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Monthly summary | Investment Companies

9 May 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.

United Kingdom

The prospect of Brexit is causing widespread concern and there are worries about the health of the global economy but many managers believe volatile markets are creating buying opportunities.

Alex Wright, manager of Fidelity Special Values, cautions that investors should not rely on recent trends continuing indefinitely. Martin Boase, chairman of Jupiter Dividend & Growth, says the global economy remains unbalanced and weak oil prices that should be beneficial for consumers and most corporates are instead fuelling fears of deflation. Ian Barby, chairman of Invesco Perpetual UK Smaller, warns that, following governments' efforts to stimulate their economies through quantitative easing and the like, there ae few levers left to pull if the world economy slips into recession. Jonathan Brown, manager of that fund, sees market volatility as an opportunity to buy attractive companies (a sentiment echoed by other commentators).

Most managers and boards make reference to the forthcoming referendum on the UK's membership of the EU. The message is that the referendum is creating uncertainty and volatility, a paralysis in decision making and a weakening of Sterling (which they think would worsen if we leave). Mike Prentis, manager of BlackRock Smaller Companies thinks the London property market is particularly exposed if the vote is to leave.

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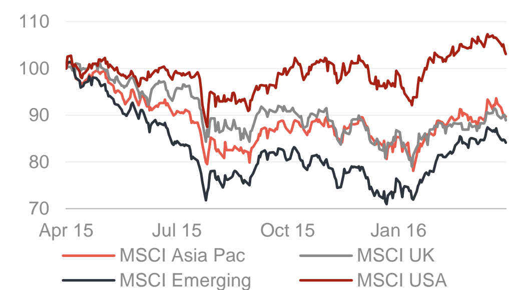
Exchange Rate	30/04/16	Chg. on month
USD / GBP	1.4612	+1.8%
USD / EUR	0.8733	-0.6%
USD / JPY	106.50	-5.4%
USD / CHF	0.9599	-0.2%
USD / CNY	6.4780	+0.4%

MSCI Indices rebased to 100

Time period 30/04/15 to 30/04/16



Source: Bloomberg and Marten & Co

	30/04/16	Chg. on month
Oil (Brent)	48.13	+21.5%
Gold	1293.53	+4.9%
US Tsy 10 yr yield	1.8333	+3.7%
UK Gilt 10 yr yield	1.596	+12.8%
Bund 10 yr yield	0.271	+78.3%

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Europe

Plenty to worry about but valuations are attractive and good companies can still prosper.

Carol Ferguson, chairman of BlackRock Greater European, notes that the European economy is growing, albeit more slowly than before. She thinks the main concerns are political – populist politics, terrorism, the migrant crisis and Brexit. Having said that she believes valuations are attractive. Tim Stevenson, manager of Henderson Eurotrust, says we are firmly entrenched in an environment of low growth. He thinks artificial attempts to stimulate the economy will be ineffectual but believes good companies can still prosper.

Asia ex Japan

The long-term Asian consumption story is intact, valuations are attractive and economic growth could pick up in Asia. There is caution though about the US dollar borrowings of Asian companies

Nigel Cayzer, chairman of Aberdeen Asian Smaller Companies, acknowledges the difficulties faced by the global economy but draws comfort from the increasing affluence of Asian consumers. Mike Kerley, manager of Henderson Far East Income, says the pace of Chinese growth will continue to hold investors' attention but thinks Asian equities are trading at the lower end of historical ranges. The managers of Scottish Oriental Smaller Companies are more downbeat, saying low US interest rates have encouraged borrowing in dollars which means a sizeable segment of Asian companies are vulnerable to rate rises. Peter Arthur, chairman of Aberdeen Asian Income Fund, says China's shift to a services and consumption based economy is on track and reminds us that the government has lots of policy tools at its disposal to help ease the transition. The managers of that fund think economic recovery will spread from the US into Asia and suggest rising US interest rates should be seen as a sign of a healthier economy and one that underscores a growing optimism.

Japan

Japan could be on cusp of a sustained recovery

The managers of Prospect Japan Fund are upbeat, citing further easing by the Bank of Japan, a weak Yen and increased capital expenditure as providing tailwinds for the economy. Jonathan Taylor, chairman of Schroder Japan Growth, is less convinced that the economy, market and currency are behaving with any degree of predictability but says Japanese companies are growing profits regardless. The managers of that fund think political considerations will ensure that economic policy is positive for markets ahead of summer elections. David Robins, chairman of Fidelity Japanese Values, says that Japan is, arguably, on the cusp of a sustained recovery driven by falling unemployment, rising wages and low oil prices. Nicholas Price, manager of that fund, is looking to a boost in the momentum behind economic reform to sustain growth in Japan's domestic economy.

Korea

Korean market is attractively valued

Weiss Asset Management, who manage Weiss Korea Opportunities, run down the outlook for currency, the impact of falling commodity prices and the North Korean situation and conclude that the market is attractively valued, especially compared to other East Asian markets.

North America

Wage growth driving increased consumer spending in the US. Energy market to stabilise.

The chairman of Middlefield Canadian Income, Nicholas Villiers, thinks a recovery in energy market over the next couple of years should support the Canadian equity market. The managers of that fund see a potential benefit from wage growth in the US to consumer and corporate spending. They think though that the pace of rate rises in the US will be gradual as the FOMC remains concerned about global growth. They also see 2016 as a transition year for energy markets as changing fundamentals set the stage for a more balanced market.

Latin America

Commodity prices and political shenanigans to weigh on markets but there are reasons to be optimistic

Richard Prosser, chairman of Aberdeen Latin American Income, says Latin American economies are not out of the woods yet as low commodity prices weigh on many economies. A change of president in Brazil could foreshadow lower interest rates and a stronger currency, in Mexico rates could rise in tandem with those of the US and in Argentina, the return to bond markets should herald the introduction of investment-friendly policy measures to boost economic growth and cut inflation. The managers of that fund caution that Brazil, Chile and Peru are most vulnerable to a renewed slide in commodity prices and a resolution to Brazil's political situation could take some time but believe the long-term story for Latin America remains intact.

Biotechnology & healthcare

Threat of price controls is overshadowing the sector but value creation comes from the discovery of new therapies

Alan Clifton, chairman of International Biotechnology Trust says that, while the prospect of a Democrat victory in the US election has triggered a correction in the sector, longer-term, the development of innovative medicines for diseases with unmet medical need will continue to drive growth. The managers of that fund underscore this by saying that scientific progress is the main driver behind most of the value creation in the biotechnology and pharmaceutical sectors.

Debt

Gently rising rates in the US will lead to a widening of credit spreads. UK property debt could be impacted by Brexit

William Frewen, chairman of NB Global Floating Rate Income, thinks there will be further US rate rises but on a more gradual trajectory than originally envisaged. He also thinks the recent pressure on senior loan asset values means that valuations are compelling. Paul Smith, manager of Acorn Income Fund, thinks an increase in default rates in the US will lead to a widening of credit spreads. He foresees a Chinese slowdown manifesting itself more in market volatility than economic reality but remains cautious on corporates exposed to the commodities cycle. Jack Perry, chairman of ICG Longbow, is positive about rental growth in the property sector and the positive impact that has on the finances of those that have borrowed against property. The managers of that fund are not worried about rising transaction taxes in the UK property sector but are concerned about the potential impact of an exit from the EU.

More opportunities for distressed debt managers

Managers and directors of funds that invest in distressed credits such as Acencia Debt strategies and NB Distressed Debt, are seeing new opportunities opening up as default rates pick up.

Mainstream lenders are still constrained but are waking up to online lending market

In the online lending subsector, Andrew Adcock, chairman of VPC Speciality Lending, is positive as regulatory and other restraints constrain the availability of credit from mainstream lenders. The managers of that fund think securitisation will be an important driver of growth in the industry. Stuart Cruickshank, chairman of P2P

Global, thinks banks are waking up to the growth of the online lending market and are adopting a range of strategies to address it. The managers of that fund think stable labour markets, low interest rates, lower oil prices and increasing consumer confidence should have a positive impact.

Depressed prices and volatility in the CLO market could generate opportunities

Managers and directors of funds investing in CLOs generally see current depressed prices and ongoing volatility in this subsector as an opportunity. GSO/Blackstone Debt Funds Management see lower overall issuance of CLOs in the US in 2016 but a pick-up in Europe. They say distressed and commodity related loans are most at risk of further weakness. The managers of Fair Oaks Income Fund expect US defaults to trend towards their long-term averages.

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UK

(compare UK funds **here**)

Alex Wright, manager Fidelity Special Values: Overall, the market neither looks dangerously expensive nor attractively cheap. However, digging a little deeper reveals significant differences in valuations between companies and categories. I think investors would do well to ensure that their portfolios do not rely on recent trends continuing indefinitely.

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Kevin Allen, chairman, Chelverton Growth Trust: Although there is, as ever, political and economic uncertainty around the world, we remain in a low growth, low interest rate and low inflation environment. Corporate balance sheets and cash flows appear strong but real growth is increasingly difficult to achieve and maintain.

In the UK, the referendum on membership of the European Union will lead to increased uncertainty and consequent inaction by companies as they "sit on their hands" and await the outcome which is too close to call. If the electorate chooses to leave Europe it will potentially result in considerable short-term upheaval.

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Nicholas Fry, chairman, BlackRock Smaller Companies: In the near term uncertainty over the outcome of the referendum on whether to stay in or leave the European Union is widely expected to affect the stock market and the potential impact of a vote to leave is unpredictable.

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Mike Prentis, manager, BlackRock Smaller Companies: We expect continued volatility in the UK stockmarket over the coming months ahead of the BREXIT vote. Discussion of the pros and cons of continued membership of the EU is already proving heated and divisive, and this is likely to continue. This may result in postponement of UK investment plans until the vote is clear. We see central London property as being one of the most exposed areas if the polls suggest an "out" vote, or if there is an "out" vote. If there is a vote to leave the EU we expect markets to take it badly, with a further fall in Sterling, reflecting the uncertainty that will lie ahead. A vote to stay "in" will probably lead to a relief rally.

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Martin Boase, chairman, Jupiter Dividend & Growth: Looking back at 2015, the big positive was the continued support offered to financial assets by central banks, although their ultra-low interest rate policies seem to have had little discernible effect on economic growth, which remained sub par. The big negative was China and any countries/ sectors supplying it with raw materials.

Developed economies remain hampered by heavy debt burdens, a lack of company investment and wage growth. The global economy remains unbalanced, sovereign default risk in some emerging markets is rising and growth prospects for 2016 appear unhealthily dependent on the fortunes of the world's second largest economy. Although the collapse in the oil price should be highly beneficial to consumers and much of the corporate sector, it has continued to fuel fears of deflation and push down government bond yields to zero and beyond. But, for the moment, your fund manager

remains confident that prospects for the UK are set fair and should continue to be so for the next 12-18 months.

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Ian Barby, chairman, Invesco Perpetual UK Smaller: The year under review was influenced by a number of factors affecting confidence in global markets, from a slowdown in China's growth to a collapse in commodity prices, to whether or not the US should have raised interest rates at the end of the year. Inevitably, such events on the global stage will have some impact on a sector such as UK smaller companies - notwithstanding that often the majority of their earnings are derived from the domestic market and thus depend on the confidence shown by UK customers.

Looking forward, after such a volatile start to 2016, there are still more hurdles ahead, not least in the inevitable uncertainty created by the 'Brexit' referendum on 23 June. Meanwhile, governments worldwide have pulled out all the stops to stimulate their countries' economies with over $10 trillion of quantitative easing to date and interest rates held at all-time lows. There are correspondingly few levers left to pull should the world economy descend into a recession. However, the portfolio manager remains confident that most economies are far better placed to deal with a relatively low growth, low interest rate period, even if that now seems likely to last for longer than expected, before growth restarts in earnest.

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Jonathan Brown, manager, Invesco Perpetual UK Smaller: The market is sometimes characterised as swinging between fear and greed. The sell-off in early 2016 appears to have been driven by the fear that central banks may not have many policy options left with which to re-stimulate a slowing global economy. Lower commodity prices, particularly oil, would ordinarily be seen as positive for growth, reducing costs for both businesses and consumers. However, the potential inability of mining and oil companies to repay their loans, due to lower revenues derived from their products, has the potential to cause stress within the global banking sector. This situation is being exacerbated by the low or negative interest policies of central banks, which is impairing the ability of banks to generate profits. It should be noted that the banks are significantly better capitalised than they were prior to the financial crisis, and for investors these bouts of fear often create interesting buying opportunities. Following the market sell-off the valuations of some smaller companies looked much more attractive than we have seen for some time, and assuming the UK votes to remain in the European Union, the prospects for the market are reasonably attractive. The low oil price will continue to support household cash flow, which is already benefitting from high levels of employment and wage inflation. Also, interest rate increases now seem unlikely in the short term. While volatility remains, we believe there will be good buying opportunities at some point during the coming year.

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Hamish Leslie Melville, chairman, Mercantile: In last year's review of performance I commented that geopolitical events had taken centre stage, increasing market volatility and overshadowing what had been the UK economy's strongest year since the recession. In many respects this year has been much the same, with political events dominating once again. No sooner had we navigated the General Election than market focus switched to Britain's future within the European Union and the upcoming referendum. The uncertainty surrounding a possible exit is likely to remain the key focus point for investors in the UK market over the coming few months. More broadly, the path for global economic growth and monetary policy has become more

uncertain as we enter a period of economic adjustment and expected central bank divergence in the major global economies.

In spite of this, UK GDP continued to grow at an estimated 2.3% in 2015, and the economy is forecast to grow 2.0% in 2016, providing opportunities for earnings growth for medium and small sized companies.

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Guy Anderson, Martin Hudson and Anthony Lynch, managers of Mercantile: In our outlook statement last year, we explained our positive view of the domestic consumer, driven in part by the dramatic fall in commodity prices during the second half of 2014, and how this would lead to 'consumers experiencing real wage growth for the first time in the last five years'. This view has been reinforced over the past year, as the slight uptick in earnings combined with negligible inflation has ushered forth a period of sustained real wage growth.

This relatively small increase in real wages feeds through to a significant increase in disposable income (i.e. income available for discretionary spending after the basic cost of living). The ASDA income tracker data, a measure of the weekly disposable income available to the average UK household (in nominal terms), has been growing in mid to high single digit percentage terms for the past year. This leads us to remain positive on retailers and leisure companies, which should benefit directly from an increase in consumer spending, and where we view that this is not yet reflected in their share price.

The collapse in the price of crude oil and other commodities is clearly negative for those companies that either extract them or service the extractors. Share prices in many of these companies have seen significant pressure, and while we remain negatively positioned in energy, resources and related industries, believing that the risks are not yet fully reflected in share prices or market expectations, we continue to monitor these companies closely. The timing of any action is hard to predict, but we still expect that the next major shift for the portfolio will be to reduce or even reverse this negative positioning, albeit selectively.

In terms of aggregate market exposure, we view the coming months with a certain amount of trepidation due to the uncertainty surrounding the EU referendum - irrespective of the advantages or disadvantages of an exit, it is clear that such a journey would be fraught with uncertainty and therefore market volatility.

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Helen Green, chairman, Acorn Income Fund: The forthcoming referendum on whether or not the UK should remain within the EU presents the greatest near term uncertainty for the UK stock market. An exit from the EU might well trigger further sterling weakness. Our Investment Adviser for the Smaller Companies Portfolio remains confident that the investee companies can prosper whether the UK is in or out of the EU. Whilst the overwhelming expectation for interest rates is that they will remain low over the next year or more an unexpected rise would impact on fixed interest valuations.

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Europe

(compare European funds **here**)

Carol Ferguson, chairman, BlackRock Greater European: The start of the year has again proved to be volatile, mainly due to uncertainties over economic activity in the US and China. In contrast, Europe's economic backdrop has been relatively stable as additional support from the European Central Bank through expansion of the current QE programme has had a positive impact on sentiment and both business and consumer confidence have remained relatively resilient.

However, although Eurozone economies are still expanding, growth has slowed and a number of challenges remain. The major concern is the political landscape with the increase in populist politics, the ongoing terrorist threat and the need to solve the migrant crisis. The referendum on whether Britain should remain in the European Union, combined with a challenged banking system, also creates an unsettled environment. Despite these uncertainties, reasonable valuations and a supportive European Central Bank policy lead us to remain positive on the outlook for European equities.

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Tim Stevenson, manager, Henderson Eurotrust: High dividend yields and modest valuation have supported markets recently, perhaps helped by the current dividend paying season. There had been almost an element of panic beginning in equity markets, with the usual suspects from the last few years being rolled out again as causes: Euro stress, Italy, Politics, Brexit, and throw in a banking crisis. These new (or revived) stresses come on top of China slowdown, weaker than expected US growth and the usual weak European growth.

In summary, it is my opinion that we are now firmly entrenched in a world of low growth, and artificial stimulus from ever lower interest rates (including negative rates) will be as ineffective as are most unnatural things. This is not necessarily a bad environment for good companies.

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Asia ex Japan

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

Nigel Cayzer, chairman, Aberdeen Asian Smaller Companies: Market commentators continue to stress the difficulties the world faces across a whole spectrum of economic issues. However, it is the future of the domestic markets in Asia that directly concern us. There are 625 million consumers in the ASEAN markets and they continue to grow more affluent, India has a growing middle class with rising net disposable incomes.

We have seen a slightly brighter start to the year but with the world facing so many worries and uncertainties; it would be rash to make any kind of prediction as to the timing of future performance.

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Mike Kerley, manager, Henderson Far East Income: We remain positive on the outlook for the region and especially for the potential for significant dividend growth in the months and years ahead. In the short term, however, we expect volatility to continue as the recovery in global growth continues to be questioned while risks remain over the health of European financials and the US high yield bond market. From a regional perspective, the pace of Chinese growth will continue to hold investors' attention as its impact on the rest of the region remains elevated while the on/off debate on US interest rates will dictate the performance of income strategies. The market, however, remains cheap by historic standards. Asian equities are trading at the lower end of their historical ranges with the potential of a re-rating should momentum turn more positive and sentiment towards the region improves.

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Scottish Oriental Smaller Companies: The outlook for Asian markets remains uncertain. 2015 was a year of disappointing corporate earnings caused by the weak global economy and there seems little evidence that 2016 will be any different. The fact that one argument being made for better prospects in 2016 is that emerging market economies could not possibly perform any worse than they did in 2015 shows that there is not much to be positive about.

Asia remains relatively dependent upon exports for economic growth and export conditions are challenging. Although weaker Asian currencies should help exporters, these companies are all chasing the same customers so the benefit across the region is marginal. And weak currencies do nothing to bolster long-term export competitiveness and hinder the growth of domestic economies. Low interest rates have made borrowing, particularly in US dollars, an apparently attractive proposition and there is a sizeable segment of Asian companies that are vulnerable to interest rate rises.

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Peter Arthur, chairman, Aberdeen Asian Income Fund: Investors remain very much on edge, given the rocky start to 2016. Worries have surfaced over whether the US Federal Reserve moved prematurely with its rate hike, since economic data have shown fresh signs of faltering. Oil's descent to below US$30 a barrel has also triggered a new round of concerns, although most Asian economies should benefit from cheaper fuel. Reduced price pressures also allow regional central banks to ease monetary policy further, should the need arise. Separately, most countries have beefed up their foreign exchange reserves and are now more able to withstand potential shocks that may arise from heightened volatility, particularly in currency markets.

Further tremors in Chinese equities have also spooked investors. Concerns surrounding the mainland economy are valid but they are not new and run the risk of being overblown. While growth rates are not what they used to be, at around 6.9% they are still fairly robust. More important, the shift to a services and consumption-based economy from one that is investment-led remains on track. In the long run, this translates into better-quality growth. The process will not be trouble-free but Beijing still has lots of policy tools at its disposal to help ease the transition.

Lastly, your Board believes that the long-term attraction of investing in Asia remains intact. The region is home to two-thirds of the world's population, the middle class is still expanding, and political and business frameworks have improved tremendously. Businesses with market leadership, clear growth strategies and well-tested management will be best placed to tap the region's potential.

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Aberdeen Asset Management Asia Limited, managers of Aberdeen Asian Income: We expect Asian equities to continue being buffeted by the same few factors: China, commodity prices and the pace of US interest rate increases. Corporate earnings, particularly in the energy and mining sectors, will continue to come under pressure due to low commodity prices. While pay-out ratios may remain unchanged, the absolute amounts could slide in tandem with lower earnings. In certain situations, some companies may decide to preserve capital by paring dividends.

Over the longer term, the worries over China, commodity prices and US interest rates should give way to more positive trends. China's move to end its dependence on exports and manufacturing has already started to bear fruit, with its services sector accounting for the lion's share of the economy for the first time last year. While its leadership appears less self-assured, it should get better over time. The near-term turbulence is necessary as the economy transitions to a consumption-led one, and the multi-year restructuring still has quite some way to go. Meanwhile, lower energy prices are likely to buoy consumption in Asia. This is already happening in the US, where crude oil's decline has resulted in a windfall for consumers and car sales in December broke a 15-year record. When this trend spreads across Asia and to the rest of the world, global consumption should rebound and in so doing, lift the world economy out of its present doldrums. It must be remembered that US interest rates have gone up only because its economy has improved to a point where the Fed is starting to worry about inflation. In our estimation, it is a happy problem to have and underscores a growing optimism.

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Japan

Prospect Japan Fund: The outlook for 2016 remains positive, with ongoing BoJ easing, a sustained weaker Yen, and expectations for increased corporate capital spending providing tailwinds for the economy. We continue to see high probability of outperformance from regional banks due to sector consolidation, and from asset rich companies due to demand from real estate developers and J-REITs for sources of additional property acquisitions.

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Jonathan Taylor, chairman, Schroder Japan Growth: Not for the first time, Japan is proving to be a challenge. To take two examples, an economy almost completely dependent on imported oil might be expected to benefit from the collapse in the price of oil. The stock market recently has been weakest when the oil price fell the most. Meanwhile the Bank of Japan - and exporters - might have thought that making interest rates negative for some deposits would weaken the currency, to the benefit of domestic growth. As it turned out, negative rates so far have been accompanied by a surge in the yen.

Amidst this confusing macro-economic environment, most Japanese companies have got on with the job of growing profits for the fourth year in a row, in many cases with higher dividends and/or share buybacks

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Schroder Investment Management, managers of Schroder Japan Growth: Uncertainties are heightened relative to the recent past particularly in relation to

global economic activity and the impact of increasingly unorthodox Japanese monetary policy. The corporate profits outlook is also more blurred with the weak yen tailwind having reversed. The market has fallen about a fifth from its recent August 2015 high and so to some extent at least discounts this uncertainty with valuations looking attractive. For those attractions to be reflected in a market recovery probably relies on global factors in much the same way as the downside has been instigated by similar forces over the last six months. In particular signs that the US economy and corporate sector are sufficiently robust to support higher US interest rates during the course of 2016 would likely weaken the yen and be a positive for stock market returns. Domestically there is an election for at least one House of the Diet this summer and possibly for both, with the result that economic policy is likely to be market positive at least through this period.

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David Robins, chairman, Fidelity Japanese Values: It appears that the Japanese market continues to offer exciting opportunities. With the potential shift from deflation to inflation and from contraction to growth, Japan is arguably on the cusp of a sustained recovery.

Unemployment has declined and is approaching 3%, which means that more households are earning an income, and the prospects for further wage increases are improving. While the core CPI number is still running below the Bank of Japan's 2% target, it has been substantially affected by the drop in the oil price over the past year. However, this energy price decline is actually a huge boost for Japan as a country which imports all required fossil fuels. So-called "core-core" inflation, which strips out the effects of falling oil prices, is around 1%. This means that as individuals and companies make decisions about consumption and investment, they are more likely to make positive choices.

The key challenge for Japan is to remain focused on the reform agenda. Japan has had loose monetary policy for a sustained period of time and what is really needed is a fundamental pick up in end demand. The employment picture is improving, inflation is gradually picking up and what really matters now is the continuation of the government's reform agenda. In this respect, Upper House elections in the summer, and possibly a general election, will be crucial for Prime Minister Abe in retaining the level of support required to push his reform agenda through.

The improvements in corporate governance that we are seeing are very important for equity investors. Japanese companies are actively taking steps to improve capital efficiency and return on equity ("RoE"), and are delivering record levels of cash to shareholders. Fidelity believes that the Japanese market's RoE should average around 11% over the next 2-3 years.

The world's third biggest economy may be on the verge of returning to economic relevance for capital markets. This is not factored into share prices and it is certainly not reflected in investors' portfolios. Japan has an improving fundamental story

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Nicholas Price, manager, Fidelity Japanese Values: The external economic environment, centred on China and other emerging markets, is generating a high level of uncertainty. However, conditions in developed countries are relatively firm and the recent market correction in Japan appears excessive relative to the change in external fundamentals. Monetary conditions in Japan should remain highly accommodative throughout 2016, contrasting with the onset of a moderate tightening cycle in the US. The Japanese market should continue to recover, supported by

gradual wage hikes. This being the case, corporate Japan can be expected to deliver another year of positive earnings growth in 2016.

The three arrows of Abenomics (Prime Minister Shinzo Abe's economic policies) have produced mixed results, with success in monetary policies and micro-level reforms contrasting with the lack of progress on deregulation and other complex structural issues. Abenomics 2.0 aims to boost the momentum of the initial policy agenda and to tackle Japan's longer term challenges. The coming year will therefore mark the start of a medium term initiative, which should form the basis for sustainable growth in the domestic economy. Measures to lift productivity and deal with Japan's declining population will be key.

We are also likely to see progress in the introduction of new technologies, (including self-driving vehicles, robotics and artificial intelligence), as well as support for both working seniors and families.

The desire for reform in Japan remains firm and the corporate sector is changing for the better. Japanese companies are committed to improving capital efficiency and RoE, and many are actively using free cash flow to improve shareholder returns. Established companies are refocusing on core competencies, and cash-rich corporates are starting to deploy more of their surplus funds towards investment. As pressure mounts on companies to explain the economic rationale for cross shareholdings between companies, the pace of share buybacks is likely to accelerate. While the rate of change varies on a company-by-company basis, this commitment to broad-based reforms is clearly good news for investors.

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Korea

Weiss Asset Management LLP, managers of Weiss Korea Opportunities:

Currency

In recent years the Korean won to Japanese yen exchange rate has been exceptionally volatile. In July 2007 the Korean won was at 7.5 won per yen. By February 2009 it had lost more than half its value and was at 16 won per yen. However, by April 2015 the won had reversed most of that depreciation and was trading at 9 won per yen. Most of the increase in the value of the won against the yen took place in the last four years, beginning in June 2012 when it was at 15. This appreciation of the won against the yen coupled with very low inflation in Japan hurt the competitive position of Korean firms against their Japanese competitors. More recently the trend has partially reversed again as the won has depreciated against the yen going from around 9 won to the yen in June, 2015 to 10.4 as of 24 March 2016. Over the last two years the won has been relatively stable against the Chinese yuan. As with most currencies the won has depreciated against the dollar, increasing the margins from sales in the U.S. market.

Commodity Prices

South Korea is likely to benefit from the dramatic fall in the prices of oil, iron ore, coal, and other industrial materials. The international press has been focused on falls in oil prices, so we will not discuss oil price falls, except to note that Korea is a significant

consumer of imported oil. However, many of the other commodities that Korea imports have experienced price declines of a similar magnitude to that of oil. For instance, the price of iron ore has fallen from a 2013 high of about $160 to $44 per metric ton at year-end 2015.[9] The price of Australian coal has fallen nearly 50% since 2013, and over 60% since its 2011 peak.[10] The price of copper has fallen more than 50% from its peak in 2011. Prices of a wide range of other industrial materials have also fallen significantly.

South Korea benefits more from these price falls than does any other major country, as measured by net energy and metals imports to GDP. For instance, in the U.S., the benefit to its manufacturers from lower input prices is offset by the losses suffered by miners and petroleum producers and the losses to banks and other financial institutions that have made loans to the extractive industry, or that hold their debt. Other industries such as railroads and bulk shipping have also been hurt by the lower sales of commodities. These adverse effects offset the positive effects of lower commodity prices on consumer discretionary income. In South Korea the extractive industries are an insignificant fraction of the economy, so the long term positive effects of falls in commodity prices are more favorable for the Korean economy (save that there may be a small adverse effect on companies such as POSCO that have investments in miners operating in other countries).

North Korea

The news out of North Korea continues to be disturbing. We are far from being experts on international relations or on the psychological state of the Beloved Leader" (the son and successor of the previous "Beloved Leader"). Not only has he conducted new nuclear bomb tests and new tests of long range missiles, but he has engaged in executions of potential rivals for power as well as their relatives. The South Korean central bank estimates that the North Korean economy is around 2% of the South Korean economy. It is not at all clear how the risks from North Korea will affect the South Korean economy. The situation appears bad but stable. Five year protection in the form of South Korean credit default swaps currently trade at approximately 70 basis points. On the other hand, we are aware that seemingly stable situations can get out of hand.

Summary

In the short run, security prices are driven by changes in sentiment. We do not purport to be able to predict those changes. In the long run, the value proposition for Korean equities continues to look favorable. Overall valuations for the South Korean market remain attractive, especially compared to other East Asian markets. The preference shares provide exceptional value relative to the common shares and securities in other markets. Increasing dividend payouts and share buy-backs should help highlight this value differential. It is difficult to pick a turning point when the preference shares' value will be reflected in their prices, but we believe that a patient investor will be rewarded with significant outperformance relative to other markets.

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North America

(compare North American funds **here**)

Nicholas Villiers, chairman, Middlefield Canadian Income: Fundamentals in both Canada and the United States should continue to provide support for equity markets. We believe that Canada, in particular, will benefit from the recovery in energy markets over the next 12 to 24 months, as well as the relative strength in the U.S. economy. Against this backdrop, the Canadian dollar has strengthened by approximately 5% and 10% against the U.S. dollar and the British Pound, respectively, since the beginning of the year. Looking forward, subject to unforeseen circumstances, we believe global growth will accelerate, led by the ongoing recovery in the United States and accommodative monetary policies in other developed markets.

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Middlefield Limited, managers of Middlefield Canadian Income: It was a challenging year for North American equity markets. Sharp fluctuations in commodity prices, currencies and yields have fuelled investor apprehension and increased volatility. Geopolitical issues have returned to the forefront with increasing concerns about economic growth in China and a delayed recovery in commodity prices. While the U.S. Federal Reserve recently raised interest rates for the first time since 2006, the European Central Bank is looking to stimulate economic activity through quantitative easing and low interest rates. As the U.S. labour market approaches full employment, we expect higher wages to encourage both consumers and corporations to increase spending after years of debt and expense reduction. Positive fundamentals in the U.S., combined with attractive valuations on both sides of the border, should continue to provide a supportive backdrop for North American equity markets.

The U.S. is in the middle stages of a prolonged business cycle which should create greater demand for Canadian exports and improve domestic corporate profits. Despite the challenging commodity price environment, Canadian economic activity has benefited from low interest rates, a resilient housing market and a weaker Canadian dollar. After a sharp decline in oil-related investment in 2015, economic growth in Canada is projected to accelerate in 2016 and 2017. Moreover, valuations in Canada have become increasingly compelling with forward earnings multiples below their 10-year average.

In the United States, recent economic data showed consumer prices increasing by the most in four years, suggesting that inflation should continue to rise. Unemployment remains at the lowest level in eight years and wages are slowly picking up, increasing disposable income. As such, we expect an improvement in consumer spending, which approximates to 70% of GDP, to positively affect economic growth in 2016. Furthermore, with the Federal Reserve becoming increasingly concerned about tighter global economic conditions, we believe the pace of additional rate increases by the FOMC in 2016 will be gradual.

The energy sector has been a major challenge for Canadian equity markets. As represented by the S&P/TSX Composite Energy Index, the sector generated a total return of -22.9% in 2015. Oil prices declined to levels not seen since 2003 as OPEC remains focused on increasing supply and gaining international market share. While independent producers have significantly reduced capital budgets and slowed drilling activity, the decline in domestic production has been moderate. Although the energy sector remains challenged, Canadian producers have benefited from a weaker Canadian dollar and a reduction in services costs. The warm start to the winter has

also weighed on natural gas pricing. While regional oversupply remains a major issue, demand growth from industrial consumers and liquefied natural gas exports should lead to higher gas prices. We believe 2016 will be a transition year for energy markets as changing fundamentals set the stage for a more balanced market. With negative sentiment towards the sector at an extreme, selective opportunities are emerging for patient investors.

While the financials sector performed well leading into the interest rate increase in December, it has subsequently traded off as the U.S. yield curve flattened since the start of the year. Concerns regarding energy-related loans have weighed on sentiment, despite the fact energy loans represent less than 3% to 4% of total loans outstanding for North America's largest banks. We believe the correction in U.S. banks and credit card issuers is overdone as the risk of a U.S. recession in 2016 is very low. Valuations for both Canadian and U.S. banks are at multi-year lows, despite much healthier balance sheets and strong capital ratios. We continue to favour U.S. financials over their Canadian peers as we expect better corporate and personal loan growth as well as faster dividend growth.

The infrastructure and commercial real estate sectors continue to offer stable income and capital appreciation potential. We remain biased toward geographies and real estate sub-sectors that should benefit from higher occupancy and rents due to rising corporate profitability and limited supply growth. Although the Canadian real estate sector remains stable amidst a slowing Canadian economy, many attractive investment opportunities exist abroad. Our outlook for infrastructure is supported by the demand for income-generating investments by pension funds, life insurance companies and sovereign wealth funds that are increasing their allocation to asset classes that offer excellent risk-adjusted returns relative to lower-yielding fixed income alternatives.

By 2040, the number of people over the age of 65 is expected to double. Accordingly, the outlook for global healthcare remains excellent with sub-sectors ranging from medical care facilities to pharmaceuticals offering a unique trade-off between stability and growth. Many companies have demonstrated an ability to consistently grow earnings while innovating to create new and exciting medical advancements. In addition, merger and acquisition activity continues to be robust due to the potential to realize cost synergies and broaden drug pipelines.

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Latin America

Richard Prosser, chairman, Aberdeen Latin American Income: Latin American economies are not out of the woods yet. Commodity exporters are still adjusting to China's slowdown after years of double-digit growth that fuelled a seemingly insatiable appetite. Meanwhile, oil and iron ore prices seem to have stabilised somewhat, although there is still no clear indication of the supply glut easing anytime soon. Divergent central bank policies around the globe could continue to influence investor sentiment, while domestic issues are likely to persist.

In Brazil, all attention has turned to the political situation. President Rousseff is fighting for her political career but could possibly be impeached in the coming weeks and forced to step down from office. Her replacement would be her Vice President, Michel Temer, who will need to set to work to arrest the country's fiscal deterioration amid an economy in recession. Inflation expectations are moderating and the Central

Bank will use this opportunity to embark on an interest rate cutting cycle. The country's balance of payments position will also continue to improve as imports collapse amid a slowdown in domestic demand, while foreign direct investment remains high - more than covering the current account deficit - which should mean any lingering pressure on the Brazilian real should diminish.

Mexico's government is likely to implement further fiscal adjustments as oil income remains under pressure, which could bode well for its growth outlook. In the short term fiscal adjustments are negative for growth, while potential government support for state-owned oil company Pemex also poses a challenge to the government's fiscal consolidation efforts. Banxico, the central bank, remains concerned by the state of global growth and its impact on the economy, and seems ready to raise interest rates in line with any US Federal Reserve decision.

Elsewhere, Colombia and Chile remain exposed to volatility in commodity prices, although they should be able to count on domestic demand to support their economies. Colombia's central bank has been slow in tackling inflation which looks like remaining above the target for the remainder of the year.

Argentina's new government, including a heavy-weight economic team picked on technical merit rather than political considerations, has made significant progress with the long-running dispute with the country's creditors - the country is set to issue up to US$15bn of new US dollar bonds in order to pay for the settlement and finance the budget deficit. Once this hurdle has been overcome, the government should focus on implementing investment-friendly policy measures in order to boost economic growth and reduce inflation.

As always, there remains cause for optimism. Latin American countries do have healthy levels of international reserves and are better positioned to withstand market turmoil. Companies, aware of the macroeconomic headwinds, are taking a prudent stance and cutting their spending to stay lean. Moreover, the region's long-term growth prospects remain intact, underpinned by its expanding middle class and growing incomes.

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Aberdeen Asset Managers, managers of Aberdeen Latin American Income: The Fed's recent dovish stance, after trimming its forecast for four rate hikes this year to two, as well as China's more confident tone about its ability to support economic growth at its annual policy meeting, appear to have been well received by global markets. However, short-term headwinds persist. Despite a rebound, oil prices remain precarious as consumption trends worldwide are still struggling to regain momentum, while the stalemate between Opec and other major oil producers over output seem far from being resolved. Meanwhile, corporate and personal debt levels have ratcheted higher. Should global growth slow more than expected, particularly in China, the Latin American economies that are most vulnerable are those heavily dependent on the export of resources such as Brazil, Chile and Peru.

Domestic challenges also remain. In Brazil, politics continue to dominate headlines, with the Petrobras scandal ensnaring yet more officials, including former president Luiz Inacio Lula da Silva, and calls to impeach president Dilma Rousseff growing louder. The market has done well lately partly on hopes that Rousseff's removal and a change of government would unlock the political impasse and allow reforms to be implemented. But a resolution is unlikely to happen quickly. On a positive note, new Argentine president Macri has pledged to implement more market-friendly policies, while talks with foreign creditors have shown progress, which should soon allow the country to return to global capital markets.

Despite the uncertainties, the long-term potential for Latin America remains unchanged, supported by positive fundamentals, including a growing middle class, low government debt and ample foreign reserves that should buffer the region against potential currency volatility. Overall, domestic demand should continue to mitigate the impact of slowing exports. Indeed, some economies, such as Colombia, continue to experience respectable growth amid resilient local consumption. Valuations appear attractive, with the equity benchmark trading at around 12.5 times 2016 earnings. As always, bouts of volatility present buying opportunities.

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Biotechnology & healthcare

(compare biotech & healthcare funds **here**)

Alan Clifton, chairman, International Biotechnology Trust: Despite the recent setbacks, biotechnology sector returns have been stellar over the past six years and have outperformed every other sector due to strong fundamentals and growth. I continue to hold the view that the sector retains its strong growth characteristics and attractive valuations, particularly so after the recent setbacks in share prices. The current political situation in the United States ahead of the next Presidential election is weighing heavily on sentiment towards the healthcare sector, biotechnology stocks included, as the debate about drug pricing has captured headlines. The true driver of healthcare costs is not in fact drug price increases, but demographic changes as the population ages and demands greater use of the healthcare system. Scientific developments continue to be made, allowing more effective drugs to be brought to the market for lower R&D outlays. Innovative medicines for diseases with unmet medical need will continue to drive growth in the sector in the longer-term.

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SV Life Sciences Managers LLP, managers of International Biotechnology Trust: A number of factors contributed to the dramatic falls seen across the biotechnology sector since 1 September. The sector took a tumble in autumn on the back of the price gouging scandal by Turing Pharmaceuticals sparking the infamous 'Hillary tweet'. However the sector recovered well moving into the calendar year end. At the start of 2016, it then suffered a dramatic downturn as a significant level of funds flowed out of risk assets in January. This was thought to be driven in part by the broad selling from Sovereign Wealth Funds as a consequence of the oil price declines.

Compared to the previous market crash in 2008, the biotechnology sector has matured and many of the companies which were pre-revenue are now turning profitable. The fundamentals and growth prospects of many biotechnology companies remain attractive in the current market, with valuations of mega-cap companies at a discount to the S&P 500 based on forward price to earnings multiple. Sales and earnings for these more established companies are both predictable and visible. Often new drugs are launching into markets with known pricing and an established patient population but with better efficacy and safety. Once launched, sales should continue until the drug's patent expires or competing drugs enter the market. We continuously assess competitive products that may be developed and could impact the sales of current products and adjust the portfolio risk accordingly.

The forthcoming US Presidential election in November 2016 has added further pressure to the NBI. Rising healthcare costs including the cost of prescription drugs

have become a key area of debate for US politicians, patients and the media, and a source of worry for investors. Total healthcare spend in 2014 was $3.0trn, the highest of any developed nation at more than 17% of gross domestic product (GDP). Prescription drugs made up approximately 10% of the total healthcare cost, a ratio which has remained broadly consistent since the year 2000. Despite prescription drugs representing a relatively small proportion of overall spend, high launch prices and exceptional price hikes in the specialty drugs category, with limited supply, have led to negative news headlines and increased scrutiny on drug pricing.

In September 2015, Turing Pharmaceuticals acquired Daraprim, an old, off-patent drug used to treat toxoplasmosis. Turing raised the price from $13.50 per tablet to $750 per tablet, an increase of more than 5000%. In the outcry following this decision, Hillary Clinton the Democratic Presidential hopeful tweeted "Price gouging like this in the specialty drug market is outrageous. Tomorrow I'll lay out a plan to take it on. - H" This comment sparked a short-term sell off in the NBI of -20%. It is important to note, that in the tweet and in subsequent discussions, the target was not innovative medicines but specifically the act of taking old, off-patent drugs and ramping up the price.

It is the Investment Manager's view that in order for new political legislation to truly impact drug pricing, it is probable that both the House and Senate would need to have a Democratic majority. This is believed to be unlikely in the short to medium-term. What is more likely is continuing pricing pressure resulting from stronger negotiation power by payers, enhanced by the ongoing payer sector consolidation. This is particularly prevalent in pockets of the pharmaceutical market, for example, diabetes and respiratory diseases. Both these areas have an abundance of undifferentiated 'me-too' drugs i.e. drugs that do not show material benefits in either safety or efficacy. This is not a new phenomenon, but we expect this to intensify.

It should be remembered that scientific progress is the main driver behind most of the value creation in the biotechnology/pharma sector. It is our view that innovative drug development with significant benefits to patients will continue to lead to high margin products offering attractive investment opportunities in the future, not only in the next few years, but also for several decades ahead. The medical need remains high in areas such as Alzheimer's Disease and Parkinson's Disease. A vast number of cancers also remain without a cure. We anticipate these advancements will lead to an increasing numbers of drug approvals by the FDA, and falling development costs. Drugs which offer significant improvement to patients' lives and reduce or eliminate ongoing care costs are an attractive cornerstone of the healthcare strategy where demographic trends continue to push costs higher.

Several large cap pharma and biotech companies remain cash rich, are cash generative, and are in a position to acquire smaller innovative companies to expand their pipelines. With attractive valuations we expect strategic acquisitions and mergers (M&A) to continue to be a major theme for the sector, especially in the view of the failure of the Pfizer/Allergan merger. It is important to note that premiums paid for biotechnology companies have remained steady over time, regardless of the market backdrop. As part of our investment strategy, we focus on identifying companies that have the rights to drugs for novel targets in areas with little or no competition, as they are most likely to benefit from M&A activity.

Despite the recent challenges in the equity market, we remain excited about the biotechnology sector. Each year brings scientific breakthroughs, either through individual drug success stories like the one we have seen with Genmab's Darzalex, or through the advances of new technology platforms such as T-cell therapies and immunoncology. While healthcare costs will remain high on the agenda of public debate, we continue to believe in the future growth of the biotechnology sector. This

belief is based on the significant value creation that is achieved through meeting high medical need with significant benefits for patients, allowing them to lead longer and healthier lives.

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Commodities and resources

Howard Myles, chairman, Baker Steel Resources: Mining shares have fallen in response to weak commodity prices which in turn have fallen owing to concerns over the level of global growth, and in particular the growth in China as it evolves from an infrastructure-led to a consumer-led economy. Iron ore companies continued to be hard hit with the price of iron ore trading a little above US$40 per tonne at the year end, less than a quarter of its price 5 years ago. The other main component of steel manufacture, coking coal, has similarly been hard hit and massive oversupply from the steel industry has seen dumping from Chinese manufacturers onto the world market. Most other major commodities have followed suit with copper down 26% and nickel down 42% during 2015.

One positive factor for the mining industry is that the two thirds fall in the oil price over the past eighteen months has led to a decrease in the operating costs of many mines where energy can be a major component of overall costs. This, together with the depreciation of the exchange rates of many producer economies, has improved operating margins.

Although this downturn in the mining industry is as severe as most people can remember, it should be borne in mind that mining is a cyclical business and the current lack of investment in both exploration and development is sowing the seeds for the next upturn. The resultant reduced interest in mining by investors has led to many stocks trading at large discounts to long-term value or, in some cases, at a discount to cash.

It is all but impossible to identify the precise bottom of any bear market at the time, but we know from experience that when the turn comes in the mining sector, the recovery is likely to be sharp. One sub-sector that has shown signs of recovery is the gold market with the gold price rising 18.9% during the first quarter of 2016 and the FTSE Gold Mines Index recovering 56.2% in Sterling terms. The gold and precious metals sector has often been a lead indicator for the general mining market.

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Debt

(compare debt funds here)

Saltus Partners LLP, managers of Acencia Debt Strategies: Looking forward into 2016, we do see some solid grounds for optimism. Indeed, we would characterize the current overall mind-set as one of ‘getting ready’ to exploit opportunities. With default rates around 2.4% and rising compared to 11% in the 2008 crisis, the opportunity set is developing into something potentially significant, where analytical due diligence will pay dividends in the future. Defaults have recently been largely confined to energy and mining sectors but this is now spreading to form a broadly based default cycle.

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Andrew Adcock, chairman, VPC Speciality Lending: The Board believes that over the next year, the specialty lending sector will continue to grow and reaffirm its position as a sustainable and growing alternative to the traditional banking model. The sector's growth in prominence and scale is driven in a large part by

- regulatory and other restraints imposing restrictions on the traditional high street banking model which in turn has significantly reduced the availability of credit to the market. The impact of the above has been felt in both the traditional banking client base but more forcefully amongst non-bank institutions and individuals;
- a cultural shift in the way millennials wish to interact with their financial institutions; and
- continuous improvements and technological advantages driven by the continuing growth of online Platforms which are advancing the underwriting process and reducing cost whilst providing a much friendlier user interface and experience for the borrower.

In 2015, the industry experienced significant growth in loan originations and securitisations, driven by borrower demand and increased availability of lending capital from institutional investors. Online lenders have attractive margins and highly scalable models, combined with low overheads, all of which should provide a competitive advantage for future growth.

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Victory Park Capital Advisers LLC, managers of VPC Speciality Lending: Despite the continued growth, the specialty lending sector remains a small part of the overall global credit market, allowing for significant continued market penetration in the coming years. This supports and underpins the sector's long term sustainability.

The securitisation market will be an important driver for growth of the industry as the majority of capital comes from institutional investors that require leverage in order to meet their target returns.

At the end of 2015, the US Federal Reserve finally began to raise interest rates. Although this move was highly anticipated by the markets, it is likely to have a material impact on the global credit markets and the specialty lending sector.

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Jack Perry, chairman, ICG Longbow: The UK economic environment remains stable with steady, if unspectacular, levels of growth coupled with increasing employment. Low levels of new property development have begun to lead to rental growth in most sectors and have driven property values up over the financial year.

These conditions bode well in terms of the ability of borrowers to refinance their loans on maturity but we anticipate that uncertainty surrounding the outcome of the UK's EU membership referendum will temper these conditions in the short term. While the likelihood of a vote to leave remains unclear, an exit vote would undoubtedly lead to an extended period of uncertainty which could indirectly affect the Group's loan portfolio and underlying property values if inward investment and property transaction volumes fall.

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Intermediate Capital Managers Limited, managers of ICG Longbow: The polarisation in the lending market has continued and deepened over 2015, with the

following pricing ranges being apparent in the market between prime/trophy assets through to lower/mid-market in Q4 2015:

- Senior - 1.25% to 3.0% margins (2% to 5% all in)
- Mezzanine - 7.5% to 12.5%
- Whole loans - 4% to 10%

We do not see this differential closing materially over the current year, although it is apparent that some banks are now widening margins by circa 20-40 basis points for senior debt when compared to the levels seen in H2 2015.

Following the Group's year end, the UK Government announced certain changes to the SDLT regime for commercial property, with the top rate levied on purchases increasing from 4% to 5% on the portion of the price in excess of GBP250,000. Further, an additional 3% SDLT charge will be levied on the purchase of additional residential properties (such as buy-to-let and second homes), over and above the currently prevailing rates. The Investment Manager anticipates these additional costs to be absorbed by purchasers and reflected in valuations going forward

Looking forward, as a result of the regulatory environment, recent volatility in fixed income markets and Brexit concerns, we believe that lenders will remain cautious in the short term, albeit the availability of debt capital broadly remains strong in most areas of the market.

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John Hallam, chairman, NB Distressed Debt: The recent decline in many key commodities and investor concern over global growth has resulted in U.S. corporate loan and high yield distressed ratios climbing to their highest levels since 2009. Increased regulation has significantly decreased banks' proprietary balance sheets, reducing liquidity and exacerbating the volatility in the credit markets. In Europe, portfolio loan and asset disposals at banks, including non-performing loans, remain robust.

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Neuberger Berman Investment Advisers LLC, managers of NB Distressed Debt: In 2015, volatility across global markets, caused in large part by a decline in commodity prices and heightened risk aversion, led to a lack of buyers and increasingly limited liquidity across credit markets during the year. Heading into the year end, mark-to-market volatility resulting from a lack of liquidity was compounded by forced selling from hedge funds which were under pressure to raise cash in order to meet redemptions. We believe distressed debt markets will recover.

The number of high-yield bonds trading at distressed levels more than doubled in 2015 to the highest level since 2009. The amount of debt trading with composite spreads of 1,000 bps or higher increased to about $305 billion in 317 issuers (at 31 December 2015) from $66.8 billion in 103 issuers (at 16 November 2014). This number increased further to $317 billion in 344 issuers at 31 March 2016. In addition to the commodity related industries, as of 31 March 2016, basic industry, capital goods, retail, services, technology, telecommunications and transportation sectors all had more than 15% of face value of high yield issuers with Option Adjusted Spreads in excess of 1,000 bps.

Finally, European Union banks still have an estimated €826bn of non-performing loans ("NPLs") currently sitting on the balance sheets of banks supervised by the Single Supervisory Mechanism ("SSM") of the ECB. NPLs in Europe amount to almost 6% of total loans and advances of Europe's banks compared to an equivalent

figure of 3% for the U.S. banking industry. Banks have been announcing plans to offload NPL portfolios and demand continues to be significant.

European banks supervised by the SSM would need to reduce NPLs by an additional €400bn to achieve similar reductions to those in the U.S. We believe that European regulators realise that high NPLs are a drag on economic activity and are working to improve the structure to enable the banks to dispose of the NPLs.

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Werner Schwanberg, chairman, Carador Income Fund: Volatility is expected to continue in 2016 as many factors influencing the market remain unresolved. At this time, the Investment Manager does not anticipate a recession but macro risks have clearly risen. Softening fundamental and technical trends can translate into attractive investment opportunities, which the Company can take advantage of to strengthen its portfolio with CLOs invested in higher spread, higher rated new issue loans as well as secondary loans offered at discounted prices.

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GSO / Blackstone Debt Funds Management LLC: 2015 was another strong year for CLO issuance. The US market saw the second highest issuance on record as CLO managers issued 188 transactions totalling US$97.9 billion, versus 2014 issuance of 235 transactions totalling US$124.1 billion. The number of CLO managers issuing deals fell in 2015 as CLO equity investors became increasingly focused on risk-retention compliant vehicles, and placing of CLO equity was challenged given the sell-off in the secondary CLO market.

Europe experienced its second highest year of issuance since the crisis with 33 transactions pricing for EUR13.6 billion versus 2014's 35 CLOs totalling EUR14.5 billion. The slight year-over-year decline can be attributed to the regulatory headlines, including the leaked drafts of a European Commission risk retention proposal. Once the final proposal was released and digested by investors, the primary CLO market slowly normalised.

US CLO liability costs generally widened during the second half of 2015 with average primary AAA spreads reaching LIBOR+165bp by year-end. This level represents the widest AAA spreads since the beginning of 2011.(6) The bifurcation in the loan and CLO market persisted throughout 2015 resulting in the ability of "top tier" managers to achieve significantly better pricing on CLO liabilities than non-top-tier managers.

In the secondary market, CLO equity valuations declined significantly with the average CLO post-crisis equity price falling 34% in 2015. Discount Margins ("DMs") widened across the capital structure, as seen in the post-crisis CLO portion of the JP Morgan Collateralized Loan Obligation Index. BBs and Bs saw the largest movements as BB DMs increased 227bp and B DMs widened 286bp versus year-end 2014. As at 31 December 2015, DMs for U.S. post-crisis BBs and Bs were 915bps and 1,117bp versus 688bp and 832bp, respectively, as at 31 December 2014.

Strategists anticipate CLO issuance to decline in 2016 and generally forecast US$60-70 billion of issuance in the US, excluding refinancing transactions, given US risk retention rule implementation and a general risk-off sentiment. However, given the further acceleration in volatility seen so far in 2016, Bank of America reduced their full-year forecast to US$45 billion. European CLO issuance in 2016 is projected to be stronger than 2015 with a target of EUR15 billion, benefitting from a benign credit environment supported by an accommodative ECB policy. The involvement of Asian investors in some of 2015's European deals also raises hopes for a more meaningful broadening of the investor base in 2016.

Loan valuations have receded to four-year lows after the market experienced back-to-back losses in Q3 and Q4. Despite the cheapening of prices, we continue to believe the market is in the middle of the correction as overhanging factors such as weakening emerging market growth and an enduring commodity sell off are unlikely to be resolved during the next quarter or two. In our view, distressed and commodity-related loans are most at risk of further weakness. Conversely, we believe high quality loans represent attractive relative value and we expect this segment of the loan market to continue to produce stable, respectable returns in the current low-yield, high-volatility environment. The split BBB/BB segment of the loan market was one of the few areas in the USD-denominated loan universe to close 2015 in positive territory.

CLO equity should benefit from both widening loan asset spreads and par building opportunities available through depressed loan valuations, resulting in increased cash flows. Additionally, we expect that CLO managers will rotate into higher quality loans, improving the credit quality of the underlying CLO portfolios. Perceived liquidity issues, increased rating downgrades, and continued pressure on commodities may add to the market's volatility while at the same time provide interesting investment opportunities.

Given depressed CLO equity NAVs, the market will likely begin to focus on expected cash flows as the primary driver of value. The commodity exposure remains low in the loan market, including in the Company's underlying assets. Active portfolio management will continue to be important, and the Company benefits from GSO / Blackstone's experienced team to actively manage the portfolio and monitor all of its positions, including their underlying assets.

The Investment Manager believes that a downturn in credit will impact CLOs differently this cycle versus 2008. Due to the prevalence of covenant lite loan issuance, we expect defaults will not accelerate materially over the near term. Instead, we view CCC downgrades as a greater near term concern for CLOs which are required to apply market value haircuts to overcollateralization tests for exposures in excess of limits (usually 7.5%). CCC levels in CLO portfolios have increased, primarily as a result of downgrades in commodities-related sectors. Despite totalling just 5.7% of all post-crisis CLOs outstanding, the commodities sector currently accounts for 29.5% of all CCC1 or lower holdings.

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Stuart Cruickshank, chairman, P2P Global Investments: The world of high street banking has awoken to the challenge posed by innovative online lenders who have started to gain a noticeable market share both in the US and the UK. Financial Institutions have reacted differently to the challenge; whilst some have chosen to deploy capital directly via Platforms, others have taken equity stakes, and some have forged distribution partnerships to securitise loans. At the same time, banks continue to re-organise their balance sheets in light of Basel III and other regulations and are only now coming to terms with higher capital requirements, lower return on equity and correspondingly lower share prices. As earnings decline, banks will continue to seek cost savings making investment in technology more challenging.

Platforms are likely to face additional regulatory scrutiny in 2016 as the FCA commences its full consumer credit licencing process for Platforms in the UK. Whilst some newer Platforms may struggle, the more established players are expected to benefit as a result of additional validation from the regulator. Increased regulatory costs may, however, prove to be a near term challenge for Platforms who typically have tight margins.

There is now significant momentum in many other countries. We are beginning to see Platforms make inroads into lending niches such as leasing, property development lending, trade finance and specialist secured lending. Leverage has evolved at a rapid pace through 2015, and rated marketplace securitisations have become commonplace. While it took some time and effort to set up the first facilities, we now see banks and insurance companies competing for our business.

More than ever before, yield opportunities are sparse in financial markets. According to Bloomberg, a record $7 trillion in government bonds are now trading at negative yields*. In non-investment grade credit, prices have declined due to investor concerns and uncertainty over credit risk. The outlook for inflation remains benign and whilst unemployment has declined, meaningful rate increases in the short-term are unlikely.

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P2P Global Investments: From a fundamental point of view, the macro environment remains stable in the United Kingdom. 2015 was the most positive year for UK consumers since 1974 according to Gesellschaft für Konsumforschung (GfK) (GfK Consumer Confidence 2015). The monthly household sentiment index came in above zero in every month of the year. This positive sentiment reflects falling unemployment, increased availability of credit and greater real wage growth. These indicators are at the best levels seen for many years.

The margins on consumer loans have improved over time as write-off rates and bank funding costs reached new lows.

In the United States, consumer confidence has improved since the financial crisis of 2008, as Americans grow more optimistic about the current state of the economy and job market. The jobless rate held at 5% with 292,000 (US Labor Department) people being hired in December 2015, with the consistent reduction in unemployment witnessed since 2011, continuing in 2015.

Consumer loans remain as an attractive asset class both in the US and UK. As the Platforms gain more market share, they are likely to offer further opportunities to an alternative asset class via investing in well-diversified loan portfolios with low duration.

Stable labour markets, low interest rates (despite a first rise) in the US, lower oil prices and increasing consumer confidence are expected to have a positive impact.

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William Frewen, chairman, NB Global Floating Rate Income: The first quarter of 2016 was a challenging one for credit markets as fears over global growth and diverging monetary policies put pressure on asset values in a period of heightened volatility. Whilst volatility is likely to remain a theme for the remainder of the year, your Board believes the senior loan market is well positioned to offer attractive risk-adjusted returns. From a macroeconomic perspective, your Board believes U.S. GDP growth will continue at a modest pace and this should translate to future rate rises, albeit on a more gradual trajectory than originally expected. From a fundamental perspective, your Board believes that the recent pressure on senior loan asset values offers compelling valuations across the asset class.

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Fair Oaks Capital Limited, managers of Fair Oaks Income Fund: While the market expects default rates to increase in 2016, led by commodity-sensitive borrowers, we expect that loans will continue to benefit from their seniority, strong cash flow

coverage and significantly lower commodity exposure than the unsecured high yield market.

We expect defaults to increase in the US loan market and trend towards their long term average. We expect CLOs on average to have lower defaults than the market, given their diversity. We also expect to see increasing differentiation in performance among CLO managers, as evidenced by the range of exposure to the oil and gas sector for example. We continue to believe that technical factors will hold loan price volatility high, benefitting CLO income note investments throughout their reinvestment periods.

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Paul Smith, Premier Fund Managers, manager of Acorn Income Fund: The indications that the major credit markets have diverged have become more prominent of late. We would expect an increase in default rates in the US to push spreads wider going forward, particularly in the high yield market as high-cost energy producers fail to cover cash operating costs in the oil price environment that the market is currently pricing in. Such a widening is likely to unjustifiably permeate into European markets, despite an almost inevitable continuation of loose monetary policy and a solidification of economic growth painting a brighter picture for credit. We expect such a move to present opportunities, particularly in certain areas of the European credit markets, for active investors willing to get their hands dirty with the fundamentals.

In particular, we hold a bias for issuers who derive stable cash-flow from within their own region, which should prove defensive amidst volatility while capturing the benefits of economic growth on the upside. We see value in certain de-leveraging stories, many of which have arisen from the often debt-fuelled M&A activities of the last few years, and in those corporates in a position to comfortably reduce, or indeed invert, capital expenditure without doing so at the expense of their operations.

We note that the US treasury market is pricing in a level of forward inflation that increasingly recognises the possibility of a near-term recession, and remain vigilant to the possibility that in its hesitance to raise rates the Federal Reserve may have missed the cycle, however this in our perception remains a tail risk. We retain our optimistic view on the UK economic recovery, although we would take further comfort in signs of a more balanced recovery being reflected in Purchasing Managers' indices and other economic data. We maintain the short duration position relative to the Sterling bond market going into 2016.

The threat that the Chinese have overleveraged heading into a new slower-growth economy also looms large, while uncertainty over the reliability of Chinese economic data persists. While we continue to consciously limit exposure to Eurozone credit who derive material revenues from China, we would highlight that China accounted for less than 16% of Eurozone exports in the 11 months to November 2015, increasing by 4% YoY while Chinese imports grew by 16%. We therefore view the weakening of European credit indices in sympathy of weak Chinese data as an overreaction, albeit one which markets may well repeat.

We continue to foresee a Chinese slowdown manifesting itself more so in market volatility rather than economic reality, the exception to this view is a depressed demand for commodities, specifically should a shock to Chinese lending markets cause a sharp slowdown in construction. We maintain a cautious position on those corporates exposed to the commodities cycle. An interesting aside will be the impact on any banks which saw fit to finance the North American rush to alternative energy extraction methods in a $100 oil environment.

We expect volatility across UK markets to heighten as we approach the referendum on EU membership, with the risk of a 'Brexit' being compounded by the implication from the SNP that a 'yes' vote would serve as a catalyst for a renewed campaign for an independent Scotland. Despite the previous outcome arguably serving as a litmus test for this time around, given the new found prominence of the SNP in Westminster could well result in similar, if not greater, spike in gilt market volatility and weakness in Sterling than was witnessed in September 2014. As we write this report at the end of March Sterling has already weakened by 6.5% against the euro and 4.6% against the US dollar, year to date.

The outlook for 2016 presents multiple threats. In addition to those aforementioned, idiosyncratic risk which materialised for a number of corporates during 2015, in dramatic fashion in some instances, remains in the forefront of investors' minds. At the time of writing, both bond and equity markets are exhibiting levels of volatility not seen since 2011 and 2012, respectively.

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Private equity

(compare Private equity funds **here**)

Oakley Capital: The overall economic backdrop remained favourable to the strategy. There are increasing opportunities for buyout and cross-border M&A activity in the Funds' core markets. And debt has become very inexpensive, with a narrow spread between the cost of investment grade and high yield funding and growth in alternative debt provision (e.g. mezzanine and high yield).

The biggest challenge facing private equity firms is pricing. Despite increased volatility in capital markets, driven in recent months by falling oil prices and headwinds from emerging markets, asset valuations and investor confidence remains high.

Private equity firms are under pressure to deploy capital, but there is a general scarcity of primary deals especially in the UK mid-market. High valuations need not necessarily cause concern for private equity funds, since they tend to be more confident they can improve portfolio company performance and therefore valuations. However, in these conditions private equity firms may struggle to meet the growth expectations of investors if they cannot find a way to meet the pressure to deploy capital and the requirement to maintain pricing discipline.

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UK property

(compare UK property funds **here**)

Intermediate Capital Managers Limited, managers of ICG Longbow: Following nearly three years of strong capital growth which started in April 2013, property has not been immune from the global re-evaluation of risk and growth expectations across all asset classes. Property investor mentality, which last year was concerned about the risk of being un-invested in a growth market, has now switched this year to being concerned about overpaying in a market where the next move in values for some assets may be downwards.

Following strong capital growth in the first half of 2015, we have observed that aspirational pricing of investment sales based on summer 2015 deals has not always been achieved in Q4 2015. As a result, transactions concluded at year end 2015 were at levels lower than mid-year. However, the mid-year position was not picked up in property carrying values and so, whilst 2015 still showed strong year on year capital growth, a small "invisible correction" occurred in H2 2015.

In the early part of 2016, we have noticed a reduction in transactional volumes in the investment markets, as investors exercise a degree of caution in the run-up to the UK's referendum on EU membership in June. Concerns of a possible 'Brexit' are expected to continue to temper activity levels during H1 2016.

Looking further forward, given the expectation for continued growth in jobs and relatively low levels of new construction of commercial floor-space, rental growth is expected to continue but will moderate to an average of 2.5% per annum, according to the Investment Property Forum forecast. With the Investment Property Forum projecting an average of only 1% per annum capital growth over 2016 to 2019, property returns are expected to be driven by income and rental growth over the next few years. Consequently, the average IPD All Property total return over the next four years is projected to be 6.3% per annum. However, in common with other asset classes, "safe haven" status properties remain in strong demand but some risk assets have been and will continue to be subject to a re-rating. Additionally, we believe that the rental growth expected in Central London offices and in particular City offices, may not be realised if the ongoing global market turmoil impacts on financial sector jobs.

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Christopher Hill, chairman, UK Commercial Property: Total returns for UK real estate appear to have peaked for this cycle and it is anticipated that more normalised returns are in prospect for the next few years. Further, income is likely to be the main component of returns relative to capital growth which has been a key element of returns over the past few years. Despite heightened global uncertainty, consensus projections for UK economic growth remain relatively firm and provide a reasonable backdrop for the UK commercial real estate outlook. Relative to longer term government bonds, the differential in yield between real estate and other asset classes remains significant by historic standards especially with the diminishing prospect of interest rate increases in the near future. The sector remains attractive from a fundamental point of view with robust economic drivers and a relatively limited pipeline of new developments. Our Investment Manager's forecasts point to positive total returns for investors on a three year hold period due to the elevated yield and improving income growth prospects.

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Will Fulton, investment manager, UK Commercial Property: With robust UK economic fundamentals, despite the heightened global uncertainty, our projections are for a reasonably strong UK economic environment in 2016 with consumer spending expected to provide the majority of the impetus, alongside a further improvement in business investment. This provides a solid base for real estate occupier demand, the driver of rental growth. Key risks to our outlook are the forthcoming EU Referendum and weak global growth, particularly among emerging markets. Rising interest rates will be a risk at some stage in the future although yield curves suggest that potential interest rate rises have been pushed out further, a sentiment which is supported by recent comments from the Bank of England.

Total returns for UK real estate look to have peaked for this cycle and it is anticipated that more normalised returns are in prospect for the next few years. Income is likely to

be the main component of returns, as opposed to the strong capital growth we have seen in the recent past, and it is the improvement in levels of rental growth, along with the ability of managers to work their direct property portfolio, which will provide upside for many investors. Despite heightened global uncertainty, projections for UK economic growth remain firm and provide a reasonable backdrop for the domestic real estate outlook. Relative to longer term government bonds, the yield gap of 280bps remains significant by historical standards. The sector remains attractive from a fundamental point of view, with firm economic drivers and a limited pipeline of future developments - we expect positive total returns for investors on a three year hold period due to real estate's stable income profile and improving income growth prospects.

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Richard Barfield, chairman, Standard Life Investments Property Income: The UK economy is expected to continue to grow, although at below trend levels, despite elevated risks both at home and abroad. Occupier markets remain relatively strong which should maintain rental growth momentum over the next few years, although there are signs of some occupiers putting decisions on hold pending greater certainty on the outcome of the EU referendum. However, given the fall in yields for real estate in recent years, which is not expected to continue, and the recent 1% stamp duty rise in the budget, it is anticipated that commercial property returns will moderate with total returns being driven by income.

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Jason Baggaley, manager, Standard Life Investments Property Income: Total returns for UK real estate look to have peaked for this cycle and income is likely to be the main component of returns going forward as opposed to capital growth which has been a key element of returns over the past few years. During the last three months of 2015 yield compression slowed as investors' expectations of interest rate rises grew. That sentiment moderated in the first two months of 2016, to be replaced by a concern over global growth, and the impact that will have on occupier demand. Despite heightened global uncertainty, projections for UK economic growth are likely to remain in positive territory and provide a reasonable backdrop for the domestic real estate outlook. Relative to longer term government bonds, the yield gap remains significant by historic standards, and that should lead to continued investor demand for real estate as investors search for attractive, stable and predictable sources of income. Indeed, the sector remains attractive from a fundamental point of view, with reasonable economic drivers and a limited pipeline of future new developments expected to maintain rental growth. We anticipate reasonable positive total returns for investors on a three year hold period due to the elevated yield and income growth prospects.

The great unknown at the time of writing is what the outcome, and impact, of the referendum on EU membership will be. At the very least one can expect a slowdown in occupier demand in the lead up to it, especially in central London. In the short term at least the rest of the UK is likely to be insulated to some degree. If the vote is to remain in the EU then this slowdown in demand is likely to be temporary. If the vote is to leave, then the impact is not possible to predict currently due to the range of possible outcomes, but will be negative on pricing for the short to medium term at least.

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Chris Russell, chairman, F&C Commercial Property: There are clear signs that investors are adopting a more restrained approach to investing across all asset classes including commercial property. This restraint looks set to continue, given the

volatility of global financial markets and the international macro-economic and political environment. There is also the forthcoming EU referendum which adds a further level of uncertainty and may lead to inactivity in the investment market and indeed the occupational markets.

There is a general consensus that returns will now revert to being more income driven following three years of strong capital performance. Rental growth is expected to be positive at the all-property level, particularly on prime assets, but rates of growth are expected to moderate over the next few years.

Finally, while the environment in the last several years has been positive for property investment, your Board and the Managers are mindful that this remains a cyclical business.

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Richard Kirby, manager, F&C Commercial Property: UK property is performing well, and the Governor of the Bank of England's announcement in January 2016 that he believes that there is no need to raise interest rates imminently bodes well for both the investment and occupational property markets. However there are clear headwinds with the economic effects of the slowdown in China, higher US interest rates, sluggish growth in the Eurozone and lower oil prices all potential issues; especially if they lead to reduced or reversed investment and capital flows from Asia and the Middle East in particular. The outcome of the EU referendum is unclear and this could lead to uncertainty and inactivity, with investors holding back until the result is known. In the occupational markets tenants may also delay making important decisions until the result. As a generality the EU referendum may be disruptive to the markets.

Within property, the reforms to the rating system are a further area of uncertainty. We believe that the era of double digit total returns has drawn to a close and the market has entered a period when income is the main driver of total returns. The Property Managers are forecasting a market total return of circa 6.5 per cent for 2016 and that total returns in the five years to 2020 will average 5.0 per cent per annum. In light of such an outlook, the ability to deliver on opportunities within the portfolio that grow the income stream will be critical. We continue to favour Central London retail, quality logistics and South East offices but also recognise the importance of stock-specific selection. We remain wary of secondary stock in weaker or non-established locations

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European property

PM Partners, managers of Phoenix Spree Deutschland: The outlook for the German residential market, and in particular Berlin, remains positive going into 2016. Population growth in the major urban areas, combined with limited supply, has driven an upward trend in rents and property prices, which is expected to continue into the medium term. With property values still below the replacement cost, new supply of rental housing is restricted to a limited number of high-value areas. PMM believes that prices would need to rise further before the supply and demand imbalance is addressed

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Redefine International: The UK economy continues to show positive fundamentals with low unemployment, low inflation, nominal wage growth and stronger retail sales.

Notwithstanding this, current sentiment is weak, partly due to uncertainty around the pending EU referendum. The economy in the Eurozone continues to recover gradually and we believe German assets will benefit from continued low interest rates and a pick-up in occupier demand.

We see supportive occupational markets across the majority of sectors in which we operate. Our regionally dominant shopping centres are close to being fully occupied and are largely weighted towards non-discretionary consumer spending. Tenant demand in sectors such as discount, convenience and leisure remains robust. At the majority of our retail parks, we have had encouraging occupier demand from national retailers with the total supply of retail space in the UK now at a 14 year low.

Our hotel portfolio, which is largely London focused, continues to benefit from strong demand and a positive outlook for 2016, in spite of the softer start to the year. Average occupancy rates are expected to reach the highest levels for a decade which should more than offset the anticipated increase in supply in 2016 onwards.

In our commercial portfolio, limited availability of grade A space, particularly in regional offices, is supportive of rental values. The distribution sector is currently experiencing a positive structural change, with strong occupier demand and potential for further rental growth.

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QuotedData

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