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Monthly summary | Investment Companies

August 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

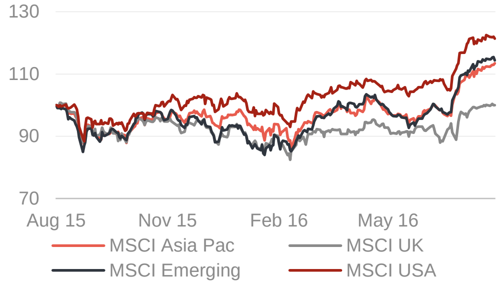
Generally, commentators on the global market are downbeat, citing a variety of potential headwinds for equity markets. There is some nervousness around the upcoming US election.

Nick Greenwood, manager of Miton Gobal Opportunities, says investors will need to look away from the mainstream if they are to be successful in generating positive returns. BACIT's managers say their managers are addressing the risk of Central Bankers losing credibility. Ben Rogoff, manager of Polar Capital Technology, thinks share buy-backs and M&A activity should continue to provide support for stocks and valuations. The managers of Alliance Trust believe political uncertainty is sure to be a headwind for equity markets. Lucy Macdonald, manager of Brunner, sees uninspiring market returns and bouts of elevated volatility to continue for the foreseeable future. Peter Hewitt, manager of F&C Managed Portfolio, thinks earnings and dividend-growth is required for markets to make progress. Patrick Gifford, chairman of Invesco Perpetual Select, says Donald Trump is a threat to the liberal world order. Nick Mustoe, manager of that fund's Global Equity Income pool, also sees the US election as a headwind to markets. He is more optimistic though, saying a number of UK and European companies offer compelling valuation opportunities. Scott Wolle, manager of the Invesco fund's Balanced Risk pool, ponders whether the UK's vote to leave the EU could spur other countries to follow suit.

Exchange Rate	31/07/16	Chg. on month %
USD / GBP	1.3230	-0.6
USD / EUR	0.8949	-0.6
USD / JPY	102.06	-1.1
USD / CHF	0.9695	-0.7
USD / CNY	6.635	-0.2

MSCI Indices rebased to 100

Time period 31/07/15 to 31/07/16



Source: Bloomberg and Marten & Co

	31/07/16	Chg. on month %
Oil (Brent)	42.46	-14.5
Gold	1351.3	+2.2
US Tsy 10 yr yield	1.4531	-1.1
UK Gilt 10 yr yield	0.685	-21.0
Bund 10 yr yield	-0.121	-7.6

UK

Brexit creates uncertainty and many think a recession is likely. There are divergent views about whether UK stocks are cheap post market falls

The managers of Artemis Alpha see opportunity amongst the stocks whose share prices have fallen post the referendum. They wonder whether overseas investors might look to pick up some bargains. The managers of Schroder UK Growth are more cautious. They think many of the stocks that have been hit are cyclicals whose business is vulnerable to a post-Brexit recession. Mike Prentis and Dan Whitestone, managers of BlackRock Throgmorton, also believe there is the chance of a recession. Lord Lamont of Lerwick, chairman of Chelverton Small Companies Dividend, points out that many companies will be using Brexit as an excuse for profit warnings. David Horner, the manager of that fund agrees. Paul Trickett, chairman of Aberforth Smaller Companies, thinks most of the earnings decline, to come from small and mid-cap UK stocks, is priced in. Aberforth Partners say politics is creating more volatility in markets than any time since the Cold War but they think it is worth recalling the nimbleness and resilience that small companies displayed in the last downturn eight years ago. Alastair Mundy, manager of Temple Bar, thinks there is a chance that we could see a resurgence of inflation, given the possibility of a government funding crisis, the impact of weak sterling on import prices, and/or a tighter labour market thanks to lower immigration. Mark Barnett, writing as manager of Invesco Perpetual Select's UK equity pool, gives a number of reasons why earnings growth may disappoint and expects subdued returns and volatility to remain a feature of the investment landscape. Margaret Littlejohns, chairman of Henderson High Income, expects that investors will continue to focus on income as interest rates stay lower for longer.

Brazil

Brazil is past the worst of its recession

Luis Carillo and Sophie Bosch de Hood, managers of JPMorgan Brazil, think Brazil is past the worst of its recession and much will depend on an improvement in confidence though time will tell if the new president can deliver this.

Financials

Banks are more robust than they were and share price falls have been excessive

Robert Kyprianou, chairman of Polar Capital Global Financials, points out that current market volatility is a consequence of a political crisis not a financial one. He says the banking sectors in Europe and the US have, in general, more robust balance sheets and business models than at any time since the global financial crisis. Nick Brind and John Yukas, the managers of that fund, believe the underperformance of bank shares in general has been excessive resulting in a derating of many shares that it is hard to justify.

Private Equity

Private equity funds are sitting on a sizeable war chest

Howard Myles, chairman of Aberdeen Private Equity, notes the "dry powder" that private equity funds have, at their disposal, to make new investments which, in aggregate, remains at record highs. The managers of that fund say the 'check' effect that Brexit may have, specifically on UK and European deal pricing, may ultimately serve to be beneficial in taking some of the heat out of the private equity market.

Resources

The current oil price is not sustainable

Ed Warner, chairman of BlackRock Commodities Income, says the outlook for the natural resources sector has improved but threats to the global economic recovery remain. Olivia Markham and Tom Holl, managers of the fund, do not believe the current oil price is sustainable but still see oversupply in many commodity markets, saying commodity prices will need to move lower to balance markets, putting pressure on the mining sector.

Other sectors

There is also comment on Asia, Japan, the Debt sector, Renewable Energy (where Tim Ingram, chairman of Greencoat UK Wind, thinks UK power prices could rise as imported gas becomes more expensive), Technology (where Ben Rogoff, manager of Polar Capital Technology, expounds at length on the prospects for the sector) and UK property where we have comments from Hammerson and intu on the retail property market and Primary Health Properties on the impact of the UK government's healthcare policy on its specialist area.

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Global

(compare Global funds **here**)

Nick Greenwood, Miton Asset Management Limited, manager of Miton Global Opportunties: Looking forward, after enjoying a bull run which started in early 2009, there are signs that during the next phase it will prove rather more testing for investors to make money. Commodities, on some measures, have plumbed depths not seen for generations. Furthermore a substantial proportion of government bonds now offer negative absolute returns and US margin debt outstanding has reached extreme levels. All three indicators are signaling that the world has moved into little charted territory. It will be challenging for equity markets to continue making progress.

Investors will need to look away from the mainstream if they are to be successful in generating positive returns.

Investment companies

Traditionally, private client stock brokers were the natural customers of the investment trust industry. In recent years these have merged into vast wealth management chains. These typically run many billions and it is almost impossible for them to use investment trusts, other than the very largest. This has created a barbell market where the shares of better known trusts trade close to the value of the underlying portfolio whereas smaller trusts often trade at a substantial discount.

Many of these smaller trusts are doing nothing wrong. They are delivering on their investment objectives. It is just that their client base has moved on. They now have few natural buyers therefore it only takes a modest amount of selling to drive their open market price downwards, irrespective of how the underlying portfolio is performing. Historically if a trust was trading on a wide discount this would suggest that there was an issue. It may have been that the trust was perceived as being low quality, had performed poorly or had a dysfunctional share register. Today the overriding factor which has led to smaller and medium sized closed ended funds trading at wide discounts is structural change. This has transformed the balance of supply and demand. Therefore we find ourselves in a position where quality funds are available at sizeable discounts to the value of their portfolios. Sadly when a fund trades on such a wide discount, it is vulnerable to corporate raiders or its board pulling up stumps as they struggle to see where their trust can find an audience in a changed world.

A helpful development is that the closed end sector is increasingly becoming the natural home for alternative asset classes. Funds focusing on areas such as; Property, Infrastructure, Reinsurance, Forestry and Peer to Peer Lending have illiquid portfolios unsuited to being owned within an open ended structure offering unit holders daily liquidity. The methodology for calculating asset values for Alternative Funds is more subjective than when valuing pure equity portfolios. Often this process fails to accurately reflect the level at which portfolios could be realised on the open market.

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BACIT (UK) Limited, manager of BACIT: Since 31 March, market participants have increasingly accepted that low rates are deflationary, with the market grasping at the oil price as an indicator of inflation, future rates and growth. The markets' gyrations around the UK referendum underline just how interconnected asset prices remain and at the date of this report it is too early to assess the impact on the portfolio. Monetary policy continues to drive markets, but the transmission mechanism connecting the real world economy appears to be broken, so that now the words of a Central Banker carry more weight than a jobs report. The risk of Central Banks losing credibility is one our macro managers, particularly, are addressing.

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Ben Rogoff, manager, Polar Capital Technology: After another year where economic growth fell shy of expectations and in the light of the recent episode of pronounced asset volatility, forecasts for 2016 have been subjected to further downward revision reflecting loss of momentum in advanced economies and continued headwinds in emerging markets. Current global GDP growth forecasts of 3.2% (2015: 3.1%) better reflect tighter monetary conditions in the US and Japan and the reversal of earlier hopes associated with an 'energy windfall'. Advanced economies are expected to expand by 1.9% this year led by 2.4% growth in the US (2015: 2.4%) where housing and labour market strength should offset the impact to exports coming from the stronger Dollar and energy related weakness. Europe is also expected to grow in line with the prior year, current estimates of 1.5% growth capturing weaker external demand ameliorated by lower energy prices, some fiscal expansion and supportive financial conditions. Expectations for Japan have also been revised lower with just 0.5% growth anticipated this year as Yen appreciation and weaker emerging market demand offset the positive impact of lower oil prices and easing measures designed to support private demand. Growth in developing economies has also been revised lower with current expectations of 4.1% about 2% below the average of the past decade as the Chinese economy continues to decelerate. Resource dependent countries remain challenged by lower oil / commodities prices but mathematically will drag less on overall growth this year with Russia and Brazil forecast to contract by 1.8%/3.8% respectively, as compared to 3.7%/3.8% in 2015. As one of the largest beneficiaries of cheap energy, India is likely to remain a bright spot with growth pegged at 7.5% this year (2015: 7.3%) driven by private consumption.

Despite downward revisions to growth, risks associated with a persistent sub-trend recovery and the most unusual recent 'oil shock', our base case remains a positive one where global/US recession is avoided as China/commodity/Dollar-related weakness is ameliorated by consumer strength and further policy action as required. Key to this call remains our constructive assessment of the US economy, which just a few months ago some believed was at risk of stumbling into a recession. Our view at that time - and today - is that while weaker data may have challenged the idea of the US economy as "an oasis of growth in a listless global economy", it largely reflected energy-related weakness (impacting US industrial activity) and pronounced US Dollar strength. As such, the sharp decline in rail cargo volumes witnessed earlier in the year should be considered against a backdrop of strong auto sales, housing market strength and improved bank lending. Moreover, the US labour market remains robust with unemployment at an eight year low (4.5%) having added an average of 221k jobs per month during 2015. In other words, US data remains supportive of a 'two-speed' economy with weak external demand (and oil-related retrenchment) offset by consumption that looks well supported by low interest rates, declining y/y energy prices and low household debt service.

We also remain relatively sanguine about China based on our long-held view that policymakers have sufficient monetary and fiscal 'firepower' to prevent a 'hard-landing'. This position was tested early in 2016 amid a slew of data that pointed to further economic deceleration -Q4'15 annualised GDP growth of 6.8% (the slowest pace of expansion in twenty-five years) and a number of other indicators such as electricity consumption, rail freight, and vehicle sales worse still. Asserting that the economy was on track while easing aggressively, Chinese policymakers raised suspicions that conditions were worse than they were prepared to admit, while earlier policy missteps (including the handling of the stock market) had damaged their credibility. Against this backdrop, the decision to abandon the US Dollar peg and move to a trade-weighted currency basket took on a very defensive hue resulting in capital flight (at a pace that would have exhausted Chinese reserves within three years) and fears that China was prepared to risk a currency war in order to deliver requisite growth. Given long-term structural concerns that are impossible to dispel ("the unwinding of excessive, credit-fuelled investment and overcapacity") investors embraced the view that "what ails China's economy... may not be easily remedied".

However, given positive trade and current account surpluses and with c.$3.2tr in foreign currency reserves we remain steadfast in our view that Chinese policymakers should be able to prevent worst case outcomes. This 'muddling-through' position feels a little less controversial today following a period of US Dollar weakness that has seen the RMB stabilise, allowing reserves to rebuild modestly in both March and April. We have even seen the IMF recently increase its GDP forecast from 6.3% to 6.5% due to strong service sector growth, bringing its forecast in line with the low-end of the official growth target for 2016 of between 6.5-7.0%. Even the decision to reference the Yuan's performance against a trade-weighted basket of currencies looks a little less defensive given divergent monetary policy; sustained Dollar strength and QE in both Europe and Japan. However, we are mindful that the PBOC is likely "preparing the market to interpret a weaker Yuan versus the Dollar (as) not being devaluation" in order to support exports that declined 1.8% y/y in 2015. In a world of sub-trend growth and heightened sensitivity about the use of competitive devaluation as a policy tool, the Yuan is likely to remain an important determinant of investor sentiment. As such, China remains a key battleground and - given the enormity of the (economic rebalancing) task at hand - we fully expect our view to be tested over the coming year.

We are also relatively constructive on oil, commodity and by extension, emerging markets although our interest in the first two is limited to the risk they pose to the global economy and/or risk appetite given that energy prices were the "genesis of the (market) turmoil and angst" in early 2016. While we had previously hoped that lower energy prices would prove additive to global GDP, we - like most investors - had not anticipated the rout experienced in February when oil fell as low as $26/ barrel. Mindful of Hooke's Law (which states that stress is proportional to strain, but only when strain is sufficiently small), by early 2016 the 80% oil price decline since mid-2014 tested the breaking points of most energy exporters. Although prices have subsequently rebounded, we now know that c$30 oil is incompatible with financial market stability. Beyond its contribution to Dollar strength and demand destruction among energy exporters, sustained oil price weakness has been shown to impact the US economy (energy production accounting for c.3% of GDP and 1.7% of employment), agricultural prices and capital spending (more than $380bn worth of oil projects were delayed or cancelled in 2015). Furthermore, the energy sector also boasts a disproportionately large footprint in capital markets, accounting for more than 7% of stock market capitalization, 10% of investment grade credit and 16% of outstanding high yield (HY) bonds while oil and gas funds account for more than 56% of the sovereign wealth market that holds c $3tr of equity assets.

From our dispassionate (and admittedly novice) perspective, the early 2016 rout looked like it might prove the waterfall conclusion to an eighteen-month period of sustained oil price weakness. Since then, oil has rallied sharply from lows, allowing a number of other markets (high yield, EM currencies) to normalise. As a result of fracking (horizontal drilling and hydraulic fracturing used to extract oil from shale rock) and the end of Iranian sanctions - we expect oil prices to remain volatile. However, there is growing evidence of a much-needed supply response including a US rig count that has declined c.75% from highs. We are also seeing some fiscal adjustments in oil producing countries while financial hedges are also likely to play less of a role in supporting loss-making supply in the year ahead. The energy market also appears oddly vulnerable to any supply-shock with global spare capacity estimated at just c.2% as compared to c.30% in the 1980s and 8% ten years ago. With Donald Trump having recently secured the Republican Presidential nomination, prospects for a more confrontational US foreign policy have likely increased while a rolling back of the Iran deal looks a genuine possibility in the event of a Republican victory. In short, while we do not expect energy markets to return to their original shape (absent an unexpected 'restoring force' such as sustained Dollar weakness) neither do we expect a repeat performance of the oil rout and high yield travails being transmitted into equity markets.

In addition, we continue to take comfort from the fact that policymakers remain alive to the risk posed by deflation. The unusual alignment of interest between policymakers and investors (equally keen to avoid a deflationary outcome) has been a bulwark of the current bull market and - with core inflation below target everywhere and evidenced by recent events in Europe and Japan - it appears alive and well. Even in the US, where policy tightening began in October 2014 (with the end of QE) and more recently in December 2015 when the Federal Reserve actually raised rates for the first time in a decade, policymakers remain dovish - insisting that monetary policy remains data dependent at a time when unemployment has fallen below what many consider to be the economy's long-term natural rate. This unusual degree of latitude reflects core inflation that remains well below target and muted inflation expectations (five year break-evens near post crisis lows), which should allow the Fed to remain comfortably 'behind the curve'. While we acknowledge some evidence of unintended consequences emanating from the latest wave of policy efforts (e.g. negative interest rates perceived to be hindering bank profits without sufficiently steepening the yield curve) we are hopeful that these will prove manageable.

Beyond China, currencies and oil price weakness, there are a number of additional risks worth considering. As previously discussed, the greatest risk to equity markets remains the potential loss of policymaker support that has underpinned risk assets since 2009. This continues to look unlikely for now given that deflation remains a key policymaker focus in Europe and Japan while we expect the Federal Reserve to remain intentionally 'behind the curve'. A sub-trend (and increasingly uneven) global recovery together with large output gaps are likely to present investors with future 'growth scares', particularly in emerging markets where fortunes remain closely tied to commodity prices and China growth. Although systemic risk has continued to diminish, the implications of a Fed tightening cycle are not yet fully known, particularly in relation to its impact on EM currencies and external financing conditions. Policy error is another notable risk; while it is true that the Fed remains 'data dependent', further labour market improvement and greater evidence of wage inflation could yet test the Fed's resolve. We are also mindful of reflexivity, where financial volatility impacts confidence and demand in a negative feedback loop and the longer-term impact of persistent sub-trend recoveries that reduce potential output and increase the potential for secular stagnation. Political risk remains the most potent exogenous risk as it relates to both fragmentation and acts of terrorism. Following the recent UK referendum and the decision to exit the EU, so-called 'Brexit' remains a key political risk. The ramifications of a UK withdrawal are yet unknown; until a modus operandi is found, uncertainty is likely to persist. Failure to reach an accommodation may increase the risk of a so-called tail outcome, particularly against a backdrop of sub-trend global growth. Other risks include US presidential elections in November, corporate tax reform and the challenge to nation states posed by Islamic extremism in North Africa and the Middle East.

Although risk assets have rallied sharply from their February lows, we are hopeful that equities will add to their gains during the remainder of our financial year. The combination of earnings growth and weaker markets has resulted in equity valuations compressing modestly with the forward PE on the S&P 500 trading on c.17.3x, from 17.6x twelve months ago. Despite this, absolute valuations remain above long-term averages on most traditional measures of value, which is likely to result in returns becoming more dependent on underlying earnings (and dividend) growth. This was certainly true during the past year as muted returns reflected weak global growth, Dollar strength and downward revisions in cyclical groups (particularly energy) that constrained overall US corporate earnings. Things should improve this year as energy-related earnings have been de-risked although currency remains a key determinant of 2016 earnings as every 2% increase in the trade weighted Dollar equates to negative earnings revisions of c.1%. As previously, stocks continue to look compelling against both cash and bonds with the Fed Model (which compares earnings and bond yields) suggesting that equities remain significantly undervalued, while the S&P 500 dividend yield (2.3%) remains in excess of ten-year Treasury yields (1.5%). This picture is similar across much of the world with dividends in excess of long-term sovereign yields in most regions, with around $11.7tr of global government bonds trading at yields below zero. This unusual backdrop has seen US companies apparently recognize the relative appeal of the two asset classes having recently swapped equity for debt at a run rate of c.3% of GDP.

Six years of profit growth have left the S&P500 (ex-financials) with $1.45tr of cash and equivalents. However, with much of this liquidity 'trapped' overseas, US companies have continued to raise domestic cash via bond sales. Despite high yield problems (issuance down 23% y/y in 2015) debt markets have remained open for investment grade companies. Just recently Dell managed to sell $20bn of bonds to finance its proposed acquisition of EMC. The combination of balance sheet strength and near-record debt issuance should continue to support stock repurchases worth $569bn during 2015, equivalent to 3% of S&P 500 aggregate shares outstanding. In contrast, the IPO market has remained subdued after a difficult 2015 with just $12.1bn raised globally during Q1'16, a 70% y/y decline in total capital raised and by far the weakest quarter since 2009. Typically lean years for IPOs (<100 companies coming public in the US) are followed by an average return of 12% over the following twelve months. Although 2015 will be a tough act to follow, M&A activity should also continue to provide support for stocks and valuations. The combination of a challenging first-quarter and the introduction of stricter rules for tax inversions (resulting in the largest withdrawn deal on record when Allergan and Pfizer shelved their proposed merger) has resulted in global M&A volumes declining 14% y/y in Q1. However, we expect activity to recover as companies look to augment slowing growth, cut costs and take advantage of remarkably cheap money. We also expect the Chinese to remain active having spent more than $100bn on outbound M&A during Q1'16 (accounting for almost one-sixth of all deal activity), almost eclipsing their previous annual record of $109bn.

Our constructive view is likely to be tested during the coming year given that valuations and the duration of the present bull market already exceed long-term averages. Equity market setbacks are likely to continue to take the form of 'growth scares' as experienced in early 2016 with China and oil likely focal points. However, we are comforted by the fact that sub-par recoveries 'tend to persist' while slightly elevated equity valuations remain far more attractive than cash and sovereign debt where negative real returns look all but certain. We continue to see limited short-term risk to corporate profit margins with recent weakness almost entirely explained by energy (and to a lesser extent industrial) sector malaise. Rather than subscribe to the mean reversion view, we believe higher margins reflect the shift from manufacturing to services, globalization (which has changed the relationship between capital and labour) and the growth of margin-rich technology companies such as Alphabet and Facebook. That said, we are cognizant of two potential cyclical margin headwinds - higher interest rates and wage inflation. We are also mindful about the impact of potential corporate tax reform following the abolition of the so-called 'Double Irish' tax structure in late 2014. However, we do not anticipate a significant change to prevailing tax rates as the US is likely to resist international efforts to "grab a tax base" of its corporations. Certainly the recent GBP130m deal between Alphabet and HMRC fits the 'slapped wrist, modestly higher tax' model that we anticipate going forwards. Obviously we will continue to monitor tax related developments but for now our base case does not anticipate wholesale change to a global tax system that has been in place since 1928.

Although we remain constructive, it is worth reiterating the potential catalysts that might require us to significantly alter our view. The first - and one that came into focus during early in 2016 - relates to the high-yield market because widening spreads have empirically preceded equity bear markets. Having bottomed at less than 400 basis points (bps) in mid-2014, high-yield spreads ballooned to almost 900bps in February which was transmitted into the equity market resulting in lower PEs and pronounced small cap / long duration underperformance. However, we opted to ignore this 'signal' because the energy sector (c.15% of the high yield market) was largely responsible for the wider spreads. As such, weakness was "primarily a liquidity issue, not a broad based credit problem" Just as the oil price has recovered, so too has the high yield market with spreads back at c.600bps while high yield bond funds have experienced positive flows of $6.5bn year to date. Naturally recession risk remains a key concern, although there are only two indicators with any track record at anticipating recession, and one of them (the stock market) has "predicted nine of the last five recessions"! The other indicator - the yield curve - has produced far fewer false negatives but we wonder if its signals can be trusted today given ZIRP / QE distortions. The one thing we know we cannot rely on are economists, the majority of whom failed to predict the three most recent recessions even after they had begun! We will also keep a watchful eye on wage inflation, which represents one of the greatest risks to the alignment of interest between policymakers and investors that has underpinned equity markets post the financial crisis. Furthermore, rising wages could signal a peak in profit margins, which have typically preceded stock market peaks by twelve to eighteen months.

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Alliance Trust Investments, managers of Alliance Trust: The economic outlook for the second half of 2016 appears unclear after the EU Referendum vote. The UK economy appears set for at least a mild recession as investment and consumption freeze up in the midst of so much uncertainty. The question remains as to whether this will spill over into Europe and result in a slowdown across the global economy. The unprecedented nature of the current situation makes forecasting the impact particularly challenging.

Political risks abound; from the US presidential election in November to other important elections and referendums in China, Germany, France and Italy over the next 18 months. With global economic growth already fragile, political uncertainty is sure to be a headwind for equity markets. In this uncertain environment we believe a defensive portfolio that is invested in companies that are growing through structural change - rather than those that are dependent on cyclical tailwinds - will be key to investment performance.

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Lucy Macdonald, manager of Brunner: Meagre equity market returns, accompanied by increased levels of volatility, reflect the slow growth global macro environment that persists despite unprecedented monetary policy support from central banks. The outlook is further clouded by the timing and trajectory of further US interest rate increases and the looming Brexit in the UK. We continue to expect uninspiring market returns and bouts of elevated volatility to continue for the foreseeable future in the absence of either a sustained global growth spurt or slide into recession, both of which we view as unlikely.

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Peter Hewitt, manager, F&C Managed Portfolio: This report is being written in the immediate aftermath of the EU referendum. There is little doubt that the preceding months have seen increased levels of uncertainty in both the UK and Europe as to prospects, should a Brexit vote occur. Now that a vote has taken place and the decision to leave the EU has been made, this takes the UK into uncharted waters both politically and economically with a level of uncertainty that has not been experienced for a long time.

Such is the uncertainty about the future, waiting to see some of the dust settle seems sensible because it is difficult to assess what some of the moving parts will look like as international trade and regulatory negotiations take place.

It seems likely growth will be lower, with perhaps even a recession in 2017. The Bank of England may have to cut interest rates and sterling which has already weakened may well fall further. Equity markets also could well move lower although the fall in sterling acts as a useful offset for overseas earners and exporters.

All of this is happening at a time when the global economic backdrop, regardless of the UK's decision to leave the EU, has become very challenging. The liquidity fuelled bull market with quantitative easing and highly accommodative monetary policy looks to have run its course. Investors worry that Central Banks have lost the ability to stimulate growth even with interest rates negative in many countries.

Although equity markets across the globe are lower than a year ago, in certain cases they are not less expensive, as earnings have fallen. This is particularly true of the UK and of overall corporate earnings. However, profits and earnings have also been under pressure in other sectors so there has not been a compensating increase. In order to make headway it is unlikely valuations will expand much further and so it will require earnings and dividend growth from the corporate sector for the markets to progress.

In terms of investment strategy; similar to the global economic outlook, prospects for financial markets are more challenging than for a long time. In this context, a defensive and cautious approach is appropriate. Having said that, where areas of long term secular growth can be identified, there will still be a measured exposure e.g. technology and healthcare.

In conclusion, financial markets are facing a prolonged period of uncertainty and against this background there is no mileage in making big portfolio shifts until prospects have become clearer. Over the longer term, it is likely that the UK economy can cope with life after Brexit. We have a dynamic economy which has adapted to change before and prospered. Meantime, cautious optimism are the watchwords, with an emphasis on quality.

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Patrick Gifford, chairman, Invesco Perpetual Select: Little has changed in the general economic outlook. Monetary policy remains very easy and real interest rates are extremely and anomalously low, and often negative even for long-dated paper. The risks of dislocation still seem to be weighted towards deflation though there has been a welcome, though small, rise in US real wages. However, the extreme and generalised fear that led to the lows in February does seem to have abated. It has, however, now been replaced by considerable uncertainty following the British decision to vote to leave the European Union. At present, all that can sensibly be said about the economy is that it is extremely likely to lead to lower growth for the UK and probably the rest of the EU for several years while the UK itself may well suffer a near term recession as consumers delay spending and investment is also postponed. Politics in the UK have at times in the last three months been an absurd blend of farce and tragedy, though the appointment of Theresa May as Prime Minister has resolved the turmoil in the governing Conservative party even if there is still a lack of certainty over the resolution of the detail surrounding the implementation of "Brexit". However, the absence of an effective opposition remains a problem, especially because it fosters a sense of disenfranchisement in a significant part of the electorate.

Meantime the US Presidential election looms over us. It is clear that it will be a contest between Hillary Clinton and Donald Trump. The latter represents a threat to the liberal world order should he be elected. If he is, one can only hope that the dysfunctional US political system will continue in that way.

The European Union remains a troubled area and subject to potential shocks. It is possible that it has already passed a peak of achievable integration whatever its leaders desire and that therefore the long term future of the Euro must be in doubt because of the vast gulf in competitiveness that it spans among the member countries.

Events in Turkey and Nice have yet again demonstrated that the conflicts raging in the Middle East have the ability to inflict terrible damage, both human and political, well outside the immediate area. The ramifications and the likelihood of further disruption make any predictions very hazardous, except perhaps to suggest that no resolution is in sight.

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Nick Mustoe, manager, Invesco Perpetual Select Global Equity Income: Sluggish global economic growth, low inflation and potential geopolitical headwinds, particularly the upcoming US presidential elections in November 2016, continue to persist. The US economy is benefiting from modest growth and Europe's economic recovery continues to gain ground.

Investors were completely wrong-footed by the decision of UK voters on 23 June 2016 to leave the European Union. As a result, the immediate market reaction was extreme as dramatic market moves reflected the emotional response of investors. The main pain was taken by sterling but equities were also affected, particularly in cyclical sectors, such as financials, as investors retreated into perceived 'safe haven' assets across global markets. However, after the initial volatility, with the Bank of England hinting at additional stimulus measures, markets appear to be slowly stabilising. We think this reflects the event being principally a UK one, with Europe sharing some of the pain, but with the global contagion contained.

Looking ahead, we remain optimistic that a number of UK and European companies offer compelling valuation opportunities, particularly in the financials sector, and should benefit from the combined tailwinds of loose monetary policy, encouraging labour data and returning consumer confidence.

Scott Wolle, manager, Invesco Perpetual Select Balanced Risk: The issue at centre stage for financial markets over the foreseeable future will be the fallout from the vote by the UK to leave the European Union. Investors will be keen to gain an understanding of the economic impact the move may have not only on the UK and Europe, but if there is potential to inflict harm on a broader scale. Central banks are already adopting an accommodative stance with the Bank of England's Mark Carney hinting at the potential for additional monetary policy easing over the summer months. The other impact of the "Brexit" is whether or not it spurs a separatist movement amongst other EU members causing an existential crisis for the bloc. The only certainty arising from the impact of the vote is a period of increased uncertainty.

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UK

(compare UK funds **here**)

John Dodd and Adrian Paterson, managers, Artemis Alpha: As we write, the market is continuing to react to the perceived implications of Brexit: a sustained period of ultra-low UK interest rates, the possibility of a recession and a prolonged period of uncertainty. Of these the last is certain, but the first two assume the worst. In turn this has divided performance in the market sharply. International earners are showing resilience, but the weight of selling is pushing domestically exposed stocks down hard.

We are inclined to think this disparity is overdone. There is a case for switching from expensive defensives and international stocks into companies that have been swept along in the domestic negativity - yet which have the characteristics and options at their disposal to outstay such conditions. In time the market will focus on where risk is discounted - as opposed to concentrating on areas into which money has flown unthinkingly. For example pharmaceuticals will soon find themselves in the eye of the US electoral uncertainty; and similarly European stocks will reflect upon the sustainability of the remainder of the eurozone. By contrast the UK will have re-priced; and although no-one likes an investment opportunity where the good news is less bad news, that could be a basis on which the market recovers its poise.

Meanwhile it is well worth remembering that international investors have been much more cautious about Brexit - and have been far less exposed to both European and UK stocks. Since 24 June, courtesy of the market's and sterling's weakness, UK assets are considerably cheaper for US investors than they were.

Finally, the old truism is true: volatility means opportunity.

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Schroder Investment Management, managers of Schroder UK Growth: We continue to keep the portfolio cautiously positioned as we remain concerned that the valuation for the median stock in the market remains high and that value is concentrated into an increasingly narrow group of sectors. Such high valuations are leading to increasingly nervous markets, made worse by the EU Referendum result, and markets are increasingly sensitive to short term economic data.

Recent levels of market volatility are reminiscent of periods of market fear such as the Eurozone crisis. Historically these have proven good opportunities to increase risk, however, valuation (as measured by the median stock in the market) is not as supportive as on those previous occasions, and some of the sectors that are cheap by historical standards are cyclicals facing an uncertain outlook (for example the domestic banks). Heightened volatility has also provided an opportunity to rotate portfolios in the past, and we continue to find opportunities.

The result of the EU Referendum guarantees an uncertain immediate future both economically and politically, with the added danger of collateral damage to, for example, European economies. Domestic growth is likely to be lower than expected earlier, although companies' overseas businesses will be boosted by the fall in sterling since the vote.

Against a backdrop of low nominal growth and weak profits delivery the market has placed certain companies, whose earning streams appear relatively resilient or are able to deliver strong organic growth, on high valuations. This relative outperformance has been exacerbated further by the recent Brexit vote and accompanying uncertainty over the outlook for UK GDP forecasts. Given the possibility that the UK economy now faces a recession in the face of current political and economic uncertainty, we are paying close attention to the extent to which profits may fall from here and balance-sheets are positioned to cope with this change.

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Mike Prentis and Dan Whitestone, managers, BlackRock Throgmorton: The main news post the period end has been the referendum vote to leave the European Union. This shocked markets with significant falls in the value of both sterling and equities, especially UK midcaps, although there has since been a recovery in the share prices of the most internationally exposed companies. The stocks most negatively affected have been UK cyclicals including housebuilders, retailers and real estate companies. We believe that the next few months will see a period of uncertainty and lower growth for the UK, potentially a modest recession.

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Lord Lamont of Lerwick, chairman of Chelverton Small Companies Dividend: There is no real benefit in me adding here to the acres of column inches and hours of commentary on the "why's" and "wherefore's" of the actual Vote.

As time passes it is our belief that companies, which are in the main UK'centric in their trading relationships, will adapt and prosper. We believe that current share prices largely take into account the general market decline since 24th June and the possibility of a shallow recession. Of course the whole "Brexit" outcome allows any company an easy excuse for a profit warning on underperformance.

Any eventual agreement with the European Union is not expected take place for at least two years and given the well documented political and economic tensions in the European Union and more particularly the Eurozone it makes it very difficult to make any precise prediction as to the eventual shape of any agreement.

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David Horner, manager, Chelverton Small Companies Dividend Trust: Clearly the result in the Referendum has taken many people by surprise and highlights the stark divisions in the country. The result seems to have come as a shock to some and there has been much subsequent contemplation and, of course, robust discussion. As time passes and as a country we move on, and accept that change must and will take place, people and companies will begin to become more objective about the situation.

There is no doubt that companies will use the opportunity of blaming "Brexit" for any problems that emerge in their companies over the next two years. Despite being very vociferous opponents of the Leave proposal, The Governor of the Bank of England and the Chancellor have put in place a whole range of facilities to protect the economy from the shocks from the Brexit process. However, the need is increasingly recognised by all to work towards a sensible solution that is beneficial and acceptable to all.

In time as people become more used to the concept of Brexit, once the "new" Conservative government is installed and members of the European Union, who undoubtedly have their own political and economic issues, start working towards an amicable solution for all parties then a more balanced view will emerge.

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Aberforth Partners LLP, managers of Aberforth Geared Income and Aberforth Smaller Companies: The EU referendum, given its proximity and significance, inevitably dominates the current investment environment. It is probable that the heightened uncertainty that has come with the "out" vote will undermine the UK's economic growth in the near term at least. Small companies have less overseas exposure and so, all else being equal, would suffer more than their larger peers from a possible UK recession. The referendum result also ushers in an indeterminate period of intense uncertainty for financial markets. Crucial issues - such as government, the timescales for the exit itself, terms of trade, the make-up of the UK - are up in the air. Accordingly, it is difficult to argue that UK equities do not now merit lower valuations, even if, over the longer term, the "Brexiteers" are proved right in their belief that the economy has been stifled by EU membership.

Of course, the implications of the Brexit vote are not confined to the UK. Political and economic risk across Europe has risen as a result of the UK's decision: with the arguments of break-away parties in other countries now carrying more weight, the threat to the stability of the Eurozone, with its structural challenges, has undoubtedly risen. More broadly, Brexit may embolden populist anti-establishment movements around the world and confirms that politics is creating more volatility in equity valuations than at any time since the end of the Cold War.

The modest valuations that characterise much of the UK small company universe, declined in the wake of the EU referendum. The coming months will determine whether investors in general deem these valuations to be sufficiently low to compensate for greater uncertainty. The "out" vote undeniably complicates the outlook for the UK economy and therefore for many small UK quoted companies. It comes at a time of a wide current account deficit and a still large public sector borrowing requirement. With interest rates already very low, the monetary policy response is limited, but a relaxation of the austerity strategy might allow fiscal policy to take the strain. Sterling has already offered some relief, but it would not surprise were the economy to enter recession as spending and investment decisions continue to be deferred.

This is a somewhat downbeat prospect for small companies. However, the passage of time will see today's uncertainties addressed, as has been seen already with the prompt appointment of a new prime minister. Moreover, it is worth recalling the nimbleness and resilience that small companies displayed in the last downturn eight years ago: they emerged from a global recession in a better state than they had entered it, to which their subsequent outstanding dividend performance attests. Beyond that, the structural advantages enjoyed by the UK, which have helped small companies generate such strong returns over the long term, remain largely intact:

language, time-zone, property rights, corporate governance and, perhaps now debatably, political stability and openness.

Notwithstanding the ramifications of Brexit, the Managers believe that small companies can continue their long term record of strong returns. As a reminder, the NSCI (XIC) has seen GBP1,000 invested on 31 December 1990 grow to GBP13,545 on a total return basis, which compares with GBP8,351 for large companies. This superior performance has been achieved in a volatile fashion: were an investor to have missed the best five months for small companies in this period, the premium over large companies would be eliminated. This predicament for the small cap investor is demonstrated by the suddenness of the rebound in small company share prices during the last slowdown in 2009.

History is a useful guide but, with no precedent for Brexit, can offer no guarantees as to timing. However, valuations are already low and in many cases seem to have discounted the incremental risks to the UK economy in the wake of the "out" vote. Moreover, it would seem unlikely that a UK recession would reduce small company dividends to the extent seen in 2009's global downturn and so, in an investment world even more starved of income, the dividend characteristics of the asset might offer some support to valuations.

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Alastair Mundy, manager, Temple Bar: The decision made by the UK electorate at the end of June to leave the EU significantly altered investors' views on the future path of both the UK economy and Sterling. Consequently, share price movements in the last few days of the six-month period swamped everything that had occurred up to that date. The immediate reaction was straightforward: those stocks most exposed to the cyclical elements of the UK economy - the banks, retailers, property and construction related stocks - were dealt with harshly, whilst US Dollar earners and 'bond proxies' were marked higher, reflecting the weakness of the British Pound and the fall in gilt yields to record lows.

Whilst Brexit has clearly created very significant uncertainties, there are some areas which the market has priced in as almost beyond dispute. Its most obvious conclusion is that interest rates will now remain low for a very long time. This assumes that Brexit will immediately dampen domestic demand and that the Bank of England will consequently relax monetary conditions as much as it considers necessary. The gilt market has reacted by pushing yields significantly lower across the whole maturity spectrum. This is an understandable move for gilts with very short maturity dates, but it is questionable whether investors should be so confident that the outcome of the Referendum has such significant ramifications at the long end, up to 50 years.

To highlight how misleading 'obvious' initial conclusions can be, it is interesting to look back at the introduction of Quantitative Easing (QE) during the Global Financial Crisis. Once again this was a time of great uncertainty but, despite this, there was a strong consensus that QE would ultimately prove inflationary and so long gilt yields increased. This conclusion was totally incorrect on an eight year view; instead of rising, gilt yields have fallen to all-time lows.

One can easily imagine reasons why gilt yields might move higher. With the budget and current account deficits still of significant size, a funding crisis could easily occur. Meanwhile, weak sterling clearly increases import prices and if the UK becomes a less hospitable place for foreign labour, wage rises could become an issue too. Rumours of the death of inflation may well prove to have been exaggerated.

If gilt yields were to rise, the knock-on effects could be significant. They would presumably take all other bond yields with them as well as any other assets whose prices are benchmarked off bonds (the much loved 'bond proxies').

Of course, there are always good arguments in both directions and bond bulls might suggest that we are in a period of long-term deflation and/or that the financial authorities will continue to pursue financial oppression and thus keep bond yields low. But the flatness of the bond curve suggests that the market believes this financial oppression will never have the desired reflationary effect. And if that is the case, the outlook for economic growth and corporate profitability is surely worse than what is currently baked into share prices.

Populism and its consequences

Whilst much of the initial stock market reaction to Brexit has been rational and comprehensible, markets do not seem to have reacted quite so violently to the wave of populism and anti-establishment fervour behind the vote. Will this breed similar behaviour around Europe and in the US? Will the person in the street be happy to accept further austerity if the UK and many European governments try to rein in their budget deficits? How effective will governments be in adopting measures to curtail the ability of corporates to continue playing fast and easy with tax regimes? Can wage rates remain low as a percentage of GDP? Has the long-term trend of globalisation found its match? Is QE for the people - printing money to fund government financed schemes - becoming ever more likely?

All of this together with concerns over China, debt levels around the world, Euro sclerosis and US political issues suggests that the multi-decade period of equities being valued expensively relative to history may be coming to an end. If so, the most expensive and in-favour equities could be the most vulnerable to vicious re-ratings.

This paints a pretty bleak picture for investors. However, it should be remembered they have benefitted from both an extraordinary bull market in bonds lasting over three decades and from equities being upwardly re-rated.

But opportunities remain. As governments and central banks realize that continually lower interest rates have not generated reflation, then the introduction of additional 'experimental' policies becomes more likely. To protect against the unintended consequences of these policies investors may well be tempted to add precious metals to their portfolios. Meanwhile, those parts of the equity market already priced for very negative outcomes may paradoxically offer the best protection to investors positioning their portfolios for a very different future.

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Mark Barnett, manager, Invesco Perpetual Select UK Equity: The near term outlook for the UK equity market is dominated by the implications of the result of the EU referendum. Although directionally predictable, the scale of the decline in Brexit-sensitive UK equity sectors (financials, construction, travel) has been severe, whilst any sectors which are heavily exposed to US dollar revenues performed strongly after the vote. As a result, whilst not planning a fundamental shift in sector allocation, the fund manager is focussing analysis on identifying good opportunities in the areas suffering the worst of the sell-off. History suggests this is the most productive course, particularly since valuations in these sectors were already very depressed.

Looking through the Brexit induced volatility, the outlook for the UK stock market is likely to be clouded by a muted macro-economic backdrop in the global economy and increased pressure on profitability in the corporate sector. The multi-year 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, which contributed to the result of the UK referendum. This is prompting incumbent governments, increasingly wary of more populist movements, to redress the balance with a range of measures, including an increase in the national minimum wage 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, in addition to that surrounding the referendum and partly caused by nervousness over financial stability in China, is also likely to remain a feature of the investment landscape.

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Margaret Littlejohns, chairman, Henderson High Income: At this early stage it is impossible to assess the long term economic impact of Brexit as we are entering uncharted territory. It will take years to determine our new relationship with Europe and only time will tell whether the ensuing uncertainty will lead to a significant decline in consumer confidence and business investment and result in another economic recession. However, the chief constituents of the UK stock market operate globally and may be largely unaffected by this domestic event, assuming its ripples do not spread wider. Indeed the slide in sterling is likely to be an advantage to such businesses. Undoubtedly investors will continue to focus on income as interest rates remain lower for longer following the Bank of England's recent indications.

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Paul Trickett, chairman, Aberforth Smaller Companies: Following the result of the Brexit referendum, the investment climate has become more uncertain. Currently, the UK is very much centre-stage, as economists, politicians and journalists attempt to predict both the near-term pathway for the UK economy and the longer-term implications of the "out" vote.

Stockmarkets do not wait for leadership elections or European diplomacy and almost instantaneously discounted tougher times for UK domestic-facing businesses over the coming months. Unsurprisingly, in the short term, this has had the most impact in the small and mid cap sectors of the UK stockmarket.

Alongside the decline in sterling, we have seen some early policy shifts from both the Bank of England and George Osborne, which are aimed at providing additional support to the UK economy. In the short run, macro factors are likely to be at the front of investors' minds, despite the fact that numerous academic works highlight GDP growth and stockmarket returns as being uncorrelated. Other academic studies, and experience, suggest that valuations matter more and in that regard the de-rating of the NSCI (XIC) over the past two years both in absolute terms and relative terms, when compared to the larger companies, may suggest a reasonable proportion of an earnings decline is priced in.

Over the first half of 2016, the Company has had to contend with the adversities of a weakening UK economy, small and mid-cap underperformance, ten year gilt yields at less than 1% and a resurgent resources sector. Such setbacks have in the past been followed by sharp rebounds in performance. This time round, headwinds for small companies and the value style may blow for longer as much of the developed world becomes subsumed by negative real interest rates.

However, with valuations already almost a third below their peak of the last three years, this situation will not last indefinitely.

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Asia ex Japan

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

David Shearer, chairman, Aberdeen New Dawn: The Asian Pacific region continues to offer good prospects for long term growth as economies remain underpinned by a young population, growing private wealth and increasing domestic consumer demand. This coupled with the fact that Asian equities are trading at undemanding valuations will create investment opportunities.

Global markets are expected to remain volatile for some time due to both macroeconomic factors and geopolitical uncertainty with elections in the US and the impact of the result in the EU Referendum in the UK.

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Aberdeen Asset Management Asia Limited, managers of Aberdeen New Dawn: Against a backdrop of lackluster macroeconomic growth, markets are expected to remain volatile. The recent result of the UK's referendum on its European Union membership and upcoming political events, such as the US elections, could also result in greater uncertainty. Meanwhile, a larger than expected rise in US interest rates could also undermine growth prospects for the global economy. The outlook is further clouded by the divergence in monetary policy, with central banks in Europe and Japan expected to keep rates low or negative for longer. While these headwinds may persist, the longer term prospects for Asia remain positive.

At the corporate level, earnings growth may continue to be subdued but balance sheets and cash flow generation remain strong. Valuations remain attractive from both a historical perspective and relative to developed markets.

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Brazil

(compare Latin American funds **here**)

Luis Carrillo and Sophie Bosch De Hood , managers, JPMorgan Brazil: The rally in Brazilian equities that we've seen so far this year continues, with sentiment buoyed by prospects of the impeachment of President Rousseff. In the short term, we remain cautious given the recent strength in the market. We believe that the next few months will be crucial to understanding how much interim president Temer can achieve, and whether he is capable of obtaining congressional approval for the reforms that Brazil needs. If inflation begins to come down, as we expect, rates will then come down, and this will provide a positive environment for many companies. We believe that much of the recession of the past two years is down to confidence, and that if we see Temer taking the right action, we could see confidence returning to the economy.

In the long term, we believe that Brazil is past the worst of the recession, and we expect earnings to gradually recover from their very depressed levels. We believe Brazil's economic path is likely to be a difficult one, even under the most optimistic scenario, and we therefore continue to prefer quality and domestically-oriented stocks with good long-term growth prospects irrespective of the impact of short-term economic conditions.

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Japan

(compare Japanese funds **here**)

David Robins, chairman, Fidelity Japanese Values: The UK's unexpected decision to leave the EU led to a sudden and extreme market reaction. The sharp appreciation of the safe-haven yen exacerbated the scale of the market correction in Japan, but for a sterling investor this was masked to an extent by the sharp fall in sterling following the leave vote. While the currency remains a major risk factor, markets are likely to settle down given the limited near-term impact on the global economy and the increased likelihood of monetary easing.

Japanese authorities remain committed to ending deflation and supporting sustainable growth. Having postponed a scheduled increase in the sales tax to 2019, Prime Minister Abe's Liberal Democratic Party and its ally the Komeito Party, won the majority of contested seats in July's Upper House elections. With the support of some opposition parties, Mr Abe now holds the required supermajority to call for revising the constitution. While constitutional change may well be his ultimate goal, the Prime Minister faces significant hurdles to rewriting the country's pacifist constitution. Moreover, Mr Abe is well aware that he needs to re-energise the economy and the equity market in order to maintain public support, and his first step is likely to be the announcement of a substantial supplementary budget to boost domestic demand and offset the impact of the yen's appreciation.

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Debt

(compare debt funds **here**)

TwentyFour Asset Management LLP, managers of TwentyFour Income Fund: The majority of negative drivers under which the European ABS market has laboured for the past year are largely gone, or priced in, in the view of the Portfolio Manager. Solvency II has been implemented and insurance companies have adjusted their holdings of ABS as a result. The ECB's ABS Purchase Programme has disappointed since early 2015, and the UK market is priced to reflect the resulting changes in supply and demand.

Current ABS pricing is attractive when compared to recent years, and the type and level of risk presents a very attractive opportunity for both income and capital gain. However the Portfolio Manager recognises that market sentiment is far from stable and while performance of the underlying asset pools and securitisation structures are within expectations, price moves across fixed income could be driven by external factors as they have been in the past. This should present opportunities as buyers with long term capital will typically prove to be scarce at points of market weakness.

It is not expected that the Bank of England's Monetary Policy Committee will adjust the Bank Rate in 2016.

[*Since*] the UK referendum the Portfolio Manager does not consider the outlook to have changed materially and see potential for further price volatility in light of ongoing challenges to sentiment and current pricing level.

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Financials

(compare financials funds **here**)

Robert Kyprianou, chairman, Polar Capital Global Financials: The [*six months ended 31 May 2016*] was a difficult one for financial stocks. Fears of weakening growth, falling energy prices, negative interest rates and the announcement of a referendum on Britain's membership of the EU combined to present a perfect storm for financial companies. Some stocks and some sectors were punished severely.

Just as sentiment towards the sector was recovering, the result of the UK referendum on EU membership was announced. The decision to exit from the EU clearly surprised markets and was followed by a period of significant volatility in currency and equity markets, and in bank stocks in particular.

Although the political and economic uncertainty that followed the Brexit vote is unlikely to fade quickly, it is worth noting that the market volatility that is likely to continue well into the rest of the year is a reaction on this occasion to a political and not a financial crisis. Furthermore, global financials represent a highly diversified sector which can also help the Manager build a robust portfolio from a risk management perspective. The sector covers commercial banks, REITs, insurance companies, brokers, investment banks, asset managers and exchanges, offering a variety of business models and value drivers. In the largest sub-sector, banks, changes in regulation and accounting standards will maintain the momentum towards stronger balance sheets and better quality earnings. Cost control is also a factor improving earnings capacity, supporting the growth in dividends and share buy-backs. In addition, bank stress tests indicate that the banking sectors in Europe and the US have, in general, more robust balance sheets and business models than at any time since the global financial crisis. Finally the market reaction has, in the Manager's view, led to crisis valuations in certain sectors which offer good opportunities.

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Nick Brind & John Yakas, managers, Polar Capital Global Financials: While financials have rallied strongly from their February lows their performance over the six months has been disappointing, particularly so for many bank shares. Some of the underperformance is understandable reflecting the sensitivity of the sector to market volatility, concerns over weak economic data and the outlook for interest rates. Nevertheless, we believe that the underperformance has been excessive resulting in a derating of many shares that it is hard to justify.

Economic data in Europe has been improving over recent months and similarly leading indicators would suggest a reacceleration of growth in the US in the second-half of the year. If we start to see further evidence confirming these trends then the sector should perform significantly better as current valuations suggest at best a sharp slowdown in economic growth. With inflation likely to pick up as the headwind of lower commodity prices falls away over the next year then some of the concern regarding very low interest rates could dissipate.

At the time of writing, however, share prices have fallen sharply following the vote by the UK to leave the EU and the announcement that David Cameron would be stepping down as Prime Minister. Sterling has also fallen relative to other currencies. At a minimum this is likely to lead to lower growth in the UK as well as Europe in the short-term until there is more clarity on the likely broader ramifications of an exit from the EU. It will also increase concerns about the potential for further referendums in Europe which will create yet more uncertainty.

Against this background, for the majority of banks we look at, balance sheets have continued to strengthen and are significantly stronger than they were even a few years ago let alone pre-2007. There have also been statements by a number of regulators that they do not see a need for a substantial increase in capital requirements. Mark Carney, the Governor of the Bank of England, has gone further and reduced capital requirements in the light of the uncertainty.

While the sector is very economically sensitive it should prove far more resilient than it did in the past if growth weakens, as is now expected, but share prices falls in the sector suggest something far more serious. However, with the closure of a number of commercial property funds and anecdotal stories of pulled transactions and investment, financials markets are likely to remain febrile for the foreseeable future.

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Private Equity

(compare private equity funds **here**)

Howard Myles, chairman, Aberdeen Private Equity: In our last Annual Report I expressed some caution on the impact that higher purchase costs for PE assets might have on future returns from this asset class.

Whilst we have continued to see elevated pricing levels at the larger end of the deal spectrum, the average purchase price multiple for smaller privately owned companies remains relatively attractive.

Your Board notes the continued rise in PE dry powder which, in aggregate, remains at record highs. Within that, dry powder as relates specifically to Buyout is at 2008 levels which may help to underpin current levels of deal pricing. With large proven PE managers continuing to be able to raise significant amounts of new commitments from their Limited Partners, there appears to be continuing strong appetite for this asset class.

Private Equity specific risks relate to familiar themes and include, but are not limited to, a continuing decline in the absolute number of PE backed exits since 2014 (in particular a reduction of exits via Initial Public Offering ("IPO")); the increased use of "covenant-lite" loans by PE borrowers; and a tightening in funding availability for venture-backed investments. More generally, the UK's June referendum on membership of the European Union, and the surprise result to 'leave' may introduce additional layers of uncertainty to nearer term investment outcomes. Much of this will be focused on currency, particularly Sterling, and potential contagion issues for European economies. Your Company's long standing bias to US denominated assets should position us well however to cope with any sustained UK or European weakness. Whilst we may see some shorter term downturn in PE investment activity we believe there will inevitably be compelling investment opportunities for [*new*] European funds as they commence their investing phases.

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Alexander Barr & Colin Burrow, managers, Aberdeen Private Equity: In our last report) we said that whilst the global economic recovery had continued, various factors had prompted the International Monetary Fund (IMF) to downgrade their global growth forecasts for 2015 to 3.1% from 3.3%. With several potential headwinds still remaining for the global economy, including the slowdown in China and low commodity prices it came as no surprise that the IMF again cut its forecast for 2016 to 3.2% in April. However a degree of balance to economic sentiment remains in place and with the European Central Bank expanding its monetary stimulus programme and the US tightening interest rates at a slower pace than previously anticipated, we remain broadly optimistic, notwithstanding the 'leave' result from the UK's European Union membership referendum held in June.

The precise look and feel of Britain's exit (or 'Brexit'), post the 'leave' result remains to be determined, but it does seem likely that the UK will experience some form of economic slowdown.

We believe that the immediate impact is likely to be confined to a slowdown in deal activity, particularly in the UK, and further Sterling weakness, though this could also serve to increase the shorter term competitiveness of UK exporters, as well as providing a currency translation benefit.

The PE market has seen valuations continuing to rise, though we note that the share of highly priced deals in Europe (those pricing at > 12x their EBITDA) dropped in 2015, versus 2014. Q1 2016 also saw both the number of global PE backed buyout transactions and the aggregate value of these transactions fall from the previous quarter, which is a sign that some of the overheating in this market may be easing. Whilst there is an element of seasonality in Q1 data, the 69% decline in aggregate deal value is the greatest quarter on quarter decline over the same period we have seen. Given matters Brexit related, these trends are likely to be exacerbated going forward, particularly if investors feel that there may be any political contagion into other European countries.

Trade sales continue to be the most common route for PE GPs to exit with the ten largest buyouts in the first quarter of 2016 exiting in this manner, though the aggregate exit value of $62bn in the same period was the lowest quarterly aggregate value of exits over the last 3 years. IPOs have fallen to a 4 year low due in part to the volatility seen in financial markets in the first part of this year though there are signs that we may see some IPO exit opportunities later in the year.

Fundraising by PE funds has declined from the exceptionally strong 2014 experienced by the industry. The most recent figures from Q1 2016 saw 151 PE funds raise a total of $71bn, a 25% fall in the number of funds and a 6% increase in aggregate capital raised compared with Q1 in 2015.

PE dry powder has continued to rise and the increase in dry powder globally to $775bn at the end of Q1 2016 highlights the ongoing challenges that private managers face in putting money to work. The dry powder issue appears to be a multi-cycle phenomenon, and will likely test PE GPs' discipline into the foreseeable future, particular on larger deal sizes. With nearly half of all investors (with at least 10% of their capital allocated to PE) still looking to allocate further to the asset class, pricing looks set to continue to be an issue for some time notwithstanding any major public market dislocations or prolonged fall out from Brexit.

We recognise that valuations remain expensive. Brexit is understandably a very real concern for all investors across all asset classes, but the 'check' effect that this event may have, specifically on UK and European deal pricing, may ultimately serve to be beneficial in taking some of the heat out of this market.

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Renewable infrastructure

(compare renewable infrastructure funds **here**)

Tim Ingram, chairman, Greencoat UK Wind: Wind continues to remain the most mature and widely deployed renewable technology available in the UK and electricity production from wind [*is becoming*} an increasingly important part of the UK's generation mix.

The Company does not expect any material change to its business as a result of the UK exiting the European Union. Being solely UK focused and deliberately low-risk, all of the Group's assets and liabilities are inside the UK and sterling denominated. In addition, the regulatory regime under which the assets operate is robust, longstanding and rooted in UK legislation.

Owing to recent significant sterling devaluation, it is reasonable to assume that the price of gas will increase in sterling terms. Everything else being equal, this should feed into higher power prices and this is already being seen in the forward market.

At the end of June, the Government approved the Fifth Carbon Budget under the 2008 Climate Change Act, legislating for a 57 per cent. reduction in carbon emissions (relative to 1990) by 2032. The Fifth Carbon Budget lies on the pathway to 80 per cent. emission reductions by 2050, which is more onerous than European Union legislation.

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Resources

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

Ed Warner, chairman, BlackRock Commodities Income: Against a backdrop of volatility in global markets in the first half of 2016, commodity prices benefited from stimulus measures in China, delivering a turnaround in the natural resources sector which outperformed equity markets in general. The oil price rose over the period, driven by a tightening of supply as many producers cut back on capital expenditure awaiting a more significant recovery in oil prices over the longer term. Despite this strong performance, the Investment Manager's optimism at the resurgence of the natural resources sector is tempered by the challenges that continue to exist across broader markets.

The outlook for the natural resources sector has improved over the period under review. However, there remain a number of threats to the wider global economic recovery, including the impact of potential rate hikes in the US, the forthcoming US general election and concerns around the depreciation of the Chinese yuan. The result of the UK's 'Brexit' referendum has created shock waves across global markets and brings additional uncertainty over the future economic outlook.

Over the longer term, the Manager believes that the outlook for energy equities is positive as the current low level of oil prices is unsustainable. In the mining sector, many commodity markets remain oversupplied and, in the absence of increased demand, there will be pressure for additional price cuts to rebalance markets. Against this backdrop, dividends remain under pressure. However, there are signs that the natural resources sector has weathered the worst of the economic turmoil.

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Olivia Markham and Tom Holl, managers, BlackRock Commodities Income: Following a very challenging period for the Natural Resources sector, underlying fundamentals for the sector are beginning to improve with our outlook turning more optimistic. We believe that the actions taken by companies to reduce debt over the last 12 months means that we are likely to have seen the low point for the sector in January 2016. However, despite the improving fundamentals in many areas of the natural resources market and the strong performance in the first half of the year, we remain cognisant of the risks to broader markets and the knock-on effect this may have on the sector.

We remain positive on the long-term outlook for energy equities as we see current oil prices as unsustainable. Today's oil prices are too low for companies to make the investment that will be required for future supply to meet growing global oil demand. Returns in the energy space will have to improve before companies become incentivized to make this investment and energy equities have historically performed very strongly during periods when returns have improved. While we are becoming increasingly more positive about mining equities, many commodity markets remain oversupplied today and we will need to see further production cuts to rebalance markets. Absent an improvement in demand, commodity prices will need to move lower to balance markets, putting pressure on the mining sector.

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Technology

(compare technology funds **here**)

Michael Moule, Chairman, Polar Capital Technology: The overblown promise and excitement of how technology would transform our lives during the turn of the century TMT boom is now turning into reality 16 years later. Without an online offering few businesses can survive, and the disruption to well established industries by the rapid roll-outs from Silicon Valley are self-evident. Undoubtedly the spread of smart phone technology and its many applications is a huge benefit to young price conscious consumers but for investors there are many more losers than winners. Similar to the formation of oil, railroads, and telephone companies it is apparent that we are in the middle of a massive winner takes all land grab that John D Rockefeller would approve of, so the likes of Google, Amazon and Facebook have managed to acquire or crush all opposition. The increased efficiency of putting all records and transactions online for both businesses and individuals has sadly given rise to cybercrime where huge losses, both financial and reputational, can take years to recover.

Looking at the performance of developed equity markets I have been amazed at how well companies have adapted to change during a period of internet driven deflation and oversupply of goods and services. We are now over 7 years into this stretched bull market, mainly supported by Central Bank largesse rather than rising GDP growth. There has been no shortage of uncertainty for markets to climb the proverbial wall of worry but the unexpected referendum result adds a new dimension particularly for the UK and Europe. The increased level of volatility in both currency and equity markets may endure for some time given the current political and economic uncertainty, combined with a potentially lengthy and bitter divorce from the EU, and a possible break up of the United Kingdom.

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Ben Rogoff, manager, Polar Capital Technology: Given that our sector has become increasingly dependent on global GDP growth, it should come as no surprise that technology spending forecasts have continued to be revised lower, with worldwide IT spending now expected to increase just 1.7% (2015: 2.4%) y/y in constant currency terms. This represents the lowest annual increase since 2010 and is another year where budget growth will likely trail global GDP, suggesting that things are getting worse, not better for technology incumbents. Gartner now estimate a 2015-2020 CAGR of just 2%, consistent with our long-held deflation / new cycle view. With more than half of technology revenues coming from overseas, Dollar stabilisation should result in a less formidable F/x headwind this year although consensus S&P technology revenues are still expected to decline by 1.0%. In terms of geographic and sector risk, China represents only 5.2% of IT spending whereas financial services (another area of investor concern) accounts for almost a quarter of overall spending. It is also worth noting that the US represents c.40% of IT spending making the sector particularly sensitive to US recession risk.

In line with the broader market, the technology sector de-rated modestly over the past year leaving it trading at a forward PE of 15.3x (2015:17.5x) representing a c.14.0% premium to the five year median PE of 13.4x. As in prior years, large cap technology companies remain awash with net cash although market capitalisation weighted measures of value continue to be flattered by inexpensive large-caps. On a relative basis, the technology sector trades at c.0.9x the market multiple (ignoring relative balance sheets). In light of the broader sector's subpar growth profile, we do not anticipate a material re-rating over the coming year. Conversely, relative valuation downside risk should be contained given many growth-challenged incumbents are now focused on margins (rather than revenue) and improving shareholder returns which has allowed them to attract a new (value) audience. Legacy companies have also attracted increased private equity interest, epitomized by Dell / Silver Lake's audacious $67bn acquisition of EMC which we believe says more about the attractiveness of deploying cheap debt than it did about the merits of an ageing enterprise storage company.

While incumbents appear to have become better stewards of capital, accelerating Cloud adoption continues to make enterprise computing look anachronistic, supporting our view that the new technology cycle has become increasingly disruptive with newer technologies and delivery models replacing, rather than merely augmenting existing ones. As in previous years, we continue to believe that incumbent vendors will struggle to even keep up with lacklustre overall IT spending as budgets continue to be reallocated away from traditional areas in favour of new investment priorities. Looking at a number of year-end surveys and Gartner's schedule of IT priorities reveals that analytics, security, mobility, infrastructure and Cloud continue to dominate CIO's spending intentions at the expense of servers, PCs and printing. As we have long argued, these new priorities simply reflect what we already know - that 'all' incremental workloads (units of compute and storage) are heading to the Cloud and the role of IT is in flux. As such we concur with the view that 2015 was the "end of the beginning for cloud computing and the beginning of the end for traditional IT".

As a result, nearly all legacy technology areas are beginning to slow and/or contract. Based on Gartner forecasts, the overall device market will contract for the first time this year with constant-currency end-user spend falling 0.5% y/y to $719bn. After a better 2014 (Windows XP support expiry), the $200bn PC market experienced its worst year on record last year with sales contracting by 10% and units falling below the 300m mark for the first time since 2008. With global PC shipments falling 9.6% y/y in Q1'16 , the outlook for the hard disk drive (HDD) industry remains challenged with units expected to decline by 7.1% annually between 2015 and 2020 as solid state drive (SSD) substitution adds to PC-related woes. The $60bn tablet market is already in full retreat with units forecast to fall by c.5% in 2016, having contracted by an estimated 8% last year. Having supported overall device growth for years, smartphone (2015: $400bn) units are expected to increase by only 3.1% this year while ASPs will continue to decline (ex-Apple) now that global penetration has reached c.79%. Elsewhere, a number of large traditional technology markets remain in multi-year secular decline including printing (2015: $47bn), UNIX servers (2015: $5.8bn) and mainframes (2015: $4.5bn). With many of these key categories fully penetrated and at risk from technology substitution, growth is unlikely to recover until a genuinely new device type such as virtual reality (VR) becomes mainstream.

That is not to say there is an absence of industry growth; the spectacular successes of Apple, Alphabet, Amazon and Facebook (to name a few high profile examples) are testament to the fact that the combination of tech deflation, smartphone proliferation and the Internet has increased the reach of technology while making it possible to 'reinvent' industries such as advertising, commerce, entertainment and travel. Unfortunately (as we have long argued) these opportunities have little to do with enterprise incumbents and so they embark on M&A activity in order to soften the impact of the new cycle by extending their product offerings and relevance while obfuscating the condition of their core business. Having expected a return of strategic M&A after a two year hiatus, even we have been surprised by the explosion in deal activity during recent weeks as buyers have looked to take advantage of the reset in next generation valuations. So far in 2016 there have been ten M&A deals in the software sector alone (all at sizeable unaffected premiums) with private equity firms unusually accounting for half of the transactions. In addition to the two deals that occurred during the last financial year, we have directly benefited from the acquisition of Demandware by Salesforce.com and the sale of Qlik Technology to Thoma Bravo while benefiting from the wider recovery in next generation valuations. Highly reminiscent of the fertile M&A backdrop following the 2011 growth scare where more than a dozen publically traded SaaS and security companies were acquired for more than $30bn, we expect the recent trend to persist as a number of incumbents who have declared interest in M&A including Cisco, Hewlett Packard and IBM have yet to show their hands.

The return of widespread strategic M&A reflects the interplay of two factors - diverging fundamentals and converging valuations. In terms of fundamentals, we have long argued that the new technology cycle had likely entered a more pernicious phase. As we go on to discuss in greater detail in the 'new cycle update' section, we have long felt it was a foregone conclusion that bespoke enterprise computing would give way to a vastly cheaper, mass produced Cloud alternative. With c.15% of IT workloads now in public clouds, we expect Cloud adoption to accelerate in the years ahead, Gartner predicting that Infrastructure as a Service (IaaS) growth will be 15x greater than overall IT spending in the coming years. Against this backdrop, it is difficult to see anything other than tough times ahead for most enterprise incumbents that have little to gain and much to lose from a disruptive new cycle. Although the divergence of sector fortunes has long been apparent, first quarter earnings season provided us with the best evidence yet with Amazon's cloud progress ($10bn annualised revenue run-rate, +64% y/y growth) in stark contrast with earnings and/or guidance mishaps across incumbents.

Unfortunately the bifurcation in technology fortunes has been obfuscated by a convergence in sector valuations with a number of legacy companies recently trading at their highest price earnings ratios for years because of broader market PE expansion, improved capital return, private equity interest and/or the articulation of Cloud strategies. During the recent market swoon, these challenged incumbents significantly outperformed as investors sought (perceived) safety and dividend income. In contrast, 2015 saw a continuation of the post Q1'14 trend of valuation compression that almost entirely offset fundamental progress at most next generation companies. This process appears to have concluded in Q1'16 as a handful of Q4 earnings disappointments and severe risk aversion saw the average growth stock fall more than 30% during January alone. This time last year we acknowledged that the valuation readjustment between the sector's 'winners' and 'losers' might continue, but not in our wildest dreams did we expect SaaS stocks to shed three points from their forward EV/Sales valuations (7x->4x) - as much as they did during the Great Recession (5x->2x) - in less than twelve months. The extent of this valuation compression was mirrored elsewhere within our sector as Internet and security stocks made post 2009/2011 lows respectively. By the end of January, Cloud and legacy software valuations had almost converged while a number of our favourite names had fallen to c.5x EV/ maintenance revenues, a level where financial M&A has typically taken place.

While valuations have recently rebounded with the market and the return of strategic M&A, they remain below five year averages and this feels insufficient given that after years of 'travelling', our 'new technology cycle' story appears to have arrived. Going forwards, we are doubtful that many legacy technology stocks will continue to be considered 'bond like', even against a backdrop of record low yields. The root cause of the incumbent challenge - deflation - together with smartphone proliferation has created a remarkably fertile backdrop for innovation that millennials are embracing as second nature. Technology companies are re- inventing industries, creating new markets, empowering customers and allowing them to increasingly 'route around institutions'.

New Cycle Update

Last year was a pivotal one for the Cloud as adoption accelerated and permeated up the technology stack, wreaking havoc on incumbents and exploding the myth of the so-called hybrid approach. In addition, Amazon "dropped its bombshell" in Q1'15 when it revealed its cloud infrastructure business - Amazon Web Services (AWS) - generated operating margins of 17% - exploding conventional wisdom that cloud computing "was a race to the bottom on price". A seminal moment in Cloud history, Amazon's unexpected disclosure, combined with 70% growth at AWS during the year saw more than $228bn added to the combined market caps of Amazon and Microsoft during the remainder of 2015 as investors began to more fully embrace "the biggest growth story of the decade, maybe our generation". And as if that wasn't enough, large traditional companies began to publicly anoint the Cloud with Jim Fowler, CIO of GE perfectly capturing the zeitgeist when he declared at AWS re:Invent in October that "the Cloud has gone from probable to inevitable". Today, the $17bn public cloud infrastructure market is dominated by AWS which has used its six-year head start to establish a sizeable lead in raw compute and storage (Gartner estimate that AWS deploys over 10x more compute than all the other infrastructure-as-a-service companies combined). With revenues expected to grow well past $10bn this year AWS is set to become the "the fastest growing enterprise technology company in history" taking only ten years to reach this rare milestone which compares favourably to the likes of Microsoft (22 years), Oracle (23) and Apple (19). The remarkable ascent of AWS reflects the size of the market opportunity, the unprecedented scale of public clouds and the disruption to existing franchises with IT conversations now dominated by "names unrecognizable ten years ago".

2015 was the year when Cloud went mainstream because of a growing number of traditional companies prepared to go "all in" and evangelise its merits. This trend was epitomised by GE which outlined its plan to move 60% of its workloads to the Cloud by 2020 (from 20% today) which would allow them to close 30 of its 34 datacentres and migrate more than half of their 9,000 on-premise applications. Having concluded that running their own datacentres would not help them "sell another aircraft engine" and in the light of the 52% cost savings achieved in their oil and gas division having migrated applications to Amazon, GE gushed "AWS is our trusted partner who's going to run our company for the next 140 years". In addition, News Corp announced its plans to migrate 75% of its entire IT infrastructure to AWS in order to increase the pace of new product velocity while saving $100m over three years. Financial giant Capital One also struck a blow for the cloud when it stated it had begun to "deploy some of our most critical workloads on Amazon" because it "enables us to operate even more securely in the public cloud than our own datacentres".

While the decision to migrate to the Cloud ultimately rests with its superior economics (due to scale, elasticity and relentless cost cutting that has seen AWS reduce prices 49 times) and a usage- based pricing model, we think accelerating adoption reflects the fact that many of the earlier concerns associated with the Cloud have been addressed. At the top of the list has been security, which we have long felt was misplaced but difficult to disprove (much like 19th century concerns about skyscrapers). However, the fact that "all of the high profile security breaches over the last two years have occurred in on- premise IT infrastructures" has not gone unnoticed. Indeed, Tony Scott, the US Federal Government CIO echoed Capital One when he said that Cloud providers "do a better job of security than any one company or organisation can probably do". Microsoft's decision to invest aggressively in Azure will have also helped ease concerns about potential vendor lock-in while at the same time addressing the issue of data sovereignty, with Microsoft Cloud available in 20+ regions while Amazon will soon have 84 datacentres across twelve regions. In addition, enterprises have become increasingly comfortable with the Cloud thanks to their growing experience of software-as-a-service (SaaS) that accounts for c.27% of software applications in use today.

Having debunked many of the earlier barriers to adoption, we expect cloud penetration to accelerate over the coming years with Cisco forecasting that by 2019 roughly half of all IT workloads will be in public clouds. Over the next five years, incumbents are therefore likely to suffer far greater disruption, which to date has been limited to the absence of growth (as every incremental IT Dollar has gravitated to the public cloud) and some pricing pressure. However, the next wave of adoption will be driven by workload migration - the uprooting of existing enterprise compute - which Gartner believe will see more than $1tr of IT spending shift to new categories as a result of cloud computing by 2020. The ongoing 'hollowing out' of the $55bn server market - where 'white box' (unbranded) servers preferred by the likes of Amazon account for 31% of units but only 13% of revenues - suggests that a large portion of the $1tr will probably be destroyed (by cloud deflation) in the process. As AWS moves further up the computing stack, segments that have been unaffected by disruption thus far are likely to be sucked into the Cloud maelstrom. This is likely to include the database market, where we think a recent agreement announced by Salesforce to increase its use of AWS is best understood as part of a longer-term plan to get off the Oracle stack.

Over time we expect the cloud will also catch up with the $800bn IT services industry, which captures a staggering 40% of overall technology spending today. Renting engineers from a hyper-scale infrastructure provider like AWS or Azure is an order of magnitude more efficient (and more secure) than managing an underutilised, bespoke infrastructure estate, irrespective of whether it is off-shored or not. A typical enterprise might employ one IT person for every 30 servers. By comparison, Microsoft reportedly employs 15 people to manage a 150k server datacentre, ten of whom are security guards and cleaners! Cloud services are now sufficiently penetrated in the enterprise that CIOs can seriously plan for the move towards a serverless architecture. IT infrastructure estates could shrink by 25%+ in the coming years, taking IT services companies down with them. As almost all incremental IT spending moves to the cloud, it is hardly surprising that pricing is brutal across IT services. We believe that worse lies ahead. Robotic Process Automation (RPA) is already taking over low value repetitive work, generating massive cost savings for clients. This will prove highly disruptive to an industry that has grown fat on a "cost plus" pricing model. Just as rats are said to leave a sinking ship, the behaviour of incumbents speaks volumes about what they really think about "one of the most disruptive forces of IT spending since the early days of the digital age". We have seen EMC attempt to escape the glare of public markets via a marriage with Dell, the breakup of HP and Symantec, ongoing weakness at IBM and challenged incumbents such as Informatica and TIBCO happily surrendering to private equity. We have also witnessed a comprehensive agreement between Red Hat and Microsoft (previously "unthinkable" given that Steve Ballmer once described Linux and open-source as a "cancer") because both companies understand that cloud computing is going mainstream and are attempting to "rebalance the ecosystem to check Amazon". The remarkable rise of AWS has also exploded the myth of so-called 'hybrid cloud' (where on-premise compute is augmented with public cloud) as "a statement of the obvious, not a strategy" articulated by incumbents to slow public cloud adoption or help them sleep better at night. As such, we continue to believe that the most important investment conclusion is to avoid legacy companies with much to lose and little to gain from cloud migration. In terms of actual cloud exposure, it is increasingly obvious that public cloud computing has become a two-horse race with AWS way out in front and Microsoft a "clear number two". Microsoft looks set to participate in cloud migration having invested heavily in its own cloud ('Azure') over recent years. While Google remains a wildcard, the public cloud looks off-limit to everyone else including IBM (who spent

$2bn on Softlayer), EMC (who acquired Virtustream for $1.2bn) while HP has already given up, closing down its Helion public cloud in January.

Internet applications remain key beneficiaries of the Cloud delivery model with smartphone growth driving the number of global Internet users beyond 3bn (+9% y/y) last year, representing 42% of the world's population. In addition, mobile usage trends remain positive with non voice time spent on tablets and smartphones increasing to 174 minutes/ day in the US in 2015 (+11% y/y). The ubiquity of smartphones and other Internet-connected devices continues to change consumption patterns, a trend magnified by the growing demographic importance of so-called millennials who today account for 27% of the US population. While growth in users and usage has continued to provide a favourable backdrop, 2015 highlighted once again that scale matters in the Internet space; that cumulative CapEx and R&D spend provides significant barriers to entry and competitive advantage. Alphabet and Amazon epitomise this, with cumulative CapEx spend of $40bn and $21bn respectively between 2010-2015. First party data is another key factor inherent to success and Alphabet and Facebook have created a clear lead in this race with both boasting numerous applications that exceed 1bn active users across multiple devices. Not only does the size of these networks provide both companies with near unparalleled targeting capabilities but they are helping both companies evolve into natural monopolies. This is entirely consistent with Metcalfe's Law (which states that the value of a network is proportional to the square of the number of its nodes) and explains why Google and Facebook captured 76% of incremental online advertising in the US last year while in China, Tencent, Baidu and Alibaba accounted for 71% of mobile time spent during April.

Worth an estimated $156bn in 2015 (+13.6% y/y) the outlook for on line advertising remains positive with growth coming at the expense of offline traditional media spend. China (+39% y/y) was the fastest growing region for the third year running while the US once again dominated share of spend with 36% of the total. In the US, online advertising growth actually accelerated (from 16% to 20% y/y) as mobile (+66%) became a tailwind last year. With online (Internet + mobile) accounting for 47% of US media consumption but just 35% of advertising budgets, growth should remain well supported with mobile display and mobile video ad formats likely to plug this gap worth $22bn in the US alone. The two clear beneficiaries of this trend are Alphabet and Facebook as the dominant players in nearly all regions (ex-China) worldwide and likely to account for 41% and 17% of the US online advertising market in 2016 respectively. Two additional advertising tailwinds exist this year - the US Presidential election, which is expected to generate $11bn in political ad spend and the Olympic Games, the world's most watched sporting event. Social media companies continue to look particularly well positioned to benefit from mobile advertising growth (and the explosive growth in video traffic). Facebook remains the undisputed 'social' leader boasting 1.6bn monthly active users (and an astonishing 1.1bn daily users) while its >1bn WhatsApp users send 42bn messages and share 1.6bn photos every day. Tencent also looks well positioned as its chat app WeChat enjoys an undisputed position in China with 650m MAUs. With monetisation at the earliest stage, there is great potential for Tencent to significantly increase performance-based advertising.

The growth of e-commerce continues unabated. In the US, the Census Bureau disclosed that e-commerce ended 2015 at 15.3% of core retail sales (ex food, autos and gas) having added a further 1.5% market share at the expense of traditional retail channels during the year. As with advertising, mobile is driving overall growth as it continues to develop into an integral part of the shopping experience, with m-commerce expected to account for over 20% of total US online spending this year rising to c.45% by 2020. Amazon continues to significantly outpace overall e-commerce with net sales of electronics and other general merchandise growing 31%

y/y in North America, capturing an incredible 60% of incremental online sales driven by its 44m US Prime customers. Alibaba['s] improving monetisation rate (thanks to increased spending on advertising within the platform) should more than offset the negative revenue impact from slower gross merchandise value (GMV) growth. Furthermore, we do not believe the market has properly valued its stakes in Ant Financial, which owns Alipay, the Chinese equivalent of Paypal.

Although smartphones are facilitating change at an unparalleled pace, the market itself continues to slow, our downbeat assessment a year ago borne out by moribund unit growth in 2015 and pricing that continued to erode. 2016 is likely to prove another year of deceleration with smartphone units forecast to grow just 3%, with growth skewed to the second half of the year as consumers delay purchases ahead of the iPhone 7 launch expected in September. With penetration at c.75% globally (and nearer 90% in developed markets) the smartphone market will increasingly depend on replacement demand that is expected to account for 70% of units between 2016-2020 with the balance skewed towards (lower ASP) emerging markets. However, slowing industry growth does little to convey how difficult the market has become for handset OEMs because Samsung and Apple continue to account for >100% of industry profits with c.39% combined unit share. The reality is worse still as Apple has tightened its grip on industry profits due to its continued success in the premium segment of the market. This has allowed the company to increase ASPs to $717 in 2015 while average Android selling prices fell to $216. With industry ex-Apple profits under severe pressure, it is understandable why loss-making OEMs such as LG have begun to question Qualcomm royalties that are based on revenues, rather than profits. We do not expect any significant alleviation of this adverse IPR trend as unit growth slows, ASPs decline and industry revenues/profits increasingly gravitate towards OEMs with scale and a significant amount of their own IP.

After a year when Apple put even greater distance between itself and its smartphone peers, we remain constructive on the company. Although its best years of growth are behind it, we still expect Apple to continue to 'defy the s-curve' inline with our 'mass affluent / luxury good company' thesis outlined last year. At the heart of the Apple story is the world's best brand selling premium products with high residual values to affluent customers who use them a lot (on average, 83 times/day). During a more difficult 2015 where the combination of the strong US Dollar, weaker trends in China and an incremental 6s upgrade cycle weighed on growth, Apple still managed to sell 231m devices with ASPs more than 3x the industry average. Unfortunately, the smartphone market (responsible for between 70- 80% of profits is now essentially penetrated leaving growth reliant on share gains and/ or pricing, neither of which have been heading in the right direction following the introduction of the entry-level iPhone SE and the company's most recent quarter where it reported its first drop in quarterly revenues since 2003 having sold 10m fewer iPhones than a year earlier. Obviously all that can change with the iPhone 7 (due in September) although we expect incremental improvement rather than something akin to the iPhone 6 when a larger screen device drove a sizeable upgrade of the installed base. Despite this, Apple stock remains inexpensive and supported by its exceptionally strong balance sheet. With the company seemingly at a crossroads, the iPhone 7 is likely to prove a fairly critical waypoint because if it is unable to reignite unit growth, investors may begin to ask if smartphones are going the way of the PC where high levels of penetration and a slowing pace of innovation saw replacement cycles extend from two to five years.

After a strong 2014, the sharp slowdown in smartphone growth (combined with weak PC demand and moderating datacenter builds) resulted in a semiconductor downturn last year. Rather than delivering high single digit revenue growth, industry sales contracted modestly while earnings fell further due to negative operating leverage. However, semiconductor stocks were supported by record M&A activity as companies looked to diversify away from slowing smartphone and PC markets, scale up or simply take advantage of cheap debt. In addition, there was a significant acceleration of outbound Chinese M&A intended to 'jump start' the domestic semiconductor industry. The State Council decision to introduce 'Made in China' targets for semiconductor self-sufficiency (40% of chip consumption by 2020, and 70% by 2025) should ensure ongoing Chinese M&A interest while a number of 'leading edge' manufacturers have agreed to build local manufacturing facilities. While an acquisitive new entrant should support asset prices, we expect the industry to be negatively impacted over time in the same way that the LCD and DRAM sectors were in the late 2000s when new entrants were heavily subsidized by the Taiwanese and Korean governments. We expect [*the semiconductor market*] to undershoot global GDP until a new application becomes mainstream. In terms of preferred areas, we still favour semiconductor capital equipment suppliers such as Applied Materials due to rising capital intensity (in the absence of Extreme Ultraviolet Lithography) and faster growth companies with unique technologies such as eMemory (embedded memory IP), Himax Technologies (VR/AR) and Silicon Motion (SSD controllers).

Despite fewer major breaches in 2015, cyber-security remains an important theme within the portfolio and an 'evergreen' beneficiary of smartphone proliferation, Cloud migration and ever greater reliance on the Internet as a delivery mechanism. Increasingly heterogeneous computing has created new attack vectors that have seen 4bn data records breached globally since 2013. As such, security remains a key IT priority with a year-end Piper Jaffray survey revealing that 82% of respondents expected to increase spending this year while in February, President Obama announced a new cyber security National Action Plan calling for a c.35% increase in spending to $19bn in FY17. We expect the regulatory backdrop to remain favourable and substantial upside to existing budgets as and when new threats materialise. However, after a year when companies were furiously plugging holes revealed in their systems, it appears that industry growth is moderating while emphasis has shifted from 'block and protect' (i.e. keeping the hackers out) to more comprehensive solutions focused on "shoring up security at the user level, walling off the most sensitive data and quickly detecting and closing breaches". This should be positive for endpoint growth, security information and event management (SIEM) spending as rapid detection and response solutions garner 60% of enterprise security budgets by 2020, up from less than 10% in 2014. We also expect email security to remain a key multiyear priority as cloud penetration of office productivity software increases from c.15% in 2015 to 60% by 2020. Privileged account management (PAM) is another area we like because the abuse of privileged credentials has been responsible for some of the highest profile breaches in recent history. Longer-term, securing the Internet of Things (IoT) is also likely to prove an attractive area for investment as Internet connectivity exposes new markets (such as televisions and cars) to attack. Despite the longer term risk to some vendors posed by the Cloud, we continue to favour the security theme following its recent de-rating and anticipate renewed M&A activity should valuations not rebound towards five-year averages.

At a time when the value of content is being challenged by usage-based pricing and the power of new platforms, videogame companies appear to be rare beneficiaries of digital distribution made possible by the Internet. Despite wildly exaggerated rumours of its death at the hands of smartphone/casual games, the console is alive and well and midway through a new cycle that began in November 2013 when Sony and Microsoft launched the Playstation 4 (PS4) and Xbox One. Excluding the dramatic rise and fall of the Nintendo Wii (which engaged an entirely new and apparently transitory family audience) this cycle looks like it could be the biggest yet with the installed base estimated to have reached 55m by the end of 2015, 47% greater than the prior cycle and well ahead of expectations. As a result of industry consolidation/bankruptcies during the last cycle, there are only four remaining

Western console game players - Activision, Electronic Arts, Take-Two and Ubisoft - that between them accounted for 58% of the market in 2014. While greater development costs ($30-100m for a triple AAA title) act as a useful barrier to entry, the shift to digital distribution is proving hugely beneficial by allowing users to download full games (20-25% of the market) bypassing the retailer and adding c.$7 to a gross profit of $38 per physical unit sold. However, the more exciting part of the story is that digital distribution allows publishers to sell high margin additional content such as expansion packs, weapon upgrades and virtual currency which should drive revenue growth and margin expansion beyond the peak of the console cycle. Given the improved industry backdrop and limited number of remaining players, we would not be surprised to see further M&A, with potential suitors in the media sector (Vivendi, Time Warner, Disney) and within the gaming industry itself. Lastly, there are two additional drivers that represent upside to existing numbers - eSports (gaming as a spectator sport) estimated to be worth $465m in 2017 and virtual reality (VR) with each of Facebook, HTC and Sony slated to release products this year.

In addition to these key areas, we have a number of other important themes including payments where mobile is emerging as the dominant payment platform. While current usage of platforms like Apple Pay remains modest, merchant adoption is improving quickly with more than 2m in the US (of a total around 8m). Over time, we expect the smartphone to replace the physical wallet although obstacles clearly remain given that US adults spend 59% of their time online but spend only 15% of their online Dollars using a mobile device. As payments are increasingly taken out of the banking system, banks are being reduced to 'dumb pipes' while their current revenue-take from payments looks at odds with the fact that value is moving into the networks. This should create opportunities for Visa and Mastercard to increase their revenue take. Both companies remain attractive long-term plays on the electronification of payments globally, including in China. Longer term, we are also excited about the potential of distributed ledger technology that enables payment systems (such as bitcoin) to operate in an entirely decentralized framework. This is likely to attack intermediaries with its promise of transparency, commission-less exchange and substantially improved security. However, successful innovation in payments usually requires acceptance from multiple stakeholders in the network and distributed ledger has yet to have its "Netscape moment". Meanwhile banks and insurers look increasingly anachronistic; Gartner estimates that banks will spend more than $360bn on technology in 2016 largely to paper over their creaking infrastructure.

We are also excited about the role technology will play disrupting the automotive market with advances in processing power, sensors, connectivity and vehicle monitoring improving safety, lowering costs and reducing congestion time. In its simplest form, the rise of so-called 'smart vehicles' should see semiconductor content per vehicle increase from $340 in 2014 to $400 by 2019 resulting in a $40bn opportunity. Within this, ADAS (advanced driver assistance systems) will be among the fastest growing categories as worldwide penetration rises from 11% in 2015 to 50% in 2020 and 70% by 2025. However, ADAS is likely to prove just a waypoint on a journey of automobile reinvention as the likes of Alphabet, Apple and Tesla attempt to use software to transform what has been a mechanical industry for the past 100 years. Autonomous vehicles are the goal with a number of automakers and technology companies stating that they will be technically feasible by 2020. To date, Alphabet's self-driving cars have already completed 1.5m miles while Tesla customers are said to have driven 100m miles with autopilot active. Obviously ethical, regulatory and legal challenges will need to be overcome, but CLSA predict 12% global autonomous vehicle penetration by 2025. Concurrent with the move towards autonomous vehicles, we are also likely to see new automotive usage models evolve that address the fact that the average car is used just 4% of the time. Uber is already transforming the way that we travel by taxi (in part by changing their utilization rate) and has longer-term ambitions of disrupting the entire transportation system. As the CEO of GM put it, "we're going to see more disruption in the next 5-10 years than we've seen in the last fifty" - an observation that perfectly captures our excitement about the new cycle and is likely to prove equally valid across most industries now that the Cloud has made landfall.

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Walter Price, manager, Allianz Technology Trust: As to our economic view, we think the economy will remain slow until there is some fiscal stimulus, which we think is unlikely until 2017 at the earliest. Thus we expect a continued period of slow growth and low interest rates. As investors become reconciled to this slow period, we think many sectors of technology will do well, and that companies that are continuing to grow at double digit rates will be valued at higher multiples again after the recent major decline in those valuations. We are in a period of fear associated with economic weakness which has caused pressure on the high growth companies in our portfolio. We think this period of fear will pass in the next few months, and that we will move into another period of good performance for our sector.

We continue to believe the technology sector can provide some of the best absolute and relative return opportunities in the equity markets - especially for bottom-up stock pickers. The growth in technology is coming from the creation of new markets, rather than simply GDP growth. In this low-growth world, investors need to find companies that are generating organic growth by creating new markets or effecting significant change on old markets. Sectors such as automobiles, advertising, security, retail, and web services are all being shaped and transformed by advances in technology.

At present, we are seeing a wave of innovation in the sector that we believe has the potential to produce attractive returns for companies with best-in-class solutions. We also see a number of companies with present valuations that, in our view, do not fully reflect positive company-specific and/or industry-specific tailwinds.

Despite high valuations for some cloud and internet companies, we continue to see massive addressable markets that are much larger than current revenue levels.

We are also finding excellent investment opportunities among more attractively valued areas of technology. In particular, certain technology incumbents are making compelling progress on their "as-a-service" offerings.

We continue to view Security as another attractive secular growth area in technology. The increasing sophistication and persistence of cyberattacks has triggered more spending towards providers offering new security technologies. We believe this trend will continue for several years, and companies consistently enhancing security technology may stand to benefit over time. Despite the recent negative sentiment in the Security segment, we believe the long-term secular trend remains intact.

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UK property

(compare UK property funds **here**)

Hammerson: The majority vote to end the UK's membership of the European Union in the Referendum held on 23 June 2016 has created a period of political and economic uncertainty that may impact the property investment and letting markets.

This uncertainty could continue whilst the UK renegotiates its trading position and other relationships with the EU and other countries.

Given the short period of time since the Referendum it is difficult to extrapolate trends in the UK property investment and letting markets or in consumer trends. However it is reassuring that a number of UK real estate companies have reported no immediate lapse in commercial discussions with tenants or investment counterparties. The pattern of consumer expenditure and footfall in our UK centres since the Referendum has been consistent with trends seen since the beginning of 2016.

It is also encouraging to note the current factors which could provide support to property valuations including the record-high spread of property yields over long-term interest rates, lower leverage across the real estate sector and well-capitalised lending institutions. In particular, the on-going European Central Bank programme of quantitative easing clearly highlights the relative attractiveness of property and has led to upward pressure on capital values.

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Intu: We are seeing retailers continue their expansion and upsizing in our prime high footfall retail destinations.

International retailers appreciate the attractiveness of the UK market offering high sales densities. In the previous few years we have seen the likes of Smiggle, Tiger and Kiko enter the UK market and rapidly expand to achieve a manageable scale. They have recently been followed by homewares brand Sostrene Grene from Denmark and accessories retailer Lovisa from Australia opening their first stores.

We are also seeing more aspirational lifestyle and fashion brands recognising that their business model works in shopping centres which offer high ABC1 demographics. Brands such as Jack Wills, Joules and Cath Kidston are expanding in this space along with premium travel operators like Kuoni.

Finally, the established UK and international retailers continue to increase their space in our centres and roll out sub-brands. Inditex are upsizing their space for Zara but in addition are now rolling out Stradivarius and Pull and Bear whilst New Look are putting their New Look Men fascia in stand-alone stores to highlight this offering and increase their share in the menswear market.

Consumer market

Unemployment remains at low levels and with wage growth rising faster than inflation shoppers have improved levels of disposable income. The Asda benchmark index shows their measure of household income 7 per cent higher than the previous year.

Retail spending growth, as shown by the British Retail Consortium like-for-like non-food retail sales, has slowed in the last few months reflecting the general economy, recording an average growth rate of 1.4 per cent in the first six months of 2016.

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Healthcare Property

Alun Jones, chairman, and Harry Hyman, managing director, Primary Healthcare Properties: We have seen continued progress within the NHS toward the objectives of the Five Year Forward View, with the plan for primary care being strengthened in April 2016 by the publication of the General Practice Forward View ("GPFV"). In his introduction to this document, Simon Stevens, Chief Executive of

NHS England, repeated that "...personal and population-orientated primary care is central to any country's health system".

The GPFV sets out targets for all aspects of GP services, including recruiting 5,000 more GPs over the next five years, together with further healthcare professionals and support staff. Specific commitments are made to providing out of hours access, developing clinical hubs and reforming urgent care.

To do this, a further GBP2.4 billion per annum will be invested into general practice, an increase of 25% over the 2015/16 GP budget. A sustainability and transformation package of over GBP500 million will help to develop the workforce and fund care redesign. Capital investment in GP estate and infrastructure will be facilitated by a GBP900 million funding pool, the Estates and Technology Transformation Fund ("ETTF"). The NHS will provide support to move schemes quickly through design and documentation to start on site.

All Clinical Commissioning Groups ("CCGs") were required by December 2015 to develop a Strategic Estates Plan aimed at long term estates planning to meet the care objectives of a local area. These will feed into a Sustainability and Transformation Plan ("STP") to be prepared for all local health and care organisations across England. STPs are currently being completed and will show how local services will evolve over the next five years to create long term, sustainable and fundable integrated care systems for an area. It is anticipated that implementation will start in autumn 2016.

There is a very clear movement toward the formation of larger practices and local alliances, and demand for larger, hub-style medical centres to replace out-dated, smaller converted residential properties.

PHP operates in a sector that is ultimately driven by demographics and demands on healthcare systems across western society are increasing due to growing, ageing populations with higher numbers of multiple long term conditions.

The fundamentals of the primary care real estate sector remain strong and cross-party commitment to the NHS continues. The importance attached to primary care in modernising the NHS, improving access to services and the efficiency with which they are delivered will not change, despite the vote to leave the EU.

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QuotedData

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