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Monthly summary | Investment Companies

16 March 2016

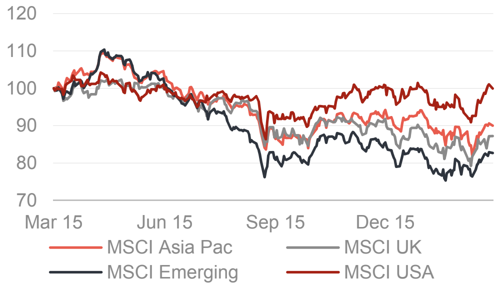
Economic & Political Roundup

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	29/02/16	Chg. on month
USD / GBP	1.3917	-2.3%
USD / EUR	0.9197	+0.4%
USD / JPY	114.00	-5.9%
USD / CHF	0.9984	-2.4%
USD / CNY	6.5520	-0.4%

MSCI Indices rebased to 100

Time period 28/02/15 to 29/02/16



Source: Bloomberg and Marten & Co

	29/02/16	Chg. on month
Oil (Brent)	35.97	-3.5%
Gold	1,238.67	+10.8%
US Tsy 10 yr yield	1.735	-9.7%
UK Gilt 10 yr yield	1.337	-14.3%
Bund 10 yr yield	0.107	-67.1%

Global equities

There are reasons for optimism across global markets although significant risks to the global growth outlook remain. Management of the Chinese slow down remains a chief concern although valuations have improved. Low oil price could prove to be unsustainable whilst depressed resource and oil stock prices might not be reflective of medium term outlook.

Dominic Near, manager of Scottish American, sees reasons for optimism across many markets, but also significant risks that have the potential to derail the outlook for global growth. In his view, the primary concern is for the orderly management of the Chinese slowdown and the importance of avoiding an all-out recession or a financial crisis. Jeroen Huysinga, manager of JPMorgan Overseas thinks that many markets are pricing in a significant probability of recession, and in his view - too high a probability. He sees a key challenge is the ongoing uncertainty around China but thinks that valuations have become more interesting. James Henderson, manager of Law Debenture believes that the current oil price is likely to prove unsustainably low and that depressed share prices in oil and mining companies do not reflect their medium term outlook. He believes that certain commodity prices are likely to recover as demand and supply return to balance.

UK

Mixed views regarding inflation outlook whilst the EU referendum in the UK add additional uncertainty. The return of takeovers is encouraging.

George Burnett, chairman of Henderson Opportunities observes the debate regarding the macroeconomic outlook (some see the first signs of inflation picking up and the need for interest rates to rise while others believe that over capacity will ensure inflation remains subdued and corporate profit margins will fall.) Neil Honebon, chairman of Murray Income, believes that the outlook is likely to remain difficult and that slowing growth and volatile commodity markets present challenging conditions for companies in general. In the UK, the EU referendum adds additional uncertainty.

UK smaller companies

Markets have been challenging with a disconnect between share price movements and economic and earnings forecasts. There are concerns that UK's recovery is overly reliant on debt related spending.

Richard Hills, chairman of Strategic Equity Capital says that, with challenging markets so far this year, there appears to be a disconnect between the indiscriminate movement of share prices and current economic and earnings forecasts. He says that time will tell whether this is a healthy stock market correction or the start of a longer period of market weakness. Stuart Widdowson, the manager of Strategic Equity Capital comments that with many asset prices being impacted by QE and persistently low nominal interest rates, a re-rating of equities during [2015] was not surprising. Crispin Latymer, chairman of BlackRock Throgmorton, notes emerging concerns that UK's economic recovery is over-reliant on debt-related spending whilst, in Europe, more recent economic activity has slowed and deflationary fears are apparent.

Europe

Volatile markets ahead

Sanditon Asset Management, manager of Sanditon, observe that 2016 will see several electoral events. They believe that these, combined with continuing competitive currency devaluations and significant geopolitical tensions in the Middle East, are likely to result in a volatile year for markets.

European smaller companies

European small cap valuations not reflective of European market resilience.

Audley Twiston-Davies, chairman of TR European Growth hopes that European equities will benefit from the action taken by the ECB, the low oil price and the generally weaker euro. In his view, European smaller companies are the stand out area of relative value compared to other regions and asset classes. Ollie Beckett, the manager of TR European Growth, thinks that the relative resilience of the European economy has not yet been reflected in the valuations of smaller companies.

North American smaller companies

Recession likelihood Increased, valuations cheap

Gordon Grender, chairman of Jupiter US Smaller Companies, comments that investors believe the probability of a US recession has increased but takes some comfort from the importance of consumer spending and the benefits of low gasoline prices. He believes US small caps are the cheapest they have been for several years.

Global emerging markets

Difficulties expected to continue near term.

Hélène Ploix, chairman of Genesis Emerging Markets, expects emerging market difficulties to continue in the near-term. In her view, they have entered a lower-growth environment and are more integrated with the rest of the world. Various factors will limit the returns many companies can deliver.

UK property

UK investment demand remains strong.

David Fischel, CEO of Intu says that for the UK investment market, demand remains strong whilst the majority of indicators for UK occupier show improvements.

European property

Positive fundamentals for UK and Ireland property.

Charlotte Valeur, chairman of Kennedy Wilkson Europe Real Estate believes that property fundamentals across the UK and Ireland remain positive.

Renewable energy

Change to support schemes may affect secondary market.

Helen Mahy, chairman of The Renewables Infrastructure Group comments that changes to support schemes may reduce the volume of new development of UK onshore wind and solar PV projects. This may impact the secondary market. However, there is a significant volume of projects still owned by developers and/or utilities which may seek to recycle their investments.

Flexible Investment

Outlook challenging. Inflation an increasing concern.

Ruffer AIFM, manager of Ruffer, say that the outlook for the year ahead is as challenging as we can remember and that, in 2015, the probability of the endgame being an inflationary one increased significantly.

Commodities and natural resources

2016 expected to be another difficult year for commodities.

Olivia Markham and Tom Holl, managers of BlackRock Commodities Income believes 2016 will be another tough year for natural resources. They say that oil demand is healthy but demand for industrial commodities is likely to remain subdued.

Debt

Increasing acceptance of alternative finance as a funding source for SMEs.

Norman Crighton, chairman of GLI Alternative Finance, believes investors are beginning to view alternative finance as a true diversifier. Its awareness amongst SMEs is growing and institutional funding is reducing the net cost for SME borrowers.

Insurance and reinsurance strategies

Downward pressure on reinsurance pricing

Anthony Belisle, CEO of Catco Reinsurance opportunities expects that excess reinsurance capacity and the three-year absence of significant natural catastrophe losses will continue to exert downward pressure on reinsurance pricing.

Technology, media and telecoms

Lack of UK consolidators. Limited growth from more mature sectors.

Julian Cazalet, chairman of Herald, finds US valuations full but also observes a serious shortage of capital in the UK, which means that they must consider reallocating capital. Robert Jeens, chairman of Allianz Technology, expects that some of the more mature industries will see limited growth.

Contents

Global

(compare Global funds **here**)

Sir Brian Ivory, CBE, chairman, Scottish American. Whilst it is probable that Western recovery will compensate for slowing growth elsewhere, it is not certain. Political risk close to home also remains a potential de-stabilising factor, both in relation to the forthcoming vote on Britain's future relationship with the EU, and the potential downside were we to vote to Leave.

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Dominic Neary, manager, Scottish American. Looking forward there are good reasons for optimism across many markets, but also significant risks that have the potential to derail the outlook for global growth. We do however expect an ongoing decoupling of the trajectory of developed market economies versus those of emerging markets, as while the US has deleveraged the most following the 2007-2009 crisis, China has not yet begun the process. While developed markets' economic data remain broadly positive, the momentum has fallen away of late, and there has been a further sharp downturn in emerging market economies and world trade over the last 6 months.

Clearly the primary concern is for the orderly management of the Chinese slowdown and the importance of avoiding an all-out recession or a financial crisis. While not a given, the administration is showing signs of a commitment to avoiding these scenarios, and therefore our central case is a reasonably controlled slowdown rather than economic collapse. Somewhat counter-intuitively we do fear the implications of the US economy posting growth significantly above current expectations. While the accompanying demand would benefit global trade growth, more rapid rate rises and dollar strength would exacerbate the already significant challenges for emerging markets. The implications for developed market-listed corporates with emerging markets exposure could present a challenge to broad stockmarket progression.

Such concerns continue to be reflected in downgrades to earnings expectations around the world. Similarly, divergent stockmarket performance has now at least partially discounted the decoupling of developed and emerging market economies with a significant spread between, for example, the US and emerging markets valuation ratios. Should the developed world be unable to avoid the impact of emerging economies' weakness we may see broad developed market stock indices come under pressure as a result of this valuation discrepancy.

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Jeroen Huysinga, manager of JPMorgan Overseas. Many markets are today pricing in a significant probability of recession, and in our view - too high a probability. The difference between undervalued and overpriced stocks is wide by historical standards and widening further, for example in the US the gap is larger than has been the case about 80% of the time over the last thirty years. This valuation gap is one measure that informs our decisions around gearing, with levels in the portfolio around 7%.

We have been adding to positions in stocks that are more sensitive to the economy, such as in technology-semi conductors, basic industries, banks and transport.

Regionally, our fundamental research process continues to result in large positions in Europe and the UK, while we are underweight in North America compared to the benchmark. In North America, excessive valuations still prevent us from investing in defensive stocks and in many mega cap names. A key challenge that investors continue to face is the ongoing uncertainty around China. Although official figures suggest the economy is still growing by around 7%, other factors-such as the weakness of commodity prices and the drop in industrial activity across the rest of emerging Asia-seem consistent with much weaker growth. Against this backdrop, company valuations are increasingly interesting and we have selectively added to our exposure to China.

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James Henderson, manager of Law Debenture. The current oil price is likely to prove unsustainably low. Oil production will fall as a result of the substantial cutbacks on exploration and project deferrals, at a time when demand for oil should continue to grow.

Further purchases have been made in oil companies since the period end as we believe that the depressed share prices are not reflecting the medium term outlook. The same is true for parts of the mining sector, where certain commodity prices are likely to recover as demand and supply return to balance. Again, long term investors can take advantage by making selective purchases. These additions have detracted value in the short term, but place the portfolio for a recovery in investor confidence. This should return when it becomes clearer that there will be a reasonable level of economic growth. The long term drivers of growth are in place. New technologies will lead to further rapid changes and as these are implemented economic growth will advance. For instance, looking ahead at the automotive sector, the next generation of technology sophisticated cars will supplant the current stock and these cars are likely to be driven more. This in turn will not only boost industrial production, but will also require better infrastructure with increased spending on roads and bridges. The opportunities abound across various sectors for companies that can produce competitive goods and services.

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Richard Burns, chairman, Mid Wynd. Global markets have fallen since the end of [2015], with the largest falls having occurred in Japan and China, as concerns persist over the strength of their economies. The recent increase in interest rates in the United States, and the continued weakness in commodity prices, has added to the headwinds facing the global economy and has led to an expectation that global economic growth will be slower than had been anticipated.

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UK

(compare UK funds **here**)

George Burnett, chairman of Henderson Opportunities. The macroeconomic picture is being fiercely debated by investors. Some see the first signs of inflation picking up and the need for interest rates to rise, while others hold the opposite view that over capacity will ensure inflation remains subdued and corporate profit margins will fall.

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James Henderson and Colin Hughes, managers, Henderson Opportunities. The UK economy is performing well with strong job growth and inflation nearly absent.

Consumers have finally seen some benefits from the recovery with disposable incomes rising in real terms. Nevertheless, many areas of the economy are still subject to intense competition and finding companies with highly differentiated products and services that can rise above the norm is difficult. Europe is slowly recovering while China and other emerging markets are sluggish at best, as strength in the US dollar in anticipation of rising interest rates has drained these markets of important flows of finance. Recent conflicts in multiple geographies will add another layer of caution.

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Neil Honebon, chairman of Murray Income. Equity markets were weak over the second half of last year and the outlook is likely to remain difficult. Slowing growth and volatile commodity markets present challenging conditions for companies in general. In the UK, the EU referendum adds an additional layer of uncertainty. We also remain watchful of a slowdown in growth in emerging markets and China in particular but we are more sanguine about the longer term prospects for these regions aided by powerful drivers such as population growth, urbanisation and increasing middle class wealth. Therefore, although the short term outlook is likely to remain difficult, we remain confident that the best way to generate attractive long term returns is to invest in globally competitive businesses with robust balance sheets and experienced management teams which we think have the necessary skills to navigate their way through this challenging environment.

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Fred Carr, chairman of M&G High Income. So far, the UK economy has remained resolute in a somewhat uncertain world. Gross Domestic Product (GDP) is expanding at a healthy pace, while the unemployment rate has fallen to the lowest level in almost 10 years. Declining fuel and food prices has meant there is no inflation to speak of, which in turn is helping the consumer. Elsewhere, the eurozone is picking up slowly, deflation seems to be returning to Japan, while Asian and emerging market (EM) economies have been affected by the slowdown in China, along with the resulting decline in commodity prices. Consequently, except for the US and UK, the prospect of interest rate rises in the developed economies has moved further out, with the ECB increasing its economic stimulus in December and talk of the possibility of the commencement of stimulus programmes in the Far East, all of which should be supportive for equities. A further negative factor for these areas is the strength of the US dollar, which is encouraging outflows from EM currencies and markets.

While the strength of the pound against the euro and weakness in the commodities sectors have led to subdued earnings growth amongst companies, we believe these pressures will be temporary. Low energy costs should boost corporate profits for non-oil companies and result in increased investment.

It has been encouraging to note a return of takeovers to the UK market in 2015, following two years during which there has been a relative dearth of activity. In a low growth world, companies are taking advantage of strong share prices and low borrowing costs to acquire and consolidate in an effort to expand revenues and reduce costs, thus boosting earnings. The pickup in this trend is supportive to the accessible UK equity market and is expected to continue.

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Andrew Barker, chairman of JPMorgan Mid Cap. In 2016, investors have become increasingly concerned about the outlook for global economic growth and the ability of central banks and policy makers to deal with the problems. It appears likely that we are in a period of low growth, low inflation, low interest rates and low returns although still relatively attractive in real terms. Here, in the UK, the EU referendum will cause heightened volatility throughout the stock market, although casting that uncertainty aside, the outlook for the UK is relatively favourable.

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Georgina Brittain and Katen Patel, managers of JPMorgan Mid Cap. The start of 2016 has been a torrid time for stock markets around the world, including the UK. Numerous reasons are cited for the recent bout of volatility - slowing Chinese growth, currency wars, the further collapse in oil and commodity prices, fears of deflation and concerns regarding global recession, to name but a few.

While volatility in share prices has become a fact of life for investors, and one that we have frequently mentioned, it is our belief that these recent fears, and the subsequent share price falls, have been overdone. While the IMF has recently reduced its forecast for global growth, it is still predicting 3.4% for 2016, a rise from 3.1% growth seen in 2015. In a similar vein, we do not believe that the further collapse in the oil price in the last few months presages a collapse in global demand, rather, that it continues to reflect excess supply.

Turning to the UK, forecasts for GDP growth in 2016 are in the range of 2.3 to 2.5%. Imminent data should show that UK capital investment hit a new record high in 2015. This is a crucial figure, as it reflects economic confidence and has a direct causal link with future economic growth. Wage growth may have slowed recently, but household income is still rising and was up over 7% in December 2015 versus the prior year. Other positives for the UK consumer include the low oil prices mentioned, minimal inflation, unemployment at a multi-year low of almost 5%, and on-going low interest rates (now forecast to stay flat for all of 2016). It should therefore come as no surprise that January 2016 has seen a rise in consumer confidence.

From this catalogue of positive data in the UK, it can be seen that we retain our confidence in the outlook for the FTSE 250, and indeed in the positioning of the portfolio. The key headwinds that we are focussing on are the impact of stage one of the National Living Wage in April, and the EU referendum. The 23rd June 2016 has now been set for the referendum, and from now until then we foresee the likelihood of considerable stock market volatility due to the uncertainty of both the outcome and the potential implications if the UK population did vote to leave.

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UK smaller companies

(compare UK smaller companies funds **here**)

Richard Hills, chairman, Strategic Equity Capital. The New Year has started with challenging markets. There appears to be a disconnect between the indiscriminate movement of share prices and current economic and earnings forecasts. Only time will tell whether this is a healthy stock market correction or the start of a longer period of market weakness.

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Stuart Widdowson and Jeff Harris, managers of Strategic Equity Capital. With many asset prices being indirectly or directly impacted by Quantitative Easing and persistently low nominal interest rates, a re-rating of equities during the period ended 31 December 2015 has not been surprising. However, having seen some extreme re-ratings on certain types of investments, the questions we have been asking ourselves include: a) how much buying volume has driven these significant re-ratings?; and b) who is the next new buyer of these companies at these valuations? With liquidity patchy, sudden losses of confidence and thin markets (i.e. a small number of new/ongoing buyers) can lead to sharp corrections.

At the time of writing, the start of 2016 has not been favourable to investors. Time will tell whether this is either another small mid-cycle correction, a larger late-cycle correction (such as in 1997-98 through the Asian crisis and collapse of Long-term Capital Management) or something of more concern.

In the Company's Annual Report for the year ended 30 June 2015, we wrote of the potential for high quality structural growth to re-rate against other companies. This appears to have played out over the last few months. Indeed, a number of commentators have now suggested that these types of stocks are trading at an all-time high valuation relative to the rest of the market. In comparison, value stocks have underperformed materially. Judging the timing is difficult but some realignment is probable over the medium term.

Within our investment universe, forecast earnings growth among the average constituent of the FTSE SmallCap Index ex Investment Trusts has increased to c.10%, driven by another year of "recovered" earnings following aggregate misses in 2015. We remain healthily sceptical of this market-wide forecast earnings growth rebound. On a p/e basis, the FTSE SmallCap Index appeared relatively good value at the beginning of the year at just over 13x. However, we believe there is a bar-bell of companies in this index, with higher growth companies trading on much higher ratings and low or no-growth companies still trading on p/e's of around 10x.

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Crispin Latymer, chairman, BlackRock Throgmorton. In recent months the momentum behind global economic growth appears to be weakening with the slowdown in China continuing to cause concern. In the US, the recent rise in interest rates and stable growth, leading to the start of what is widely perceived as the gradual normalisation of interest rates are clear indicators that the US Government believes their economy is stronger than it has been over the past few years. In the UK the economy continues to grow, albeit, at a slower pace with concerns emerging that economic recovery is over-reliant on debt-related spending. In Europe more recent economic activity has slowed and deflationary fears are apparent, prompting the European Central Bank to signal further measures to stimulate growth.

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Mike Prentis and Dan Whitestone, managers, BlackRock Throgmorton. The macroeconomic background has become less clear over the last few months. Growth has clearly slowed in China with implications for many parts of the global economy not least resource producers. At the same time the strength of the US dollar is impacting demand for US producers, and we have yet to see reliable signs of recovery in Continental Europe. The UK economy looks to be in reasonable shape although GDP growth weakened in the second half of 2015. We also have the BREXIT vote looming with the risk that this discourages companies in their investment plans. Our main emphasis in stock selection remains on the UK consumer and health care sectors. We aim to hold companies which are reliable and well placed to grow earnings. We are still seeing good new opportunities. Amongst our companies profit growth is generally strong, although in the wider market the incidence of disappointing trading updates is increasing.

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Harry Nimmo, manager of Standard Life UK Smaller Companies. There is much economic debate around whether low oil prices are good or bad for the world economy and markets. At the time of writing negativity and pessimism are in the ascendant on this issue. The doom-mongers contend that low oil prices are the real evidence that the Chinese economy is weakening and could enter what they call a "hard landing" or actual recession. As the Chinese economy has been driving the growth of the world economy of late this is negative. Further trouble is brewing as the world but particularly the US oil & gas, mining and dependent engineering stocks have taken on debt and are in no position to service this debt.

These pessimists further contend that Saudi Arabia, in particular will implode into political chaos under the weight of economic crisis they have wrought with their aggressive production policies.

I am more optimistic than that. Low oil prices most likely for a long time are good for the resource poor developed and indeed developing world, providing a significant boost to consumer spending in those countries. It is also most helpful to the cost structures of many energy intensive industries in manufacturing and transportation. The regime of the House of Saud showed itself to be surprisingly robust in the second half of the 1980s in the previous post oil price collapse period. Taking again that period as an example, whole sections of the oil & gas industry collapsed during that period including many major banks in Texas and Oklahoma. The world economy and markets were able to ride out the storm excepting the market crash of 1987 which turned out to be a temporary event unrelated to the oil price. The Chinese economy is slowing but this is only to be expected as China moves into a new less energy intensive phase of its development. Negatives do remain. Ultra low interest rates are encouraging undisciplined lending. The recovery has been going on for a very long time and corporate operating margins have returned to peak levels. The European economy is still sluggish requiring a fresh round of quantitative easing style stimulation. The geo-political situation remains messy in Eastern Europe and the Middle East. Closer to home trading statements from consumer stocks over Christmas have been lacklustre although much of this can be blamed on the weather.

Recent market weakness in early 2016 does mean that market valuations are no longer stretched. The UK does remain a well-managed economy able to achieve in excess of 2% growth in 2016.

Caution should be the watch-word although we do expect a positive out-turn for the year. Markets have turned febrile in the New Year. Major sector reversals are taking place as markets respond this way and that trying to gain meaning from the tit-bits of economic news as they become available.

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Europe

(compare European funds **here**)

Alexander Darwall, manager of Jupiter European Opportunities. There are few companies that are not assailed by the challenges posed by changes in technology, regulations and consumer behaviour. Whilst many companies will struggle to meet these challenges, some will adapt successfully and be strengthened in their responses: for the winners the opportunities are greater than ever. We seek to identify patterns of success which can be found in many different businesses. Thus we seek to identify and invest in a wide range of businesses which enjoy pricing power and growth drivers; produce strong products and services; and where the competitive landscape is favourable. For these winning business models the outlook is fair.

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Rupert Barclay, chairman of Sanditon. In my previous reports I stated that the investment environment was likely to be challenging through 2015. So it remains. The turn in the U.S interest rate cycle, the ongoing collapse in the price of most commodities and worrying signs that Chinese growth is slowing very sharply have contributed to a dramatic collapse in risk appetite as we start 2016. Quantitative easing worked in boosting asset prices post the 2008 crash but even a modest tightening of the monetary tiller makes it look as if preserving capital is going to be the real challenge for all investors in 2016.

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Sanditon Asset Management, manager, Sanditon. We expect the outlook for equity markets to remain very tricky so are unlikely to change our low net exposure approach at present. However, like Pavlov's dog, we are becoming conditioned to expect the market to have sharp rallies after steep falls and our current approach of adding to our net exposure into falls always runs the risk that one of the falls turns into something more dramatic. We are certainly not reassured that Central bankers can continue to support markets like they have since 2009.

2016 will see several electoral events (Scottish elections, US presidential elections and a possible Brexit referendum) which combined with continuing competitive currency devaluations and significant geopolitical tensions in the Middle East are likely to result in a volatile year for markets. It is likely that capital preservation will remain our goal in the near-term.

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European smaller companies

(compare European smaller sompanies funds **here**)

Audley Twiston-Davies, chairman of TR European Growth. Europe has been something of a bright spot in the global economy. We would hope that European equities should benefit from the action taken by the European Central Bank, the decline in the oil price and the generally weaker euro. We expect the weakness of the euro to be behind us given the relative strength of the European economy; as a reminder the portfolio is not hedged. European smaller companies continue to be the stand out area of relative value compared to other regions and asset classes.

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Ollie Beckett, manager of TR European Growth. European smaller companies continue to be a source of relative value in global asset markets. The relative resilience of the European economy in recent months has not yet been reflected in the valuations of smaller companies. Fractious politics across most of Europe, possible Brexit and a slow down in China are some of the reasons the market will be nervous. However, a European economy that is progressing, good company fundamentals and cheap valuations give us reasons for optimism.

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North American smaller companies

(compare North American smaller companies funds **here**)

Gordon Grender, chairman of Jupiter US Smaller Companies. Since the end of the period, conditions in equity markets have deteriorated and US small cap stocks have not been immune to this. Investors fear that a recession in the US is now more of a possibility than it was six months ago. In particular, concerns centre around slowing economic growth in China combined with credit market problems that could develop as a result of overly indebted emerging economies or oil shale companies.

These risks should not be underestimated and it is difficult to forecast their outcome. However, some comfort can be drawn from the importance of consumer spending to the American economy and the beneficial impact of low gasoline prices. In addition, the valuation of US small cap shares has fallen below their long term average and are the cheapest they have been for several years. The US smaller company sector is still an attractive and interesting one for long term investors. It is generally under-researched and offers areas of undiscovered value.

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Global Emerging Markets

(compare Global Emerging Markets funds **here**)

Hélène Ploix, chairman of Genesis Emerging Markets. The difficulties faced by emerging market economies in general over recent years appear likely to continue in the near-term. Emerging markets have now entered a lower-growth environment and are more integrated with the rest of the world when compared with most of the Fund's life, which means that structural issues like the lack of political and economic reform in many countries, fewer of the penetration opportunities that have traditionally characterised emerging markets, increased competition from global players, and high valuations in some sectors as a result of QE activity will all limit the returns many companies can deliver for their shareholders.

Investors should therefore be aware that the current economic environment may mean lower returns in aggregate than have been experienced in the past. That said, good investment opportunities continue to exist.

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Frontier markets

(compare North American funds **here**)

Aberdeen Emerging Capital, managers of Advance Frontier Markets. The drop in risk appetite seen in the second half of last year has continued into 2016, with the MSCI Frontier Markets Index down a further 4.2% at the time of writing. Driven, as these declines are, by now well-established trends in energy, commodity and currency markets, investors could be forgiven for asking "what could possibly go right for frontier markets?"

In asking ourselves the same question, we conclude that the recent market weakness masks many positives. GDP growth, whilst slowing, remains in excess of developed markets, and will remain so for years to come based on long term trends in consumption and demographics. Asian and Eastern European frontier economies in particular are showing resilience, helped by cheaper imports of energy and raw materials. In Argentina, the recent political change provides the potential for this perennially under-achieving country to finally fulfil some of its potential.

In those exporting countries that are negatively impacted by lower energy and commodity prices, the most obvious source of relief would be a cessation or reversal of these trends. Whilst being far from experts on energy markets, it does seem unlikely that, over the long term, oil can remain at prices where much production is uneconomic. The Middle East in particular has experience of dealing with low oil prices for long periods of time in the past and should not be entirely written off as an investment destination.

Finally, as we often do, we return to valuation. After the challenges of the last 18 months, frontier markets now trade at valuations not seen since 2009, with the MSCI Frontier Markets Index trading at 10.5 times trailing earnings, 1.5 times book value and offering investors a dividend yield of 4.3%. This latter point is evidence of the unleveraged, cash-generative businesses that exist within this asset class.

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Russia

(compare European single country funds **here)**

Gill Nott, chairman, JPMorgan Russian. The markets have had a difficult start to the year, with stock market turmoil in China and further falls in the oil price. The heightened risks associated with the Russian market continue unabated. There is uncertainty regarding the outcome of Russia's involvement in Syria and how this will impact on relations with the West and its neighbours. Adverse outcomes regarding Russia's military actions in the region would seem to have potential to cause even greater negative fallout in the economy. However, our Investment Manager points out that valuations may be attractive and dividend yields are certainly healthy relative to other regions. On the basis that investors are willing to take the risks associated with Russia, there may be cause for cautious optimism.

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Oleg I. Biryulyov and Sonal Tanna, managers, JPMorgan Russian. We believe that any stabilisation of the economic landscape would be beneficial for Russian equities.

A stronger or stable oil price could lead to a stronger currency and expansion of the domestic economy. That in turn may lead to recovery of earnings and we could even see the double impact of accelerating growth and a stronger currency, which may push earnings growth for the leading domestic stocks into double digits in USD terms.

In our opinion the reduction of interest rates is a very powerful monetary policy tool. We expect to see a continuation of interest rates cuts through the next 12-18 month period together with lower inflation within the next five years in Russia. Such a scenario could provide a chance for a re-rating of the country risk free rate and re-pricing of present values for long term projects. The Russian equity market is dominated by capital intensive industries with long term investment projects and long payback periods. Discounted cash flows for such projects have been depressed by very high costs of capital and in most cases projects with more than a 10 year life span suffered from these calculations significantly. We think that if the cost of capital becomes normalised we will see adjustments for values of such long term projects which could have a beneficial impact on the valuation of such companies.

We continue to see scope for reforms and hope that slowly but surely further liberalisation and restructuring of the Russian economy will take place. Such a restructuring process could be linked with further privatisation and development of the equity market. We believe that it could be a deeper and wider market in five years time. Expansion of the market could create opportunities for active fund managers and experienced long term equity investors.

The domestic political outlook currently seems rather more stable in Russia. Although we would expect to see some rotation of specialists in the government and presidential administration we think that the senior leadership in the country will remain unchanged for the foreseeable future. The global political outlook would appear to be rather uncertain with western sanctions continuing and the conflict in Syria heightening tensions in the region.

Overall, we see the Russian story as a glass half full rather than half empty. We think that valuations are supportive for investors willing to accept the current level of country risk.

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UK property

(compare UK property funds **here**)

David Fischel, CEO, Intu. As economic recovery spreads out from London and the south east to the regions, consumer confidence is positive, driving improved retailer demand for space in our centres at a time when new supply of quality retail space is very limited. Investor interest for prime regional shopping centres remains keen.

For the UK investment market, investment demand remains strong for prime regional shopping centres. Global institutions perceive this asset class as having reliable growth characteristics and are prepared to invest beyond London and the south east. Shopping centre development remains at low levels with the majority of activity focused on extensions and reconfigurations. The combination of strong investor demand, limited supply and the improving underlying economy has seen continued strengthening in valuations.

For the UK occupier market, the majority of economic indicators show improving markets, in particular those that impact on retail. We continue to see wage growth rising faster than inflation, providing the customer with more disposable income. The Asda benchmark index indicates household income 7 per cent higher than the previous year. Consumer confidence continues to rise and was strong throughout 2015. The proportion of consumers feeling positive about their job prospects and willing to spend money are both at their highest levels for over seven years.

Retail spending, as shown by the British Retail Consortium like-for-like non-food retail sales, continues to show an average growth rate of above 2 per cent year-on-year. Retailer administrations in 2015 were at the lowest levels since 2007, according to the Centre for Retail Research, with USC and Bank being the largest.

For the Spanish market, the Spanish economy continues to recover with improving labour market conditions, customer confidence at the highest level since 2000, increasing retailer sales and GDP growth. Occupiers, in particular major fashion retailers, are looking to consolidate their positions in the best locations as the economy improves. Coupled with new international entrants this is driving strong leasing activity in prime locations. The investment market remains vibrant with intense competition from international buyers and large SOCIMIs (Spanish equivalent of a REIT).

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Alun Jones, chairman, Primary Health Properties. After careful evaluation, we have taken our first steps to invest in primary care property in the Republic of Ireland. The challenges facing Ireland's healthcare provision are similar to those in the UK with a growing, ageing population and increasing rates of chronic illness but a disparate and outdated estate from which services are delivered.

The Irish State's Health Service Executive ("HSE") is driving forward significant change in healthcare provision in Ireland, focussed on the modernisation of the primary care sector. This is seeing the development of a number of new primary care centres with the HSE itself as the majority occupier, providing a similar covenant to that of the NHS in the UK.

The fundamentals of the sector in both the UK and Ireland provide confidence that the assets in which we invest will continue to provide strong, reliable and growing long term returns.

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Vikram Lall, chairman, F&C UK Real Estate. There are signs that after three years of double-digit total returns, property may be moving towards a period of more modest performance, driven primarily by the income return. Nevertheless, values on average are still 15 per cent below their peak in 2007 and the market may well be supported by continued low interest rates, a growing economy, improving tenant demand and a relatively conservative lending environment. There are some headwinds from the forthcoming EU referendum which could delay decision-making and from the economic slowdown in some parts of Asia and the Middle East which may lead to a reduced pace of inward investment or possible repatriation of funds. Investors are becoming more cautious and the period of yield compression could be drawing to a close. Asset fundamentals and the ability to manage the income stream to capture rental growth will be critical to delivering performance in the coming years.

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Robbie Rayne, chairman, Derwent London. The current year has started with major falls in global stock markets mainly based on concerns regarding global economic growth. In addition, the UK is facing an EU referendum in June, the result of which will either confirm the existing situation or extend the period of uncertainty as the ramifications of leaving the EU are worked out. It is too early to tell what impact this may have on the London property market, but a protracted period of uncertainty is likely to reduce business confidence. UK economic growth appears to be moderating and, as a global city, London is not insulated from external risks, but the central London office market starts the year in a strong position with good demand and low vacancy rates.

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European property

(compare European property funds here)

Charlotte Valeur, chairman, Kennedy Wilkson Europe Real Estate. The real estate investment market across our four regions, the UK, Ireland, Spain and Italy, are all at different positions in their respective property cycles, providing us with a wider menu of entry points. We are conscious of the current uncertainty in global investment markets, exacerbated in the UK by Brexit concerns. At this stage, we are not seeing that uncertainty feed into our occupier base, which is well diversified across countries and sectors. We continue to actively monitor the risk of investment market volatility feeding into the underlying fundamentals in which we operate.

Bearing this in mind, property fundamentals across the UK and Ireland remain positive and investments across offices as well as selected residential and retail properties in key cities continue to perform well. In Spain, we remain positive on consumers' prospects and are pleased to have increased our retail exposure there, and in Italy, a market we entered in October 2015, we remain focused on offices and retail sectors in the north of the country and are seeing increasing opportunities.

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Ian Chappell, manager of Axa Property Trust. German Retail - The German seasonally-adjusted harmonised unemployment rate remained steady at 4.5% in November, staying at its lowest level since 1981 for the fourth consecutive month. This also fed through into German consumer strength. Q4 2015 saw a repeatedly solid development in German real retail sales, up 2.3% in November 2015 compared to November 2014. Retail take-up in the last quarter of 2015 was the strongest of the year with 150,700 sqm. Over the year lease contracts for 525,700 sqm were closed, 10% below last year's take-up. At the same time the absolute number of contracts increased to the highest level in five years. Prime rents in Munich's prime pitch, the most expansive of the German markets, have remained stable over the fourth quarter at €360/sq m/month and remained also unchanged over the year according to JLL. High Street rents in 2015 saw an increase of 6.7% in Berlin and 1.8% in Hamburg and remained stable in the other top German retail markets.

Overall, in 2015 German retail investment volume doubled according to CBRE to around €18.1bn, with especially large portfolio disposals causing substantial investment turnover. International investors dominated the German retail investment market. Net prime yields are still in decline, with both shopping centres and retail parks reporting yield compression. Prime high street yields fell by 10bps in all German markets in Q4 2015 with the exception of Munich where they remained stable at 3.5%. The strongest decline over the year was registered in Hamburg (30bps).

German Logistics - The high demand from the industrial sector, a continuation of the trend to outsource as well as the strong dynamics in the e-commerce sector led to another positive year in the German logistics market. As a result take-up in Germany was reported as the highest level ever recorded, 5% above the previous record figures of 2011. Overall letting transactions of 6.1m sq m in the German warehouse and logistics market were closed in 2015.

Large-scale lettings drove the market with the largest five lettings accounting for more than 10% of the overall take-up. By far the most active individual tenant was BMW who leased 400,000 sq m of space in three different locations. Sector wise, the Transport and Logistics sector was the most active (38%), while the retail sector accounted for 29%, closely followed by the production sector (28%). Take-up in the

Top-5 markets increased by 20% in comparison to 2014, but there were large disparities within individual markets. While Dusseldorf, Berlin and Hamburg all recorded strong improvements of above 25%, Munich's performance was 15% short of the 2014 figures.

Even though demand is persistently strong, prime rents registered among the major five logistics hubs (Berlin, Dusseldorf, Frankfurt, Hamburg and Munich) remained largely stable in 2015. The only increases were recorded in Munich, where prime rents increased by 3.8% to €6.75/sq m/month and Berlin, which saw rental growth of 4.3% up to €4.80 sq m/month.

A total of €4.1bn was invested into German logistics in 2015, exceeding the volume observed in 2014 by 4%. It was mostly foreign investors that invested into the German logistics market, generating 63% of the overall transaction volume. According to Colliers, prime yields in the top 7 German markets stood at 5.4% in Q4 2015, down 100 basis points from Q4 2014.

Italian Logistics - The Italian market is continuing to benefit from the country's economic recovery and its central location along the European logistics corridor. It is especially the north of Italy, (Lombardy and Emilia Romagna), which are facing strong industrial take-up. Q4 prime rents remained stable QoQ and grew by 4.2% YoY in Milan, while remaining stable in Rome. As at Q4 2015, prime rents stand at €52.00/sq m/year in Rome and at 50/sq m/year in Milan. Investments into the logistics sector improved reaching a yearly volume of €399 million, up 4% YoY according to CBRE. Q4 2015 saw another fall in prime yields, declining by 25bps in Milan and by 35bps in Rome, reaching a level of 6.9% in both Milan and Rome according to JLL. Yields are thus down 60bps and 110bps in Milan and Rome respectively, reflecting increased demand from international investors.

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Asian property

(compare Asian property funds here)

Chris Russell, chairman, Macau Property Opportunities. Macau is currently experiencing a pause in the extraordinary growth it has enjoyed over the past decade. Although this has delayed asset sales, we believe it is beneficial for the territory. The city is diversifying to become a more balanced economy, with a reduced dependence on gaming, while the gaming mix continues to move towards the higher-margin mass market.

Despite Macau having entered a recession, the territory's underlying economic fundamentals are sound. A new ferry terminal, the expansion of the airport and the forthcoming completion of the Hong Kong-Zhuhai-Macau bridge, albeit delayed, are positive infrastructure developments. The casinos remain highly profitable, with new casino resorts progressively opening as planned.

These factors, combined with Macau's development as a leisure destination for China's rapidly emerging middle class, will continue to support population growth, and hence drive demand for real estate.

A recovery in real estate prices is unlikely to take place until gaming revenues stabilise. The month-on-month decline in gross gaming revenues has slowed and the bottom might reasonably be expected to be reached later this year.

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Sniper Capital, manager, Macau Property Opportunities. Macau, which relies on gaming for nearly two-thirds of its economic output, has been in a slowdown since 2014. Gaming revenues have continued to fall as a result of the weaker economy in China, the ongoing anti-corruption crackdown by the Chinese government and tighter banking regulations.

The city is poised for a gradual recovery once those drag-factors have run their course and efforts to make the city less reliant on VIP gaming and more focused on mass gamers and tourists gain traction.

Gaming - A Much Needed Adjustment. Macau is undergoing an adjustment phase, attempting to achieve greater diversity by focusing on the mass-market gaming segment and offering more non-gaming facilities to attract a more sophisticated visitor profile. However, ongoing pressure on the VIP gaming segment was only partly offset by relative growth in the more profitable mass gaming segment.

The latest statistics from Macau's Gaming Inspection and Coordination Bureau reveal that there were 141 licensed junket operators as at January 2016, down from 183 a year earlier. Despite a reduction in the number of licences issued, the consolidation has been deemed beneficial, as the industry is increasingly home to more reputable junket operators with stronger balance sheets to face future headwinds.

New Casino Developments - An Air of Caution. The new casino resorts along the Cotai Strip are unlikely to have an immediate positive impact on the gaming industry. Nomura expects those projects to generate returns of approximately 15% only in their third year of operations. Meanwhile, the government is expected to release its mid-term casino review report in early 2016. This report, which evaluates gaming operators' contributions to the economy and their compliance with social responsibility requirements, will become a reference for formulating policy for the gaming industry in the years ahead and will underpin the extension of gaming concessions for operators come 2020.

New Policies - Towards a Better Regulated Gaming Industry. Under a new measure introduced as part of China's anti-graft campaign, all point-of-sale devices must now be registered and validated by China UnionPay to prevent any illicit concealment of cash transactions. A full smoking ban in casinos is likely to come into effect in 2016. KPMG has said that, when implemented, the city's gross domestic product could shrink by as much as 16%. Although these policies may deal a short-term blow to the already weakened gaming industry, in the long run, they will help to rebrand and reposition Macau as a world-class tourism hub.

Regional Competition and Diversification - Minimum Impact Until 2019. Macau is facing tougher competition, with destinations such as Malaysia, the Philippines, Singapore and South Korea jostling for a share of the high-roller market. Junket operators are more inclined to promote other destinations as Macau imposes heavier taxes on gross gaming revenues. UBS estimates that the city's share of the market for regional VIP players fell from approximately 84% in 2011 to 76% in 2015. It expects Macau's market share to dip further to approximately 66% by 2019. However, the development of non-gaming attractions on Hengqin Island is likely to attract a more diversified group of visitors and is likely to boost Macau's visitor arrivals, given their close proximity and ease of access.

Infrastructure - Increase Connectivity. Macau's government is planning to reconstruct the runway at Macau International Airport to accommodate more international flights from across the region. The upgraded runway, currently in the planning stage, will be able to handle 100,000 aircraft movements per year once completed. In addition, the passenger terminal will be renovated to provide capacity for 7.8 million passengers a year, up from the current 6 million.

Risks and Uncertainties - The performance of Macau's gaming industry is very much dependent on policies and regulations implemented by the government. Certain likely policies, coupled with the rising labour costs and the possible further depreciation of the Chinese yuan, will weigh on operators' margins as they grapple with the economic downturn.

The current US Fed funds rate is at 0.25% to 0.5%. Despite a weakened global economy and steep slide in stock markets, it is expected that the US Central Bank will maintain their stand to raise rates but at a gradual pace. When this happens, it may exacerbate liquidity pressures and prompt Macau to raise its lending rate in tandem with Hong Kong, whose currency is pegged to the US dollar. This could also lead to a lower exchange rate between the Chinese yuan and Macau's pataca, which would have a significant impact on mass-market consumer expenditure and imports, as Chinese mainlanders make up a significant portion of this category of consumer.

Lastly, a tight labour market is another factor to consider. With the addition of another 20,000 hotel rooms in the next few years, Macau will need to increase its labour force and improve the quality of service personnel in order to secure its position as a world-class tourism hub.

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Renewable energy

(compare renewable energy funds **here**)

Tim Ingram, chairman, Greencoat UK Wind. Wind remains the most mature and widely deployed renewable technology available in the UK and the Company is in a good position to benefit as electricity production from wind is becoming an increasingly important part of the UK's generation mix.

The policy changes announced during 2015 to the Renewables Obligation for onshore wind are not relevant to the Company as they relate to new capacity that is not yet built. This is not anticipated to have a significant impact on the investment opportunities available to the Company as the market size of operating UK wind farms (both onshore and offshore) is expected to reach £60 billion over the next few years providing extensive and very encouraging opportunities for further value creating investment. However, the announcement of the immediate loss of the Climate Change Levy exemption for renewable electricity in July's Budget had a negative impact on NAV, although this was largely offset by the reduction in the Corporation Tax rate announced at the same time.

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Greencoat Capital LLP, manager of Greencoat UK Wind. The regulatory outlook for operational wind farms in the UK remains stable owing to the UK Government's policy of "grandfathering" for operational projects. The Group invests in operational wind farms, backed by known and fixed support mechanisms.

Notwithstanding this, the loss of the Climate Change Levy exemption for renewable electricity from 1 August 2015 announced in the July 2015 Budget had a negative impact on NAV, although this was largely offset by announced reductions in the Corporation Tax rate. The removal of the exemption is effectively an increase in taxation and benefits HM Treasury accordingly. The Group was previously assuming the removal of the exemption from 2022.

In contrast to operational wind farms, regulatory risk is the key risk faced by renewable developers. With the new Government, 2015 saw several changes in this area, affecting solar and onshore wind in particular. The CFD regime, which replaces the Renewables Obligation for new projects, brings considerable uncertainty for developers.

There is currently over 8GW of operational onshore wind capacity plus over 5GW offshore. Installed capacity is set to grow over the next few years to over 12GW onshore plus over 12GW offshore, despite recent policy changes for new projects. In monetary terms, the secondary market for operational UK wind farms is approximately £30 billion, increasing to £60 billion in the medium term. The Group currently has a market share of approximately 2 per cent..

As an owner of operational wind farms, the key risk faced by the Group is power price. In general, independent forecasters expect UK wholesale power prices to rise in real terms from current levels, driven by higher gas and carbon prices combined with the ongoing phasing out of coal-fired power stations. In the short term, power prices are likely to remain volatile.

The long term power price forecast is updated each quarter and reflected in the reported NAV. The power price forecast incorporated in the current NAV is considerably lower than the forecast applicable at listing (March 2013), with consequently reduced downside exposure.

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Helen Mahy, chairman of The Renewables Infrastructure Group. Changes following the UK general election to support schemes for new renewables projects may, for a period, reduce the volume of new development of UK onshore wind and solar PV projects. Over time this may impact the potential pipeline for operational projects available for acquisition. However, there is a significant volume of both UK onshore wind projects and, albeit to a lesser extent, UK solar PV projects still owned by developers and/or utilities which may seek to recycle their investments. As a result, TRIG expects to continue to see attractive opportunities for acquisition in the UK as well as in France and in other targeted countries in Northern Europe in these technologies.

The Board also notes that offshore wind, a large-scale strategic energy resource both in the UK and in other countries in Northern Europe, provides additional opportunities for investment. There is currently approximately 11GW of installed capacity in Europe across 80 projects, the majority of which are in the UK and Germany, which are world leaders in this sector. It is also notable that the development of offshore wind in the UK continues to enjoy Government support and the volume of installed capacity, currently 5GW, is expected to double by 2020. The sector has now built up meaningful operational and financial track records and operating projects are becoming available for investment.

In the year ahead, the UK renewables industry is likely to continue to adapt to the ongoing challenges of reduced wholesale power prices and the re-setting of the Government's energy strategy, while elsewhere in Europe and particularly in France, renewables appear to have a clearer immediate path for growth.

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Foresight Group, manager of Foresight Solar. The March 2015 1.4 ROC banding deadline for assets over 5MW drove large amounts of activity during the period in terms of new capacity being installed, with reports estimating that 2.5GW was installed in the first quarter of 2015 alone. Following the announcement of the early closure for sub 5MW ROC assets from 1 April 2016, we expect this level of activity to continue with estimates that UK solar installed capacity could surpass 10GW in the first half of 2016.

This scale of UK installed solar capacity has created an active market in large-scale secondary assets, and as such we are reviewing a number of secondary opportunities and have identified an attractive 150MW pipeline of operational assets accredited under the 1.4 and 1.3 ROC banding

In our view, the recently announced Government changes, such as the consultation on early closure to the RO for sub 5MW assets, were not unexpected as DECC had previously suggested it would continue to monitor the deployment of new installations under the RO scheme and subsequent impact on LCF. We believe this confirms DECC's continued intention to introduce changes that support the future sustainability of the LCF without impacting the existing support mechanism for renewable energy investments, thereby reducing the likelihood of retroactive changes in the future.

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Flexible investment

(compare flexible investment funds **here**)

Ruffer AIFM, manager of Ruffer. When assessing the headline figures from the major global asset markets (FTSE UK Conventional Gilts Index +0.6%, S&P 500 Total Return +1.4%) it is easy to assume that 2015 was a year of little long term significance – markets moved violently sideways, full of sound and fury but signifying nothing. We think it was a year where the probability of the endgame being an inflationary one increased considerably. Investors are always quick to adapt to previously unacceptable taboos. When the Troubled Assets Relief Program ('TARP') was being launched to save the financial system in 2008, Quantitative Easing ('QE') was considered a no-go area and it is now accepted as the norm. When interest rates fell to zero it was considered impossible for them to be cut lower into negative territory and this has now happened across Europe. The likelihood of Germany agreeing to QE in Europe previously seemed impossible but came to pass in 2015. Most relevant to the current juncture is that the previous taboo of fiscal stimulus (dubbed QE without the banks – ie an injection of liquidity directly into the real economy) is rapidly gaining support and entering the mainstream. On their own, each of these mini crossings of the Rubicon seem innocuous, but will we look back in years to come and judge that when viewed together they clearly represent a consistent direction of travel towards an inevitable outcome? The parallels with the build-up of debt in the Western world prior to the financial crisis are uncanny – no one knew whether the straw that would break the camel's back would be overly loose monetary policy, lax regulation of the financial sector, falling lending standards or the plethora of exotic instruments designed to spread the risk of default. With the benefit of hindsight it did not matter; the combination of all these things pointed to an inevitable endgame - it was only the timing that was difficult to call.

China's devaluation, which exports deflation to the rest of the world, could be perceived, depending on how you look at it, as the opening up of their capital markets or the world's second biggest economy wading into the ongoing global currency war. Equally, the first Fed rate hike since 2006 could be seen as a sign of confidence in the economy and a return to normality or, alternatively, a desperate central bank needing to build up firepower in order to fight the next crisis. These events are not isolated, they are all symptoms of a sick but heavily medicated global economy. We know that policymakers will react with more medicine because they think that they can prod and cajole the global economy back to good health. Any negative externalities can be dismissed as temporary or treated with further radical cures. There is no modesty or fallibility here; diagnoses and prescriptions are seen in black and white. It is this confidence in a policy response that persuades us that the icy chill of these many disinflationary forces will continue to be met with a fiery resistance.

This brings us to another point of contentious incongruity – from where we are today, it is far from clear to us that a positive outcome for the US economy would be a positive outcome for asset markets. If the US economy remains on-track, the Fed have intimated that they will raise interest rates four times in 2016. This should, in theory, drive the dollar higher and suck liquidity from asset markets priced on their cash yield – a double blow for the overseas earnings of bond-proxy equities beloved by so many investors. With little left to do on the financial engineering side (borrow cheaply and retire equity to grow earnings per share) it is left to top line growth to do the work – margins are already high and many costs have been cut to maintain them.

The outlook for the year ahead is as challenging as we can remember. Unlike many market participants we agree with Voltaire who said that uncertainty is an uncomfortable position but certainty is an absurd one. Although the Company is positioned defensively that is not the same thing as saying that it is immune to a market setback. We are hopeful that the positioning of the asset allocation is appropriate to achieve our capital preservation objective and, at the risk of getting ahead of ourselves, if we can preserve capital through the next crisis then there will be some mouth-watering opportunities on the other side.

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Geoffrey Howard-Spink, chairman, New Star. Global equities fell in January 2016 in response to renewed renminbi weakness as China moved to loosen its currency's ties to the dollar, which had strengthened in response to the turn upwards in the US interest rate cycle. Investors have been concerned that a weaker renminbi would generate deflation, and by recent weakness in the oil price. The stronger dollar has, however, tightened US monetary conditions and this may cause the Federal Reserve to slow down its planned programme of interest rate rises during 2016. A more dovish stance from the Fed should reduce pressure on China to weaken the renminbi further and should be positive for equities, particularly global consumer stocks that benefit from increased consumer spending resulting from lower oil prices.

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Brompton Asset Management LLP, manager of New Star. December's Fed decision to raise rates may have been finely balanced given the weakness of headline inflation at the time. In the subsequent weeks, the stronger dollar produced a tightening of US monetary conditions while the fall in commodity prices dampened inflation expectations. As a result, the Fed may re-examine its plans for future interest rates and adopt a more dovish stance. This would be positive for risky assets in general and, more specifically, would reduce pressure on China to weaken the renminbi. Given the near-universal gloom among investors and the magnitude of recent falls, equity markets could recover strongly on any signs of good news.

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Commodities & natural resources

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

Ed Warner, chairman, BlackRock Commodities Income. Over the past 12 months the sector has significantly reduced capital expenditure, cut costs, reduced its work force and is now beginning to lower production. Despite this, commodity prices continue to be driven down by China fears, oversupply and US Dollar strength. 2016 is shaping up to be another tough year for the natural resources sector. Whether we have experienced the worst remains to be seen but one has to believe that the industry is now better positioned for any recovery. In this context dividends, however, remain under pressure as revenues fall and the cost of debt servicing rises.

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Olivia Markham and Tom Holl, managers, BlackRock Commodities Income. 2016 is shaping up to be another tough year for the natural resources sector. While oil demand remains healthy, demand for industrial commodities is likely to remain subdued with global industrial production expected to grow at a historically low level during 2016. Commodity markets remain oversupplied and prices for certain commodities will need to remain at current levels, or move lower, to cause loss-making production to be shutdown. In light of this, dividends will remain under pressure for the sector and we would expect to see companies further reduce capital spending and operating costs to maintain their balance sheets.

Despite the very disappointing performance of the sector, it is not all doom and gloom. In oil, with Iran back in the market it now appears that we are past the point of maximum oversupply and the market has potential to tighten later in 2016. In our view, the current oil price is unsustainable and too low to incentivise the investment that will be required over the medium term. For industrial commodities, while the supply side has been slower to respond we expect production cuts to increase with a number of miners loss making at current commodity prices. In the case of copper and zinc where above ground inventories are lower than is the case for aluminium and nickel, we would expect these prices to respond quicker.

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Sir Robert Wilson, chairman of Riverstone Energy. With energy prices at their lowest level in a decade and the capital markets closed to many energy producers, the industry is facing widespread distress. As in previous cycles, companies with strong capital discipline, conservative balance sheet management and access to low-cost resources are best positioned to withstand challenging times, and in many cases profit from them.

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Riverstone International, manager of Riverstone Energy. The energy industry is facing profound pressure after oil prices declined by an additional 30 per cent. during 2015, resulting in prices more than halving from levels before November 2014. As in previous commodity cycles, companies which have overextended themselves have been pushed into distress, and in some cases, bankruptcy. Riverstone's scale, experience and diversified investment approach - both across sectors and geographies - differentiate us from industry peers and offer resilience to our investors.

With much of the North American E&P landscape lacking operational and/or capital flexibility, we believe that the current opportunity set in the North American upstream sector is arguably more robust than it has been at any time in recent history. Our flexible strategy and strong capital position enables us to take advantage of the market dislocation, while at the same time not deviating from the core tenets of our investment strategy: backing "best-in-class" management teams, building or acquiring premier assets, hedging commodity price risk and maintaining conservative capital structures. We are confident that the long term outlook for the sector remains favourable.

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A W Lea, chairman of BlackRock World Mining. The outlook for commodity prices remains subdued. A stronger U.S. dollar, lower oil prices and continued low growth inflation, all of which have weighed on commodities over the last year, are likely to remain headwinds for performance in 2016. Since the peak of the mining cycle in 2011, the industry has responded to lower commodity prices through cost cutting, capital expenditure reductions, asset sales and restructuring, although there is undoubtedly more to follow.

Whilst some companies continue to produce in volume, maintaining downward pressure on prices, there are some signs for optimism. The fall in prices forces companies to cut costs and loss making production which should strengthen balance sheets, bring supply into line with demand and help commodity markets rebalance over time. At the same time, valuations are becoming more attractive and present an interesting investment opportunity. The winners will be those who emerge leaner and more efficient when sentiment recovers.

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Evy Hambro and Olivia Markham, managers of BlackRock World Mining. This time last year we were worried that weakness in demand might cause the recent falls in commodity prices to accelerate further and make it difficult for companies to maintain the level of dividends being forecast by the market. In the second half of 2015 this happened and companies now face the challenge of dealing with the debt they had taken on to fund investments during the good times. Working out how this problem is to be tackled will be key to delivering good performance in 2016. We expect there to be a large dispersion in performance between those that have plans and those that either do not or are unable to produce one as it is ‘too late’ for them. Our intent is obviously to back the former and avoid the latter. In addition, we expect precious metal companies, mainly gold producers, to outperform broader commodity producers if the U.S. interest rate cycle goes into reverse. Lastly, we have been building exposure to industrial commodities versus base metals and we expect to add to this strategy during the year.

2016 is likely to be characterized yet again by high levels of volatility and this should allow the Company to increase revenue from selling options to the market. If we can build on this source of income during the year then it will go some way to softening the blow from cuts to mining company dividends. It is our hope that during 2016 common sense prevails and mining companies start to cut production so that supply and demand begin to return to balance. If mining companies fail to act, then commodity prices are likely to remain lower for longer.

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Debt

(compare Debt funds **here**)

Norman Crighton, chairman, GLI Alternative Finance. 2015 [saw] the Alternative Finance market continue to grow exponentially with £2.8 billion loaned out by UK based platforms in the 12 months to December 2015, compared to £1.6 billion in 2014. Over £1.5 billion was raised for UK listed closed end funds, including GLI Alt Fi. The international investment community is beginning to view this asset class as a true diversifier within balanced portfolios and funds raised in 2015 is a testament to that.

The wider backdrop for the Company is that awareness of alternative sources of funding amongst small and medium sized enterprises (SMEs) is growing steadily, helped along by the government's determination to increase choice as evidenced by the putative bank referral scheme which mandates that banks must offer a choice to rejected business clients looking for a loan. More institutional funding is also finding its way into both marketplace and direct balance sheet lending, which has had the effect in some cases of reducing the net cost of debt for SME borrowers.

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Financials

(compare financials funds **here**)

Robert Kyprianou, chairman, Polar Capital Global Financials. The beginning of [2016] has witnessed further volatility from some of the factors that concerned financial markets in 2015. In the US the Federal Reserve finally pulled the trigger in December and raised the Fed Funds rate for the first time in nearly 10 years. The significance of this goes far beyond the impact of a 25bp rate rise on the economy. It marked the end of a long cycle of ever easier money and signalled the start of a new cycle of higher rates. If the US economy is strong enough to withstand the impact on growth and loan demand, the rise in US rates should be beneficial for US banks through an increase in net interest margins.

In China concerns over the economy and policy responses came to a head at the start of the new calendar year which precipitated sharp falls in Asian and global equity markets. China growth concerns and fresh tensions in the Middle East sent oil prices to fresh lows at the start the year. This is not a promising inauguration to the new year for natural resource based emerging economies where further distress in local financial markets and currencies may be in prospect before a floor is found. The Company's direct exposure to these emerging economies is relatively small.

Elsewhere in the developed world investors are faced with understanding the implications of the divergence in monetary policies between major economies following the Federal Reserve's rate rise. In Euroland the ECB is likely to be focused for some time yet on preventing the local economy slipping into deflation, while in Japan the central bank is likely to need to implement further monetary stimulus as part of the 'first arrow' of measures designed to re-ignite growth. Finally in the UK, a major uncertainty overhangs the market, in the form of a referendum on its membership of the European Union which is likely to take place in the current financial year. As the year starts, the outcome looks too close to call. In the meantime, the recently elected Conservative government seems set on using the recovery in growth to restore public finances to good order. This fiscal stance coupled with uncertainties in global growth is likely to complicate the stance of monetary policy in the UK well into the year.

This backdrop of policy diversion, growth uncertainties, commodity market dislocation and geopolitical tensions provides a set of factors that complicate the outlook for global equities for the year ahead. The year has begun with major equity market corrections around the world. Within this, the financials sector has been the most adversely impacted.

The important banking sector in Europe and the US continues to be characterised by improving underlying fundamentals as balance sheets are repaired, cost control feeds into bottom lines and fresh capital is raised. The rehabilitation of this sector in general is not only improving sentiment towards it but also offers the prospect of capital being returned to shareholders through share buybacks and growing dividends.

In the US there is the prospect of further loan growth and higher net interest margins with its exposure to regional and other financial institutions with few legacy issues from the financial crisis. In Europe the general improvement in bank balance sheets and the emergence of new players capturing market share from the constrained established players continue to offer value opportunities. Overall, the Board believes that the value opportunities in global financial stocks remain very attractive.

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Nick Brind and John Yakas, managers, Polar Capital Global Financials. 2016 has started with a sharp correction in equity markets on the back of steep falls in the Chinese stock market and a further fall in the oil price. Financials, however, have been the worst performing sector year-to-date and have significantly underperformed underlying equity markets. Although their weakness is understandable, the level of underperformance is surprising and we believe unwarranted. Balance sheets are significantly stronger and outstanding legacy issues are largely resolved for the very small number of banks where they remain an issue.

Arguably the sector is discounting a significantly worse deterioration in the underlying macro environment than suggested by forecasters. Valuations have fallen in some instances to levels not seen since previous financial crises.

In Europe, the capital return from banks is expected to increase via increased buybacks and dividends, whereas for some other large dividend yielding sectors, such as energy and mining, the reverse is expected. This should improve sentiment towards the sector and relative share price performance albeit shorter term performance will continue to be driven by economic data and the oil price.

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Insurance & reinsurance strategies

(compare insurance and reinsurance strategy funds **here**)

Anthony Belisle, CEO, Catco Reinsurance opportunities. It is expected that excess capacity in the reinsurance sector and the three-year absence of significant natural catastrophe losses will continue to exert downward pressure on traditional reinsurance pricing as we move into 2016. Property catastrophe rates on line were down 7 to 10 percent at 1 January 2016, although it is the opinion of Guy Carpenter that the rate of decline has moderated, particularly for U.S. property catastrophe risks.

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Technology, media & telecoms

(compare technology, media and telecom funds **here**)

Julian Cazalet, chairman, Herald. The US continues to lead with innovation, but we have found valuations full. The UK has for a number of years been good value and the performance has been enhanced by many takeovers. Over the last 9 years, 66 UK portfolio companies have been acquired. Unfortunately while some consolidation is appropriate and helpful, the serious shortage of capital in our UK market has meant that there have been no UK consolidators, so most companies have been sold to overseas buyers and a few to private equity. We have commented for some years about this problem, but the flight of capital from the quoted UK equity market has now reached a point where we must consider reallocating capital. There is no shortage of entrepreneurialism and innovation in the UK, but an evident shortage of capital, so it seems perverse that we may be forced to exacerbate matters by reducing our own exposure to the UK. We have considered investing in private companies, but we see a worldwide problem of too much capital being tied up in private companies with the quoted markets currently unwilling to provide exits. In the public markets, the larger companies are acquired and at the small end we are fearful of being too exposed to too many early stage companies, with few willing co-investors. Having long been evangelists for the UK, and having achieved an annualised internal rate of return on the UK element of the portfolio of 17.7% since inception in 1994, it is a depressing conclusion to reach. The US has seen a marked contraction in the number of small technology companies and IPOs (initial public offerings) since Sarbanes Oxley but the private venture market, which has surged, seems to be hitting a wall. Investors are marking down valuations of private technology companies. There is promising potential that a number of companies in the US will come to market at sensible valuations, as the private owners come to terms with exits at lower values. There is no doubt that a number of things have conspired to challenge the quoted equity investing markets. There are complex reasons why professional asset allocators have reduced quoted equity, and small capitalisation equities commitments in particular, so much. It does not feel as though the regulators - on both sides of the Atlantic - comprehend the adverse economic consequences of their attempts to protect the investor.

One major current stock market trauma is that commissions have been driven down to a point where it seems the market can no longer function as it has done historically. Until four or five years ago, US IPOs had a roadshow in London. Now rarely do they bother. In light of this, the Manager has decided to open a research office in New York. If US companies no longer come here, we shall have to go there. This is commented on further in the Managers' report.

The positive side effect is that as the more professional investors desert small capitalisation equities in favour of ETFs, Index trackers, hedge funds, private equity and bonds, there are richer potential pickings for the few of us focussed on bottom up stock selection. It feels as though there will be greater returns from stock picking than asset allocation as money and research evaporates in long only investment in the medium term.

There are a number of economic challenges reflected in volatile markets since the year end, but we remain confident that Herald's remit has relative attractions, not least because of increasing market inefficiencies, and are excited that a potential buying opportunity will emerge in the US.

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Katie Potts, manager, Herald. The sector continues to offer a host of opportunities. I am more relaxed about the Company's investee companies than the stock markets in which we operate. The Californian internet sector has been hot, and there are allegedly over 100 private companies in the US with valuations in excess of $1bn. In particular the so called "Unicorns" have excited people because companies such as Facebook have scaled with relatively low paid up capital in a remarkably short space of time. This boom was distinctly flagging by the year end, with press reports suggesting that some of the players new to the private development capital market were writing down values, and many have missed their revenue projections. Clearly the quoted markets have become unwholesome owners because when there are net cash outflows, investors are happy to take any takeover premium, which in turn pressurises management to deliver short term numbers to a degree that may not be in the long term interests of shareholders or employees. We always encourage our investee companies to do what is right on a five year view, and not to be short term like the markets. Touch wood we have had a sufficient cushion on performance, and have a closed end fund so we can do that, which I firmly believe in the long run is in shareholders' interests. On the whole private equity funds have a term and in due course will require an exit. Approximately 10 times as much money has been invested in the recent past in private venture and development capital than has been raised through IPOs. In the US last year, only $7.5bn was raised in information technology IPOs, a 74.6% decline on the previous year (source: S&P Capital IQ). There is a big backlog of IPOs which we look forward to with interest.

The UK has also seen a more vibrant venture market, which made me think that stock markets are being disintermediated and we are missing out. An exercise to see what was being funded reassured us that we must patiently wait for the few that move forward. Inevitably some companies will need further funding, and it will probably be a buyers' market.

Technically there are quite interesting developments. Big data is not only creating new database companies, but challenging storage and analytics. Disruptors abound. Handling unstructured data is a different market from the old relationship databases on which computers were originally built. As networks have improved, the PC client is in retreat and there is a reversion to centralised computing. Instead of central mainframes, there are datacentres with racks of servers with far more processing power than any mainframe. Relatively dumb devices such as phones and tablets have become very powerful when used in conjunction with servers.

The defence market seems to be coming back to life as the various conflicts around the world threaten. Security at all levels - Government, corporate and consumer - is an attractive area of growth.

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Robert Jeens, chairman of Allianz Technology. The world's financial system continues to face significant challenges which currently include questions around the health of the global economy and the impact of diverging monetary policies between the US and the rest of the world. While the global economy is expected to grow at a slow pace, we continue to see attractive investment opportunities in technology. It is to be expected that some of the more mature industries will see limited growth. Technology, however, can create new markets, provide lower cost ways of doing things and generate growth when other sectors are less buoyant. Whilst many technology share prices reflect demanding multiples, company balance sheets in the sector are unusually strong. Your Investment Management team is seeing a wave of innovation in the sector that they believe has the potential to produce attractive returns for companies with best in class solutions. Stock selection will be of paramount importance, but it is expected that a carefully selected portfolio of technology investments should be able to perform well over the longer term despite current headwinds.

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

Despite high valuations for some cloud and internet companies, we continue to see massive addressable markets that are much larger than the revenue today. However, we have consolidated our exposure to these areas in select companies we believe have the most compelling solutions and whose business models demonstrate a discernible path to deliver strong earnings and cash flow growth over the next few years.

We are also finding excellent investment opportunities among more attractively valued areas of technology. In particular, certain technology incumbents are making compelling progress on providing robust software offerings via the internet.

We view security as another attractive secular growth area in technology. The increasing sophistication and persistence of cyberattacks has triggered more spending towards providers offering new security technologies. We believe this trend will continue for several years, and companies consistently enhancing security technology may stand to benefit over time.

We expect a period of correction in early 2016 caused by weakness in emerging markets and disappointing earnings growth for many companies. These events will keep the spread between higher risk interest rates and Treasury rates high. This will likely be accompanied by several high profile private technology companies that are unable to go public, or they will have to accept much lower valuations than their recent private valuations. We expect these events will cause those high growth companies that are public to focus more on generating free cash flow, and cause those with lower valuations to pursue a combination of mergers for efficiency and stock buybacks/dividends. These actions will stabilise their stock prices and eventually lead to the end of this correction and the resumption of the upward trajectory in several groups of technology stocks.

The risk is for a macro event that might come from unpredictable 'global hot-spots'. The resulting shift to stocks that are perceived to be 'safer' tends to cause pressure on technology stocks even though the economic models for the industry are becoming more annuity-like.

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QuotedData

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