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Monthly summary | Investment Companies

8 June 2016

Economic & Political Roundup

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

Global

Central bankers and governments are doing all they can to buoy markets but questions are being asked about the effectiveness of intervention.

James Will, chairman of Scottish Investment Trust, believes politicians and central banks appear inclined to tailor policies to buoy markets. Joe Bauenfreund, manager of British Empire, thinks the ability of quantitative easing to kick-start economic growth is being called into question. Rod Kent, chairman of Caledonia, and Will Wyatt, its chief executive, say equity markets seem expensive but investors have few alternative options, with bond yields at record lows.

UK

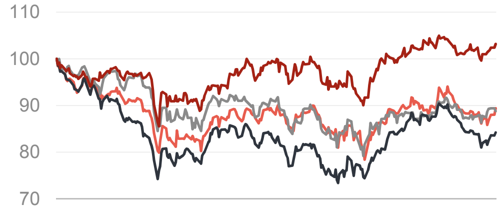
Worries about the EU referendum and the US election are commonplace. Generally, directors and managers are downbeat – citing concerns about fragile economic growth, corporate profitability and dividend cuts, in addition to the uncertain political backdrop. Nick Train provides a lone upbeat voice.

Anthony Davidson, chairman of Shires Income, draws attention to the EU referendum, the US election, US interest rate rises and the economic performance of Europe and China. He says, with so much uncertainty, it is not surprising that markets remain volatile - Jim Pettigrew, chairman of Edinburgh Investment Trust, makes much the same point. (….continued overleaf).

Exchange Rate	31/05/16	Chg. on month %
USD / GBP	14483	(0.9)
USD / EUR	0.8983	2.9
USD / JPY	110.73	4.0
USD / CHF	0.9939	3.5
USD / CNY	6.5854	1.7

MSCI Indices rebased to 100

Time period 31/05/15 to 31/05/16



Source: Bloomberg and Marten & Co

	31/05/16	Chg. on month %
Oil (Brent)	49.69	3.2
Gold	1215.32	(6.0)
US Tsy 10 yr yield	1.8458	0.7
UK Gilt 10 yr yield	1.429	(10.5)
Bund 10 yr yield	0.138	(49.1)

UK… continued from page 1

The managers of Shires Income say the key question is whether China can avoid a hard landing but points out that the Chinese authorities have conventional policy levers that can be used to address economic weakness. Mark Barnett, manager of Edinburgh Investment Trust, thinks earnings growth in many sectors may disappoint and overall returns from equities may be subdued for the time being. Thomas Moore, manager of Standard Life Equity Income, says share prices have, in the short-term, decoupled from earnings and dividend fundamentals. He is cautious on large cap stocks. The managers of Schroder Income Growth think total market dividend growth will be below recent levels. Steven Bates, chairman of F&C Capital & Income, says the adjustment to the global economy that began after the financial crisis still has many more years to run and the corollary of this is low growth, inflation and interest rates. Sarah Emly and John Baker, managers of JPMorgan Income & Capital, say the UK economy is still too reliant on domestic consumption and suggest investors are becoming more concerned about the UK's public finances. By contrast, Nick Train, manager of Finsbury Growth & Income, cites buoyant M&A activity, the prospect of much improved productivity, low oil and raw material prices as reasons to be cheerful.

Europe

Politics are a concern but, while some believe the ECB's actions will support economic growth, others are less certain

Dale Robertson, manager of The European Trust, is more concerned about political risks within Europe than economic ones. He thinks the current rise of populist parties might be exacerbated by a UK exit from the EU. Jim Campbell and Francesco Conte, managers of JPMorgan European Smaller Companies, see a good chance of an economic upturn in the global economy in the second half of the year. Rodney Dennis, chairman of Henderson European Focus Trust, is uneasy about a negative interest rate policy in the EU.

Asia ex Japan

Significant potential for market rebound if there are signs of a recovery in global trade and growth

Harry Wells, chairman of Martin Currie Asia Unconstrained, acknowledges the problems China faces as it seeks to stimulate growth against a backdrop of excessive debt levels in its economy. He thinks though that there is significant potential for a rebound in markets if there are signs of a recovery in global trade and growth. The manager of that fund talks us through the major markets in Asia. He is paying close attention to corporate credit markets in Asia as the pace of maturities starts to rise. He thinks there is a chance that corporate earnings could exceed expectations

China

Chinese economy showing signs of recovery and this should lead to further renminbi stabilisation.

William Knight, chairman of JPMorgan Chinese, observes that the Chinese economy is showing signs of recovery but says that the key risk is the potential for overheating and the resultant inflationary pressure given the sharp acceleration of growth in the property sector. The managers are expecting the economy to continue to recover and say that this will be supportive of further renminbi stabilisation. They also say that, on the structural reform front, government focus is on supply side reform, which is the right direction in their opinion to better allocate capital to higher return sectors.

India

Economic growth subdued by Indian standards but there are signs of firming demand for basic products giving hope that a cyclical upturn in activity may have begun.

Richard Burns, chairman of JPMorgan Indian, comments that economic growth has been subdued by Indian standards and that corporate profits are tending to fall short of expectations. Nevertheless, he sees signs of firming demand for such basic products as electricity, cement and diesel fuel, which gives him hope that the long awaited cyclical upturn in activity may have begun.

Japan

Outlook for Japanese equities will largely be determined by changes in the US dollar/yen exchange rate. There are concerns over structural reform and whether a self-sustaining economic cycle can develop.

Andrew Fleming, chairman of JPMorgan Japanese, thinks that the outlook for Japanese equities, over the next six months, will largely be determined by changes in the US dollar/yen exchange rate to which it has recently been exhibiting a more than usually high correlation. He also observes continuing doubts about structural reform and whether higher corporate profitability, partly engineered by the weaker yen exchange rate, will feed through to higher wages. He sees this as a requirement if a self-sustaining economic cycle can develop in Japan.

Biotechnology & healthcare

Drug pricing controls will not pass into US law in the near or medium term. Large-cap valuations look quite compelling.

Sven Borho, manager of The Biotech Growth Trust holds the view that efforts to control drug pricing and reimbursement by government will not pass into law in the near or medium term, in the US, and that, emerging biotechnology companies have become more attractive targets for potential acquirers. James Robinson, chairman of Polar Capital Global Healthcare, believes that: valuations across large cap healthcare have become quite compelling and the sector looks cheap on both a relative and an absolute basis. Dr Daniel Mahony and Mr Gareth Powell, managers of Polar Capital Global Healthcare think that the political overhang may persist until the U.S. elections in November this year, but that the valuation case for healthcare is compelling.

Infrastructure

Excess demand has been driving down yields.

Ian Reeves CBE, chairman of GCP Infrastructure thinks that investors have been attracted by the perceived stability and dependability of UK infrastructure investments and that the supply of new assets has not matched this investor appetite, resulting in a highly competitive secondary market with the imbalance between supply and demand driving down yields.

Private equity

Risk assets, including private equity, have an extraordinary run on the back of low interest rates. It seems unlikely that this can continue indefinitely.

Michael Bunbury, chairman, HarbourVest Private Equity comments that risk assets, including private equity backed companies, have had an extraordinary run. He thinks that low interest rates have underpinned the prices of many risk assets and encouraged a positive surge of realisations. He finds it hard to believe that such benign conditions can continue indefinitely.

UK property

A Brexit would question the sustainability of employment in financial services in London. Global uncertainties are affecting investor confidence.

Caroline Burton, the chairman of TR Property, thinks that a decision to leave the EU would raise questions as to the long-term sustainability of employment in financial services in London. Toby Courtauld, chief executive of Great Portland Estates, holds the view that global economic and political uncertainties, including the upcoming EU referendum, are affecting broader business confidence and investor appetite.

Contents

Global

(compare Global funds **here**)

James Will, chairman, Scottish Investment Trust: Investors have become accustomed to very low interest rates and a skittish market reaction has persuaded the US Federal Reserve to pause on a path to normalise interest rates. The reaction to the imposition of negative interest rates in Japan has suggested that this policy will not be readily applied to other major economies. Generally speaking, politicians and central banks remain sensitive to stockmarket movements and appear inclined to tailor policies to buoy markets, albeit their efforts may not have an immediate impact. The slowdown in the Chinese economy, despite some recent signs of stability, remains a source of concern while the outcome of the forthcoming referendum regarding UK membership of the European Union is likely to influence sterling and has the potential to impact markets more generally. In this environment, while equities are not obviously cheap, they appear to offer attractions over many other asset classes, given the prospect for dividend income and the inherent modicum of inflation protection.

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Joe Bauernfreund, Asset Value Investors Limited, managers of British Empire: The market environment remains challenging. Economic growth has not been as strong as hoped. The ability of QE to kick-start economic growth is being called into question and its effect on stockmarkets seems to be fading. The US Federal Reserve has started tentatively to raise interest rates, whilst central banks in Europe and Japan remain on an easing path given weak economic growth in these regions. There is a great deal of tension in markets and this has been visible in the degree of volatility across all asset classes which we have seen thus far in 2016. It may well continue for a while.

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Rod Kent, chairman, and Will Wyatt, chief executive, Caledonia: We are faced with several seminal moments this year. There is a referendum on British membership of the EU and the US Presidential election, both of which have the potential to destabilise the existing order. There is a lack of fundamental confidence in GDP growth, be it in China, the US, Europe, or at home in the UK. The central bankers have utilised extreme monetary policies to stimulate economies without much effect and seemingly have few tools to bring to bear if growth deteriorates. Equity markets have witnessed a prolonged period of growth but are seemingly expensive, perhaps lacking the underlying earnings growth from companies to justify those valuations. However, investors have few alternative options, with bond yields at record lows.

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UK

(compare UK funds **here**)

Anthony B. Davidson, chairman, Shires Income: Economies in both the USA and UK continued to grow over the year. We have also seen a Conservative election victory which has resulted in the electorate being given an opportunity to vote on the UK's continued membership of the European Union. The prospect of the UK leaving the European Union has increased uncertainty in the markets and contributed to some companies delaying investment decisions. In the USA we are witnessing a highly divisive nomination process for the Republican and the Democratic presidential candidates. The outcomes of both these elections could have an effect on financial markets, global economic growth and diplomatic relations.

The markets continue to watch with much anticipation for the Federal Reserve's next upward move in interest rates and are also concerned about the strength of the European recovery and whether further stimulatory measures will be required. China continues to be the subject of much commentary given its economic growth is at its slowest rate in 25 years. This has resulted in the authorities allowing the Renminbi to devalue and this is already becoming a source of tension with US authorities. Additional uncertainty is also being created by the continuing weakness of oil and commodity prices.

With so much uncertainty, it is not surprising that markets remain volatile.

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Aberdeen Asset Managers, managers of Shires Income:

Prospects for the global economy appear to be just the right side of the 3% growth long held to be the level required to stave off a global recession. China will be central to the achievement or otherwise of this target. The key question is whether China can avoid a hard landing. With an expectation of growth of 6.2% in 2016 this looks achievable but it is worth remembering that these forecasts have been steadily trending downwards for some time. The Chinese authorities have tilted policy away from reform and towards fiscal stimulus and for the time being this looks set to support growth. However, in the event that this is unsuccessful there is the potential that the authorities will seek to boost the economy with a further devaluation of the renminbi, this in turn would add to deflationary pressures in developed markets. Positively they do retain conventional policy levers that can be used to address further economic weakness.

The US delivered disappointing growth in early 2016. However, the fundamentals still look sound, despite the impact of a strong currency, sluggish global demand and subdued oil and gas spending. The Federal Reserve is indicating that the interest rate cycle is likely to be shallower than originally anticipated, with no further increases in interest rates expected until late this year. Investors still have no real idea how markets will respond to a tightening interest rate cycle.

In the UK the recovery is continuing and forecasts have recently been revised marginally upwards. However the economy is regarded as sufficiently fragile that the timing of interest rate increases keeps being pushed further out. Sterling has weakened in response to the announcement of the referendum on membership of the European Union. That has in conjunction with an upturn in commodity prices, wage growth and a decline in spare capacity resulted in a pick-up in inflation expectations for 2016. However, these still remain very low for this year it seems likely that any increase in interest rates is still some way away. Indeed some commentators are now suggesting that there will be no change until 2019. The uncertainty caused by the referendum is also unhelpful in the context of both investor and corporate sentiment. However, companies are reporting that though life is difficult they are coping. Although the oil price has bounced from its lows, profits from commodity producers are still under pressure. This has led to a further downgrade to forecast earnings for the domestic economy, such that despite expectations for Gross Domestic Product growth holding steady at near 2% we face a fifth consecutive year of negative aggregate earnings growth.

The European recovery remains on track, though it needs to be remembered just how much stimulus is being required to deliver expansion that is still far from inspiring. Indeed, with the risks seemingly weighted to the downside there remains the possibility that additional stimulus will be required.

Emerging markets have shown some recovery aided by improving commodity prices and the belief that developed market interest rates will rise even more slowly than previously thought.

With so much uncertainty it is not surprising that markets are volatile, though the extent of some share price moves has been greater than might have been anticipated. Equity valuations appear quite full, multiples are towards the upper end of a normal range whilst expectations for profit growth are more muted. Yields do though provide some support especially when equities are compared to other asset classes.

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Jim Pettigrew, chairman, Edinburgh Investment Trust: As was the case this time last year, the path of the UK equity market has many obstacles to overcome. Globally there are a number of uncertainties including the strength and sustainability of the economic recovery, geopolitical risks, the work-out of high debt levels in China and certain emerging markets, and the pace at which the US Federal Reserve will raise short term interest rates. These are exacerbated by the referendum on 23 June 2016 that will decide if the UK remains in or leaves the Eurozone, not to mention the US presidential election in November.

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Mark Barnett portfolio manager, Edinburgh Investment Trust: The near term outlook for the UK stock market is likely to remain clouded by a muted macro-economic backdrop in the global economy and increased pressure on profitability in the corporate sector. The multiyear monetary policy of setting interest rates at close to zero has not stimulated capital investment. Rather, companies have contained costs, particularly wages, and have used low financing costs to buy back their own stock. Whilst good for profit margins and shareholder returns in the short term, the result has been a level of economic growth in the developed world which is below historic averages. Another side effect has been to widen income inequality in many developed market economies, prompting incumbent governments, increasingly wary of more populist movements, to redress the balance - measures have included increasing minimum wages and tackling corporate tax arbitrage. Combined with some natural wage pressure from tighter labour markets in the US, this is beginning to threaten corporate profit margins.

The collapse in energy prices and the relentless drive of digital technology have entrenched low inflation expectations such that, combined with the factors outlined above; the global economy faces an ongoing lack of pricing power. This in turn has restrained the level of turnover growth in many industries, while any rebound in energy prices or pick up in employment costs may not easily be passed on.

The overall implications for the UK stock market, which is highly global in its make-up, are that earnings growth in many sectors may disappoint. Given that valuations are not obviously cheap, overall returns from equities may be expected to be subdued for the time being. The volatility witnessed since the start of 2016, partly caused by nervousness over financial stability in China, is also likely to remain a feature of the investment landscape for the remainder of the year.

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Thomas Moore, manager, Standard Life Equity Income: Given the backdrop of subdued global GDP growth, low interest rates, low inflation, political uncertainty, market volatility, market liquidity concerns and high valuations, it is understandable that returns have become more subdued in recent months across the majority of asset classes, including UK equities.

During the rest of 2016, investors will monitor economic uncertainties such as the normalisation of interest rate policy in the US, ongoing unconventional monetary policy in Europe and Japan and economic rebalancing in China. There are also political uncertainties, such as the UK's referendum on Europe, the US presidential election, geopolitical tensions involving Russia and Europe's ongoing migrant crisis. While this will remain a nervous period for investors, it is our House View that the global economy is not heading for another economic recession.

The headline dividend yield of the UK equity market appears attractive relative to other asset classes. Indeed, the gap between dividend yields and bond yields is now at a very attractive level. However, this yield premium partly reflects well-founded investor caution towards equities given the ongoing threat of dividend cuts. During the period under review, several FTSE 100 companies reduced or passed their dividends in response to weakening dividend cover and stretched balance sheets. This highlights the increasing challenge faced by equity income investors and the benefits of an index-agnostic approach to income investing in sustaining a growing income stream through turbulent times.

The UK consumer continues to enjoy favourable conditions, including rising real wages, disposable incomes and employment.

Share prices have, in the short term, decoupled from earnings and dividend fundamentals. The sharp rotation into large-cap stocks and away from small- and mid-cap stocks can be linked to a combination of macroeconomic uncertainty and investor positioning. We remain cautious on high-yield large-cap stocks whose dividend growth prospects are likely to be thwarted by their low dividend cover and slow growth.

At the same time, we also remain cautious towards low-yielding defensive large-cap stocks whose high valuations make them vulnerable to an increase in bond yields. Our preference is for stocks with sustainable yield, whose dividends are supported by the strength of their earnings, cash-flows and balance sheets.

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Schroder Investment Management Limited, managers of Schroder Income Growth: Aggregate market valuations are no more attractive now than at the start of the year - as profits downgrades come through and while the economy is being negatively affected by further austerity arising out of the Budget announcements and our proximity to Europe, where economic activity continues to remain subdued. Much of the uncertainty around the EU Referendum is currently expressed through the foreign exchange markets, with sterling weakening since the start of the year. This provides a risk to inflation but at the same time benefits a range of companies in terms of competitiveness and domestic revenue.

In the short term, the possibility of Brexit creates unwelcome uncertainty for both markets and businesses. Whilst domestic consumer cyclical businesses and financials are most exposed, the stock market is well diversified geographically, with 70% and 54% of revenues in FTSE 100 and FTSE 250 companies respectively, coming from overseas. Given the slow growth environment, weakness in profits and the already high proportion of profits paid as dividends, we expect total market dividend growth to be below recent levels.

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Peter Troughton CBE, chairman, Lowland: The economy is growing at reasonable pace. The US economy is expected to maintain its growth rate and Europe appears to be returning to modest growth after stimulation by the European Central Bank. This is a decent background for equity investment. Growth is good, but subdued enough to delay interest rate rises.

The benefits of the fall in the oil price to the headline annual inflation rate will soon diminish. At the time of writing, the uncertainties surrounding the Brexit vote are also a concern. We are conscious that much of British industry is experiencing challenging conditions but overall we remain comfortable with our overweight positions in the Industrials sector. The UK companies we hold in the portfolio are growing as a result of the competitiveness of their products.

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Steven Bates, chairman, F&C Capital & Income: It is now eight years since the start of the Global Financial Crisis. At that time, there were some things which seemed likely to flow from what has shaped up to be the most significant financial crisis of our lifetimes. The first was that there would be a long period of adjustment which was needed to correct the excesses of debt that had built up in the financial system. In turn, this would nurture an environment of low growth and very subdued inflation.

Eight years on, are we any closer to a return to normality? Most investors think that current policies represent normality. Unfortunately they don't. The unorthodox monetary policy which has generally been referred to as Quantitative Easing (QE) is itself evidence that things aren't normal.

The first half of your Company's financial year gave us a rather unpleasant preview of what might happen if and when monetary policy does begin to return to normal. At the end of 2015, the Federal Reserve in the US, which had been signalling a rise in interest rates for many months, acted to tighten monetary policy. At the start of 2016, weakness in the Chinese economy together with a strong dollar and very weak commodity prices combined to set off a significant tumble in the markets. Global financial conditions are not robust enough to deal with an economic slowdown, and various actions were taken to remove the negative influences. By the end of March, the ship had stabilised and things were back to 'normal', if that is the right word for a world of low growth, deflation and negative interest rates.

In the UK, economic activity has been reasonably good in a cyclical sense, with fiscal consolidation (or austerity) an important factor in boosting investor confidence. In the short run, this is being unsettled by BREXIT considerations which have affected currency markets and economic activity. This represents an increase in the risk premium demanded by investors for holding assets in the UK and is likely to persist until after the referendum or until markets become convinced as to the outcome.

In the meantime, some companies are struggling to maintain sales and earnings. There have been significant downgrades in what were typically over-optimistic expectations. Global growth is not strong enough to see volume increases and pricing remains difficult given that consumers, while employed, are not seeing the level of income growth which would normally characterise a typical economic expansion of the duration we are experiencing. As a result of this, dividends in certain sectors (for example, oil, mining, banks) are under pressure. The current weakness of Sterling is a possible offset to the pressure on earnings and could both support dividends and provide a short-term boost to inflation. Over the longer term, the level of the currency will depend, amongst other things, on the BREXIT vote.

It seems likely that, in the absence of a macro-economic shock such as BREXIT, monetary policy in the UK is set to be very relaxed for the foreseeable future as the Government continues to attempt to reduce the size of the State. This is a reasonably benign environment for equity markets.

Some investors will no doubt remember the 'Goldilocks' markets of the 1990's - a golden era when the economy was not too hot, not too cold, but just right. This fostered high returns in equity markets which we can only view with nostalgia. Today's reality is that the adjustment to the global economy which began after the Global Financial Crisis still has many more years to run. The corollary of this is that growth will remain sub-par, as will inflation and interest rates. Profits at companies may be subdued, but equity markets are not down and out in this climate. Instead, low or even negative interest rates encourage investors to take risks and there are few assets of any sort which offer prospective real returns in the way that dividend paying equities can.

There remain problems in the financial system and of course in geo-politics with any number of possible hotspots, including our very own contribution to the genre in the shape of a potential BREXIT. Nevertheless, the capacity and desire of both governments and central banks to avoid a meltdown is a signal that, for now, we remain on an even keel, even if absolute returns are unlikely to be especially generous.

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Iain McLaren, chairman, Investors Capital: Looking to the year ahead, headwinds from the slowdown in emerging market economies, the collapse of commodity prices and elevated geopolitical tensions are likely to dampen economic growth prospects. This suggests the modest, below-trend and divergent economic recovery of recent years may well continue. In the UK, uncertainty over the outcome of the forthcoming EU referendum is likely to weigh on investor sentiment in the near term. Notwithstanding the rise in US interest rates, with inflation in developed economies well below Central Banks' targets, global monetary conditions are likely to remain supportive for financial markets while at the same time corporate sector fundamentals remain reasonable.

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Sarah Emly and John Baker, investment managers, JPMorgan Income & Capital: Economically, we continue to live in a world of very low numbers: growth, inflation and consequently interest rates are all likely to remain at historically low levels for the foreseeable future. Worryingly, too many economies remain buoyed by debt, QE and low interest rates to be regarded as healthy. Growth has been sufficiently strong in the US to merit a rise in interest rates but this is likely to be the exception and will not presage a round of global interest rate rises.

Whilst the UK economy continues to be one of the strongest in the developed world, it is still too reliant on domestic consumption (rather than manufacturing and exports) for its growth. The UK Treasury continues to struggle to control public finances. In spite of one of the biggest fiscal consolidations of the post-war period, it is becoming an increasing concern to investors that, four years from now, the UK might not (despite Chancellor Osborne's legal commitment!) be in annual surplus.

The impending EU referendum is looking increasingly difficult to call. Against this backdrop sterling is likely to be weak. With the exception of the oil and mining stocks, the majority of quoted UK companies are still in reasonable shape with generally strong balance sheets and proven management. Valuations for such strong companies, whilst not cheap, are reasonable value on many yardsticks provided a global recession can be averted, which we think it can. A yield of approximately 4% on the UK market is ostensibly attractive although dividends will probably fall in aggregate this year. Against such a tough backdrop, stock specific risk is increasing and any disappointments are likely to be treated harshly.

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Nick Train, manager, Finsbury Growth & Income: According to the Bloomberg M&A tracker, 2015 was the biggest year ever for global deal-making. There was over $5.6 trillion of deals in 2015, struck at an average premium of 24%. That total was up 27% on 2014 and more than 16% over he previous peak year of 2007. So far in 2016 there have already been circa 11,000 announced transactions, amounting to $1.2 trillion - at pretty much the same run rate as last year. Meanwhile, it is commonly held that equity markets are expensive and afflicted by numerous macro-economic problems. BUT SOMEONE SEEMS TO HAVE FORGOTTEN TO TELL COMPANIES THEY SHOULD BE WORRIED.

We think it is important to listen to what Business is saying about its opportunities for growth and the strategic values it sees in stock markets and to ignore the macro-pessimists. Companies clearly think there is plenty to do and plenty to go for in markets. And according to Willis Towers Watson's analysis of 2015's deal activity they are correct - acquirers closing deals last year outperformed the MSCI World Index by over 10%. In other words and critically - not only do companies self-evidently see value in stock markets, their investors are willing to reward them for getting on with it.

This is great news because it is clear from a historical perspective that successive waves of M&A have been instrumental in the propagation of more successful corporate cultures or more advanced technologies. The stronger and smarter assimilate the weaker or more backward. Takeovers are the means whereby "creative destruction" is actually delivered.

Read what Warren Buffett had to say in his 2016 investors' letter: "At much of corporate America truly major gains in productivity are possible." It is clear that the corporations know this too because we can see them behaving accordingly. A recurrent theme at our meetings with companies is how much more they have still to gain from "zero-based budgeting" ("ZBB") and productivity to be derived from technology. In addition, when you factor in the collapse of energy and raw material prices - Oil close to its lowest inflation-adjusted price ever, according to Bloomberg - you have the basis for big positive earnings surprises as 2016 progresses. This combination of cheaper input costs and M&A-derived savings points to an as yet unanticipated profit boom. And if that cheaper energy ever feeds through to improving consumer confidence and spending, well...

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Europe

(compare European funds **here**)

Dale Robertson, manager, European Investment Trust:

It is our belief that within Europe the outlook for relatively stable economic growth remains intact, given that there appears to be little incentive to withdraw the monetary stimulus introduced by the European Central Bank. Accordingly, we do not believe that there is a significant probability of a serious economic downturn or recession within Europe.

Political risks are arguably more of a concern than economic risks at present. The political landscape in recent years has seen some fairly fundamental shifts. In a number of elections across Europe, both national and regional, we have seen electoral fragmentation, with many mainstream parties losing out to more populist parties, which appeal to discontented voters.

This elevated level of political risk is exacerbated by the current Brexit referendum campaign. UK-based analysis of the implications of a vote for the UK to leave the European Union ("EU") is understandably focused on the outlook for the UK's economy, currency and stock market. However, the Brexit implications for Europe are just as significant, if not more so. Populist movements might gain momentum and there might be doubts surrounding the cohesion of the EU. This could cause issues for the future of the euro as well as for European economies and stock markets. However, we should be aware that, since its inception, the EU has had a proven ability to reconcile the often competing interests of its member countries and may be able to deal with a UK exit.

At the beginning of 2016, equity markets fell sharply worldwide. Whilst a healthy correction had been occurring since the middle of last year, we considered a number of the reasons attributed to the falls were erroneous. Specifically, we are more relaxed about the long-term outlook for China and we view lower oil and commodity prices as a positive stimulus for many European economies.

Overall, European economic growth prospects are adequate and valuations after the sharp falls and the recent rebound offer reasonable long-term returns. The most critical risk for European equity markets at the present time is expected to be from political developments within Europe and/or extraneous factors.

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Jim Campbell and Francesco Conte, investment managers, JPMorgan Euopean Smaller Companies: Despite the difficult and volatile markets that we are experiencing, the macroeconomic outlook on balance seems to be improving. We are becoming more constructive on the global economy for several reasons. President Draghi's additional quantitative easing has put pressure on the US Federal Reserve to keep its interest rate increases on hold. In turn this has weakened the US dollar which has been beneficial for commodities and emerging markets. This, coupled with a revival in European and Chinese lending, bodes well for an economic upturn of the global economy in the second half of this year, as evidenced from improving Citi economic surprise indices. A source of near term uncertainty is the referendum on Brexit and we continue to watch events closely.

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Rodney Dennis, chairman, Henderson European Focus: This time last year I made reference to the importance of the effect of currencies on equity market performance. Recent months have, once again, demonstrated this phenomenon: it is telling, for example, that a strong Yen has gone hand in hand with a weak Japanese equity market, a strong Euro has been a bedfellow of weakness in European equities while the US and UK equity markets have "benefited" from respective weaker currencies. I make reference to this merely to underline the importance of macro factors on equity market behaviour. Another important factor, to which we have also referred in the past, is central bankers and their monetary experiments. Recent moves by Mario Draghi to take the Eurozone into negative interest rate policy are indeed extraordinary actions, the long term result of which are unclear, though we cannot help harbour a sense of unease. Finally, the referendum on Britain's membership of the European Union in late June could result in a period of currency and market volatility as expectations adjust to events.

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Asia ex Japan

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

Harry Wells, chairman, Martin Currie Asia Unconstrained: The Bank of Japan's move to a Negative Interest Rate Policy ('NIRP') in January 2016, one of five central banks to do so, highlights unprecedented global monetary conditions with a high proportion of sovereign bonds trading at negative yields. This is symptomatic of powerful deflationary forces emanating largely from the shrinkage of bloated Chinese capacity after a generation of stellar growth. World trade indicators are not indicative of a new growth cycle. Equally, the US recovery has so far had insufficient traction for the Federal Reserve to consider further rate hikes. The debate in developed economies has now moved on towards the deployment of neo- Keynesian fiscal policies by central banks as monetary policy alone appears to have lacked the efficacy and channels for reflation.

Of immediate concern is the return to fiscal stimulus and credit creation by the Chinese authorities. This has appeared temporarily to stabilise the economy. However, this renewed stimulus is only exacerbating the already heavy debt position evident in manufacturing, real estate, State Owned Enterprise ('SOE'), local government and the banks. Hence in turn, this could potentially lead to yet more global deflation as the debt overhang needs to be worked out of the system. At least capital outflows appear to have ameliorated for now with the rush to pay down US dollar borrowings slowing and hence the currency and the level of foreign exchange reserves have stabilised for the time being.

Geopolitical tensions still simmer around the region which inevitably engenders uncertainty affecting market confidence. Still, one must not forget that Asian countries are growing at far superior nominal rates of economic growth compared to Western economies. Asian governments are in a much sounder position to initiate fiscal stimulus through infrastructure and urbanisation programmes, while disposable per capita incomes are generally rising, underpinning consumption. Consequently, there are always opportunities to source investment returns in well-managed businesses especially as equity valuations in the region are not stretched. All this bodes well for secular growth over time although accompanied by inevitable volatility.

World markets have experienced wide gyrations over the last year and currency and commodity volatility has played a part in undermining confidence in equities. Despite the challenges in the current investment environment, there is still scope from a stock picking perspective to exploit some significant opportunities and secular themes, not least enabling technologies and the insatiable rise of digital commerce. Importantly, Asia is also not all about China and the likes of India and Indonesia are important and growing markets in their own right, while interregional trade continues to grow.

Asian markets and valuations may be cheap from an historical perspective, but they need catalysts. There is significant potential for a rebound with any changes in perception suggesting a recovery in global trade and growth. Even without that, the consumption metrics still underpin the indigenous Asian growth story.

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Andrew Graham, manager, Martin Currie Asia Unconstrained:

China

Despite the recent rebound in Asian markets, sentiment towards China's currency remains fragile. Although the pace of decline in foreign reserves has slowed, and the renminbi appears to be trading in a much tighter band, we still think that the Chinese authorities want a managed decline of the renminbi versus the US dollar. Meanwhile, indicators of improvement in China's economy are patchy. As I write this report, China has released preliminary real GDP data for the quarter to the end of March, showing 6.7% growth. This is in line with the expectations of most economists and the growth target of the Chinese leadership. However, it has been supported by the creation of substantial amounts of new credit with total aggregate financing of CNY6.52 trillion (just over US$1 trillion) in the quarter. As a result, we saw fixed asset investment growth of almost 11% year on year; it would appear, therefore, that the government has returned to using some of its favoured levers from the past to boost growth.

India

In India, the pace of growth has fallen short of the high expectations set by the post-election Modi hype. Disappointing economic activity, lower-than-expected headline inflation, and tight liquidity conditions all provide potential reasons for the Reserve Bank of India (RBI) to ease monetary policy. Further rate cuts are possible before the year end. However, the RBI could wait to gauge monsoon patterns before acting. India has suffered two consecutive years of drought, so a good monsoon this year would be a welcome relief, with immediate benefits to rural consumption. The early indication from India's meteorological office is that the monsoon will be above normal.

ASEAN

Elsewhere in the region, the Association of Southeast Asian Nations ('ASEAN') markets have been subdued against a backdrop of sluggish export recovery. On the plus side, the region's central banks are expected to maintain accommodative stances, which should be supported by additional fiscal measures in several countries. Indonesia, in particular, cut its policy rates in the first quarter of 2016, taking advantage of the breathing space afforded by the delay of further US interest rate increases. The rupiah has stabilised and President Joko Widodo appears to be regaining political credibility, which has filtered through into improved business confidence. Deployment of public infrastructure spending, combined with the declining cost of capital as rates fall, is feeding a revival in private investment growth.

Summary

Looking at the region as a whole, it has been dealing with the challenges of excess capacity and the loss of corporate pricing power for some time. We expect these challenges, and subsequent disinflationary pressures, to persist in the near term.

Commodity prices have bounced from their lows but, with physical markets still over supplied, there is scope for prices to fall again, representing a hindrance to growth in markets dependent on commodity receipts. For the past eight months, outflows from emerging market exchange-traded funds (ETFs) and mutual funds have been substantial, which has negatively affected Asian equities. Analysis of investment fund positioning in Asia paints a similar picture of reduced exposure. However, in both cases, the most recent data suggests this trend appears to have been arrested.

As we begin the new financial year, we have many concerns, including uncertainty regarding US monetary policy, Chinese economic adjustment, and the vulnerability of exchange rates. In particular, we will also be elevating the degree of attention we pay to the corporate credit market this year.

There are two reasons for this. Firstly, across the major three ratings agencies, the ratio of downgrades to upgrades in Asia has deteriorated to a level last seen during 2009. Secondly, we are keenly aware that after the rather light maturity schedule of the past couple of years, the amount of emerging market debt maturing over the next five years is going to be substantially higher. Maturities in 2016 will be approximately 25% greater than in 2015, and 2017 will be higher again, with the level remaining elevated through to 2020. We have noted the manner in which liquidity appeared to vanish from the US high yield credit market last year and are aware that dealers have been much less willing and/or able than in the past to carry the inventory needed to support effective market making in bonds. We think there could be strong implications for the refinancing of Asian and emerging market corporate debt leading to much higher cost of capital for companies which could in turn result in more cash calls from regional equity markets.

Despite these headwinds, there are reasons for cautious optimism. At the broader market level, valuations look reasonable. On a prospective price-to-book value (p/b) basis, Asia is trading at 1.3x which is towards the low end of its long-term historic range and less than 10% above the early 2009 trough during the global financial crisis. Additionally, 2016 should provide a base from which revisions should start to improve. Consensus expectations for earnings growth this year are for low-single-digit growth which would be below consensus GDP growth expectations for the region. This does not seem unrealistic, but if earnings were to exceed expectations for the first time since 2010, that alone could help market returns, especially given the valuation levels - even against a difficult economic backdrop.

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Schroder Unit Trusts Limited, managers of Schroder Oriental Income: Equity markets since the end of the half year have reflected upbeat sentiment, in direct contrast to the mood prevailing in January. Consensus thinking appears to incorporate a list of positives, although whether they are internally consistent is open to question. One strand is the view that the Federal Reserve has become notably less hawkish on interest rates, due to the previous tightening impact of the stronger dollar and the (probably related) fact that there are fragilities surrounding the global economic picture, most notably in a number of emerging markets.

However, almost in the same breath, the optimists cite signs of a stabilisation in Chinese growth (amid more credit expansion, a stabilisation in foreign exchange reserves and a pick up in residential real estate activity), the easier credit conditions engendered by the weaker dollar, and the recovery in manufacturing sentiment indicators seen across most developed markets and many emerging markets.

There are important internal inconsistencies in the above. To hope for both a more dovish Federal Reserve and accelerating global growth is probably wishful thinking, unless, of course non-US economic activity can decouple from a slowing US. We view this as a low probability event. We can accept that the recent equity recovery has been underpinned by the reduction in a number of "tail risks" but still suspect that the picture remains of equity markets trading in a volatile but essentially side-ways pattern for some time yet. This reflects the conflicting pressures of debt constraints to developed market growth, fading confidence in the policies of central banks outside the United States, normalisation of rates by the Federal Reserve, and equity valuations globally that are neither unduly cheap nor particularly expensive.

This short-term lack of a positive inflection point in global activity coincides with the longer-term framework within which we are operating; that is continued low inflation, debt constraints to growth in the developed world, and a more secular slowdown in the trend of emerging market expansion. The latter is exacerbated by the unwinding of the over investment and credit expansion post the Global Financial Crisis, for which China remains the poster child.

Valuations around the region are, at least on the surface, cheap relative to history and compared to other markets. However, we see a challenging environment for corporate profits amid continued competitive pressures and beggar my neighbour monetary policies from major trading partners/competitors. China remains a key source of event risk.

The current bout of investor complacency fails to adequately reflect the fact that there is a renewed surge in credit growth which, while supporting near-term activity, is raising the long-term risks of a more severe slowdown, a surge in bad debts, and loss of control of the currency. The Chinese authorities still have the tools to handle a transition to a new growth model, but the more it is delayed the more difficult the adjustment will become.

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China

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

William Knight, chairman, JPMorgan Chinese:

China:

The economy is showing signs of recovery with support for renminbi stabilisation noticeable in property prices and auto sales along with prices for domestically-driven commodities such as cement and steel. Fiscally the government has widened the budget deficit to 3% of GDP from 2.3% in 2015 with fiscal bond issuance targets planned to double to RMB 1.6 trillion. For the first time since August 2015 the Purchasing Manager's Index (PMI) in March entered into expansionary territory at 50.2%. The key risk is the potential for overheating and the resultant inflationary pressure given the sharp acceleration of growth in the property sector. In terms of structural reform, the government's focus is on reform of the supply side with capital being allocated to sectors providing higher returns. Longer term, the government's measures are intended to facilitate a sharp increase in the urbanisation ratio from the current level of 47%, encourage greater consumer orientation and oversee a consequent improvement in living styles.

Hong Kong:

Economic stabilisation in China and lower US rate rise expectations are the backdrops for an improvement in the pricing of Hong Kong equities. A structural slowdown in retail sales as well as the weakness in property sales nevertheless prevails. The announcement of the establishment of the Shenzhen Hong Kong Connect in the short-term should boost market sentiment. The rally in Macau gaming shares follows the stabilisation of gaming revenue and further upward movement will be dependent on this as well as the success of the upcoming new property opening by Wynn.

Taiwan:

The Taiwan market seems likely to face headwinds in the forthcoming quarters both in economic growth and corporate earnings. The first quarter of the calendar year typically is seasonally weak and this has been compounded in the technology sector by slow iPhone shipments and a lack of new technology product cycles. Since the newly elected President does not assume power until the second quarter of 2016, there could be a vacuum in the interim in terms of government policy. However, concerns over the change in the ruling party seem to have already been priced into the market. Growth may improve towards the end of 2016 with easy base comparisons boosted by restocking demand on the launch of the iPhone 7. In addition, the low interest rate environment should provide ample liquidity for the Taiwan equity market and companies with long-term secular-growth opportunities should return to favour against the backdrop of stabilised corporate earnings.

Overview

Overall, the Chinese government is having to find ways to adjust to the pace of slower growth while running down the excessive capacity in the manufacturing industries. The policy shifts over the past year have demonstrated the willingness of the government to address the problems. We continue to expect a pro-growth stance from the authorities although there remains a risk of government tightening sometime in the future. With inflecting growth data and the resulting potential for upgrades in earnings for economically-sensitive sectors, we believe the China markets should continue to recover gradually from the plunge they suffered earlier this year.

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Howard Wang, Emerson Yip, William Tong and Shumin Huang, investment managers, JPMorgan Chinese:

China

We expect macro to continue to recover from a very low base, supportive for further renminbi stabilisation. Two main drivers remain positive. Top 30 cities March property sales were up 84% year-on-year, and first-quarter 2016 was up 47% year-on-year, boding well for further property new construction starts. On the fiscal side, government has widened the budget deficit to 3% of GDP from 2.3% of 2015. Special fiscal bond issuance targets are to double this year, to RMB 1.6 trillion. Just reported March Purchasing Managers' Index (PMI) at 50.2% entered into expansionary territory, for the first time since August 2015. The key risk to watch is the potential for overheating and resulting inflationary pressure given the sharp acceleration of property sector growth.

On the structural reform front, government focus is on supply side reform, the right direction in our opinion to better allocate capital to higher return sectors. Longer term, we believe government's measures to facilitate a sharp increase of urbanisation ratio from current 47% (family units) would be critical for medium term sustainable growth. We believe at least 100-200 million migrant workers can permanently settle in urban areas, supportive for the growth transformation from FAI-led to service-led economy.

Market valuation at 9.8x forward one year p/e is still close to average levels. Barring overheating risk, we believe market should be re-rated on earnings recovery, as well as lower risk premium from renminbi stabilisation. Longer term, the carryout of structural reform would be critical for sustainable growth.

Hong Kong

Economic stabilisation in China and lowered US rate rise expectations should provide a more constructive backdrop for equities in the short term. However, the headwinds facing the domestic Hong Kong economy remain, given the structural slowdown in retail sales as well as the weakness in property sales. On the horizon, the announcement of the Shenzhen Hong Kong Connect could be a short-term sentiment boost.

The response in the physical property market to lowered rate expectations and stabilising market sentiments has only been modest thus far. It remains to be seen when substantial pent-up demand would return to the market to drive up transaction volumes, and whether land prices could fall further to underpin a healthier margin recovery. In the meantime, a pick-up in office rentals has yet to materialise due to financial market volatility.

The rally in Macau gaming shares has priced in stabilising gaming revenues and a more supportive policy stance, although we do not expect major relaxation measures. Further upward movement will be dependent on continued gaming revenue growth, as well as the success of the upcoming new property opening by Wynn.

Taiwan

The Taiwan market seems likely to face headwinds in forthcoming quarters. Although the first quarter of the calendar year is typically seasonally weak, this is likely to be compounded in the technology sector by slow iPhones shipments and a lack of new technology product cycles to offset this.

A policy vacuum in the Taiwan government could arise from the change in president because the new president from Democratic Progressive Party does not assume power until the second quarter of 2016. However, concerns over the change in the ruling party seem to have already been priced into the market.

The first half of 2016 is likely to see anaemic growth in the technology sector. However, growth may improve towards the end of 2016 with easy base comparisons, together with restocking demand on the launch of the iPhone 7. The low interest rate environment should provide ample liquidity to the Taiwan equity market. Against the backdrop of stabilising corporate earning downgrades, companies with long-term secular-growth opportunities should return to benefit.

Summary

China's economy is showing signs of stabilization. Combined with the government's easing bias, the shorter-term backdrop for equities is encouraging. From a sector allocation perspective, however, we have doubts about China's commitment to the reform necessary to shore up its industrial base in a sustainable fashion; we expect limited further upside for most of the value stocks that led the recent rally.

For Hong Kong, economic stabilization in China and lowered U.S. rate rise expectations should provide a more constructive backdrop for equities in the short term. However, the headwinds facing the domestic economy remain given the structural slowdown in retail sales as well as the weakness in property sales. On the horizon, the announcement of the Shenzhen Hong Kong Connect could be a short-term sentiment boost.

With regards to Taiwan, the first half of 2016 is likely to experience anaemic growth in the technology sector. However, growth may improve towards the end of the year with easy base comparisons. Low interest rate environment should provide ample liquidity to the Taiwan equity market. Against the backdrop of stabilizing corporate earnings downgrades, companies with long-term secular growth opportunities should return to favour.

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India

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

Richard Burns, chairman, JPMorgan Indian: Market conditions have been volatile during our current financial year so far and overall progress has been limited. Economic growth has been subdued by Indian standards. Corporate profits are tending to fall short of expectations. Nevertheless there are signs of firming demand for such basic products as electricity, cement and diesel fuel, which give hope that the long awaited cyclical upturn in activity may have begun. We remain optimistic about the long term prospects for the Indian stock market.

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Rukhshad Shroff and Raj Nair, investment managers, JPMorgan Indian: In the near term, volatility may well continue as the global macro backdrop remains uncertain with deflation being a clear and present danger in many parts of the world. The slowdown in China continues to be a concern. These factors could lead to further outflows from risky assets, which could be a headwind for emerging markets as an asset class. While the Indian economy is more domestically driven and less dependent on external demand than in most emerging markets, the inter-linkages with the financial markets are much more pronounced. From a domestic perspective, the upcoming monsoon season will be crucial for sentiment due to the impact on the rural economy and monetary policy. While weather patterns are inherently unpredictable, a couple of forecasts have predicted a normal season.

Nonetheless, our longer term outlook on India remains positive, driven by our belief that growth, in both GDP and earnings, is set for a cyclical recovery with falling interest rates likely to be a catalyst, though it is admittedly taking much longer than expected. It is worth noting that some indicators of demand such as cement production, electricity generation and diesel consumption are signalling a modest pick up in activity. While headline valuations are around long term averages, and do not appear cheap, we believe that value is beginning to emerge from a bottom-up perspective.

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Japan

(compare Japanese funds **here**)

Andrew Fleming, chairman, JPMorgan Japanese: The outlook over the next six months for Japanese equities will be largely determined by changes in the US dollar/yen exchange rate as the stock market has recently been exhibiting a more than usually high correlation with exchange rate movements. There continues to be doubts about structural reform which is the third of Mr Abe's Three Arrows "Abenomics" programme. There are also doubts about whether higher corporate profitability, partly engineered by the weaker yen exchange rate, will feed through to higher wages which will significantly determine whether a self-sustaining economic cycle can develop in Japan without taking growth from the rest of the world essentially through competitive currency devaluation.

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Nicholas Weindling and Shoichi Mizusawa, investment managers, JPMorgan Japanese: Japan is a cyclical stock market due to its large exposure to global manufacturing sectors relative to other major markets as well as relative to its own economy. Uncertainty over the global macro environment could weigh on the Japanese market in the near term. Japanese economic data continues to be lacklustre while the effect of the Bank of Japan's unorthodox policies is unclear. So far there is no evidence of higher wages and lower commodity prices feeding back into higher consumption. Companies have recently announced forecasts for 2016. Although profits hit a record level in 2015, forecasts have been disappointing with profits projected to fall. This is predominately due to the stronger yen.

While the above are risks, our base case remains that the global economy will continue to expand, albeit slowly. Corporate governance reform in terms of better capital management and shareholder returns, combined with unwinding of cross shareholding, are slowly but steadily taking hold. Combined with undemanding valuations, we remain positive on Japanese equities in general.

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Frontier markets

(compare global emerging market funds **here**)

Sam Vecht and Emily Fletcher, managers of BlackRock Frontier Markets: Over the previous five years, Frontier Markets have differentiated themselves from broader

Emerging Markets, significantly outperforming their larger peers. Somewhat immune from the earnings downgrades that have plagued Emerging Markets, and often disconnected from global capital flows, the performance of Frontier Markets has been largely determined by endogenous factors. Over the last few years, notable positive political developments have taken place in countries as diverse as Argentina, Nigeria, Pakistan and Sri Lanka. Whilst at least an equal set of countries, including Bangladesh and Morocco have seen substantially positive economic developments. However, despite this backdrop, Frontier Markets are currently trading around the lowest valuation levels (as measured by price/dividend ratio), that we have seen during the [*five year*] life of the Company, and therefore we believe that Frontier Markets continue to present an attractive investment opportunity.

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Dr. Myma Belo-Osagie, chairperson, Africa Opportunity Fund: [*in 2015*] Africa's terms of trade continued to deteriorate as more commodity prices fell in response to waning Chinese demand, a steady supply of unwanted commodities, and rising inventories. Copper, for example, joined oil and iron-ore in falling to unexpectedly low levels. Several African currencies collapsed in dramatic fashion in tandem with collapsing export proceeds. Their collapse, excruciating as it feels to Africans as consumers. It is a truism that the tumbling export revenues suffered by oil exporters like Nigeria and Angola were the counterpoise to the lower oil import bills of other net oil importing African countries such as Senegal, Tanzania, Uganda, and Kenya. The gross domestic product growth rates of the African non-oil, metals, and minerals exporters were higher in 2015 than their oil, metals, and minerals exporting brethren. Nevertheless, regardless of current economic performance, all African countries face the daunting task of deepening their productive capacities. It is too easy to forget the large potential profitability awaiting entrepreneurs and companies creating businesses which close the gaps between the productivity standards of the archetypal African country and current global productivity norms. Consider that 40% of America's workforce was employed in agriculture as far back as 1900 and 65% of Africa's workers toiled on the land as recently as 2009. Most Americans, then, had no access to phones; a majority of Africans, today, own cellphones. It is easy to overlook the huge scope for growth of building materials industries when sub-Saharan Africa's 960 million people consumed 100 million tonnes of cement in 2015 versus 71 million tonnes produced in Turkey. By 2030, sub-Saharan Africa's population is forecast by the United Nations to be 1.4 billion. If Sub-Saharan Africa's cement production in 2030 equalled India's 2015 cement production of 274 million tonnes, its cement market would have grown at an annual compounded rate of 7% to reach a per capita annual cement consumption of 196 kilograms, lower than India's current 2015 per capita production of 211 kilogram and 40% of today's global average per capita consumption. Undoubtedly, lots of capital must be raised to finance the numerous infrastructure and housing projects needed to build decent urban settings for the countless Africans migrating from its rural areas to its cities. Yet, it is this beguiling juxtaposition of the 21(st) century and the 19(th) century that creates numerous investment prospects in Africa and makes Africa an attractive destination for the long-term investor to earn good returns on invested capital.

A major conundrum for many African governments is finding the resources to maintain, if not accelerate, the pace of national development in these painful times. Consequently, many countries are destined for stints in the recuperation ward of the International Monetary Fund within the next few years. Some ways of solving this conundrum impose disproportionate cost on investors; other ways seek to allocate the costs evenly across all interest groups. The sober reality is that public resources will have to be complemented by private investment. African capital will have to attract foreign capital to accomplish the goal of rapid development.

2016 is a year of uncertainties for African investors. It is positive that more African countries are accepting the inevitability of unpleasant austere adjustments. Although it would be foolhardy to claim that African currencies have reached their bottom, especially when the International Monetary Fund has publicly described the Nigerian Naira as overvalued, it seems that a lot of the currency corrections have occurred. The concomitant sharp sell-offs in equities and debt securities created more than a few attractive entry points into companies with respectable growth prospects. The dark cloud hanging over African capital markets is the possibility of macro-economic or currency crisis in China causing a general flight from both emerging and frontier markets.

There are three elections in 2016 of interest: those of Uganda, Zambia, and Ghana. Uganda's February election had little effect on the Ugandan shilling. We hope that the two remaining elections pass without serious incident and with displays of fiscal sobriety by the incumbent governments. It also seems that more African courts are handing down decisions to strengthen institutions charged with rooting out governmental abuses such as the Public Protector's Office in South Africa. Governments in countries like Tanzania and Kenya have begun to suspend officials suspected of corruption. Those actions demonstrate the deepening roots of the Rule of Law in Africa, an undoubted blessing for all investors and residents of Africa.

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Biotechnology & healthcare

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

Sven Borho, OrbiMed Capital LLC, portfolio manager, Biotech Growth Trust: The initial weakness in biotechnology stocks was precipitated by negative news reports in the summer of 2015 about a small specialty pharmaceutical company suddenly increasing the price of an old drug for parasitic infections by 5,000%. U.S. presidential candidate Hillary Clinton responded to this "price gouging" by proposing new regulation that would lower drug prices. Subsequently, several other presidential candidates have suggested legislation to contain drug costs, and the U.S. Congress has held hearings to discuss drug pricing. The drug pricing headlines negatively impacted investor sentiment about biotechnology and the drug sector generally.

While we acknowledge that strong pricing power is an important factor for biotechnology business performance, we believe the sector's growth is fundamentally driven by innovation and the approval of novel drugs. Most of the biotechnology drugs on the market or in development target severe diseases with high unmet medical need, and are differentiated from existing treatments by higher efficacy or better safety. Although biological drugs are expensive, the cost is typically justified by significant downstream savings to the healthcare system or by significant improvement of patient lives. In contrast, many specialty pharmaceutical companies tend to forgo significant research and development and instead purchase existing drugs that they market aggressively to patients and physicians. We believe that this specialty pharmaceutical business model is less sustainable in the current political environment compared to the traditional biotechnology model focused on innovation. Over the long term, we expect innovative drugs that provide a meaningful clinical benefit over standard of care will continue to command premium prices.

Moreover, we continue to believe efforts to control drug pricing and reimbursement by government will not pass into law in the near or medium term, regardless of who is elected President. Nevertheless, in a U.S. election year, we expect drug prices to remain a topic during the presidential campaign, and this issue may be an overhang on the sector through November.

M&A is a common occurrence in biotechnology and is a major investment theme for the sector. Now that valuations have come down with the recent biotechnology sector correction, we believe emerging biotechnology companies have become more attractive targets for potential acquirers. In general, the emerging biotechnology stocks have declined further than the major biotechnology companies. Due to this gap, we think that we may see the major biotechnology companies take advantage of this weakness to bolster their pipelines though acquisition. We believe the midsize biotechnology companies with existing commercial stage products and robust pipelines are the most attractive targets. However, years of deal-making have left high-quality, late-stage, biotechnology assets in fairly short supply. Within the NASDAQ Biotechnology Index there are only a handful of companies that meet these criteria, suggesting additional scarcity value.

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James Robinson, chairman, Polar Capital Global Healthcare: Valuations across large cap healthcare have become quite compelling and the sector looks cheap on both a relative and an absolute basis.

Following such a severe sell off our managers see a short term opportunity for a positive move in the biotech and pharmaceutical sectors. However the U.S. election remains an overhang and thus we expect volatility to continue ahead of the election in November. We believe that fears about drug pricing are overdone; there may well be some policy initiatives on this front but these are unlikely to pose a threat to those companies that are genuine innovators. We therefore feel that once the election is out of the way, the increasingly positive fundamentals for the healthcare sector should begin to reassert themselves.

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Dr Daniel Mahony and Mr Gareth Powell, Polar Capital LLP, managers of Polar Capital Global Healthcare: Over the remainder of the year, macroeconomic factors and geopolitical events are likely to drive investor sentiment and we expect global markets to remain volatile.

From a healthcare sector perspective, the start of the U.S. Presidential election process last year seems to have been a catalyst for a period of relative underperformance. While we keep a close eye on politics, and understand why investors are concerned about potential changes in the United States, the positive fundamentals for healthcare cannot be totally ignored.

An ageing population will continue to drive demand and companies that help to deliver better healthcare for less money are set to thrive. Innovation within the healthcare sector is certainly not slowing and arguably it is accelerating.

The concerns over drug pricing are merely a part of a broader structural change that we are seeing across the healthcare industry. As reimbursement systems move towards rewarding quality and outcomes, the pharmaceutical companies need to demonstrate the value of their drugs to payers.

While the political overhang may persist until the U.S. elections in November this year, we think the valuation case for healthcare is compelling.

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Debt

(compare debt funds **here**)

TwentyFour Asset Management, managers of TwentyFour Select Monthly Income: Credit risk has become markedly cheaper as markets rapidly positioned themselves given current uncertainty and increased talk of a global slowdown and a challenge to corporate earnings. The portfolio manager sees this as a material opportunity.

The portfolio manager views the current economic and sentiment weakness as driven by potential earnings downgrades rather than a solvency issue or one that is expected to lead to a material pick up in the default rates (outside of the troubled energy and commodity sectors). However, the team also believe that the current volatility will continue to affect markets and asset price moves will continue to be exacerbated by poor liquidity and political uncertainty such as the forthcoming UK referendum on EU membership and the stalemate in the recent Spanish and Irish elections. Overall though, the team believes that Central Bank support will ultimately result in lower yields in Europe and tighter credit spreads which should drive the opportunity for deriving yield plus capital gains from current levels over the course of 2016.

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Paul Read/Paul Causer/Rhys Davies, portfolio managers, Invesco Perpetual Enhanced: Following the recovery we have seen from January and February, many areas of the high yield bond market are again, in our view, quite fully valued. On the other hand, the demand for income continues to be a powerful driver of returns and the additional measures announced by the ECB are likely to provide further support to the sector. On balance we think it prudent to maintain our defensive approach. There will, we expect, be further bouts of volatility through 2016.

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Infrastructure

(compare infrastructure funds **here**)

Ian Reeves CBE, chairman, GCP Infrastructure: The inflow of capital into the UK infrastructure sector has continued unabated. Investors are many and varied, from large institutions investing through private funds or segregated mandates to individuals buying shares issued by listed investment companies. All, however, are attracted to the perceived stability and dependability of UK infrastructure investments, particularly in a volatile and uncertain market and a low interest rate environment.

The supply of new assets has not matched this investor appetite. The volume of projects procured under PFI and PF2 over the last five years has not reached the levels expected by the industry and this restricted pipeline has resulted in a highly competitive secondary market. Whilst the UK Government announced in March 2016 a National Infrastructure Delivery Plan, which updates and replaces the previous NIP and amounts to GBP250 billion of opportunities for private sector investment, the timing and deliverability of such a pipeline remains unknown.

The UK Government has also recently made a number of key policy decisions in the renewable energy space with the withdrawal or significant scaling back of a number of key incentives for prospective developers of renewable energy assets. These policy changes will significantly curtail the number of new projects being developed.

The UK Government has made repeated commitments regarding the development of social and affordable housing. The Investment Adviser is paying close attention to announcements regarding the form of future governmental support.

This imbalance between supply and demand, combined with the very low interest rate environment, has driven down yields on UK infrastructure assets with dependable UK public sector backed cash flows, continuing a movement in pricing that has been going on for several years.

Despite the growing attractiveness of the sector in general, institutional investors in particular tend to be restricted to opportunities larger in size and profile, with additional parameters limiting investments to specific types of project technology, security and with overall limits to construction exposure.

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Ian Russell, chairman, HICL Infrastructure: In almost all markets, the appetite of investors for infrastructure investments has continued unabated. There is an ongoing imbalance between the supply of, and demand for, investments in the Group's target sectors. This has led to increasing asset prices, thus reducing returns.

As observed in previous years, the procurement of new projects by the UK public sector has slowed considerably. Exemplifying this, the March 2016 UK National Infrastructure Plan re-affirmed the current Government's commitment to using private capital in infrastructure investment, but contained no tangible pipeline of new PPP opportunities. Instead the trend is towards encouraging private investment in other forms of UK infrastructure (e.g. electricity transmission). The Government is also pursuing large capital projects such as HS2 and Crossrail 2 that have no obvious role for private investment. The slowdown in primary procurement is feeding through to the secondary market where activity was more generally muted during the year.

Outside the UK, procurement of new infrastructure assets with investment characteristics suitable for the Group continues in a number of European countries, in Australia, New Zealand and Canada and, to a lesser extent, in the USA. Competition for new procurement opportunities varies by region. A number of regions saw a growth in procurement following the financial crisis and, as these projects now become operational, the Investment Adviser is witnessing an increase in the related secondary market deal flow.

As the infrastructure asset class has matured, investors have developed an increasingly sophisticated understanding of risk. There is now a range of market segments that investors perceive as offering low-risk, yielding assets of which PPP is one example. Other market segments positioned at the lower-end of the risk spectrum include electricity transmission projects (e.g. offshore transmission lines or "OFTOs" in the UK) and also operational regulated assets such as gas transmission assets.

The supply-demand dynamics of the infrastructure asset class, including investments in operational PPP projects continue to drive asset prices higher. This poses a challenge for sourcing attractive new investments.

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Private equity

(compare private equity funds **here**)

Michael Bunbury, chairman, HarbourVest Global Private Equity: After more than seven years of rock bottom interest rates in most developed economies, and indeed negative policy rates in several major countries, risk assets, including private equity backed companies, have had an extraordinary run. Many commentators have called interest rates higher over many months. Yet the authorities have been very reluctant to put at risk what, in many economies, has been a weak recovery from the global financial crisis. Thus interest rates have remained lower for longer than most people expected, and this environment has underpinned the prices of many risk assets and encouraged a positive surge of realisations. It is hard to believe that such benign conditions can continue indefinitely.

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Scott Voss, managing director, HarbourVest: **Q&A:** *The global venture capital space saw a record $136 billion in investments in 2015. What factors drove these increased deal volumes?*

First, innovation is occurring at unprecedented levels and is disrupting almost every industry vertical imaginable. It used to be that venture capital (VC) only focused on investing in core intellectual property and new technology. Today, innovation is more closely tied to building business models on proven technology platforms, and this is attracting more venture financing. The Internet and mobile sectors stand out as having created these types of disruptive, game-changing platforms. We believe this innovation cycle will continue to yield strong investment ideas going forward.

Second, companies are staying private longer. In previous years and cycles, VC-backed companies tended to go public long before achieving the coveted billion-dollar valuation. We've seen a shift more recently, though, with new sources of capital coming from cross-over investors such as BlackRock, Fidelity, T. Rowe Price, and Wellington. This new influx has provided staying power and helped companies bypass the public markets. Overall, the late-stage private financing market has pulled back since mid-2015. We see this as a healthy correction as private market valuations had become too speculative.

Can you speak to the globalisation trend we're seeing in VC? What should we make of China's new status as the second-largest market for VC investment?

The market has become increasingly global in recent years, and investment into venture-backed companies worldwide is at record levels. Due to its large consumer base, entrepreneurial culture, and mass adoption of technology, China has been the biggest VC breakout market in terms of both dollars invested and returns. Last year it overtook Europe in terms of total number of deals. These factors have helped Chinese start-ups become industry leaders in their country and around the world.

In many ways, 2015 was the year of the "unicorn" in VC – with more than 140 private companies reaching valuations of $1 billion or higher. Do you view this as a one-time phenomenon or a trend that is here to stay? Any parallels to the bursting of the tech bubble in 1999 to 2000?

Like other asset classes and private equity strategies, the VC industry goes through different cycles over time. There are innovation-led cycles, and capital market cycles, where speculative risk-taking tends to drive valuations up. The comparison between the unicorns and the Internet bubble is a fair one if we're simply focused on the speculative valuation period in the market. Beyond that, the similarities are harder to pinpoint. First, many of today's highly-valued private companies are real companies with meaningful revenues, strong growth rates, and disruptive products or services. This was generally not the case during the 1999 to 2000 technology bubble, when company valuations skyrocketed absent any of these key metrics.

As was the case back then, the goal is to sort out the wheat from the chaff, and identify those unicorns that could end up being tomorrow's Amazon, Apple, Facebook, or Google. There is still a tremendous amount of venture risk resident and it's reasonable to assume that their mortality rate will be fairly high.

Second, speculative behavior is fundamental to the venture cycle, as we typically see accelerating financial performance during this period. Late-stage, pre-IPO round investments are driving today's speculative activity. Much of this financing is non-traditional private capital, which has become an alternative to going to the public markets. We have already entered a more rational valuation environment where we see private markets coming down and short-term venture performance moderating.

Following this correction, we expect many of the remaining companies to be in a position to disrupt markets, and displace incumbents.

What does the rapid rise in well funded, late-stage private companies say about the need to tap capital markets and potentially go public? Is this diminishing?

This is the billion-dollar question. If only half of the unicorns were to go public over the next three years, the exit activity would be unprecedented. It is hard to believe that the public markets can adequately absorb the inventory. It is more reasonable to believe that this inventory will be absorbed by the large technology incumbents, new entrants primarily from China and Japan (Alibaba, Tencent, Baidu, and Rakuten), and the private equity industry.

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UK property

(compare UK property funds **here**)

Caroline Burton, chairman, TR Property: Generally, throughout Europe, value and occupier demand is supported by modest new supply coming onto the market with a continuing lack of speculative development finance. Investors both in property and elsewhere are more than ever inclined to pay up for security of income and unwilling to put current value on future growth. This has influenced the Manager's decision to reduce exposure to development-oriented shares, particularly in London. A Brexit decision to leave the EU would undoubtedly raise questions in investors' minds as to the long-term sustainability of employment in financial services in the UK capital.

In Continental Europe the Manager expects the Trust's exposure to Germany to continue to deliver outperformance. A change of strategy towards Sweden may become appropriate as the Manager has some concern that the economy there could overheat. The situation is being closely monitored.

Whilst bond yields remain as low as they are, real estate will continue to offer an income advantage. Property is a pro-cyclical asset class and the strongest performing property markets have experienced a return to rental growth. Without a broadening of tenant demand across Europe we will see further valuation gains restricted but with earnings underpinned by the very low cost of debt.

Toby Courtauld, chief executive, Great Portland Estates: Global economic and political uncertainties, including the upcoming EU referendum, are affecting broader business confidence and investor appetite. It is too early to tell what the impact on the London property market will be although an extended political stalemate as the consequences of the referendum result are worked out would be unhelpful.

Despite this more uncertain back drop, London's commercial property market fundamentals remain supportive: London's economy is growing, its workforce expanding and demand for quality office space remains robust. With new supply limited and vacancy rates at or near record lows, we expect to secure further pre-lettings and generate attractive rental value growth across our portfolio of around 5% over the next year. In the investment market, as rental growth is captured, we can expect some mild expansion of yields, particularly for some secondary assets where pricing has run ahead of the growth on offer.

London - a thriving global city

With the largest economy of any city in Europe and generating around 22% of UK GDP, London is one of the world's leading commercial, creative and financial centres. While the rate of UK economic growth appears to be moderating, with consensus forecasts of 2.0% GDP growth for 2016 and similar levels of growth expected thereafter, London is expected to continue to outperform with Oxford Economics forecasting annual growth of 3.0% over the next five years, making it one of Europe's fastest growing cities.

London's population is forecast to grow to more than ten million by 2030 and CBRE/Oxford Economics forecast inner London office-based employment growth of 1.7% p.a. over the next five years. In addition, a recent Deloitte report ("Global cities, global talent") highlights that London is accelerating away as the world's foremost business hub, having created 235,000 new high-skilled jobs since 2013 with London businesses now employing 1.7 million workers in high-skilled roles compared to 1.2 million in New York (its nearest rival). With London's deep pool of talented labour and collection of world-class universities and business schools, more than a third of Fortune 500 companies now have their global headquarters in London.

Notwithstanding these positive prospects, uncertainties around the political and economic outlook persist given continued stock market volatility, ongoing concerns on Chinese and other emerging market economies' weakness and the outlook for global interest rates. Closer to home, the upcoming UK referendum on EU membership already appears to be weighing on broader business confidence with a recent survey of UK CFOs indicating that the referendum is their dominant business concern, partly explaining why their risk appetite has more than halved over the last 12 months. It is too early to tell what the impact of an exit would be on the London economy and its property market.

We will be watching closely for policy changes following the recent election of the new London mayor and in particular his position on measures to support economic growth including investing in transport infrastructure and housing.

Occupational markets still favouring landlords

On the demand side, the levels of economic activity in London remain supportive of employment growth, business expansion and, in turn, healthy tenant demand for new space. For the year ended 31 March 2016, central London take-up was 14.7 million sq ft, marginally below the preceding 12 months but well ahead of the ten year annual average of 12.9 million sq ft. This take-up was again from a broad range of industries, including TMT businesses (22%), banking and finance (25%) and professional and business services (22%).

Looking ahead, CBRE/Oxford Economics expect 165,000 new office-based jobs to be created in London over the next five years, predominantly from the professional, business services and creative sectors.

The central London availability rate remains low at 5.5%, which is encouraging more occupiers to seek to secure new space earlier and ahead of lease events. This is supporting both rental growth and pre-letting across our markets.

However, against a backdrop of rising rental levels, it is expected that business rates will increase in 2017 which will likely raise occupational costs in central London and may affect future rental growth as these costs are absorbed by tenants.

New office supply remains tight

On the supply side, whilst development completions across central London had been rising, this was from an exceptionally low base and in a market with vacancy rates at historic lows. Across the central London office market as a whole, development completions in the year to 31 March 2016 fell to 3.6 million sq ft, down from 5.1 million sq ft in the preceding 12 months. Moreover, in the core of the West End, the focus of our development activities, completions totalled only 1.0 million sq ft in the year. This supply shortage has meant that pre-lets represented around 21% of central London office take-up in the year to 31 March 2016.

Looking ahead, the speculative development pipeline has increased as developers respond to stronger occupier demand levels and the prospect of rental growth, although planning delays, limited development debt financing availability and economic uncertainty may lead to some of the pipeline being delayed or postponed. In addition, some schemes may not proceed given that the major cost consultants continue to forecast annual cost inflation of 3%-7% for commercial schemes.

West End occupational markets

Over the year to 31 March 2016, West End office take-up was 4.3 million sq ft, broadly in line with the preceding year, while availability has increased to 4.3 million sq ft. Despite the upcoming EU referendum, take-up in the quarter to 31 March 2016 was healthy at 0.9 million sq ft, although we expect that activity may be slower in the current quarter ahead of the vote. Vacancy rates remain low with Grade A space vacancy estimated by CBRE to be only 2.3%.

CBRE has reported that prime office rental values in the West End continued to grow over the year and are now GBP120 and GBP90 per sq ft respectively for Mayfair & St. James's and for North of Oxford Street. Looking ahead, rents are forecast by CBRE to show attractive growth over the next few years with North of Oxford Street prime office rents expected to grow by 12.1% over the next two years.

The West End prime retail market (where 31.8% of our West End portfolio by value is located) has continued to witness strong rental growth. Over the last year, strong demand for prime retail space has maintained a near zero vacancy, with significant leasing activity supporting prime rental values.

City, Midtown and Southwark occupational markets

Over the year to 31 March 2016, City office take-up was 5.9 million sq ft, down 12% on the preceding year, with availability low at 4.8 million sq ft. Although higher than in the West End, vacancy rates remain low with Grade A space vacancy estimated by CBRE to be only 3.0%. CBRE has also reported that City prime rental values marginally increased during the year to GBP68.50 per sq ft today.

Midtown and Southwark office take-up was 3.0 million sq ft, down 7.4% on the preceding year, while availability remains low at 2.3 million sq ft. This has supported rental growth of 17.6% and 13.6% respectively for the year, with CBRE reporting prime office rents of GBP80.00 and GBP62.50 per sq ft respectively at 31 March 2016.

Further rental growth expected over the next 12 months

With continued good occupational demand and restricted supply favouring the landlord, barring a major deterioration in the economic situation or extended period of uncertainty following the EU referendum, we estimate that for the next 12 months rental value growth across our office and retail portfolio will be attractive at around 5%, particularly in the context of a very low inflation environment.

Active investment market, although expected slowdown in the first half of 2016

Central London office investment activity has remained robust with CBRE reporting GBP16.2 billion of deals in 2015, including GBP5.6 billion in the West End. Overall volumes were around GBP2 billion down on 2014 due to reduced activity in the second half of 2015 given concerns about the slowdown in global economic growth, particularly in emerging markets. In the first quarter of 2016, deals across central London totalled GBP3.5 billion, lower than in previous quarters and consistent with a slowdown across the wider UK property market. Furthermore, some investors may await the result of the upcoming EU referendum before making investment decisions, particularly given recent and potential future gyrations in the Sterling exchange rate. However, according to Savills, activity in the West End in the first quarter was at record levels exceeding GBP2 billion, although it is expected to slow until the referendum outcome is known.

Overseas investors continue to be the largest buyer constituency, accounting for 58% of transactions over the 12 months to December 2015, with London maintaining its reputation as a safe investment haven for international investors seeking to diversify away from their domestic markets whilst also offering the prospects of attractive real rental growth.

We reported in May 2015 that we estimated GBP40 billion of equity capital was seeking to invest in commercial property across central London compared to only GBP2.0 billion of stock on the market available to buy. This strong competition for limited stock drove investment yields for office properties to record lows with prime yields in the West End and City of 3.5% and 4.0% respectively at 30 September 2015, according to CBRE. Since this time, prime yields have held firm in spite of increased stock coming to the market in the final quarter of 2015 whilst investors are approaching pricing with more caution, particularly for more secondary assets.

Investment transaction volumes in prime London retail hit record levels in 2015, exceeding GBP3 billion for the first time, with 42% of all deals on Oxford Street. As a result, prime yields remained firm during the year at 2.25% on Bond Street and 2.50% on Oxford Street.

Weight of money and low interest rates providing support for yields

While the excess of equity capital to invest over commercial property available to buy across central London has reduced, it remains high (estimated at GBP33.8 billion versus GBP4.9 billion respectively). Moreover, as expectations of interest rate increases in the UK continue to be pushed back, the real yield spread remains above the long-term average.

Notwithstanding these factors, if current supportive market conditions persist and our expected annual rental value growth across our portfolio of around 5% over the next year is delivered, we expect to witness some modest expansion of prime yields as this rental growth is consumed. For some secondary properties, stronger upward pressure could result where pricing has run ahead of the growth on offer or in the event of an extended period of uncertainty following the EU referendum.

Rental growth to be the principal driver of capital value growth

Yield compression tends to drive capital value growth early in the cycle, although its contribution has been more sustained this cycle given elevated liquidity levels due to quantitative easing and unprecedentedly loose monetary policy. However, rental growth has been the principal driver of capital growth across the central London commercial real estate market for the last two years and we expect this to continue this year.

Despite some weakening of our property capital value indicators over the period given capital market volatility, investment activity in the central London commercial property market continues to be strong, with the real yield spread increasing given lower gilt yields and supportive conditions in the real estate debt markets. Moreover, although forecast rates of economic growth and business confidence levels have moderated, our rental value indicators remain supportive with growing employment levels in London and a record low vacancy rate in the central London office market. Accordingly, absent a deterioration in the economic situation, we expect that rental values will continue to rise for sensibly priced, well specified space in attractively located central London properties.

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Shaftesbury (London west end property): Despite some emerging concerns regarding national economic trends and current political uncertainties, the West End's economy continues to flourish, benefitting from London's growing population and diverse economy. Importantly, retail and leisure spending generated by the visitor economy, and a very large local working population, continues to attract strong occupier demand.

The opening of Crossrail, now only two years away, will increase transport capacity and is expected to change West End footfall patterns significantly over time.

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MedicX (healthcare property): The demand for new modern primary care infrastructure remains strong in both the UK and Republic of Ireland as their populations' age and a wider range of clinical services are delivered in their communities by GPs and associated healthcare providers.

With a backdrop of positive political will, investment in UK primary healthcare premises has remained highly competitive. Strategic estate strategies were expected to be published in early 2016 and a significant number are yet to be finalised. This ongoing planning, coupled with the next phase of submissions under the GBP1 billion

Primary Care Transformation Fund, now rebranded as the Estates and Technology Fund, is expected to provide an overdue impetus to increase to the rate of approvals for new primary care developments in the medium term.

As well as rising clinical demand, it has been well publicised that pressures on GPs from increased regulation and a need for more GP numbers to deliver longer hours of service are having an effect. The pace of change is accelerating with GPs working more collaboratively with more Provider Groups and Super Practices emerging which is another driver for new premises, fit to deliver services for larger patient numbers.

In April 2016, NHS England published "General Practice Forward View". The transformation plan promises a substantial uplift in recurrent spending on primary care from the current 7% of NHSE budget to 11% in real terms by 2021 which equates to an additional 14% real terms increase of GBP2.4bn per annum. The plan promises some 10,000 additional clinical staff including 5,000 net additional GPs along with significant increases in related clinical professionals within five years as well as identifying GBP500m of the GBP2.4bn as spending to transform services and GBP900 million of capital for premises and IT projects.

In the Republic of Ireland, although the market is less mature, similar demographic pressure and political will are enabling the Health Service Executive to drive forward its programme of putting in place a modern purpose-built estate to deliver provision of world class healthcare.

Overall, the primary care investment sector has continued to see further yield compression during the period due to investor demand and limited supply, further reinforcing the attractiveness of the asset class.

Market rental growth continues to remain challenging due to a lack of new schemes which will set new rental evidence. The increasing demand for improved GPs premises for the reasons described above is expected to drive forward approvals for new schemes, which in turn will help drive rental growth.

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Simon Laffin, executive chairman, Assura (healthcare property): The recognition of the importance of [*the case for further investment in primary care infrastructure*] by the NHS can be seen in its recent publication of the "General Practice Forward View", which announced increased funding for "staff, technology and premises".

Everyone accepts that the increasing health needs of a growing and ageing population are putting a strain on the public purse. There is a shortage of GPs, and secondary health (i.e. hospital) resources are both expensive and overstretched. According to a recent report from the think tank Reform, a GP appointment each costs GBP21. If that patient chooses instead to go to a hospital A&E department, that visit costs almost six times more, an average of GBP124. Patients prefer to access health treatment from their primary practitioner and the primary care treatment costs the NHS significantly less as well. The Government needs to take a long-term view of health service provision in the UK. This would require recruiting more GPs, and funding modern flexible properties for those GPs to work in. Scarce GP resources can be leveraged by providing additional co-located services across a wide range of health and social care professionals, such as diagnostics, self-help and outpatient services which improve the care pathway. This will help to reduce the pressures and financial burdens elsewhere in the NHS and improve the patient experience. The benefits of this model are explicitly recognised in the General Practice Forward View report. Replacing some expensive secondary care with enhanced primary care would save the NHS large sums of money, and improve the patient experience.

It is clear that excellent primary care requires modern buildings and fit-out. Doctors need hygienic, warm and sound-proof facilities, as demanded by the Care Quality

Commission. About half of all GP surgeries cannot provide this in their current premises, and so require redevelopment. Such redevelopment gives Clinical Commissioning Groups the opportunity to bring a variety of community care services under one roof and so offer a more complete service. Property management is an essential part of the NHS provision for the future.

The UK has a unique model for primary care property. All new developments have to be approved by the NHS. Completed properties are then valued and rents agreed with the District Valuer, an HMRC employee. The Government therefore can ensure value for money from any private investment. In turn, the NHS commissioning body offers developers a long (typically 21 or 25 year) contract, which is set at a rent that takes account of both the lease length and the strength of the ultimate Government backstop.

The result is that GPs, and ultimately the NHS, pay a very competitive rent that is lower than it otherwise would be. The system enables the NHS to call on private money for new developments, avoiding any need for Government capital investment. It is a highly efficient and cost effective model for the private sector funding of state medical infrastructure.

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Big Yellow (the self storage market): In the recently published 2016 Self Storage Association UK Survey, only 41% of those surveyed had a reasonable or good awareness of self storage, in line with findings from our own research. Furthermore, only 7% of the 2,075 adults surveyed were currently using self storage or were thinking of using self storage in the next year. This indicates a continued opportunity for growth and with increasing use, together with the ongoing marketing efforts of everyone in the industry, we anticipate awareness will grow.

Growth in new facilities across the industry has been largely in regional areas of the UK and in particular in smaller towns. In London in 2015, we believe there were six new store openings last year, and three closures of stores for redevelopment into alternative uses. Between 2010 and 2015 average industry openings have been approximately 11 per year, which compares to an average of 34 per year in the preceding four years.

The Self Storage Association ("SSA") estimates that the UK industry is made up of approximately 1,077 self storage facilities (of which 195 are purely container operations), providing 37.6 million sq ft of self storage space, equating to 0.6 sq ft per person in the UK. This compares to 7.8 sq ft per person in the US, 1.8 sq ft per person in Australia and 0.1 sq ft for mainland Europe, where the roll-out of self storage is a more recent phenomenon (source: Fedessa European Self Storage Annual Survey 2015).

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Robert Noel, chief executive, Land Securities: Ongoing challenges include appropriately managing the changing balance between supply and demand in London offices and responding to the evolution of consumer habits in retail. And next month, we face the prospect of a UK exit from the European Union.

We believe a vote to leave the EU would lead to business uncertainty while negotiations take place on an exit treaty. Uncertainty slows decision-making. Over the short term, we anticipate this would drive down occupational demand in our market. In turn, this would lead to falling rental values and a reduction in construction commitments, particularly in London. So an exit could be painful for the property industry and those it supports. But there is a higher principle at play here. This is a decision for the British people, not businesses. It is up to individuals - including those amongst our customers, communities and partners - to decide what's best.

Offices

The London market remains healthy but faces uncertainty in the lead up to the EU referendum on 23 June. In the event of a vote to remain, we expect the relative balance between supply and demand to remain in the landlords' favour this year and for rental values to continue to rise, albeit at a slower pace than the last few years. This is because there is more choice on the horizon for occupiers. If there is a vote to leave, we expect demand to fall and this balance to shift, which in turn is likely to have a negative impact on rents and values.

Retail

The retail environment remains fast-paced and challenging, with consumers increasingly demanding in terms of price, experience and service. Many of the most successful retailers are those that can maximise sales through multiple channels, from traditional physical stores to online and click & collect. We expect the importance of digital channels to continue to increase. Retailers are changing the way they think about and use their physical space, with many investing more in shop design and layout, and using technology to transform their shops into interactive showrooms for their goods and services. Physical stores that provide the right space in the right place are worth this investment because of the crucial role they play for retailers in engaging consumers with their brands.

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US property

JZ Capital Partners: Brooklyn's demographics are exceeding the national average, in some cases by a wide margin. For instance, since 2000, Brooklyn's population between the ages of 25 and 34 has increased by more than 19.5% while the same age group has increased by only 8.4% across the United States[1]. Neighbourhoods that have been historically industrial, low-income and/or artist communities are witnessing these seismic population changes firsthand, fuelled by an influx of young and affluent residents that embrace Brooklyn's relaxed, artistic and young lifestyle. We have focused our portfolio on several of the fastest growing neighbourhoods, including Williamsburg, Downtown Brooklyn, Greenpoint, and Bushwick-Wyckoff Heights.

We are seeing similar trends and opportunities in the Wynwood and Design District neighbourhoods of Miami, Florida, which each draw strong parallels to the upscale, urban atmosphere of Williamsburg, Brooklyn. We made our first investment in Miami in January 2015, quickly followed by another three acquisitions in late February and March 2015. Since then, we have rapidly completed the assemblage of a full square block in Miami's Design District and have amassed a portfolio of cash generating retail properties, retail re-position opportunities and prime development sites in Miami's Wynwood neighbourhood. We believe that rapidly increasing retail rents amid a thriving arts scene are providing very attractive investment opportunities in Miami.

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QuotedData

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IMPORTANT INFORMATION