Economic & Political Roundup

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

Exchange Rate	30/11/16	Chg. on month %
GBP / USD	1.2506	+2.2
USD / EUR	0.9444	+3.7
USD / JPY	114.46	+9.2
USD / CHF	1.0173	+2.9
USD / CNY	6.8894	+1.7

MSCI Indices rebased to 100

Time period 30/11/15 to 30/11/16

Source: Bloomberg and Marten & Co

	30/11/16	Chg. on month %
Oil (Brent)	50.47	+4.5
Gold	1173.2	-8.1
US Tsy 10 yr yield	2.3809	+30.4
UK Gilt 10 yr yield	1.418	+13.9
Bund 10 yr yield	0.273	+69.6

Roundup

Following Trump's victory in the US election, the US dollar strengthened against most currencies over the month apart from Sterling which had a resurgence on hopes of a "soft Brexit" (whatever that means). Emerging markets were hit on fears of a trade war but the US market was buoyed by hopes of stronger economic growth (which seems anomalous). The oil price was up on news of an OPEC production cut. Gold was hit particularly badly as safe havens lost out to riskier investments. 10-year bond yields rose.

Global

Politics has been unpredictable in 2016 and there are many political uncertainties ahead. US rates may rise soon. Many commentators are cautious and are predicting volatile markets. Some say we are nearing the end of the current bull market. The more optimistic expect volatile markets to throw up attractive investment opportunities.

Kun Deng, manager of Lazard World Trust Fund, expects markets to be volatile but is enthusiastic about the long-term prospects for emerging markets despite Trump's election victory. Alex-Hammond Chambers, chairman of Hansa, is cautious given rising global debt and an uncertain political environment. (continued overleaf…)

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Global (continued)

Will Wyatt, chief executive of Caledonia, highlights a number of economic and political concerns and says it is counterintuitive that many stock markets are trading at or near all-time highs. Nick Train, manager of Lindsell Train, focuses on likely real dividend growth which he believes will be both healthy and supportive to markets. Rachel Beagles, chairman, Securities Trust of Scotland, thinks uncertainty will bring volatility but this will provide opportunities for long-term stock pickers. Strone Macpherson, chairman of British Empire, echoes that view. Mark Whitehead, manager of Securities Trust, sees a path through to higher interest rates in the US which would benefit the banking industry. Sebastian Lyon and Robin Angus of Personal Assets believe political outcomes are likely to offer investors asymmetric risks, skewed to the downside. They also think we are near the end of the bull market in the US (a view shared by Joe Bauernfreund of British Empire) and the switch into cyclicals is particularly dangerous. Graham Meek, chairman of Capital Gearing, says investors have become conditioned to expect a barrage of policy easing if there is any sign of economic or financial stress but thinks there is a feeling that monetary stimulus is played out. Christopher Jonas, chairman Henderson International Income, says diversifying your portfolio internationally makes sense in the current environment. John Scott, chairman of Scottish Mortgage, says long-term investors should focus on identifying growth companies rather than fixating on politics and economics.

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United Kingdom

Interest rates/bond prices, Brexit and the value of the pound dominate thinking but many managers are looking for opportunities to pick up bargains in periods of volatile markets

Mark Barnett, manager of a number of funds at Invesco, says that it is likely that the near-term outlook for the UK equity market will continue to be dictated by the movement of global bond prices and the sterling/US dollar exchange rate. He is looking for the ongoing market rotation to throw up attractively valued investment opportunities. Steven Bates, chairman of F&C Capital & Income, thinks UK equities will continue to benefit from low real interest rates and a devalued currency, albeit with the likelihood of temporarily higher inflation. Iain McLaren, chairman of Investors Capital, finds it difficult to see a marked improvement in economic prospects for the year ahead. He says stock selection will remain especially important in the year ahead. The managers of Troy Income & Growth say one could argue that markets have become overly sanguine about the risk of protracted negotiations with the EU and the knock-on impact this would have on corporate decision making and business confidence. Ciaran Mallon, manager of Invesco Income Growth, believes it is sensible to remain conservative and seek to invest in companies whose prospects are not dependent on an improving economic outlook. The managers of Schroder Income Growth point out that the Bank of England has very little ammunition, particularly when it has said it is not willing to pursue negative rates. The government could therefore turn to expansionary fiscal policy. Anthony B Davidson, chairman of Shires Income, cautions that devaluing Sterling is not a panacea and brings with it the risk of future inflation at a time when the availability of the tools conventionally used to control rising prices is limited. Richard Burns, chairman of Standard Life Equity Income, says that, in the UK, we are only beginning to sense the extent of the difficulties and problems which Brexit is going to create for both the Government and people of this country. Thomas Moore, manager of that fund, thinks that the savage de-rating of domestic-earning stocks following the EU referendum looks over-done.

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Asia

Investors in Asia are positive despite the anti-trade rhetoric coming from the US

Harry Wells, chairman of Martin Currie Asia Unconstrained, thinks a new emphasis on fiscal stimulus could be very good news for Asia. The manager of that fund says, if Asian companies can achieve the double-digit earnings growth being predicted for them in 2017, this could prove powerful. John Russell, chairman of Henderson Far East Income, contrasts the anti-globalisation movement in the US and Europe with the efforts ASEAN is making to improve intra-regional trade. Michael Kerley, the manager of that fund, thinks strong cash flow generation and low dividend pay-out ratio provide real optimism for strong dividend growth In Asia.

Europe

European economic growth could be improving. Politics is still a concern

Douglas McDougall, chairman of European Investment Trust, thinks the outlook for economic growth in Europe is improving. Craig Armour, manager of the fund, concurs. He says that recent moves in longer-term interest rates point to some normalisation of the valuation environment which would be negative for bond prices and their stock market equivalents such as consumer staples. The team managing JPMorgan European think equity valuations are undemanding and foresee rising share prices barring political upsets. The team managing JPMorgan's European Smaller Companies trust say they would view any politically inspired upset as an opportunity to add to high quality companies that are not dependent on the economic cycle.

North America

Focus to switch from "what will Trump do?" to "what will the Fed do?"

Andrew Bell, chairman of Gabelli Value Plus+, says investors are hungry for clarity on the new US administration's plans but expects markets will soon turn their attention to the prospects of a rate hike. The managers of that fund do not expect short term rates to be above 100 basis points at the end of 2017. They think the 5% forecast growth in corporate earnings in 2017, if delivered, would be attractive to many global investors.

Emerging Markets

Good fundamentals, attractive valuations and underweight investors are weighed against US protectionism

The chairman (Audley Twiston-Davies) and managers (Sam Vecht and Emily Fletcher) of BlackRock Frontiers both highlight the attractions of frontier markets. The managers say the combination of the countries with the fastest growing GDP, the best demographic profiles, the lowest government debt, a substantial commodity endowment and where it is possible to invest in companies with strong cash flow and high dividend yields, on some of the lowest valuations in the world, provides an unrivalled investment opportunity. Carlos Hardenberg, manager of Templeton Emerging Markets, is bullish about the long-term future for emerging markets. He points out that investors remain considerably underweight. John Rennocks, chairman of Utilico Emerging, tempers his enthusiasm for the area. He is cautious about Trump's possible protectionist policies.

Biotech & Healthcare

Biotech was oversold ahead of the US election

Many comments in this sector were written ahead of the US election result. Sam Isaly, manager of Worldwide Healthcare, thinks that biotech valuations have reverted to near historical lows, possibly creating an opportunity that last presented itself five years ago, when the last biotechnology bull run began. Alan Clifton, chairman of International Biotechnology also thinks valuations are attractive. The managers of that fund highlight the advances being made in drug discovery. Steve Borho, manager of Biotech Growth, expects to see further M&A activity.

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Property

Property markets are more settled now but West End retail property and property outside London are more attractive than central London offices in particular

LondonMetric Property say investors are becoming more discerning in their stock selection. Marcus Phayre-Mudge, manager of TR Property, notes that bond yields are rising but thinks many companies have taken steps to lock in low interest rates and have not over-extended themselves in the era of cheap money. Brian Bickell, chief executive of Shaftesbury, draws attention to the positive benefit of weak sterling on tourist numbers in the West End but also highlights the dramatic impact of the forthcoming hike in business rates. Toby Courtauld, chief executive of Great Portland Estates, looks in some detail at the prospects for London's property market and concludes that rental and capital values will decline further over the next six months. British Land notes that investors have been cautious post the referendum. Picton Capital, managers of Picton Property Income, say investment markets now appear to be stabilising. R Grainger, chairman of McKay Securities is optimistic that the South East outside of central London, will benefit from a lack of supply and a flow of occupiers fleeing London's higher business rates.

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Other

We also have comment on India, Japan, Debt, Environmental and Renewable Infrastructure.

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Global

(compare Global funds **here**)

Kun Deng, manager, Lazard World Trust Fund: In our view, global equity markets will continue to be volatile. We also believe that the U.S. equity markets will remain focused on potential tightening of monetary conditions. In Europe the unknowns surrounding major elections, particularly in Germany and France, and the referendums, especially in the UK and Italy, will dominate the macro picture and most likely equity volatility. We are also watching closely the continuation of the immigration problem, potential banking reforms and the limited options the European Central Bank (ECB) has to stimulate growth and prevent a banking crisis. Positive developments in Japan, related to both corporate governance and economic reforms, should prove to be beneficial over the long term. The emerging markets, with continued corporate earnings, economic growth, and favourable valuations presently look to us like very attractive opportunities for long term investors. The results of the recent US elections have not changed our view.

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Alex Hammond-Chambers, chairman, Hansa Trust: While we sense some things are beginning to turn in our favour - notably and hopefully the political and thence economic environment in Brazil referred to above - we note that the investment world is awash with uncertainty. Quantitative Easing and non-existent, even negative, interest rates have been good for equity and bond markets, but there is uncertainty of the long--term consequences of such monetary policies because we haven't been here before. All the while global debt grows and grows and grows. We all read an enormous amount of written prognostications but none convey any sense of understanding of what lies ahead.

Politics and economic policies that go with them determine economic outcome and thence investment returns. Politics, which for so long has had a benign to positive effect on markets, has now become less sympathetic, heightening the risks to returns in the future. Both Brexit and the election of Donald Trump as President of the United States are cases in point. We are concerned that such uncertainties are not priced into markets, inflated as they are by liberal monetary policies. It has made us cautious for the moment.

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Will Wyatt, chief executive, Caledonia: The decision to leave the European Union has unsurprisingly caused a great deal of uncertainty, which will remain until there is a clear view of how an exit is to be achieved and its effects on the UK economy. Even after new trading relationships are established there will be much refinement required, such that it is difficult to foresee stable conditions for some considerable time. The Bank of England has lowered the base rate to 0.25% and provided yet more liquidity to the system with another round of quantitative easing. The devaluation of sterling will import inflation over the next year but should aid the balance of payments deficit. The Government has much to do and it should be remembered that the UK is still running a substantial budget deficit and is continuing to increase the vast UK national debt, which remains the long-lasting legacy of the disastrous Labour administration of the Blair/Brown era. Likewise, it is uncertain as to what effect on the world economy the new Republican Administration in the US will bring to bear when Mr Trump takes office as President in early 2017.

This is far from the ideal background for investment and it is somewhat counter-intuitive that many stock markets are trading at near all-time highs with asset prices also continuing to be strong, propped up by loose monetary policy.

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Nick Train, manager, Lindsell Train: Absolute and relative rates of dividend growth for portfolio constituents seem to us to have useful explanatory and predictive power for performance - over the last six months and, more importantly, looking ahead.

Let's start with the conventional wisdom that argues nominal dividend growth will slow for global stocks, as inflation is likely to remain low, for the foreseeable future. This does not necessarily mean that real dividend growth has to slow as well - if inflation continues to fall more quickly than dividend growth. In fact, my sense today is that the pace of real dividend growth for the collection of quoted companies we are invested in, is as fast as I can ever remember. We think investors have still to recognise how robust real dividend growth remains, despite slowing nominal rates, and this is an important factor in our continued enthusiasm for markets.

However, I wonder if this theory that nominal dividend growth will slow across global equity markets is correct, or helpful. Actually we expect technology change to create big winners and losers over the next decade. The winners will enjoy accelerating revenue growth with, at the same time, a declining capital intensity of their business - as digital gets more important. This should mean rapidly growing dividends or cash returns. Meanwhile, many more will be starved of cash and their dividends suffer.

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Rachel Beagles, chairman, Securities Trust of Scotland: The economic impact of Brexit and policy impacts of Donald Trump's election as US president have yet to be fully comprehended and it will be some time before there is evidence that will inform views fully on either. Added to this, the rise in populist politics has potential implications for December's Italian referendum, next year's presidential elections in France and Federal government elections in Germany, bringing further political uncertainty in Europe at a time of change. Such uncertainty will bring volatility, but also opportunity for the global stock picker.

The backdrop of accommodative monetary policy has been helpful to markets, and whilst Fed rate rises are likely in the US, the trajectory of increases is not expected to be steep. In the meantime, central bank policy should remain supportive in Europe and the UK. In addition, government rhetoric both in the UK and US increasingly suggests that fiscal policy will also begin to support growth in an effort to reduce the reliance on monetary policy. The market reaction to this is likely to be increases in the longer term interest rate environment. Whilst rising bond yields don't tend to be helpful to equity markets overall, the level of longer term interest rates is still likely to remain extremely low by historic standards, and the yield offered by equities continues to look attractive in comparison. If the goal of sustainable long term growth is achieved by policy makers, equities should continue to perform well against other asset classes.

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Mark Whitehead, manager, Securities Trust of Scotland: The economic consequences of Brexit, the Fed's interest rate policy and the strength of the global economy remain key uncertainties for the market. Looking ahead, we believe investors are unlikely to remain as sanguine as they have been over the past few months and the lack of macroeconomic visibility will result in bouts of sharp equity-market volatility.

In previous periods of Fed interest rate tightening, equity markets have performed strongly and this is true of the current episode, as global equity markets have risen by over 20% in the year to date (in sterling terms) with the last rate rise in mid-December 2015. We are not convinced that the path of US interest rates will be a steep one. Indeed, the IMF has recently downgraded its forecast for US economic growth for 2016, despite recent stronger data. However, a more cautious monetary policy path may well continue to be supportive of the more economically-sensitive areas of the economy.

For the UK-based investor, a large proportion of the return from global equities since the Brexit vote has come from sterling weakness. The UK's withdrawal from Europe is likely to be a drawn-out process and this will undoubtedly cause fluctuations in activity, not only at home but also in Europe. Add to this the risks inherent in the Italian referendum, Greece requiring refinancing and rising geopolitical tensions between Russia and other western states, and we are reminded that the equity market may well be too complacent.

In comparison to Brexit, the immediate reaction by equity and currency markets to Donald Trump's remarkable presidential victory has been much more muted. The U.S. dollar's status as a reserve currency is providing ballast and Mr Trump's reflationary stance through favouring infrastructure and defence spend and widening healthcare provision, whilst ultimately generating stronger GDP growth, may well underpin equities.

It is, as yet, very early days to call how equity markets may perform and what the leadership may be in terms of sectors and industries. One thing is for sure, it will take many weeks, months and even years for evidence to surface of how Mr Trump's, at times highly inflammatory policy statements, will be actually implemented. His campaign has been a remarkably successful one, a strategy that used 'shock and awe' rhetoric to gain unprecedented levels of media publicity.

However, once he has formed his administration, the policies enacted may turn out to be more moderate. For example, it is likely that on trade he will have a freer hand but it will be more difficult to change the likes of taxation policies quickly as constitutional change will involve an altogether more drawn out process.

In the short term, the probability of a rate hike in December has fallen. This may well cause weakness in banks which have rallied hard on the expectation of the imminent resumption of the Federal Reserve's (FED) interest rate tightening cycle, initiated in December 2015.

Short-term uncertainty has increased and this may well cause the FED to hold interest rates in check this coming December. But as Mr Trump's policies are in the main viewed to be reflationary, we could expect the FED to be strong-armed into raising interest rates, economic activity permitting, whilst a fiscal splurge is initiated to rebuild American infrastructure and generate a surge in employment. This would be a welcome backdrop for well capitalised regional banks that may benefit from a steepening yield curve and a surge in lending growth.

Much also has been talked about in terms of the healthcare industry, which has underperformed the market considerably during the run into the election. The policy path here is far from certain, but pressure on drug pricing will continue in our view - but aggressive government intervention may now be less likely.

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Sebastian Lyon, investment adviser, and Robin Angus, executive director, Personal Assets: The past six months have seen remarkable financial extremes. UK

interest rates have been cut by 0.25% to a 322-year low. 10 year UK gilt yields have reached an all-time low of 0.5%. Sterling's effective exchange rate fell to a 168-year low (according to the Financial Times). Elsewhere, Japanese and German sovereign 10-year bond yields have turned negative as investors buy to lock in capital losses. All is not well with the financial world.

In the West there is rising political anger, epitomised by the outcome of the UK referendum in June. Now, Trump has trumped Brexit. But there remain plenty more invidious choices to be made by disgruntled electorates, including in Italy's constitutional referendum in December and in the 2017 elections in France and Germany. We hold the view that political outcomes are likely to offer investors asymmetric risks, skewed to the downside.

Thanks to these uncertainties, stock markets have failed to make much headway, having continued to trade in a range close to their all-time highs. The FTSE 100 Index has traded between 6,000 and 7,000 for three and a half years. Investors have not been well rewarded for taking risk and it has been advisable to sail close to the shore.

Inflation in the UK looks likely to re-emerge. It will not necessarily fit the 1970s template of cost-push (from rising commodities) and demand-pull (from rising wages). This time it will be due to currency debasement. A fall in the currency will lead to rising import costs. Multinationals will look to recoup devalued sales which will be passed on to consumers. Whether it is the price of Marmite, Microsoft Office software or fuel, the RPI is likely to rise in 2017 and 2018. In a previously deflationary environment in which yields are low, this seems disorientating and may prove to be temporary, as when the RPI rose to 5.6% in September 2011, only for deflationary forces to prevail. However, should sterling weakness become sustained, inflation could become more persistent. Interest rates did not move up five years ago and we would expect the Bank of England to argue once again that inflationary pressures will prove short-lived. With short rates low, conventional bond yields may not rise by much. In 2011, 10-year gilt yields were 2.3% and today they are half that level.

Rising inflation is also a threat to the higher earnings multiples on stocks which have prevailed in recent years, even at a time when corporate earnings have deteriorated. With stretched valuations, future profits will be worth less. The bull market in US stocks has lasted 89 months - the longest on record. The temptation near the end of the cycle is to trade down into visually cheaper but lower quality stocks - we believe this particularly dangerous. The standard policy response during a recession, since 1980, has been to cut interest rates by 5% or more. That option is not available today so cyclical, indebted companies will not receive the traditional assistance from falling interest costs. As this realisation dawns, a reappraisal of stock market valuations is likely to occur.

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Graham Meek, chairman, Capital Gearing Trust: Hindsight is a powerful but deceptive mental phenomenon. Inherently unpredictable events are remembered as completely obvious after the dust has settled. However, what about foresight, how useful is that in making investment decisions? For example, an investor in February of this year with a crystal ball that revealed in advance the outcome of the Brexit vote may have struggled to use that information to forecast the FTSE 100 would rise c.25% by October. Foresight of this year's dollar strength and falling emerging market export data would have caused many investors to sell "risk on" assets, however, emerging market equities and debt have been particularly strong performers. A clairvoyant investor with certain knowledge of 8 quarters of negative earnings growth for the S&P 500, may not have anticipated that the result would be an all-time high for the index. Rationalising these apparently irrational pricing responses is difficult other

than by falling back on the ultimate catch all explanation; investors are now conditioned to expect a barrage of policy easing if there is any sign of economic or financial stress. Abundant liquidity is a rising tide that floats all boats; it feels great until the tide turns.

The concept of austerity has become deeply unfashionable, though government debt levels have never been higher and some countries, notably the UK, are still running substantial budget deficits. These deficits are now under upward rather than downward pressures. The reasons for this shift are numerous, starting with sheer austerity fatigue. The more fundamental issue is that global growth, constrained as it is by excessive debt, has been weak. Monetary policy is now widely perceived to be insufficient on its own to stimulate higher demand. In particular, the experiment with negative interest rates, which was undertaken with virtually no academic study, has proved to be very disappointing in its effects.

More generally there is a feeling that monetary stimulus is played out. Even where interest rates are positive, as in China, the growth produced by each percentage point increase in credit has diminished consistently over the last seven years. The result has been calls in both the academic and the financial press for fiscal policy to play its part in avoiding the deflationary recession so dreaded by central banks and governments. A key element of these calls is that a fiscal stimulus can bypass the financial system and be directed towards new investment; as a result, increased government funded infrastructure spending can be anticipated.

In the case of the UK, the Autumn Statement is expected to contain a significant expansion of spending on transport infrastructure paid for by increased long term borrowing. Almost all influential economic institutions whole heartedly back this fiscal expansion, believing it can be carried out in a measured and carefully controlled way. In practice this blurring of monetary and fiscal policy occupies a grey area adjacent to using helicopter money. Any fiscal loosening will be financed by the Bank of England, which is printing GBP 10bn per month in its quantitative easing programme. This printed money will prove much easier to create than to reverse. Furthermore, this stimulus is against a background where UK growth has been fine. Investment has been weak given the uncertainties over Brexit, but the devaluation of sterling is a powerful offset. The government's living wage programme will mandate above inflation minimum wage growth through to 2020. Real GDP growth may be higher than the IMF forecast of 1.1% and inflation may be higher than the breakeven of 2.7% on the RPI.

More generally, world trade and growth is lacklustre and, with demand weak and labour incomes rising, the outlook for corporate profits is uninspiring. 2017 may prove to be the third year of negative profits for the S&P500. Equities, like all financial assets, seem to have priced in interest rates that remain lower for ever. Even a relatively modest increase in inflation may challenge that assumption.

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Strone Macpherson, chairman, British Empire: There are an unusually large number of risks for investors at the time of writing. On the geopolitical front, the consequences of the outcome of the US election, the Brexit arrangements to be negotiated, the German, French and other European elections in the year ahead, and the turmoil in the Middle East, are all major uncertainties.

The risk of significant policy errors by Central Banks also remains high. However, despite all these difficulties, and the volatility that they bring to the investment markets, such volatility often produces pricing anomalies for value investors.

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Joe Bauernfreund, manager, British Empire: We live in interesting times. The continued quantitative easing experiment adopted by many Central Banks around the world, along with zero – and even negative – interest rate policies continues to distort asset prices. Talk of helicopter money and debt monetisation gathers momentum. Concerns over the health of the Chinese economy surface at regular intervals. As far as the stock market is concerned, the European Central Bank appears to have largely papered over the cracks in the Eurozone for now, recent fears over the health of Germany's largest bank notwithstanding. Not least, of course, the impacts of the Brexit vote in the UK and the exact form the UK's exit from the EU will take remain hotly debated and controversial topics.

The current broad macro-economic and monetary policy environment has been in place since the aftermath of the financial crisis of 2008/2009. Wiser heads than ours have debated the implications and repercussions ad nauseum yet the bears, so far, have been proved wrong and missed out on the longest bull market in history. However, we need to be conscious that this bull run will end at some stage.

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Christopher Jonas CBE, chairman, Henderson International Income: Economic growth remains weak in many parts of the world, and inflation has continued to be very low, particularly in developed economies. In general central banks around the world continue to target higher levels of inflation than are currently being experienced, therefore monetary policy remains accommodative and designed to stimulate economic growth. Negative interest rates and an asset-buying programme have been introduced in a number of countries, which has increased demand for income generating assets. This has primarily benefited bond markets, but has also driven some areas of equity markets higher. Recent currency movements have been challenging.

The recent referendum in the UK regarding membership of the European Union has added an additional level of complexity for UK investors. In the current environment we believe that a prudently managed international portfolio plays a key role in a coherent diversified strategy.

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John Scott, chairman, Scottish Mortgage: There is a strong structural asymmetry in equity market returns, given the potential for a successful company to grow to many times its size. This means it is of critical importance to be a patient optimist. The greatest investment mistakes come not from those investments which fail, but from the opportunities missed. Whilst others are focused on questions around political issues in the United States of America, what global GDP figures will be or whether the Federal Reserve will raise interest rates, those able to take a long term and global approach can focus on investing in those companies which are placed to benefit from the significant structural shifts which are occurring on the back of technological progress. A number of these companies have already reached significant scale, but have the potential and capital to grow substantially from here. This is truly exciting.

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United Kingdom

(compare UK funds **here**)

Mark Barnett, manager, Keystone, Edinburgh Investment Trust and Perpetual Income & Growth: It is likely that the near term outlook for the UK equity market will continue to be dictated by the movement of global bond prices and the sterling/US dollar exchange rate. These asset markets have exerted a major influence on UK equities over the course of 2016. The strong performance of the bond market, not always associated with a rising equity market, and the perceived benefit from the drop in sterling have been the driving forces behind the ongoing re-rating of UK equities to reach a current price to earnings valuation of 17.5 times forecast 2016 earnings per share. This valuation looks full, particularly relative to the disappointing overall level of underlying profit growth recorded this year (excluding the impact of sterling and the commodity bounce back). It is highly unlikely that the rerating of UK equities will continue unchecked against a backdrop of higher valuations and ongoing pressure on corporate profitability. It is noticeable how the rate of profit warnings across the market has increased in the past few weeks. In addition, the recent reversal of bond markets has put pressure on valuations in certain sectors.

There are several challenges which may force a reassessment of the current valuations that are being applied to the UK equity market. The first is the lack of overall profit growth, which, in the absence of the significant devaluation in sterling, would have seen another year of no growth in 2016. The underlying earnings outlook for next year looks similarly muted. Second, a more difficult near-term UK economic picture is likely to emerge. The reappearance of inflation - largely as a result of the movement in sterling - will pressurise consumer budgets and hinder overall levels of economic growth. This factor, coupled with the ongoing uncertainty over the political path to Brexit, may put a brake on UK employment levels and investment intentions, further moderating activity in the domestic economy. To some extent, this has been priced into equities, as the performance disparity between global and domestic companies since the referendum has been significant. Nevertheless, the backdrop to corporate profitability is unlikely to ease over the coming year as pricing power remains elusive.

The political backdrop has the potential to deliver more surprises over the coming year, a third factor likely to continue to exert major influence on both corporate behaviour and stock market performance. The election of Donald Trump as the next US president has already set off widespread expectations of fiscal reflation with knock-on effects in certain stock market sectors. The domestic political scene is currently overshadowed by the new government's evolving political agenda, while internationally, there are a series of important elections on the horizon; the potential for a sudden policy shift or unexpected election result is significant.

Finally, a shift in the value of global bonds also has the potential to de-stabilise the outlook for UK equities. This could emanate from US policy tightening or simply a realisation that the extreme low yields reached over the summer months across the world no longer represent a realistic view of the medium term outlook for inflation and interest rates. Indeed, at the time of writing, we are witnessing a meaningful shift upwards in 10 year bond yields globally.

Navigating any one of these obstacles, either individually or in combination, will continue to be challenging. The most important discipline is to remain vigilant about valuation. Notwithstanding the elevated level of stock market valuation, there are bottom-up opportunities for the long-term investor, which have started to emerge as a result of the substantial sector rotations that have occurred since the June

Referendum. Where new opportunities arise, the emphasis will continue to be on companies that can demonstrate a sustainable top line growth and translate that into profit, free cash flow and dividends without excessive financial leverage

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Steven Bates, chairman, F&C Capital & Income: 'May you live in interesting times' is supposed to be a Chinese curse. It is apocryphal, but its nearest analogue translates as 'Better to be a dog in a peaceful time, than to be a human in a chaotic period.' 2016 has certainly been chaotic, but whether you view living through it as a curse or not rather depends on your point of view.

As we looked ahead to the year just finished, it seemed likely to offer more of the same - ultra low interest rates, but with quantitative easing ("QE") waning in impact on markets, greater correlation between assets, lowish growth and relatively benign inflation. We posited that this was mildly encouraging for equity markets. For the first several months of the year, this is how it played out. There was a wobble at the beginning of 2016 triggered by the start of 'tapering' - the jargon used to explain that interest rates were beginning to rise in the US. This spooked markets a little, despite having been long forecast, but things soon settled. Indeed, there has still been no further 'taper', despite lots of speculation, and QE has been rampant in Japan, the EU and the UK. Things then jogged along until 24 June, when the Brexit vote threw a spanner in the works.

Several months on, we still have no clear idea of what Brexit actually means or how it can be achieved in such a way as not to damage the UK economy. The inevitable uncertainty which flows from this has been most visible in the collapse of Sterling, which has fallen around 16% against the US Dollar and 11% against the Euro since the referendum and will lead to a spike in inflation next year as the prices of imported goods rise. Whether this will be enough to tip the UK economy into recession remains to be seen, but the relatively healthy economic data which we have seen since June are beginning to fade, and it is likely that there will be some unpleasant shocks in our near future.

As an investor in equities, of course, your experience has been relatively benign. The rise in the market compensated by and large for the decline in Sterling - cushioning investors from the loss of purchasing power.

Of course, much of the UK stock market is made up of multinational businesses which are not especially sensitive to the currency (or indeed to the risks of Brexit) and it is notable that these have fared better in the 'new' world than those companies, often at the smaller end of the scale, which are exposed mostly to the domestic economy.

Normally, it is quite amusing to speculate about what might happen in the year ahead. This year, I have to confess that I have no idea how the economic and political chips will fall not least given the recent election result in the US. In the world of stock market prognostication, the gurus who hit the headlines are invariably those who take extreme positions, while the outcome is almost always a form of 'muddling through'. Today we face a series of political choices which might affect the economic outlook for the UK for many years to come. I hope that what we end up with is a 'muddle through' but it is hard to hold that view with great confidence.

Equity markets in this country, though, will continue to benefit from low real interest rates and a devalued currency, even as they struggle to adjust to the likelihood of temporarily higher inflation. It is likely to be a better environment for an investor than for a consumer.

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Iain McLaren, chairman, Investors Capital: The pace of global economic recovery has improved little over recent years with the pattern of growth remaining fragile and uneven. Against a background of elevated geopolitical tensions and a rising tide of populism and protectionism, as evidenced by the outcome of the EU Referendum in the UK and the United States Presidential election, it is difficult to see a marked improvement in economic prospects for the year ahead. While global monetary conditions remain supportive for financial markets there is evidence that in the absence of broader structural reforms, monetary policy alone may not be sufficient to address the challenges of weak economic growth and low inflation. When viewed in the context of exceptionally low bond yields, equity valuations are not unreasonable and corporate sector fundamentals remain sound. The recent weakness in Sterling aside, the more challenging outlook for corporate earnings and dividends suggests stock selection will remain especially important in the year ahead.

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Troy Asset Management, managers of Troy Income & Growth: Data emerging on the health of the UK and Eurozone economies following Britain's decision to leave the EU will continue to provide the backdrop against which policy debates are framed. Some areas of the market have already shown signs of strain; a number of open-ended UK property funds were forced to suspend redemptions in early July and as at the end of September sterling languished 12% lower than its pre-referendum level. Over the same period, the yield on the ten-year gilt has declined by 63 basis points to sit at 0.75%, contributing to concerns over yawning funding gaps in UK companies' defined benefit pension schemes. The new Chancellor, Philip Hammond, has already signalled that a relaxation of austerity is likely in the Autumn Statement, a departure from his predecessor's economic policies and the Bank of England Deputy Governor, Ben Broadbent, has indicated he would support cutting interest rates again this year. An uncertain road lies ahead for the UK as it embarks on the process of disentangling a forty year relationship with the EU.

As at September end, the FTSE 100 sat within 3% of its all-time high recorded in April 2015. This can be partly explained by the upward earnings revisions that have occurred on the back of a weaker sterling, the expectation of both fiscal and monetary stimulus and a possibility that a weaker currency might lead to higher demand for the UK's exports. However, one could argue that markets have become overly sanguine about the risk of protracted negotiations with the EU and the knock-on impact this would have on corporate decision making and business confidence. There is also a risk that inflation accelerates in the UK as sterling's drop boosts import costs. Investor complacency coupled with elevated equity valuations make for a dangerous cocktail.

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Jim Pettigrew, chairman, Edinburgh Investment Trust: The fallout from both the EU referendum result and the US election makes it more difficult than usual to predict future economic and market trends with any confidence. One can comfortably justify caution in relation to UK equities on valuation grounds, albeit that yields are likely to continue to provide support while bonds look even more expensive.

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Ciaran Mallon, manager, Invesco Income Growth: Looking ahead, it is notable that after a short period of volatility, the UK market has resumed its upward trajectory, now having risen strongly over the last seven years. Meanwhile there remain headwinds to withstand, including the as yet unknown impact of Brexit implementation, with economic growth likely to remain subdued. Market valuations in terms of historic dividend yields and price earnings ratios are now above long term average levels

while, excluding the one-off impact of weak sterling on companies with overseas revenues, earnings growth for many companies and sectors remains elusive or even negative. I believe it is sensible to remain conservative and seek to invest in companies whose prospects are not dependent on an improving economic outlook.

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Schroder Investment Management, managers of Schroder Income Growth: Given continuing global growth concerns and the shock Brexit decision, the UK stock market has perhaps recovered surprisingly well from the lows following the EU referendum.

This can be explained in part by central banks' market-friendly actions: in the US by not raising interest rates - and in the UK by increasing quantitative easing and the cutting of interest rates, as well as the potential for future fiscal policy action.

Sterling weakness after the referendum has provided a significant tailwind to the translation of overseas profits, particularly for FTSE 100 companies, which typically have a higher level of income derived from overseas. Additionally, markets were supported by the lack of any immediate economic impact following the Brexit vote and the filling of the political vacuum with Theresa May's early appointment as Prime Minister.

There has been a re-evaluation of some of the premature forecasts and price swings that followed on from the Brexit vote. The impact on UK economic activity is probably only moderately negative this year, but risks remain for 2017 depending on progress in Brexit talks with the EU and the political backdrop in the UK and in Europe. With this uncertainty, it would not be surprising if business investment is the area most affected. If it remains weak, this could eventually feed through into higher unemployment and reduced consumer spending.

As ever, there are other risks, both economic and political. In the US the impact of the Presidential election remains to be assessed, though there is the clear potential for interest rate increases given the President-elect's spending plans. In Europe there is the ECB's QE programme and growing support for populist parties. Such matters are magnified in the UK with Brexit negotiations yet to begin. It is also important to consider the limitations of UK monetary policy, given that interest rates stand at 0.25%. This leaves the Bank of England with very little ammunition, particularly when it has said it is not willing to pursue negative rates. The government could therefore turn to expansionary fiscal policy, meaning tax cuts and/or infrastructure spending.

The new Chancellor has stepped back from eliminating the deficit by 2020 but the Autumn Statement may reveal more - in particular the likelihood of a modest stimulus in order to offset some of the potential future drag to domestic growth arising from Brexit, given the lags to growth from spending on infrastructure. Equally, the government may wish to keep some powder dry for next year, if economic activity worsens.

Overall, UK equity valuations look full when measured in absolute terms and in a historic context. This reflects the impact of quantitative easing in supressing yields on other assets. Valuation differentials remain wide, with high valuations on growth stocks and defensive shares (eg, beverages, consumer staples), whilst low valuations remain for companies whose prospects are less certain, such as house builders and banks. Future growth is likely to remain muted, given the potential risks mentioned above.

However, the fall in sterling together with the rise in oil and commodity prices is leading to a turn in the profits cycle - from downgrades to upgrades - particularly in

the more international FTSE 100 companies. This may in turn lead to a narrowing of valuation differentials.

We also expect to see a continued pick-up in merger and acquisition activity with the continuing availability of cheap financing, weaker sterling and companies struggling to grow organically.

Given sterling's continued depreciation, there will be a further boost to income from dividends declared in US dollars or euros this year if sterling stays at current levels. On a more cautionary note, whilst dividend pay-out ratios remain high, the economic impact of Brexit is not likely to be fully felt until 2018 or later, and so the longer-term outlook for income growth is somewhat more uncertain.

Lastly, it is important to consider UK inflation. Whilst the Consumer Prices Index rose by 0.6% in the year to August 2016, we expect inflation to increase over the next year or two, fuelled by a combination of sterling weakness and a pick-up in oil and commodity prices. We would, however, expect the Bank of England to look through this increase in inflation and to retain loose monetary policy to help support the economy through its exit from the EU.

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Anthony B Davidson, chairman, Shires Income: It is not only investors that don't know what the post Brexit landscape will look like, company management teams and consumers are equally unsure. A period of slower activity is therefore to be expected and some of the economic and confidence surveys that have been released since the vote support this. Companies that have actually traded quite well in the first half of 2016 find themselves having to inject caution into their outlook statements as a result of this uncertainty. However, that does not mean that the long term prospects for the economy have been irretrievably damaged. After initially keeping interest rates on hold the Bank of England responded to signs of a slowdown in the UK economy with interest rates being reduced to 0.25%. A Term Funding Scheme has been created to encourage banks to lend, the existing asset purchase programme for gilts has been increased by GBP60 billion to GBP435 billion and a small programme of corporate bond purchases has been introduced. In the meantime the weakness of Sterling is providing a boost to UK plc profitability. Whilst earnings expectations have declined slightly compared to forecasts before the vote, they have not declined by anything like as much as the more negative commentary of the outlook for the economy as a whole would suggest.

Global growth looks set to improve next year aided by an on-going recovery in the US, Russia and Brazil exiting recession and a Chinese economy that increasingly looks to have stabilised, albeit at levels of expansion below those enjoyed previously. However, the risks posed by Brexit, the fragility of the European banking system and US Presidential elections mean that there are significant uncertainties facing investors, companies and consumers.

OPEC has announced that it intends to reduce supply for the first time since 2008. The news has been positive for oil producers and those businesses with direct and indirect exposure to oil and gas production. The oil price has bounced strongly on the back of the news. However, history shows that compliance with quotas is often weak and it will be sometime before we know if this will genuinely lead to a structural re-balancing between supply and demand. Sterling has weakened as markets have focussed on the risks of a so called hard Brexit. It remains much too early to tell what the ramifications of leaving the EU will be though it is notable that as more data has become available some of the more downbeat commentators have been forced to shift to a less extreme position. In the meantime Sterling weakness is being regarded

as a positive for the profitability of many UK companies, especially larger ones and this has benefited equity markets. That holds true to a point but devaluing the currency is not a panacea and brings with it the risk of future inflation at a time when the availability of the tools conventionally used to control rising prices is limited.

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Richard Burns, chairman, Standard Life Equity Income: I write this in the immediate aftermath of the US Presidential election, which has been one of many negative political factors which have overhung markets in 2016. The election of Donald Trump is further evidence of the widespread voter disaffection visible in many Western democracies today. At this stage, it is unclear to what extent he will be able to persuade his Republican colleagues in Congress to support the expansionary fiscal policy he appears to favour, though tax cuts for corporations and individuals are likely to be less controversial with them. In the UK we are only beginning to sense the extent of the difficulties and problems which Brexit is going to create for both the Government and people of this country. In the financial world there remain any number of seemingly intractable problems associated with extremely low interest rates, which are so damaging for individual savers, long-term institutions such as insurance companies and pension funds and perhaps especially banks, which remain a key industry for a soundly functioning economy.

However, successful equity investing requires an optimistic frame of mind and there is every reason to believe that there are many businesses which can do well even if overall conditions are difficult and uncertain. Careful and insightful stock selection remains the key to success.

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Thomas Moore, Standard Life Investments, manager of Standard Life Equity Income: We continue to question the dividend sustainability of some of the largest companies in the UK. We also see limited scope for defensive companies, which are often seen as proxies for bonds, to grow their dividends in the future. By contrast, we continue to have confidence in our UK domestic holdings. Management commentary from these domestic companies has remained buoyant post-Brexit, supported by solid, better than expected, UK economic data. Initial fears of a sharp drop in activity are looking misplaced. Consumer sentiment remains benign and household cash flows look set to be supported by the strong labour market, wage growth, higher personal allowances and lower interest payments, which should largely offset higher import prices. Against this backdrop, the savage de-rating of domestic-earning stocks looks over-done.

The persistent low level of bond yields has had a double impact, supporting the share prices of consumer staples that act as bond proxies and undermining the share prices of some in the financial sector. Brexit has been a wake-up call to global policymakers as it demonstrated rising levels of popular discontentment, which can be linked to the unconventional policies pursued since the 2008 financial crisis. There is increasing evidence of the unintended consequences that quantitative easing is seen to be creating for the global economy including the pressure it exerts on savers, pension funds, insurance companies and banks.

A shift in emphasis from monetary policy towards fiscal policy would help politicians to show that they are in touch with the electorate - and potentially drive a rebalancing of the economy and markets. Even without a rise in bond yields, we see the potential for a sharp sell-off in bond-proxy sectors, such as consumer staples, as it is increasingly hard to justify their valuations in the context of their anaemic growth rates. Conversely, we see the potential for a sharp rebound in many financial stocks whose

underlying resilience has been ignored as a result of the market's preference for other sectors during the prolonged period of low interest rates globally.

At times of macro stress, investors become less focused on valuation. We expect that this will change when investors recognise that underlying corporate fundamentals do not justify either the under-performance of the more cyclical sectors or the outperformance of the more defensive sectors.

Macro-driven markets can present short-term challenges to investors who are focused on stock-level corporate fundamentals. However the market will eventually become less focused on top-down macro drivers, putting the spotlight back onto corporate fundamentals. This is already evident from the weakening performance of many overseas earners since the beginning of July, including some of the most highly-rated consumer staples stocks, as these companies report results that the market finds disappointing in the context of their extended valuations. In contrast, many domestic earners have beaten expectations, providing the catalyst for a valuation re-rating from very modest levels. The valuation gap between overseas and domestic earners is more extended than any time since the 2008-09 global financial crisis, which increases our conviction that this period will provide opportunities for patient investors who stay focused on stock-level fundamentals.

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Asia

(compare Asian funds **here**)

Harry Wells, chairman, Martin Currie Asia Unconstrained: Global growth remains fragile despite the juggernaut of quantitative easing programmes deployed by central banks since the global financial crisis. However it now appears that national governments are looking to place more emphasis on fiscal policies to create stimulus, particularly after Donald Trump's election in the USA. This could be very good news for Asia where fiscal policy measures promoting infrastructure and urbanisation have always been vital tools. Indeed, we have seen price recovery in commodity markets with notable mark-ups in oil, steel and iron ore. The prospect of some input price inflation and expectation of fiscal spending programmes has seen the bond yield curve steepening with a sell off in longer durations albeit coming off a very low, almost surreal, pricing of sovereign debt at negative yields. Against this, there is still excess capacity and significant tail risk of exported deflation from China.

The conventional case for investment in Asia is largely unchallenged. It remains an attractive region, particularly so for a differentiated and unconstrained mandate based on a process which involves rigorous stock selection. Asia offers above average growth prospects not least from stronger inter regional trade in an environment where there are always companies doing well and developing franchises. This supposition is based on politics remaining on an even keel. It is important to monitor potential protectionist moves by the new USA administration and perhaps President Trump will also seek to reverse waning foreign policy influence throughout Asia to counterbalance China's growing confidence as a super power.

The frailties in the global economy have witnessed continuing currency volatility symptomatic of the reassertion of national interests. Equally, the growth in financial regulation, associated bureaucracy and now the potential imposition of trade tariffs by the USA are a serious threat to the tenets of globalisation and free trade. The incredible level of fines levied against the likes of Apple and Deutsche Bank represent

a proxy trade war between the EU and the USA. One is hopeful that the cult of equity in Asia continues to thrive in a raw form without being laid low by the increasing socialisation of capital elsewhere.

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Andrew Graham, manager, Martin Currie Asia Unconstrained: Asian equity markets have performed well since hitting a bottom in the first quarter of 2016. At that time valuations, measured by either price-to-earnings or price-to-book multiples, were trading below historical averages, but not at extreme levels, which had pretty much been the case since 2012. During this extended period, the market has periodically grappled with its twin obsessions: a slowing China and the risks associated with a change in Fed policy. On top of this, the market was also fighting against a continuous downgrading of earnings expectations. Since the first quarter, however, the Fed has met on several occasions but not raised rates, leading investors to believe that the lower-for-longer theory is more likely. In addition, the Chinese government appeared to stimulate the economy to the extent that the worst-case scenarios were, at the very least, pushed out. Earnings expectations, meanwhile, have reached far more realistic levels with low, single-digit growth expected for 2016. Moreover, the most recent results season produced fewer disappointments than previous quarters and analysts have highlighted that a long-term trend of downward revisions is moderating.

The recent rally and re-rating has therefore come about as the factors mentioned above, which held back the market at the start of the year, have improved. But has anything substantial actually changed? To our mind the big market risks remain significant. China is undergoing a structural shift and a slower growth rate is inevitable; it is hoped that China will not repeat the mistakes of 2009 and that further stimulus will be limited.

What the Fed will do is uncertain, but clearly the risks here are very much biased towards the impact of higher rates. In terms of earnings and valuations, we have long felt that an improved earnings picture was a requirement for a sustained rally and although the picture is improving, the numbers are far from exciting (so far). In our view, markets have been driven by a re-rating, not by delivered growth. Indeed, on a price-to-earnings basis the markets are now trading above 10-year averages, although the price-to-book ratio is still below them.

Earnings, therefore, remain key to the outlook in our opinion. Current forecasts for 2017, to which the market increasingly will be looking, are again for double-digit growth. This optimism naturally raises the prospect of disappointment. But if earnings were indeed to accelerate and continue the recent better trend, this could prove powerful. It would also likely result in an improvement in return on equity and other return metrics, which would be a significant change from most of the post global financial crisis period.

At the time of writing, the election of Donald Trump to the US Presidency has introduced a new uncertainty. This campaign featured heavily the language of protectionism, populism, and anti-immigration, but also of determination to stimulate domestic economic growth and reduce taxes. In the weeks and months ahead, we will seek to understand what implications this might have for the long-term prospects of the businesses in which the portfolio is invested.

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John Russell, chairman, Henderson Far East Income: Trying to predict the future is a most hazardous task. Who in 2015 would have predicted the events of 2016?

It is, however, possible to identify regional trends across the globe and examine what this might mean for investors. There is a striking difference between developments in America and Europe. Voters there are increasingly embracing populist leaders who by and large promote policies that are inward looking and isolationist. Britain has rejected the European model of economic cooperation. Both Presidential candidates reject the Trans Pacific Partnership proposed by President Obama linking east Asia (excluding China) with the US, South America, Canada and Australasia in a wide ranging trade agreement. Anti globalisation is a strong movement encouraging the "we are better off on our own sentiment." This trend, however, is confined to Europe and North America.

In Asia the trend is reversed. Since the end of the Second World War Asia has been on a roller coaster ride while countries competed with each other often to mutual disadvantage. In the last decade or so, things have changed and the 650 million people living there have experienced a dramatic turnaround in their standard of living and opportunities. Recently the Association of South East Asian Nations (10 Member States) ratified the ASEAN Economic Community with free labour mobility and free trade. The Nations of South East Asia have decided they will enjoy much better economic outcomes by growing together than apart.

China is a key player here invigorating economic development across Asia including India, Pakistan and across Eurasia all the way to Iran. By helping to bind these countries together China hopes to create strong economies with which it can trade. The Asia Infrastructure Investment Bank ("AIIB") has been established by China to promote this objective and more than 70 countries, including United Kingdom and Australia, have agreed to join. It has access to an enormous pool of funds. The World Bank too has agreed to co-invest.

This is in stark contrast to events and moods in America and Europe. Of course China will experience difficulties and disappointments and will make mistakes but it has the funds, the motivation to succeed and offer hope of a better life to an enormous number of people across the region.

While the world remains volatile and uncertain portfolio diversification is an important part of any investment strategy for savers taking a longer term view. Asia remains a very strong candidate for consideration.

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Michael Kerley, manager, Henderson Far East Income: We remain cautiously optimistic on the outlook for Asia Pacific markets although we expect continued volatility as world events around political elections and central bank policy continue to dominate. Valuations, despite the recent rise, are still attractive, especially compared to western alternatives, while economic growth appears to be stabilising. The outlook for dividends is the region's most compelling feature. The strong cash flow generation and low dividend pay-out ratio provide real optimism for strong dividend growth while the cushion this provides gives comfort that dividends are sustainable should unforeseen global events call into question levels of dividend pay-out. This is especially relevant for some developed markets such as the UK where dividend levels are already elevated.

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Europe

(compare European funds **here**)

Douglas McDougall, chairman, European Investment Trust: The low interest rate policy and monetary easing being pursued by the European Central Bank have resulted in high valuations being placed on stocks considered by European equity investors to be low risk in terms of earnings progress.

Whilst there continue to be geo-political concerns, including the possibility of increasing trade barriers following Brexit and the US presidential election, the outlook for economic growth in Europe appears to be improving.

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Craig Armour, manager, European Investment Trust: Since the financial crisis in 2008, the economic recovery has been supported by monetary stimulus, with central banks adopting quantitative easing through bond purchases alongside ultra-low interest rates. In Europe, the initial resistance to this approach was overcome and the European Central Bank followed its counterparts elsewhere in the developed world. While economic growth has been subdued compared to the period prior to the crisis, the policies adopted appear to have been largely successful in allaying fears of deflation and recession. There have been periodic bouts of concern but the evidence points to a global economy emerging intact from intensive care. Indeed there are tangible signs of inflation, partly from the recovery in commodity prices, but also from labour markets.

Recent years have been challenging for valuation-conscious investors. In an environment where the discount rate is based on artificially suppressed interest rates, the valuations of companies with stable and predictable earnings have been boosted, in stark contrast to many cyclical stocks. This is best captured by the premium rating of consumer staples relative to the rest of the equity market, which during the year reached levels comparable with the 2008 financial crisis. We believe that this premium rating is unwarranted given both ongoing economic growth and a subtle shift in the outlook for longer-term interest rates. Towards the end of the year under review, there was evidence that equity markets were starting to price in a restoration of more normal financial conditions.

The one area of almost perpetual uncertainty in Europe is politics. An election is always in sight at national level and the European Union as a collective takes time to gather a consensus and react to issues as they arise. The latest issue is of course Brexit, with the UK voting in June 2016 to leave the European Union. The UK faces a real challenge in implementing the result of the referendum without causing material damage to its economy. In that respect, the European Union and the UK have a shared economic interest, but the European Union is expected to resist an outcome which makes departure look attractive. To date, the principal economic impact from Brexit appears to have been the weakness of sterling, but a prolonged period of uncertainty will not be helpful to economies or equity markets.

A steadily recovering economy in Europe remains our central case, supported by the European Central Bank policy. The recent moves in longer-term interest rates point to some normalisation of the valuation environment which would be negative for bond prices and their stock market equivalents such as consumer staples. It has been encouraging to see renewed takeover interest after the year-end

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Stephen Macklow-Smith, Alexander Fitzalan Howard, Michael Barakos and Tom Buckingham managers, JPMorgan European: From a European point of view the political headwinds include the forthcoming constitutional referendum in Italy, and general elections in the Netherlands (April), France (May) and Germany (September). It would be easy to draw a straight line through what looked like populist victories in the UK referendum and in the US Presidential election and decide that anti-Euro parties will win the day. The fact is, though, that the Italian referendum is very tight, with a high proportion of undecided voters, the Dutch election is neck and neck, but even if the Freedom party win they are very unlikely to attract enough support to form a government. The French election will take place in two rounds, and the pattern in recent polls has been that even if the National Front win through to the second round they are then defeated by a coalition of centrists.

All the time the recovery remains on track. The ECB is likely to wind down its programme of QE only gradually, since it does not wish to cause a dislocation in markets. If nominal GDP continues to improve we should see operating leverage kicking in at companies to boost profits. Equity valuation is undemanding, especially relative to cash, fixed income, and after adjusting for the cycle. European market shares in exports to the emerging countries remain excellent, and emerging markets now seem to be turning the corner after the economic problems they have faced in the wake of commodity price collapses. If politics does not upset the apple cart we see further gains in prospect.

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Jim Campbell, Francesco Conte and Edward Greaves, managers JPMorgan European Smaller Companies: There are currently no signs that the UK's decision to leave the European Union has negatively impacted European economies, yet markets remain volatile for several reasons. Perceptions are that the era of global loose monetary policy is coming to an end with a possible interest rate increase in the US in December, the potential end of the ECB's quantitative easing programme in March 2017 and China acting to cool its housing market. The impacts will be felt both on the real economy and stock markets via increasing the risk premia.

Following the result of election in the US we expect political uncertainty to continue with the upcoming Italian referendum on constitutional reform, as well as elections in Austria, the Netherlands, Germany and France over the next twelve months. While these risks should not be exaggerated, it is possible that one or more of these events could lead to a market correction. We would welcome such an opportunity to add to high quality companies that are not dependent on the economic cycle.

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Japan

(compare Japan funds **here**)

Aberdeen Investment Management Kabushiki Kaisha, managers of Aberdeen Japan: The global economy continues to be subdued amid weak inflation, with policymakers struggling to make headway in boosting economic growth. International trade indicators have continued to show signs of weakness, and uncertainties abound, including the prospect of a rate hike by the US Federal Reserve in December and the expected start of Brexit negotiations in March 2017.

At home, business sentiment is showing signs of recovery, but the overall macroeconomic environment remains challenging. While the strength of the yen has not been as dire as predicted on corporate profits, consumption remains weak due to low wage growth. The government's exhortation for corporates to raise wages offers a path out of deflation, but the reluctance in the business community presents an obstacle. With monetary policy increasingly lacking efficacy, a recently approved fiscal package should support some improvement in household spending and government infrastructure spending. However, the outlook for business investment remains bleak.

With this backdrop, we remain cautious. Corporate earnings are expected to stay muted, although stronger companies should continue to post consistent results. Corporate balance sheets in Japan remain resilient, and a gradual recognition of the importance of good governance amongst Japan's corporates should lead to improvements in capital efficiency.

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Shoichi Mizusawa, Nicholas Weindling and Eiji Saito, managers, JPMorgan Japan Smaller Companies: There remain elevated levels of uncertainties around the outlook for the global economy and political events. However, at the margin, the global economy appears healthier than it did six months ago. This is reflected in, among other things, the rebound in commodity prices, the rally in emerging market equities and higher bond yields.

We have recently reviewed our investment framework. The conclusion is that although the outlook is slightly better than six months ago, the pace of expansion is still sub-par. Companies are lacking the pricing power to justify the substantially higher bond yields than where they trade at present. As such, our base case remains that the market will continue to reward quality growth companies with strong free cash flow and steadily increasing shareholder returns. We also acknowledge risks to this scenario. The policy environment for banks is more benign as we do not believe the BoJ will cut rates further unless there is a significant shock to the economy. There is a case for increasing exposure to economic sensitive stocks. However, we do not believe a broadly based rally in cyclicals is likely as many of them lack pricing power and demand growth is not strong enough for such an outcome.

Japanese companies continue to improve their corporate governance arrangements. Both aggregate dividends and share buybacks are growing despite the fact that earnings are expected to fall in the current fiscal year. There does, however, remain a large gap in terms of governance between companies. This creates an opportunity for active management.

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North America

(compare North American funds here)

Andrew Bell, chairman, Gabelli Value Plus+: The outcome of the U.S. Presidential election partly represents a vote against the U.S. political establishment, with Donald Trump campaigning as an outsider who would change the system. Although his economic platform of deregulation, tax cuts and infrastructure spending is viewed as pro-business and conducive to economic growth, this view is tempered by concern that the protectionist sentiments voiced throughout his campaign could jeopardise

growth if actually put into practice. So, in the weeks leading up to the inauguration of the new President, investors will be hungry for clarity over the new Administration's plans for government, now that campaigning is over.

Meanwhile, markets are expected to turn their attention in the aftermath to the state of the economy and the prospects for the Federal Reserve to take further steps in raising interest rates from the near zero levels reached in the wake of the global financial crisis in 2009.

The UK's decision to negotiate terms to leave the European Union and the forthcoming year of elections in the Continent's leading economies will continue to affect trading sentiment in the financial markets, although the effect on the fortunes of companies in the U.S. equity market is expected to be limited.

Equity markets in general are towards the high end of historical valuation ranges. Whilst this partly reflects the extremely low returns available on investments such as bonds and cash, it suggests there are few windfalls likely from any wholesale rise in market indices, putting the onus on stock selection as a driver of returns

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Gabelli Value Plus+: In the United States, the economy remains on a path of sub-par growth, on track this year for about 2% growth in real gross domestic product ("GDP"). The third quarter of 2016 saw a mixed set of data, which included an improvement in consumer spending. However, core income growth, defined as wages and salaries, has been in a slowing trend for more than a year. The long term slow growth in GDP, which has averaged about 2% annually during the last seven years, is below the 3% GDP growth the U.S. economy experienced during the 1980s and the 1990s. This modest rate of GDP growth goes hand in hand with low sales growth for corporations, which has put pressure on profit growth and capital spending. This has been part of the circle of low growth and more accommodative monetary and fiscal policies not just in the U.S., but globally.

Housing in the U.S., including both housing construction and new home sales, has been a solid support in both the second and the third quarter of 2016. However, despite very low mortgage rates, this housing recovery has been subdued, perhaps due to consumers limiting their debt burden. This slow to moderate cycle in housing should continue for many years to come, as unsustainably low household formations over the past few years have resulted in unmet demand. Employment gains and low mortgage rates remain supportive of this housing cycle, and we feel the housing market in the U.S. will continue to strengthen and help the U.S. consumer, who represents about 70% of the U.S. economy.

It looks increasingly like China will be a source of weakness next year. Although the slowdown in China will constrain global growth, it should only have a small impact on the U.S. economy. The capital spending that so spectacularly fuelled a decade of tremendous growth in China is no longer effective. There is already overcapacity visible in factories, plants, and housing: even if money were distributed, no one would build. In addition, a housing bubble has been building in China, fuelled by readily available funds, just as happened in the U.S. a decade ago. New house prices rose sharply again in August, making that the tenth consecutive month of increases. China cannot lower interest rates while this degree of speculation in housing assets is underway. We expect China to take more steps to slow down rising house prices, such as restricting lending or requiring larger down payments.

Overall, corporate earnings estimates for 2016 in the U.S. continue to be revised down due to slowing global growth. Corporate earnings, as represented by the S&P 500, are now expected to be flat in 2016, showing no growth for the second year in a

row. Right now, the consensus estimate is for corporate earnings to gain 5% in 2017. While this estimated growth rate may seem modest by historical standards, it may prove to be appealing to many global investors, relative to other growth rates in the developed world.

Growth risks worldwide are subdued. The United Kingdom will have to begin the process of exiting the European Union within the next year, most likely by next March. This uncertainty will continue to weigh on decisions to spend and expand, lowering growth.

The U.S. Federal Reserve signalled it was ready to raise rates last year, given the slow but steady improvement in the U.S. economy and the strength of the labour market, where the official unemployment rate stands at about 5%. However, with the economy growing at barely 2%, the Federal Reserve has a difficult balancing act. We expect the Federal Reserve will raise rates very slowly over the next year, and we do not expect short term rates to be above 100 basis points at the end of 2017.

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Emerging Markets

(compare Emerging market funds **here**)

Audley Twiston-Davies, chairman, BlackRock Frontier Markets: Frontier Markets look relatively well positioned, offering a combination of some of the world's fastest growing economies, which in many cases have lower debt burdens and pro-business governments who are implementing structural reforms to encourage and support growth. Valuations also continue to look attractive, both in absolute and relative terms. The underlying economies to which these companies are exposed often exhibit little correlation to the global economies overall.

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Sam Vecht and Emily Fletcher, managers, BlackRock Frontier Markets: Frontier Markets continue to exhibit the characteristics that were present in 2010 and represent a compelling opportunity for long term investors. The combination of the countries with the fastest growing GDP, the best demographic profiles, the lowest government debt, a substantial commodity endowment and where it is possible to invest in companies with strong cash flow and high dividend yields, on some of the lowest valuations in the world, provides an unrivalled investment opportunity. In 2016 the Company's investment mandate was broadened to include Colombia, Egypt, Peru and the Philippines. We think at the right currency and market valuation, all four offer significant long term opportunities for capital appreciation.

Despite the global ramifications of the 'Leave' vote in the UK referendum in June, and the outcome of the US presidential elections in November, Frontier Markets, given their lower correlations to the developed world, should show a degree of resiliency during this period of increased uncertainty. Broadly, Frontier Market economies remain relatively 'closed-off', having limited economic linkages to the rest of the world. We retain our preference for Frontier Markets that are experiencing improved macroeconomic conditions, better political governance, cash flow growth and cheap valuations. Our preferred countries remain Argentina, Bangladesh, Kazakhstan, Pakistan and Romania.

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Carlos Hardenberg, manager, Templeton Emerging Markets: While the year is not yet over, we believe that the emerging markets' recovery is set to continue over the next few years. We see brighter prospects for investors in this area, and the long-term performance of emerging market equities continues to compare favourably to that of developed markets. The long term case for investing in emerging markets remains one based on rates of economic growth superior to those in the developed world, with rising personal wealth leading to greater spending power, improving infrastructure and, in some cases, world leading technology.

While emerging markets remain sensitive to macroeconomic events and global monetary policy, equity markets appear to have begun to improve, and we believe that confidence is returning to investors.

Moreover, despite the recent increase in fund flows, investors remain considerably underweight in emerging markets, which we believe is supportive of further improvement in the share price ratings over the longer term.

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John Rennocks, chairman, Utilico Emerging Markets: The recent US presidential election and the Brexit vote earlier this year have significantly increased uncertainties in the outlook for world markets including the emerging markets. Depending on the policies pursued by the USA and UK and their trading partners, the outcomes could have positive or negative implications for emerging markets. We do expect the US President to pursue strong domestic infrastructure investment which should be positive for commodities and emerging markets. However, we are cautious about protectionist policies which might be adopted. The implications of these policy decisions could significantly impact the global economy and financial markets in general and the exchange and interest rates in particular.

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India

(compare Indian funds **here**)

Hasan Askari, chairman, New India: Short-term market volatility is likely to remain a feature in India, and almost everywhere else, over the coming months as investors grapple with a listless global economy. Sentiment is particularly vulnerable to the policy of the US Federal Reserve; an interest rate hike before year-end is still possible, following which emerging markets could suffer some reactive outflows. Domestically, India appears on a surer footing than many of its peers. The government had a particularly productive couple of quarters, making headway on crucial legislation that could measurably alter the course of the economy, albeit over the longer term. There is still much to be done of course; little progress has been made on the politically contentious yet essential reforms of both land and labour laws.

Elsewhere, consumer and corporate demand have remained stubbornly muted, but there are grounds for optimism here. A considerable hike in public-sector pay and pensions, coupled with the good monsoon, should lift both urban and rural consumption. While businesses have been reluctant to spend, credit has also been difficult as banks tighten lending amid asset quality concerns. Balance sheet repair remains a priority for them. However, increased investment requires a freer flow of capital, which central bank initiatives, such as the bankruptcy code, as well as recent rate cuts, appear at least partially designed to address.

Following the sustained period of inflows in the wake of Mr Modi's 2014 election win and the recent rise in the market, valuations have started to look expensive and not always aligned with company fundamentals. In addition, the result of the recent US Presidential election, and the possibility of an expansion of fiscal policy there, has created further market uncertainty. As such, the market's recent pause for breath was somewhat welcome. Meanwhile, the country's excellent growth potential, underpinned by solid demographic, political and economic foundations, as well as abundant world-class businesses, make it a market worth sticking with for the long haul. Any short-term volatility merely provides an opportunity for astute investors to replenish high-quality names.

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Aberdeen Asset Management Asia Limited, managers, New India: Indian equities continue to face headwinds. A possible Fed interest rate hike before the end of the year could unsettle markets. While stabilising commodity prices have helped keep costs low, questions remain over where the oil price is headed and how that could adversely impact the nation, a net importer. Unrest and geopolitical tensions in the subcontinent could also play a role.

The ground-breaking GST victory and a slew of other reforms, including the recent demonetisation of certain Rupee bank notes, have combined with sustained macroeconomic growth to reignite hopes that Mr Modi can deliver even more. However, this has not quite filtered down to the stock level in terms of a broad-based earnings recovery, although company valuations remain relatively high. A burgeoning middle class and potential for growth in rural areas continue to offer compelling reasons for long-term investment in India.

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Biotech & Healthcare

(compare biotech and healthcare funds here)

Samuel D. Isaly, manager, Worldwide Healthcare: The Presidential election cycle in the United States was, by far, the largest influence on healthcare stocks in 2016. The turbulence wrought by Democratic nominee Hillary Clinton was most notable. Her focus on drug pricing practices in the United States created plenty of headline noise and spurred significant Congressional inquiries into some of the most notorious pricing practices by certain companies. Mrs Clinton's support for the Affordable Care Act (ACA, also known as "Obamacare") was noteworthy, although her view on a single-payer system for the U.S. was less visible. Meanwhile, Donald Trump mostly sidestepped healthcare as a major topic in his campaign, with one notable exception, his disdain for the ACA and his repeated promises to repeal the legislation if he were to win the election. With the election now over it remains to be seen what impact the Trump administration will have on the healthcare sector.

The FDA has overseen a modest slowdown in new drug approvals in 2016, albeit off the record high observed in the previous year. By 30 September 2016, the FDA had approved 17 new chemical entities (NCEs), compared to 45 in 2015. While the drop is disappointing, we view it more as cyclical rather than a sign of a downturn in innovation in therapeutics. The number of new drugs approved by the FDA over the previous two years combined was 40% more than any other two-year period in history. The rate was understandably unsustainable.

Moreover, we note that this metric excludes supplementary approvals, drugs that garner FDA approval for more than one indication, a common occurrence, especially in hot therapeutic areas like oncology.

We would also note another important FDA metric that bodes well for the biopharmaceutical industry - Breakthrough Therapy Designations (BTD). BTD is discretionally granted by the FDA to compounds in development that are intended to treat a serious or life-threatening diseases that possess preliminary clinical evidence indicating a substantial improvement over existing therapies.

Once the BTD is granted, the FDA and sponsor work together to determine the most efficient path forward and the FDA bestows additional resources to reduce the review time as much as possible. The number of BTDs granted continues to impress, with a cumulative total of 156 BTDs granted since inception in December 2012 to September 2016 (source: Washington Analysis).

Mergers and acquisitions (M&A) continued to be a major theme this year and the 2015 draw down in biotechnology stocks created a "bargain bin" for acquirers. valuations are compelling across the therapeutic spectrum of emerging biotechnology companies - the engines of innovation. As these small, clinical stage companies continue to discover the drugs of tomorrow, they require infusions of capital. Capital markets are one way to raise cash (U.S. $10 billion in biotechnology IPO's (initial public offering of shares) was raised in 2015) as are M&A and licensing. Both large capitalisation pharmaceutical and biotechnology companies have accrued large cash piles that are waiting to be deployed. These companies are continuously searching for growth through new product opportunities as headwinds such as size, patent expirations, biosimilars, and internal research and development (R&D) challenges are not abating.

Whilst near term volatility may occur, valuations across healthcare are undemanding. Biotechnology company valuations have reverted to near historical lows, possibly creating an opportunity that last presented itself five years ago, when the last biotechnology bull run began.

Overall, our view is that healthcare, in particular biotechnology, is oversold. The fundamentals of the sector remain strong with innovation across the spectrum as the key driver of a re-rating higher. With the U.S. Presidential election now complete, investors can refocus on the industry fundamentals and important catalysts such as clinical, regulatory, and M&A.

Valuations are low and fundamentals are solid, but the dramatically altered political landscape, given the outcome of the U.S. elections, perhaps creates the biggest tailwind for 2017. A Donald Trump led White House may create some uncertainty in healthcare stocks given a lack of transparency of his policies going forward. However, what we now know will not happen is much more important. With a Republican "sweep" of the White House, Senate, and Congress any threat of Democratic ideals on drug pricing and/or single payer system coming to pass are now 100% quashed. This overhang that persisted over the sector during the past 18 months is now gone and, once the fog of politics lifts, we fully expect therapeutic stocks to do well in 2017.

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Alan Clifton, chairman, International Biotechnology: Valuations in the sector are looking attractive compared to the broader market and historical levels. Healthcare, including biotechnology, is often in the spotlight, however, as a US election approaches, given concerns about rising healthcare costs including drug pricing. This undoubtedly can make investors nervous but I am reassured by the Investment Manager that many of these concerns are not justified. Drug pricing makes up only a

small fraction of overall US healthcare expenditure and recently the democratic candidate, Hillary Clinton, stated she would not be targeting innovation but hopes to clamp down on egregious price hikes of old generic drugs.

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SV Life Sciences, managers, International Biotechnology: The biotechnology equity market has consolidated and sector valuations now look attractive.

In the aftermath of the global financial market collapse in 2008, the valuation of the whole equity market, as well as the biotechnology sector, retreated to a level that could be characterised as inexpensive, bearing in mind its earnings growth prospects. In the subsequent years the valuation of the equity market has returned to a level closer to its long-term average, supported by easier monetary policy globally. Part of the strong performance of the biotechnology sector in the years up to 2015 could thus be characterised as regression to the mean phenomena. In the last twelve months the biotechnology sector has moved down from its peak and has underperformed broader equity markets. Based on the current valuation of the sector and taking into consideration its near-term earnings growth potential and the long-term growth drivers, we have a positive view on the outlook for the sector.

The forward pricing/earnings multiples of the larger US biotechnology companies are at a discount to the market as a whole, notwithstanding their superior earning growth prospects. The headwinds represented by uncertainties around market volatility and the imminent US election should substantially ease.

The biotechnology business model is simple. New innovative products (drugs) are "protected" by a combination of intellectual property (patents) and government regulations. This limits competition and companies can charge high prices until this protection ends, usually 7-15 years later. After this period, government agencies regulating drug approvals will make original trial results available for generic/specialty pharma drug producers to market inexpensive copies of the original drug. The price gouging which has sparked political outrage in the US is related to the non-innovative end of the market. Some manufacturers have increased the prices of cheap off-patent drugs to the level of innovative drugs (e.g. Daraprim) and others have implemented excessive price hikes for drugs unrelated to any improvement or innovation in the product (e.g. EpiPen), drawing fire from both politicians and the patients who rely upon these medicines. We believe these practices amount to an abuse of the business model and we agree that this ought to be tackled.

Hillary Clinton was outraged by price gouging by generic/specialty pharma companies but she also presented an initiative on Technology and Innovation, defended intellectual property rights and proclaimed the importance of innovative industries for the US economy.

The biotechnology sector continues to be a growth sector. The growth drivers remain intact. On the demand side we continue to have a growing and ageing population and an expanding middle class in parts of the world outside the G20 countries. On the output side we are experiencing an era of unprecedented scientific discovery and advancement, including in the life sciences. With the increased knowledge about the underlying causes of human diseases, a whole new range of drugs can be developed. This can clearly be seen in the number of development projects in the biotechology industry, which is constantly increasing. This will undoubtedly lead to future sales growth and strong earnings progression for the sector.

The biotechnology sector has recently been out of favour, largely due to concerns that there may be policy changes in the US that could negatively impact drug pricing. We believe these fears have provided a buying opportunity for the sector as investors

gain comfort in the knowledge that truly innovative companies will not be targeted and returns from successful drug discovery and development will continue to be attractive.

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Steve Borho, Orbimed Capital LLC, manager, Biotech Growth Trust: The biotech sector has experienced significant volatility in 2016. After a steep sell-off in the first quarter, the sector rebounded during the review period. However, stock prices remain significantly below the peak seen in the summer of 2015. Investors remain cautious in front of uncertainties concerning the U.S. election and political criticism on drug pricing, but we believe that the fundamentals of the biotech sector remain strong.

While we expect drug pricing to stay in focus during the U.S. election season, we continue to view the regulatory and legislative outlook for drug pricing as primarily a headline risk. As of the time of writing, polls suggest that Hillary Clinton will win the presidency but Republicans will retain a majority in the House of Representatives. Under this scenario of divided government, we expect legislative gridlock and little change in healthcare policies. Additionally, we note that Secretary Clinton's rhetoric on the topic has evolved, with her plan now to address "unjustified price hikes" versus her pledge last year to reduce drug prices overall. Given the fact that the biotech industry is built on innovative new therapies and relies less on large price increases to drive growth, we believe the biotech business is less subject to accusations of "unjustified price hikes". Therefore, we think biotech companies are less vulnerable compared to specialty pharma companies, such as Mylan and Valeant, that have received recent scrutiny on their pricing policies.

We believe the recent volatility in the biotech sector has provided opportunities to buy long-term holdings at attractive levels. We have increased our investments in the orphan disease area, particularly in companies which are developing drugs that address very serious diseases that lack adequate alternative treatments. We believe payers are less sensitive to the costs of these orphan drugs due to the low prevalence of these rare diseases and the often dramatic improvement in quality of life that these drugs can offer. As technological breakthroughs continue in the orphan disease space, we think this subsector can outperform over the longer term.

A continued driver of the biotech sector has been merger and acquisition activity. During the first half of the fiscal year, we saw an acceleration in M&A, driven partly by the compelling valuations of target companies after the recent sector drawdown. The high premium that big pharma acquirers are willing to pay highlights the disconnect between the strategic value of biotech assets and their current stock market value. We expect this valuation disparity to spur further M&A. Mid-size biotech companies with commercial products or de-risked pipeline assets likely represent the most attractive targets.

We believe the fundamentals of the biotech sector remain strong. Despite the headline risks about drug pricing, we think that ultimately these concerns are overstated for biotech. The sector could rally following the U.S. election once there is more certainty about the political outlook and potential impact to the US healthcare system.

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Debt

(compare Debt funds **here**)

Trevor Ash, chairman, TwentyFour Income Fund: The ongoing investment opportunity remains extremely attractive, however instability remains in global financial markets, driven most recently by a resurgence in uncertainty regarding the timing of the UK's exit from the EU and its subsequent relationship with the single market. This may again create volatility in markets and further buying opportunities within ABS

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TwentyFour Asset Management, managers of TwentyFour Income: While sentiment in the ABS market is clearly bullish, there are potential clouds on the horizon for the remainder of 2016: the ongoing negotiations in the DoJ/Deutsche Bank settlement, the increase in the rhetoric surrounding the UK/EU 'divorce' and the aftermath of the election in the US, along with the upcoming referendum in Italy (December). While these events do not present any fundamental risk to the European ABS market, they have the potential to affect risk sentiment across the board. In 2017 the political agenda will likely be centre stage again, with elections in the Netherlands, France and Germany, where the far-right parties are gaining popularity.

This is likely to keep markets in a more cautious mode as we enter the final quarter of the year. Whatever happens it seems central bank support will remain a key stabilising factor, particularly here in the UK and Europe, but also in the US. We expect the Fed to be closely gauging market sentiment, as or when they do eventually raise interest rates. The central bank asset purchase programs will likely continue to keep spreads low for the foreseeable future.

The Portfolio Manager expects the pipeline of new issuance to remain elevated over October and early November, particularly with UK non-prime RMBS and CLO supply. The demand for bonds is likely to remain strong as there are new buyers entering the market. A slowdown in primary issuance towards the latter end of 2016 should create a strong technical lift for the ABS market, particularly as the sector remains good value versus European (and UK) High Yield bonds, and even more so compared to investment grade corporate bonds.

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Environmental

(compare Environmental funds **here**)

Michael Naylor, chairman, Jupiter Green: In addition to the Paris Agreement, which was ratified some two years ahead of expectations, there are two further policy announcements worth mentioning which are emblematic of how much policy momentum has gathered pace in the past year. The first of these is the deal agreed by 191 countries to cap aviation emissions after 2020, beyond which future growth must be carbon neutral. For an industry expected to grow by some 5 per cent. a year, this will be a tough goal to achieve. Estimates from Carbon Brief, the UK-based climate-science website, suggest that the aviation industry alone could account for a quarter of the emissions required to increase global temperatures by 1.5 C by 2050. However, the agreement itself, which was confirmed on 6 October 2016, marks an

important milestone, given the industry's reluctance to agree CO2 goals in the past. The second important agreement was the deal struck on 15 October 2016 to limit the use of hydrofluorocarbons (HFCs), which are typically used in refrigerators and air conditioning units. While this complex deal will commence in stages between 2019 and 2028, news of the agreement has provided an immediate incentive for the creation of new technologies to replace HFCs and a concurrent disincentive for future development of technologies that currently rely on this gas compound. These are strong examples of how the backdrop to environmental investing is changing and the signals that are being sent to businesses developing new technologies to assist in the decarbonisation of the global economy.

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Charlie Thomas, manager, Jupiter Green: There are a number of areas of concern that we continue to closely monitor. The ultimate form that 'Brexit' will take is unlikely to be known for some time yet. However, it remains a highly charged political situation in the UK and EU, and we have already seen the destabilising effects that speculative news flow can have on markets. Central bank policy is another area we continue to watch. The FED is expected to announce a further small increase in interest rates before the end of the year, which may not be welcome to some areas of the market. Moreover, while inflation expectations have been adjusted upwards in recent months, the global economic recovery is mature and underlying inflationary pressures appear to be relatively weak. The exponential rise in China's debt burden, which has underpinned some of the pickup in global demand, is also becoming an area of concern for investors.

Notwithstanding these challenges, many businesses continue to offer products and services that are at the forefront of profound economic change, whether it be helping to decarbonise the economy, develop sustainable infrastructure, or find more efficient ways to use natural resources, like water. Moreover, the significance of the ratification of the Paris Agreement should not be underestimated. This landmark UN global climate change deal took more than two decades to achieve and is likely to open the door to significant long term investment in clean technologies. Also welcome has been recent news that the UN has finally been able to strike a deal with the aviation industry, which will sit alongside the Paris Agreement and will see the industry seek to offset growth in CO2 emission beyond 2020.

Donald Trump's rhetoric during his campaign placed pressure in the short term on renewable energy companies, but looking through the noise, he won't need to remove clean energy subsidies as the existing policy will in fact already phase out subsidies by the end of his first term, as renewable technology progress means that they will largely no longer be required.

While it is still too early to predict the long-term consequences of the election, both in the White House and on Capitol Hill, we are mindful that despite a rancorous campaign, one of the few areas that the Democrats and Republicans found common ground is the pressing need for US infrastructure investment. This bodes relatively well for companies providing environmental solutions particularly in the water, smart energy and rail transport infrastructure.

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Property

(compare UK Property funds **here**)

LondonMetric Property: Whilst the political outlook remains uncertain and the economy faces a number of challenges, investors are increasingly looking for assets with the potential to generate stable, consistent returns whilst still offering capital preservation. The motivated selling that we witnessed for a few weeks in the immediate aftermath of the referendum vote has largely subsided and liquidity is generally returning to the property market, although not everywhere and not for everything. The impact of this market uncertainty across the sector should result in a polarisation of performances, with those assets let on long leases and benefiting from structural growth, the likely winners. Investors are being increasingly discerning in their stock selection and more accurately pricing the underlying real estate fundamentals of security, longevity and growth.

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Brian Bickell, chief executive, Shaftesbury (talking about London's West End): The buoyant conditions we reported last year in our local market have continued throughout the current year. Although there have been growing concerns of an economic slowdown nationally since the beginning of 2016, the West End continues to prosper, with steadily rising domestic and international visitor numbers and spending and demand from a broad-spectrum of businesses seeking space across all uses.

Although the outcome of the EU referendum has created uncertainty for business nationally, we have not, so far, seen any adverse impact on occupier demand, footfall or trading in our areas. The recent depreciation in sterling has already added to the spending power of international visitors and, if sustained, may lead to increased visitor numbers above their long-term growth trend. Domestic inflationary pressures, which are expected to increase next year, may impact UK consumer confidence but will be less important for visitors who benefit from a strong local currency. Until future trading and other arrangements with the EU become clearer, there is a risk that business decisions may be deferred, slowing the UK economy, but we expect the West End's wide appeal and economy will maintain its history of resilience.

The recently announced revaluation of business rates across England will increase the levy on business premises in London from next April. Across our portfolio, we anticipate increases in the range 30% to 45%, depending on location. Broadly, we estimate that this will increase tenants' occupancy costs by c. 2-3% of turnover. The average increases across our streets will be less marked than for some nearby locations and other Central London destinations, increasing the competitive advantage of the more-modestly priced accommodation we offer. Whilst the transitional arrangements for larger premises are not as generous as they have been in the past, we estimate that half of our 584 restaurants, cafés and shops, and three quarters of our offices will qualify for the transition to the new levels to be effected over four years

We support Westminster City Council's initiative to seek to retain more of the GBP1.8 billion of business rates they collect on behalf of the Treasury. An increase from the 4% they currently keep would support their ambition to further invest in the borough's infrastructure, in partnership with property owners and other stakeholders.

The opening of the Elizabeth Line in late 2018, improved rail and tube capacity, and initiatives such as weekend night time running on the Underground, are expected to

bring more footfall and spending to the West End. Whilst the increased rates burden on tenants, coupled with wider economic uncertainties, are not welcome, these improvements will enhance the West End's connectivity and should, over time, enable restaurant, leisure and retail businesses to absorb increased costs through turnover growth.

2016 will be remembered as a year of unprecedented political turbulence, not just in the UK but in many parts of the world. The impact of the events we have seen this year have not yet become clear, and their longer term ramifications may not become apparent for some considerable time. This will inevitably bring uncertainty to the general business climate, with risks to consumer confidence and economic growth.

Whilst London and, at its heart, the West End, cannot be completely immune from the influences of the macro environment, its global city status, exceptionally dynamic and broad-based economy and enduring appeal for domestic and international businesses and visitors, will continue to support its long-term prospects for sustained growth and prosperity.

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Hugh Seaborn, chairman, TR Property: Sterling's devaluation has been even greater than during the period post the departure from the ERM in 1992. Whilst commentators look back wistfully at the period of growth which followed that decision, we find ourselves in very different waters. The behaviour of the central banks has dominated market behaviour since the global financial crisis. We are now entering an era where there is less clarity on their strategy, coupled with a greater level of international political uncertainty. Our management team remain vigilant not only to the risks surrounding the impact of rising bond yields but also to the opportunities which may present themselves to the companies we invest in, given how well funded so many of these businesses are today.

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Marcus Phayre-Mudge, manager, TR Property: In May I referred to the growing concerns around the effectiveness of ultra loose monetary policies from central banks across Europe. As we move into the autumn of 2016, it is increasingly apparent that the strategies which have led to, amongst other things, an era of negative rates, are unlikely to persist. There is a realisation that the very low cost of money, designed to engineer growth through allowing businesses to borrow very cheaply hasn't worked. Whilst we do not expect base rates in Europe to move in the near term, the bond markets have anticipated a change in the type of stimulus that central banks may offer and the volatility we have seen recently is expected to continue.

Post the half year point, bond yields across the globe have risen and Europe has been no exception regardless of the slow pace of economic growth. This is partially explained by the anticipated commencement of reduced quantitative easing by central banks but also on the expectation of fiscal stimulus, initially in the US (post the Trump victory) but also in Europe.

For property such expectations of inflationary pressures and rising bond yields are a concern given the elevated correlation between asset classes. However, we are not overly downbeat about prospects. The companies we invest in have, in the vast majority of cases, used the ultra low interest environment as an opportunity to restructure their balance sheets, cheapen their debt costs and reinvigorate their portfolios. Management teams have recognised the risks of too much leverage and resisted the temptation to over extend in the rush to bolster earnings. With many companies fixing their debt for longer periods at lower prices, the risk to earnings from rising rates (when they eventually arrive) is diminished. The development cycle has

been far more muted than in previous periods of asset inflation. Banks, the traditional lender of speculative finance, have been busy solving problems elsewhere. If inflation leads to rising construction costs, developers will require derisking through pre-lets or higher rents. The key issue remains demand.

A note of caution stems from the, as yet, unknown consequences of the UK's vote to leave the European Union with the near term triggering of Article 50, currently set to be timed amidst national voting in Italy, the Netherlands, France and Germany. For the political establishments throughout Europe and the supranational legislative in Brussels, the recent outcomes both in the UK and US present challenges that have not been faced before.

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Toby Courtauld, chief executive, Great Portland Estates: Central London's economy and commercial property markets have to date proven broadly resilient to the heightened uncertainty created by the EU referendum result. Business and consumer surveys have rebounded from immediate post-referendum lows and whilst activity levels in the occupational and investment markets have declined, both remain open for business for better quality assets. However, the most immediate impact has been a small increase in office property yields, resulting in valuation declines.

Looking ahead, we remain in the early stages of a likely protracted process both to negotiate our exit from the EU and reshape our trading arrangements with the rest of the world, set against both a property market backdrop where we were already experiencing slowing rental and capital value growth and a broad range of global political and economic uncertainties, including the recent US election result. As a result, we expect London's commercial property markets to weaken further during this period of heightened uncertainty and likely subdued market activity, with the benefits of lower bond yields and weaker Sterling offset by reduced rental growth prospects in a potentially more inflationary environment. However, while the long-term ramifications will likely be unclear for some time, London remains a major global city with a track record of adapting to changing market conditions and offering significant attractions for a diverse range of businesses and investors.

With the pace of UK economic growth already slowing prior to the EU referendum, most economic forecasters have understandably re-evaluated downwards the prospects for the UK economy in the short to medium term, reining in forecast growth for 2017 in particular. According to Oxford Economics, annual forecast GDP growth over the next three years has reduced from 2.2% to 1.4% as heightened economic and political uncertainty is expected to weigh on business confidence and investment decisions. Moreover, the most recent Deloitte UK CFO survey undertaken in September showed that only 18% of CFOs think now is a good time to take risk onto balance sheets, with cost reduction and building up cash balances ranking as their two top priorities. However, Oxford Economics forecasts that London should continue to outperform the wider UK economy with annual GDP growth of 1.9% expected over the next three years. In addition, the Capital's population is forecast to grow further and employment rates are at record levels, as yet largely unaffected by the referendum result.

However, against a more uncertain outlook, Oxford Economics' forecast office-based employment growth in inner London has reduced by 36% to 106,000 net new jobs being created between now and 2020. We expect lower forecast GDP and employment growth, combined with some businesses deferring investment decisions, to have an adverse impact on our occupational markets, although current low vacancy rates should provide some near-term mitigation. Consequently, we now

estimate annual rental value growth across our portfolio of between -5% and 0% for this financial year.

London's investment market has softened since the spring as office yields moved out to reflect increased levels of uncertainty and reduced rental growth prospects. Whilst the level of equity capital looking to invest in London remains near record highs, transaction volumes have reduced markedly. In the first quarter following the referendum, CBRE reported that there were only GBP1.3 billion of office transactions in central London, considerably below the 10-year quarterly average of GBP3.3 billion. CBRE estimate that City and West End office capital values decreased by 6% and 7% respectively in the quarter to September, with prime office yields increasing by 25 basis points across both markets. We expect yields to soften further over the next six months, with prime assets likely to be more resilient than secondary properties as international capital searches for high quality income returns in a global low yield environment.

Over the six months to 30 September 2016, central London office take-up was 5.3 million sq ft, a decrease of 24.5% on the preceding six months and 17.2% below the 10 year average of 6.4 million sq ft. However, take-up continues to originate from a broad range of industries, including creative businesses (33%), banking & finance (23%) and business services (19%). The central London availability rate rose for the sixth consecutive quarter to 6.1%, although it remained below the ten year average of 6.7%. Despite this, the supply of high quality, well located space remains tight with only six units of 100,000 sq ft or more available for occupation across central London at 30 September 2016. This has helped support rental values and pre-letting activity across our markets. However, there has been some small increase in tenant incentives (including rent frees) and we are aware that some landlords are offering increased lease flexibility, including shorter lease terms.

In the central London office market as a whole, development completions in the six months to 30 September 2016 were 1.8 million sq ft. However, in the core of the West End, the focus of our development activities, completions totalled only 0.6m sq ft in the six month period. This supply shortage has meant that pre-lets continue to represent more than 25% of central London office take-up. Looking ahead, the speculative development pipeline is now lower than the position we reported at 31 March 2016. In central London, 23.9 million sq ft of new space is expected to be delivered over the next five years to December 2020, of which 2.3 million sq ft is in the West End core, which equates to only 0.8% per annum.

West End occupational market

Over the six months to 30 September 2016, West End office take-up was 1.7 million sq ft, down 14.3% on the preceding six months, while availability is 4.9 million sq ft. Vacancy rates remain low at 2.9%, with grade A space vacancy estimated by CBRE to be only 2.5%. Across the West End, CBRE reported that whilst prime office rental values were static at GBP120 per sq ft over the last six months, rent frees increased on average by three months to 15-18 months on a ten year lease.

The West End retail market has continued to be strong. Over the six months, robust demand for retail space, particularly from international retailers for prime locations, has maintained a near zero vacancy, with leasing activity increasing CBRE's central London prime retail rent index by 12%. Appetite has been supported by increased spending from tourist visitors benefiting from weaker Sterling, although the forthcoming business rate increases are likely to have some offsetting impact going forward.

City, Midtown and Southbank occupational markets

Over the six months to 30 September 2016, City office take-up was 1.9 million sq ft, while availability increased to 5.5 million sq ft. Although higher than in the West End, vacancy rates remain low at 4.4% with grade A vacancy estimated by CBRE to be only 2.9%. CBRE also reported that City prime rental values were stable over the period at GBP70 per sq ft, whilst the rent free period on a ten-year lease increased by three months to 21-25 months.

Midtown and Southbank continued to be supported by good leasing activity, driven primarily by the large office letting at Battersea Power Station (467,300 sq ft) over the summer. Despite this, take up in Midtown and Southbank was down 13.5% on the preceding six months at 1.4 million sq ft. CBRE reported that whilst prime office rental values were static at GBP80 and GBP62.50 per sq ft respectively over the last six months, rent frees increased on average by three months to 18-21 months on a ten-year lease.

Slowing investment market activity

Following an active six months to March 2016 with GBP7.9 billion of central London investment transactions, activity has slowed with GBP4.3 billion of deals in the first half of the financial year. Activity started to decelerate ahead of the EU referendum with GBP3.0 billion in the three months to June 2016 but slowed markedly post referendum to GBP1.3 billion of transactions in the following quarter, with a notable reduction in large lot size office transactions. Within this total, central London retail investment volumes have remained robust with GBP800 million of transactions in the quarter to September 2016. Interest from overseas investors continued to dominate the office and retail markets, accounting for 73% of transactions over the last six months, as Sterling's depreciation provided value for international buyers, particularly from Asia, Middle East and North America.

We reported in May 2016 that we estimated GBP33.8 billion of equity capital was seeking to invest in commercial property across central London compared to only GBP4.9 billion of stock on the market available to buy. Today we estimate that there is currently GBP4.5 billion of stock on the market available to buy, whilst the weight of money seeking to invest has increased to GBP38.5 billion, with a notable increase from private investors. Although levels of equity demand remain close to record highs and debt availability remains good for prime quality assets and sponsors, investment yields for office properties have softened. In the quarter to 30 September 2016, prime yields increased by 25 basis points in both the West End and City to 3.75% and 4.25% respectively, according to CBRE.

Although investment activity in the central London commercial property market has declined over the period, overall our property capital value indicators have improved as the weakening of Sterling and significant further loosening of UK monetary policy have outweighed the anticipated impact of reduced forecast economic activity. Conversely, our rental value indicators have weakened as both the GDP outlook and forecast growth rate in employment levels in central London have declined. Moreover, slowing take-up rates have resulted in the market balance rising to levels approaching the 20 months' supply of space at which historically rents have started to fall. Accordingly, we expect that rental and capital values will decline further over the next six months, barring an unexpectedly swift and positive resolution to the current political and economic uncertainty.

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British Land: The UK's decision to leave the EU has significant consequences which will result in a period of uncertainty for the UK property market. Reactions have been varied. Some occupiers and investors are choosing to pause discretionary actions in the UK property market until the terms of the UK's exit become clearer and this has resulted in lower investment volumes across the market, and lower leasing activity in offices. Others are choosing to continue with their plans based on the current requirements of their business and their outlook on the impact of the referendum result. This is particularly the case in Retail where there has not yet been any discernible slowdown in leasing activity.

The drivers of performance in our sectors are likely to differ in the coming years. For Retail, performance will be driven by the overall economic performance of the UK and in particular how this translates to real wage growth and consumer spend. In Offices, demand for space in Central London is more likely to be impacted by policy and regulatory changes arising from the UK's departure from the EU, such as migration controls and passporting. Uncertainty in the occupier market may also be reflected in lower investment volumes, although the continuing gap between property yields and interest rates suggest that UK property will continue to appeal to certain investor groups.

Transactional evidence in the period since the referendum has indicated some softening in investor demand for UK property and modest pricing adjustments, reflected in yields for the IPD benchmark moving out 13 bps in the three months to September. This takes the total yield movement since March to 15 bps following a period of stable yields prior to the referendum. There is no discernible variation in yield movement across our sectors but within sectors, transactional evidence suggests that assets with long dated secure income have seen much more resilient valuation than those with shorter term income. ERV growth has moderated across both Retail and Offices but remains positive for now. The combination of these factors has resulted in the first decline in capital values reported by IPD since 2012.

Retail

Retail occupiers are facing increasing cost pressures, from the National Living Wage, the recent business rates revaluation and from the requirement to establish online platforms and fulfilment networks. Since the referendum, the weakening pound has resulted in an increase in import costs which will also affect many retailers. These pressures mean that retailers are increasingly focusing on their most profitable stores, where they can grow sales with lower occupancy costs.

Since the referendum, we have continued to see strong demand from occupiers for our space. This reflects the appeal of our assets, their relative affordability, and the limited impact of the referendum on consumer behaviour to date. Looking further forward, we're conscious of the potential for headwinds for consumers and retailers to impact occupier demand.

In the investment market, we have seen a continuation of the slowdown observed at the start of the calendar year, reflecting investor caution in this period of elevated uncertainty. Since the referendum, we have seen two dominant themes within the lower volume of transactions - UK funds selling assets to provide liquidity for redemptions, and local councils acquiring space to take advantage of the income yield relative to other investment opportunities. Properties traded have tended to be more secondary in nature and there has been limited evidence of prime retail transactions, particularly in the shopping park sector. The balance of evidence from these transactions, often with motivated sellers, indicates a modest outward

movement in yields, which is more pronounced for secondary assets. During September, the UK funds returned to seeing net inflows.

Office

Uncertainty caused by the UK's vote to leave the European Union has resulted in the central London office market registering its first capital value declines since 2009 following several years of strong growth in both rents and values. We recognise the impact that this uncertainty is having on businesses in London, and their ability to make plans for the future, but we believe that London will endure as a global centre. This belief is based on feedback we have received from our occupiers since the referendum - that their employees have a strong preference for living and working in London, that London offers the best choice of flexible, quality workspace and that the critical mass of talent and inter-connected businesses means that it is the best place in Europe to be located. The City also benefits from its language, time zone and international connectivity.

London's continued appeal means that, despite the uncertainty, leasing transactions have continued, either because occupiers are not affected by Brexit, have a lease event which means that they must find space, or are prioritising the long term benefits of consolidating or growing their business in high quality space over the short term uncertainty. This is more prevalent on smaller leases but we have also seen several major international brands including Apple and Wells Fargo commit to large leasing commitments since the referendum. In addition, some businesses are choosing to manage the uncertainty by extending existing leases or taking leases with shorter committed terms.

Changes to the UK's relationship with Europe may mean that some occupiers have no choice but to relocate certain parts of their businesses to other financial centres throughout Europe. Even if this is the case, we believe that over the medium term growth sectors such as the creative and tech industries which are increasingly calling London home, will absorb much of the additional space but we do expect a period of softening demand in the meantime.

If there is a period of adjustment during which supply exceeds demand, it will be the best quality space that meets the needs of today's office workers and consumers which will succeed. Our experience tells us that organisations are increasingly focusing on the benefits that high quality workspace has on attracting and retaining the best talent, and ensuring a productive, motivated workforce who value wellbeing as a high priority.

The London office market entered this period of uncertainty in a strong position, with vacancy below the long term average at 3.1% benefiting from a period of depressed supply from 2011 to 2015. Delivery of new space and a slowdown in the leasing market has seen vacancy rise to 4.4% in the City and 3.1% in the West End as at September 2016, remaining below the long term average. This has caused ERV growth to slow from the elevated levels of recent years, although the market still recorded positive ERV growth of 0.9% over the period. There will be at least 9 million sq ft of committed supply delivered into the market in the remainder of 2016 and 2017, above the 10 year average rate of completions, applying downward pressure on rents. Committed supply beyond 2017 is below the long term average, particularly in the West End, and developers have choices to make about how much of the speculative space which is currently planned they commit to.

The investment market saw significantly reduced volumes in the six months to September 2016 as investors anticipated and absorbed the referendum result. There

remains a weight of capital looking to invest in London, particularly from overseas. However, pricing levels following the referendum are yet to be established, particularly for larger lot sizes, with only two assets over GBP200 million trading in the period.

Residential

In London residential, uncertainty from the UK's decision to leave the EU has compounded existing trends in the prime market where supply has moved ahead of demand. There has been limited evidence in the super prime market. We continue to believe that exceptional product will prove attractive to those who share our view of London as an enduring global capital, particularly where they can benefit from the weaker pound when acquiring. The mainstream market in London, under GBP1,000 psf has remained relatively robust with steady demand

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Nicholas Thompson, chairman, Picton Property Income: We are naturally more cautious in our outlook and in particular the disruption that might occur as a result of the UK's pending departure from the European Union and the impact of the recent US election. We are, however, equally of the view that opportunities are likely to arise as a result of these uncertainties. Asset backed investments which offer an attractive income profile, such as commercial property, will continue to be sought after in a low return environment. The pricing adjustment over the summer period has to some extent made commercial property more attractive.

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Picton Capital Limited, managers of Picton Property Income: Post referendum, investment markets have been pricing in uncertainty. The consensus view is that UK growth is expected to slow in the coming quarters, however this is highly dependant on political decisions surrounding the result of the referendum, economic indicators such as inflation and employment levels and external global market factors. The result of the recent US presidential election is likely to heighten this period of uncertainty, although at this stage it is too early to assess any potential impact on the UK economy. There has already been, since the result, some upward yield movement in bond markets.

The referendum result has had an impact on UK financial and economic markets. If uncertainty drags out for longer than anticipated by markets, then there is a possibility of a deeper slowdown in the economy. However as it stands, the fundamentals driving the economy are strong and recent figures on economic activity are encouraging. Occupational demand was particularly strong in the period up to the referendum vote but since then there has been signs of it slowing slightly.

Investment markets now appear to be stabilising and a number of open ended funds are now free from redemption restrictions, which is a positive sign, further reinforced by the fund flow numbers recently produced by the Investment Association. Our own recent disposals, which were ahead of valuation, also support this.

The heterogeneous nature of the commercial property market means that there will always be opportunities to exploit mispricing, especially in more volatile markets.

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R Grainger, chairman, McKay Securities: Investment volumes across our markets were lower over the period than in recent times. Whilst this was due in part to the

referendum, a slowdown in the pace of investment was expected as the market recovery matured and the prospect of cyclical gains reduced. Property returns remain attractive, and with the devaluation of sterling there has been continued appetite from overseas buyers, particularly in London, as well as the emergence of other buyers outside London, such as local authorities. As a result, the decline in capital values to date has generally been limited, particularly for prime assets with secure income.

Low supply levels of new and grade A buildings in our markets continue to limit occupier choice. This fundamental issue is supporting headline rental growth for the best available floor space. A positive consequence of the uncertainty regarding the implications of the referendum result is the likely constraint on the development pipeline, reducing the risk of oversupply.

Within the South East office market, the supply of new and grade A buildings remains low at 6.2 million sq ft, representing 7.2% of the total office supply. The vacancy rate for new buildings is lower still at 2.2 million sq ft (2.6%).

For the year to date, occupier take up of floor space within this market totalled 1.62 million sq ft, of which 1.42 million sq ft was in new and grade A buildings. This is the same level as recorded at this stage last year and 14.1% ahead of the five-year average for the same period. With 0.56 million sq ft under offer, occupier take up for the full year is expected to be similar to the 2.13 million sq ft recorded last year, and ahead of the five-year average of 1.88 million sq ft. Continued occupier demand is encouraging, but we anticipate the referendum may result in the short term deferral of larger strategic requirements over 60,000 sq ft. However, there are many positive factors still at play in [*the South East of the UK outside London*] and the opening of the Elizabeth Line (Crossrail) in 2018 and the likelihood of higher business rates are likely to play an increasingly important part in attracting occupiers from London. In any event, our vacant properties are below 60,000 sq ft, and lease events and building obsolescence are likely to continue to generate new requirements in this smaller size band, which accounted for 79.2% of all occupier take up in 2015.

Within the City of London, the referendum has raised uncertainty regarding future occupier demand, particularly from the banking sector. Take up levels for 2016 are expected to be lower than the above average levels of the last two years, but constrained supply continues to support rental values. Capital values are generally lower, but as with other markets, the extent depends on the nature of the asset.

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Renewable infrastructure

(compare Renewable infrastructure funds **here**)

Richard Morse, chairman, John Laing Environmental: Whilst it will take some time for the exact details of arrangements post exit from the EU to emerge, government policy commitments for clean energy continue in the UK and climate change remains one of the important areas of focus, not only for the UK but globally. The UK has ambitious domestic targets, with The Climate Change Act of 2008 establishing a target to reduce its emissions by at least 80% from 1990 levels by 2050. The Act established a system of five-yearly carbon budgets, the fifth of which was formally approved by Parliament on 30 June 2016 and aims to limit annual emissions to an average of 57% below 1990 levels by 2032.

In addition, electricity capacity margins remain especially tight in the UK, compounded now by increased uncertainty as to whether planned additional electricity interconnector capacity with Europe will be built following the UK's exit from the EU.

As an EU member, the UK is required to generate 15% of its energy from renewables by 2020 under the European Union's Renewable Energy Directive. Although by leaving the EU the UK may no longer be obliged to hit these targets or any successor targets (unless agreed as part of any secession agreement), the renewables projects required to meet the 2020 target have already been largely built or are expected to be commissioned. In respect of longer--term commitments, the Climate Change Act's ambitious carbon reduction targets will require a substantial and continued contribution from renewables.

[*Earlier in 2016*], we commented on the fact that the UK and European renewables markets in 2015 and 2016 had continued to be affected by low electricity prices, mainly driven by consistently falling oil and gas prices since the end of 2014. In recent months, and particularly since the EU referendum result, spot electricity prices have recovered and we have also seen an increase in forecast electricity prices, particularly over the short term. This has largely been driven by the movement in sterling exchange rates, with higher import prices for dollar/euro--denominated coal and gas inputs for the electricity market. As gas-fired power stations tend to set the marginal cost of electricity in the UK, natural gas price rises tend to result in higher electricity prices.

The timing and extent of changes to electricity prices will depend on a range of factors, including the impact of continued pressure on the UK capacity margin due to planned closures of coal--fired generation plants and the continued delay in the commissioning of new nuclear plants. In addition, the current review by Ofgem into the charging arrangements for embedded generation may result in future changes to the levels of 'embedded benefits' received. Exact details will not be known until the consultation is concluded and detailed proposals announced.

The secondary market for environmental infrastructure projects remains both active and significant. Whilst activity in UK solar has inevitably tailed off following the removal of ROC incentives, opportunities still remain. As for wind, the early removal of green subsidy support has impacted developers but there remains a large number of existing operational projects and projects to be completed under existing transitional arrangements to provide a strong secondary market in the short to medium term.

The Chancellor's first Autumn Statement on 23 November 2016 will outline his priorities for taxes and spending in the wake of the referendum vote. It is anticipated that a fiscal stimulus to boost infrastructure spending will be introduced, together with clarification on the proposals to implement the OECD's Base Erosion and Profit Shifting measures which have been subject to consultation during 2016.

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QuotedData

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123a Kings Road, London SW3 4PL
0203 691 9430

www.quoteddata.com

Registered in England & Wales number 07981621,
2nd floor Heathmans House, 19 Heathmans Road, London SW6 4TJ

Edward Marten
(em@martenandco.com)

Christopher Bunstead
(cb@martenandco.com)

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)

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