of the financial landscape indefinitely. However, the normalisation of monetary policy should lead to a long-

overdue realignment between company fundamentals and asset prices. This is never a bad thing: China is a case in point.

Forecasts for Asian economic growth have continued to slide lower, amid slowing demand from China, sluggish exports and rising household debt. That said, the region is still expected to be the engine of global growth in the years to come, with economic expansion underpinned by young populations with increasing wealth. Improving government finances mean that Asia is better placed to withstand any short-term turmoil. Corporate earnings growth in the region is likely to remain muted in the near term.
From Peter Arthur, Chairman, Aberdeen Asian Income

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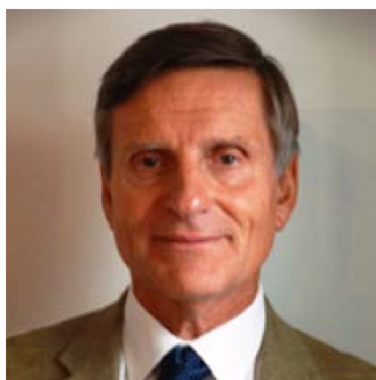
Vietnam

Bull markets never last forever, but there are good reasons to believe that Vietnam's current one will enjoy plenty of support for the coming year.

During the first half of 2015, the pace of its markets' growth has been measured. At a 12.4x historic earnings valuation as of mid-year Vietnam stands at 28% below its closest regional peer Malaysia, and lower than all other regional peers by 60% and more. The profitability of Vietnamese corporations as reflected by their average 15% equity return and 10% profit margin reflects a recovering economy that has plenty of room for further growth.

The ongoing actions to increase the Foreign Ownership Limits on shares of public companies are likely to become a catalyst for Vietnam's graduation from frontier to emerging market status in the MSCI indices. This is in fact one of the government's stated objectives. Previous cases of countries ascending to the emerging stock market status have resulted in increased inward flows of foreign indirect investments, which in turn helped companies to raise the additional capital needed to support higher growth.



In addition, recent structural reform measures presented by the government reflect Vietnam policy makers' increased commitment to achieve a vigorous modernization of the country. The number of free trade agreements signed or under negotiation, in particular the Trans-Pacific Partnership (TPP) will provide strong support to the implementation of these reforms. These free trade agreements will also provide a quantum boost to Vietnam's exports and inward direct investment. Equally important, the TPP will bring changes in the law and regulations concerning state enterprises, the environment, intellectual property, and investor protection. This should push policy makers further in the direction of transparent and progressive economic policies.

There are other directly market-related concerns to monitor. Here are a few issues that we are watching carefully:

Firstly a sizeable trade deficit has reappeared this year for the first time since 2011. Export growth of 9% in the first half of the year was outstripped by a 17% growth in imports, resulting in a trade deficit for the first 6 months of over USD 6bn or 3% of GDP.

Secondly, the government's ability to finance its customary annual budget deficit of approximately 5% will be a challenge. Yet, it will also positively impact the development of the domestic fixed income market as the authorities have started expanding a long-term yield curve for government bonds. Indeed, the government issued 20-year paper for the first time this year. Meanwhile, public indebtedness is now creeping up to the government's self-imposed limit of 65% of GDP.

A third source of concern to the equity markets is the slow, but recently accelerated pace of State Owned Enterprises (SOEs) reform. The SOEs continue to negatively impact the economy due to their disproportionate absorption of scarce capital, the misallocation of their resources, and the productivity drag they cause.

Finally, there is the slow-motion resolution of the Non-Performing Loans crisis of the past five years. The State Bank of Viet Nam showed substantial progress over the past few quarters in using the VAMC to centrally warehouse the system's bad debts, thus restoring bank liquidity, and reviving credit growth. The stock market has reacted positively to these achievements; however, the risk of a job only half-done remains.

In spite of the key risks identified above, we continue to forecast a bright long term future for the Vietnamese economy and its stock market. The second half of this calendar year promises attractive stock market returns, and we expect this trend to continue next year. From Jean-Christophe Ganz, Chairman, VietNam Holding Asset Management Limited

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Hedge funds *(compare hedge funds here)*

While we remain focused on the fundamental research and analysis for our specific positions, there are several macro themes on which we are particularly focused: the path for US interest rates, Greece and European cohesion, Chinese economic growth, and, of course, the path for oil prices.

As a result of the combination of the higher US dollar and some softer US economic data early in the year, the market pushed back expectations somewhat for when the US Fed will finally move off of the zero lower bound for short-term interest rates-although some time either later this year or early next still looks likely to most. While we do not believe that the gradual increase in interest rates will result in a bond market rout, we continue to monitor the potential effect of multiple different scenarios on our portfolio.

European risk picked up and died down several times over the first half of the year, as Greece elected the left leaning Syriza government to start the year. Syriza seemed to come to an acceptable interim arrangement in Q1 only to see that understanding unwind dramatically as the second quarter came to a close.

Similarly, fears around oil prices calmed as the second quarter began, only to lose footing as the quarter ended. Given the meaningful entanglement between Chinese economic growth and oil prices, and the importance of oil prices to the potential for a distressed opportunity in energy, we are watching both spaces carefully.

In the broader credit markets, we continue to see dispersion in high yield bond prices. Despite tighter headline spreads for the period to 30 June 2015 (the Barclays HY Index tightened from 488bp to 475bp YTD in 2014), today there are approximately 250 bonds trading at spreads greater than 1,000bp, compared to just under 50 at this time last year. 45% of those 250 bonds are in the energy sector, reinforcing our view that there will be opportunities in the energy space. Against this backdrop, we believe there are increased opportunities to invest in stressed high yield credits away from

energy as well. From David Warren, Chief Investment Officer, DW Partners, LP, managers of DW Catalyst

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The events of recent days have reminded investors of the vulnerability of equity markets to changes of expectations, especially where those markets have in part been buoyed up by speculators using borrowed money. However, these events serve to remind of the appropriateness within a portfolio of holding a low volatility diversifier. From Sir Michael Bunbury, Chairman, BH Global

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In the US, the Federal Reserve ("Fed") spent the first half of the year preparing the markets for the start of monetary policy normalisation by the end of the year. The two sides of the dual mandate for full employment and price stability have been sending mixed messages. On the one hand, the labour market is close to full employment, with the unemployment rate in the middle of the year at 5.3% and broader measures of labour market slack showing even faster improvement, along with tentative signs of stronger wage gains. On the other hand, inflation trends have been subdued owing to the sharp drop in oil and import prices. Given these cross-currents, the Manager expects the Fed to raise rates off their emergency low but remove accommodation only gradually. Although the policy divergence compared with the rest of the world will be small in magnitude, the commencement of policy normalisation in the US will potentially open up another round of currency adjustments.

Incremental progress on growth and inflation in the Eurozone in the first half of the year were overshadowed by the deepening crisis in Greece. With the acute phase of the crisis passing and negotiations begun for reforms and another bailout, attention will return to the overall macro outlook. Despite some progress, the economic fundamentals are daunting with huge amounts of slack in most countries and very low inflation everywhere. The ECB will complete its ambitious asset purchase program in September 2016 and the likelihood is that there will be justification to do more. Countries around the Eurozone periphery will likely continue to struggle with currency appreciation and sluggish growth, making them candidates for further nontraditional policy actions like further rate cuts into negative territory.

Japan presents interesting opportunities for investors. The economy is also sending mixed signals, with choppy growth and too-low inflation. However, the Bank of Japan is firmly committed to reflation and the government is backing a broad range of efforts to boost the stock market. The same is true in China, but the outcome has been more volatile. Chinese stocks soared and then suffered stunning setbacks. On the surface, Chinese growth looks fine but there are doubts about whether the official data are accurately tracking underlying developments. More broadly, emerging markets are a mixed bag, ranging from deepening problems in Brazil to more promising structural developments in India. Economies geared to Chinese growth and commodities more broadly are poised to suffer through lacklustre global growth and the trend appreciation in the US Dollar. But countries that can separate themselves from those developments have brighter potential. From Brevan Howard Capital Management, managers of BH Global and BH Macro

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Debt *(compare debt funds here)*

As we approach the end of the Federal Reserve's (the "Fed") zero interest-rate policy, we expect the loan asset class will garner significant attention from investors concerned about protecting their fixed-income portfolios from duration risk. The U.S.

market has already seen signs of this as mutual fund flows stabilised in 2015 after outflows totalled US$24.0 bn in 2014. The impending rate hike in the U.S. should eventually lead to inflows. Furthermore, CLO creation in both the U.S. and in Europe has remained steady year on year and continues to help support the secondary loan market.

U.S. bank loan new issuance reached US$229.0 bn for the first half of 2015, down 30% relative to last year's US$327.8 bn first-half tally. Volume was heavily weighted in the second quarter as robust demand spurred an increase in re-pricing activity. Given the decrease in net new issuance, supply has lagged demand in the loan market and we expect that trend to continue as the market adapts to new regulations governing leveraged lending guidelines.

In Europe, new issuance surged in the first quarter but slowed in second quarter totaling €36 bn of issuance. Similar to the U.S., re-pricing activity increased dramatically to almost €8 bn during Q2, accounting for 51% of the quarter's volume. Expectations for the remainder of the year are constructive, though Greece-related concerns may dissuade issuers from tapping the market.

The loan market is supported by healthy corporate credit fundamentals. Total debt used to fund large U.S. leveraged buyouts ("LBOs") declined slightly to 5.7x, compared to the end of 2014 (5.8x). Total leverage ratios of European LBOs ticked up slightly (5.6x) from the end of 2014 (5.3x). Ratios in both the U.S. and in Europe remain well below their 2007 peaks of 6.2x and 6.6x, respectively. Sponsors are also contributing more equity to their LBOs as equity now represents 42% of LBOs compared to 31% in 2006 and 2007 in the U.S. and 44% now versus less than 35% in 2006 and 2007 in Europe. Companies have taken advantage of receptive capital markets by cutting interest costs and pushing out their liabilities. Interest coverage ratios are historically high and the loan maturity wall is manageable with 80% of loans outstanding maturing in 2019 or later.

Default rates continue to remain below their historical average of 3.4% as the LTM bank loan default rate was 1.74% at the end of June. Strategists continue to be constructive on near-term credit risk and forecast loan default rates of 1.5% for both 2015 and 2016, excluding energy. Including the energy sector, the 2016 default rate may be closer to 2.0%. Companies in the energy and coal sectors have continued to struggle; nine energy companies and three coal companies defaulted thus far in 2015, accounting for 35% and 30% of YTD default volume, respectively.

In Europe, default rates based on principal amount ended the quarter at 2.13%, as seen in the S&P European Leveraged Loan Index. Default rates are expected to remain around this level after averaging 3-5% per year since peaking in 2009.

CLO Market Overview

Global CLO issuance was strong as 112 deals totalling US$59.0 bn and 19 deals totalling €8 bn came to market in the U.S. and Europe, respectively, during the first half of the year. Morgan Stanley estimates that nearly 40% of CLOs issued were brought to the market by repeat managers that manage more than 10 pre-crisis CLOs and around 34% were issued by managers with only CLO 2.0s under management. Six managers have priced three or more deals YTD, including GSO. The primary pipeline remains quite large, though collateral sourcing continues to challenge CLO managers and Greece's debt problems may curtail further European CLO activity. Strategists forecast full year 2015 volume to be US$85-US$100 bn in the U.S. and €18-€20 bn in Europe.

In the primary market, CLO spreads have tightened across the capital structure since December, though they started to drift wider in late May. Given the backlog of CLOs combined with lacklustre bank loan issuance, we expect that spreads will continue to widen over the next few months.

Larger managers that have issued deals before the crisis were able to access the market at a cheaper cost of capital. CLO managers with more than 10 CLO 1.0s under management priced their transactions at an average discount margin of L+147bps versus L+150bps for all managers.

Impending U.S. risk retention regulations are becoming a bigger factor in the new issue market. We expect that equity investors will become more insistent on risk retention-compliance to ensure the ability to refinance transactions after the rules become effective. CLO managers are beginning to move forward with solutions to risk retention and many have resolved to finance transactions themselves.

The Volcker Rule is threatening liquidity in the CLO market as dealers now face severe restrictions in, and potential capital charges on, owning senior notes of CLOs issued before 2014. Reduced liquidity is evident in the spreads of non-compliant, pre-crisis ("CLO 1.0") AAA notes. The AAA discount margins of CLO 1.0s widened from 70bps to 120bps over the 12-week period ending 26 June 2015. From GSO / Blackstone Debt Funds Management LLC, managers of Carador Income Fund

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The forecast for CLO 2015 issuance is €18-20bn, with €7.5bn issued during the first half of 2015 to 30 June 2015.

We expect loan market technicals to remain strong in the short-term and ramping CLOs should support secondary levels. 2015 forecasts for new-issue loan supply range from €65bn to €110bn, which bodes well for demand and maintaining attractive yield levels. We believe that ECB policy will remain ultra-accommodative, continuing to support credit and providing a liquidity injection that supports risk premiums. Defaults are anticipated to remain low in the near-term as low borrowing costs are expected to continue to support earnings. European growth rates are likely to remain low, with some upside provided by a weaker euro and lower oil prices helping to boost consumption.

Credit quality in the new issue loan market remains strong relative to the 2006/2007 peak, as measured by several commonly measured ratios reported by Standard & Poors Leveraged Commentary and senior secured leverage, as measured by Senior Debt / EBITDA, is 4.13x, with total leverage on average of 4.6x in 2015. The prior peak total leverage was 5.95x in 2007. For new issue loans to support leveraged buyouts, the total equity contributed by a private equity sponsor is 46% of capitalisation in the YTD. This compares with just 33% in 2007. Despite the relatively benign credit environment we consider it is important to maintain discipline and continue to decline c.50% of the new issue loan market. From Blackstone / GSO Debt Funds Management Europe Limited, managers of Blackstone / GSO Loan Financing Limited

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We continue to believe the pipeline of distressed debt opportunities in real estate, transportation and energy debt is compelling. The recent volatility in energy markets continues to present new opportunities in the U.S. as the effect of lower energy prices is reflected in the global economy. Additionally, the overall decline in commodity prices could contribute to new opportunities in the distressed market as certain industries that are linked to commodity prices struggle.

EU banks increased their disposal of European and U.S. loans and assets to €91 bn in 2014, versus €64 bn in 2013, €46 bn in 2012, €36 bn in 2011 and €11 bn in 2010. €59 bn of debt sales have completed or were in progress in the first three months of 2015, on a run-rate to exceed €100 bn for the full year. However, over €1 trillion of non-performing loans remain on EU banks' balance sheets. We believe that the

European regulatory environment may continue to facilitate further recognition and disposal of distressed loans. From NB Distressed Debt

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In the years following the 2007-8 financial crisis, regulators launched a series of initiatives to reform the banking regulatory framework to address the impact of significantly weakened financial institutions. This led to proposals such as Basel III and the European Banking Association's recommendation to re-capitalise banks and decrease their levels of leverage. Certain of these proposals have started to come into force and there has also been market pressure to address some of the underlying structural weaknesses. The initial result of these initiatives and proposals was to lead banks to fundamentally reduce the amount of loans they provided. The repair of balance sheets and the general increased availability of liquidity for most banks has somewhat encouraged the return of lending potential.

One of the sectors most affected by the above circumstances was the European commercial real estate (CRE) sector. Historically, this sector had relied almost entirely on banks for debt financing (up to 95 per cent. of debt is provided by banks, when covered bonds are included, according to some estimates), and CRE has therefore been particularly vulnerable to a contraction in supply of bank debt. In contrast, the US CRE sector sources only approximately half of its debt financing from banks, with the balance provided by non-banking institutions. As a result of changes in the banking regulatory framework, it became less attractive for banks to provide CRE loans. These loans weigh more heavily on banks' capital adequacy ratios, require longer-dated funding that is more expensive, and typically offer the banks little by way of ancillary business opportunities. This erodes banks' profitability margins, lowering returns and incentivising banks to re-allocate capital from CRE to elsewhere.

In addition, the primary European commercial mortgage-backed securities (CMBS) market - an alternative source of debt financing for CRE - has seen its volume levels reduce significantly since the peak years of 2006-07. CMBS deals are undergoing a slight recovery, with around £10.5 bn issued since 2013 and approximately £5 bn issued in to the UK. These deals remain muted compared to the pre-crisis volumes where over £18 bn of UK CMBS issuance occurred in 2006 alone.

United Kingdom

In the UK at year-end 2014, there was an estimated approximate total of £206.8 bn of outstanding debt secured by commercial property, including CMBS and excluding the value of relevant loans held by Ireland's National Asset Management Agency. This compares with £232.5 bn recorded at year-end 2013, and the reduction reflected the overall deleveraging in the market.

Notwithstanding the overall deleveraging referred to above, £45.2 bn of loan originations, acquisition finance and refinancing on commercial terms, were recorded by De Montfort University as having been undertaken in the UK in 2014. This represents a 51 per cent. increase to the £29.9 bn similarly reported at year-end 2013.

Despite the increasing lending activity in the UK, De Montfort University reported that average senior debt loan-to-value ratios for loans secured by UK commercial property increased slightly during 2014 but remained near the middle of the 60-65 per cent. range that has prevailed since the crisis and well below the levels seen in the late 1990s. This indicates that loan activity remains focussed on the prime markets, sectors and projects. Lending activity outside this area is still subdued, with low LTVs, and provides an opportunity for lenders to earn an attractive premium for the additional risk taken.

Average interest margins for the UK investment sector, as reported by De Montfort University, have declined each year since mid-2012 and this has been reflected in

the Company's updated dividend target described in the Chairman's Statement. The average margin for prime office financing offered by UK lenders according to the De Montford Lending Survey stood at 219 basis points over LIBOR at the end of 2014, having peaked at 335 basis points over LIBOR in mid-2012.

In light of LTVs remaining lower than the historical averages, and margins still significantly higher, the Company considers that this is a healthy market that is not becoming overheated.

The Company has observed areas where the market is very competitive. Prime office financing for large lot sizes continues to see tightening spreads across Europe, with London now in the low 100s basis point margins for 65 per cent LTV on interest-only senior debt. In addition, widely marketed mezzanine loans of large lot sizes are also subject to a high level of competition on pricing.

Europe ex-United Kingdom

The Investment Manager considers that the rest of Europe is also entering a different stage of the CRE lending market where availability of finance has become generally better. This increased interest in lending across Europe is highlighted in a recent Cushman & Wakefield report that indicates a 123 per cent. year on year increase in tracked new investment and development lending in 2014, and a 55 per cent. increase in overall loan origination, when refinance lending is included.

Markets such as Spain, Italy and the Netherlands have emerged from the post-crisis conservatism of 50 per cent. LTV levels with increased LTVs of up to 60 per cent. for certain sponsors and assets.

The emergence of non-bank lenders

In the UK and in Europe as a whole, non-bank lenders are becoming a more important source of debt capital for CRE. In the UK, over 25 per cent. by value of all loan originations in 2014 (23 per cent. in 2013) were provided by insurance companies and other non-banks. In Europe, where Cushman tracked and monitored 186 active lenders in 2014, non-bank lenders accounted for 47 per cent. by number (45 per cent. in 2013).

As discussed above, the Company believes that banks will continue to focus their CRE lending on core assets. Any lending opportunity that involves moderately higher leverage, assets in "transition" that require more active management, certain sectors or geographical locations may find debt harder to obtain. This may be relatively little influenced by how attractive the underlying risk/return metrics might be and provides an opportunity for non-bank lenders in particular to earn an attractive premium for the risk taken. The Company has always sought to exploit these niches to earn attractive returns for the risks taken.

Loan sales

A total of €80.6 bn of closed European commercial real estate loan sales and "real estate owned" sale transactions were tracked by Cushman in 2014 more than twice the figure for 2013. Of this amount, the UK and Ireland accounted for €29.8 bn and €22.4 bn respectively, with sales also taking place in Spain, Denmark, Austria and Romania.

The area of non-performing loans presents opportunities when the individual loan positions are resolved and the underlying real estate requires refinancing on sustainable terms. These transactions are often complex and this complexity can reduce competition between lenders, providing an opportunity for the lender of the new loan to earn an additional premium return.

Commercial Real Estate loan terms

The senior debt in the capital structure of a real estate investment usually constitutes the largest part of the capital structure. It also provides the greatest level of security as its mortgage ranks first against the underlying properties. It is furthermore protected by the equity and junior debt tranches in the capital structure which would be first to absorb any losses.

The junior debt tranche, also called mezzanine debt, sits between senior debt and equity. Because its recovery entitlements rank behind the senior tranche, mezzanine debt carries a higher rate of interest than the senior debt to compensate for the higher risk. Mezzanine debt is usually subject to detailed arrangements to govern the relationship between the debt classes and benefits from protective features which often include a second-ranking mortgage on properties and the capital buffer provided by the equity tranche in the capital structure.

The Company is typically seeking to earn "high yield returns" (considered to be returns of approximately 6.5 per cent. to 10 per cent.) either from the direct provision of mezzanine or providing "whole loans" (i.e. senior/mezzanine combined) on harder-to-finance projects that can deliver similar style returns. In the Investment Manager's experience, the typical average return in the EMEA region is now at 7.5-10 per cent. for average LTVs at 75 per cent.

Investment characteristics

The maturity of European CRE senior and mezzanine loans is typically five years. Senior or whole loans generally require amortization over their term. Typically however, loans are refinanced one to two years prior to maturity, either because of prudent financing management by the borrower or because the asset is sold. The repayment is at par, and, provided that the borrower is solvent, is therefore independent of the asset's capital appreciation or depreciation.

Interest payments are typically paid quarterly in cash, except for mezzanine loans where some interest may be accrued for a bullet payment at loan maturity. Interest payments on senior and mezzanine loans typically have priority over some other property expenditures and therefore offer a higher level of payment certainty.

CRE loans almost always benefit from a mortgage claim on the underlying property assets, first or second ranking for senior or junior loans respectively. In addition, this form of lending usually benefits from a comprehensive approach to security which will include shares in the borrowing entity being provided as collateral along with a charge over the rental income, insurance proceeds (to the extent available to the borrower), bank accounts, hedging and other receivables. This means that if the borrower is in default, lenders have the ability to accelerate their debt claim and seek recovery through the enforcement of the security held over the assets of the borrower (and the shares in the borrower itself). The claim of the subordinated lenders for satisfaction of their debt ranks after those of the senior lenders. Asset characteristics, advance rate, lending terms and structure and borrower type, therefore, are important factors for assessing the quality of the loan.

Relative to real estate equity investment, debt provides substantial downside protection in a flat or falling market. For example (based on certain assumptions, including that interest is paid on schedule) on a simple five year 75 per cent. LTV structure, an amortising whole loan could sustain more than a 50 per cent. decline in the underlying property value and the junior debt could sustain a 35 per cent. value decline before total returns are at break-even level. This is in contrast to equity where the decline required to break even would be de minimis on a similarly leveraged investment. Such terms are indicative only. From Starwood European Real Estate Finance

Leveraged Loan Market

Despite a solid €6.3bn of issuance in June, including €5.4bn of institutional new paper, total issuance in the European leveraged loan market in H1'15 was down 19% over the same period last year, at €36.3bn. The principal reason behind this decline was the retreat in M&A loan financing in Q2, which fell 32% from the first quarter to €8.8bn

Given this low level of issuance, the European leveraged loan market witnessed a surge in re-pricing activity in Q2'15, a spillover from the re-pricing boom in the U.S., with a record breaking €7.8bn of paper re-priced during the period predominantly through amendment rather than new issue

Leveraged loans used in buyouts declined by 30% in Q2'15, to €5 bn, from an active Q1. Public equity markets and trade buyers offered fierce competition during auction situations, with sponsors cautious of overpaying to beat QE-enhanced equity valuations, during a period when PE firms were more focused on exits. However, a busier first quarter meant buyout leveraged loan volume stayed ahead of 2014 y-o-y, at €12.2 bn, up from €9.7 bn

On the back of the re-pricing surge, single-B rated term loan clearing yields fell to record lows of 4.45% in Q2'15, but softer conditions were reflected in secondary markets

Credit Suisse's leveraged finance projections forecast remains at €110bn of issuance in European leveraged loans FY2015, indicating an accelerated loan issuance market in Europe for H2'15. However, the firm lowered their estimate for the U.S. market to $340bn (from $400bn)

High Yield Bond Market

In Q2'15 the European HY bond market was characterised by increased volatility as uncertainty in Greece dominated investor sentiment. In June, monthly volume accounted for €5.6bn, but outflows dampened demand and several issuers found that they had to reach for wider pricing margins than expected. The average clearing yield for single-B names widened to 6.22% in June, from 5.38% in May. YTD total volume in HY equalled €45.8bn, with volumes slipping behind the 2014 equivalent for the first time

In mid-April, the 10-year German Bund yield hit a record low of just seven basis points but recovered with gathering pace in the following months to reach 100 bps in early June. Subsequently, secondary markets fell, with long-duration bonds feeling the greatest impact

The demand technicals have been very strong with bond fund flows into European credit funds occurring at a rapid pace so far in 2015. They are currently showing tentative signs of slowing down, following the effect of the German Bund yield sell-off during May and turbulence around Greece

A developing theme in H1 2015 was U.S. domiciled borrowers with Euro funding requirements issuing European HY debt as the European market was offering yields 130-180 bps tighter than the U.S. whilst there was relative parity in the spreads between the markets. This ensured that U.S. domiciled HY debt issuance reached a H1 record of €4.9bn; though the arbitrage opportunity was no longer evident at the end of Q2, as U.S. issuers could fund at a lower rate

Credit Suisse's leveraged finance forecast issuance for FY2015 remained at €125bn in European HY with projections being slightly lowered to $240bn (from $260bn) for the U.S. HY market

Market Opportunity in Credit Opportunities and Special Situations strategies

In the immediate term, bank retrenchment from stressed assets continues to occur across Europe as institutions remain focused on reducing their exposure to impaired assets. Europe's largest bank HSBC recently announced plans to cut its risk-weighted assets ("RWA") by a net $130 bn (31% of their RWAs)

The Investment Vehicle Manager continues to see particularly strong flows out of Spanish, French, German and UK banks, which is reinforced by the on-going impact of the European Central Bank's AQR

The current macro environment will be supportive of this opportunity over the next 24-36 months, with market volatility triggered in part by commodity price uncertainty. The sell-off in energy assets has accelerated through the year as the crude oil price has fallen significantly from the 2014 highs. Energy assets account for some 15% - $180bn - of the $1.2tn U.S. high-yield market and with a meaningful portion of these assets now trading significantly below face value, CVC believes this creates an opportunity of more than $45bn in this segment alone. This can be evidenced by the current pipeline of stressed and distressed opportunities. Furthermore, across the broader commodities market, a bout of significant price volatility has fed through to the credit markets. For example in iron ore, which had long been forecasted for price declines, saw deterioration which was much faster than expected, largely driven by new low-cost supplies and a decline in global demand for steel

In addition to this, the geopolitical backdrop in Europe, in particular the uncertainty in Greece, has led to equity and debt markets selling off with the Eurozone crisis subduing the European leveraged loan market until there is visibility on the situation in Greece. Notwithstanding this source of volatility in the wider market, there were also shifts in core factors that have fed into the technical balance of the leveraged loan and high-yield markets. From Jonathan Bowers and Andrew Davies, CVC Credit Partners European Opportunities

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We remain cautious in our outlook and retain an overall defensive stance in the portfolio. While default rates are low and likely to remain low for the next couple of years, the enhanced returns potentially available for taking a high level of credit risk is poor. That said there are pockets of value, particularly within the financial sector and corporate hybrids. The periodic bouts of volatility we are seeing are presenting some opportunities but these are limited and, in our view, it remains very important to be selective. In this low yield environment we remain focused on seeking to deliver an attractive level of income. From Paul Read, Paul Causer and Rhys Davies, City Merchants High Yield

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Infrastructure *(compare infrastructure funds here)*

A key theme among investors remains the search for high quality income, particularly from uncorrelated asset classes. This has made PPP infrastructure a very desirable asset class in all the regions where BBGI is active.

In the current market environment, yields on many asset classes such as gilts, government bonds and cash deposits remain close to historically low levels. There is

very strong demand from both established and new investors to the sector, bidding aggressively for PPP assets because of the attractive returns they generate. Demand for infrastructure investments continues to exceed supply and is resulting in significant upward pressure on pricing. While this is positive for portfolio valuation, it makes it more challenging to find accretive transactions.

Canada

The most attractive markets for infrastructure investment combine strong growth potential and high levels of investment, with stable business environments, supported by strong political commitment. Canada is seen as the standard-bearer for good practice in this regard, with dedicated provincial infrastructure units and a strong project pipeline.

2015 is shaping up to be another good year for the Canadian PPP market, with a number of projects announced or planned in a variety of sectors. The Canadian market continues to deliver an impressive and transparent pipeline of greenfield opportunities within a strongly supportive political environment. It also contains an emerging secondary market and there is a large range of project sizes.

The Canadian secondary market is expected to remain active in 2015 and 2016 as a number of projects developed over the last couple of years come into operation. Many of the projects which were developed over the last 3-5 years had prohibitions on re-sales until after construction completion. It is expected that the equity interest in some of these projects may soon start to trade as these prohibitions lapse.

US

The US provides one of the largest infrastructure markets globally, with a substantial requirement for private investment. It is estimated that USD 3.6 trillion in infrastructure spending will be required in the US by 2020.

The scale of this infrastructure investment requires the government to look to the private sector to play an increasingly important role in delivering its critical projects. In response, almost all jurisdictions have now introduced specific legislation to enable PPP investment, with a primary focus on the transport sector.

Despite its promise, there are still growing pains within the US market and some high profile PPP projects have been cancelled in the last twelve months. Nonetheless, the US has seen an influx of global PPP players keen to develop and expand this potentially vast market. Slowly but surely, political support for the PPP delivery model is gaining traction and projects are advancing.

Continental Europe

2014 was an encouraging year for the European PPP market, and 2015 is also shaping up to be a strong year. During 2014 the aggregate value of PPP transactions which reached financial close in the European market totalled € 18.7 bn, a 15% increase over 2013. 82 PPP transactions closed, including 11 large transactions (i.e. transactions in excess of € 500m). While the UK was the most active market (see below), Germany, Belgium and Netherlands all had decent transaction volumes.

Germany has emerged as one of the most promising PPP markets in Europe with two large transactions completed in 2014 (the A7 Bordesholm-Hamburg motorway and the university hospital of Schleswig-Holstein), and in April the federal government announced plans to procure € 7 bn of new road projects under the PPP model.

The German initiative will see 10 new PPPs - including road expansion, renovation and greenfield projects - delivered under 30-year availability-based contracts. These projects will involve the construction of around 600 km of motorway with an investment volume of € 7 bn.

Another promising PPP market is Norway. In April, the government of Norway committed to invest NOK 130 bn (€ 15 bn) in the delivery of up to eight major road PPPs. The government has so far procured only three highway projects as PPPs.

Ireland, the Netherlands and Slovakia are other European markets that are showing promise and may provide potential investment opportunities.

Australia & New Zealand

With a mature and continuing PPP market, Australian PPP deal flow has recently strengthened after a slight contraction in the wake of the financial crisis. The need for significant private investment in the nation's infrastructure (highlighted in the recent Australian Infrastructure Audit) is anticipated to result in the emergence of a variety of innovative funding and financing models.

The project pipeline in Australia remains strong. Prisons, healthcare and transport infrastructure projects remain a focus.

Another promising market is New Zealand. The central government has plans to invest New Zealand dollars (NZD) 46.6 bn, equivalent to £ 20.3 bn, into infrastructure over the next 10 years, according to a sector update released by the New Zealand Treasury Department in 2014.

United Kingdom

The UK remained the largest PPP market in Europe both in terms of value and number of projects in 2014. 24 transactions closed for a value of about €6.6 bn.

Negative media coverage and anti-private finance opinions in the former Coalition government have reduced enthusiasm for private finance, thus making the near term pipeline less attractive and certainly well below pre-financial crisis levels. However, innovative and adaptive PPP models in Scotland, combined with recent announcements regarding a renewed focus on infrastructure investment, will hopefully result in improvements in the current UK market conditions over time.

General

The investment climate for PPP assets that meet the Company's acquisition strategy continues to be very competitive but we believe value accretive opportunities are still available in the current market, albeit not at the same frequency as in past periods.

The Management Board believes there are certain segments of the market where there is a current imbalance, with more investment capital targeted towards the particular market segment than attractive investment opportunities, which impacts pricing and valuation.

As an example, there have been portfolios or larger single assets that have been offered for sale via professional auction processes. These portfolios or larger assets have attracted significant attention not only from established PPP investors, but also new entrants who are attracted to the larger equity requirements and instant critical mass offered by the larger investment volume. In this increasingly competitive environment, vendors are requiring prospective purchasers to price in potential life-cycle savings, aggressive tax structures, portfolio efficiencies and other upsides that may not be realised. From BBGI SICAV

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Following the Budget in July 2015, the UK Government announced plans to invest £100 bn in infrastructure over the next five years. The plan points to 'long term public and private investment in infrastructure' as a key driver of productivity. As organisations prepare themselves to invest in UK infrastructure, we expect to see

secondary market deal flow buoyed by the need to free up cash to make it available for investment.

We are seeing a variety of cross-sector opportunities emerging across Continental Europe as it continues its recovery from the global financial crisis and various governments look to kick start their procurement programmes. It is expected that PPP projects are likely to play a key role in the revitalisation of the European economy and in helping address the infrastructure gap and in generating economic growth. JLIF has been invited to review nearly 40 separate projects across Continental Europe in 2015 to date demonstrating the high level of market activity in this region.

P3 in Canada has received a boost in recent weeks with the announcement of details of the new Public Transit Fund, a fund to be administered by PPP Canada to provide permanent funding to large-scale public transport projects. This will help free-up funds under the New Building Canada Plan and the P3 Canada Fund to assist with the development of smaller-scale infrastructure projects in municipalities across Canada.

In the US, 2014 built on the momentum gained in 2013 seeing several significant projects reach commercial close and with many projects in active procurement across a wide range of industry sectors. While increasing recognition of the long term benefits of the P3 model, combined with declining tax revenues, increased infrastructure demand and limited federal funding are causing public authorities to increasingly consider P3 as a procurement route there continues to be a patchwork of state and local laws that can diminish the benefits of the P3 model. From John Laing Infrastructure

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Private Equity *(compare private equity funds here)*

The first half of the year has seen a continuation of the strong exit environment that featured last year. Indeed the total of realisations for the Company in the first half, at £35.7m, is approximately 70 per cent above the total at the same point last year. These realisations have come from every part of the portfolio; funds, co-investments, secondaries and covering all geographies and sectors. In general these have been at very acceptable prices and the decisions to continue investing taken by our investment partners through the recession are bearing, and should continue to bear, fruit.

Much of this activity is connected to improved levels of business and investor confidence and with this comes improvement in prices. From a buyer's perspective this can pose a challenge. Pricing across the private equity market has increased considerably in the last two years or so and this is apparent even in the European lower mid-market where the great majority of our investment activity is focused. Apart from confidence it reflects a banking and 'non-banking' sector with good liquidity and an appetite to lend as well as substantial fund raising by private equity funds across the market. Each of these factors acts to push up prices, especially for companies with uncomplicated growth 'stories' where competition to acquire them can be intense. Our investment partners have not been conspicuous in paying high prices and are much more likely to be frustrated in highly competitive auctions than to secure the deal at an uncomfortably high price where there is little room for any subsequent underperformance in the investee company without painful consequences. This is because of their adherence to an agreed investment policy and required return commensurate with the relatively high risks involved in private equity investment.

Despite this environment, it remains the case that in the broad and inefficient regional lower mid-market of Europe, skilled and well-connected private equity investors can

find and acquire companies at reasonable prices. From Mark Tennant, Chairman, F&C Private Equity

The current market environment requires careful investment selection and focus on value investing. However, on balance, we are excited about the current pipeline and believe that we will be able to continue to identify under valued assets in the market and, thus, good investments throughout investment cycles. Additionally, in the short-term, exit markets are likely to continue to present attractive opportunities worth exploring.

While the American stock markets (NASDAQ and NYSE) were broadly flat over the January to June 2015 period, European markets gained considerably despite increased market volatility due to another iteration of the Greek crisis.

The Investment Manager believes that the increase in valuations in Europe reflects improvements in the macro-economic picture. The UK as well as Central and Northern Europe continue to maintain their growth trajectories, and Spain and Portugal now show considerable traction on a rebound path. Aid has been given by quantitative easing, the depreciating Euro and significant declines in energy prices. All this has led to improving expectations for European growth rates in general.

On a relative basis, over the last six months, European investment opportunities gained in attractiveness. However, there was increasing volatility in European financial markets towards the end of the Reporting Period which reflected the ongoing negotiations of financial support for Greece. The Investment Manager is of the belief that this could continue to influence markets in the second half of 2015, although the Investment Manager does not think that it will have significant impact on the real performance of the European economies and thus further uncertainty could provide buying opportunities.

In North America, the Investment Manager believes that the current growth rates are sustainable in the mid-term thus creating a stable macro-economic backdrop in the US and Canada.

The equity capital markets are open for IPOs and strategic acquirers are becoming more active.

In the emerging markets, India remains attractive from a macro-economic perspective and the Investment Manager is seeing a good pipeline of opportunities in India. Accordingly [*we are*] still positive on India and would expect this to continue for the foreseeable future. The Investment Manager is more cautious about investing in China where public equity market valuations are volatile and macro-economic uncertainties remain. In Brazil, the longer-term Private Equity thesis opportunities could be attractive but in the shorter term the Investment Manager remains cautious. The Investment Manager continues to be supportive of investigating investments in Israel, as strong macro-economic fundamentals, reasonable valuations and a flow of assets coming to market for regulatory reasons provide a good backdrop for Private Equity investments.

The Investment Manager believes that corporate debt is generally expensive, and in investment grade or senior secured situations the risk reward profile is frequently unattractive. This would also be true for a broad, index-replicating portfolio of junior debt investments, where eventually nominal yields could be absorbed by losses due to non-performing assets.

The outlook for Private Equity investment opportunities is promising. The macroeconomic environment for Europe has generally improved over the past year and the Investment Manager believes that this is likely to continue. As a consequence more European investment opportunities are likely to arise. In North America, buyout opportunities also look more attractive than a year ago as regulatory developments

have dampened the use of leverage with a corresponding effect on LBO pricing. This generally makes entry price points more attractive compared to 2014, albeit they remain at an elevated level.

On the exit side, the strength in equity capital markets has created a number of successful exits of Private Equity investments. The Investment Manager continues to view the exit environment as very favourable. From Apax Global Alpha

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Property *(compare property funds here)*

The UK economy is continuing to grow. There are interest rate and geopolitical risks, with some countries experiencing slower growth, but we expect UK growth to continue. There is now better demand for space from prospective tenants so that rents in some sectors are rising. In many areas space is in short supply because of the lack of building in recent years. From Richard Barfield, Chairman, Standard Life Investments Property Income Trust

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UK Commercial Real Estate continues to make steady progress in 2015 although momentum has reduced compared to the same point last year. We expect positive total returns for investors on a three year holding period due to the elevated yield and improving income growth prospects. The sector remains attractive from a fundamental point of view, i.e., strengthening economic drivers and a limited pipeline of future new developments. Rising interest rates are an emerging risk although there is a reasonable buffer in pricing to compensate if the market prices in a further acceleration of rate rises. The retail sector continues to face a series of headwinds that may hold back recovery in weaker locations due to oversupply and structural issues but the prospects for retail towards the South East and Central London are expected to improve further as economic recovery gains more traction. Prime, good quality secondary assets and selective poorer quality secondary assets in stronger locations are likely to provide the best opportunities in the robust economic environment we anticipate over the remainder of 2015 and into 2016. From Jason Baggaley, Fund Manager Standard Life Investments Property Income Trust

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The outcome of the General Election in May removed a major area of uncertainty and although the EU referendum, Eurozone debt issues, volatility in global markets and the timing of changes to UK monetary policy remain of concern, investor sentiment is generally positive. The UK appeals to a wide range of investors and UK property is attractively priced against other assets.

Investment performance is likely to moderate as interest rates begin to rise but the Managers believe that increases will be gradual and moderate. With the economy predicted to see further growth, out-performing many of its European neighbours, rental growth is expected to be the principal driver of positive market performance. There are continuing concerns, however, that pricing in some parts of the investment market may be running ahead of the economic and property market fundamentals. From Chris Russell, Chairman, F&C Commercial Property Trust

The UK economy has continued to record positive growth and the employment rate touched a new high during the period. With inflation remaining close to zero, the Bank of England kept interest rates and monetary policy unchanged. Gilt yields moved higher in the latter part of the period but the rate at the end of June of 2.1 per cent remained low relative to historic levels. Investor sentiment remained positive. The uncertainty regarding the outcome of the UK general election in May and subsequent likelihood of a referendum on UK membership of the EU by the end of 2017 were noted by investors but did not appear to have influenced their activity.

The weight of money attracted into property remained substantial, with transaction levels well in excess of the equivalent period in 2014. Overseas investors remained the most active buyers, particularly in Central London, but UK institutions were net investors and there was significant demand from retail investors. The banks continue to work through their problem loans at a brisk pace but appear more willing to consider new lending on well-secured property, alongside newer entrants both from the UK and overseas. The period was notable for a broadening of investor interest to the regions and to a wider range of property assets. The value of purchases of non-traditional property assets was close to a third of all acquisitions over the period and there were signs that investors were moving up the risk curve to favour assets with shorter income streams but with potential for growth.

Property remained attractively priced against the risk-free rate and the strength in the investment market, plus the competition for stock, caused initial yields to narrow still further to 5.0 per cent at the all-property level. Benchmark yields for City and West End offices are exceptionally low at 3.8 per cent and 3.3 per cent respectively. Although most parts of the market saw inward yield movement, it was most marked for Rest of UK offices with yields moving in by 60 basis points. Yield shift contributed to a 4.0 per cent rise in benchmark capital values over the period.

The benchmark income return dipped to 2.4 per cent during the six months to June 2015, in part reflecting the rise in capital values. The occupational market is improving with supply shortages appearing in some locations and development activity increasing, including some speculative starts. Rental growth has now returned to most parts of the market, with standard retail outside the South East being the main exception. However, the picture is polarised, with Central London offices recording more than 5 per cent rental growth over six months compared with 1.9 per cent at the all-property level. IPD market data shows net income growth responding to an improving economy, but at 0.7 per cent during the period this remains modest. There are still sub-sectors of the market such as provincial retail, office parks, and secondary assets, especially offices, industrials and shopping centres, which are struggling to deliver positive income growth.

Relative performance by sub-market was broadly similar to the equivalent period of 2014. Central London shops and offices together with the South East office market and the industrial and logistics sector generally out-performed over the period. The retail sector outside London continued to under-perform the market. There are hot and cold spots in the UK regions and stock selection remains critical in driving performance.

In this strongly performing market pricing can be keen and in some instances is at 2007 peak levels. Finding value and delivering a sustainable performance from acquisitions in such a competitive market can be challenging. We continue to be concerned that, in some parts of the market, pricing may not be fully justified by the underlying fundamentals. The economic outlook is for steady growth and modest inflation, providing a favourable backdrop for sustained positive property performance. We do not expect the current momentum to be wholly maintained but, in the absence of major shocks, we believe that the next five years will see a period

of positive total returns supported by rental and capital growth, especially in the first part of the period.

There are uncertainties surrounding the forthcoming EU referendum, the intensification of debt problems in Greece and the timing and extent of UK official interest rate rises that could affect investor perceptions of UK commercial property investment. However, we believe that the UK property market will remain an attractive destination for overseas buyers due to its size, liquidity and transparency and that interest rate rises will be gradual and modest thereby maintaining property's attractiveness to investors looking for a higher income alternative to gilts and cash.

Within the property sector, we believe that London and the South East will continue to out-perform, aided by stronger relative economic growth, providing opportunities in both established and emerging sub-markets. The broadening of recovery to the regions, possibly aided by government policy initiatives and infrastructure improvements, could also produce new growth hubs in the future. We see yield compression becoming less of a factor in driving performance over the medium-term and the income return becoming the dominant element supporting total returns. From Richard Kirby, Investment Manager, BMO Real Estate Partners, managers of F&C Commercial Property Trust

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The UK is in a favourable position among major global economies, experiencing sustained growth and falling unemployment coupled with modest wage increases and benign inflation. External shocks aside, the key risk to this positive outlook is the prospect of interest rate rises as recently signalled by the Governor of the Bank of England.

On the face of it, any rise in interest rates may be seen as a threat particularly if it is unexpectedly early and/or large; however, a moderate increase in rates would signal that UK PLC is performing well and able to bear this impact. This economic environment can only be positive for the UK commercial property market, as it will generally be expected to stimulate occupier demand and lead to rental growth. In addition, there is a reasonably wide buffer between the yields on UK commercial property compared to other asset classes which should sustain the sector's continuing attractiveness in an environment of rising interest rates. Our Investment Manager's latest forecast of 6.9% annualised total return for the UK commercial property sector over the next three years reflects a positive outlook, but one in which asset management and rental income plays a greater part than simple yield improvement to drive prices. From Christopher M.W. Hill, Chairman, UK Commercial Property

The investment outlook is, in our view, positive, characterised by an improving economic climate encouraging tenant demand. Allied to this is a greater level of investor confidence, improving debt conditions and consumer confidence which has helped to form the foundation for continued improvement in returns across prime and many secondary markets. Supply of new stock remains muted in the industrial sector whilst development activity has increased across many office locations to feed increased demand; retailer demand is polarised between good and bad locations. Investment competition for limited opportunities has driven yields lower with many investors reassessing the implied risk premium underlying investment purchases as market conditions improve.

As anticipated the first six months of 2015 produced good returns, albeit behind the very strong returns experienced during 2014. Looking ahead we expect positive total returns for investors on a three year hold period and currently forecast 6.9% per annum total return and 1.6% pa capital growth for All Property. We also anticipate this will be front loaded in that period with income and positive asset management then playing a greater role in generating total return.

The sector remains attractive from a fundamental point of view with strengthening economic drivers, prudent borrowing levels, and a controlled pipeline of future new development supply in most markets. Rising interest rates are an emerging risk although there is a reasonable yield buffer against Gilts to accommodate anticipated increases. The retail sector continues to face a series of headwinds that may hold back recovery in weaker locations due to oversupply and structural issues but the prospects for retail in the South East and Central London are expected to improve further as the economic recovery gains more traction. Prime and good quality secondary assets, and selective poorer quality non-retail secondary assets in stronger locations, particularly with value add potential, are likely to provide the best opportunities in the robust economic environment we anticipate over the remainder of 2015 and into 2016. We also expect the very strongest returns to come from the South East Industrial market, Major City Prime Shops and South East Offices, outside core London, driven by a varying combination of more attractive yields and good rental growth prospects. We anticipate secondary retail investments and locations to produce amongst the poorest returns along with supermarkets subject to open market rent reviews rather than indexation; our belief being rental growth will be minimal as supermarket operators adjust to updated customer habits and yields move out as investor demand diminishes. Buying opportunities may be favourable following price adjustments, particularly for indexed-linked supermarket rents in good locations on the right size of store, rent and lease length. From Will Fulton, Fund Manager, UK Commercial Property

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So how is the portfolio positioned? An explanation of this requires tackling the elephant in the room - rising interest rates. If rates are going up due to economic growth, then there is more demand for real estate space, ergo rents go up. The challenge is to capture this growth through holding businesses more exposed to the economic cycle. We see evidence of strong rent growth in storage, apartments and lodging companies in particular. We completely accept that rising rates without rent growth is a challenge to the companies we invest in, but we see little evidence of this.

In summary, we remain positive on the outlook for the second half but are not complacent. We choose not to focus on the despair emanating from news channels.

Whilst going to press, there is plenty to worry about in the global economy. The second half of the year will likely provide further challenges. Currently, the issues in China are starting to knock Greece off the headlines. In our view, the de-stabilisation of such a large economy has greater ramifications for world growth than Greece. However, we do think the demand for space in the world's best markets will endure. From Schroder Real Estate Investment Management Limited, managers of Schroder Global Real Estate Securities

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UK

With the General Election out of the way, and a majority government in place, the UK continues to show positive signs in terms of consumer confidence, employment levels and earnings growth. With this positive backdrop, the UK economy grew by 0.7% in Q2 supporting consensus forecasts of overall growth of 2.5% in 2015.

London continues to lead the recovery with forecasted 3.9% growth for 2015, according to Oxford Economics, London office employment, a key driver of office demand, is forecast to grow by 2% per annum for the next five years and office take up in Central London for H1 was 7.1m sq ft, which is the highest since 2007, according to CBRE. This coupled with availability at a 14-year low is expected to lead to further rental growth in major submarkets.

The wider economic recovery is also helping regional office markets, with South East office vacancy now sitting at 5.1%, 190bps below its long term average of 7% and the South East is benefiting from tightening supply contributing to rental growth 5.8% in the first half of the year, according to CBRE. Office rental growth in the rest of the UK is also starting to trickle through with a 2.6% increase in H1.

Ireland

The Irish economy is continuing to gather momentum and is forecast to grow by circa 4% in 2015. Economic indicators have been strong with retail sales up sharply, unemployment dipping below 10% and consumer sentiment at a nine year high. In the Dublin property market, where 89% of our Irish portfolio is located by value, this economic growth is translating into improved occupational demand across our key sectors.

In the first half, Dublin prime office rents were up by 11%, with prime high street Zone A rents up by 10%, according to CBRE. Residential rents have also grown by an average of 5%, according to PRTB, supporting income growth at our market rented residential portfolios, while CBRE hotel data to the end of May 2015 shows Hotel RevPar up by circa 23%. All this positive rental evidence bodes well for our investment and development portfolio generally and for improving income generation with over 330,000 sq ft of rent reviews pending on our Dublin office space between now and end 2018.

Spain

Spain continues to see positive growth with revised GDP growth forecasts to 3.3% in 2015 and 2016, from 2.9% forecast for both years previously. We have also seen growing household consumption expenditure, which grew at the fastest rate among major Western European countries last year, at 2.4%, compared to the EU average of 1.3%. The drop in energy prices will support this further by boosting disposable income.

From Kennedy Wilson Europe Real Estate

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Renewable infrastructure *(compare renewable infrastructure funds here)*

In the UK, some near-term reduction in deal flow in the solar PV segment can be expected following the ending of the Renewables Obligation support mechanism for new solar projects. In the UK onshore wind segment TRIG sees a promising pipeline of opportunities from the existing installed base as assets continue their migration to long-term yield-focused ownership. In addition to this there are further projects to be built in the years ahead under the final allocations of the Renewables Obligation and the initial allocations from the Contracts-for-Difference support mechanism. The Board notes other attractive investment opportunities within Northern Europe, in particular in France where legislation has recently been passed to promote renewables as the country seeks to reduce its reliance on nuclear electricity generation.

Over time, the continuation of large scale development of renewables in the UK and Northern Europe will depend on technologies being competitive with other forms of generation without subsidy. There is broad optimism within the industry that onshore wind, as the most cost competitive of the large-scale renewables technologies, may achieve this within a few years, with solar PV following thereafter. The future rate of growth in each market will also depend on the deployment of energy storage, interconnection and back-up generation capacity that will enable intermittent technologies to be included on a greater scale. From Helen Mahy CBE, Chairman, The Renewables Infrastructure Group

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The fundamentals for growth in renewables are:

- the need to reduce greenhouse gas emissions world-wide, driven by international protocols;
- the desire to increase energy security, in particular in regions with limited local fossil fuel resources;
- and reductions in the cost of new renewables capacity deployment.

The United Nations Climate Change Conference (COP21 or CMP11), to be held in Paris starting at the end of November, has the ambition of securing a legally binding and universal agreement on mitigating climate change, from all the nations of the world. The debate will serve as a reminder to all governments of their obligations (legal and moral) to contribute to essential greenhouse gas emission reductions.

Energy security is key for many Northern European countries as North Sea fossil fuel production declines, with little shale production and continued geopolitical uncertainty affecting a number of major oil producing regions.

The costs of deployment of renewables continue to fall. This has been clearly demonstrated in the UK. Solar PV installations have continued despite ongoing reductions in support levels for new projects under the Renewables Obligation (RO) and despite the upward pressure introduced by EU import tariffs on panels sourced from China. Under the new support mechanism, Contracts-for-Difference (CfD), developers of onshore wind projects have bid at strike-price rates of less than £80/MWh (which includes the value of the power generated).

These three fundamentals continue to make renewables a growth area, extending the trend seen in recent years where the majority of new power capacity installations in the EU have been from onshore wind and solar PV (59% in 2013 and 68% in 2014.

UK

In the UK, the development of, and therefore deal flow emanating from, solar PV is expected to continue to slow. The RO, which ended for larger projects (>5MW) in March 2015, is also expected to end for smaller projects by March 2016 subject to qualifying criteria (as recently announced in July 2015). Such solar projects, which can be developed quickly, tend to be sold to long-term owners shortly after development.

In contrast, onshore wind is expected to continue with significant deal flow of up to 4.0GW due to current developments which are expected to qualify for subsidies, in addition to the potential opportunity to purchase some of the 8.3GW of operational

assets which have yet to transition from their developers to their long-term owners. Such projects may operate for several years before being sold by their developers to release capital.

France

In France, renewables development is expected to pick up following new legislation passed in July 2015 promoting renewables over nuclear generation, with the objective to increase renewable electricity production to 40% of total electricity production by 2030. This is a sub-component of a wider objective for renewables to represent 32% of total energy consumption (including heating and transportation as well as electricity).

Ireland

The build out of wind projects in the Republic of Ireland maintains the momentum derived from the favourable REFIT (Renewable Energy Feed-In Tariff) regime, which closes to new entrants from 2017. A consultation on a new support scheme is expected to be launched in a White Paper this autumn.

UK energy policy is devolved in Northern Ireland (NI) and it is uncertain whether the NI Renewables Obligation will close in March 2016, in line with the recent DECC announcements, or March 2017, with a one year grace period, as per the NI consultation. A decision on whether a CfD will be introduced in NI is not expected before late autumn.

Work continues on the development of the new Single Electricity Market (I-SEM) and the "go live" date for I-SEM is now delayed until autumn 2017. From The Renewables Infrastructure Group

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Natural resources and commodities *(compare resources funds here)*

In the Shareholder Circular dated 26 January 2015, the Investment Manager stated that it believed that the commodities cycle is close to its trough and that market conditions represented an attractive time to be investing in mining and resources assets, many of which were priced well below their risk adjusted fair values. Events since then have not altered that view with increasing signs of Mergers and Acquisitions activity, albeit at low prices.

There has also been an increase in availability of finance for mining projects, particularly in the precious metals sector where a total of US$6.3 bn has been raised in the first half of 2015, compared to US$4.6 bn for the whole of 2014. However, it remains to be seen whether the recent severe correction in Chinese stock markets will impact the willingness and ability of Chinese companies to invest in resource projects outside the country. From Baker Steel Capital Managers LLP, managers of Baker Steel Resources Trust

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The outlook for commodity prices continues to be weak given expectations for further US dollar strength, uncertainty about the timing and pace of any interest rate rises by the Federal Reserve and softness in demand from China. This pressure will continue to force tough decisions and mining companies are likely to remain in austerity mode.

Despite a number of fiscal and monetary stimuli announced by the Chinese government having encouraging long term implications, sentiment remains volatile in the shorter term following the introduction of new currency measures. As long term investors, some interesting valuation opportunities are emerging in a number of high

quality producers and, as commodity markets continue to rebalance over the course of 2015, we expect a gradual recovery in share prices. From A W Lea, BlackRock World Mining

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At the start of 2015 the outlook for the global economy looked considerably more settled than it does today. The recent uptick in the VIX Index captures the heightened risk posed by the political battles in Greece, the fall from grace of the Chinese stock market and the uncertainty surrounding the timing of the first increase in US rates since 2006. Given all of the above, it is hard to gauge how severe the impact will be on demand for commodities and in turn the fall out on prices. However, it is clear that companies have continued to follow a path of austerity with regards to both operational costs and growth capex. We remain confident that these actions will give the companies flexibility to ride out near term weakness in prices and leave them well positioned for when improving demand causes prices to respond positively. From Evy Hambro and Olivia Markham, BlackRock Investment Management (UK) Limited, managers of BlackRock World Mining

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