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Monthly summary | Investment Companies

12 January 2016

# 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 | 31/12/15 | Chg. on month |
|---|---|---|
| USD / GBP | 1.4736 | -2.0% |
| USD / EUR | 0.9210 | -2.7% |
| USD / JPY | 120.22 | -2.3% |
| USD / CHF | 1.0021 | -2.6% |
| USD / CNY | 6.4937 | +1.5% |

MSCI Indices rebased to 100

Time period 31/12/14 to 31/12/15

Source: Bloomberg and Marten & Co

| | 31/12/15 | Chg. on month |
|---|---|---|
| Oil (Brent) | 37.28 | -16.2% |
| Gold | 1061.1 | -0.2% |
| US Tsy 10 yr yield | 2.269 | +2.9% |
| UK Gilt 10 yr yield | 1.960 | +7.4% |
| Bund 10 yr yield | 0.629 | +33.0% |

## Global equities

**Global economic outlook and markets characterised by uncertainty. The prospect of further interest rate rises appears to be getting closer and market volatility is expected to remain a feature.**

David Reid, chairman of Edinburgh Worldwide, sees a global economic backdrop characterised by uncertainty and polarised between economies that are growing and those that are struggling to do so. This mixed picture gives rise periods of market volatility from which few companies are sheltered. Alex Hammond, chairman of Hansa Trust, observes a world that seems to be in the doldrums and says it is difficult to tell whether it is drifting towards stagflation, recession or higher inflation. However, he believes that if there is confidence that the global economy is making a recovery (albeit slow) then stock markets will continue to perform well. Richard Ramsey, chairman of Seneca Global Income and Growth, expects the period ahead to herald a new phase for markets. He believes that the various economic and geopolitical risks that abound will add volatility to markets creating both heightened risk and opportunities. Seneca Investment Managers suggest that investors may have to adapt to an environment of rising US treasury yields, US dollar strength and widening corporate bond yields, whilst equities may also come under pressure. They believe that divergent monetary policies will support a selective approach to asset exposure and that a tightening of US monetary policy may put further pressure on emerging markets with significant current account deficits. Adam Ryan, manager of BlackRock Income Strategies, believes that interest rate rises, sooner rather than later, would signal an optimistic assessment on the growth outlook and encourage investors to think longer-term about market prospects, which he believes remain reasonable.

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## UK

Industrial groups and oil services companies could struggle to meet market forecasts in the second half of 2016. Markets are heavily focused on potential interest rate rises.

Schroder Unit Trusts Limited, the managers of Schroder UK Mid Cap, say that the slowdown in economic activity in China and many emerging markets is likely to cause many industrial groups to fail to meet market forecasts for the second half of 2016. They expect that the same will be true of oil services names. Ed Beal of Aberdeen Asset Managers, manager of Dunedin Smaller Companies, believes that central banks are dominating investor thinking. The US Federal Reserve delayed an anticipated increase in interest rates, unsettling markets in his view, as participants worry that the Fed must believe that the risks are greater than the market thinks.

## Europe

European equities are not particularly cheap, favourable tailwinds from central bank intervention unlikely to continue.

Rodney Dennis, chairman of Henderson European Focus Trust, has sympathy for the view that markets are firmly in the grip of central bank intervention. He believes that central banks' deep and understandable fear of deflation has led to an unorthodox money printing experiment, which has distorted yield curves and led to a dash for income. He believes that equities are not particularly cheap and that the tailwinds of the past five years are most unlikely to be enjoyed in the year ahead.

## Asia

Asian economies' foreign currency reserves offer to scope for interest rate reduction to support economic growth. China is a risk but activity levels may be bottoming. Valuations are now more attractive and markets could be sensitive to changes in outlook.

David Shearer, chairman of Aberdeen New Dawn, expects near term volatility to persist, despite the rebound in Asian equities. However, he believes that the economic fundamentals of Asia remain strong and that, with most countries holding high levels of foreign currency reserves, their central banks have scope to reduce interest rates if economic growth falters. Schroder Investment Management, managers of Schroder Asia Pacific, argue that the region continues to generate reasonable levels of growth and that external balances generally remain healthy, although China remains the key risk. Carol Ferguson, chairman of Invesco Asia, is seeing signs that Chinese activity levels are bottoming and says valuations now offer some tempting entry points. She's also positive on India and Korea. Ian Hargreaves, the manager, believes that the market has become excessively pessimistic on China but thinks that it has correctly identified India as having superior growth prospects.

## Brazil

Political wrangling is stalling much needed reform.

Howard Myles, chairman of JPMorgan Brazil, says that all the indications are that Brazil is suffering a prolonged recession and that its economy is unlikely to see a significant rebound without much needed reform, which is being stalled by political wrangling. Sophie Bosch De Hood and Luis Carrillo, managers of that trust observe that the Real has appreciated from its lows, but they believe this to be a short-term technical rally. Unemployment is still rising, and they expect this to continue, with a knock-on effect on consumption.

## China

Signs of stabilisation and possible green shoots. Structural reform outlook mixed.

Howard Wang, Emerson Yip, Shumin Huang, William Tong, the managers of JPMorgan Chinese are expecting macro indicators to stabilise from very low levels and say that some green shoots are emerging. However, they consider that the outlook for structural reform is mixed and, whilst valuations are at trough levels, any

longer term re-rating hinges upon structural reform putting economic recovery and growth on a more sustainable footing.

## Hong Kong & Macau

US rate hike uncertainty and Chinese growth weighing on Hong Kong stock market. Government appears open to measures to support the Macau economy.

Howard Wang, Emerson Yip, Shumin Huang, William Tong, the managers of JPMorgan Chinese, say that uncertainty over the US rate hike and the slowing Chinese economy continue to weigh on the Hong Kong stock market. However, they are not expecting a hard-landing in China. They say that property has become more challenging (particularly residential and retail) although central office vacancy rates are now close to 1%, setting the scene, they say, for further rental increases. They also believe that Macau gaming shares are trading at reasonable valuations relative to historical ranges and that the Chinese government appears to be open to measures to support the Macau economy.

## Japan

Loose monetary policy expected to continue, valuations undemanding.

Atlantis Investment Research Corporation, the managers of Atlantis Japan Growth, expect loose monetary policy to continue for some time. Economic growth remains somewhat disappointing but they say that valuations are undemanding and that they expect the market will continue to be impacted by the trend of the JPY (Yen moving sideways or becoming weaker being perceived as positive).

## Taiwan

Current account surplus leaves room for interest rate cuts to support the economy.

Howard Wang, Emerson Yip, Shumin Huang, William Tong, the managers of JPMorgan Chinese, say that Taiwan's current account surplus should leave room for its central bank to continue implementing accommodative monetary policies without triggering significant concerns about its external balances and its currency. With weak guidance in the technology sector, investors remain cautious about further potential earnings downgrade but they remain positive given near-trough valuations.

## Biotech and healthcare

Valuations are more attractive. Positive news flow could support strong earnings growth.

James Robinson, Chairman of Polar Capital Global Healthcare, makes the case that healthcare is now cheaper than the overall market which, in his view, seems good value given stronger forecast earnings growth. Dr Daniel Mahony and Gareth Powell, the trust's managers say that they're expecting more positive clinical news flow over the next 12 months, which should support their view that strengthening pipelines and new drug launches can support double digit earnings growth.

## Commodities and natural resources

Legal challenges in Japan have hampered uranium market progression. Oil price has not responding to geopolitical uncertainty. Returning Iranian production unlikely to be balanced by Saudi production cuts.

Robert Crayfourd, Keith Watson and Ian Francis, of New City Investment Managers, (managers of both Geiger Counter and New City Energy), say that physical uranium and equity prices struggled to sustain their positive start in 2015, which followed news of Japan's reactor restart programme, as a consequence of local court objections. However, they say that, notwithstanding these complications, the industry outlook remains extremely positive, led by China and India's intentions to expand their voracious clean air power requirements. Regarding the oil price, they say that geopolitical uncertainty has rarely been so high and that ordinarily this would lead to a strong oil price on supply concerns. However, with Iranian production looking likely to return to the market they say it is unlikely Saudi Arabia will cut production to balance.

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# Global

(compare Global funds **here**)

**David HL Reid, Chairman, Edinburgh Worldwide.** The economic backdrop is one of uncertainty and polarisation between economies that are growing and those that are struggling to do so. The US Federal Reserve is seemingly close to raising rates for the first time since 2006 and there is some speculation that the Bank of England would be the next major central bank to follow suit. In contrast, it is more likely that rates will be coming down in Europe. Elsewhere, China's economy is slowing as it continues its shift to an innovation rather than investment led model with the focus on domestic consumption rather than exports. This mixed global picture is causing some investor schizophrenia, resulting in periods of notable market volatility from which very few companies are sheltered.

Immature, innovative, fast-growing businesses are not immune from exhibiting price volatility. However, the Board and Managers believe that business fundamentals ultimately prevail over the investment cycle. Successful smaller companies create and exploit their own long term opportunities despite the economic conditions at any given time. Being able to identify the companies that value innovation, which have both a cultural acceptance of it and a means to develop commercial opportunities around it, is key to unearthing the market leaders of the future.

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**Alex Hammond—Chambers, Chairman, Hansa Trust.** It seems the world economy is in the doldrums. Nobody seems to know - with any great degree of assurance - quite which way it is drifting - into a period of stag-deflation (to coin a rather ugly phrase!), recession, or even rather higher inflation. With the first two comes a continuation of quantitative easing, ultra-low interest rates and, quite possibly, continuing buoyant securities markets - as investors chase the income that interest rates no longer afford. Stock markets are driven by money and confidence and, as long as the money is there and there is confidence that the patient (the post 2008/9 global economy) is making an albeit slow recovery towards better times, markets will continue to perform well - as they have done since the nadir of the early months of 2009.

The pluses are that (rather perversely) the slow global economic growth would appear to prolong ultra-low interest rates, corporate balance sheets are strong, profits are buoyant (albeit with one or two problem areas - mining and oil for instance) and margins are high. As long as this continues, the prospects for dividends and dividend growth (a very important prop for equity markets) remain good and the demand for equities likewise.

But there are clouds on the horizon - global debt continues to grow and grow, some emerging market economies and their international indebtedness are causes for concern, politics is throwing up some strange bedfellows (particularly because of the division caused by - perceived or otherwise - growing financial inequality), mass immigration problems, growing concern about cybercrime and the uncertainty of the politics of Russia and the economics of China. Then there are the black swans which appear out of left field, which are bemusing and worrying (Volkswagen's diesel engine emissions scandal being the latest such event). Anyone of them can have an effect on confidence - one of the two drivers to markets levels I mentioned above.

And thirdly there is - what appears to be unlikely at the moment but which can appear quite suddenly and as unexpectedly - the possibility of rather more than mild inflation.

It can literally erupt. It would mean much higher interest rates quite quickly and almost certainly lead to a material reverse in the value of financial markets. Fortunately, at this time, it seems to be a lesser possibility.

Investing in such uncertain circumstances is not easy. But in the end though, successful long-term equity investment is all about backing good companies/funds run by able and honest people.

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**Alec Letchfield, Hansa Capital Partners LLP, managers of Hansa Trust.** One of the most challenging and vital aspects of fund management is separating the truly important events from the background noise. As a fund manager, so often one becomes caught up in the day-to-day machinations of the market, scrutinising company profit announcements, waiting with bated breath for the next piece of macro data and so on. In reality this is almost always counter-productive, leading to excessive dealing, incurring high transaction charges and hindering one's ability to spot the really important factors. It is most often best to ignore the short-term noise, turn off the Bloomberg terminal if necessary and resist the urge to trade the markets.

What is necessary, however, is to identify major inflection points, where it is right to re--assess one's positioning and adjust portfolios accordingly. Typically, this would be the recognition of a coming bear market, or a supercycle beginning or indeed ending. Correctly identifying these is challenging but worthwhile, since the resulting asset allocation calls are the main drivers of investment performance and are far more influential than the outcomes of individual stocks or funds.

With this approach in mind, we consider the events of the summer. Stock markets have been through a torrid time. In equity markets, the MSCI World fell 5.0% during the quarter and 10.0% over the six month period [*to the end of September 2015*]. Naturally we ask ourselves whether this is just a summer lull, exacerbated by a lack of liquidity and sovereign wealth fund selling, or if the market is signalling that something more important is afoot and a change in strategy is required? On the face of it there appears to be good reason for concern with two of the most important market drivers, China and US interest rates, experiencing important changes.

China, which has been one of the main drivers of global growth over the past decade, is wobbling. In truth, the Chinese economy has been experiencing a lower growth rate for some while now, coming down from over 10% to 7%, according to official numbers. There is a sense, however, that having expanded too quickly and invested too heavily, growth could go into freefall. The Chinese government has recognised this and is attempting to manage a transition from an export driven economy to a service and consumer led one. However, such shifts rarely happen seamlessly and its efforts may be both too little and too late. Recent decisions to weaken the exchange rate and artificially prop-up the stock market only serve to fuel the belief that the situation is out of control.

The other concern is that of a change in direction in US interest rates. A feature of markets in recent years has been the persistent use of liquidity in the face of economic and stock market weakness. Undoubtedly this policy has boosted global stock markets, as money works its way through the system in pursuit of higher returns and income, albeit its impact on growth and lending seems to be diminishing. Naturally, with the US nearing a turning point in its rate cycle, and with US rates forming the basis for the global risk free rate, there is a fear that stock markets will decline in the face of such a change.

Exacerbating this situation is the current market backdrop. Much like a chemical reaction, where conditions need to be optimal to see a really explosive effect, stock

markets are at their most vulnerable at particular points in the cycle. Typically at the start of the cycle when valuations are low and fear is high, markets can tolerate numerous shocks and disappointments. However, as the cycle matures and valuations rise, the ability for markets to shake off disappointments diminishes. In the current situation, with the maturing cycle showing high, albeit not excessive, valuations and with markets not having experienced a meaningful pull-back for some while now, share prices are particularly susceptible to negative news flow.

Whether these conditions herald the next bear market is likely to depend on the economic outlook, since true bear markets typically go hand-in-hand with recessions. Currently, a recession in the developed world, which continues to dominate global stock markets, does not appear likely. Growth is undoubtedly lacklustre but nonetheless positive. The US and UK lead the way with their cycles being more advanced and growth more robust, but even Europe is seeing positive signs of a recovery in growth from depressed levels.

The outlook for emerging markets is less clear. With Chinese growth falling and many commodity-exporting emerging nations under pressure in the face of weakening commodity prices, prospects for their economies and stock markets remain challenging. To a large degree this is captured in current valuations, which are now significantly below most developed markets. Unfortunately these situations have a habit of persisting for longer than one expects, and typically prior excesses lead to prices over-shooting on the downside.

The concern has been that this slow-down in emerging markets causes a recession in developed markets. Back in 1998, when many emerging markets experienced a sharp decline in their growth, developed markets escaped relatively unscathed. With emerging markets now much larger, however, and with global trade now far more interconnected, the danger of weakness in emerging markets rippling through to developed markets is greater. Our sense at this point is that whilst any emerging market weakness will weigh on developed market growth, it will not push them into recession. Partly this reflects the fact that most developed markets are commodity importers and are the beneficiaries of weak commodity prices. Also, since many emerging markets are net exporters, they are not key sources of demand for developed markets and hence their impact is more muted.

Taking into account all these factors, we conclude that the markets have probably experienced a summer lull, albeit a particularly severe one. We acknowledge that the uncertainty in the global economy, combined with the slowdown in China and the anticipated rate rising cycle in the US, are likely to contribute to ongoing bouts of volatility.

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**Richard Ramsay, Chairman Seneca Global Income & Growth**. The period ahead heralds a new phase for markets with the imminent prospect of rate rises in the United States, while the UK stands on the side-lines watching and Europe moves towards further QE. Recent terrorist attacks in Europe have reinforced the sense that geo political risks remain acute, and China continues to look for ways to rekindle its growth. This will all undoubtedly add volatility to markets, creating an environment of heightened risk and opportunity.

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**Seneca Investment Managers, managers of Seneca Global Income & Growth**. The outlook for financial markets remains challenging. With the OECD tempering global growth expectations for 2016 and the rising likelihood of a US rate rise in December, following a very strong non-farm payroll report in November, elevated

market volatility can be expected. Market participants may have to adapt to the new paradigm that includes rising US treasury yields, US dollar strength and widening corporate bond spreads, whilst the returns from equities may come under pressure. Divergent monetary policies between the US, UK, Europe and Japan will support a selective approach to asset exposure. US dollar monetary tightening may put further pressure on those emerging market countries with significant current accounts deficits. Geo political risks are also never far from the headlines.

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**Adam Ryan, BlackRock Investment Management (UK) Limited, Manager of BlackRock Income Strategies.** So what does the future hold? In the half yearly report I referenced Bob Dylan's "The Times They Are a-Changin'" when discussing the outlook for US interest rates, and it certainly wasn't my intention to set a precedent for musical analogies. However, when re-assessing the current situation another tune sprung to mind; this time it was The Clash's 1981 punk classic "Should I Stay or Should I Go?" which seems to reflect accurately the debate on interest rates both in the US and the UK. On either side of the Atlantic unemployment has dropped sharply to around 5% suggesting the need for higher interest rates, but travails in China and further falls in headline inflation have clearly raised questions in the minds of the respective decision-makers. The subsequent lines of the song are "If I go there will be trouble, And if I stay it will be double, So come on and let me know!" and that was certainly the case at the September meeting of the Federal Reserve where the "stay" decision led to a sharp fall in equities. This was clearly markets delivering the answer "Go" - it remains to be seen how closely policy-makers were listening!

Why does this matter you may ask? Well, interest rates (particularly those in the US) are the basis for valuing all other assets, so clearly the level and direction of travel are a critical ingredient in assessing the prospects for all asset classes. My belief is that a rate rise sooner rather than later would signal an optimistic assessment on the growth outlook and encourage investors to think longer-term about market prospects, which remain reasonable. However, whilst we remain in a world where the refrain remains "Should I Stay or Should I Go?", we would be well not to forget the recent summer experience, as it may be a useful roadmap for markets shorter-term.

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# UK

(compare UK funds here)

**Schroder Investment Management Limited, managers of Schroder UK Growth.** Recent levels of market volatility are reminiscent of periods of market fear such as the Eurozone crisis. Historically these have been proven to be good opportunities to increase risk within the portfolio, however, average valuations are not as supportive as there were on those previous occasions. Market levels remain high, driven by historically low bond yields which underpin the relative attractiveness of the asset class, whilst encouraging greater levels of mergers and acquisitions.

The prospects for the market's more domestically-focused companies remain reasonably positive, although this has not gone unrecognised by the market. Falling unemployment and signs of real wage growth coming through should support the British consumer. Interest rate rises, when they materialise, have been well telegraphed and are likely to be relatively small. However, the impact of a rising minimum wage is likely to act as a headwind to profit growth for many companies

exposed to this favourable demand backdrop and increased volatility is anticipated as the vote on Britain's position within the EU approaches. Taking a more global viewpoint the market is struggling to make progress as liquidity is removed from the US economy. The impact of an appreciating currency and the prospect of rising US interest rates is not only tempering the outlook for US corporate profits but is also leading to knock-on effects in emerging markets and the commodity complex.

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**Schroder Unit Trusts Limited, managers of Schroder UK Mid Cap**. The slowdown in economic activity in China and many emerging markets is likely to cause many industrial groups to fail to meet market forecasts for the second half of the year. The same will be true of oil services names. In the UK, central government budget cuts are starting to bite, and also companies employing many low paid workers in the leisure, retail, transport and care sectors will progressively see margin pressures as the National Living wage is introduced. The UK housing market remains undersupplied, hence we expect further volume and price appreciation, but tighter regulations limiting bank lending on buy-to-let mortgages will hurt some. In an era of low growth, we expect mergers and acquisitions activity to continue.

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**Andy Pomfret, Chairman, Miton UK MicroCap.** Smaller quoted companies tend to have greater vibrancy than their larger competitors. During the past decades of wide-ranging economic expansion, this factor has not been especially distinctive or relevant to most investors. But now that world growth expectations have moderated, there have been signs that institutional investors' willingness to invest in the smallest quoted stocks is increasing once again.

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**Gervais Williams and Martin Turner, managers Miton UK MicroCap.** 2015 has turned out to be a difficult year for dividend growth. Eight FTSE100 stocks have announced dividend cuts during the year, and there may be others yet to come. In addition, some other FTSE100 that paid premium dividend yields have also been acquired during the year, further diminishing the number of FTSE100 companies generating good and growing dividend income. In aggregate, the FTSE100 stocks generating dividend growth are now largely matched by those cutting their dividends. The net effect is that dividend growth across the mainstream market has generally stagnated.

Whilst we should in no way be complacent with regard to the prospects for dividend growth amongst smaller companies, many do appear to have better prospects. In part, this reflects the fact that smaller quoted companies, in general, have not been under pressure to pay such generous dividends in the past, so they often have better dividend cover. In addition, many smaller companies have less debt on their balance sheets, and so have less need of retaining their cash flow to repay debt. And, finally, many have greater vibrancy than larger companies, and therefore have scope to generate some growth in their operations even at times when the world economy is more constrained.

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**N M Yarrow, Chairman, Dunedin Smaller Companies**. The outlook for the global economy is uncertain and markets are likely to remain volatile. Central banks are dominating investor thinking currently. In the US, the Federal Bank has delayed an anticipated increase in interest rates which has unsettled markets. An increase in rates in the UK has been deferred, but the expectation is that they will rise in early

2016. In Europe, the Central Bank look to be taking a different approach with the possibility of increasing the size or duration of their quantitative easing programme. Chinese growth continues to slow with further devaluations in the Renminbi possible.

Notwithstanding these factors, the Investment Manager believes there are some reasons for cautious optimism, not least because the UK and US are delivering acceptable levels of economic growth. Therefore, sceptical of analysts' forecasts, they do anticipate growth in profits for small companies next year.

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**Ed Beal, Aberdeen Asset Managers Limited, manager of Dunedin Smaller Companies.** Central banks are dominating investor thinking currently. The US Federal Reserve has delayed an anticipated increase in interest rates, in part due to their concerns about the impact that slowing emerging market economies will have on global growth. This has unsettled markets which dislike the uncertainty and worry that the Fed must believe that the risks are greater than the market thinks. Any increase in interest rates in the UK has also been deferred though it does seem reasonable to anticipate that inflation will pick up towards the end of the year and expectations remain that rates will rise in early 2016. Mario Draghi and the European Central Bank are taking a different approach. Recent commentary from them has referred to the possibility of an increase in the size and or duration of their Quantitative Easing programme.

Whilst a further devaluation of the Chinese Renminbi is possible in response to growth that may slip below 6% in 2016, we believe that a hard landing will be avoided and that global growth can increase during 2016 and 2017.

We noted last year that the market's expectations for profits growth from small companies over 2015 looked more realistic than had been the case for several years. As we stand today, it looks like we shall be proven wrong with aggregate earnings set to decline rather than deliver the modest expansion we had anticipated. Looking into 2016 we see reasons for cautious optimism. The UK and US are delivering acceptable levels of economic growth. The annualisation of the impact of 2014's collapse in oil prices combined with some upward wage pressure in these two economies should allow a modest level of inflation to enter the system. That in turn will allow the authorities to begin to increase interest rates, albeit at what is likely to be a very gentle pace relative to history. Europe is also growing and the ECB have made clear that they will provide further stimulus should this falter. Meanwhile although China is slowing it is delivering growth and the authorities still have conventional monetary policy options available to them if necessary. Therefore, although we are sceptical of analysts' forecasts that suggest 10% growth in profits for small companies next year, we do anticipate growth. Market level aggregate valuations need to be treated with caution given the broad range of multiples across the market.

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**John Dodd & Adrian Paterson, Fund managers, Artemis Alpha Trust.** Some degree of uncertainty always attends investing in stocks. Without it, the risk premium that means equities tend to outperform over the long term would not exist. Current conditions, however, seem even more uncertain than usual. In part, this is because so much rests on the actions and rhetoric of central bankers; even minor shifts of tone provoke violent lurches in equity markets. After years of largely futile guesswork, the market now thinks it knows when the US Federal Reserve will start to increase interest rates. The uncertainty, however, has simply transferred to new questions: How quickly will borrowing costs rise? When will the Bank of England follow? And

how many euros will the European Central Bank need to (electronically) print to prevent deflation?

Another question remains: can policymakers in Beijing shift the Chinese economy away from its dependence on capital investment without provoking a slump in demand? As alluded to above, the fortunes of some of the UK's largest companies depend on the answer. Meanwhile, the prospect of a referendum on whether the UK should remain a member of the EU could yet cause violent swings in currency, bond and equity markets. Given all this, volatility in equity markets seems likely to persist.

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## Europe

(compare European funds **here**)

**Rodney Dennis, Chairman, Henderson European Focus Trust.** In my statement to shareholders last year I noted that the direction of the euro would be important to the direction of the European economy. In common with his central banker peers around the globe Mario Draghi has done his utmost to weaken the currency, first through the use of Quantitative Easing and, latterly, by the application of moral suasion to financial markets with indications of yet further easing. The reaction of European equities in October was Pavlovian.

This is a global game, with beggar thy neighbour currency devaluations and one can only wonder where it leads. To illustrate the effects of central bank largesse, at the time of writing, Italian Government two year bonds have dropped into negative territory - investors are now paying the Italian government to hold their money for two years. In 2011 the same paper was yielding around 8%. We now have some sympathy for the view that markets are firmly in the grip of central bank intervention, if not manipulation.

The situation has clear implications for equity investors. One of our Fund Manager's themes has been embodied in the title "The Scarcity of Growth and Income". This theme is born of the belief that central banks' deep and understandable fear of deflation, itself born of the astonishing debt creation of recent years, has led to their unorthodox money printing experiment. This has, in turn, distorted yield curves and led to a dash for income. The Company has sought to benefit from this trend in the belief that if an asset is scarce, it is likely to be bid up in price. Thus, stocks capable of growing their dividend continue to play an important role in the portfolio. Similarly, companies capable of above average sales and earnings growth continue to be sought after in this environment. Here, the challenge is somewhat greater for the value conscious investor. Such is the continuing outperformance and multiple expansion exhibited by "quality growth" stocks that we need to be conscious of the risk of a full blown "Nifty Fifty" environment developing.

I would conclude by repeating our view expressed a year ago: equities are not particularly cheap and our sense is that the tailwinds of the past five years are most unlikely to be enjoyed in the year ahead. It may be an overused cliché in the world of equity investment, but for the year ahead, stock-picking will as always be crucial.

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# Asia

Compare Asian funds **here**

**David Shearer, Chairman, Aberdeen New Dawn.** Despite the recent market rebound in Asian equities, volatility is likely to persist over the medium term. It will take time for China to transition from an investment-led economy to one driven by domestic consumption and for those companies affected by it to adjust to the new environment. Fortunately, the economic fundamentals in Asia remain strong with most countries holding high levels of foreign currency reserves giving their Central Banks scope to reduce interest rates if economic growth falters. Higher US interest rates are now an imminent prospect but the event itself is likely to remove a major source of uncertainty from global financial markets. The recent negative investor sentiment towards emerging markets has punished share prices in Asia and valuations now look reasonable both on a historical and relative basis. While corporate debt levels have risen in certain markets, particularly those that borrowed in US dollars, most Asian companies remain financially prudent and have strong balance sheets with a focus on generating positive cash-flow. Those well-managed companies are well positioned to benefit from the current environment and to emerge stronger when economic growth returns.

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**Schroder Investment Management Limited, managers of Schroder Asia Pacific.** 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 generally low (with even the Chinese consumer tending to defer those little luxuries), private capital spending subdued, and 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 fallout from the deflation of the undoubted credit bubble that has supported Chinese growth hitherto, particularly in sectors suffering from chronic oversupply.

It is difficult to understate 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. It remains to be seen, however, if the opportunity is taken for meaningful economic reform shifting the key growth drivers from credit fuelled investment spending to promotion of consumption and the services sector. Meanwhile, valuations of Asian

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

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**Carol Ferguson, Chairman, Invesco Asia Trust.** Over the past few years, Asian stock markets have been adjusting to slower regional economic activity. This is in part a cyclical phenomenon due to sluggishness in global growth combined with the maturity of the Asian credit cycle. It is also a reflection of the structural change seen in some Asian economies. For instance, the rebalancing of the Chinese economy away from investment as the primary driver of economic growth will inevitably lead to a lower rate of GDP growth over the medium term. This is not necessarily negative for equities if, as a result, returns on capital improve in the process. However, it helps to explain why there is a growing focus on economic reform in Asia and which countries are best placed to deliver it.

In China, we are seeing signs that activity indicators are bottoming and the valuation multiples of these stocks are now offering tempting entry points. We are also positive about the opportunities in India, despite economic growth being relatively slow to recover, and Korea, where there are indications that dividend payments could rise significantly. As in China, these markets are now offering some attractive buying opportunities.

Against this backdrop, Asian equities are cheaper both in absolute terms and relative to other global equity markets. With price to prospective 2016 earnings at 11.2 times, current valuations are approaching the level at which the market has historically bottomed out. The current 30% discount of Asian markets to the MSCI World Index is wide by historical standards, and yet both asset classes have offered similar growth in corporate earnings over the last five years. The last six months have seen steep falls. However, your portfolio manager and the Board consider that the worst is behind us and that share prices have reached a level where there are many attractive opportunities for investment.

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**Ian Hargreaves, Portfolio Manager, Invesco Asia Trust.** Asian equities have been stuck in a trading range over the last few years and have underperformed developed market equities. Earnings expectations have consistently had to be revised down as markets have had to come to terms with Asia's lower economic growth. While Asian earnings growth has, in fact, been similar to that experienced in developed markets, this has been insufficient to attract capital from investors who have traditionally seen Asia as a source of higher return through more rapid earnings growth. Consequently, relative valuations have had to de-rate to the point that the investor is appropriately rewarded for putting money to work in the region. With Asian valuations at a 30% discount to MSCI World and within 10-15% of the previous valuation troughs, this process of de-rating is quite advanced.

While we certainly recognise the challenges that the Chinese government is facing in re-orientating the economy away from investment, we believe that consensus has become excessively pessimistic on China at precisely the moment at which there appear to be signs of a modest increase in economic activity.

As far as India is concerned, we think that the market has correctly identified India as having superior growth prospects. While the progress on reform is rather stop-start, we are especially encouraged by the government's determination to rein in the lax fiscal policy of the previous administration and to get inflation under control. This is laying the foundations for a more durable economic cycle.

From these valuation levels, Asian markets should be quite sensitive to any indication of improved economic fundamentals and earnings momentum. For Asia, in addition to a stabilisation in the Chinese construction cycle, this is most likely to come from a better external demand environment. Asian exports have been stagnant for several years now reflecting the weak global environment. Thus we are watching to see if the recent improvement in lead indicators in Europe and Asia can be sustained and whether the short term weakness in the US will reverse.

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**Richard Titherington and Sonia Yu, Investment Managers, JPMorgan Asian.** Against the backdrop of third-quarter volatility in 2015, the [*coming period*] is likely to benefit from a firmer environment for stocks, based upon a starting point of lower valuations and bearish sentiment. However, given the importance of exports to most Asian economies, much will hinge on global growth prospects, particularly in developed markets given China's moderating growth and apparent reluctance to degrade its balance sheet. In that regard, US demand should remain supported by low absolute interest rates (even after the first interest rate hike), low unemployment and lower-for-longer gasoline prices. Meanwhile, Europe continues to register encouraging signs of cyclical recovery, with the Purchasing Managers' Index reading hitting new highs in the third quarter.

In addition, while there is little doubt that economic growth in China is slowing, driven by structural and cyclical factors especially in manufacturing, it is not the full story. The stabilisation of the real estate market, growth in middle class consumption and the rise of the service sector should provide some stability to the economy and provide areas of opportunity for investors.

We are cautiously optimistic about India, driven by our belief that GDP growth and corporate earnings are set for a cyclical recovery and the recent rate cut by the Reserve Bank of India should bolster the economy. Finally, we still expect commodity dependent ASEAN countries to face considerable headwinds from their weak currencies, low commodity prices, sluggish consumption growth and political uncertainties.

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# Brazil

Compare Latin American single country funds **here**

**Howard Myles, Chairman, JPMorgan Brazil.** All the indications are that Brazil is suffering from a prolonged recession. After recording the sharpest fall in economic activity in over six years, recent data, including low levels of consumer confidence, suggest that the prospect of a recovery in the short-term remains questionable. The economy is unlikely to see a significant rebound without the much-needed economic reforms. However, political wrangling is stalling the government's attempts at reform. President Dilma Rousseff's approval ratings have fallen to further low levels and she is now facing an impeachment process. Opposition in Congress has blocked a number of necessary economic measures. Notwithstanding these factors, the Board believes that the long term case for investment in Brazil, the ninth largest economy in the world, remains strong and the trust is invested in a number of outstanding companies.

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**Sophie Bosch De Hood and Luis Carrillo, Investment Managers JPMorgan Brazi.** We expect politics to continue to dominate and to overshadow corporate fundamentals in the near term. Our base case is that Rousseff will not be impeached, but nor do we anticipate a dramatic turnaround in the political landscape.

The real has appreciated from its lows, but we believe this to be a short-term technical rather than macro-driven rally and we expect continued currency weakness. Unemployment is still rising, and we expect this to continue, with a knock-on effect on consumption.

On the positive side, Brazil is a continental-sized economy with the ability to self-sustain. There are some signs that currency weakness is improving demand in certain parts of the economy, either through a pickup in exports or through import substitution with domestic goods. For a real recovery to get underway, though, what is needed is an uptick in consumer and investor confidence.

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## China

Compare Asian single country funds **here**

**Howard Wang, Emerson Yip, Shumin Huang, William Tong - Investment Managers, JPMorgan Chinese.** We expect macro indicators to stabilise from very low levels. The government has stepped up its efforts on fiscal policy easing. August fiscal spending from central government increased to 31% year on year compared to the 15% growth achieved in the first eight months of the year, despite fiscal revenue slowing to single-digit growth from double digits. The stabilised renminbi shows the PBoC's determination to defend the currency from overshooting, potentially providing a cushion for further monetary easing. Some green shoots are emerging. September NBS Manufacturing PMI picked up moderately to 49.8% from 49.7% in August, surpassing expectations. The recovery was partly driven by the resumption of production after the factory shutdown in northern China for the 3rd September Military Parade, as well as by government-led investment since September.

On the structural reform front, the picture looks mixed. The government's heavy-handed intervention in the stock market represents a clear setback for financial reform. We are keeping a close eye on the potential rollout of government measures to move the capital market mechanism towards a more market-driven model. Meanwhile, a RMB 3.2 trillion local government debt swap has surprised on the upside. New guidelines for state-owned enterprise reforms have also been announced, although execution will remain critical.

Market valuations now stand close to trough levels, at 9x forward one-year price-to-earnings. We believe the key swing factor is expectations for the renminbi, given the potential consequences of the 'Impossible Trinity' - the economic theory that dictates that if a government has exchange-rate and interest-rate targets as well as free capital flows, it can only control two - but not all three - factors at the same time. Any longer-term market re-rating would hinge on the degree to which structural reforms can help put economic recovery and growth on a more sustainable footing.

Overall, while the industrial economy has clearly stalled out based on micro-level indicators, we do not believe we are on the verge of a banking crisis, and China's consumer and service economy continues to be robust. Admittedly, market corrections may not be pleasant for investors, but it's important to keep a few things in

perspective. The equity sell-offs not only moderated frothy valuations and afforded us good buying opportunities for the stocks we like, but also have a fairly marginal impact on the Chinese consumer given low household equity holdings. The property market, on the other hand, matters more in reducing economic risk, and we have seen stabilisation there. Rising sales volume and property prices paired with weak housing starts are evidence of inventory digestion. We believe macro indicators should stabilise from very low levels and the policy direction to be largely unchanged, though execution will be key. Any further RMB depreciation should be slow, as a stabilised RMB shows the PBoC's determination to defend the currency from overshooting, potentially providing a cushion for further monetary easing. Near term sentiment may remain volatile through this growth transition and further deleveraging, but we still believe there are plenty of secular growth opportunities in China's 'new economy' sectors, such as healthcare, internet, consumption and environmental services, with strong multi-year prospects, despite an overall slower growth environment. Any longer-term market re-rating would hinge on the degree to which structural reforms can help put economic recovery and growth on a more sustainable footing.

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## Hong Kong & Macau

**Howard Wang, Emerson Yip, Shumin Huang, William Tong - Investment Managers, JPMorgan Chinese.** Uncertainty over the US rate hike and the slowing Chinese economy continue to weigh on the Hong Kong stock market. However, we do not subscribe to the hard-landing scenario in China, nor to an accompanying credit crisis. The current share valuation should therefore provide good support despite slowing economic momentum.

The property sector has become more challenging as the residential segment appears to be capitulating, while the retail sector remains in the doldrums. However, share prices have discounted a fairly negative price scenario. On the other hand, central office vacancy rates are now close to 1%, setting the scene for further rental increases.

After the recent further price correction, Macau gaming shares are now trading at reasonable valuations relative to historical ranges. Moreover, the Chinese government appears to be open to measures to support the Macau economy, including the gaming sector. However, continued economic weakness and capital control measures are keeping per capita gaming spending on a downward trend, meaning gaming revenue growth could be challenging to achieve.

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## Japan

Compare Japanese funds **here**

**Atlantis Investment Research Corporation, managers of Atlantis Japan Growth.** The Abe government continues to pump money into the economy and the current easy money policy is expected to continue for some time. However, economic growth remains somewhat disappointing. Consumer spending is patchy with department and

convenience store and supermarket sales up in some months and down in others, perhaps partly due to the weather. However wages are slowly rising, bonuses are up, the unemployment rate remains at the lowest level in years and most companies will be aggressively expanding their work force next spring hiring the largest number of new graduates in many years.

Inflation remains at a very low level, in fact the government believes some inflation would be positive since it would encourage consumer spending and help boost GDP growth. Private capital investments seem to be creeping higher. Housing seems to be improving and, as mentioned previously, government spending is expected to remain at a high level helped by the Bank of Japan's easy monetary policy.

For the current year ending March 2016 the Investment Adviser is expecting GDP growth in the order of 1% increasing to around 1.5% the following year. Corporate earnings continue to rise and, for the year ending next March, are expected to be in the 10-13% range and continue to climb during the following year.

Valuations remain undemanding in terms of price-earnings ratio, price to book ratio, and real dividend yield and there are still many stocks selling at very attractive levels. Overseas investors, who account for 60-70% of daily trading volume, were on the buy-side in May but were big sellers during the following few months and then moved back to the buy-side in October. The Investment Adviser expected that events in China and Southeast Asia, or slower than expected growth in the US and selling in many major stock markets might lead to net selling by overseas investors and might also result in lower Tokyo stock prices. However it was encouraging that local investors, both individuals and institutional investors and corporations, were at times net buyers during the period, often buying when overseas investors were selling.

The Investment Adviser anticipates that the market will continue to be impacted by the trend of the JPY (a sideways to weaker yen is perceived as positive) net buying or selling by overseas investors, trends in China, Southeast Asia, and the US and Europe and the ups and downs of the major world stock markets, economic trends including corporate earnings, and of course geopolitical events. At this time the Investment Adviser remains cautiously optimistic on the outlook of the Japanese Stock Market.

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## Taiwan

**Howard Wang, Emerson Yip, Shumin Huang, William Tong - Investment Managers, JPMorgan Chinese.** The Fed rate outlook is one of the key constraints on a rate cut by emerging market policymakers, although the Central Bank of the Republic of China (Taiwan) unexpectedly cut its discount rate by 12.5 basis points to 1.75%. Taiwan has a strong current account surplus, averaging an elevated 9.6% of GDP for the three years through 2013, and surged to 12.4% of GDP in 2014. The wide current account surplus should leave room for the central bank to continue implementing accommodative monetary policies without triggering significant concerns about external balance vulnerabilities and the currency.

With the weak guidance in the technology sector, investors remain cautious about further potential earnings downgrade. The technology sector has seen a major sell-off over concerns with slower global smartphone demand and lacklustre demand for PCs, notebooks and LCD TVs. However, we remain positive on tech given near-trough valuations. Further earnings downside should be limited unless we experience

a global demand shock. At the same time, we could be at the late stage of inventory correction by the fourth quarter. Outside of technology, demand for certain consumer discretionary goods remains strong. Overall, value is emerging and despite the shaky outlook, we maintain a constructive view given Taiwan's muted performance within the region.

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## Frontier Markets

Compare Global Emerging Market funds **here**

**Sam Vecht & Emily Fletcher, BlackRock Investment Management (UK) Limited, managers of BlackRock Frontier Markets.** Over the previous five years, Frontier Markets have continued their gradual evolution. There has been a material change in index constituents following the transition of UAE and Qatar to Emerging Market status. Following this transition, an increasing number of Frontier Markets now believe that they can enact sufficient reforms to achieve Emerging Market status. We expect countries as diverse as Romania and Pakistan to come under consideration for Emerging Market status in the coming years, while Saudi Arabia's market reforms may allow for inclusion in global indices for the first time.

One of the key features which continues to drive the benefits of diversification is the composition of the investor base. Domestic investors are the driving force in many Frontier Markets. The assets under management of international institutional investors in Frontier Markets account for approximately US$20 billion which is dwarfed by the estimated US$1 trillion in Emerging Markets. As a consequence, Frontier Market performance is driven by domestic issues which vary greatly from country to country. Developments in Brussels, Washington and Tokyo can drive the capital markets of Emerging Markets yet are largely irrelevant to investors in Colombo, Karachi and Lagos. Frontier Markets are not yet fully integrated into the world economic system and local factors tend to be far more significant in these markets than global economic challenges.

Despite these changes, Frontier Markets still exhibit the characteristics that we believe represent a compelling opportunity for long-term investors. The combination of the countries with the fastest growing GDP, the best demographic profiles, the lowest government debt and a substantial commodity endowment where it is possible to invest in companies on some of the lowest valuations in the world provides an unrivalled investment opportunity. The low correlation between Frontier Markets and all Developed and Emerging Markets means that the inclusion of a Frontier Markets fund within a portfolio can bring significant diversification benefits to both global and regional investors.

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## Biotech and Healthcare

Compare Specialist Biotech & healthcare funds **here**

**James Robinson, Chairman, Polar Capital Global Healthcare.** In healthcare today it is all about giving value for money and being able to demonstrate this. Our

Managers believe that companies that help to deliver better healthcare for less money are set to thrive. With this in mind they continue to focus on companies that are either consolidators or innovators that will decrease the cost or increase the quality of healthcare, respectively.

Since the stock market correction this summer healthcare stocks have bounced relatively little compared to the rest of the market. Selling on a price to earnings ratio of 14 times the healthcare sector is now cheaper than the overall market which seems good value given stronger forecast earnings growth.

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**Dr Daniel Mahony and Gareth Powell, Investment Managers, Polar Capital Global Healthcare.** Over the next year, we think that macroeconomic factors and uncertainty will continue to drive the ebb and flow of global markets - the volatility we have seen over the last year is likely to continue. Given the economic uncertainty, and the prospect of low growth in most major economies, we think healthcare remains attractive. The fundamentals for the sector remain strong - an ageing population will continue to drive demand and companies that help to deliver better healthcare for less money are set to thrive. Innovation within the healthcare sector is certainly not slowing and arguably it is accelerating.

For the pharmaceutical industry, we expect more positive clinical news flow over the next 12 months that should support our view that strengthening pipelines and new drug launches can support double digit earnings growth. For the broader healthcare sector, we continue to see the risks and opportunities of a structural change in the way that healthcare is managed and delivered. We continue to advocate a two-pronged approach that focuses on (a) the consolidators or (b) the innovators - these are the companies that will decrease the cost and increase the quality of healthcare, respectively.

From a valuation perspective, healthcare is not expensive. On an absolute level, price to earnings (P/E) multiples are in-line with historical averages and compared to the broader market the sector looks very attractive given the projected growth profile. Therefore, we believe that our investment strategy - where we will maintain a low risk portfolio with a high weighting to pharmaceutical stocks - should be able to meet our goal of delivering a total return in the region of 10-12% per annum through to the end of the life of the Company in January 2018.

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## Commodities and Natural Resources

Compare Specialist commodity and natural resources funds **here**

**Robert Crayfourd and Keith Watson, New City Investment Managers, managers of Geiger Counter.** Physical uranium and equity prices struggled to sustain their particularly positive start to the year as the encouraging initial news of Japan's reactor restart programme was slowed by local court objections. Though five reactors have received official approval to restart by Japan's Nuclear Regulatory Authority, to date the actual pace of reactivation has proved disappointing. This has weighed on sentiment towards the year end, with the two "fast-tracked" Sendai facilities the only reactors to recommence electricity production.

The Fukui Court decision, due before February 2016, could allow Takahama reactors 3&4, located in the resistant prefecture, to restart. This we believe may help improve the experience in dealing with the operational and local court proceedings and accelerate the rate of progress which has put pressure on equities to date. Meanwhile Japan's nuclear regulator continues to approve reactivations, with the Ikata 3 reactor the fifth to be approved as the nation seeks to implement clean power targets. A concerted public charm offensive by the Japan's Federation of Electric Power Companies with a newly formed emergency response unit due to become operational in 2016 may also help improve public opinion and ease the reactivation process.

Notwithstanding complications arising from Japan's local court process, the industry outlook remains extremely positive, led by China and India's intentions to expand their voracious clean air power requirements. Of particular note, despite another round of safety checks after the Tianjin port explosion, China continues to work towards a 20% nuclear power generation mix which will drive a near ten-fold increase in nuclear capacity by 2030 from the currently installed 23GW.

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**Robert Crayfourd, Keith Watson and Ian Francis, New City Investment Managers, managers of New City Energy.** Geopolitics has always been important to price of oil, and we feel uncertainty has rarely been so high. The Middle East as multiple wars underway, with ISIS in Iraq and Eastern Syria, and Assad's forces fighting the rebels. Meanwhile Saudi Arabia has a smaller war on its Southern Border with Yemen. Russian sanctions continue as does war in Ukraine. Further to this we note declining stability in Venezuela, where financial woes have left the populus short of basics goods and with a currency approaching hyper-inflation. In any normal scenario this backdrop would lead to a strong oil price on supply concerns.

At the time of writing, we will be closely monitoring the OPEC December meeting, looking for any shift in strategy. Although we note with Iranian production looking likely to return to the market following a lifting of US sanctions, it is unlikely Saudi Arabia will cut production to balance the market given Sunni/Shia tensions and without the collective action of all members, and quite possibly collaboration with Russia and Mexico.

While we see many opportunities with this backdrop, we retain a cautious stance that is focused on companies with the lowest production costs and the most significant opportunity to reduce costs. The Fund remains minimally exposed to gas where we see the North American market as heavily oversupplied and where we see a glut of LNG exports pressuring price globally. Nowhere is this more prevalent than in Europe where Russia's Gazprom is reducing its pricing to compete with LNG imports from the US.

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## Property

Compare Specilist Property funds here

**Mike Adams, Chief Executive Officer, Octopus Healthcare Adviser Ltd, managers of MedicX Fund.** The primary healthcare market remains attractive to investors due to continued high demand for assets, which have a strong covenant, achieve good resilient yields and are currently in short supply because of delays in the NHS approving new schemes. Yields have continued to fall during the year due to

the imbalance between supply and demand. Primary healthcare properties continue to provide good value compared with the wider prime property market which is showing signs of commanding very full valuations.

New schemes have continued to be slow in coming to the market as funding responsibility passes to the Clinical Commissioning Groups ("CCGs"). The limited supply of new property schemes has resulted in yield compression and relatively high prices paid for some lower quality assets in the market. The Fund has maintained a disciplined buying approach, resisting the downward pressure on yields and has continued to acquire best in class assets at good yields. The increased competition for limited stock has reflected positively on the property valuations of the Fund. There is an expectation that the number of new schemes being approved will increase in the next 12-24 months since demand for effective primary care remains very high.

With the UK market seeing aggressive yields for many assets, the Fund has diversified its approach and has started to invest in the Republic of Ireland. Following an extensive review of the Irish market it was considered to offer assets of a similar grade or superior to the UK market whilst being priced at more attractive yields. Following its first investment in the Republic of Ireland the Fund has established relationships with a number of experienced developers through which a pipeline of high quality assets has been established which is expected to be converted into further investments in the near future.

Market rental growth has also been impacted by the lack of new schemes setting new rental evidence, with settled reviews being based on established historical rental evidence often related to older assets. As new schemes come to the market it is expected that underlying construction cost inflation will cause an overdue acceleration in rental growth.

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