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Monthly summary | Investment Companies

7 December 2015

Economic & Political Roundup

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

Exchange Rate	30/11/15	Chg. on month
USD / GBP	1.5036	-2.5%
USD / EUR	0.9466	-14.0%
USD / JPY	123.11	+2.1%
USD / CHF	1.0290	+4.2%
USD / CNY	6.3984	+1.3%

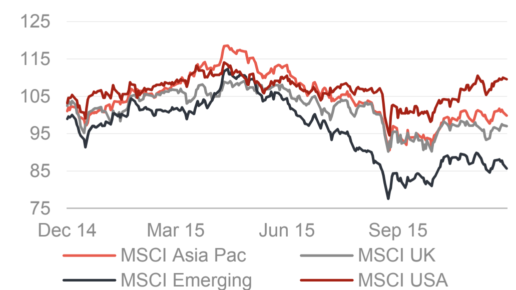
Global equities

Warnings of increased volatility, dividend cuts and long-term inflation tempered by opportunities created by new technologies.

The managers of BACIT see a risk of policy mistakes and so are seeking ways to make money without relying on rising equity and bond markets. New technology is reconfiguring a wide range of industries and this creates opportunities. They say their thinking is framed by global debt levels and the lack of political will to tackle these and believe the least-worst way out for politicians is inflation. Sebastian Lyon and Robin Angus, manager and chairman of Personal Assets Trust, say monetary policy is coming up against the law of diminishing returns. They also warn strongly of a danger of dividend cuts. Asset Value Investors though see biggest positive for equity markets is the yield premium they offer. Alan Porter, chairman of Securities Trust of Scotland, sees continued volatility as interest rates start to rise. EG Meek, chairman of Capital Gearing Trust, thinks investors with liquidity will be able to pick up bargains in volatile markets. John Scott, chairman of Scottish Mortgage, is enthused by the potential impact of new technologies.

MSCI Indices rebased to 100

Time period 01/12/14 to 30/11/15



Source: Bloomberg and Marten & Co

	30/11/15	Chg. on month
Oil (Brent)	44.49	-10.0%
Gold	1064.2	-6.8%
US Tsy 10 yr yield	2.206	+3.0%
UK Gilt 10 yr yield	1.825	-5.0%
Bund 10 yr yield	0.473	-8.5%

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UK

Worries about dividend cuts, caution advised but possible opportunities for contrarian investors

Iain McLaren, chairman of Investors Capital, says expansionary monetary policy will contribute to a broadly supportive environment for equity markets. Hugh Twiss MBE, chairman of Invesco Income Growth, says some dividend levels are coming under pressure. Ciaran Mallon, that fund's manager, says it is sensible to remain conservative and invest in companies whose prospects are not dependent on an improving economic outlook. Steven Bates, chairman of F&C Capital & Income, while warning of the dangers of economic forecasting, says normalisation of interest rates is still some way off but the UK budget deficit is still troubling and markets are schizophrenic. Troy Asset Management, in their capacity as managers of their Income & Growth Trust, says they are starting to see greater dispersion of value in markets after a period where quantitative easing had lifted almost all equity valuations indiscriminately. The managers of Montanaro UK Smaller Companies think the relative attractions of the UK makes domestically focused small cap.s a good place to be. The managers of Schroder Income Growth expect dividend growth to moderate as payout ratios have risen to historic highs. Jim Pettigrew, chairman of Edinburgh Investment Trust, identifies potential problems for the UK in the form of the EU referendum and potentially a second Scottish Independence referendum. Mark Barnett, manager of a number of trusts as Invesco Perpetual, highlights a number of factors that he believes will make market returns more subdued in the next few years and says the near term outlook may see profit warnings and dividend cuts become a recurring feature of the landscape. Lynn Ruddick and Alex wright, chairman and portfolio manager of Fidelity Special Values, say recent market falls have thrown up opportunities for contrarian investors.

Europe

Jim Campbell and Francesco Conte, managers of JPMorgan European Smaller Companies, say European consumers are enjoying the benefits of low oil prices and interest rates.

Emerging Europe

Valuations at lows and some positives to report.

Steven Bates, speaking in his capacity as chairman of Baring Emerging Europe, says valuations are now cheaper than they were at the bottom of the financial crisis in 2008 and in line with levels seen in the Russian crisis of 1998. For Russian companies, Rouble weakness is offsetting some of the pain of sanctions. The managers of that fund say the political and economic outlook is looking more positive.

North America

US domestic recovery is looking relatively resilient.

Andrew Bell, chairman of Gabelli Value Plus+, believes the US domestic recovery is looking relatively resilient, helped by the benefit of lower energy and commodity prices. The managers of that fund are worried about debt levels and the ability to service debt in an environment of higher interest rates. However they say the US economic backdrop is relatively good with the US consumer benefiting from cheap gasoline, lower food prices, rising wages and home prices and improving household balance sheets.

Asia

China's outlook will continue to dominate Asian markets but Asian valuations are now at levels that have historically represented good value.

Howard Myles, chairman of Martin Currie Asia Unconstrained, thinks global monetary stimulus has failed to offset the deflationary fallout from China. However consumption in China is expanding substantially and growth there may be slower but more sustainable. Andrew Graham, manager of that fund, doesn't see signs yet of systemic risk in the region's financial system. He sees some signs of life in Chinese economic data and points out that Asia ex Japan stocks trade on lower multiples but offer faster earnings growth than the US and Europe. The managers of Schroder Oriental Income agree that valuations are at levels that historically have represented good value. Alan McKenzie, chairman of Edinburgh Dragon, comments that China's bubble is a reminder that when a market has little fundamental basis for going up, it has to fall at some point. However, he believes that the deliberate transitioning of the economy, from an export- and investment-driven growth model to one powered by domestic demand, will lead to a more sustainable and higher-quality growth in the longer term. Aberdeen Asset Management Asia Limited, Managers of Edinburgh Dragon say that Asia still presents compelling opportunities despite the downturn. John Russell, Chairman of Henderson Far East Income, believes that China's outlook will continue to dominate Asia but that its transition has every prospect of being successful.

China

China's slow-down was not unexpected

Dale Nicholls, the Manager of, Fidelity China Special Situations, offers a detailed account of the market set back in China and a view on the outlook going forward.

Japan

Japanese prime minister refocusing on the economy

Neil Gaskell, the Chairman of Aberdeen Japan is concerned that the momentum of Shinzo Abe's reforms weakened during the first part of the year but notes that Japan's prime minister has recently refocused on the economy. He sees the fall in commodity prices as helpful for Japan.

Biotech and healthcare

Biotech market hurt by proposals to rein in costs

Samuel D. Isaly of OrbiMed Capital LLC, the Manager of Worldwide Healthcare, offers a detailed account of recent developments and the outlook for biotech and healthcare in the US - including the Affordable Healthcare Act, the biotech bubble, healthcare pricing and Hilary Clinton's proposals to reign costs in.

Debt

European ABS market impacted by macro concerns

TwentyFour Asset Management LLP, managers of TwentyFour Income Fund, say that short term concerns around global growth and the ability of central banks to achieve their aims of stability and inflation targeting could play a material role in price performance in the European ABS market but that this creates opportunities to invest at more attractive levels than have been seen for a couple of years.

Private equity

Strong fund raising market for private equity

Howard Myles, Chairman of Aberdeen Private Equity says they're seeing one of the strongest fund raising markets seen in recent years, with selected funds being able to close on targeted fund raises increasingly quickly, very often as a result of favoured relationships.

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Global

(compare Global funds **here**)

BACIT (UK) Limited (Managers), BACIT. Tailwinds today include the stance of the Japanese and European monetary authorities, which both continue to implement policies intended to kick-start their respective economies. The effects of these are finally gaining traction beyond the financial markets and asset prices, and with tighter labour markets and wage inflation now picking up in both regions, their economic cycles are entering the next phase.

The explosion in data processing power seen in the last few decades is bearing fruit in a series of parallel revolutions in medicine (genetics), energy (shale, alternatives) and technology, its consumer facing side being "Internet 2.0". As this is now transforming manufactured goods into services through subscription, and reconfiguring industries as diverse as automotive, retail, hospitality and healthcare, it might perhaps be encapsulated by the expression "Life 2.0". This level of innovation and creative destruction, increasing the quality of life this much for so many people simultaneously, was perhaps last seen in the West at the beginning of the 20th Century.

This means that the opportunity set is far richer than is typical at this advanced stage in the conventional economic cycle, and developed, liquid markets remain an attractive way to play both long and short opportunities: the reinvention costs for the 'old' retail and energy industries, for example, are still unknown. Finally, the secondary impacts of these mini-revolutions cannot yet be estimated, but may be significant: evidence the oil price collapse seen over the last fifteen months, effectively a global fiscal stimulus worth around $1.3tn to the world's consumers, or 1.7% of global GDP.

When markets anticipate monetary policy tightening, the currency concerned typically strengthens. The US dollar's trade-weighted index strengthened by more than 20% between the middle of 2014 and mid-2015. This exacerbated some of its trading partners' balance of payments crises and increased the value and cost of servicing dollar-denominated debt in local currency terms. There are far fewer oil producing than oil-consuming countries, and many of these producers rely heavily on oil revenues to fund programmes that maintain regional stability.

These factors have contributed to the geopolitical instability that has grown since BACIT's launch three years ago. The continuing EU crisis, the aftermath of the Arab Spring in the Middle East and Europe, and the posturing of World Powers in the South China Seas all remain tail risks for now. However, the scope for a policy mistake has grown significantly, and this gives us no wish to increase the Company's reliance on the continued rise of the equity or fixed income markets to generate returns. No less significantly, six years of extraordinarily accommodating monetary policy have resulted in a more indebted and fragile Global Economy.

Our thinking is framed by global debt levels, the lack of political will to tackle these, and the fragility this imposes on the global financial system. There is more opportunity than we would typically expect at this stage during an economic cycle, but ultimately the least-worst way out for politicians is inflation.

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Sebastian Lyon (Investment Adviser) and Robin J Angus (Executive Director), Personal Assets. Stocks have rallied to some extent from their recent lows, thanks to the Federal Reserve's decision to delay normalising interest rates (again) and

some short covering (the buying in of securities that have been sold short, to avoid loss when prices move upwards). This may prove temporary. Monetary policy, whether in the form of record low (or even negative) interest rates combined with quantitative easing, has come up against the law of diminishing returns. Central bankers keep dosing up the economic patient but failing to recognise that each high is less potent than the last.

UK and US corporate earnings are coming under pressure not only from the ill effects of currency translation but also as falling levels of demand and excess supply crimp what had been record high profit margins. Low investment hurdle rates have led to ever-decreasing returns as zero interest rates have encouraged overcapacity. Now it seems that the economic cycle is reasserting itself. Deteriorating profits are resulting in dividend cuts and a reappraisal by investors of what they are prepared to pay for more uncertain future earnings. Judging by the dividend cuts from twelve of the UK's largest publicly-listed companies since 2014, including three food retailers, Glencore and Standard Chartered, we may be entering the third downturn for dividends since 2000.

The FTSE 100 dividend cover ratio has fallen from a comfortable 2.0x in 2010 to a nail-biting 1.2x today, according to Bloomberg, and dividends are now arguably more vulnerable and less permanent than they have been for many years. High yields, in the commodities and energy sectors in particular, indicate further cuts may be coming over the next 18 months. And such dividend cuts are often followed by capital raisings in the form of rights issues. If history is any guide, recent dilutive cash calls from Standard Chartered, Lonmin and Glencore are likely to be followed by others.

Valuations across all asset classes still look uncomfortably high and investing wholesale at today's levels would risk locking in very low future returns. In recent years we have remained defensively positioned and have concerned ourselves more with capital preservation than with maximising upside. Recent stock market falls give us confidence that increasingly attractive investment opportunities will present themselves in the future. As we head into more volatile conditions, we are preparing to be far more fully invested than we have been over the past decade or so. If you see us becoming more bullish, don't be surprised.

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Asset Value Investors (Managers), British Empire. The macroeconomic backdrop is more uncertain now than earlier in the year, leading to a risk that management teams will remain hesitant in increasing their capital spending. While this is good for dividends in the short term, it is less positive over the long term as we need to see companies invest in order to grow. There are, however, a number of positives for equity markets: valuations, which had been high at the start of the year, are coming down as markets fall and earnings estimates decline by less; global fund manager surveys suggest that on the whole they are cautious, which is supportive for the contrarian investor; and finally, the biggest positive for equity markets is their relative yield premium to most other asset classes. In an environment where investors want, or indeed need yield, this bodes well for businesses with sustainable and growing dividends.

Value, as an investment style, has underperformed the broader equity markets for a number of years. This has left many of our holdings unloved and, we believe, undervalued. This undervaluation sets up the possibility of strong future performance.

At the time of writing, economic data appear to be weakening, increasing fears of a decline in profits and so weakening the case for equities. The worsening data makes it more difficult for Central Banks - in particular the Federal Reserve - to start raising

interest rates. A continuation of ultra-low interest rates could be positive for equities despite valuations in some markets not being particularly cheap. However, after seven years of historically unprecedented monetary accommodation, the real risk to global markets must surely be that investors start to question the omnipotence of Central Banks, at which point bad economic news should translate directly into bad news for equities.

While we claim little insight into the future direction of markets, we do know that we are still able to find attractively priced assets. The valuations which we see in our portfolio are both relatively and absolutely low, and we believe that this provides us with a substantial long-term margin of safety regardless of wider market gyrations.

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Alan Porter (Chairman), Securities Trust of Scotland. The prolonged period of highly accommodating monetary policy has been extended with the European Central Bank following the Federal Reserve and Bank of England in providing artificially low interest rates and liquidity created by printing money. Whilst there are signs that interest rates might have reached their lows and policy is now to increase rates toward more normal levels, this may take years to happen. Markets have been driven to new highs on the back of this policy, but more recently have seen sharp pull backs on fears of slowing GDP and the interest rate cycle reversing. This volatility is set to continue.

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E G Meek (Chairman) Capital Gearing Trust. With the first interest rate rise deferred yet again in both the US and the UK, both bonds and equities are anticipating an extended period of exceptionally low interest rates; corporate profits that at least sustain current levels; and inflation that recovers very slowly and never attains problematic levels. This is a profoundly optimistic view.

It is unlikely that this benign combination can prevail indefinitely; if demand is weak enough to prevent inflation accelerating and interest rates rising even in the UK and the US, then it will be hard for corporates to maintain profit margins at their currently historically high levels.

At these elevated valuations, prospective returns over the medium term (5-10 years) for all asset classes look, by many measures, poor, even before allowing for the fragility inherent in the expanding debt levels that prevail everywhere, but have increased most markedly in emerging Asia.

With volatility rising and variable, and market liquidity in everything notably poor, there should be opportunities for those with liquidity to buy quality assets at good prices. Meanwhile, the Board and the Company's investment managers remain defensively minded.

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John Scott (Chairman) Scottish Mortgage. The relatively recent developments of e-commerce and social media still have a considerable amount of structural growth potential. Yet it is the application of the technologies which have underpinned these two shifts to a range of other industries which is particularly firing the enthusiasm of the Managers. The Managers strongly believe that we are on the cusp of transformative change in a range of areas, including healthcare, transportation and energy. As with e-commerce and social media, the Managers believe the majority of the value created by these shifts may well be concentrated in the hands of a few extraordinary companies, whose positions are reinforced by scale and network

effects, giving rise to the potential for greater longevity of growth. Against such a backdrop, it is a particularly exciting time to be a growth stock picker.

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UK

(compare UK funds **here**)

Iain McLaren (Chairman) Investors Capital. The global economy has continued to make progress over the past six months although, as has been the case in recent years, growth remains sluggish and uneven. The UK economy has been the fastest growing of the major developed economies and continues to perform well. In the United States, after six years of recovery, the improvement in economic conditions has been such that the Federal Reserve now appear to be considering an increase in interest rates. In contrast the Eurozone recovery remains nascent and fragile, with the European Central Bank widely expected to expand its stimulus program in an effort to lift inflation and support growth. Looking forward, headwinds from the slowdown in emerging market economies, most notably China, are likely to dampen global growth prospects for the year ahead. The collapse in crude oil prices, while helpful for consumers, especially in developed economies, is damaging for the economies of the oil exporting nations such as Russia and Venezuela. Against this background there is little evidence of global inflationary pressure, suggesting that monetary policy will remain broadly expansionary across the major developed economies. This environment is likely to remain broadly supportive for equity markets.

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Hugh Twiss MBE (Chairman) Invesco Income Growth. I see no immediate prospect that Ciaran [*the Manager*] is going to find his job any less challenging in the months ahead. Markets are likely to continue to be volatile as uncertainties remain about China, the world economy, interest rates and geopolitical threats. Some dividend levels are also coming under pressure with a number of large high yielding companies having limited dividend cover. Although in the shorter term, positive returns may continue to be harder to achieve, there is reason to believe that returns over the longer term will remain positive.

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Ciaran Mallon (Investment Manager) Invesco Income Growth. Notwithstanding its recent volatility, the UK stock market has risen strongly over the last six years. There remain headwinds to withstand, including the risk that China's slowdown worsens and spreads further to other emerging markets, while it remains to be seen how stock markets react when the long awaited rise in US interest rate finally occurs, but valuations suggest that the long term outlook for returns from investing in the stock market are still attractive. I believe it is sensible to remain conservative and seek to invest in companies whose prospects are not dependent on an improving economic outlook.

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Steven Bates (Chairman, F&C Capital & Income). Normalisation of interest rates is still some way off and despite the rhetoric, the UK budget deficit remains troubling. Markets are likely to remain somewhat schizophrenic, responding on the one hand to the continuing monetary stimulus, while on the other being startled by unexpected

global macro-economic and political events. UK stock markets are not especially expensive by global standards, and there is no reason to suspect that domestic developments will be anything other than mildly benign. Given that the effect of unorthodox monetary policy seems to be waning, the market is becoming increasingly sensitive to the tide of global events. This partly reflects the highly international dimension of the UK's major businesses, but also the increasing correlation of global markets, itself probably a reflection of monetary policy worldwide. It is of course foolish to attempt to forecast anything, but it does seem likely that interest rates will soon rise in the US even though the economy is not especially robust, while elsewhere the economic status quo ante looks set to persist. Having said that, I am reminded of JK Galbraith, who said: "The only function of economic forecasting is to make astrology look respectable."

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Troy Asset Management Limited (Managers), Troy Income & Growth. Last year we wrote of the risks that deflation poses to corporate cash flows, noting that central bankers, well aware of these risks, will do all within their powers to avoid it. The threat of deflation has since become a reality. The UK has posted three months of negative inflation so far this year, its first since 1960, whilst the US has veered into deflation for the first time since 2009. It is therefore unsurprising that the moment for raising interest rates has been delayed for longer than the market was anticipating. Plus ça change, plus c'est la même chose.

The market has risen following the Federal Reserve's decision not to raise interest rates at its Open Market Committee meeting in September. Whilst we must take into account the impact that the actions of central bankers have on financial markets, we do not and cannot invest on the basis of anticipated changes in monetary policy. Such a strategy would be more akin to speculation than investment. We continue to favour companies that we believe can generate consistent and attractive returns on the capital we invest.

The rising tide of QE had, until recently, lifted almost all equity valuations indiscriminately, leaving very few opportunities for a valuation-sensitive buyer. The spill-over of pain from emerging markets is starting to test the nerve of western investors. Following the mid-year correction, the average P/E multiple of the UK market still remains near the highs seen at the beginning of the year. However, it is important to note that the dispersion of equity market valuations has started to rise again. When P/E multiples were both elevated and closely bunched we were seeing very few opportunities to invest. The spread of valuations has now widened. This should provide us with windows of new opportunity to invest in a handful of high quality companies.

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Montanaro Asset Management Limited (Manager) Montanaro UK Smaller Companies. There are reasons for cautious optimism for SmallCap investors. Firstly, the asset class is less exposed to energy and commodities, which are under acute pressure from investors as global overcapacity is yet to be reduced. Secondly, SmallCap is more domestically focused and has therefore been less buffeted by conditions abroad. Investors are favouring the asset class because of the UK's better economic performance, while they are also rewarding those companies that are able to translate a more dynamic economic environment into earnings growth. Accordingly, May 2015 marked the first month in over a year when investors began investing in UK SmallCap again (source: the Investment Association). We therefore believe that the outperformance of SmallCap can continue into the New Year, if not beyond.

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Schroder Investment Management Limited (Managers), Schroder Income Growth. There is currently a dichotomy between developed markets and developing markets. In both the US and UK, economic data looks reasonably robust. However, deflationary pressures arising from weak commodity prices and currency movements, along with weakness in developing economies, are causing policymakers to defer the normalisation of interest rates.

In the UK, consumer spending remains the main driver of growth, thanks to rising real incomes. Real household disposable incomes grew at the fastest rate since 2010 as employee pay growth accelerated. Looking forward, however, the new government's introduction of a national living wage, together with benefit cuts as a result of tightening austerity and possible interest rate rises, could lead to pressure on a range of UK companies with significant domestic operations. Those particularly vulnerable are in the retail, food retail, leisure and support services sectors.

With profits growth vulnerable to further downgrades as a result of the slower pace of global growth, we expect dividend growth to moderate, not least because the share of profits being distributed as dividends has risen to historic highs. We expect the recent increase in merger and acquisition activity to continue, partly due to the continuing availability of cheap finance.

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Jim Pettigrew (Chairman) Edinburgh Investment Trust. The immediate outlook for the UK economy has not greatly changed from the beginning of the Company's year. Mark Barnett [*the Manager*] believes equity markets will be relatively subdued. There's always the next "problem" for the market to worry about and on the horizon are potentially the UK's exit from the European Union - BREXIT (of more concern than GREXIT) - and whether there will be another vote on Scottish independence, either before or after the in/out Europe referendum. Meanwhile, interest rates will rise but in a relatively low growth, near-zero inflation world, no-one believes they will rise far or fast.

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Mark Barnett (Manager), Edinburgh Investment Trust, Perpetual Income & Growth and Keystone. The near term outlook for the UK stock market appears subdued. A number of important external factors have converged over the last few months to mean that it is unlikely that we will witness a repeat of the benign conditions in the equity market seen over the last few years.

The market performance is challenged first by the fact that the 5 year returns of the FTSE All-Share Index have been very positive set against a longer term context. Second, the valuation of the market no longer represents a cheap asset class - the strong re-rating of equities in recent years has run its course. Third, the underlying level of earnings growth in the market remains too weak to justify further increases in the level of the index. Fourth, the declining growth rate of the Chinese economy has revealed the full extent of the forces of disinflation and how widespread their impact is around the world. This will clearly have an effect on the ability of companies to increase prices, the willingness of companies to invest in new capacity, and ultimately the capacity for economies to grow sustainably into the future.

These factors have combined to make the UK stock market a more volatile place to invest. However, this is also an environment which favours active portfolio management. In the near term the outlook may indeed be more challenging as profit warnings and dividend cuts become a recurring feature of the landscape.

The successful manager will need to tread carefully in this environment in order to avoid these pitfalls. This is a time to be highly selective in portfolio construction - the onus rests even more on prudence and capital preservation. Overall, returns from the markets are likely to be more modest in the foreseeable future, and income is likely to make up a higher proportion of total return that in the recent past.

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Lynn Ruddick (Chairman), Alex Wright (Portfolio Manager), Fidelity Special Values. The recent volatility in the stock market has led to a sense of caution among investors, and falling prices and valuations in the stock market. This uncertainty has created some attractive contrarian opportunities in various sectors and market capitalisation categories. Key sectors continue to include financials (and banks in particular), and oil and gas, where the excessive negative sentiment seems to have obscured a reduction in supply that should improve industry dynamics in the medium term.

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Europe

(compare European funds **here**)

Jim Campbell, Francesco Conte (Investment Managers), JPMorgan European Smaller Companies. While there does indeed seem to be a slowdown in globally exposed industrial and consumer companies, the good news is that for now companies exposed to Europe and more especially the European consumer are doing well. Europeans are enjoying the benefits of low oil prices and interest rates at a time when the benefits of economic reform in peripheral Europe are increasingly evident in their economic renaissance. Consumer confidence indices in countries like Italy are the highest we have seen since 2001.

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Emerging Europe

(compare Emerging European funds **here**)

Steven Bates (Chairman), Baring Emerging Europe. It has required some fortitude to stick to our guns in Emerging Europe. We have all been treated to an object lesson in how poor politics can damage capital markets, even when the underlying long run fundamentals are very attractive. Financial markets provide discounting mechanisms, and while we may express concern over the migrant crisis, terrorism and bloody-minded autocracy, the stock markets have already adjusted to take account of how bad things are. At this level of valuation, markets are now cheaper in absolute terms than they were at the bottom of the financial crisis in 2008 and as cheap as they were during the Russian crisis of 1998. Relative to the rest of the world, this valuation discount is even wider. Of course, our region breaks down into two blocs - the 'Good' of Central Europe, and the 'Ugly' of Russia and Turkey. These two dominate our landscape, however, and it is impossible to see much progress in the region as a whole until the gloom lifts there.

Russia's economy has buckled under sanctions and the damage from weak commodity markets, but the currency weakness combined with the corporate cost reductions are making Russian exporters increasingly competitive and dividends are continuing to flow our way. In Turkey, the recent election result appears to have stabilised matters.

In sum, we may not be out of the woods, but the undergrowth is thinning.

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Baring Fund Managers Limited (Managers), Baring Emerging Europe. Looking forward, we remain positive on the outlook for Emerging European equity markets. We continue to find encouragement in the breadth and quality of company opportunities within the region and we saw how well many of these companies were able to adapt to currency depreciation and the challenging economic environment of last year.

At the stock level, we see a favourable set of company growth opportunities across Emerging Europe's industries and markets that we believe are attractively valued. As we analyse these companies in detail, we are able to take a view of their longer term potential and currently see average annual earnings growth of more than 15% for the companies we hold in the portfolio on a five-year view.

We are becoming more positive about the political and economic outlook. The actions taken by the Russian Central Bank have helped foster greater stability in that market, while in the new EU member states, Poland, the Czech Republic and Hungary, we expect to see the continued benefits from robust domestic demand, EU-subsidies and foreign direct investments.

We think there will be greater policy visibility from the newly elected governments in Turkey and Poland. We are emboldened to see Minister of Finance, Mehmet Simsek and Ali Babacan (former Deputy Prime Minister responsible for the Economy) returning to power in Turkey. In Poland, we believe that markets have already stomached the proposed financial tax introductions of the Polish election's favourite PiS party, thereby leaving room for positive surprises.

The exodus of refugees from Syria has long been a burden for Turkey, where an estimated two million Syrians have found shelter. An ever growing number of Syrians decided to leave their home country for good to seek asylum in Europe's largest job market and healthiest economy: Germany. The exodus of hundreds of thousands of people from Turkey via the Balkans into the passport-free European Schengen area and finally Germany might well be the defining development for the European Union's future given the calls for increased political integration and a common EU foreign policy.

Russia's decision to extend its support for the Assad regime to outright military involvement, increased terror activities of ISIS on Turkish soil and not least the ever growing refugee crisis highlight the importance of leadership and the need for a common policy in these areas.

This will increase the importance of Turkey as the crucial partner for the European Union in the region. Russia, equally, will have to be involved in plans to stabilise Syria. On a positive note, the situation in Eastern Ukraine has been improving as the implementation of the so-called Minsk peace process, brokered by Russia, Ukraine and the EU, made good progress. This presents Russia with the opportunity to work the diplomatic corridors for the long term goal of normalising economic relations with the EU so as to regain full-scale access to capital markets.

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North America

(Compare North American funds **here**)

Andrew Bell (Chairman), Gabelli Value Plus+. The recent period has been characterised by volatility in equity markets, partly rooted in concerns about economic stresses in emerging economies, particularly in China, and partly owing to some disappointment from corporate earnings in the U.S. linked to the strong dollar. These issues have been lent a sharper edge by the prospect of the U.S. Federal Reserve raising interest rates for the first time since 2006.

More positive considerations include a U.S. domestic recovery that appears to be relatively resilient, the beneficial impact of lower energy and commodity prices (other than for directly-dependent sectors and economies) and the absence of inflationary pressures, which should allow the central banks to adopt a very gradual approach to raising interest rates. Furthermore, where investor sentiment may have been complacent during the early summer, caution is now more evident which, for those of a contrarian inclination, can be a positive sign.

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Gabelli Funds (Managers), Gabelli Value Plus+. The period saw the return of fears of "contagion"; the transmission of a crisis from one country to others. The current vectors for contagion are well known: struggling borrowers such as Greece and Puerto Rico, a decelerating China, and unstable areas of the Middle East. What makes contagion so concerning for the markets is its wildfire-like unpredictability.

The kindling in the spread of any contagion is leverage. Public and private leverage has been employed over-generously since the 2008 financial crisis. Borrowing by countries and companies can be used intelligently to invest in growth and smooth investment cycles. Too often, too much of it has been squandered by elected officials and Boards of Directors on projects that do not generate adequate returns. The level of debt at any entity may be represented in a number of ways, but the coverage ratio - cash flow divided by debt service costs (e.g. interest expense) - is often most telling. Coverage ratios improve when cash flow rises or interest expense falls, the situation pertaining for the last several years in a recovery abetted by the Federal Reserve. Due to low rates, although U.S. federal debt held by the public stood at a record $13 trillion (74% of GDP) at June 30, 2015, the $200 billion in annual cost to service that debt is lower in absolute terms and as a percentage of GDP (1.3%) than in 2008. The situation is similar for many other countries, U.S. local governments, and corporations globally. In some corners of the world, if debt is not carefully managed the effects could be disruptive.

The U.S. has so far acted as a global fire break, with long awaited signs of wage inflation, but the recovery remains slow, fragile, and vulnerable to derailment by global events or a miscalculation by the Federal Reserve. Expectations for Standard & Poor's (S&P) operating earnings remain for low single digit gains and quarterly progression appears favourable at this point. The weak link is to be found in the foreign profits of multinational companies. The good news is that US domestic profits are two and a half times larger than foreign profits.

Focusing on fundamentals, the U.S. economic backdrop is relatively good. The U.S. consumer sector comprises about 70% of GDP. The U.S. consumer should benefit

from lower gasoline and food prices, rising wages and home prices, and improving household balance sheets. Financing is still available at extremely attractive rates and the Mergers and Acquisitions (M&A) boom continues.

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Asia

(Compare Asian funds **here**)

Harry Wells (Chairman), Martin Currie Asia Unconstrained. The efficacy of quantitative easing programmes and unprecedented global monetary stimulus has boosted asset prices but has misfired in providing traction to economic recovery in the developed economies, which still appear to be at the mercy of the deflationary fallout from China. As China's economy matures and rebalances, we are very unlikely to see the tremendous economic expansion of the last two decades replicated over the next 10 years. India can only partially fill the gap. That said, it is clear that consumption in China is expanding substantially and we can expect growth at a slower but more sustainable rate in future.

Currency volatility may be indicative of national interests reasserting themselves after a golden period of globalisation, now threatened by barriers in regulation and control. Sanctions against Russia are just one example. Asia's prospects very much depend on its many indigenous strengths rather than the traditional mercantilist model. It must be recognised that the potential for economic success assumes an even political keel around the region. While the global economy and world markets are experiencing a difficult period, further complicated by conjecture on the first moves in US interest rates, the good news is that valuations in Asia are back to levels attractive to stock picking.

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Andrew Graham (Manager), Martin Currie Asia Unconstrained. At the time of writing, Asian equities have rallied significantly off their recent lows. The market, as measured by the MSCI Asia ex-Japan Index, is currently trading on a price/book ratio of 1.4x. This is almost 15% above other notable lows over the past 15 years, including the global financial crisis in 2008-09, the 2003 SARS crisis and the 2001 technology bust. During each of these episodes of great uncertainty, valuations have had to be meaningfully lower (around 1.2x book) to entice investors to overcome their fears. In this respect, what do current valuations say about the current situation - are we on the cusp of something much worse? The idea that the current maturing of Asia's credit cycle could evolve into a wider, deeper financial crisis is not our central thesis, although this risk is certainly plausible. What is clear is that certain countries, such as Indonesia and Malaysia, are under some significant pressure. However, while the stock market rout in China has been severe and its economy is undergoing a difficult transition, there are few signs yet of systemic risk in the financial system. The Shibor (Shanghai interbank offered rate) remains at relatively low levels, suggesting liquidity is still adequate in money markets.

Additionally, although the headline economic data on China has generally been weak over the past six months, some of the underlying consumption data points, such as movie box-office receipts and domestic air travel, have continued to expand at a solid pace (though spending on bigger-ticket items has been more depressed). Another positive glimmer of hope has been the modest but notable improvement in September's official PMI (purchasing managers index). Having been negative for

some months, the two most important sub-indices - production and new orders - recorded more sizeable improvements, hinting that manufacturing may, in fact, be stabilising. The picture on the service side of the economy is clearer and healthier, with the data pointing to on-going expansion of the service economy.

Investors have also been assessing what the impact of a tightening of policy by the US Federal Reserve (Fed) might be on Asian economies. The scale of the decline in Asian markets from the highs of earlier this year is of a similar order of magnitude to the declines in Asian equities in prior episodes of Fed tightening witnessed over the last 20 years. Additionally, Asian markets have tended to bottom one or two months before, or after, the first tightening move in a new cycle. While the Fed has deferred a decision to raise rates, this outcome is clearly more firmly embedded in expectations and valuations than before.

Consensus earnings growth estimates for Asia ex-Japan in 2015 have fallen over the past three or four months. Despite these downward revisions to growth, they remain higher than the consensus growth estimates for the US and Europe. Asian ex-Japan markets continue to trade on lower multiples of earnings and book value than their US and European counterparts; for example, a forward price/earnings ratio of 11.1x for Asia ex Japan, versus 15.5x for the US and 14.4x for Europe.

We are positive on Asia's longer-term outlook, believing that three secular dynamics will underpin future growth. Burgeoning consumption is supported by population expansion, urbanisation and rising incomes. Trade growth is supported by intra-regional trade through the Trans Pacific Partnership ('TPP) and the Asian Economic Community ('AEC') while the impact of technology, almost certainly a significant disruptor in some sectors, will likely be an enabling force in others.

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Schroder Unit Trusts Limited (Managers), Schroder Oriental Income. It is easy to paint a subdued shorter-term picture for Asian equity markets. Regional economic activity continues to slow, deflationary forces remain strong given falling currencies among important trading partners and competitors (Japan, Europe, other emerging markets), consumer confidence is generally low (with even the Chinese consumer tending to defer those little luxuries), private capital spending subdued, and there is little sign of counter-cyclical government investment apart, inevitably, from China.

While investors have derived little comfort from the recent deferral of interest rate rises by the US Federal Reserve, it is important to keep the current situation in proportion. The Asian region continues to generate reasonable levels of growth, external balances generally remain healthy, and exposure to overseas borrowing is far below the levels that proved so problematic in the Asian crisis of the late 1990s. Most governments and central banks in the region enjoy an enviable level of flexibility as regards policy options; if they have not used them it is at least as much due to their caution as it is to any inability to execute.

China remains the key source of risk. Insofar as growth has already slowed markedly, particularly in areas such as real estate, industrial capital spending and luxury consumer spending (partly a function of the anti-corruption campaign), this has already been reflected in the economic and corporate statistics coming out of the region. More difficult to assess is the fall-out from the deflation of the undoubted credit bubble that has supported Chinese growth hitherto, particularly in sectors suffering from chronic oversupply.

One should not underestimate the sensitivity of markets to this process. An otherwise unremarkable adjustment to the renminbi exchange rate in early August triggered violent moves in equity markets, and not just in Asia. However, China does have

some important cards in its hand including a current account surplus, ample foreign exchange reserves, high domestic savings and direct control of the banking sector.

Furthermore, valuations of Asian markets have moved more decisively to a level which, historically, has represented good value.

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Allan McKenzie (Chairman), Edinburgh Dragon Trust. The US decision to hold off from raising interest rates underscores concerns over the fragile economies and volatile markets in developing countries. For some, it strengthens the case against investing in emerging markets, which have lagged their developed peers for the past four years. They point to a potential hard landing in China and risks of further sell-offs in emerging markets. In contrast, recovery appears to be picking up in the UK, US and parts of the Eurozone. US dollar strength is translating into relative weakness in currencies across the emerging market spectrum, suggesting that investing in developed markets therefore makes sense, from a risk and reward perspective. Massive capital outflows from Asia suggest that this view has gained traction.

I would propose a closer look at some of the concerns. China's "bubble trouble" is a sobering reminder that despite extraordinary policy support, when a market has little fundamental basis for going up, it has to fall at some point. Policymakers are learning some painful lessons. On a more positive note, the deliberate transitioning of the economy, from an export- and investment-driven growth model to one powered by domestic demand, will lead to a more sustainable and higher-quality growth in the longer term. This bodes well for China in the longer term, which will also be assisted by efforts towards liberalising capital markets and the yuan.

Asian currencies have weakened, as the strong US dollar has been supported by domestic recovery prospects and expectations of Federal Reserve policy normalisation. It is worth noting that domestic uncertainties played a bigger role for some currencies, such as the Malaysian ringgit. Over the longer term, however, Asian currencies are underpinned by the structural strengths of economies across Asia. Most countries have sizeable current account surpluses and foreign exchange reserves as well as low debt levels. Central banks have grown in credibility and independence.

On a broader level, more than half of the world's population lives in Asia. Its middle class continues to grow quickly, and it has a high propensity to spend. Workers are increasingly more educated and more skilled. The region is likely to reap its favourable demographic dividends for many years to come. At the government level, we see an emerging trend of forward-looking leaders focusing on structural reforms, including much-needed investments in infrastructure that will benefit consumers and businesses. Progress is likely to unfold at a slow and steady pace. Corporate earnings appear to be stabilising among non-commodity companies, which are doing sensible things, such as cutting costs to protect margins and restructuring to streamline operations.

Asia remains of immense promise despite the current challenging conditions.

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Aberdeen Asset Management Asia Limited (Managers), Edinburgh Dragon. Asia still presents compelling opportunities for investors despite the downturn. True, with all the volatility in the stock and commodity prices, risks persist. But each market has its own structural growth story, which could help override some of the cyclical volatility. The region is also in a better shape today than in previous crises. Many countries have accumulated healthy foreign exchange reserves; their financial

systems more robust than before, and currencies are no longer pegged to the dollar but float relatively freely. Meanwhile, cost cuts are progressing, and companies outside the commodity sector enjoying margin expansion; a potential pick-up in top-line earnings may not be too far off.

While these fundamentals should help support stock markets, headwinds prevail. Chief among these are how emerging markets will cope with an eventual US rate hike, and whether China is heading for an even sharper slowdown. Exports are falling, the level of debt is increasing and manufacturing is flagging. Chinese authorities' mishandling of the recent stock market turmoil has dented confidence in their ability to manage a broader economic downturn. Despite all these difficulties China's growth rate is still well ahead of most developed economies.

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John Russell (Chairman), Henderson Far East Income. China remains the key. Much is written about the slow down there but GDP growth, now referred to as the "new norm", is still robust in global terms. China is going through another transition phase as important and far reaching as the reforms introduced by President Deng Xiaoping. For him, the reform policy had to accommodate the severe economic damage and substantial social disruption caused by Mao Zedong's policies. To gain political traction President Deng Xiaoping adopted a consensus policy to help bind various factions together and he was successful. However, President Xi Jinping is faced with a different challenge.

He knows and has stated publicly that the transition to a more open consumer led economy is now imperative if growth is to continue and jobs created. Deregulation was the most important reform proposed at the 3rd Plenum in 2013. It is estimated that, relative to the "no reform" scenario, deregulation will boost average annual real output growth of the private sector by 3 percentage points. However, he is battling against entrenched interests created during the President Deng Xiaoping consensus period who opposed change and he appears to believe it is necessary to centralise control once again.

A further measure proposed by President Xi Jinping in 2013 to restore strong growth was the introduction of the "Belt and Road" infrastructure project. The aim will be to link, in a coordinated way, existing infrastructure and create 6 separate corridors from China across Asia to Europe. There will be roads, high speed rail, energy pipelines and sea ports. For China the benefits are clear. The project will reduce China's dependence on eastern seaboard trade routes for both imports and exports, avoid the long sea route through the Straits of Malacca, open up opportunities for central and western China to develop new industries creating jobs and economic prosperity in this neglected region. It will also open up new markets for Chinese goods and involve over 60 countries when complete. Of course this will not happen overnight but it is a key plank in the President's strategy. The potential benefits are so strong that it is reasonable to assume that the project will proceed quite quickly.

The outlook for China will continue to dominate Asian markets. The transition is necessary and has every prospect of being successful in the medium to long term. The stock market in China will remain unsettled for some time to come as the effects of the bursting bubble work their way through but valuations are attractive giving rise to improved yield opportunities.

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Mike Kerley (Fund Manager), Henderson Far East Income. We remain positive on the outlook for the region in the medium to long term but recognise that market direction will be dictated by macro factors in the short term. The uncertainty

surrounding interest rate rises in the US and volatility in the currency markets is likely to persist for the short term but we remain confident that Asian economies and companies are well placed to handle any potential bouts of volatility. Valuations in Asia are attractive relative to their own history and other world markets. Companies are cash rich with tremendous potential to increase dividend pay-outs over time. We will use any market volatility as an opportunity to acquire quality high yielding or high dividend growth companies at attractive prices.

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China

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

Dale Nicholls (Portfolio Manager), Fidelity China Special Situations. Why did the market fall? There is rarely one specific episode that drives market direction; a number of events changed investor perception and made the headlines:

The rise and subsequent unwinding of margin finance clearly impacted the market. The Shanghai-Hong Kong Stock Connect programme was launched in November 2014 to enable foreign investors to buy mainland listed stocks through the Hong Kong Exchange. Some mainland Chinese investors bought A-Shares in anticipation of rising foreign demand by borrowing money both from their brokers as well as from other "informal" channels. As a result, share prices rose and encouraged more borrowing to buy shares, creating an upward spiral. Although the Chinese regulator took some steps to stem the flow of margin finance, they were too late and not sufficient. In May, we reached a point where we think that the total margin balance approached 10% of the total A-Share market capitalisation. Clearly concerned, the government imposed stricter rules in June and banned a number of brokers from engaging further in margin financing. With a correction in the market, some existing investors were forced to sell their shareholdings to unwind their margin finance positions, triggering an indiscriminate sell-off that spilled over to the Hong Kong market. This generated negative headlines, but I believe this was essentially a technical issue and did not fundamentally change the general market outlook. There was talk that the decline in the market could create a negative wealth effect and lead to a slowdown in consumption. However, the general public has relatively low exposure to the stock market and there was little evidence of a consumption boost when markets were on the rise.

The primary concern during this episode was the government's response to the sell-off in the market. While authorities have indicated that they are pro-reform and are looking for markets to play a greater role in China's financial future, when the market faced its first real test, investors were left disappointed. Rather than allowing the market to find a natural bottom, hundreds of companies suspended their shares and the government enlisted financial companies, including security brokers, to set up a multi-billion renminbi fund with instructions to buy the market at predetermined levels. It also imposed quotas on shorting, which significantly reduced liquidity in the equity future market. Such action appears to go against the spirit of free-market reform and has brought about a level of distrust from foreign investors. It will take some time to rebuild that trust and investors will want to see concrete reforms and action before re-entering the market.

In addition to the above, there was significant concern over a slowdown in China. This followed a perceived devaluation of the renminbi after weak export data in July.

However, the slowdown in China's economy is not unexpected as it transitions to a consumer-driven model. Meanwhile, the Chinese authorities widened the daily band that the renminbi can trade in against other currencies, which led to its depreciation against the US dollar. The timing and communication of this move could have been better - I believe it wasn't really a move to support the economy, but rather for the renminbi to be included in the International Monetary Fund's ("IMF") Special Depositary Rights basket. Earlier in the quarter, the IMF had stated that China needed to relax its foreign exchange controls, so this should be seen as a step in the right direction.

Where is the good news? All of the above paint a gloomy picture for China, but there was some positive news for investors over the quarter. Property companies posted positive results and we saw both a rise in property prices and a reduction of inventory in tier one and some tier two cities. I expect this to play out eventually in lower tier cities. In addition, property developers indicated that they are looking for more land banks for future development - which points to their increasing confidence in the market. At the time of writing, the government has reduced the deposit requirements for mortgages, which is likely to stimulate the property sector.

Retail sales have also remained resilient, consistently posting 10% annual growth, as consumer spending is increasingly moving online. Retail sales actually rose despite a fall in automobile sales; this is an encouraging sign that general consumption demand remains strong. Automobile sales have fallen compared to last year, albeit from a high base; we are still seeing around 1.5 million new automobile sales per month, and recent data indicates that things are turning around. For instance, the tax rate for cars with engines below 1.6 litres has recently been halved, which is likely to boost demand.

Finally, valuations look attractive. As mentioned above, my fundamental view for Chinese companies has remained relatively unchanged despite the volatility. Structural drivers such as rising wealth, increased spending and improving healthcare are supportive, but many stocks related to these themes appeared to be relatively expensive. While a market fall is not welcomed by equity investors, it has pared some of the over-optimism. Looking ahead, I see some exceptional value in Chinese equities. In particular, I find value in smaller Hong Kong listed companies and larger A-Share companies.

What would I like to see? Margin finance, the government's market intervention, renminbi depreciation and growth concerns have dominated sentiment, but much of this is short-term market noise. I would like to see more focus on the execution of the long-term reform agenda, including state-owned enterprise reform. State-owned enterprise reform is an area that has been disappointing. I think even a few small changes have strong potential to drive improved operating efficiency, which will eventually boost returns for shareholders. Overall, there are many interesting long-term investment opportunities underpinned by secular changes and reform in China, but that have seen their share price impacted by short-term concerns. Such circumstances mean valuations are compelling for investors. I am positive about the prospects for China.

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Japan

(Compare Japanese funds **here**)

Neil Gaskell (Chairman), Aberdeen Japan. The China induced turmoil which has affected the world's stock markets is still in progress. The domestic outlook in Japan has also been worrying as the momentum of Shinzo Abe's reforms weakened during the first part of the year. However, Abe has refocused on the economy more recently, announcing a second phase of fiscal, monetary and economic reform, and the fall in commodity prices is also helpful for Japan. The Bank of Japan has pledged to continue its quantitative easing for as long as it takes to achieve stable inflation of about 2% p.a. There is also the prospect of the Trans-Pacific Partnership agreement at last being implemented.

Japan will not be immune in the short term to international uncertainties but the overall outlook in Japan is for slow but continuing progress in long term growth prospects and a robust corporate sector with strong profitability, cash flows and increasing dividends combined with steadily improving corporate governance.

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Aberdeen Asset Management Asia Limited (Investment Manager), Aberdeen Japan. We expect the Japanese market's bumpy ride to continue in the months ahead. The world economy is stuck in a low-growth rut and there are few signs that it will get out of it any time soon: modest growth in the US and a fragile rebound in Europe have failed to compensate for the downturn in China and the rest of the emerging markets. Japan appears vulnerable given its reliance on exports. Meanwhile, the US Federal Reserve's decision to delay normalising its monetary policy has prolonged uncertainty in the global financial markets, potentially stoking further market volatility.

At home, the macroeconomic environment remains subdued. The yen's recent strength and slowing Chinese demand have hurt exporters. Household consumption remains anaemic despite firm labour market conditions. With wage growth still tepid, consumers continue to tighten their belts. But changes may be afoot. The recently-concluded Trans-Pacific Partnership could become a driving force in the longer term. The trade deal signals greater willingness by the prime minister to implement politically-sensitive structural reforms seen as pivotal in lifting Japan out of its long stagnation. If ratified by lawmakers in all 12 member nations, it gives Abe more ammunition to take on the entrenched agricultural lobby. It also widens Japan's market for exports of cars and auto parts.

The corporate landscape looks promising. Businesses are upbeat, with profit margins at their highest levels since the global financial crisis despite the yen's relative strength. Progress on corporate governance is encouraging, if slow. Add to that Japanese companies are placing a greater emphasis on shareholder value, with dividend payout ratios and share buybacks on the rise.

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Alan Clifton (Chairman), JPMorgan Japan Smaller. The difficulties experienced by economies in Europe and in emerging countries, including China, suggest that the risks to the global economy are skewed to the downside. The uncertainties have led

to a disappointing economic performance in Japan. We nevertheless remain optimistic about the Japanese equity market because of the favourable earnings outlook and undemanding valuations. Positive momentum can be expected from the continuing corporate governance reforms, the recently agreed Trans-Pacific Partnership, and the Bank of Japan's commitment to its 2% inflation target. The government of Prime Minister Shinzo Abe is also expected to re-focus on its economic agenda in the lead up to the July 2016 upper house elections.

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Shoichi Mizusawa, Nicholas Weindling, Naohiro Ozawa (Investment Managers), JPMorgan Japan Smaller Companies. We remain optimistic about the Japanese equity market because of the positive earnings outlook and undemanding valuations. We believe that corporate governance reform will gain momentum in Japan, albeit slowly. After a long Diet session, the Abe administration finally passed the national security bill. We expect the administration to re-focus efforts on its economic agenda, not least because it needs to restore popularity in order to win the House of Councillors election in July 2016. Earlier in October, twelve Pacific Rim nations reached an agreement on the Trans-Pacific Partnership that encompasses some 40% of global GDP. Moreover the Bank of Japan is committed to its 2% inflation target and will not, we believe, hesitate to act further if necessary in order to bring this about.

While the above reasoning forms the base case for our positive outlook, we recognise that there are risks both externally and internally. The fragility of the economies in Europe and emerging countries including China suggests that the risk to the global economy is skewed to the downside. In Japan, both households and corporations appear unwilling to increase spending materially. This has led to disappointing economic performance in both corporate capital expenditure and private consumption. It is worth noting, however, that the labour market remains tight in Japan and we believe this will eventually feed through to higher wages and rising real incomes.

We maintain a bias towards growth companies which have strong balance sheets and cash flows as opposed to cyclical companies. While such companies tend to command valuation premia, we believe these are likely to be sustained in the current environment of slow growth and low inflation. We continue to allocate a large proportion of capital to our long-standing investment themes, including factory automation and e-commerce/mobile/internet.

We also own a number of companies which we believe will benefit from increasing demand for domestic infrastructure investments. Infrastructure in Japan is approaching a significant replacement cycle as many major projects were completed around the time of the 1964 Tokyo Olympic Games. On the other hand, we will continue to avoid companies that operate in industries plagued by excess capacity. A number of commodities and commodity-related goods and service stocks fall into this category. We are also underweight in companies with significant exposure to emerging countries. Although these companies' share prices have fallen, and in some cases may appear cheap on traditional valuation measures, we find limited upside at present because their earnings prospects continue to deteriorate.

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Andrew Fleming (Chairman), JPMorgan Japanese. Japan faces a number of structural 'headwinds' including an ageing, and now falling, population and very high levels of government debt relative to the size of the economy. Prime Minister Abe, supported by the Bank of Japan, has gone to enormous lengths to break the deflationary forces that had gripped the economy since the bursting of Japan's

financial bubble in the early 1990s. The weaker yen, for example, has given a big boost to competitiveness to Japan's exporting companies. The global growth outlook is highly uncertain and emerging economies are showing particular signs of weakness. If this weakness develops into another downturn or recession, Japan's economy will not be immune, although Japanese companies have generally stronger financial positions than they did in 2008.

The big medium term political challenge remains implementation of reform plans to improve prospects in the domestic economy - the third of Mr Abe's 'three arrows' strategy agenda.

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Nicholas Weindling, Shoichi Mizusawa, JPMorgan Asset Management (Managers), JPMorgan Japanese. Japan is a cyclical market due to its large exposure to global manufacturing sectors relative to other major markets as well as relative to its own economy. Therefore increasing uncertainty over the global economic environment could weigh on the Japanese market in the near term. It is important to remember that Japan is heavily reliant on Asia as a destination for its exports. Over the last thirty years the percentage of exports destined for Asia has increased from around 25% to over 50% now. As such Japan will not be insulated from a slowdown in those markets.

However, the long-term outlook is positive: government policy is supportive, the economies of countries in developed markets are improving and, within Japan, companies are starting to emphasise increasing returns to shareholders. We continue to focus on companies benefitting from structural changes such as the increasing penetration of internet shopping, the aging population, factory automation, the increasing number of tourists visiting Japan and on companies that prioritise improved shareholder returns.

We believe in active management and believe the case for doing so in Japan is particularly strong for a couple of reasons. First, it is a very under researched market. Of the roughly 1,700 companies listed on the TOPIX index more than half have two or fewer brokerage analysts covering them. Second, the industries in which Japan may be strong in the future may not be the same as in the past. For example, historically Japan has been famous for its consumer electronic and car companies but these areas are now highly competitive with a large number of global competitors. We believe that it is in other sectors where Japan will be strong, for example in consumer goods where Japanese products stand for reliability, quality and safety.

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Emerging Markets

(Compare Global Emerging Market funds here)

Carlos Hardenberg, Franklin Templeton Investment Management Limited (Manager), Templeton Emerging Markets. Emerging markets, as an asset class, have had a tough time over the last 5 years. However, that is not to say that all emerging markets have declined. Markets such as China and India have reported positive returns in the three-year period ended September 2015. Emerging market equities as a whole, as represented by the MSCI Emerging Markets Index, however, look on track to record a third consecutive year of decline. The last time that this happened was in the 2000-2002 period. What followed then was five years of solid

double-digit performances in 2003-2007. The key question is: are we going to see more years of poor emerging market performance or will there be a recovery in the coming year? Our view is on the positive side.

Emerging economies in general have experienced stronger economic growth trends than developed markets. This has been a consistent long-term theme, and one which we expect to continue in the foreseeable future. Even with major economies like Brazil and Russia in recession, emerging markets' growth in 2015 is expected to be comfortably in excess of that achieved by developed markets, with China and India driving Asia to particularly strong growth. In the current year, emerging markets in aggregate are estimated to be on course to grow by about 4.0% against 2.0% for developed markets. Emerging and Frontier markets account for 37% of the world's GDP, with developed markets making up the remaining 63%. We expect this ratio to change as emerging markets' growth continues to exceed that in developed markets going forward. In addition, what also makes emerging markets attractive to us is the fact that emerging market economies generally have much less debt and hold significantly higher foreign reserves compared to developed markets.

While Chinese equities have experienced declines over most of the reporting period, we think that this is likely to change in the future. China has experienced stronger economic growth than most of its emerging, and developed, market counterparts over the past decade, a trend that we expect to continue. A lot of attention has been given to slowing growth in China. It is worth repeating that the percentage increases in China's growth rate may be slowing but as the economic base continues to grow so the actual nominal amounts are increasing. Investors should also bear in mind that China has embarked on a dramatic reform programme that includes cutting down on corruption and making the economy more market-based, rather than being controlled by the central government. While these changes may result in a slowdown in the shorter term as the economy moves closer to a free market economy, consumer-led economic growth should be stimulated. Most importantly, the disciplines imposed by such a market structure strengthen the economy overall and launch it into a new growth path.

We believe that Thailand offers some attractive opportunities for investors. We do not anticipate that tragedies such as the August bomb attack in Bangkok will have more than a transitory impact on the economy. Meanwhile, a growing middle class population is driving an increasingly dynamic domestic economy, including a sophisticated financial sector, with growth underpinned by continuing migration from rural to more productive urban activities. In the shorter term, a number of significant economic stimulus programmes are planned, including both measures to increase the incomes of poorer sections of society and significant infrastructure spending projects, both of which should boost growth and possibly create specific potential investment opportunities. Thailand does have some issues, notably a still fluid and uncertain political structure. Nevertheless, our research suggests that a considerable number of Thai stocks are trading on valuations at odds with our assessment of their longer term potential.

Elsewhere, the South Korean market continues to possess attractive features for international investors. A powerful traditional export sector spans a range of products including consumer electronics and advanced technology, with levels of expertise placing the country's businesses among leaders globally in many fields. Thus, we continue to monitor potential opportunities in this market.

Brazil also remains a key market because we view the period when a market is out of favour as the best time to establish or expand positions. This is due to the fact that adverse sentiment can often drive markets well below their true value. Brazil is the largest investable market in Latin America. It is also a country with a large and

growing consumer base. Brazil's economy is diversified and largely domestically driven, while its big consumer market creates opportunities for a wide range of companies such as those discussed above.

While market declines can be painful for investors, we think it is important to put these types of corrections in context, remain calm and look for potential opportunities. At the time of writing, we are particularly interested in consumer-oriented stocks in a number of emerging markets because that is where we expect growth in the long-term.

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Blackfriars Asset Management Limited (Investment Manager), Establishment Trust. The precarious position of numerous sectors of the Chinese economy, the shenanigans in the local equity markets over the past few quarters, persistent capital outflows and the surprise "devaluation" of the Renminbi in August have ensured that China continues to steal the limelight in the Asian region for good reason.

In many respects little has changed - the Chinese industrial and property sectors remain hamstrung by the excessive leverage and excess capacity created during the post Global Financial Crisis credit boom. In the industrial sector, factory gate prices continue to decline at circa 5-6% per annum. While demand for property in the larger tier 1 and tier 2 cities appears to be reacting positively to easier monetary policy and the loosening of restrictions on mortgages, the situation in smaller tier 3, 4 and 5 cities - which collectively account for two thirds of national residential construction - remains markedly worse, with residential inventory available for sale standing at circa 30 months.

The recently reported third quarter 6.9% year on year increase in GDP was flattered by an extremely low GDP deflator of -0.7%. Nominal GDP growth is running at just 6.2% and, in a deflationary environment, it is nominal GDP that counts. Banks lend money and it is the nominal principal sum that needs to be serviced and eventually repaid. Unhelpfully, Chinese financial institutions remain opaque at best and continue to report implausibly low levels (1.5-2.0%) of non-performing loans ("NPLs"). Even the more bullish analysts believe true NPLs to be near 10%.

The investment conclusions from the above are straight forward. First, China's economic growth over the next decade will be considerably slower, driven by rising consumption and expansion in the service sector. Growth will be considerably less energy and commodity intensive and commodity prices will remain weak. Second, since the Chinese authorities retain control over the major financial institutions and (to state the obvious) the State Owned Enterprises that dominate the heavily indebted heavy industries, it is unlikely that there will be a crisis as such and more likely that there will be a "brokered" solution of the debt problem under the guise of SOE reform. Third, dividend declarations by Chinese financials over the next few years will disappoint investors. Indeed, funds might need to flow in the other direction.

The good news is that the service sector continues to thrive. Employment trends remain reasonably stable although these need to be monitored. It remains a difficult and competitive operating environment for consumer companies but we continue to believe in their long term growth prospects. Approximately 10% of the Company's assets are deployed in China. The stocks held in the portfolio are prodigious cash generators and have solid balance sheets.

There has been much comment on the sizeable increase in debt within the emerging market universe since the Global Financial Crisis and, to the casual observer, the presumption might be that the emerging market asset class consists of nothing but highly leveraged commodity producers. While it is undoubtedly true that most Chinese property companies, several Indonesian coal producers and all Indian

infrastructure companies have taken on excessive levels of debt (either local currency and/or US Dollars) we believe investors are missing the broader picture which is that the four largest emerging markets (Korea, Taiwan, China and India) accounting for over 60% of the universe are energy and commodity deficient economies. The terms of trade have moved decisively in favour of Asia and this is supporting growth in many areas of the region. While growth prospects for the export driven economies in the region remain uncertain, the more domestically orientated economies with encouraging demographic profiles continue to perform well. The Philippine economy, for example, has sailed serenely through the global economic slowdown driven by its dynamic domestic demand story.

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Latin America

(Compare Latin American funds **here**)

Richard Prosser (Chairman), Aberdeen Latin American income. Market volatility is likely to persist in the near term. The ripple effects from China's growth slowdown, which appears to be the new normal, are affecting the global economy. Regional economies could remain sluggish amid weak commodity prices. Meanwhile, the US Federal Reserve appears to be getting closer to normalising its monetary policy, which could trigger fund outflows from Latin America if the dollar strengthens further.

At the country level, there are also issues to contend with. In Brazil, the credit downgrade is likely to increase both the costs of borrowing and repaying dollar-denominated debts. Besides a shrinking economy, the government faces the twin threats of high unemployment and rising inflation. Meanwhile, corruption allegations remain a common fixture in Latin American economies. In Mexico, while a government investigation has cleared the president of any wrongdoing in a property scandal, the handling of the case has dented the administration's credibility and investor confidence. Chile, too, was tainted by corruption allegations.

But there is also room for optimism: In Brazil, the probe into guilty parties involved in the Petrobras scandal shows that its democratic institutions are robust and its judiciary increasingly independent. Policymakers in Mexico and Chile are also pushing through anti-corruption reforms. These reforms should be a cause for hope and should underpin long-term growth prospects.

While the credit downgrade does not bode well for Brazil, its highly-rated finance minister, Joaquim Levy, who just took office this year, seems determined to steer the country out of its economic troubles with a series of reforms and overhauls.

Corporate earnings growth in the region is likely to remain muted in the near term. Amid the recent sell-offs, valuations have become more attractive.

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Aberdeen Asset Managers Limited (Managers), Aberdeen Latin American Income. Latin America seems to be facing a 'new normal' of slowing growth, relative to the boom of the past decade. The policy responses of the region's governments will be closely watched: the successful implementation of structural reforms for productivity and fiscal health is now more crucial than ever.

Despite the macroeconomic uncertainty, however, we have been encouraged by developments on the corporate front. Against a backdrop of reduced investment and slowing consumption growth, our holdings have continued to show strong focus on profitability and balance sheet strength. Margins have largely proven resilient, owing to cost cuts and improvements in efficiency. While we are unlikely to see a significant recovery in corporate earnings in the near future, the companies in the portfolio have positioned themselves well to weather the challenging operating environment. Valuations appear more compelling, with the equity index trading at around 15 times 2015 earnings.

The significant currency depreciation we have seen across the region should help to improve sovereign external balances and partially off-set the negative impact of lower commodities prices on fiscal revenues. However, central banks will have to reinforce their credibility and keep inflation expectations well anchored to prevent second round inflationary pressures from weaker currencies. This has removed the opportunity of further policy easing, while the upcoming tightening of US monetary policy stance points towards a more hawkish outlook. Encouragingly, we see that most central banks in the countries we invest in are well aware of these challenges, and are ready to conduct prudent policies, which should anchor the long end of the local yield curves and prevent currency overshoots.

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Biotech and Healthcare

(Compare Specialist Biotech & healthcare funds **here**)

Samuel D. Isaly, OrbiMed Capital LLC (Portfolio Manager), Worldwide Healthcare. The past six months have been relatively quiet in terms of fundamental new sector developments. But perhaps the most important event occurred in June 2015 when the Supreme Court of the United States upheld a foundational aspect of the Affordable Care Act (ACA and commonly referred to as "Obamacare"). At issue was the availability of healthcare insurance subsidies for individuals living in states that do not operate their own insurance market exchanges. In a 6-3 ruling by Supreme Court judges, the Court ruled that such subsidies shall be made available in all states for low and middle income people who buy insurance nationwide, even in states that did not create an official insurance exchange of their own. This was the second consecutive challenge to the ACA that was ultimately dismissed by the Supreme Court. The implication? The ACA is here to stay, at least pending the next Presidential election.

Another important political catalyst during the period was renewed scrutiny over drug pricing in the United States. In a perfect storm of jittery investors concerned over a "biotech bubble", the media exposed Martin Shkreli, the CEO of Turing Pharma, for "price gouging". The price of Turing's anti-infective Daraprim was increased from U.S.$13.50 to U.S.$750 per pill, with headlines espousing the "5,000%" price increase. The former U.S. Secretary of State and current Democratic Presidential nominee front runner Hillary Clinton pounced on the media shaming and used it as an opportunity to sabre-rattle her threatening proposals to reign in U.S. drug pricing. The concern is that if Secretary Clinton does in fact become the next President of the United States, she would institute a dramatic price control system, scuttling the current ability of the industry to set and raise prices at their own discretion. This issue, coupled with macroeconomic uncertainty, effectively caused a dramatic selloff in

biotechnology, other large capitalisation pharmaceutical and specialty pharmaceutical stocks whose valuations are perceived to be linked to drug pricing.

Our view on the putative Clinton threat? Simply headline noise. As the election cycle gears up for a new President to be elected in November of 2016, we expect more of this rhetoric to become media fodder. The likelihood of some type of legislation becoming law in the U.S. is effectively zero. Given the current make-up of the Republican-controlled U.S. Congress, the federal branch of the government that writes law, the prospect of an anti-pharma bill passing is remote. Even with the looming election, Republicans are expected to retain control of the House, and while Democrats may regain control of the Senate, it would be by a slim margin. What if the Democrats maintain the Presidency? We find it difficult to believe that any scenario can lead to the passage of drug price controls. When the current federal regime took control in 2009, the Democrats controlled the U.S. House of Representatives, the Senate, and the Presidency. Despite the overwhelming Democratic control, we note that proposals for strong drug price regulation were left out of the ACA as moderate Democrats in both the House and Senate would not go along. Given that the ACA was the hallmark legislation of the Obama administration, we see little threat of an incoming regime, regardless of how it is composed, being able to enact any drug pricing legislation.

The FDA remains an ally of the biotechnology and pharmaceutical industries. Working well in concert over the past 5 years, we expect this trend to continue. The number of novel drug approvals in the first nine months of 2015 reached 27, slightly below the pace of a year ago. However, with 18 applications still pending approval in 2015, this year could still top 2014, which was a record year for new drug approvals with 41, besting the previous record of 39 in 2012.

Another important regulatory metric at the FDA is the number of compounds that have been granted Breakthrough Therapy Designation (BTD) by the FDA. BTD is discretionally granted by the FDA to compounds in development that are intended to treat a serious or life-threatening disease and possess preliminary clinical evidence that suggests it provides a substantial improvement over existing therapies. Once the BTD is granted, the FDA and sponsor work together to determine the most efficient path forward and the FDA bestows additional resources to reduce the review time as much as possible. In 2014, the FDA granted 31 products with BTD. In the first 9 months of 2015, the number is already at 29. We certainly expect this year to be record breaking in terms of breakthrough designations.

One final word on the FDA. In September 2015, U.S. President Barack Obama nominated the next Commissioner of the FDA, Dr. Robert Califf, a world renowned cardiologist from Duke University. Any change at the Commissioner level brings angst to the investment community, particularly when it comes during a period of great prosperity for the industry. However, we support this change and believe it will continue and enhance, not derail, the course set by the now resigned Commissioner, Dr. Margaret Hamburg. Dr. Califf is a well-known and regarded clinical trial investigator with many industry ties. He appreciates as well as anyone the difficulty in bringing new drugs to market and thus we expect the "pharma friendly" environs of the FDA to continue.

The large capitalisation biotechnology sector has been under significant pressure due to negative political and media headlines about high drug prices, triggering a significant sell off in the space. Since the biotechnology downturn was driven by negative media headlines rather than fundamentals, we would expect the sector to rebound, in much the same way the sector rebounded after the March 2014 pricing headlines on Gilead's hepatitis C treatment Sovaldi. The pace of recovery may depend on whether the news headlines persist and whether the drug pricing issue

continues to be a topic during the Presidential election cycle. Valuations for major biotechnology remain very attractive relative to historical averages. We believe merger and acquisition (M&A) activity and solid earnings by major biotechnology companies could act as catalysts for a recovery of the sector. Similarly, the emerging biotechnology space also experienced an egregious selloff. But we expect this "innovation oven" to re-heat in 2016 with positive catalysts driving stocks higher - in particular M&A - as larger companies take advantage of the valuation dislocation to further stock their pipelines.

Pharmaceuticals

In large capitalisation pharmaceuticals, the spread between "haves" and "have nots" remains as stark as ever. Make no mistake; the overall foundational metrics of this group are as strong as they have been since the late 1990's. However, there is a divergence of strategy between the companies that cannot be ignored. Some companies are focusing on capital deployment - M&A, share buy backs, dividends - largely due to the fact they have revenue and/or pipeline gaps. Other companies concentrate on investing for growth with a focus on new drug launches and compound development. While we are not wed to either strategy, we do prefer the latter. Companies entering new product cycles typically show above average revenue and earnings growth which enables share price outperformance. That said, we respect the opportunity a transformative and/or accretive acquisition can do to share prices and applaud shareholder friendly management decisions. Regardless of strategy, not all companies are able to execute.

Investors' focus on U.S. drug pricing and the specialty distribution model has intensified - especially for products with little or no differentiation - driving a significant selloff within the specialty pharmaceutical and generic drug sectors and pushing companies' valuation toward the lower end of historical ranges. Although a voracious press and election year politics could elevate headline risks for a while longer, we expect investors' "knee-jerk" negative reactions to moderate over time, as more important social/political issues gain greater recognition and egregious pricing behaviour by a small group of companies is modified. At this time, we view legislative involvement as unlikely, but worth monitoring.

Generic drug stocks appear to have an easier road to recovery since generic companies predominantly market low-cost commodity products that experience pricing erosion over time. Valuations are attractive within the generic group and we believe it is poised for outperformance over the next 12 months. Recovery of the specialty pharmaceutical group could take time, but some companies are better positioned than others. We find under-leveraged companies with core franchises exhibiting strong volume growth, with favourable (low) government-to-commercial customer mixes, as particularly well-positioned.

Life Sciences Tools and Services

The life sciences tools sector continues to be sensitive to macro-economic headlines due to its exposures in industrial end markets and significant exposure to China. Sector news flow has been dominated by macro related events over the last several months. However, looking forward to 2016, we favour market leaders in genomics research and those companies with significant scale with balance sheet flexibility. Attractive valuations and the current end market environment should encourage further industry consolidation.

The diagnostics industry has been a difficult sector to navigate for investors due to increasing regulatory and reimbursement pressures. We remain cautious in the sector preferring companies with attractive valuation with minimal reimbursement risks. 2016 should continue to be a year with reimbursement headwinds for the sector.

Healthcare Services

Healthcare services outperformed in the half year period driven by three announced acquisitions. With the launch of ACA now passed, investor focus has turned to whether the U.S. Department of Justice (DOJ) will approve these mergers and stock performance has stalled, accordingly. Going forward, the DOJ reviews could extend all the way through the second half of 2016, prolonging the uncertainty. Nevertheless, we remain bullish on managed care organisations, so called "HMOs", who have more exposure to higher growth government businesses including Medicaid (social healthcare programme for families and individuals on low income and limited resources) where there is also upside to profit margins.

Hospitals also outperformed in the six month period, driven by a favourable Supreme Court ruling affirming ACA Exchange subsidies (federal subsidies that help nearly 6.4m American people pay their ACA health plans). However, stocks subsequently traded lower on fears that the best of ACA benefits are over. Concerns around the economy exacerbated the move. Going forward, we believe stronger growth should persist in 2016 as even more individuals sign up for Exchanges (the penalty for not acquiring insurance more than doubles) and more states consider expanding Medicaid eligibility. In fact, the U.S. Health and Human Services department projects covered lives will increase by 2% next year, which will improve hospital margins as care that was previously uncompensated is now reimbursed. While Presidential candidates are campaigning on various ACA modifications, none are likely to endorse, or be able to pass, a reduction in the number of insured, ultimately leaving at least most of the law intact.

Medical Technology and Devices

Overall, 2015 has represented another year of modest volume growth for the medical devices industry given an improved global economy and roll-out of the ACA. Pricing pressures remain but are not worsening, and companies have been offsetting the negative impact with new product launches. Given strong company pipelines and a relatively "friendly" FDA vs. prior years, we expect these macro trends to persist for the foreseeable future. Currency fluctuations have been an industry-wide headwind in 2015, but the negative impact will largely abate in the first quarter of 2016 and should actually help growth rates through the back half of next year. Another potential catalyst for the group is the repeal of the U.S. Medical Device excise tax, with an update expected from Congress around year-end 2015. Importantly, M&A remains a tailwind and we expect continued smaller consolidation transactions to occur. However, the pace of large transformative acquisitions - such as those announced in 2014 - has stalled in 2015 and is unlikely to rebound for the foreseeable future. In the context of these trends we divide our investments into three categories: (1) companies with strong pipelines in high growth end markets; (2) companies with disruptive technologies in larger mature end markets; and (3) companies with substantial margin expansion opportunities.

Emerging Markets

Similar to 2014, Emerging Market Healthcare (EMHC) continues to show robust trend in 2015. The Chinese A share market performed extraordinarily well in the first half of the period and robust gains were demonstrated. We remain convinced that the key to investment in emerging markets is to invest in people - superior management teams with proven track records and strategies. Additionally, our investment strategy in EMHC is to focus on sector leaders. First, their established developmental, commercial, and management capabilities typically withstand any market volatility better than others. Second, sector leaders are the likely beneficiary of the consolidation trend in emerging markets. We invested considerably in the healthcare services and medical devices sub-sectors in emerging markets to offset headwinds for drug manufacturers arising from government price control policies in countries such as China and India. Whilst it is possible to see Chinese healthcare market growth decelerate slightly as a result of the slower economic growth, we nevertheless expect robust low-teens growth for healthcare as demand and supply for the sector continues to increase. Our long-term view on the EMHC investment opportunities remains bullish, as we continue to believe that EMHC is a secular play as the economic improvement in these developing countries could warrant and prompt healthcare spending to outpace its economic growth.

In the absence of an increase in geopolitical unrest, we believe that investor attention will revert back to more common concerns, such as the economy, interest rates, and company earnings. That said, it appears there is still a notable amount of uncertainty in the markets. We expect the increased volatility observed in this period to carry over into the last three months of 2015, although markets have stabilised somewhat since the end of the half year. The balancing act in China may be unsustainable and the lack of action by the U.S. Federal Reserve on interest rates created an unhealthy ambiguity that may linger until action is taken later this calendar year or next.

Healthcare stocks have been on a strong run over the past 3 years and thus will not be immune to such volatility. Some may argue that the disruption will continue as the election cycle and corresponding rhetoric heats up as Democratic and Republican candidates continue to stump for support. Other pundits have argued that the sector was overvalued and a selloff was inevitable.

However, our view is that healthcare is now oversold. The fundamentals of the healthcare sector remain as positive as we have observed over the past 15 years. While the "risk-off" mentality may continue in the short term, important catalysts - clinical, regulatory, M&A - can reverse that notion in a very quick and dramatic fashion. Overall the positive fundamentals of this group have propelled the stocks higher and those fundamentals remain strong today. Valuations are higher but so are growth projections and we believe that will continue to attract investors.

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Sven Borho, OrbiMed Capital LLC (Portfolio Manager), Biotech Growth Trust. Since the summer, biotechnology stocks have experienced a pullback. Initially weakness could be attributed to general macroeconomic concerns about global growth. More recently, concern about the potential for new government regulation of drug pricing has caused the sector to underperform the broader market.

Sustainability of drug pricing has long been a point of focus for biotechnology investors. During the debates over U.S. healthcare reform in 2009-2010 in particular, there was much concern that new regulation would limit pricing power of biotechnology and pharmaceutical companies. The actual legislation had a limited effect on drug pricing, so these concerns dissipated. In September a press article

highlighted a particularly egregious price hike by a small specialty pharmaceutical company. This brought the issue of drug pricing back onto the national stage, prompting Democratic presidential candidate Hillary Clinton to make several proposals to contain drug costs. This caused broad weakness in the biotechnology sector. However, a closer inspection of the individual proposals suggests that they would have a limited impact on prices, and several of the reforms have been proposed before without much traction in Congress. While the continued attention on this issue from the press and politicians presents a headline risk for the sector, as long as Republicans retain control of Congress, the odds of any form of drug price regulation being enacted are very low.

Although price increases have been a contributor to the growth of biotechnology companies, the main driver has been new product launches. We believe that the innovative potential remains strong within the industry, and that ultimately this innovation will drive long term stock performance. We expect merger and acquisition activity will continue. Furthermore, there are many upcoming clinical catalysts with the potential to drive shares higher in areas including immuno-oncology, orphan diseases, and gene therapy.

We believe that fundamentals in the industry are sound, and that the sector will recover from recent weakness.

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Alan Clifton (Chairman), International Biotechnology Trust. Excitement around developments in areas of key unmet medical need such as dementia, and novel approaches to cancer treatments continue to draw attention to the biotechnology sector and provide ongoing opportunities for value creation.

My belief is that investments in the biotechnology sector thus continue to offer excellent long-term investment opportunity. The healthcare sector is highly profitable with predictable and stable sales and earnings. Post-approval, innovative drugs and technologies benefit from market exclusivity due to intellectual property rights. The worldwide market for pharmaceutical products is increasing in line with a rising world population, a growing middle class in emerging market economies and an ageing population. In addition to the growth of the market, the sector's productivity has improved due to more effective drug development and differentiated regulatory review times for drugs meeting high medical need. However, the most important factor for the mid and long term positive outlook for the sector is the increasing understanding of the biology/pathology of human diseases. The great scientific advancements in many fields give hope to patients with mostly untreatable conditions and also help drug development by focusing the efforts on the right molecular targets and biological pathways.

The burden on global healthcare systems of changing demographics and population trends means that there is greater need than ever to develop new treatments for chronic conditions. These are being pursued with continued vigour and improving efficiency by both biotech and pharma companies and I continue to believe that the sector remains an excellent prospect for long-term growth.

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SV Life Sciences Managers LLP (Investment Manager), International Biotechnology Trust. Can biotech continue to outperform? The biotechnology sector has been the top performing sector for the past five consecutive years, with 2015 set to be another year of excellent returns. The momentum of the sector is a result of a combination of factors, namely: new and exciting clinical data, strong drug launches and continued mergers and acquisitions.

Last year investors were drawn to strong drug launches in hepatitis C and multiple sclerosis from Gilead and Biogen. This year's focus has shifted to new areas of development namely the exciting new data or drug approvals in Cystic Fibrosis (Vertex), Alzheimer's disease (Biogen) and cardiovascular disease (Amgen/Regeneron). This continuous stream of innovation and new product launches is far from over. Next year we will begin to see how the launches of Vertex's Orkambi and Amgen/Regeneron's PCSK9s pan out. Strong launches should bode well for the sector. We also expect to see new clinical data from across the industry, notably data from Biogen's Anti-LINGO drug in multiple sclerosis and further immune-oncology data which, if successful, could add to the momentum.

The main contributor to sector performance over the past five years has been the increase in valuations of the profitable biotechnology companies. In terms of forward P/E multiples, the sector has expanded from 9x in 2010 to 22x in 2015. However, over the same time period, the S&P 500's P/E multiple has expanded 85%. Therefore the strong absolute return that has so markedly outstripped the wider equity markets, has been driven mostly by earnings growth.

It is important to note that merger and acquisition valuations are still at a premium to current market valuations, for example Alexion acquired Synergeva for $8.4bn when the market valued the company for less than half that. This highlights, not only that larger pharmaceutical companies still see value in the mid-cap arena, but also that the current backdrop of easy access to capital driven by low interest rates and strong cash generation makes acquisitive growth attractive.

We would agree that one of the main risks facing the healthcare sector, is the perpetual increase in the cost burden faced by governments today. The cost, in percentage of GDP terms, is creeping up year on year in many western countries. However, drugs make up only 10% of the total healthcare bill in the US and that includes both branded and generic drugs. We believe innovative drugs will continue to secure robust prices despite the pressure on government spending. Other areas that we believe are more likely to be in focus when reducing expenditure are lengthy hospital stays and drugs without clear safety or efficacy benefits in an indication with existing approved treatment. Moreover many of these new drugs actually reduce the overall cost burden by for example keeping a patient out of hospital. It is a simple and effective argument that we believe stands up to the pricing debate.

The outlook for the sector continues to be strong. Biotech companies continue to impress with their scientific breakthroughs and execution. We believe valuations are reasonable, at around 20x forward price/earnings ratios for true innovation and growth.

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Debt

(Compare debt funds **here**)

Robert Jennings (Chairman), Sequoia Economic Infrastructure. Global capital markets have been volatile over most of 2015, with political risk increasing in Europe as a result of the Greek crisis and the forthcoming UK referendum on EU membership; low commodity prices causing financial problems across a number of sectors; Chinese growth slowing; and heightened tensions in the Middle East. However, it is in such periods of volatility that the stability of infrastructure debt has historically demonstrated its real value to investors.

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Sequoia Investment Management Company Limited (Investment Adviser), Sequoia Economic Infrastructure. The Fund is operating in an environment characterised by a slight weakening in credit markets generally. During the period ended 30 September, we have begun to witness the first beginnings of the long-awaited rise of Libor in both Sterling and US dollars. Euro Libor has so far not followed suit, but SIMC expects this may begin during 2016.

With respect to the infrastructure debt market, pricing for assets having availability payment mechanisms have been aggressively bid by the market and margins are now approaching +100 bps. This reflects the return of many banks to the senior lending market. In addition, institutional investors continue to increase their market share and lend alongside banks or originated large loans directly. In the mezzanine space, however, banks and investors play a much smaller role.

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TwentyFour Asset Management LLP, managers of TwentyFour Income Fund. As performance has largely been dictated by events external to the European ABS market, it would seem that in the short term concerns around global growth and the ability of central banks to achieve their aims of stability and inflation targeting could play a material role in price performance. This does create opportunities to invest at more attractive levels than have been seen for a couple of years.

Investors that are new to European ABS, or who have not focussed on the sector for some time, are understood to be preparing to re-engage having seen the recent moves in price. This should help provide a floor for performance.

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Environmental

(Compare Specialist Environmental funds **here**)

Michael Naylor (Chairman), Jupiter Green. Growing unease among investors globally about economic weakness in emerging markets and its impact on the West set the backdrop for the period. Global inflation rates remained stubbornly low, despite the expansion of monetary policy in Europe, Japan and China: this was not helped by the decision by China's authorities to devalue the yuan late in the period, a move that sent a deflationary shockwave through the global economy. It is difficult to source the root of the current global imbalances. However, the gradual normalisation of US Federal Reserve policy, has exposed some of the problems that largesse policy has caused, namely excessive US dollar borrowing at the cost of much needed structural improvements in some emerging market economies.

The Investment Adviser's review discusses his optimism about the policy backdrop ahead of the UN Climate Change Conference in Paris later this year, and its potential to add further support to businesses operating in the environmental solutions sector.

There are many reasons to be excited about the conference and to expect quite a constructive outcome to the talks. The commitment shown by countries as part of the UN's Intended Nationally Determined Contributions (INDC) programme in the lead up to the talks has been particularly encouraging, and has for the first time included a pledge by the US. Meanwhile, China has asserted itself as a leader when it comes to

climate policy by committing to a dramatic cut in carbon emission by 2030, and in doing so throwing down the gauntlet to those officials that have used China's policy reticence in the past as an excuse for inaction. Finally, since the conference in Copenhagen, which largely ended in disappointment, there has been a marked shift away from a top-down policy model that seeks to rally nations behind a single emissions policy goal to one which recognises heterogeneous policy interests while at the same time introducing a mechanism by which nations increase their climate change commitments on a five-yearly cycle of policy tightening.

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Charles Thomas, Jupiter Asset Management Limited (Manager), Jupiter Green. Although we continue to be mindful of the current macroeconomic headwinds buffeting markets, the policy backdrop for environmental solutions businesses has improved markedly ahead of the UN Climate Change conference in Paris later this year. Individual country pledges for emission cuts have generally gone further than had been widely expected and estimates suggest these combined could keep the rise in global temperatures to about 3degC. While this is greater than the maximum of 2degC now acknowledged by the UN as required to prevent catastrophic climate change, the draft negotiating agreement proposes that these pledges are reviewed every five years. We believe that this arrangement may put even greater emphasis on the development of disruptive technologies that can compete on price with mainstream counterparts, in turn helping politicians strive for deeper cuts while at the same time potentially opening up new opportunities for the businesses in which we invest. We have also been encouraged in recent weeks by the agreement of the UN Sustainable Development Goals, which will supersede the eight Millennium Development Goals that expire this year. This is comprised of seventeen goals which fall under five key categories "people, planet, prosperity, peace and partnership"; environmental issues feature heavily throughout these fifteen year goals.

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Renewables

(Compare Renewable Infrastructure funds **here**)

Kevin Lyon (Chairman), NextEnergy Solar Fund. The measures recently introduced by the Government to reduce or remove the public support for future renewable energy deployment in the UK have led to an increased uncertainty around the growth prospects of the UK solar PV market. However, the significant increase in installed solar capacity achieved to date and the incremental growth expected by the end of March 2016 represent a considerable growth opportunity.

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NextEnergy Capital IM Limited (Manager), NextEnergy Solar Fund. The UK solar PV market continued to experience exceptional growth during the period ended 30 September 2015, reaching a total installed capacity of 8.2GW, an increase of 73% over the last twelve months. In addition, the announcement of regulatory changes that introduced a phase-out of the ROC and FiT regimes for new solar installations after 31 March 2016 caused a further acceleration in the rate of new installations expected to be commissioned before this deadline.

During the period ended 30 September 2015 the regulatory framework for UK solar PV underwent significant changes:

On 8 July 2015 the Chancellor of the Exchequer introduced as part of the Summer Budget 2015 the removal of the Climate Change Levy exemption for renewable electricity generation, effective 1 August 2015. The Company's subsidiaries have subsequently filed a claim under the Judicial Review procedure to seek damages for the unexpected removal of the Levy Exemption Certificates on the grounds of insufficient advance notice and unreasonableness of the measure and expects to receive preliminary indication of the procedure by February 2016.

On 22 July 2015 The Department of Energy and Climate Change ("DECC") announced consultations on proposed changes to the Renewable Obligations ("RO") and Feed-in-Tariff ("FIT") support schemes for sub-5MW solar assets (the "Consultations") which were still underway at 30 September 2015.

The NEC Group continues to focus on reducing solar investment and operating costs to meet a decreasing subsidy and no-subsidy market in the future

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Private Equity

(Compare Private equity funds **here**)

Howard Myles (Chairman), Aberdeen Private Equity. Over the period under review global private equity has continued to deliver strong cash flows back to Limited Partners. Demand for private equity owned assets has been stable with windows of opportunity in the IPO market, and corporate buyers retaining their deal appetite, in turn fuelled by strong cash generation from their own businesses. Pricing for private equity deals remains strong, perhaps unsustainably so, and therefore your Board remains of the view that appropriate pricing discipline needs to be exercised across the industry. We note that whilst debt remains relatively accessible, a degree of restraint by borrowers and lenders alike has led to global median debt usage in private equity deals reducing from mid-2014 highs of 61% to a current level of 52%.

We have moved to one of the strongest fund raising markets seen in recent years, with selected funds being able to close on targeted fund raises increasingly quickly, very often as a result of favoured relationships.

The Board's view on private equity remains favourable, but it is likely that a combination of higher acquisition costs and lower leverage multiples could bring the high returns currently being delivered by private equity investments back to a more normalised level in due course.

For the listed private equity sector as a whole, discounts to NAV remain wide, and in some cases have widened. It is hard to pinpoint any one reason why sizeable discounts continue to prevail, however equity market volatility has likely played a part in the more recent widening. With underlying companies, in aggregate, continuing to be realised from this portfolio at premiums to their most recent valuation we believe that there remains a compelling investment thesis.

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Property

(Compare Property funds **here**)

Caroline Burton (Chairman), TR Property. The outlook for UK property remains positive, with rental growth in most markets, particularly office and industrial, while new supply remains restricted. Those property companies which have yet to refinance should be able to enhance earnings by reducing their cost of debt. While economic growth seems supported by rising wage levels and employment it has been consumer-driven so far and a rise in investment spending would be a positive development. The strength of sterling could possibly deter some international investors from further UK property investment.

Continental Europe has found economic growth harder to come by, but we have seen an encouraging increase in bank lending to the corporate sector and it seems right to remain positive about continuing expansion. As in the UK we expect property companies to continue to reduce the cost of their debt. In our view therefore pan-European property shares continue to offer attractive opportunities.

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Marcus Phayre-Mudge (Fund Manager), TR Property. This outlook was written in the first week of November and European broad equity markets have just notched up their best monthly performance in six years. Eurozone property companies' performance in October was also strong at +7.8% in EUR. The ECB has again stepped in with strong dovish rhetoric and markets anticipate a further boost to the QE programme. Once again 'bad' news (slowing/zero growth) results in cheaper money for longer ('good' news). In the Outlook for the Annual Report (written in May) we noted that we expected the ECB to continue with the policy until its benefits were clearly being felt in the wider economy. This point has not been reached. Whilst ultra-loose monetary policy helps asset prices, the central tenet was to accelerate the credit transmission mechanism from banks to businesses and whilst this has begun to happen, it is still not at the pace required by the ECB. Asset valuations will continue to benefit from this lower cost of debt even if the broader Eurozone economy struggles with the path of recovery. At the same time, we continue to favour markets where we see rental growth or where we believe it is imminent.

This leads us to continue our overweight exposure to the UK and, at the time of writing, the market implied expectation of the first increase in UK base rates remains anchored in the second half of 2016. Our UK exposure has evolved over the last two years from being London-centric to being nationwide and our investment categories expanded to include modest exposure to medical properties, assisted living, budget hotels and house-building. Many of these areas will see further investment if suitable opportunities present themselves. Our views on Central London offices are tempered by the fickleness of global capital flows. Whilst the fundamentals of the market remain sound as examined earlier, asset prices do reflect this growth trajectory and it is always at that point that sentiment can play an exaggerated role resulting in enhanced pricing volatility.

Notwithstanding the wider economic sluggishness and diverse range of prospects across property sectors and geographies, we remain positive. The asset class offers not only sustainable income, in an environment of broader company earnings uncertainty, but the opportunity to participate in value creation where economic growth occurs. The ultra-loose monetary policy experiment is set to continue and our investment universe continues to benefit.

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Nicholas Thompson (Chairman), Picton Property Income. We remain positive about our outlook, but are mindful of potential external risks to the property market, such as the threat of sharply rising interest rates, although unlikely in the short-term. With long-dated bond yields currently close to 2% and property yields at 5%, there remains a healthy premium in favour of the real estate sector, which has the additional advantage of income growth potential.

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Picton Capital Limited (Managers), Picton Property Income. UK GDP is estimated to have increased by 0.5% in the third quarter of the year and is 6.4% higher than the pre-economic downturn peak in 2008. The unemployment rate at the end of September was at its lowest rate since 2008, at 5.3%.

Growth in the UK economy, now positive for eleven consecutive quarters, coupled with improving employment and a low supply of suitable space, has helped drive rental growth. Yield compression is stabilising across the market and rental growth is expected to play a larger role in capital value growth going forwards.

We remain positive in our outlook. We continue to provide space that meets occupiers' needs which has enabled us to run the portfolio with occupancy levels well ahead of the market and continue to outperform the MSCI IPD Quarterly Benchmark.

Investment markets are in a much healthier position than for many years and liquidity has considerably improved. As with any asset price rises, the question remains about over-pricing. We believe with the benign interest rate environment, capital values will continue to be supported. Similarly, with a backdrop of improving occupational demand, limited supply and the emergence of rental growth, the property cycle, in particular outside of central London, still has some way to run.

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Lorraine Baldry (Chairman), Schroder Real Estate Investment Trust Limited. Total returns from UK commercial property are more likely to be driven by income and rental growth. Consequently, we expect markets with sustainable tenant demand and a significant supply and demand imbalance to offer more attractive returns.

Whilst the prospects for the UK economy as a whole remain positive, there are likely to be headwinds arising from cuts in public spending and the planned referendum on the UK's membership of the European Union. A forecast rise in consumer price inflation also means that capital markets are likely to have to adjust to a gradual rise in interest rates over 2016.

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Duncan Owen, Schroder Real Estate Investment Management Limited (Manager), Schroder Real Estate Investment Trust Limited. The UK commercial real estate market has continued to benefit from strong investor demand driving values upwards. Whilst interest rates are expected to remain low over the near term, we believe future returns are now more likely to be driven by above average income returns and rental growth rather than falling yields.

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