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Monthly summary | Investment Companies

6 April 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.

Global equities

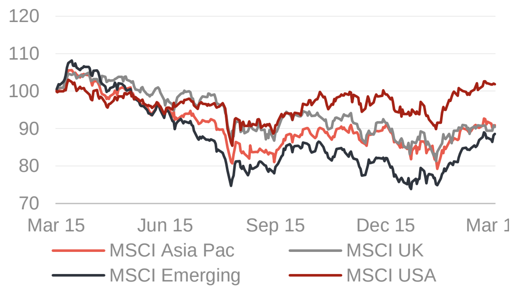
Many commentators are critical of central bank's policies and cautious about markets.

Lord Rothschild, chairman of RIT Capital Partners says 2016 is likely to turn out to be more difficult than the second half of 2015. Sir Brian Ivory, chairman of Scottish American, is one of a number of commentators who see Britain's EU referendum as a potential destabilising factor. Dominic Neary, manager of that fund, sees US economic strength as a risk - further rate rises would exacerbate the already significant challenges for emerging markets. Alliance Trust expect increased volatility in the returns from all asset classes. Simon Fraser, chairman of Foreign & Colonial, says there are signs that corporate profits globally are struggling. Teddy Tulloch, chairman of EP Global Opportunities, expects a respectable, if more subdued pace of growth, enhanced by lower energy prices. Sandy Nairn, manager of that fund, thinks that, as the cost of money has tended to zero, this will have led to poor credit decisions. He also believes valuations are extended across all asset classes. Andrew Bell, chief executive of Witan, says that, after five years of emerging market underperformance, the slow pace of recovery in those markets may already be discounted significantly. Kevin Carter, chairman of Murray International, says sufficient cracks are widening in the global financial system to suggest great caution is warranted. Bruce Stout, manager of that fund, says that failure to grasp the nettle of chronic debt dependency and unsustainable consumption expectations remain the developed world's Achilles heel. Tom Walker, manager of Martin Currie Portfolio, thinks the scope for shocking the economy into growth with lower rates is nearly exhausted and says the risk is the credibility of central banks is now severely damaged.

Exchange Rate	31/03/16	Chg. on month
USD / GBP	1.4360	+3.2%
USD / EUR	0.8787	-4.5%
USD / JPY	112.57	-0.1%
USD / CHF	0.9618	-3.7%
USD / CNY	6.4536	-1.5%

MSCI Indices rebased to 100

Time period 31/03/15 to 31/03/16



Source: Bloomberg and Marten & Co

	31/03/16	Chg. on month
Oil (Brent)	39.60	+10.1%
Gold	1232.75	-0.5%
US Tsy 10 yr yield	1.7687	+2.0%
UK Gilt 10 yr yield	1.415	+5.8%
Bund 10 yr yield	0.152	+43.4%

UK

EU referendum may weigh on markets, some notes of optimism on UK economy

Andrew Sutch, chairman of JPMorgan Claverhouse, is cautious about the possible impact of the EU referendum but says investors should take a long term view through, what could be "considerable volatility" over coming months. William Meadon and Sarah Emly, managers of the fund, say the UK economy is too dependent on domestic consumption but say most UK companies have strong balance sheets. Henderson High Income's board believe a low to modest economic growth environment will persist in the UK. Georgina Brittain and Katen Patel, managers of JPMorgan Smaller Companies take comfort from rising household disposable income in the UK

Europe

Sustained recovery is possible but valuations are elevated. Profits need to grow.

Humphry van der Klugt, chairman of Fidelity European Values, says the recovery in the Eurozone is intact and is increasingly supported by improving domestic demand. Sam Morse, manager of that fund, seems more cautious – noting that valuation levels remain elevated and is concerned that consumer confidence could be dented if companies cut jobs to maintain earnings or if political uncertainty rises. Jack Perry, chairman of European Assets, thinks the development of corporate profits will be the most important indicator of stock performance from here.

Emerging Europe

Buy on currency weakness

Sam Vecht and David Reid, managers of BlackRock Emerging Europe, say many emerging market currencies are trading at 13 year lows and, in the past, this has been the correct time to buy emerging markets.

Asia ex Japan

Asian growth rates are still attractive but the Chinese financial system is fragile

The managers of Pacific Horizon draw attention to the relatively more rapid pace of growth in Asia compared to the rest of the world and that of India in particular. The board of Fidelity Asian Values makes the same point and says Asian valuations are near or some cases below those of the global financial crisis. Robin Parbrook and King Fuei Lee, managers of Asian Total Return, say China presents the biggest risk in the region as tightening liquidity raises worries about its fragile financial system but think a full blown crisis can be avoided.

Japan

Improved corporate governance and a boost from low oil prices

M Neil Donaldson, chairman of Baillie Gifford Sin Nippon, says there are encouraging signs the company boards are continuing to embrace improved corporate governance. The board of Baillie Gifford Japan echoes this sentiment and points out that, thanks to the low oil price, Japan is running a trade surplus for the first time since the 2011 tsunami.

North America

Don San Jose and Dan Percella, managers of JPMorgan US Smaller Companies, say (small cap.) valuations are more attractive than they were last summer and think it is difficult to see the US re-enter a recession while the housing market, the banking sector and the employment situation are on a solid footing. By contrast, Sarah Bates, chairman of JPMorgan American, says (large cap.) valuations are not cheap but thinks, relative to other places in the world, the US corporate sector looks attractive. Garrett Fish, manager of that fund, thinks a lower US dollar in 2016 would be a significant tailwind for the investment environment. James Ferguson, chairman of North American Income Trust, warns that dividend growth will moderate to reflect growth in earnings. The managers of that fund think Fed policy could pose the biggest risk to companies if it leads to a stronger dollar.

Small cap.s cheaper than large cap.s. A weaker dollar would be helpful

Global emerging markets

China worries to persist but valuations relatively low

The managers of JPMorgan Global Emerging Markets Income believe China worries will remain a key theme in 2016. They say, within this difficult period for emerging markets, valuations do look relatively low compared to history.

India

Indian reform is happening and the country's growth prospects make it stand out

Fred Carr, chairman of India Capital Growth, says the government is making significant progress in reforming the Indian economy with initiative such as ensuring every household has a bank account and fostering intra-State competition in ease of doing business. Ocean Dial, India Capital Growth's managers, say India continues to stand out from the emerging market pack as a growth opportunity.

Latin America

In Latin America the outlook is not clear

Peter Burnell, chairman of BlackRock Latin American, acknowledges that the macroeconomic background for the region has become less clear over the past few months. William Landers, its manager, says Brazil offers more questions than answers.

Qatar

Stocks have priced in excessive pessimism

Nicholas Wilson, chairman of Qatar Investment Fund, pins his hopes for the country on its LNG exports and the efforts the government has made to diversify the economy. Epicure Managers Qatar, managers of the fund, give a detailed analysis of the state of Qatar's economy and conclude that Qatari equities have already priced in excessive pessimism.

Other

There is also plenty more commentary on commodities and natural resources, debt, environmental stocks, infrastructure (with regional analysis from International Public Partnerships and BBGI SICAV), private equity (including a detailed run down on regional markets from both Apax and Pantheon), UK property and utilities.

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Global

(compare Global funds **here**)

The Lord Rothschild, chairman of RIT Capital Partners:...the wind is certainly not behind us; indeed we may well be in the eye of a storm.

The litany of problems which confronts investors is daunting: the QE tap is in the course of being turned off and in any event its impact in stimulating asset prices is coming to an end. There's the slowing down to an unknown extent in China. The situation in the Middle East is likely to be unresolvable at least for some time ahead. Progress of the US and European economies is disappointing. The Greek situation remains fraught with the country now having to cope with the challenge of unprecedented immigration. Over the last few years we have witnessed an explosion in debt, much of it repayable in revalued dollars by emerging market countries at the time of a collapse in commodity prices. Countries like Brazil, Russia, Nigeria, Ukraine and Kazakhstan are, as a result, deeply troubled. In the UK we have an unsettled political situation as we attempt to deal with the possibility of Brexit in the coming months. The risks that confront investors are clearly considerable at a time when stock market valuations remain relatively high.

There are, however, some influential and thoughtful investment managers who remain sanguine about markets in 2016 on the grounds that the US economy is in decent shape - outside of manufacturing - while they feel that economic conditions may be improving. To them, the decline in these markets may have more to do with sentiment than substance. Others are less optimistic but feel that the odds remain against these potential difficulties materialising in a form which would undermine global equity markets. However our view is that 2016 is likely to turn out to be more difficult than the second half of 2015.

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Sir Brian Ivory, CBE, Chairman, Scottish American: 2015 was a year of modest progress at best for most investment markets and asset classes. Throughout the year, markets attempted to scale the proverbial wall of worry. Whilst economic news was encouraging in some areas, in the United States in particular, there were marked disappointments elsewhere. Markets were concerned at various points about both weaker than expected Chinese growth on the one hand, and the consequences of eventual normalisation of monetary policy in the Western world on the other. Geo-political risks - in particular, turbulence in the Middle East and Ukraine - and longer term concerns about debt levels, productivity growth and valuations were also ever present and concern about our risk of leaving the EU rose after the Election and is still rising.

Many of [these] market concerns remain germane, and they will continue to potentially affect both the operational environment for companies and market sentiment. 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, Baillie Gifford & Co, manager of 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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Alliance Trust: The outlook for 2016 is for both weak global economic growth and ongoing uncertainty around the direction and impact of governments' and central banks' policies. We therefore expect to see increased volatility in the returns from all asset classes as we go through the year.

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Simon Fraser, Chairman, Foreign & Colonial: The Great Recession of 2007-9 still casts a shadow on the global economy and financial markets. Despite an interest rate hike from the US Federal Reserve in December 2015 rates globally remain extraordinarily low. Major central banks such as the Bank of Japan and the European Central Bank continue to ease policy, with rates there negative and falling. Slowing growth in China and the weakness in commodity markets is continuing to create deflationary worries and this seems to be reducing the impact of accommodative central bank policy. The UK's forthcoming referendum on whether to stay in the European Union is likely to continue to add to the uncertainty and nervousness of markets in the months ahead.

With the global economy in an anaemic state and many emerging economies showing materially lower rates of growth the outlook for asset markets remains challenged. There are signs that corporate profits globally are struggling, even outside of the resources and energy sectors, and risk appetite from investors is at low levels.

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Teddy Tulloch, chairman, EP Global Opportunities: There is no shortage of issues to worry about and such concerns are always enhanced by unnerving declines in share prices, as occurred at the start of 2016. The horrific conflict in Syria continues to worsen and is becoming even more complicated, as is the spread of ISIS, while the influx of refugees into Europe has put further strains on the European Union. Overall, high levels of debt and a slower rate of growth in China point to more moderate global growth than has been achieved historically. However, we still expect a respectable, if more subdued, pace of growth, enhanced by lower energy prices, which should boost domestic consumption worldwide. This should more than offset the initial negative effects of reduced expenditure by oil companies and oil-producing countries.

Interest rates worldwide continue to be at very low levels and, while interest rate normalisation has begun in the US, we anticipate that the process will be slow, given the absence of inflationary pressures. Indeed, in the early part of 2016, there appear to be more concerns about the risk of deflation, with forecasts for the rate of economic growth being reduced. Short-term interest rates have been reduced below zero in a number of countries and long-term government bond yields have once again fallen back. The Japanese and European Central Banks continue their large programmes of quantitative easing, buying in government bonds to try and create monetary growth and hence stimulate more economic activity.

Our Investment Manager has pointed out for a considerable period of time that share valuations, while not extreme, are uncomfortably high, relative to long-term levels. So it is not surprising that stock markets have tended to struggle since early 2015 as the outlook for corporate profits has been scaled back. Valuations have looked particularly stretched in the US. In contrast, lower share valuations are evident in Japan.

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Dr Sandy Nairn, Edinburgh Partners, manager of EP Global Opportunities: We see elevated valuations as the proximate cause of the volatility in markets. When valuations are high, any threats to the growth rates which underpin them tend to have an exaggerated effect.

Rising interest rates might be seen as such a threat. With low energy prices, subdued wage growth and little economic overheating, there are few plausible reasons for monetary tightening. Certainly, a normalisation of interest rates will happen, but not on an accelerated timetable. This does not mean that there are no dangers. In reaction to the global financial crisis, the cost of money has tended to zero. This will have led to poor credit decisions, which at some point will come back to haunt those who have borrowed short and lent long. On this occasion, they are less likely to be the banks and more likely to be those investors who sought higher yields through buying financial instruments.

We are not believers in the financial crash scenario, although we recognise the dangers of some failures in various credit instruments. Our view is more prosaic. We see the global economy continuing to expand at around current rates, but anticipate further retrenchment in the more extended segments of asset markets.

[*We believe*] the concerns over China to be overstated. China is in a state of both political and economic transition, which is not unfolding smoothly. The anti-corruption drive in China is both political and economic in its goals, but it has unfortunate side effects for areas such as Macau.

Our concerns over valuations grew over the year. We do not see the recessionary conditions which would precipitate a financial crash, but nevertheless caution is called for given the extended nature of valuations across all asset classes. As a consequence, our expectations on near-term returns are subdued.

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Andrew Bell, chief executive, Witan: 2015 was a "glass half-empty" year in market sentiment terms, with a propensity to magnify disappointments and to dismiss positive news as already priced in, or about to turn bad.

On the positive side, economies in the US and the UK enjoyed a further year of 2-3% growth, with similar rates expected in 2016. Japan and Europe have seen improved (though low) growth, with higher growth rates forecast for the coming year. The oil price has remained near to 10 year lows, sustaining the boost to consumers (and companies outside oil-related sectors), while the rate of cut-backs in oil and mining sector investment may be abating, or more fully discounted. Corporate earnings forecasts for the year ahead are stronger than the weakness visible in the rear-view mirror. Monetary policy remains stimulative worldwide, with near-record low government bond yields.

The worries are familiar and have come into sharper focus in early 2016. Will China be able to manage its transition from an economy driven by over-investment in infrastructure and heavy industry to one dependent upon consumption and services, without an intervening recession? The stresses from low oil and commodity prices may generate political instability in (mainly emerging) economies dependent on raw material production or cause distress to the banks which have financed projects based on higher price assumptions. Both might have significant consequences that could make relatively localised problems more globally significant. In the UK, uncertainty over the EU membership referendum is a further unpredictable factor for investors.

The world cannot decide whether it should be worried about inflation (due to years of loose monetary policy) or deflation (due to surplus capacity and excessive debt accumulation). In 2015, with falling oil prices, deflation fears were in the ascendant, with the new phenomenon of negative interest rates, initially in Europe and more recently in Japan. Paying to have money on deposit or to lend to governments is a novel concept. In 2016, this inflation-denial will be tested, as headline inflation rates are set to rise later in the year due to the falls in oil prices dropping out of the annual comparison. With bond yields so low, investors may be more sensitive than expected to signs that the direction of inflation rates is turning upwards.

Concerns continue to be expressed about the slow pace of recovery from the 2008-9 financial crisis. Much looser monetary policy than normal has been required, which has generated relatively pallid rates of economic growth. However, anaemia is not the same as rigor mortis. There are now more examples of economies where recovery is well-established, with the US and UK relatively robust but even previous problem areas such as Japan and Europe are seeing more encouraging growth. The Achilles' heel now is seen as emerging economies but, after 5 years of emerging market underperformance, this may already be significantly discounted.

It seems unlikely that the world will see rapid rates of economic growth in 2016 but nor does it appear probable that there will be renewed slippage into recession. Interest rates seem likely to remain exceptionally low for an extended period (even if they have begun to rise in the US). On the macro-economic level, whilst there is an ever-present potential for policy mistakes, policy makers appear aware of the risks of weak growth and price deflation and the resulting pro-growth emphasis should prove supportive for equity markets. However, as recent months have demonstrated, there will be inevitable periods of volatility when investor confidence is tested by shorter term market and economic events.

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Kevin Carter, chairman, Murray International: 2016 has begun with considerable market volatility as investors attempt to decipher the complex economic and interest rate environment ahead. We have had several years of stock market performance characterised by divergence between performance and fundamentals. A relentless rise in equity market valuations without the support of profit growth has occurred simultaneously with an evident deterioration in economic fundamentals. Supported by abundant liquidity and dwindling alternative options, investors have been prepared to pay higher and higher prices for equities. Low yielding growth stocks have constantly and consistently outperformed higher yielding value stocks with sectors such as biotechnology, healthcare and technology leading the indices higher.

Sufficient cracks are widening in the global financial system to suggest great caution is warranted. Protecting capital and income in such a financial world will not be straightforward.

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Bruce Stout, Aberdeen Asset Managers Limited, manager of Murray International: Predicting the future against a backdrop of unrecognisable factors is arguably futile. The global economic landscape that prevails today cannot be found in any textbook or indeed in the historical experience of even the most seasoned investor. It is most definitely unfamiliar. From an economic perspective events of the past few years make no sense! Governments across the globe have expanded sovereign balance sheets beyond breaking point through irresponsible excessive money creation to achieve virtually nothing. Growth in the developed world constantly disappoints, debt levels have expanded significantly and living standards, at best, have stagnated. Sadly none of this should come as a surprise. Failure to grasp the nettle of chronic debt dependency and unsustainable consumption expectations remain the Developed world's Achilles heel. Politically unpalatable and economically unviable, realistic redress is constantly shunned by policymakers persistently procrastinating with less painful options. Artificially depressing bond yields may have bailed out the banks, but responsible savers still foot the bill. Yet still the unorthodox monetary intervention continues. It is common knowledge that repeatedly pursuing the same actions expecting a different outcome is the definition of madness. Unfortunately the stated aims and actions of numerous Central Banks today are symptomatic of exactly that.

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Tom Walker, manager, Martin Currie Portfolio: A year ago, on balance, investors were most worried about the extended valuation of equities. Today, their greatest concern is probably the lack of global economic growth. Despite the efforts of so many central banks to stimulate it, the weak oil price and collapsing sovereign bond yields confirm what we read in the news everyday - growth in the underlying economies is lacking. Easy money has boosted asset prices, but done nothing to lift businesses' confidence to make long-term investments to expand their operations.

For many companies, cash flow has been strong, but this has been utilised more in share buy backs, dividends and merger and acquisitions than in growth initiatives.

This process could continue, allowing stock markets to make modest progress. However, interest rates are already very low and in many countries negative. The scope, therefore, for shocking the economy into growth with lower rates is nearly exhausted. New ideas are required and the risk is that the credibility of central banks is now severely damaged, and investors will ignore the policy statements until the hard evidence of improved growth is apparent. In recent years, the mere announcement of a round of quantitative easing was enough to push markets higher. This may no longer be the case.

While growth looks really challenged when dealing in the generalities of stock market averages or GDP, there are clearly individual companies and specific niches within economies that are still growing well. There are also companies enjoying modest growth at valuations that remain attractive. We expect the year ahead to be one of low growth, low inflation and low interest rates. It will be a year that challenges advances in global equity markets. However, we believe this is also an environment that will throw up opportunities and where, by choosing companies wisely, reasonable returns can be achieved.

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UK

(compare UK funds **here**)

Andrew Sutch, chairman, JPMorgan Claverhouse: Since the year end there has been marked volatility in stock markets worldwide, including the UK. The concerns and challenges are well-known: slowing economies in China and some other Asian countries; low growth in many countries, low inflation and low interest rates; and geo-political uncertainties, particularly in Europe and the Middle East.

Notwithstanding these concerns, the UK economy continues to grow faster than most economies in the developed world and UK corporate balance sheets remain generally strong.

The Investment Managers consider [*London listed equities*] to be reasonably valued, well-managed and well-financed. Although the current economic uncertainties are likely to produce considerable volatility in share prices over the coming months, most investors in equities take a medium to long-term investment view. History shows the importance for long-term shareholders of remaining invested through volatile markets.

The economic uncertainties over the coming months are likely in the UK to be exacerbated by the political uncertainties surrounding the referendum on continued EU membership, which has now been set for 23rd June 2016. It is by no means clear at the time of writing what the outcome of the referendum will be. The impact of an 'Out' vote on the Company, a sterling-denominated fund investing in London-listed companies, albeit many with international businesses, could be significant but the Company is in no different position from other similar investors.

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William Meadon and Sarah Emly, investment managers of JPMorgan Claverhouse: We continue to live in a world of low numbers: growth, inflation and consequently interest rates are all likely to remain at historically low levels for the foreseeable future. Too many economies are reliant on debt, quantitative easing and low interest rates to be regarded as healthy. Whilst the UK economy continues to be one of the fastest growing in the developed world, it still depends too much on domestic consumption, rather than manufacturing and exports, for its growth. With China and other Far East economies slowing, the recent rise in US interest rates is likely to be the global exception.

Geo-politically, the refugee crisis in Europe remains a very significant challenge and may well test the political unity of Europe to its limit. The emotion generated by it may well be key in determining the outcome of the looming 'Brexit' vote. An 'out' vote will be a real game changer, for which there is no real precedent. Until the outcome is known, sterling is likely to be weak.

Whilst we take comfort from the strong balance sheets of most UK companies, we expect the increasing political, geo-political and global economic uncertainties to make markets more turbulent in the year ahead. Equities have certainly been volatile so far in 2016, driven as much by sentiment as any deterioration in underlying fundamentals.

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Henderson High Income: Fears over the impact on global economic growth from slowing Chinese and emerging market economies are causing equity market weakness. However, in developed markets, economies continue to recover; unemployment is falling and the outlook for the consumer is robust with low interest rates and inflation. We continue to believe that a low to modest economic growth environment will persist. In the UK, with the EU referendum scheduled for June this year, 'Brexit' fears will add further volatility to equity markets as it approaches.

Aggregate market earnings growth has disappointed every year since the global financial crisis but despite this equity markets have been strong, buoyed by low interest rates and Quantitative Easing. This has led to a re-rating of UK equities to a valuation broadly in line with the long-term average. With modest economic growth and low inflation, strong earnings growth in 2016 (the likely driver of equity returns) seems doubtful.

In this environment, it is important to select those companies that have the ability to grow earnings and dividends, as these should outperform.

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UK smaller companies

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

Georgina Brittain and Katen Patel, managers of JPMorgan Smaller Companies: The stock market declines seen in January continued into February, leading to a torrid start to 2016 for stock markets around the world. However, it is our belief that these recent fears, and the subsequent share price falls, have been overdone. While the IMF has recently reduced its forecasts for global growth, it is still predicting 3.4% for 2016, a rise from the 3.1% growth seen in 2015. Likewise, at some point investors will remember that low oil prices are good for oil-importing countries such as the UK and in particular for the consumer, and will realise that the recent further collapse in the oil price in the last few months does not presage a collapse in global demand but rather continues to reflect excess supply.

Turning to the UK, forecasts for GDP growth in 2016 are in the range of 2.0 - 2.2%. The country is still enjoying extremely low inflation, increasing capital investment and declining unemployment. While the rate of wage growth may have slowed recently, household disposable income is still rising and was up over 7% in December 2015 versus the prior year. Also of note is the fact that the first interest rate rise since 2008 looks to have been deferred by the Bank of England once again. Market projections are now for no interest rate rises for at least the next two years.

All of these data points indicate a benign economic backdrop both for companies and for households, and January's consumer confidence figures bore this out. However, since then, the Government has set the date for the EU Referendum. This looming deadline has already had an impact on sterling (which is now close to a thirty year low versus the US dollar) and on consumer confidence. From now until 23rd June, the date set for the Referendum, we foresee the likelihood of considerable market volatility due to the uncertainty of both the outcome and the potential implications if the UK population did vote to leave. Despite their cheap valuations compared to the broader market, smaller companies will not be immune from this volatility. We will be monitoring this situation extremely closely.

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Europe

(compare European funds **here**)

Humphrey van der Klugt, chairman, Fidelity European Values: Looking ahead, the recovery in the Eurozone remains intact and is being increasingly supported by improving domestic demand and an uptick in consumer confidence and spending driven by stronger employment trends, rising wages and lower energy prices. The weaker euro is also good for European companies' competitiveness, as is the falling cost of debt and rising availability of finance and liquidity. Having said that, there are also potential risks on the horizon. Markets are becoming increasingly concerned about a global economic slowdown and deflation. In particular, growth in the Eurozone is expected to continue to be hindered by the slowdown in emerging markets and the necessary balance sheet adjustments in a number of sectors. Geopolitical risks also have the potential to weigh on global growth in 2016 and to impact negatively on demand for Eurozone exports.

One other uncertainty we need to factor into the whole equation is of course "Brexit". Exit from the European Union would have wide consequences for the UK and, less commonly discussed, also for continental European countries. The UK is the second largest European economy and the links are substantial, both trading and otherwise.

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Sam Morse, portfolio manager, Fidelity European Values: Although direct exposure to the UK economy is relatively small for continental European companies in aggregate, the indirect consequences of "Brexit", if it happens, are likely to be more significant. If the UK electorate votes to leave the European Union in the referendum to be held on 23 June 2016, uncertainty will rise and investors may question, again, the sustainability of the European Union. Markets do not like uncertainty so share prices may fall, in the event of a 'leave' vote. Having said that, if the UK were to leave the European Union, it is also likely that UK sterling would depreciate further which would, of course, make overseas earnings and dividends more valuable to UK based investors. The likely outcome of the vote is, at this stage, unclear so it is hard to say to what extent "Brexit" is already discounted in currencies and share prices.

The market has been volatile to date in 2016 with the main trends, established in 2015, of weaker emerging markets and weaker commodities leading to concern about the outlook for the earnings of many European companies. Initially, the weakness in commodity prices was considered, on balance, to be positive for the European economy and European companies' earnings. The logic was that although companies directly exposed to commodity prices, such as the energy sector, would suffer in the short term, the majority of other companies would benefit from stronger consumer spending and cheaper input prices. It seems, however, that the weakness in commodities is now permeating a number of areas leading to lower earnings expectations overall. Related areas that have been affected include financials, especially banks pressured by continuing low interest rate levels, and industrials, especially those that supply process industry customers and emerging market customers.

Sentiment - with talk of deflationary pressures and global recession - has become quite cautious which is sometimes good news for investors prepared to take a contrarian bias knowing that uncertainty about risks can often create opportunities for reward. Valuation levels, however, still remain elevated. The median twelve month forward price to earnings ratio for Europe ex-UK is still above long term averages, partly because smaller and medium sized companies are, often, highly priced. Although shares, overall, look pricey, some companies and sectors appear to be attractively valued compared to longer term averages. Energy, some industrials, and parts of the financial sector all appear to be attractively valued unless one believes we are heading for a Japan-style deflationary era with sustainably low commodity prices. European consumers seem to be in better health, for the time being, thanks to low interest rates and low oil prices but the concern is that their confidence will be eroded if companies start to cut jobs to maintain earnings and if political uncertainty rises, as seen in Spain following their recent elections.

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Jack Perry CBE, chairman, European Assets: Equity indices around the world have declined since the start of the year as concerns build over weakening global growth. While European leading indicators are still pointing in the right direction, we must not be complacent about this as economic activity is notoriously difficult to predict. The European equity markets do not look either obviously expensive or obviously cheap and we would expect development of corporate profits to be the most important indicator of stock performance from here.

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Sam Cosh, lead investment manager, European Assets: It has clearly been a difficult start to 2016 with a dramatic fall in the oil and commodity prices representative of a decline in global trade that is symptomatic of emerging market economic deterioration and a significant fall in the valuation of financial sector stocks. This has put pressure on global economic growth, which in turn has put stress on equities across the globe. Europe has not been immune from this, with investors questioning whether the European economy can continue its slow recovery in the face of this. The currency has however fared well relatively and the strength of the Euro against Sterling so far this year has helped soften some of the weakness.

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Emerging Europe

(compare Emerging European funds **here**)

Sam Vecht and David Reid, managers of BlackRock Emerging Europe: The broad Global Emerging Markets currency sell-off, spurred by a combination of weakened Chinese demand and the impact of the US Federal Reserve's decision to raise interest rates, has continued to redirect capital away from Emerging Markets.

This has resulted in many Emerging Market currencies trading at or around a 13 year low point. We believe this trend is not sustainable given improving competitiveness and current account balances across many Emerging Markets. As noted above, the correct time to buy Emerging Markets is often when currencies are weak, markets are cheap and GDP growth is depressed. All three are true of the Emerging Europe region today.

Importantly, many of the difficulties specific to the Emerging European region appear to have stabilised and have been priced into markets, as evidenced by their relative outperformance of global Emerging Markets over the past 12 months.

In Russia, the conflict in the east of Ukraine remains tense but there has been some improvement in terms of the development of diplomatic channels. While oil prices remain below the levels of 12 months ago, the flexibility of the floating ruble has cushioned the state budget and company profitability. Valuations are very low, dividend yields are high and a re-rating is possible if the politics remains supportive and oil stages a modest recovery.

The turbulence in Greece intensified around the bailout negotiations in 2015, but it appears that the negotiations surrounding the first review of the programme are currently being handled in a more constructive manner. We believe that, although the reforms under discussion are not trivial, all parties would like to avoid a repeat of the 2015 turmoil. Progress would open up discussion of potential debt relief and set Greece on a more positive and sustainable economic trajectory, with positive impact on the market.

The political instability that characterised Turkey for much of 2015 has moderated with the decisive victory of the AK Party in the second election. In addition, the Turkish economy benefits from the lower oil price which is reflected by a lower current account deficit. Our optimism is moderated by concerns about the stock of external liabilities accumulated by the country.

In Poland, the strength of the export sector that has driven growth in recent quarters is now broadening into consumer strength as employment and wages remain strong whilst inflation is subdued. We have started to see significant value emerging in the market for the first time in a while, but we believe it will take some more time for the policy environment to settle, particularly around state-owned companies. As an alternative we continue to see select opportunities in countries experiencing similar economic trends such as Romania, where valuations can be cheaper and the long term potential for growth higher.

Emerging Europe has endured some surprisingly difficult external economic shocks over the past year, but has proved more resilient than many other Emerging Markets. The region ends the year with weaker currencies but improved competitiveness, which has the potential to drive a cyclical recovery in growth over the longer term. Financial markets typically move in advance of economic improvements, and so the potential is there for better returns going forward.

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Asia ex Japan

(compare Asia ex Japan funds **here**)

Baillie Gifford & Co, managers of Pacific Horizon: The world appears to be increasingly affected by disinflationary change. There are three parts to this: the continued struggle of Western economies, especially Europe, to recover from their pre 2008 debt binge; accelerating technological change; and the slowdown of China as the world's engine of investment and commodity led demand growth.

The global investment climate has changed over the last six months. Economic activity has been slowing significantly in many of the countries in which we invest and, more recently, markets have begun to question the US's ability to sustain economic momentum. The fear of deflation has re-emerged as a result of falling commodity prices and lower growth, and market participants are increasingly questioning the efficacy of central bank monetary policy.

The Chinese economy continues to slow, heavily influenced by a decrease in fixed asset investment, which has created downward pressure on commodity and oil prices. The People's Bank of China shocked the market by devaluing the currency in August by 3%. The consequent deflationary impact and the ongoing reduction in Chinese corporate profitability was noticeable in the producer price index, which has been negative since mid-2012. China continues to export deflation to the world at an accelerating pace.

There was enhanced currency volatility during the period with the majority of currencies falling significantly against the US dollar, led by the emerging market currencies and sterling. This trend is expected to continue as GDP growth remains stronger in the US than in the rest of the world and the US government bond market remains a safe haven.

Globally we are entering a period where growth appears to be increasingly muted due to demographics, excess debt and, central bank and government policies. Getting positive real returns will be difficult. The outlook for GDP growth in the US is probably closer to 2.0% than the historic longer term 3.0%-3.5% and Europe is likely to remain weak.

Asia ex Japan stands out as a region with high positive real growth in an otherwise slow growth world. Despite the economic slowdown in China, its real growth will probably still be in the 3.0%-5.0% range over the next few years. India is likely to grow more rapidly, at an annual rate in the region of 6.0%-9.0%, due to better demographics, a rising middle class and the absence of an overhanging debt burden.

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Fidelity Asian Values: Ongoing accommodative monetary policies, weak commodity prices and reforms in key Asian economies should continue to underpin a positive outlook for the region. Although economic growth in the region is likely to moderate in line with slowing growth in China, it will still be very attractive compared to the rest of the world. Most investors see the slowdown in the Chinese economy as a negative development, despite the focus on the quality of growth rather than the quantity, and this is expected to keep markets volatile in the near term.

In the current market correction, stocks are being sold off indiscriminately, with many high quality stocks with strong long-term outlooks being sold down along with the low quality ones. As a result, Asian valuations are near, or in some cases, below the 2007 global financial crisis levels. This is a promising backdrop for bottom-up stock pickers and there are diverse investment opportunities across a wide range of markets in Asia that offer exceptional growth potential at attractive valuations.

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Robin Parbrook and King Fuei Lee, investment managers of Asian Total Return: We continue to be relatively cautious on the outlook for Asian equities as we head into 2016. Whilst we do not see a full blown financial crisis in Asia, we do expect the year to be difficult given rising risks in China of a more material slowdown and worsening financial problems.

Our caution stems from our view that deflationary forces and the sluggish global economy are headwinds for Asian stock markets. With export numbers deteriorating and domestic consumption trends showing no signs of turnaround, we expect more earnings downgrades, bankruptcies and ultimately the potential start of a bad debt cycle in Asia.

China we think is the biggest risk as policy mistakes and major policy contradictions of the last few years are coming to a head. With capital outflows accelerating and the Renminbi still falling despite significant intervention, the tightening of liquidity is raising worries about the fragile financial system and causing a sell-off in risk assets. The end game looks increasingly clear - we think further falls in the China A-share market and a weaker currency are highly likely, and we can in due course expect turmoil in the Chinese bond markets both on and offshore.

However we think a full blown crisis can be avoided given that China still controls the banks and runs a large current account surplus. The rest of Asian corporate and government balance sheets are also generally in decent shape and lower commodity prices should eventually help Asian economies. In summary we increasingly believe a pessimistic outlook is discounted in the region and we are finally nearing genuinely interesting levels for Asian markets. The caveat is we see little value in ASEAN where valuations in the main look high and earnings expectations still unrealistic. For China, we will remain on the sidelines, and are happy to wait and see if 'good' China (private sector technology, internet, service and consumer related names) comes our way as the panic spreads.

Rising bad debts, collapsing markets and turmoil in China are we believe a buying opportunity as the long awaited economic cycle and creative destruction kicks in.

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Japan

M Neil Donaldson, chairman, Baillie Gifford Shin Nippon: Although the pace of economic change is modest there are encouraging signs that company boards are continuing to embrace improved corporate governance and that external non-executive input has now been recognised as a benefit to these businesses.

Inbound tourism has risen rapidly over the last few years most notably by visitors from China. Chinese tourists spend most of their money on shopping including rice cookers, personal care and luxury brand items.

In addition, Japan's ageing population and labour shortage are creating new opportunities for Japanese entrepreneurs to create new solutions which in time could benefit the patient investor.

Baillie Gifford Japan: The Japanese stock market has been following global markets in falling as the outlook for growth has weakened. As a result of these concerns and the continuing efforts of the government to try and exit deflation, the Bank of Japan cut interest rates on excess reserves to -10bps, the first time that Japan has had negative nominal interest rates. The ramifications of this policy change are still being felt, but it is hoped that it will stimulate faster cash deployment. There are some tentative signs that share buy backs by companies are accelerating and the drive to improve corporate governance in Japan continues, with some successes.

Otherwise trends in the domestic economy continue as before with a tight labour market, growing inbound tourism and rising prices. Exports have been weak, owing to global trends, but the import bill has fallen sharply as lower oil prices feed through to energy costs and Japan has been running a trade surplus in the last few months for the first time since the devastating effects of the 2011 tsunami. Although estimates for corporate earnings have been lowered slightly, overall profits in Japan are expected to be quite resilient with most of the expected weakness coming from a higher yen. We continue to believe that corporate Japan remains in reasonable shape and that there continues to be significant scope to increase dividends and use cash balances more effectively over the next few years. The increase in the proportion of earnings coming from overseas, whether yen sensitive or not, does however mean that earnings for the market are more closely correlated with global trends than they used to be.

Overall global uncertainties will continue to affect sentiment in Japan but the unprecedented action of the Bank of Japan reflects the government's determination to boost growth. The next big policy decision will be on the implementation of the next consumption tax rise which is scheduled for April 2017. The last increase had a larger negative impact than was expected on consumption and the next rise is increasingly controversial. However despite this uncertainty we think that the positive changes in corporate governance and large potential for improvements in balance sheet management and dividend payments continue to provide attractive stock picking opportunities for long term investment.

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North America

(compare North American funds **here**)

Don San Jose and Dan Percella, investment managers of JPMorgan US smaller Companies: So where do we go from here? We have always been somewhat reluctant to make specific predictions about the market, as we think our talents lie in analysing and selecting specific stocks and building a portfolio from the bottom up, rather than making macroeconomic forecasts. However, we believe US equities can deliver reasonably good returns, although probably accompanied by rising volatility, and the transition to more normal interest rates that lies ahead may result in periodic turbulence for equity investors as has been the case in recent months.

The key reasons for our positive view on equities are that profits remain healthy and could possibly improve as headwinds from the strong US dollar and low energy prices moderate, the US consumer is in decent shape, and from a valuation perspective, comparative values between equities and bonds remain favourable for equities as an asset class.

Nevertheless, the year has certainly started on a sour note, with stocks down in January. The market seems concerned that slower growth in China and emerging markets may spread to the Eurozone and eventually to the US. Yet, we continue to expect the US to avoid a recession, although we are investing with a mindset of protecting our downside by requiring a margin of safety (as we always do). While 4th quarter US GDP grew at a disappointing 0.7% annual rate, non-manufacturing and energy related sectors appear to be in decent shape, and it is difficult to believe that the US could enter a recession with the housing market, banking sector, and employment situation on solid footing.

Despite recent market challenges, our fundamental outlook has not changed and we remain somewhat constructive on US equities, especially in light of improved valuations and reduced investor complacency. Given the recent sell-off, valuations are much more attractive in the small cap space today with the Russell 2000 Index trading at around 10.5x EV/EBITDA versus 13x at the market highs last summer.

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Sarah Bates, chairman, JPMorgan American: Obviously there is much comment about the forthcoming US elections this year. There is also concern about rates of growth outside the US (particularly in China) as well as worries about geopolitical tensions. Interest rates have finally begun to rise, although how far and how fast is very unclear. Valuations are not cheap. At the same time, the US corporate sector, relative to many other places to invest, looks relatively attractive. Although there are problems in the energy and resource sectors, elsewhere profits kept growing in 2015. Profit expectations for 2016 are currently modest but corporate dividend growth is expected to continue. We expect the US equity market to continue to be a reasonable place to invest given the extraordinary breadth of opportunity it provides.

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Garrett Fish, manager, JPMorgan American: We continue to believe that the global economic deceleration remains the biggest risk to the US equity markets. With the lowered economic growth it is more difficult for companies to increase their revenues and also their profits. US companies have done an admirable job of keeping their cost structures competitive with their global peers.

A lower dollar in 2016 would be a significant tailwind for the investment environment and particularly US equities, as it would provide a boost to global commodity prices and increase the dollar value of international corporate earnings.

Central bank interventions in the global financial markets through quantitative easing and low interest rates have recently benefitted equity markets. The situation is more complex at the moment with the introduction of negative interest rates. In this increasingly volatile environment, we believe that the strongest, best positioned companies will be best able to weather the turbulence.

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James Ferguson, chairman, North American Income Trust: Recent performance of the market since the year end suggests that our Manager's value style is returning to favour. Many of the excessively high premium growth stocks, which pay little or no dividend, are now coming under price pressure. Stable-to-rising commodity prices including oil, monetary stimulus and an increase in inflation should be helpful for value oriented companies.

We expect that the many contributing factors to the higher market volatility seen over the past six months will continue. Dividend growth has been rapid and we expect that in the future it will moderate to reflect growth in earnings.

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Aberdeen Asset Managers Inc., managers of North American Income Trust: At present, it is apparent that global markets and investors have become discouraged. The Band-Aid came off around the turn of the year and the haemorrhaging began. The lowest point was seen in mid-February, when the Russell 1000 Value and S&P 500 indices saw falls of 16.1% and 12.7% respectively from their summer highs. Markets subsequently made some recovery from these lows and current returns from the Russell 1000 Value and S&P 500 indices from the end of June are -3.6% and -0.6% respectively.

Such correction is typically witnessed in a recessionary environment, not when monetary policy is on a tightening course as a reaction to economic strength. But this is not a typical business cycle. Central banks are not aligned on monetary policy, creating issues for exporters and foreign economies alike from the strengthened U.S. dollar. At the same time, sustained low energy and commodities prices are suggesting continued pressure for many companies, particularly those that carried leverage. These are not new issues, but time is testing patience.

The question now is whether markets are oversold or if there are indeed more potholes ahead. Many investors focus on valuation as a reason to become more constructive. On this measure alone, stocks now trade largely at parity with their historic forward price/earnings multiples. But we look at the world from the opposite perspective and would suggest that, in order to have confidence in valuations, we must first have conviction in forward profits and cash-generation of our companies. In other words, company fundamentals.

Over the past several quarters, we have seen some businesses deliver unexceptional results, but they are far from disastrous. Currency swings tended to be the main culprit, and of course those relegated to the commodity sectors. The focus of investors has hinged on the outlooks of management teams, which now have increasingly incorporated a dose of conservatism.

The biggest risk to companies we see ahead is Fed policy. This includes, first, whether future policy will account for the peripheral risks of a stronger U.S. dollar on trade and international economies; and secondly, whether the current macro contagion causes domestic businesses and the consumer to pause. Absent this, we maintain our high conviction that the domestic economy is reasonably healthy with near-full employment and low inflation.

What does this all mean for stocks? While we are prepared for volatility ahead, we remember that times which test our patience can provide opportunities for us as investors. In fact, we see more opportunity now than we have in a long time. Some businesses that we know well are trading at discounts to their intrinsic values under less fear-driven market environments.

Given recent volatility and the shunning of risk, we feel that some sectors have performed extremely well and, as a result, have become more fully valued, while those areas where share prices have fallen more sharply have become the fishing grounds for 'value.' That said, we are keenly aware that realising this value will remain contingent on factors that may not transpire in a straightforward manner. This includes reflation of oil and commodity prices that dictate the worth of energy and related companies, and similarly, that path of interest rates for most financial companies.

Global Emerging Markets

Omar Negyal, Richard Titherington and Amit Mehta, investment managers of JPMorgan Global Emerging Markets Income: China worries look set to remain a key theme in 2016. China's slowing growth has certainly been an issue for equity investors in emerging markets, and it poses risks not present in prior cycles, considering the accumulation of debt in the municipal and corporate sectors. However, it is important to recall that the structure of the Chinese economy and the closed capital account give China a degree of influence over its fate not enjoyed by other countries. There is still room for monetary easing (through cuts in reserve requirements), and the country's USD 3 trillion-plus reserve pile, while smaller than it was a year ago, remains an important backstop against a more significant slowdown or liquidity event.

The pressure on emerging market dividends overall continues to be evident. Latest numbers show 2015 dividends falling by 12% in US dollar terms, broadly in line with earnings. The biggest driver of this decline is clear: Brazil, where dividends fell an astounding 44% as a result of the dividend cancellation from Petrobras (not owned by the Company) and the sharp decline in the real. In contrast, Taiwan, Mexico and Turkey have been areas of relative strength in dividend growth.

Within this difficult period for emerging markets, one thing to remind ourselves is that valuations do look relatively low compared to historical valuations. For example, the price-to-book ratio for emerging markets is at 1.3x. This is certainly towards the lower end of the historical range we have seen (which has varied between crisis-type valuations of 1x and optimistic points of 3x). We need to see fundamentals improve across the asset class for a serious rerating to occur but it does appear that a pessimistic view is being reflected in valuation levels.

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India

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

Fred Carr, chairman, India Capital Growth: In the final two Parliamentary sessions of the year, the BJP struggled to push legislation in the Rajya Sabha (Upper House) where it still sits in minority. Although the party is still in the process of learning how to grapple with the challenges that result from operating in a robust democracy, it has made, and continues to make, significant progress in reforming the Indian economy. In the last financial year, the central Government's subsidy bill constituted just over 50% of its fiscal deficit. The existing subsidy system is now being phased out with the introduction of the Direct Benefit Transfer Scheme. Since the launch of the Government's financial inclusion initiative in September 2014, every Indian household now has access to banking services, resulting in the opening of over 200 million accounts. Whilst being an impressive achievement in itself, which will facilitate the intermediation of financial services in the economy, it will also allow subsidies to be streamlined through a cash transfer from the Government into household bank accounts, thereby eliminating the middlemen through which excessive waste, pilfering and corruption occurs. 151 million Indians now receive their LPG subsidies through the scheme and it is now being piloted for the delivery of a Kerosene based cooking fuel that is predominantly used in poorer rural communities.

The drive towards fostering intra-State competition has now been formalised. The Government has invited the World Bank and KPMG to review each State in terms of "ease of doing business" along the same parameters used for their international survey. This has had the desired effect, with each State now using the report to market their areas of strength and improve their areas of weakness in order to boost their rankings and encourage inward investment both from domestic companies and Multi National Corporations. The consequence of this is that India's overall ranking should improve and head towards Narendra Modi's stated target of reaching the top 50 within three years. The full effect of the reforms taking place will take time to be felt due to India's scale and complexity, but the direction and speed of travel is what is key. Moreover, the stable macroeconomic backdrop has created a platform for a revival in business activity and growth. India was the largest recipient of Foreign Direct Investment commitments in the first half of the year, overtaking China. Having now also replaced China as the world's fastest growing country, it is well poised to take its economic output to a level closer to its true potential.

The reforms being implemented from the top down, alongside a rigorous marketing campaign from the Prime Minister to highlight these changes, have put India at the forefront of investment decisions from overseas companies. As the country sits on the cusp of its next phase of economic growth, its stock market - with approximately 6,000 listed companies - offers abundant opportunities to capture it.

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Ocean Dial Asset Management, managers of India Capital Growth: Looking forward to 2016, as India's growth and earnings dynamics continue to look more stable and attractive than much of the Emerging Market peer group we expect a solid if not spectacular year ahead, much along the lines of 2015, assuming volatility in global equities subsides after a tough start. 'Tough' is perhaps an understatement as India has not escaped the extreme volatility that engulfed global markets post the financial year end. As is often the case in periods of intense 'risk off' trading activity, selling is indiscriminate with good and bad alike being equally punished. This has been somewhat offset by the strong performance of the Indian Rupee against the value of Sterling, which rose 3.2% to the end February.

As India continues to stand out from the Emerging Market pack as a growth opportunity, with a stable political and macro framework and a reformist agenda, we expect both Foreign and Domestic investors to continue to support the market. On the issue of reform, we anticipate ongoing progress via the Executive as was the case in 2015 whilst remaining cautiously optimistic of a more constructive legislature. In addition the Reserve Bank will continue to pursue growth orientated monetary policy with further cuts to nominal interest rates as inflation is expected to remain within the stated target and providing the Government continues to pursue fiscal probity. This will enable corporates to continue the deleveraging process and assist banks to clean up their balance sheets. In due course this will catalyse a private sector investment cycle addressing much needed infrastructure development. There is much to look forward to still.

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Latin America

(compare Latin American funds **here)**

Peter Burnell, chairman, BlackRock Latin American: The macroeconomic background for the Latin American region has become even less clear over the past few months. Brazil's continued political problems, weakening economy, high unemployment, higher inflation and the continuing investigation into alleged corruption at Petrobrás have weighed heavily on the region. Slowing growth in China has clearly had implications for Latin American markets, not least on resources producers in the region. In addition, the slump in oil prices has impacted growth potential in Mexico, particularly in the energy sector, although prudent fiscal measures have helped to keep a lid on rising inflation and debt.

We are optimistic that currency moves will begin to work in our favour in the coming year. Whilst the backdrop for the region's largest economy - Brazil - remains challenging, political change in Argentina and potentially in Peru could provide scope for rewarding investment opportunities in the coming year.

We do not invest in what are generally regarded as the "problematic" Latin countries with extreme populist policies. Those on which we do focus have not always been well served by their political leadership and the recent corruption scandals in Petrobrás have doubtless created a very bad impression for potential inward investors. However the well diversified corporate base comprises many well run quoted private sector companies which have repeatedly shown their resilience and ability to prosper even in the face of economic and political headwinds; we have every confidence that this will continue to be the case in the future.

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William Landers, BlackRock Investment Management (UK) Limited, manager of BlackRock Latin American: Brazil's economy continues to offer more questions than answers regarding the timing for an eventual recovery, which would include improvement in fiscal accounts, inflation returning to target, and interest rates eventually falling. In addition, the political landscape in Brazil continues to generate uncertainties. Overall, activity and confidence levels are weak in the consumer, investment (public and private) and manufacturing sectors.

Conversely, Mexico continues to show signs of a gradual economic improvement, benefiting from increased competitiveness given the fall in energy prices, the devaluation of the Mexican Peso, and low inflation. Areas of concern for 2016, include falling oil prices and the impact on the Mexican government budget and a slowing US manufacturing sector.

The Andean region is also adjusting to falling commodity prices. Both Chile and Peru have significant exposure to the copper sector, while Colombia's budget, similarly to Mexico's, is linked to oil revenues. The election of a market friendly candidate in the Peruvian presidential elections in April 2016 could be a potential positive catalyst for the country's equity market. We remain cautious with Chile and Colombia.

Lastly, Argentina saw a positive beginning of the Mauricio Macri presidency in December. Significant reforms [*are*] still needed across several areas of the economy and [*there is a*] need to reach a final agreement with foreign creditors.

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Qatar

(compare other country specialist investment funds **here**)

Nicholas Wilson, Chairman, Qatar Investment Fund. The sharp fall in oil and gas prices will continue to impact the Qatari economy as certain lower priority projects may be deferred. However, Qatar is the world's largest exporter of LNG and although lower prices have been negotiated, Qatar is defending its market share. In addition, the diversification policies of government over recent years has placed Qatar in a strong position relative to other Gulf countries with arguably over 60% of GDP currently derived from the non-hydrocarbon sector. This, combined with continuing population growth, improving demographics and an extensive infrastructure pipeline, should see continued GDP growth.

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Epicure Managers Qatar Limited, managers of Qatar Investment Fund. Increased worries about the regional as well as global economy, together with falling oil prices continue to weigh on stock markets across the GCC. Oil prices have also hit state finances across the GCC, including Qatar. Qatari companies have started taking cost cutting measures.

The impact on Qatar's state revenues has raised concerns about liquidity. Public sector deposits started to decline, especially through the second half of the year. Loan growth has been significant at 15.2% in 2015, while total deposits have risen by just 8.2%, resulting in liquidity pressures in the banking system. Consequently, loans to deposit ratio stood at 116%, compared to 109% at the end of December 2014. Further, cost of funding is likely to increase due to liquidity concerns, leading to compression in net interest margins (NIMs). Asset prices in Qatar are already at high levels and liquidity tightening might result in increased payment cycles for the contractors segment.

In November 2015, the government of Qatar initiated talks with banks for syndicated loans of US$10 billion to bolster state finances depleted by low oil prices. Recently, the government announced a loan of US$5.5 billion from a consortium of banks, which is expected to ease illiquidity issues to some extent. Moreover, the Investment Adviser expects Qatar may tap international markets for additional sources of funds and issue international bonds.

The Investment Adviser believes that the liquidity concerns in the Qatari banking system are likely to continue in the near term. However, Qatari banks are expected to slowly overcome these by issuing bonds and as public sector deposits coming back to Qatari banks. The Investment Adviser reassessed valuations in the banking sector and performed its own stress testing on banking models and found that despite liquidity concerns, banking sector valuations appear attractive.

As a consequence of oil price falls, GCC countries are opting for reforms such as lowering subsidies and increasing fuel prices. According to reports, energy subsidies account for 3.4% of GDP for GCC countries.

In July last year, the UAE government deregulated fuel prices and introduced a new pricing policy linked to global prices. Recently, Saudi Arabia increased fuel prices by 50%, as the country posted a US$98 billion budget deficit in 2015. Oman is likely to follow suit with the cabinet recently approving, in principle, spending cuts, tax rises and fuel subsidy reforms to cope with the compression of state finances as a result of low oil prices.

Over the past 12 months, LNG spot prices in Asia have declined from around US$10 per million British thermal units (mmbtu) to around US$6.5 per mmbtu, tracking the fall in oil prices together with lower demand from Asia and Europe. This drop in spot market prices for LNG is likely to put additional pressure on long-term LNG contract prices for Qatar. Although the majority of the Qatari LNG production is still bound by secure long-term supply contracts, the recent decline in spot market LNG prices has increased the proportion of short-term supply agreements. Moreover, the recent fall in oil and gas prices has put some pressure on Qatari hydrocarbon revenues. However, Qatar is well positioned to weather the current low oil price environment due to its comparative advantages such as low production cost, long term nature of contracts, excellent geographic location which results in lower transportation costs and easy access to Asian and European markets.

The Investment Adviser believes Qatar is better positioned compared to other GCC nations, on account of its better fiscal position. Despite low energy prices, Qatar has maintained its investment spending in the 2016 budget and has not opted for any major subsidy cuts. Qatar has over QAR261 billion of government projects (excluding private sector and energy sector projects) underway, of which over 50% of projects are in the transportation and infrastructure sectors. Furthermore, the deficit remains lower compared to other GCC states.

The Investment Adviser believes that Qatar is well positioned to weather the depressed oil price environment on the back of strong historic fiscal balances, low gearing and low breakeven oil prices. Additionally, ongoing infrastructure spending should continue to fuel the non-hydrocarbon growth and attract new expatriate workers, keeping the population rising. This in turn should maintain impetus for domestic consumption growth.

Looking ahead, the Investment Adviser believes that Qatar's real GDP will continue to grow, driven by strong growth in the non-hydrocarbon sector, as investment spending and demand for domestic goods and services remains strong. According to QNB Group, Qatar's real GDP growth is expected to be 4.7% in 2015, accelerating to 6.4% in 2016 and 2017. The non-hydrocarbon sector is estimated to grow c.10% per annum between 2015 and 2017. Hydrocarbon GDP is expected to decline by 0.5% in 2015 as oil fields continue to mature, however, it is estimated to expand 2.7% in 2016 and 2.4% in 2017, on account of increased output from the Barzan project. Qatar has presence across the LNG value chain allowing it to achieve a high level of efficiency which is difficult for other producers to match.

The Qatari population grew 8.3% in 2015. Population growth is expected to continue in the coming years, as project spending related to the FIFA World Cup continues to attract expatriate workers. Population growth should fuel consumption growth, providing an impetus to domestic consumer companies.

The Investment Adviser believes that Qatar is well positioned to continue to grow as macroeconomic fundamentals remain healthy. The 2016 budget maintains spending on major projects showing the commitment of the Qatari government to implement its sustainable development programme. A strong focus on major projects in sectors such as health, education, and infrastructure, coupled with projects related to the 2022 FIFA World Cup, underpin government's efforts to develop the non-hydrocarbon sector, especially the private sector.

Real GDP is expected to rise over 6% in 2016 and in 2017, the highest in the GCC region, driven by double digit growth in the non-hydrocarbon sector. Strong growth in this sector will help to minimise the impact of lower hydrocarbon income, supporting the expansion of financial services, transport, communications and real estate sectors. A steady rise in population, driven by an influx of expatriates, provides impetus to consumer industries. Banking sector growth is likely to be attractive on the back of higher consumer lending and project financing activities.

The Investment Adviser believes that Qatari equities have already priced in excessive pessimism and relative valuations remain attractive. In addition, the Qatari market is trading at a discount to its historical average. The QE Index is currently trading at a trailing twelve months P/E ratio of 10.79x (as at 31 December 2015) vs. its 10-year historical average of 12.63x, a discount of 14.5%, thus providing a good entry point to investors.

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Commodities and natural resources

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

Geoff Burns, Chairman, City Natural Resources: The volatility and uncertainty that have overshadowed the commodities sector for at least the last four years extended to other sectors, and global markets, at the start of 2016. This seems to point to the fear of a major liquidity turning point being in the offing, as the developed countries slowly recover, loose monetary policies are reined in gradually, and the banking sector remains cautious on credit supply. Reduced global demand, partly driven by China, along with developing country currency woes as capital flies back to the West, and oil producers belt tightening, compounds this 'dash for cash'. 2015 saw sovereign wealth funds repatriate US$ 46.5 billion from asset managers, a number which is expected to grow in 2016. Markets do not seem convinced that central banks are really in control, as the first faltering step to tightening in the US at the end of 2015 stalls in the face of global uncertainty.

As a world addicted to cheap credit suffers withdrawal symptoms, with occasional further shots to deaden the effect, the outlook for demand sensitive equities continues to be challenging. The result is an extraordinary volatility which further undermines confidence; however, there is a cleansing effect from the 'cure' that is taking place, with a re-setting of risk appreciation, and renewed perception of what constitutes value after a period of unsustainably high and optimistic pricing. The natural resources sector has already been through much of this, and while it would be a brave person who would call the bottom of the market in our sector, there is absolutely no doubt that realism has returned, with investment decisions based on cash flow and evidence, not hype and blue sky.

What is needed now is stability; in the interest and liquidity outlook; in global equity confidence; and, in the oil sector. The strange correlation between the oil price and equities (strange given the very different effects low oil prices have on different economies) will also need to break. A sustained low oil price should start to stimulate global demand, and at that point the non-oil resources sector should be released, along with other demand sensitive equities.

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Ian Francis/ Keith Watson/ Rob Crayfourd, Investment Managers of City Natural Resources: The last six months has been one of the most difficult periods on record for resources investors. Commodity price declines, such as crude oil's near 40% collapse, have been accompanied by rising stock price volatility with intra-day price moves of +/-15% not uncommon for large cap equities.

The challenging conditions over the last six months appear symptomatic of a sector in transition as it becomes clear that China is no longer growing at 7% per annum ad infinitum. They are, however, forcing significant capex reductions on resource companies as they adjust supply to this reality.

Crucially, the self-reinforcing impact of deflationary currency devaluation by commodity or export dependent economies and energy price declines, which have lowered production costs and postponed this adjustment, does at last appear to be lessening. The recent leg down in commodity prices and incremental rise in US$ denominated borrowing costs is having an increasingly obvious affect in curbing output from high cost, debt burdened miners and oil producers.

Competitive currency devaluation is now a central tool to stimulate demand, particularly among export-led economies in Asia and also Europe. Most relevant to resource markets has been the recent relaxation of China's US$ peg, as policy makers seek to encourage exports and relieve pressure from decelerating internal demand on its manufacturing industry. However, the disruptive influence of this move and ensuing downdraft on commodity prices, exacerbated by the increase in US interest rates shortly after, may prove temporary. Of particular note China's exchange rate move is also being accompanied by a more vocal open-market orientated approach which will allow a healthy correction in primary industry overcapacity as uneconomic operations close. Notably this is affecting the steel industry. While the recent sharp correction in commodity prices and rise in US$ borrowing costs are hastening supply cuts, the latter move reduces the spectre of deflationary overcapacity. Of equal importance, despite downward revisions to global GDP estimates, demand growth nevertheless remains positive.

Calling the bottom of the market is never an easy task, but we are certainly seeing deep value opportunities across the sector with price volatility potentially symptomatic of this stage of a cycle extended by loose monetary policy. It is our belief that market sentiment is too negative on the outlook for China. Of note, the successful displacement of inefficient, low grade Chinese iron ore production is transferring market dominance and pricing power back in favour of the low cost Australian and Brazilian oligopoly which have been included in recent purchases. Lower prices and higher borrowing costs, which at last appear to have eroded the resilience of many producers, are now feeding through and meaningfully reducing the supply of metals such as nickel.

The Energy sector has had a difficult six months after oil's 40% price slump, due to excessive supply as OPEC removed its production quota restriction, led by Saudi Arabia's unwillingness to absorb rising global output from Iraq, Russia and also from North America and compounded by the untimely shift in US policy allowing crude exports for the first time in 40 years. Souring Middle Eastern relationships, which have traditionally boosted oil's risk premium, have more recently been outweighed by increased regional production as warring Sunni and Shia factions pump more to further fund campaigns in Syria, Iraq and Yemen. Though the US rig count, a key indicator of E&P spend, has rolled off sharply and will lead to a decline in US production into the second half of 2016, its significance may be overstated given OPEC's dominant global position which could extend the period of low oil prices beyond 2016. While we still like the energy sectors long term fundamentals, valuations are still based on forward oil prices ahead of our expectations.

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Debt

(compare debt funds **here**)

Paul Manduca, chairman, Henderson Diversified Income. The outlook for the credit markets is uncertain and our Fund Managers are keeping the gearing on the Company at a level that will enable them to maintain the flexibility to add at higher yields should the opportunity present itself. It is worth noting that the investments in UK companies (particularly insurers and banks) face an additional level of volatility in the form of the referendum on continued membership of the European Union. In an environment of already heightened risk aversion this could result in material price movements for the bonds issued by these companies

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John Pattullo and Jenna Barnard, managers of Henderson Diversified Income. With credit markets having been in a well-entrenched bear market since June 2014, valuations are considerably cheaper than they have been for a number of years. Risks however, have also risen appreciably as the default cycle builds and as a result, we feel patience is still required. Credit markets have a tendency to overshoot fair value by a considerable margin, not least when liquidity conditions deteriorate.

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Paul Read, Paul Causer and Rhys Davies, managers of City Merchants High Yield: Despite the volatility last year, the yield on higher quality high yield bonds ended 2015 at relatively low levels, offering only limited potential for further capital appreciation in 2016. This year, we think the market could face a number of potential headwinds including higher government bond yields, rising default rates, particularly in the US, and further financial market volatility. Indeed, we have already experienced significant volatility during the first quarter.

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Environmental

John Scott, chairman, Impax Environmental Markets: Although investor sentiment in global equity markets is currently fragile, and market volatility looks set to continue, the Board perceives that investor interest in environmental markets is currently much higher than we have witnessed for several years, with a number of high profile catalysts to drive future performance. This must be driven to some extent by the widespread belief that weather patterns are becoming more extreme, that so-called '100-year events' appear to be happening on a frighteningly shorter cycle and by extensive coverage of pollution disasters such as the Delhi smog (to name but one), which prompted extreme measures of traffic control.

The announcement of the UK's EU referendum will undoubtedly cause further uncertainty and volatility in equity markets. However, we do not expect the outcome of the referendum to have a material impact on the Company's performance in the long term.

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Infrastructure

Paul Lester CBE, chairman, John Laing Infrastructure: The secondary PPP market experienced something of an adjustment in geographical focus in 2015. The UK market for secondary projects was relatively inactive compared to previous years, whilst the western and southern European markets were particularly active. Secondary market transactions in North America and the Asia-Pacific region were fewer in number, however, we continue to remain close to these markets as we believe in the medium term they still remain important sources of opportunities for growth.

We expect Continental Europe to remain active in 2016 with opportunities expected to emerge in certain northern European countries.

Australia continues to develop its infrastructure pipeline with several new primary transactions reaching financial close in 2015. However, the country is experiencing the effect of some political change which, although not affecting its long term attractiveness as a market for investment, does mean the pipeline for projects may not flow as smoothly as before whilst new political figures settle into place.

After Ontario, British Columbia remains the strongest PPP market in Canada with a consistent and strong pipeline of projects expected to come to market over the next few years, from larger transport projects to smaller social infrastructure deals. The provincial government in British Columbia is supportive of the PPP model and is only a year-and-a-half into its four-year term, which means the next two years or so will be relatively stable and should yield a secondary market pipeline in the future.

The USA continues to develop its infrastructure pipeline, but has added political complexities due to the number of States, each with their own particular laws and approaches.

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Rupert Dorey, chairman, International Public Partnerships: The Board continues to monitor a number of possible changes to the regulatory environment. Of particular note is the current OECD coordinated effort to align certain international tax rules with the aim of preventing tax 'base erosion and profit shifting' ('BEPs'). The OECD delivered its final recommendations in October 2015 in relation to a number of its areas of focus. It is now for individual countries to decide the extent to which they implement these recommendations into local legislation.

Of particular relevance to the infrastructure sector are proposals rules aimed at limiting the tax deductibility of interest charges on related and third party debt. We are encouraged by the OECD's proposals that allow room for individual country authorities to exempt third party debt in relation to public benefit entities as well as proposing the potential for grandfathering of existing transactions. However, the finer detail of how the proposals will be implemented will be decided by individual countries and whilst this is being considered the potential impact remains unknown. In the UK, Her Majesty's Treasury has invited consultation on these recommendations to which the Company and its Investment Adviser have in conjunction with industry participants and forums submitted responses. In last week's UK annual Budget, Her Majesty's Treasury announced planned implementation of these proposals consistent with the OECD guidance on interest deductibility. Further consultation is expected in May 2016 with the intention to legislate in time for 1 April 2017. We will continue to work with our professional advisers and engage with wider industry groups as well as the relevant authorities throughout the consultation and implementation stage with an aim to mitigate unintended consequences, where possible. It should be noted though that until detailed rules are finalised in each jurisdiction there will remain a degree of uncertainty over any potential future impact on the Company.

The Board also notes the 'in-out' referendum in respect of UK EU Membership on 23 June 2016. It is possible that there may be market-related volatility (including but not limited to currency, credit and stock markets) in the months preceding the referendum due to uncertainty with respect to the outcome. The full impact of UK exit is extremely difficult to forecast

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International Public Partnerships: The Company anticipates continued benefits arising from the strong outlook in the infrastructure markets in which we invest. Moreover, the governments in the jurisdictions in which our efforts are directed continue to promote new infrastructure projects and broadly favour continued reliance on the private sector as the source of finance and investment expertise in this space.

Most government in developed nations have a policy on renewing and improving infrastructure provision in their countries. In the UK and Australia this is evidenced by the National Infrastructure Plan and many other countries have similar ambitions. This trend for promotion of new infrastructure projects will, in the Company's view, persist in the medium to long term.

Competition in the secondary market for assets such as those in which the Company invests remains strong.

United Kingdom

The UK government has continued the previous coalition government's focus and interest in the UK infrastructure sector, and it views high-quality infrastructure as a means to increase productivity and competitiveness. In its Summer 2015 Budget, the UK government pledged to be 'bold in delivering infrastructure' and announced the intention to publish a productivity plan that will 'set out measures to encourage long-term investment in economic capital...including infrastructure'.

In recognition of this it has now streamlined its approach to the development of infrastructure assets in the UK, establishing the Infrastructure and Projects Authority. The Authority will provide support for the major economic projects, centralising the financing and delivery of such projects. In order to assist the planning of major infrastructure projects the government also established the National Infrastructure Commission which is charged with offering unbiased analysis of the UK's long-term infrastructure needs.

While many of the GBP411 billion projects currently identified in the National Infrastructure Plan fall outside the scope of the Company's investment parameters, there is likely to be a wide variety of projects in which the Company might invest. Although these projects may have risk/return dynamics similar to those found in the Company's existing portfolio, increasingly these assets are not likely to be structured as traditional PFI/PPP procurements.

The Company is particularly interested in the government's willingness to use the regulated asset model as a means for infrastructure procurement - where, simplistically, investors receive a permitted and pre-specified return on capital invested through agreement with the relevant regulator. This methodology was used in the recent Tideway transaction with water regulator, Oftwat's oversight and support. The expectation is that the regulated model could be used to procure other core infrastructure assets and we watch this space, as well as opportunities with existing utilities, with interest.

We have also highlighted for some time the attractive characteristics of the offshore transmission ('OFTO') sector - where investment is made into the cables and substations that link offshore wind farms to the national electricity grid. These projects continue to be amongst some of the most attractive in our sector as they provide long-term income without demand risk i.e. no exposure to volume of electricity generated by the wind farm. The regulator, Ofgem, has estimated a further GBP2 billion of investment required in OFTOs within the next two years with the prospect of significantly more in the years thereafter. The government has also been engaged in a consultation process on arrangements for the introduction of competitive tendering of onshore electricity transmission projects.

Australia

Australia has long involved private sector organisations in the provision and financing of its public sector infrastructure. It also has a well-developed market for investment, not only by local superannuation funds and similar investors but it has also developed a large pool of international investors who have invested widely there.

Both Federal and State governments have their own long-term infrastructure strategy delivery organisations and there is a unified method for the delivery of PPP projects. A National PPP Policy Framework has been developed which aims to provide a consistent approach by procuring agencies and streamlined procedures that encourage private sector investment in public infrastructure.

Currently Australia's infrastructure priorities include multi-billion Australian Dollar transport projects such as improvements, developments and modernisation of highways and rail transport together with water and communications infrastructure. There are presently six potential PPP projects identified by State governments for development in 2016/17, with a further three greenfield projects in procurement as well as one existing project subject to a major augmentation. It is also anticipated that asset sales in some states may lead to funding availability for further projects.

The Australian government's 2015 Infrastructure Audit identified a number of infrastructure challenges facing Australia, including population growth, a desire to increase productivity and connectivity and improve resilience and maintenance.

Consequently an Australia Infrastructure Plan was released in February 2016 which provides a comprehensive roadmap to address 'infrastructure gaps' and identifies a priority list of project initiatives in each state and territory. Particular focus is placed on solutions that would improve the public funding of infrastructure and enable increased private sector investment.

Europe - excluding UK

Select jurisdictions in Northern Europe, including Belgium, the Netherlands, Germany, Austria, Ireland and parts of Scandinavia, continue to offer new primary market infrastructure opportunities across a range of sectors including accommodation and transportation which are attractive to the Company. The Company expects further suitable opportunities to be offered by the European market following the publication of the Investment Plan for Europe (commonly known as the Juncker Plan) by the European Commission in November 2014.

According to European PPP Expertise Centre's '2014 Market Update: Review of the European PPP Market' in 2014, 82 PPP transactions, with a total value of EUR18.7 billion reached financial close in the European market (including the UK), representing a 15% increase in value from 2013. Whilst the UK was the largest such market in Europe by value and number of transactions in 2014, Germany was named in 2014 as the third largest PPP market.

Looking forward, there are further potential new PPP opportunities announced in jurisdictions such as the Netherlands, with twelve projects identified as being prepared to tender through PPP and/or in procurement.

The Investment Plan for Europe, launched in November 2014, was set up to enable EUR315 billion of investment in strategic projects across Europe in a three year period from January 2015; its aim is to encourage the mobilisation of private funding in Europe.

The plan laid the foundation for the creation of a EUR16 billion guarantee to be provided by the European Investment Bank ('EIB'), funded from the EU budget, known as the European Fund for Strategic Investments ('EFSI'). The EFSI guarantee offers specific cover to investments financed by the EIB, and will allow the EIB Group to provide additional financing of approximately EUR61 billion over its investment period.

The strategic investments which the EFSI will support include projects in the transport and energy infrastructure sectors. The EFSI guarantee has already been used for PPP and other infrastructure/energy projects including examples in continental Europe such as the Vienna Hospitals PPP and the EUR560m West Strasbourg Bypass concession.

In summary therefore the infrastructure markets of Europe continue to grow in ways that offer encouragement to the Company.

United States

The infrastructure market in the United States is very significant in size. In 2015 KPMG estimated the historical size of the US P3 market as being around US$8.5 billion per annum with a future forecast of US$12.5 billion per annum. As with infrastructure markets in other developed countries the projected growth is anticipated to be delivered partly as a consequence of the need for infrastructure renewal and partly because of changes in demographics and the future shape of public services. Moody's Investor Services stated in October 2014, "Given the sheer size of its infrastructure and growing urban population the US has the potential of becoming the largest market for public private partnerships in the world".

Following the launch of President Obama's 'Build America Investment Initiative' in July 2014, the US Treasury released recommendations formulated by the Interagency Infrastructure Finance Working Group in order to expand public-private collaboration in infrastructure. The recommendations included eight pathways designed to provide more favourable conditions for private investors across all infrastructure sectors. The Treasury is also working on a white paper exploring options for alternative incentive arrangements that would assist in aligning the incentives of the public and private sector.

Some 33 of the individual states have enacted legal authority to transact public private partnership (PPP/P3) projects and availability based payment schemes have seen increasing levels of attention from procurers.

Other Countries

Infrastructure opportunities are well established in Canada. However, the market is dominated by very price competitive domestic pension funds making entry into new investment opportunities more challenging. The Investment Adviser continues to believe that there will be attractive investment opportunities in the longer-term as infrastructure is upgraded. In the short term investment is more likely to be secondary market opportunities rather than primary investments.

New Zealand continues to also be of interest to the Company. The government in that market has been pursuing a privatisation process of several government controlled energy and infrastructure businesses.

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BBGI SICAV: PPP procurement and levels of competition vary from market to market. In most markets, infrastructure under-investment persists and budget constraints often necessitate the involvement of the private sector to finance and deliver much needed infrastructure projects.

UK

The UK PPP/PFI market was once considered the most vibrant and robust market in the world. Over 750 PFI projects delivering investments of over GBP60 billion have been signed since 1992. But in recent years, the pace of primary activity has slowed considerably.

In October 2015, the Conservative Party announced the first substantive plans for a UK primary infrastructure programme in recent memory and launched the National Infrastructure Commission. However, with the exception of a limited number of new PF2 projects, procurement activity is expected to remain fairly subdued. Energy-related investment has been a policy priority for the new Government, with less attention directed to date towards social and transportation infrastructure.

While the UK market continues to be the largest source of secondary market transactions globally, there has been a reduction in secondary market PPP/PFI deal flow, reflecting the slowdown in public sector procurement since the 2010 election. While supply has decreased, there has been no corresponding decrease in demand - more equity investors are chasing a similar or reduced number of transactions. This has resulted in a trend of lower discount rates for stable mature secondary projects.

Canada

Despite a recent change in government and an economic slowdown, Canada continues to deliver an impressive and transparent pipeline of greenfield opportunities within a strongly supported political environment. Canada has remained one of the most vibrant PPP markets in the world and activity levels are expected to continue into 2016.

33 deals with a total value of over C$18 billion reached financial close in 2015. 23 of those deals were greenfield PPP projects with a total value of C$14.5 billion, a record for the Canadian market narrowly beating the 2014 return of twenty one. 8 brownfield deals valued at C$3.1 billion also reached financial close.

In 2015 seven provinces and the federal government closed PPP deals, so the activity was not specific to one region.

While Canada has seen significant movements in terms of transportation infrastructure there is still a robust pipeline of small and mid-sized social infrastructure projects.

The secondary market has great potential throughout Canada, considering that over 150 deals have reached financial close since 2004. The Canadian secondary market is expected to be active in 2016 as projects developed over the last couple of years come into operation and may be offered for sale. Now with 7 projects in Canada, BBGI is a well-known market participant and has very good exposure to deal flow.

US

The US provides one of the largest infrastructure markets globally with a substantial requirement for private investment. Most states have now introduced specific legislation to enable PPP investment, with a primary focus on the transportation sector.

Despite this promise, the US PPP market remains small in terms of the number of PPP transactions achieving financial close in any given year, particularly considering the size of the US economy. But it is a growing market that commands ever increasing attention as more and more projects evidence the benefits of the PPP model.

2015 was a year characterised by a thin pipeline from a limited number of public sector agencies. Unfortunately, there were also a number of cancelled transactions.

In the medium term, we expect a modest number of mostly transportation assets to come to market as projects that have reached financial close move into operations and construction companies consider recycling their equity.

Continental Europe

European infrastructure markets are starting to gather some momentum in certain countries. We have seen an increase in both primary and secondary deal flow over the last 12 months and, accordingly, we believe these markets are likely to provide investment opportunities.

The Dutch, German and Nordic markets are offering fresh opportunities primarily for transport PPP investors including a pipeline of new deals in the road sector in the medium term.

A significant contributor to this new wave of PPP activity is expected to be Norway, which has initial plans for three new projects. BBGI is hoping to leverage its experience with the E18 road project in Norway to secure participation in consortiums bidding to deliver these new projects.

Meanwhile, Germany has announced plans to procure over EUR7 billion of motorway PPPs. Federal Transport Minister Alexander Dobrindt and Finance Minister Wolfgang Schäuble announced their programme for "New Generation PPPs" last April. The plan will see 10 new projects - including road expansion, renovation and new projects - delivered under 30-year availability-based contracts and involving the construction of around 600 km of motorway.

Markets in Southern Europe are still facing delays, cancellations and contract renegotiations. In Spain, Portugal and Italy, assets procured under historic programmes are creating secondary market opportunities.

Australia

Australia remains an attractive market for PPP investment as it enjoys a stable economy and a growing popularity of the PPP model among different states. Over 30 PPP projects have been announced or closed since October 2014, more than 12 in the last year. The current Australian federal government has an agenda to try and use PPP arrangements to a much greater degree and it is looking for avenues to increase their use.

While the overall sentiment within Australia is positive towards PPP, some states are more supportive than others.

In Victoria, there was controversy surrounding Premier Daniel Andrews' decision to cancel the A$10.6 billion East West Link PPP project. Compensation of A$339 million was paid out. Victoria also cancelled plans for an A$2.5 billion rail corridor upgrade PPP in late March.

The bright light on the Australian PPP landscape has been New South Wales, where the government continued to move forward with its new transport plans, including the 36km Sydney Metro Southwest and Parramatta light rail projects. Seeking to replicate successful hospital and prison projects elsewhere in the country, the state began to investigate private finance for new prisons in Grafton and Parklea and several new hospitals.

Private equity

(compare Private equity funds **here**)

Apax Global Alpha: The actual exposure of Western economies to China and other emerging markets is relatively limited. Exports to China from the US and the vast majority of European countries are below one percent of GDP, so a further slowdown in China should have only limited real primary impact. As a consequence, the reaction of Western stock markets to Chinese newsflow and stock market gyrations looks overdone.

One hypothesis is that Western markets have been looking for an excuse for correction from levels that appeared quite elevated in 2014 and most of 2015. In our opinion, after the most recent correction, they now appear more reasonably valued – at least in the absence of another recession.

The downturn in the oil markets that has played out over the past 18 months, and which has turned into an outright capitulation in the first weeks of 2016, has led to counter-intuitive reactions from the capital markets. The positive impact of lower energy prices for consumers seems to have been overlooked, and most market commentary appears to project the problems in the energy sector onto the whole economy. We believe that a much more nuanced view on the wider impact of falling energy prices is needed especially as the turmoil is supply driven with underlying demand moderately increasing.

In fact, a large number of economies are unambiguous winners from these developments, including most of Western and Central Europe, as well as China and India. As a consequence, we believe in Europe (and India) remains broadly positive. The US is, however, more of a mixed picture. While the oil price drop is a windfall to the American consumer, there are clearly victims in the US as well. The net effect remains unclear, but the market sentiment is presently focused on the downside.

In our view much of the commentary surrounding the Fed's first interest rate hike was hyperbolic given that it only represented a marginal change in US monetary policy. The rate increase was baked into expectations and asset prices, and as a result, should not have had a major effect on capital markets and the real economy. The fact that the rise was underpinned by the Fed's belief in the sustained recovery of the economy seems to have been widely overlooked.

By-and-large, we believe that the Western economies will remain on a slow growth track. The risks to that view are twofold. Firstly, that a sector recession in energy and industrials in North America turns into something broader, having repercussions in Europe and secondly, that the slowdown in China accelerates and affects export oriented countries such as Germany, or that this slowdown triggers market hysteria influencing sentiment and thus economic actions or the long-term cost of capital for companies. Clearly the world today is more inter-connected, but as we are learning all the time, the impact of the ripples are not easy to predict.

In late 2015 and early 2016, the capital markets environment deteriorated making private equity backed IPOs far harder and leading to several companies pulling their intended flotations. As a consequence, strategic buyers have become more important as an exit channel for private equity firms. Several indicators point to a period of continued volatility through 2016 which appear to have a negative impact on the availability of buyout debt.

Given all this, we expect strategic acquirers to be the primary buyers of private equity owned assets, with fewer exits via the capital markets and to other financial sponsors. Corporate coffers are generally well-filled and investment grade debt remains cheap and accessible, making the strategic corporate buyer an increasingly important exit route for portfolio companies. A number of AGA's Private Equity Investments are currently evaluating exit options and strategic buyers are the most likely acquirers.

Despite (and to some extent because of) the choppy financial markets, we believe that acquisition opportunities in private equity remain attractive. In particular we think that the worldwide correction in the public markets will create opportunities for private equity firms to acquire listed companies at more attractive valuations. While this is unlikely to result in a slew of bargains, we do think that some of the capital markets' fears are excessive and valuation levels are now more sensible in Western markets.

In particular we would like to highlight the following regional trends in our global outlook:

Europe

The macro-economic environment for Europe has generally improved over the past year and we believe that this is likely to continue. As a consequence, the number of European investment opportunities continues to increase. Countries like Spain, Italy and the Netherlands are showing strong macro-economic momentum, which is translating into an increase in investable opportunities. The European economies with most rebound potential also have the most limited exposure to China. Although much of Northern Europe has greater export exposure to China through specific industries (automotive, machinery, engineering, etc.) the internal momentum in these economies is generally positive which mitigates their export exposure.

US

In terms of investment opportunities, the US looks more interesting than it has in the last couple of years because the most recent stock market correction has deflated prices, while other economic indicators, such as GDP and employment growth have until recently pointed to a healthy economy. In addition, regulatory developments have dampened the use of leverage in private equity transactions, leading to a corresponding effect on pricing. This development has made entry price points more attractive, although they remain at an elevated level in the longer-term historical context. These valuations can be justified if there are consolidation opportunities that can be exploited to create synergies and tuck-in value arbitrage.

India

We believe that India is the most interesting of the emerging markets for equity investments (both in private and public equities). Even without the energy and commodities price drops, the country was on a solid macro-economic path. The direction and momentum should be reinforced by the lower price of most commodities, because India is a net importer of most raw materials and fuels.

While the speed of reforms introduced by the Modi government has been disappointing, the direction of change seems to be generally positive. The wider macro-economic strength is, to some extent, reflected in valuations in the country, especially as it is currently a very buoyant and competitive market. Despite these high prices, we are seeing pockets of value in sub-sector plays.

China

We remain cautious on China, as the extent of the slowdown is still hard to gauge, but we note that some important sectors like real estate seem to be stabilising. The most worrying aspect about China is the high, and rising, level of public and private indebtedness which, given the experience in other countries tends to result in a hard landing. It remains to be seen whether the country's economic toolkit is really different from those of Western economies, or whether the debt problems will create major issues.

In spite of our caution, it is important to note that sector performance in China is much more varied than in more developed markets, leading to 20% plus growth rates for some services sub-sectors while other industrial sectors are contracting at double-digit rates. The resulting landscape of investment opportunities is therefore much more heterogeneous than in Western economies.

Israel

Israel's financial market performance and macro-economic growth remained relatively strong during the period, with a high number of opportunities arising as a result of strong anti-concentration laws. Particular opportunities are: underpenetrated outsourcing service plays, conglomerate break-ups and corporate carve outs.

We expect Israel to continue to provide a steady flow of attractive investment opportunities.

Brazil

The macro-economic down cycle remains pronounced in Brazil, driven by poor political decisions and bickering, as well as the commodity price crash. That said, valuations have also dropped and, in terms of price multiples alone, Brazil is probably the “cheapest” of the Apax Funds’ investment markets. While we are unable to call the bottom of Brazil’s current crisis, we believe the risk reward profile over a five-year investment horizon could become attractive during the course of 2016. In particular, outsourcing service plays are currently under-penetrated in Brazil and the cyclical headwinds find some secular trends which balance them.

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Tom Bartlam, chairman, Pantheon International: The recent market volatility in 2016 reflects the more negative sentiment of investors towards the risks that threaten the pace of global economic recovery and growth. This sentiment has also affected the credit markets where the pace of loan issuance has been more restrained. The threats to global growth from the slowdown in China's economy, the falls in energy and commodity prices, the renewed fears of a banking crisis in Europe and a growing unease that quantitative easing may not be a lasting panacea, is creating continued volatility in the financial markets. To the extent that this has resulted in a fall in equity valuations, private equity investors will be able to deploy more capital than in recent times. While this adjustment may take some months to filter through to asset pricing levels in the private markets, it should lead to more favourable pricing levels and consequently a higher rate of deal activity towards the second half of the year. Conversely, the equity markets will not be as supportive of private equity exits as they were in the past year. This will reduce the pace of distributions, caused not least by a pause in M&A activity that typically follows in the wake of a period of high market volatility as transactions in the pipeline are delayed or cancelled by buyers or sellers.

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Pantheon International: In 2015, we witnessed the consequences of near-zero real interest rates globally and large doses of quantitative easing. In some cases, money printed by central banks to stimulate economies has been simply flowing back into investments that appear to satisfy investors' demand for a chance of earning any sort of positive return, inflating prices beyond where fundamentals and prudence dictate. Those bubbles have been a price that policymakers appeared willing to accept as they attempted to combat near-zero inflation - or in some cases deflation - and similarly sluggish economic growth with the blunt macroeconomic tools at their disposal.

However, the global financial markets have experienced a shaky start to 2016 as investors have become increasingly nervous that the asset price bubble may burst. The health of the global economy, with particular focus on China, and the fall in commodity prices have fuelled concerns further and have led to increased market volatility. The world's major indices have suffered sharp declines since the beginning of the year and are now starting to enter bear territory. In the private equity market, there is a delay for the effects of these share market price declines to be reflected indirectly in underlying valuations and to subsequently filter through to adjustments in fund valuations. Although it is not clear when it might occur, we expect that the long-term effect of this may be a better deal environment with an increased deal flow emerging from asset price adjustments.

US on the road to recovery

The US economy has continued to make real progress with growth being both higher and in recovery for longer than most other developed countries. The World Bank is expecting real GDP growth of 2.5% for 2015, versus global growth of 2.4% for the year, and is forecasting real GDP growth of 2.7% for 2016.

The quarter of a per cent increase in policy interest rates announced in December 2015 by the US Federal Reserve, was largely priced into market expectations and would likely have caused far more volatility, particularly in the equities market, had it not occurred as expected. However, there are some risks that inflation could overshoot the 2% target by the middle of 2016 as wage increases pick up, in turn spurring a more rapid increase in interest rates towards analysts' longer-term expectation of 3.5% by the end of 2017.

Much more worrying and potentially damaging to the financial system are the current volatility and concerns about systemic illiquidity in the high yield market. Relative to the start of 2015, higher yields from low-quality or non-investment grade credits, up almost three percentage points from May lows to 8.8% at the end of December, have drawn some investors into the segment. But risks are also increasing, with the US default rate expected to rise 4.5% in 2016, well above the trailing 12-month rate of 3.3% during December 2015, with energy and commodity companies among the hardest hit.

We believe that the US will continue to be one of our strongest markets in 2016.

Europe good value despite ongoing challenges

While no longer at imminent risk of its common currency being sundered, Europe is far from fully recovered. The European Central Bank's ("ECB") EUR1.1 trillion quantitative easing programme has not provided the boost needed to increase inflation. In December, the central bank's bond buying programme was extended until at least March 2017 and the key deposit rate was cut deeper into negative territory. The lack of reform in Europe's banks is another key concern and the fact that the ECB failed 25 out of 130 large European banks tested for asset quality in late 2014 is clearly a worry. Many European banking stocks have experienced a sharp fall in value since the beginning of 2016 - this is a reflection of investors losing confidence in the sector as banks grapple with wider concerns over the Eurozone economies, the increase in regulatory burdens and the pressures of de-risking their balance sheets. Furthermore, investors continue to be gripped by the impact of the political uncertainties created by the migration crisis raising questions over the viability of Europe's Schengen Area, the rise of populism in recent European elections and the consequences of a potential "Brexit".

While we are cautious on Europe and recognise that there are enormous political and economic challenges, Pantheon continues to see good value and opportunities in the region and believes that this will continue into the foreseeable future.

Prevailing headwinds in China

A surprise currency devaluation in mid-August drew new attention to China's economy and stoked concerns among global investors that all may not be as rosy as previously assumed.

The fact that China's growth is slowing and is likely to continue to slow is not news, yet investors globally had clearly failed to adjust to what is ultimately the new reality.

Official statistics showed that China's year-on-year GDP growth slowed to 6.9% in the third quarter of 2015, above the 6.8% feared, but below the 7% projected for the quarter and indeed for the year. However, China's official numbers need to be treated with scepticism since physical measures, such as electricity production and manufacturing output, suggest real growth is much lower than 7% p.a. while exports are visibly contracting - down for the fifth month in a row in November and 6.8% lower year-on year. Public spending is also being curtailed by a major crackdown on corruption and waste in the Chinese public sector. The result is that private consumption, which accounts for around one-third of the economy, would have to be growing at double-digit rates to compensate for weakness in the other parts of the economy.

While cautious on the near-term prospects in China and other emerging markets, we expect adjusted prices will produce attractive opportunities over the long term.

Inflating private equity asset prices demand caution

High asset prices remain the principal issue for private equity firms globally. Part of the problem is of managers' own making as those firms that have raised substantial funds compete fiercely for companies in auction processes. Debt markets are favourable, often with loose covenants being offered on loans that are reminiscent of the period before the Global Financial Crisis. Another issue is the renewed appetite of strategic buyers prepared to pay a premium for good companies.

Smaller companies that are not yet on the radar of corporates, or not yet suited to public markets, can benefit from lower valuations. While the benign fundraising environment is fuelling competition, good managers should continue to be able to find attractively priced opportunities - both in the US and Europe, as well as selectively in certain emerging markets - that can benefit from hands-on management.

That said, a high-price environment is generally a clear invitation to sell mature assets. Many of our general partners have taken advantage of attractive valuations to sell assets, making 2015 a strong year for distributions. Despite high asset prices, there are investment strategies that we believe are capable of delivering superior returns for private equity in the years to come.

The price of Brent Crude nearly halved during 2015 and at the time of writing, it is testing new lows below $40 a barrel. Similarly, the price of WTI, the principal US benchmark, has declined precipitously. Further pricing pressure is anticipated as a result of continuing efficiencies in shale oil extraction technologies, OPEC's ongoing competitive position, and demand-side weakness. Exploration and development of new production capacity is likely to slow dramatically which will ultimately help to balance the supply and demand equation. Meanwhile, debt burdens, particularly among publicly-listed energy and commodity-focused companies that financed their operations heavily though the high-yield market, are pushing larger numbers of these businesses into distress. Structural changes to the market, created by the tremendous growth of US supply may provide ongoing opportunities for investment including exploration and production and midstream development.

Interesting opportunities in technology and healthcare

IT spending is expected to accelerate in the coming years and mid-market outsourcing providers in particular may benefit from this. We believe technology is a theme that can deliver outperformance across the private equity spectrum. [*The*] healthcare sector continues to grow as demand for services increases globally and governments are under pressure to deliver more and better services at lower cost. This is an exciting arena for healthcare businesses to operate in and technology can also play a part in driving through these efficiencies. While asset prices have soared for larger healthcare businesses that can appeal to strategic buyers, we believe a focus on smaller businesses and corporate carve-outs may deliver outperformance for private equity. When scaled up, we expect these businesses to appeal to acquisitive corporates at higher valuations, or to benefit from demand from larger private equity firms and open public markets.

Another strong year for secondary markets

Comparatively low global economic growth and volatility should lower the return expectations of passive equity investors over the medium term. However, those investors that continue to generate alpha - that uncorrelated financial reward derived from improving performance in assets and businesses owned by knowledgeable, activist and well-aligned managers - will, in our opinion, continue to thrive.

Given the market volatility at the start of 2016, we expect transaction activity to be more muted in the first half of the year as buyers and sellers reset pricing expectations to reflect lower valuation levels. Offsetting this moderating effect, we expect that the lower public market valuations and the ensuing denominator effects will encourage more sellers of secondary interests to participate in the secondary market. Although there is the potential for realisations to slow down, there is still plenty of mid-market liquidity and interest from buyers. We expect realisations to be at a reasonable level and that volumes will pick up in the second half of the year.

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Hamish Mair, investment manager, F&C Private Equity: After a very successful 2015 with many of our investment partners effecting several realisations at good prices, it will be challenging to entirely replicate quite this level of activity in 2016. The year has begun with a much more cautious attitude in the stockmarkets and there have been downgrades of the overall projections of economic growth. Many of the sectors which have suffered most in the recent sell off are not represented in private equity portfolios and these portfolios themselves are usually not good proxies for the wider market. That said macro-economic factors and unsettling geo-political events do affect business confidence and consumer behaviour.

Due to a combination of favourable factors during 2015 the average price of private equity deals increased across all segments and geographies. It remains the case that the midmarket and lower mid-market is cheaper than the larger end of the private equity market and it is in this tier that we continue our search for promising emerging managers, co-investments and secondary opportunities. Private Equity managers have the advantage of only having to deal when they think that pricing is right. They are driven by the quest for absolute returns rather than relative outperformance. Given the breadth of our investment partners and their portfolios there is likely to be a healthy two-way market with many exits and new investments during the year which will serve to harvest returns and sow the seeds of future value growth.

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UK Property

(compare UK property funds **here**)

Tom Pissarro, Alpha Real Capital LLP, Investment Adviser and Manager of Industrial Multi Property: Looking ahead to 2016, inflation looks likely to remain low and most forecasters assume the Bank of England will keep the interest rate policy steady at 0.5%. With low inflation, low interest rates and a favourable labour market, business and consumer demand is expected to continue despite weakening emerging market economies.

Investors continue to target the UK commercial property market as relatively high and stable income yields are still proving to be attractive. Prime yields have largely stabilised with secondary yields facing further downward pressure due to the lack of availability in Grade A stock.

Rental growth was the principal driver of performance as occupational demand rose for the 12th consecutive quarter. Upward pressure in prime rents and falling lease incentives have been seen across all regions but most notably in the Thames Valley and South East and have been driven by the tight supply in prime assets across the UK.

Investment activity in secondary assets has recently been facilitated by a greater depth and liquidity in the financial markets. A steady flow of new lenders for senior, junior and mezzanine financing are entering the market and providing financing to a wide range of sectors. Non-bank lenders such as debt funds and private equity are increasingly active in the secondary market as they search for higher yield and returns.

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Robert Peto, chairman, GCP Student Living: The student accommodation sector experienced a record year in 2015. Circa GBP5 billion was transacted over the course of the year, which is over one quarter of the total privately-owned UK purpose-built student accommodation stock. These assets were traded to a broad range of investors, many of which are expected to hold their assets long term. Investment into the sector is forecast to continue through 2016, but at a lower volume as fewer portfolio deals are envisaged.

The removal of the student cap for the 2015/16 academic year has contributed to increasing further the supply/demand imbalance in the sector. UCAS undergraduate acceptances increased 3% year-on-year to c.532,000, with EU acceptances up 11% and international students up 2%.

There continues to be an undersupply of modern, purpose-built student residential accommodation in London and other key markets across the UK. On the supply side, the Directors (as advised by the Investment Manager) do not expect to see substantial volumes of new accommodation arising in the Company's core markets in the near term.

Whilst sound student occupational markets continue both to underpin our existing income and provide the basis for further income growth, the capital markets have entered into a period of increased uncertainty and therefore volatility. Looking forward with any degree of confidence is undermined by an unfortunate confluence of geopolitical events combined with a further bout of distrust in the stability of the banking system. In the UK, this is all compounded by the drama of the European referendum.

In this context, it is difficult to determine the direction of capital value change in the real estate world. However, the Directors are confident that investor interest in the student accommodation sector will continue because of its defensive income qualities as well as the prospect for continued income growth.

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Utilities

James Smith and Claire Long, Premier Fund Managers Limited, managers of Premier Energy & Water: 2015 was a difficult year for utilities and wider markets, particularly in the second half of the year. Weakness has continued into 2016, most noticeably in PEWT's Chinese and other emerging market investments. Risks remain and a further fall in commodity prices or the Federal Reserve increasing interest rates more aggressively than anticipated could trigger further falls.

We are hopeful that we may be towards the bottom of the current downward shift in markets. Many of the Chinese, East European, and Latin American investments are trading on mid-single digit earnings multiples, emerging currencies look far better value than previously, and for the most part profitability and earnings within the portfolio have continued to improve. The current market dislocation has led to opportunities to make quality investments at good prices.

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QuotedData

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