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Monthly summary | Investment Companies

March 2017

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.

Roundup

There was no significant shift in exchange rates over the month. Sterling is weakening against the US dollar, possibly in anticipation of rising US interest rates – markets are pricing in an increase of 0.25% on 16 March. This is also putting pressure on gold which hit a peak on 24 February (strong Chinese demand had been reported) and has been coming off since. After the spike up in UK gilt yields in January, on the back of selling of gilts by foreign investors, yields fell in February. It may be that investors believe rate rises in the UK remain a distant prospect.

Global

Inflation is coming, driven in part by fiscal stimulus. Caution advised.

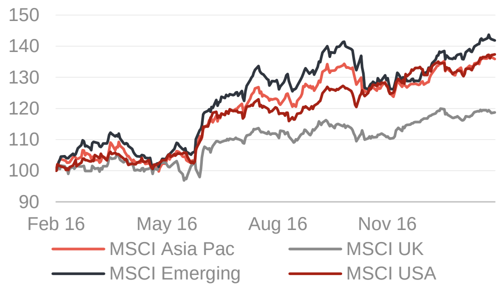
Jeroen Huysinga, manager of JPMorgan Global Income & Growth, thinks politicians in the US and Europe have a clear mandate to reflate their economies. Peter Moon, chairman of Scottish American is concerned about inflation, especially if fiscal stimulus which turned out to be unnecessary stokes wage inflation that is already evident. However, Ruffer worries that investors will fail to factor in inflation, growth will lead to rising bond yields and index-linked bonds will suffer. Lord Rothschild cautions that 70 years of patiently crafted international cooperation is now threatened. He thinks that there could well be a period ahead of us when (continued on next page...)

Exchange Rate	28/02/17	Chg. on month %
GBP / USD	1.238	-1.6
USD / EUR	0.9455	+2.1
USD / JPY	112.77	+0.0
USD / CHF	1.0058	+1.7
USD / CNY	6.867	-0.2

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 29/02/16 to 28/02/17



Source: Bloomberg, Marten & Co

	28/02/17	Chg. on month %
Oil (Brent)	55.59	-0.2
Gold	1248.4	+3.1
US Tsy 10 yr yield	2.3899	-2.6
UK Gilt 10 yr yield	1.151	-18.8
Bund 10 yr yield	0.206	-52.5

Source: Bloomberg, Marten & Co

Global (continued)

…the avoidance of risk is as high a priority as the pursuit of gain. The managers of Mid Wynd say that we are finally seeing the end of artificially low interest rates.

United Kingdom

Brexit concern abounds but it might not be worth dwelling on it. M&A might pick up. Higher bond yields are a risk to equity markets.

While a number of commentators draw attention to the disruption caused by Brexit, Peter Jones, chairman of Henderson Opportunities, believes it is unwise to base investment decisions on speculation about the consequences of recent election results. The managers of that fund caution that companies are focusing on cash generation rather than investment and this has knock-on effects on the domestic economy. This sentiment is also shared by Crispin Latymer, chairman of BlackRock Throgmorton. The managers of Strategic Equity Capital highlight the attractions of UK corporates to overseas buyers given sterling's weakness and the managers of JPMorgan Mid Cap agree. Alastair Mundy warns that, if the three-decade reduction in bond yields is now over, this crutch to equity valuations may soon vanish. Harry Nimmo, manager of Standard Life UK Smaller Companies, says that the surprisingly good out-turn of smaller companies since the Referendum on the EU may wilt if there is any sign of real weakness in the UK economy. Tim Russell, manager of Sanditon, thinks a hard Brexit is likely but says this may be more damaging to the EU than the UK in the long run. Dr EC Pohl, chairman of Athelney, is concerned that the chancellor will struggle to raise the taxes he needs to balance the books. Rupert Barclay, chairman of Sanditon, believes a more rapid tightening of US interest rates than expected is the biggest risk to equity markets in 2017.

Emerging Markets

Chinese policy mistakes and US protectionism ae possible threats to emerging markets

Terry Smith, manager of Fundsmith Emerging Equities, looks at the effects of demonetisation in India and the growth of ETFs investing in emerging markets. Hélène Ploix, chairman of Genesis Emerging Markets stresses that emerging markets are now in a period of lower growth compared with much of their recent history. The managers of that fund are worried about Chinese policymakers prioritising short-term growth over long-run economic reform and the possibility of US protectionist policies.

Frontier markets

Frontier markets look attractive on a relative basis

The managers of Aberdeen Frontier Markets point out that valuations of frontier markets look attractive relative to emerging and developed markets.

Property

Business rates and Brexit bad for London but Ireland may be a Brexit beneficiary

Derwent London cautions on the effect of hikes in business rates and Brexit on London property. Intu say there has been a flight to quality within the UK retail property market post the referendum. Yields are supported by a lack of new development. Alun Jones, chairman of Primary Health Properties, describes in some detail developments in the healthcare property market in the UK. Mary Ricks of

Kennedy Wilson Europe Real Estate walks us through property markets in the UK, Ireland, Spain and Italy. The management team at Green REIT delve deeper into the Irish property market. They think Ireland should start to see the benefit of Brexit soon as financial and fund administration businesses start to move staff to the country.

Renewable infrastructure

Rising power prices good for renewables

Foresight Solar see a bright future for the UK solar industry on the back of improving power prices. Helen Mahy, chairman of Renewables Infrastructure, says development of UK onshore wind and solar plants will slow, in the absence of new subsidies. Tim Ingram, chairman of Greencoat UK Wind, points out that the UK's fifth carbon budget commits the UK to 80% emissions reductions by 2050. The managers of that fund see 7GW of offshore wind generation coming on stream over the next few years.

Other

We also have comment on Europe, Qatar, Private equity, Resources and Technology

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Global

(compare Global funds **here**)

Peter Moon, chairman, Scottish American: The longer-term implications of both Brexit and President Trump's victory will take a while to emerge. Inflation in the UK is likely to pick up this year as the fall in sterling causes imported goods to become more expensive, as last year's falls in the oil price drop out of the figures and as wages, housing costs and interest rates start to rise. In the US interest rate rises are also likely, and indeed the progression of the economic cycle does raise the question of whether significant fiscal stimulus is actually required. Assuming it gets Congressional approval later in the year, fiscal stimulus which turned out to be unnecessary might have the unfortunate effect of stoking wage inflation that is already evident. Markets have been strong and, whilst inflation often helps equities, it is fair to say both that starting valuations are not particularly low and that the market's earnings growth thus far has not been especially encouraging.

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Nigel Wightman, chairman, JPMorgan Global Income & Growth: As ever, the investment outlook is mixed. Expectations for future economic growth and therefore company earnings are generally being revised upwards. However, Europe faces a series of key elections this year and the erratic start to his presidency by Donald Trump is a cause for concern. Investors should remain wary of the risks associated with this period of political uncertainty and keep their expectations measured.

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Jeroen Huysinga, manager, JPMorgan Global Income & Growth: The political surprises last year in the US and Europe have given governments a clear mandate to reflate their economies. Investors are now expecting significant fiscal stimulus and a continued move away from the reliance on monetary policy to reinvigorate economic growth and inflation. Renewed fiscal stimulus should benefit equity markets globally, with a direct effect on some cyclical sectors. The current backdrop has provided a powerful catalyst for investors to refocus on the historically high levels of dispersion in company valuations across sectors and regions globally. While we have started to see a rotation within equity markets, there still remains a dislocation in valuations across a number of sectors, with the difference between undervalued and overpriced stocks still wide by historical standards.

This positive backdrop is not without its risks, however. Political uncertainty is set to continue in 2017, with a number of important elections in Europe, the start of Brexit negotiations and uncertainty over the impact of Trump's policies on US economic and foreign policy. Investors will be following events closely and, we believe that, selectivity will remain key.

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Lord Rothschild, chairman, RIT Capital Partners: Since the last World War, we have enjoyed some 70 years of patiently crafted international cooperation, which is now threatened. Against this deeply worrying geo-political situation one can point to a number of positive investment factors, for example in the US, the proposed tax reduction for companies and individuals, reforms of an over-regulated system and increases in fiscal and infrastructure expenditure. These, however, come at a time late in the business cycle, when the labour market is close to full employment, with wage increases up by some 4% over the last few months. Valuations are at the high end of their historical range, inflation is returning and in these circumstances, it is likely that interest rates in the US will rise meaningfully.

The impact on China of either straightforward tariffs or of a 'border-adjusted tax' would be negative, at a time when Chinese economic momentum is fading and when it has to deal with the problem of misallocation of capital on a huge scale. China will be choosing between becoming a more open or closed society and while its economy transitions from industrial growth and exports to being more consumer-led.

We are all conscious of the risk of the European Union disintegrating following last year's Brexit vote and in having to deal with the problem of migration. The character of the European trading block remains complex, unpredictable and in need of reform. We should take into account however that the most significant forecast improvement in growth for 2017 is in Europe and that its stock markets are relatively undervalued.

In the UK, investors will be waiting for greater clarity about the outcome of Brexit negotiations and the risks of upheaval which will arise in leaving the EU. Short-term, the UK economy has performed surprisingly well. We should bear in mind however, that the World Bank and others have recently forecast a slowing of growth in the current year and beyond while the current account deficit remains daunting.

There could well be a period ahead of us when the avoidance of risk is as high a priority as the pursuit of gain.

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Simon Edelsten, Alex Illingworth and Rosanna Bucheri, managers, Mid Wynd: We are finally seeing the end of artificially low interest rates. Very low rates were introduced following the financial crisis so that bank failures did not provoke a wider crisis. Very low rates tend to result in rising asset prices, but also penalise savers. Some advocates of lower rates hoped that they would encourage higher rates of growth and job creation, but the example of quantitative easing in Japan suggested these hopes were misplaced. This has proven to be the case in Europe, where economic growth remains subdued.

The US has seen steady growth and world trade also now seems to be growing more healthily. This seems a curious moment to introduce growth-oriented policies in the US, especially tax cuts, but equity markets will, no doubt, enjoy them. Perhaps Mr Trump won the US election through being the 'least bad' candidate, rather than through coherent policies, but some of his growth-oriented rhetoric is now being echoed by mainstream politicians in Europe looking to head off the rise of populist parties. A move away from austerity towards growth policies seems the likely background for 2017; the exception will presumably be Japan which will persist with low rates until deflation has clearly been eliminated. The UK is in a strange period. The Bank of England is determined to keep rates low, despite inflation rising steadily due to the fall in sterling.

Equity markets tend to enjoy growth policies and the cash earnings of more economically sensitive sectors of the market are likely to rise. These cyclical sectors, out of favour for most of the last six years, may overshadow less economically sensitive sectors which had led the bull run - such as consumer staples and property companies. Some of the latter are currently regarded as 'quality' stocks which should never be sold. Such convictions may prove similar to the cult of holding technology shares in the late 1990s. Conversely, bank shares, which some investors say they will never own, may now be rather safer, if duller, investments than they were in the mid-2000s. The market always has, and always will, have its phases and cycles. We feel we are now at the start of a very different phase from the one we enjoyed earlier this decade.

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Ruffer: The interim report from December 2015 talked about the potential crossing of the Rubicon should the taboo of fiscal stimulus be overcome and direct government action to promote growth become a mainstream policy tool. It seems safe to say that this has now happened with many of the world's central bankers calling publicly on governments to support monetary stimulus efforts. Both Brexit and Trump's election unquestionably push us further down the path of direct government intervention to stimulate growth and thus closer to the inflationary denouement we fear. However, it also makes the path to that destination all the more treacherous for savers and investors. Should these policies to promote growth prove successful, even if only in the short term, then it is highly likely that bond yields will continue to rise and unless this is accompanied by higher inflation expectations then index-linked bonds will suffer. Thus we are faced with a conundrum; the right place to be invested for the long term could look like the wrong place to be in the short term and the timing of a shift from one paradigm to the next is unknowable.

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United Kingdom

(compare UK funds **here**)

Peter Jones, chairman, Henderson Opportunities: The political background was transformed in 2016, with the UK's vote to leave the EU and the election of Donald Trump in the US which will have ramifications for companies and investors that are at this stage difficult to predict. The Fund Managers and the Board believe it would be unwise to base investment decisions on speculation about the consequences of these election results.

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James Henderson and Colin Hughes, managers, Henderson Opportunities: The future direction of the UK economy is as uncertain as ever, with the Brexiters and the Remainers generally holding opposite views. For all the noise of the debate, the reality is that economic growth has held up better than expected and sterling fell around 15%, though it has since recovered some of the fall. Inflation will consequently be higher and this could be a factor in pushing up interest rates.

In recent months, company directors we meet have adopted a more cautious approach, at least for the near term. Capital spending is being pushed out and the focus is on cash generation but what may seem sensible for individual companies means a broader lack of investment and thereby lower demand for goods and services in the economy as a whole. Extra care is needed in looking at domestic UK investment opportunities. On the positive side, higher interest rates may actually be beneficial for equities if it is the consequence of higher investment and real growth. Export orientated UK companies and those with earnings from overseas should benefit from lower sterling.

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Jeff Harris and Stuart Widdowson, managers of Strategic Equity Capital: The calendar year has started positively with an improving earnings outlook and valuations that do not appear stretched. Recent approaches to UK quoted companies by overseas corporates indicate that others see attractive assets which are under priced by the market. We are mindful of systemic risks and their potential impact on the wider market

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Crispin Latymer, chairman, BlackRock Throgmorton: In his autumn statement to Parliament, the Chancellor of the Exchequer announced that the Office of Budget Responsibility had revised its UK growth forecasts for the coming year, down from 2.2% to 1.4%. In February 2017 the forecast was raised to 2% following improving economic data. Overall growth is expected to remain positive and levels of employment in the UK are expected to rise over the next five years. In response to the outcome of the EU Referendum, the UK Government has committed to additional spending on major infrastructure, focusing on areas that it believes will boost productivity and competitiveness. The Government has also agreed to reduce the rate of corporation tax to 17% by 2020, all of which should be supportive of the economy. However, there remains concern that the present lack of clarity on the terms of the UK's exit may deter investment in the short term.

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Mike Prentis and Dan Whitestone, managers, BlackRock Throgmorton: 2016 has been a year of uncertainty and we expect it to be followed by a further year of uncertainty with a new US President, BREXIT negotiations getting underway, and political elections in Continental Europe. This could lead to nervous and volatile markets.

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Neil Honebon, chairman, Murray Income Trust: Equity markets have performed strongly over the past six months as global GDP growth seems set to accelerate helped by an expansive fiscal policy in the US, strengthening labour markets in the US, UK, Europe and Japan, coupled with the emergence of Russia and Brazil from recession. That said, many uncertainties remain including the outcome of negotiations to leave the European Union, the potential impact of the new US administration coupled with a busy European political calendar

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John Reeve, chairman, Temple Bar: The dramatic political events of 2016, together with their unpredictable impact on investment markets, indicate that any form of forecasting is fraught with risk. At the very least it is clear that a combination of Brexit and a change in the US Administration is likely to cause continuing uncertainties, potentially leading to a slowdown in economic activity in the UK

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Alastair Mundy, manager, Temple Bar: A number of factors suggest that companies, in particular those exposed to the UK economy, will in general struggle to grow earnings over the next few years. Minimum wage increases, the ratcheting cost effects of those employees higher up the pay scale, and skill shortages will boost labour costs, the weak pound will increase costs of imported products, many rental costs are linked to inflation, other costs such as business rates are increasing and new costs such as apprenticeship taxes are being introduced. While other factors may off-set these rises, most companies have been very focussed on costs since the last recession. In fact, a number of companies may well have under-invested in their businesses over this time. One should probably not, however, be excessively bearish as the UK corporate tax rate continues to fall and, of course, companies will try and regain cost increases through inflation.

The valuation of the average UK listed stock remains high. Over the last few years, commentators have justified high equity valuations by favourable comparison with low bond yields. However, if the three decade reduction in bond yields is now over, this crutch may soon vanish.

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David Woods, manager, Standard Life UK Smaller Companies: The UK and world markets are adapting to the post-Brexit environment. Some of the more doom-laden prophesies have not come to pass but we do not seem to be that much clearer as to what the landscape will look like once the negotiations are all complete. Markets remain volatile and challenging and we expect this to remain the case until we have more clarity on what the Brexit negotiations will mean for the economy

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Harry Nimmo, manager, Standard Life UK Smaller Companies: It looks as though the UK economy has confounded the pessimists who expected an immediate decline in business confidence in the wake of the UK's Referendum decision last year. It feels as though a significant proportion of the public, in particular, are relaxed about the prospects of even a hard Brexit outcome. Certainly there have been no wholesale reductions in corporate earnings forecasts with a rough balance of upgrades and downgrades.

The end of March should signify the firing of the starting gun for the exit negotiations to begin as Theresa May and her Government trigger Article 50 of the Lisbon Treaty. It is only then that any real shape to the outcome starts to develop. My thinking is that the negotiations will take all of the two years permitted. This takes us into 2019. It is only some time after the implementation of the withdrawal treaty that the full impact can be properly assessed.

Our prognosis on the oil price is that it will remain in a trading range of $30 to $60 for a number of years. A similar pattern may become apparent in industrial minerals although gold may firm up in this rather uncertain period.

The UK has moved back to the top of the list in terms of GDP growth over the next year. The Christmas period has actually been reasonably good for consumer spending. Some industrial companies have seen weaker trading. Several major corporations have disappointed badly recently.

Within Europe the economic outlook remains uncertain. A European Union without the UK is a weaker entity and a number of its leaders are likely to face re-election challenges, particularly from the political right. Many small European nations, particularly in North Europe were counting on the UK as a counterweight to the might of Germany. The Italian banking industry is still fragile even after recent reforms. The Euro may yet have to face up to further crises if Greece and other peripheral economies can't or won't mend their ways.

Caution should be the watch-word however. The surprisingly good out-turn of smaller companies since the Referendum on the EU may wilt if there is any sign of real weakness in the UK economy.

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Dr EC Pohl, chairman, Athelney Trust: The U.K. government's approach to the Brexit negotiations could form a suitable addition to Charles Mackay's book about the

South Sea Bubble. It would fit neatly after the section on the prospectus seeking funds for a company for carrying on an undertaking of great advantage, but nobody to know what it is.

On the subject of Britain's exit from the EU, we have no doubt all heard the terms hard and soft Brexit to illustrate whether we leave or stay in the single market and/or the customs union but what about a train crash Brexit in which we fail to agree a sensible deal and we simply crash out of the EU with chaotic consequences for trade and diplomatic relations? The problem is that the negotiations are too complicated to complete in the given time. Britain and the EU will have to unpick and then reorder a legal, economic and trading relationship that has been knitted together over the course of more than 40 years. But the two sides will just have two years to achieve and ratify a deal after Britain triggers Article 50, thus giving formal notice that it intends to leave. If there was great goodwill on both sides no doubt that the talks could be accelerated but I believe that there is plenty of ill will on both sides of the Channel. A major flashpoint is likely to be the EU's estimate of Britain's financial liabilities following exit, covering everything from money already pledged to the EU's budget to the pensions of retired bureaucrats: estimates in Brussels indicate a figure of EUR50bn-EUR60bn. The right response would be to negotiate that figure down and then have it spread over a large number of years. In reality, however, hard-liners in the Conservative party may be vigorously opposed and the only alternative might be to hand the problem to the European Court of Justice for arbitration. Such a procedure is likely to take a very long time and our membership of the EU may simply lapse with damaging consequences for Europe-wide supply chains, ports would be clogged up with paper-work and financial services firms would lose the passporting rights which are required to do business across the EU. Let us hope that this interpretation is too gloomy but it really is a shame that the coming dispute is so pointless and self-defeating.

If devaluation was the springboard to economic success then Britain should have the most successful economy in the world. Alas, as we are all surely aware, one devaluation has followed another. For most of the 1800s, the pound was worth just under $5: the Napoleonic War weakened the pound temporarily as did the US Civil War the dollar, which fell to $10 to the pound at one stage. The financial burdens of the Great War saw sterling fall to $3.66. Despite abandoning the Gold Standard, successive British governments still viewed fixed rates as desirable and so in 1940 the pound was pegged to $4.03 which, on the face of it, looks far too high. $4.03 became $2.80 in 1949. This was maintained until 1971 when currencies were allowed to float freely, since when the rate has drifted even lower due to the higher rate of inflation that we experienced in the UK, which had the effect of debasing the purchasing power of the pound. Inflation is forecast to remain high compared with America so we can expect a further fall in due course, although I happen to feel that the pound has fallen too far and might perk up a touch if we can avoid a train crash Brexit.

The accord by OPEC members in November will come to symbolise the passing of one of the world's most powerful cartels. After 50 years in control of the oil price, OPEC has submitted to the economic power of a much-changed global market. The agreement to cut production by 1.2m barrels a day raised prices at the time by almost 10 per cent. It is not, however, a deal which is capable of lifting prices to the preferred level of $60 or $70. But will Iran limit its production when it desperately needs increased output to sustain its economy? Will Russia cut production by 300,000 barrels a day? When did Russia last participate in an OPEC quota? Answer: never. Then, there is a surge in production coming from Brazil, Canada and Kazakhstan to add to the present surplus. The US shale business, furthermore, is entirely capable of ramping up production again. For all these reasons, the current deal is inadequate and is likely to fail. Too many of the promises are vague and the incentive to cheat is too high. OPEC has no enforcement mechanism against those who break the agreement, the result being, I believe, that the oil price will fall back later in the year. OPEC as a cartel is on its last legs and everyone will have to get used to the new reality.

In 1920, America put its faith in a businessman-president called Warren Harding, whose slogan was America first! This meant what it does now: anti-immigrant, nativism, and isolationist. White working-class and rural Americans were defending a supremacy they saw coming under threat and they were responding to the fact that the economic boom of the 1920s did not extend its benefits much beyond the urban middle-class: there was a resurgence in the Ku Klux Klan. Harding's successors, Calvin Coolidge and Herbert Hoover, were also businessmen. Their policies created the conditions for the 1929 crash and the depression: very dark days indeed. The whole world has much to fear from President Trump's threat to tear up trade agreements and impose punitive restrictions on imports. And even if he refrains from starting a trade war, the loose-tongued, fact-lite style he cultivated during the campaign could wreak serious damage: his hyperbole now carries the weight of the American presidency. His victory was enough to chill some financial markets and marks an alarming step away from a liberal, open economy towards more isolationism and less prosperity for us all. And another thing, isn't it rather worrying that he now has access to the nuclear codes yet seemingly can't control his Twitter account?

Chancellor Philip Hammond is a worried man. The tax system is getting out of touch with the way Britons live and work, leading to a hole in projected tax revenues from the rapid rise in incorporated small businesses. The shortfall is set to grow to GBP3.5bn a year by 2020/21 so something must be done to protect the tax base. The chancellor is right to be concerned: there was a 25 per cent rise in such small companies in 2015 alone. Much of this stems from the gig economy in which companies increasingly trade services with others rather than hire employees. But self-employed and small companies pay less tax than employees for exactly the same work. These tax advantages can be shared between those who want to buy services and those who sell them - the 13.8 per cent payroll tax being the most important. Ration your sympathy for chancellors, though, since government decisions have been just as important as changing work practices. National Insurance raised about half income tax revenues in 1979 but now, following a number of stealth increases, it now raises 70 per cent. The rise in personal allowances from GBP6,475 a year in 2010/11 to GBP11,500 in 2017/18 along with an additional GBP5,000 dividend tax allowance provides the opportunity for some couples to extract GBP26,328 a year free of income tax and national insurance. No-one should be surprised or disappointed that so many wish to incorporate: after all, one by one child benefit, the personal allowance and pension tax relief are all tapered at different levels of income, creating wide bands where the effective rate of tax is 60 per cent. One final thought: the Office of Budget Responsibility thinks that almost half of the GBP50bn annual increase in income tax revenues he wants to collect by 2020 will come from the 1.5 per cent of taxpayers earning over GBP150,000 a year. It is exactly this kind of individual that can shift money about. He should not be worried about these tax revenues failing to materialise: he should be scared stiff.

While 2016 was the year the unlikely became true, investors entered 2017 no better equipped to tell the difference between reality and illusion. Nevertheless, one or two hints are starting to emerge: the global economy has picked up, inflation is rising, central banks are still being helpful and US investors remain committed to the view that President Trump will deliver on tax cuts and infrastructure spending, yet will not upset the apple-cart by starting trade wars or grabbing the nuclear codes. It is right, I think, to be cautiously optimistic but I would be the first to admit that there is much which could go wrong.

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Georgina Brittain, Katen Patel, managers JPMorgan Mid Cap: The outlook for 2017 is one of elevated uncertainty. In the UK, newsflow will be dominated by the Brexit negotiations, and we expect Article 50 to be triggered in March 2017. Outside the UK, focus will be on the European elections in France, Germany and the Netherlands, and on the emergence of Donald Trump's (actual) policy intentions in the US, rather than the rhetoric we heard during the US election campaign.

At the time of writing, global economic data is more positive than had been predicted, leading to upgraded expectations both for global growth, and also for growth forecasts in the UK economy. However, on the negative side we expect to see a significant increase in the rate of inflation in the UK, due to the rebound in commodity prices and the decline in sterling. This will lead to rising pressure on UK real household earnings, with an expected knock-on effect on consumer spending.

Valuations remain sensible, dividends continue to grow, and we will be surprised if we do not see the re-emergence of M&A in the FTSE 250, given that the decline in sterling has provided a significant incentive for overseas purchasers to buy UK assets.

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Rupert Barclay, chairman, Sanditon: After a surprisingly strong finish to 2016, 2017 will see plentiful elections in Europe and the triggering of Article 50 by the UK government which have the potential to cause further dislocation in asset markets. Eight years after the crash of 2008, and now well into one of the longest up cycles on record, it remains a moot point how long the market's current enthusiasm for risk assets can last. Although Quantitative Easing programmes remain in the UK, Europe and Japan, a more rapid tightening of US interest rates than expected is the biggest risk to equity markets in 2017.

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Tim Russell, manager, Sanditon: 2017 has a raft of European elections to keep investors on edge as well as the triggering of Article 50 by the May government in the next few weeks. Negotiations over Brexit will then start in earnest, and given the EU's trenchant defence of the four freedoms it seems probable that the UK's departure from the EU will mean leaving the single market and the customs union. We suspect a hard Brexit will in the long run be more damaging to the EU than the UK and the risks of a breakup of the euro must have increased in 2016.

Whilst surprise political outcomes have not damaged equity markets in 2016, whether they do in 2017 will in our view depend on what happens in bond markets. If yields keep rising, and the Federal Reserve have indicated they will meet increased fiscal expansion by the Trump administration with further monetary tightening, we expect equity markets to come under pressure. We are sticking with our bearish disposition.

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Europe

(compare European funds **here**)

Ollie Beckett and Rory Stokes, managers, TR European Growth: Political noise is likely to continue in 2017, with general elections in France, the Netherlands and Germany. It is this noise that seems to put off Anglo-Saxon investors from investing their money into the European smaller company space. In Continental Europe we do not expect a populist revolt similar to that seen in the UK and US. Either way, what 2016 has taught us is that the state of the economy is likely to remain of paramount importance for equity markets. For the time being, the global economy is improving, led by the US and China.

In a world where the global economy is growing, the European smaller companies arena should remain a relatively attractive place to be invested. European equities offer some very good value compared to their US counterparts. In the UK and US, firms have already seen massive margin progression since the financial crisis. In Europe, by comparison, huge margin potential remains.

However, we must remain cognisant of valuations in a world where inflation is finally seeing some traction. We would urge investors to look beyond the global political noise and focus more on the economic data.

Emerging Markets

(compare emerging market funds **here**)

Terry Smith, manager, Fundsmith Emerging Equities:

Indian demonetisation

"Demonetisation" is a bold move intended to try to reduce the size of India's "informal", "black" or "parallel" economy. Over 85% of all transactions in India were conducted with notes which have now ceased to be legal tender. Clearly paying the notes into a bank account brings them into view of the tax authorities. Even changing the notes for smaller denomination notes up to the Rs2,000 limit required paperwork to be completed to identify the changer. By forcing at least some of the money held in these large denomination notes to be declared, the Indian government is clearly hoping that it will increase the tax take or at least spread the tax burden into the black economy and, by encouraging the use of banks, at least partially eliminate the inefficiencies of a cash economy and head towards a digital one.

Cash has to be designed, printed, transported and safeguarded. Bank notes also rapidly deteriorate, can easily be stolen and can be counterfeited. Digital money in bank accounts is not immune to all these problems but it can be moved with minimal frictional cost and can be traced. Moreover, to the extent that the larger denomination notes were not banked or exchanged, the Reserve Bank of India ("RBI") would have obtained a windfall in that the cancellation of these notes reduces its liability. All of which should add up to a greater capacity for government to spend on much-needed infrastructure projects and spread the tax burden more widely and fairly.

However, whilst "demonetisation" is a bold attempt at reform, it is by no means certain of success and it certainly has its downsides. To start with, it has been tried before in India - in 1946 and 1978, albeit on a much smaller scale - without much success, although arguably they were just exchanges of new notes for old and were done without the element of surprise which accompanied this latest move. The windfall from notes which were neither banked nor exchanged appears to have been small, and the logistics of the move have also been problematic. A large number of notes needed to be changed and India's rural economy is a de facto cash economy without access to bank facilities - note that purchase of seeds was one of the items initially exempted from the ban on the use of the larger denomination notes.

The ultimate effect of demonetisation is still uncertain. But what we can say with certainty is that is has been disruptive. The S&P BSE FMCG Index of Fast Moving Consumer Goods companies quoted on the Bombay Stock Exchange shows a sharp fall beginning on 8 November.

This disruption is hardly surprising given that companies supply consumer goods in an economy in which 98% of transactions by volume and 65% by value were in cash and over 85% of the notes by value were "demonetised", leading to a large and immediate, albeit probably temporary, shrinkage in purchasing power. It was exacerbated by the fact that a large portion of Indian consumption is from informal retailers (i.e. not modern supermarkets) who rely upon wholesale distributors and transact in cash using the high denomination notes and maybe haven't been declaring all their income.

However, whilst the temporary effect was negative, what do we think the ultimate outcome will be? Mr Modi is a genuine reformer. In 2016, he managed, after two years of trying, to get a single Goods and Services Tax ("GST") approved. The implementation of the GST in 2017 should lead to significant operating efficiencies for our companies, which have hitherto had to cope with different indirect tax regimes in each Indian state. "Demonetisation" may allow more government spending, lower interest rates and a more equitable tax base but it certainly seems likely to favour the modern retail channel in which branded goods are supplied to consumers by manufacturers through retailers who rely less upon cash payments.

If Mr Modi's experiment with "demonetisation" proves to be a success, it would not be surprising to see attempts to emulate it in other developing countries which have large "shadow" economies such as the Philippines, Turkey and most of Latin America.

ETFs

An increasing amount of money which flowed into emerging markets in 2016 was placed in Exchange Traded Funds ("ETFs") which simply track the indices.

ETFs and index funds have risen to dominate fund flows, not just in Emerging Markets but in most stock markets. ETFs' attraction is that they enable investors to get a wide spread of investments represented by an index with low fees. In emerging markets, in particular, the attraction is that they allow investors to gain exposure to an area of the world with which they may not be familiar and they provide liquidity with intraday trading. ETFs have increasingly dominated EM fund flows since the first half of 2014, coincidentally when FEET was launched. In 2016, the period which coincided with the return of investor confidence and fund inflows into emerging markets, of the $47bn put into emerging market funds, 75% was allocated to ETFs.

Whilst I am normally a fan of index funds, I would query the wisdom of this for emerging market investors. Using any mechanism to get broad index exposure will, of course, mean that you get exposure to businesses with poor fundamental characteristics as well as to those which are average or better. In emerging markets, much more than is the case in developed markets, the indices are dominated by low quality businesses. In addition, I would particularly query the assumption that some investors seem to have that an ETF provides greater assurance of liquidity - which is often an issue in emerging markets - than its underlying investments. This will, of course, only be tested if or when a lot of people try to head for the ETF exit at once.

There has been a lot of hand wringing about how the growth of ETFs has made the job of active fund managers more difficult. In the short term this is undoubtedly true as the share prices of the larger companies which dominate the index are pushed higher by these inflows, irrespective of their quality or valuation. But the distortions caused by these inflows can provide opportunities for us to buy shares in good businesses at fair value or cheaper, and in the long run the share prices will follow the superior fundamental performance

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Hélène Ploix, chairman, Genesis Emerging Markets: A number of challenges remain in place. Looking over the remainder of the financial year, the pronouncements and actions of the new US government with respect to international trade and commerce could impact near-term sentiment towards many emerging markets. And over the longer term, investors should remain aware of the reality that developing countries are now in a period of lower growth compared with much of their recent history.

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Genesis Asset Managers, LLP, managers, Genesis Emerging Markets: We remain optimistic on expected returns based on both an improved operating environment and the characteristics of the Fund. Emerging market economic growth has finally begun to stabilise after five years of sequential declines and we expect less downward pressure on emerging market currencies given past real exchange rate depreciation and significant current account improvements.

In the near term, threats to our constructive view include China and protectionism. We think Chinese policymakers have a clear preference for near-term growth over long-run economic reform and the credit build-up continues unabated. Beyond China, globalisation has undoubtedly led to huge wealth creation in emerging markets and much of Asia's success over the past three decades has been built on export-led growth. President Trump's campaign rhetoric included renegotiation of trade deals and unilateral protectionist measures on emerging markets from Mexico to China which, if implemented, would likely have a negative impact on growth and exchange rates.

Notwithstanding these short-term challenges, we believe the long-term emerging markets investment opportunity remains bright. Growing incomes in developing countries are expected to create local demand growth for emerging market businesses, against a background of improvement not only in corporate governance but also in the quality of the institutional framework in which they operate.

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Frontier Markets

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

Aberdeen Fund Managers, managers, Aberdeen Frontier Markets: As we look ahead to 2017, the implications of the UK's decision to leave the European Union and Donald Trump's victory in the US Presidential Election remain unclear. What is likely is that these and other unforeseen events will continue to create occasional bouts of risk aversion that, whilst painful in the short term, create attractive entry points for long term investors in frontier markets.

We take comfort from the fact that frontier valuations remain attractive. At the time of writing, the MSCI Frontier Markets Index trades on trailing price to earnings and price to book ratios of 13.0x and 1.6x compared with 21.9x and 2.2x respectively for the MSCI World Index. Recovering energy and commodity prices are highly stimulative for many frontier markets, particularly those in Africa and the Middle East. This is being reflected in a stabilisation in the outlook for corporate earnings which, if it continues, would be supportive of a marked recovery in a currently out of favour asset class.

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Qatar

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

Epicure Managers Qatar Limited, Qatar Insurance Company SAQ, Qatar Investment Fund: The Investment Adviser remains optimistic about Qatar due to its strong macroeconomic fundamentals, ongoing infrastructure spending, rising population and superior growth prospects in the non-hydrocarbon sector. The Qatari government is committed to continue its infrastructure investment spending programme ahead of the 2022 FIFA World Cup and in line with the Qatar National Vision 2030.

Oil prices are expected to recover at a more measured 5-10% pace over the coming two years. We expect the recent OPEC deal to help bring the oil market back into equilibrium in early 2017, lead to a further recovery in oil prices and help ease the deficit pressure on GCC government finances. At an oil price of USD 60, it is estimated that Saudi Arabia needs another USD 31.1 billion in fiscal cutbacks to reduce the deficit, just shy of 3% of GDP, despite having adjusted more than 9% over the last two years, mainly by trimming capital expenditure.

The UAE and Qatar would not need to consolidate and reduce their deficit any further with both countries targeting higher capital expenditure to stimulate their economies. Kuwait may end up with a surplus. However, Oman and Bahrain would still need to continue with austerity steps to reduce their deficits. Broadly, the outlook seems to be a lot better, particularly with the recovery in oil prices expected to continue.

The IMF estimates Qatar's Real GDP growth to moderate to about 2.7% in 2016 and reach 3.4% in 2017, led by growth in the non-hydrocarbon sector due to World Cup-related spending and the added output from the new Barzan gas project. The IMF expects continuing fiscal adjustments during 2017-18, further subsidy cuts, increase in public fees, a moderate recovery in global commodity prices and the implementation of VAT to drive inflation, which is expected to moderate back to low levels subsequently.

In order to avoid pressure on liquidity in the domestic banking sector and to maintain its reserves and sustain investments, Qatar will continue to raise money from local and international bond markets in 2017 to finance its budget deficit.

The Investment Adviser believes that the current positive outlook for the oil market and efficiency in current expenditure will help control the fiscal deficit. Infrastructure spending should continue to fuel non-hydrocarbon growth and attract new expatriate workers, supporting domestic consumption.

The US Federal Reserve raised its benchmark interest rate for the second time in a decade by 25 basis points (bps) on 14(th) December 2016 on indications that the American economy is expanding at a healthy pace and amid President-elect Donald J. Trump's plans for boosting federal spending. In light of the Fed action, GCC central banks followed suit and raised rates.

The Investment Adviser expects Qatari economic growth to pick up in 2017, amid the recovery in oil prices and a strong growth in the non-hydrocarbon sector. This should help the economy to face the rate hike over the course of the year. Qatari banks are expected to witness higher credit growth led by upcoming projects related to the FIFA 2022 World Cup & the Qatar National Vision 2030. At the same time, banks are also expecting liquidity conditions to ease on higher government revenue due to the rise in oil prices. QCB's data shows that banks in the nation are in good shape, with credit growth up 12.1% and deposits up 11.8% to the end of December 2016.

OPEC and Non-OPEC producers agreement

There are expectations that oil prices will stabilize at about USD 60 per barrel as levels above these could encourage increased shale production in the US.

In the Vienna meeting, OPEC member countries agreed to collectively reduce oil production by 1.2 million barrels per day to 32.5 million barrels per day. Meanwhile, 11 non-OPEC oil producers have agreed to decrease their daily oil production level by 558,000 barrels per day (Russia to reduce output by 300,000 barrels a day, and the other 10 countries to cut output by 258,000 barrels a day). The implementation of the decision to rebalance the oil market will start from January 2017 and will be valid for 6 months. OPEC will meet again on 25(th) May 2017, at which point it may extend the cuts by another six months.

The improvement in oil prices is expected to raise government revenue, lower budget deficits and boost the economies of the GCC countries. Stabilization in the oil price will help ease liquidity conditions, support the hydrocarbon sector and increase credit demand in the region. With Qatar successfully diversifying the economy away from the oil sector and focusing on the non-hydrocarbon sector, the impact from higher oil prices will enable the nation to accelerate this transition. The Investment Adviser maintains its positive outlook for the Qatari economy not only because of the improving oil price, which will increase government revenue and infrastructure spending, but also due to the strong expected growth in the non-hydrocarbon sectors.

Macroeconomic Update

Going forward, the Investment Adviser believes that Qatar's real GDP growth is set to remain robust, driven by strong growth in the non-hydrocarbon sector, as investment spending remains strong. Amid current oil prices, MDPS expects Qatar to remain the fastest growing economy in the MENA region in 2016 and 2017, growing by 3.9% and 3.8%, respectively, supported by growth in the non-hydrocarbon sector. Moreover, the Barzan gas project should help in raising hydrocarbon output once it is fully operational in 2017.

IMF has estimated Qatar to grow at 3.4% in 2017 which is the highest in the GCC region, as development of major projects in the run-up to the 2022 FIFA World Cup would continue to have a positive impact on the economy. QNB Group also expects real GDP growth in Qatar to remain strong at 3.8% in 2017 and 4.1% in 2018.

Qatar's population grew 8.9% between December 2015 and November 2016, to reach 2.64 million. Population growth is expected to remain strong in coming years, as large project spending related to the 2022 FIFA World Cup and other projects would continue to attract expatriates. Thus, steady growth in population and high level of personal consumption is expected to continue to benefit domestic consumer and services sector companies.

Recent Developments

- International Credit rating agencies affirmed their ratings on Qatar with Stable Outlook

Credit rating agencies Fitch and S&P are positive on Qatar. Fitch Ratings affirmed Qatar's long-term foreign and local-currency IDRs at 'AA'. It also affirmed 'AA' rating on Qatar's senior unsecured foreign currency bonds. S&P Global ratings affirmed its 'AA' long-term and 'A-1+' short-term sovereign credit ratings.

According to Fitch, 'AA' ratings reflect Qatar's large sovereign assets, its fiscal adjustment efforts, large hydrocarbon endowment and one of the world's highest GDP per capita ratio.

- Projects worth over QAR 38 billion are underway

As a part of Ashghal's plan to develop the country's expressways, projects amounting to more than QAR 38 billion are progressing in Qatar. As part of its ambitious Expressway Project, construction projects worth QAR 49.8 billion have been awarded by Ashghal. As per the Annual report of Ashghal, currently 11 Expressway Projects are in different stages of construction and 10 projects are in the design phase.

- Qatar Stock Exchange commenced margin trading activity from 5(th) October 2016

In an effort to boost liquidity in the market and provide new financing channels for investors, the Qatar Stock Exchange (QSE) introduced margin trading from 5th October 2016. This facility is applicable for 20 stocks.

- 2022 FIFA World Cup Projects to be delivered on time

A senior official from the Supreme Committee for Delivery and Legacy has confirmed that all projects related to the Qatar 2022 FIFA World Cup will be delivered on time. Ali Ghanim al-Kuwari - Executive Director, further stated that work on the Qatar 2022 projects is proceeding as planned and all the projects are in an advanced stage of design and implementation. The first World Cup stadium, Khalifa International, is expected to be delivered at the beginning of 2017.

- Qatar named among the top 20 best performing economies in the world

Qatar is ranked 2(nd) in the Gulf region and 18(th) globally in the World Economic Forum's Global Competitiveness Index 2016-17. Although it slipped from its top position in the GCC region, it topped the region in efficiency in many areas such as macroeconomic environment, financial market development, innovation, health and primary education, and higher education and training.

- Qatar labour reforms will benefit expatriates

The Qatari government has introduced changes in labour laws effective from 13 December, 2016 which aims to make changing jobs and leaving the country easier for Qatar's 2.1 million salaried workforce.

A grievance committee will now be formed to which expat workers can appeal in case of denial of consent from the current employer. Moreover, penalties have also been increased to QAR 25,000 from QAR 10,000 on employers who confiscate workers' passports. The requirement to obtain a No Objection Certificate ("NOC") from the current employer is still in place. However, workers on fixed-term contracts can now change jobs without a NOC after their contract is completed. Those on open-ended contracts must work for five years before being able to do so. All foreigners would continue to need the labor ministry approval before taking up a new employment.

The Investment Adviser expects that the recent changes to the labour law are a positive development. In light of the fact that Qatar's workforce is expected to reach 2.5 million as it prepares for the FIFA World Cup 2022, the new labour laws could be expected to play a significant role in attracting new and skilled workers and contribute to the economy.

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Private equity

(compare Private equity funds **here**)

William Maltby, chairman, Mithras: The last 12 months have seen a remarkable change in the political landscape, most notably in the UK and US. It seems likely that political volatility will continue, particularly as a consequence of key elections in Continental Europe. Despite the uncertain political and economic backdrop, markets and valuations have proved resilient and the environment for private equity realisations remains positive.

The managers of our underlying funds are reporting that the trading performance of their portfolio companies is generally strong.

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Property

UK

(compare UK Property funds **here**)

Derwent London: We, and our occupiers, face a number of challenges this year with heightened political and economic uncertainty and the impact of business rate increases in London from April 2017. It is still far too early to know what longer term impact these may have on the London market. So far the UK and London economies have been resilient and business confidence indicators have recovered from June 2016 levels.

Although overall office take-up in 2016 failed to match the high levels of recent years, the outcome proved to be much better than had been expected in the middle of the year. In total take-up of 12.2m sq ft was 17% below the previous year, but still close to the long-term trend. Despite the talk of an exodus of London bankers, important global businesses continued to make major commitments to London notably Amazon, Apple, Expedia, Facebook, Google and Wells Fargo among others. Three sectors continue to dominate take-up: business and professional services represented 28.6%, TMT's share has risen to 24.6% and banking and finance fell to 20.3%. However central London vacancy rates have risen from 2.3% to 4.3%. In the West End the vacancy rose a little less from 1.9% to 3.5%.

One year ago CBRE estimated that 7.1m sq ft of office space would be developed in 2016. In the event only 61% was delivered. This year it is estimated that 7.2m sq ft will be built, which, if completed, means that over the two years new supply is 2m sq ft lower than was expected at the beginning of last year. In total there is currently 12.5m sq ft under construction, which is 53% pre-let. Therefore the vacant element totals 5.9m sq ft or 2.6% of the total market. The West End's share is 1.9m sq ft under construction which is 41% pre-let, leaving 1.1m sq ft available or 1.2% of the local market.

Overall office rental growth slowed significantly in 2016 with CBRE reporting prime rents up just 1.3%, and West End rents falling marginally by 0.8%. This is the first fall since Q1 2010, and was driven by weakness in the Mayfair/St James's market, which fell 6.3%. Other West End markets were static or showed modest growth. One exception was Paddington where rents rose 8.0%.

The investment market saw strong Q1 and Q4 activity, but was relatively quiet in between which meant that activity levels at GBP13.1bn were 19% down on 2015. The immediate impact of the EU referendum vote was for yields to move out c.25bp to reflect heightened uncertainty and some early forced sales by the open-ended funds which created an initial sharp adjustment. However the market quickly stabilised: tenants have been resilient and the weaker level of sterling has attracted fresh investment interest as demonstrated by the GBP4.1bn of deals in Q4. West End annual activity at GBP4.4bn held up better and was only 8% lower than in 2015, seeing a much higher degree of domestic interest, which accounted for 46% of the transactions as opposed to 30% for the market as a whole. There have already been a number of significant transactions in Q1 2017 which suggests that demand remains robust.

Against the current background, projections on the future must be treated with caution. The London office occupier is likely to face additional costs following the rise in business rates introduced from April 2017, and it is widely expected that some financial and associated jobs will move to other cities in the EU. The latter will ultimately depend on the outcome of UK-EU negotiations, but a number of banks have already suggested that several thousand jobs are earmarked to move. Despite these challenges we believe that there is still scope for selective rental growth, although this is unlikely to occur across all our London villages. On average we expect ERV movements across our portfolio of between 0% and -5% in 2017. We have seen our property yields move out 31bp since December 2015, and these may drift out a little further in the current year.

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Alun Jones, chairman, Primary Health Properties: The UK experienced a major political event in June 2016, with the majority of the British public voting to leave the European Union. The long term impact that this will have on the UK will be unknown until Brexit negotiations have concluded.

What is certain is that the demands that are being placed upon the NHS will continue to increase and a growing, ageing population and increased incidence of chronic conditions will bring more pressure to bear on the NHS budget. New models of care are being developed that recognise the ability of primary care settings to help ease the burden on hospitals and provide greater access to healthcare services located in the communities that they serve. Leaving the EU will not change this and PHP will continue to move forward with its strategy unchanged.

In my Interim statement, I detailed how the NHS had expanded upon its wider Five Year Forward View, with a direct plan for primary care. The General Practice Forward View ("GPFV") was published in April 2016 setting out plans to recruit 5,000 more GPs over the next five years together with additional healthcare professionals and support staff.

To do this, a further GBP2.4 billion per annum is to be invested into general practice, an increase of 25% over the 2015/16 GP budget. This will help to meet commitments to provide greater "out of hours" access and to develop clinical hubs and reform urgent care facilities.

The second half of 2016 saw the first series of projects approved for funding from the Estates and Technology Transformation Fund ("ETTF"). Numerous premises improvement projects have been given the green light by the NHS with varying levels of NHS capital contributions being made available alongside private funds to enhance, enlarge or reposition existing premises.

The ETTF process has also sanctioned the construction of a number of new medical centres.

Toward the end of the year, Sustainability and Transformation Plans ("STPs") were published for the 44 STP areas in England. STPs comprise a plan of how local services will evolve over the next five years to create long term, sustainable and fundable integrated care systems for an area. STPs include estates plans for primary care premises that are required to deliver these care objectives.

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

In the Republic of Ireland, the Health Service Executive ("HSE") of the Irish government plans to procure a total of 100 modern, purpose built primary care centres across the country. Ireland is experiencing similar rates of growth in the demand for healthcare services as in the UK. As GP services, however, are not state funded or integrated with HSE provided secondary care, greater strain is being placed on hospital services. The HSE is actively looking to establish integrated primary care centres across the country that will provide local access to a greater range of services alongside the traditional GP, in a more cost efficient and sustainable manner.

In times when there is increased volatility in economic and financial markets, largely brought about by Brexit and political changes both in and outside of Europe, the increasing requirement for healthcare services continues. The populations of the UK and Republic of Ireland continue to grow and age and with this comes a greater burden on healthcare systems and the need for healthcare to be delivered in a new, more cost-efficient and integrated manner.

Strategic publications such as the GPFV and delivery plans such as STPs reinforce the importance of primary care in replacing elements of secondary care to modernise healthcare systems and improve access to services and the efficiency with which they are delivered. They also recognise the importance of the need for sufficient, appropriate premises in delivering these new models of care.

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Vikram Lall, chairman, F&C UK Real Estate: Attention has been focused on Brexit over the past six months and this is expected to remain a major area of uncertainty. However, economic and political developments in the US and approaching elections in several European countries may also affect sentiment. The UK's large, mature and relatively transparent property market could be viewed favourably by global investors if risk perception increases elsewhere.

At the property level, the imposition of the new business rates regime will affect occupancy costs. With economic growth projected to remain positive, but subdued, we would expect to see a renewed focus on property market fundamentals with income as the main driver of performance. The Manager believes that while the market remains challenging, commercial property's income return will help to deliver acceptable relative performance with prime, securely let property leading the way.

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Intu: The uncertainty from the outcome of the EU referendum vote has intensified investor caution, but has led to a flight to quality. This is illustrated by prime yields remaining stable, whereas the yield on secondary assets is starting to drift outwards, principally due to lack of demand. Development of prime retail property remains low, resulting in limited supply for occupiers and potential upward pressure on rental values in destination centres.

UK consumer market

Whilst the majority of economic indicators relating to the UK consumer remain strong, uncertainty has increased because of the unknown impact of the EU referendum vote.

Unemployment remains at record low levels, and with wage growth still rising faster than inflation shoppers have increased levels of disposable income. The Asda benchmark index shows their measure of household income 5 per cent higher than the previous year.

Retail spending, as shown by the British Retail Consortium like-for-like non-food retail sales, continues to show an average growth rate of around 1 per cent for 2016 year-on-year.

Consumer confidence, as measured by GfK, shows consumers remain relatively confident about their personal finance situation, but confidence in the general economic situation for the UK has reduced since the EU referendum vote.

Retailer administrations in 2016 were around 50 per cent of the 10-year average, according to the Centre for Retail Research, but higher than 2015, with BHS being the largest casualty.

Occupier market

Retail is one of the UK's most dynamic and flexible industries which has shown itself able to adapt quickly to what is a fast-changing environment. 2017 will see retailers facing both structural and economic challenges - the winners will be those with the right stores in the right places, who align their online and in store strategies and who give customers an experience they cannot get elsewhere.

Economic pressures include the impact on retailers' cost bases from the weakness of sterling, business rates revaluations and increases in the national living wage. A potential squeeze on disposable income from higher inflation may be realised and add more pressure. Structurally, retailers are still coming to terms with the opportunities and costs of internet shopping.

On the plus side, going into 2017 consumer confidence has held up since the EU referendum and there is evidence that where customers are offered an enticing mix of retail, catering, leisure and experiences, they come in large numbers, as our raised footfall over the Christmas period shows. Retailers are responding to this trend by focusing on fewer, often larger, stores in the best locations. More retailers are taking an integrated multichannel approach and previously online-only retailers are now looking at physical space to deliver growth.

Spanish market

In recent years, the Spanish economy has had significant growth making it one of Europe's fastest growing economies. Forecasts suggest that this is expected to continue into 2017. For the consumer, unemployment is at its lowest level for several years and household spending remains solid. This in turn benefits retail sales which are further enhanced by record levels of tourists.

The investment market remains strong with continuing investor confidence in Spanish real estate supported by an economy that is growing. With the return of bank financing, there is a weight of money in the market looking to invest in quality assets. Due to lack of development in recent years, this is a scarce asset class. All these factors are driving yields lower.

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Charlotte Valeur, chair, Kennedy Wilson Europe Real Estate: The investment and occupier markets across our business remain open and active. We expect the period of market uncertainty to persist and market volatility to potentially increase, as it remains too early to ascertain the impact of the UK's negotiations to exit the EU and the impact that will have on the UK and the rest of Europe.

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Mary Ricks, president and CEO of Kennedy Wilson Europe Real Estate:

UK

The occupational market saw rental values holding steady in the second half of the year, as tenant demand remained firm. CBRE reports that rental values for UK commercial property increased by 1.7% for 2016 as a whole.

The Central London occupational market continued to hold up despite initial uncertainty post the EU referendum vote. Take-up was still in line with the 10-year average, although 18% below 2015 numbers, according to CBRE. Investment demand remained strong with the weaker pound attracting new foreign entrants to the market and driving demand, particularly for prime, stabilised assets.

In the Victoria submarket take-up hit 445,000 sq ft, ahead of the 5-year average, with prime rents holding firm at GBP82.50 psf, according to Cushman & Wakefield.

Following the completion of other new build schemes in the area, the benefit of the improved amenity continues to enhance the overall tenant experience and the attractiveness of the submarket.

For South East offices, take-up fell to 2.8 million sq ft, 11% below the 10-year average, according to CBRE. Notwithstanding this fact, the lack of availability in several submarkets drove continued rental growth in markets such as Maidenhead, Croydon and Watford.

The industrial sector continues to perform strongly with increasing take-up, benefiting from ongoing structural shifts to online retail. Across the UK as a whole, industrial property performed the strongest with total returns of 7.2% over the last 12 months, according to CBRE, the only sector to see rising capital values over the year.

We have seen strong high street retail investment demand. In particular, the demand for small lot sizes has been driven by demand from high net worth investors, given the ongoing low yield environment and recent stamp duty and buy-to-let tax changes diminishing the relative attractiveness to traditional residential investment for this buyer group.

The Aberdeen office market remains challenging and may see signs of improvement with the oil price now at $56 per barrel up from $30 per barrel 12 months earlier, a more sustainable level for the industry.

The investment market continues to benefit from strong levels of demand for smaller lot sizes and well-let prime assets. Investment volumes are down relative to peak 2015 volumes, however 2016 volumes were still ahead of the 10-year average, according to CBRE. According to the CBRE index, capital values for UK property fell by 2.4% in 2016, driven by the 1% increase in stamp duty and weakening sentiment following the UK's referendum vote to leave the EU. Valuation falls in office and retail sectors offset a positive performance by industrial assets, with sharp falls in Q3-16 being followed by a recovery towards the end of the year with capital values up by 1.2% in Q4-16.

Ireland

The Irish economy continues to outperform, with unemployment down to 7.2% at the end of the year and with employment numbers pushing past the two million mark for the first time since 2009, according to the Central Statistics Office. This has supported consumer spending, with retail sales up 3.4% year-on-year to December 2016. This has led to retailer expansions and new entrants in the market, according to CBRE.

Across the hotel market, ADR and RevPAR metrics are up significantly, according to CBRE.

Property investment volumes were up a healthy 29% year-on-year to EUR4.5 billion, according to CBRE. It is worth noting that almost one-third of the improvement was owing to Blanchardstown and Liffey Valley shopping centres, which are positive endorsements to the institutional interest from new entrants to the market.

Year-on-year Dublin office take-up was 2.6 million sq ft, nearly on par with 2015, according to CBRE, and the Dublin city centre vacancy rate reduced to 4.7%. Prime rents ended the year at EUR62.50 psf, up 14% year-on-year, according to CBRE, with prime office yields at 4.65%.

The Dublin suburban office market represented almost one-quarter of all take-up in 2016, with nearly three-quarters of the Q4-16 suburban leasing activity focused on the

South suburbs, according to CBRE. Prime rents are now EUR27.50 psf, significantly in excess of our average South Dublin suburban office passing rents of EUR17.35 psf. Our portfolio remains reversionary, with ERVs at EUR24.35 psf.

Dublin is expected to benefit from potential job relocations from companies seeking to realign their geographic footprint after the EU referendum. A number of UK-based financial services firms have already announced that they have either settled on Dublin as their new EU base, or are seriously considering it.

The PRS market performed well throughout the year. In December 2016, the Irish Government imposed a 4% rental cap on 'rent pressure zones' for a period of three years. This relates to areas where rents have increased 7% or more in four of the last six quarters and in the first instance impacts the Dublin market.

Spain

Spain's economy continues its growth trajectory after 13 consecutive quarters of growth. The expectation is for 2016 GDP growth to be 3.1%, on track with 2015's 3.2%, according to the IMF, which recently revised its growth targets for the next two years. After almost a year without a government, the newly-formed Partido Popular minority government has been in place since November 2016. Political uncertainty has started to wane and Spain is set to achieve one of the faster growth rates in the Eurozone this year, according to the Bank of Spain.

Investment volumes for 2016 have increased year-on-year by 7.7% to EUR13.9 billion, according to CBRE, exceeding their 2007 peak by 38%. Yields remain at historic lows and for prime CBD offices and prime high street shops, according to CBRE, and are being pushed down further by continued levels of institutional demand.

Year-on-year retail sales rose 3.0% in December, according to the Institute of Spanish Statistics, representing 29 consecutive months of year-on-year growth. Continued recovery in employment, low inflation and a record number of tourists have all positively contributed to this improvement. We are seeing positive signs that the high street retail occupational and investment market in central Madrid is picking up momentum. Against this backdrop, current rents continue to sit significantly below prior cycles, and we expect rental increases across the sector as a whole.

Italy

The Italian economy continues its steady, albeit moderate, growth with expected GDP growth of 0.8% in 2016, increasing to 1.0% by 2018, according to the OECD. Following the outcome of the constitutional referendum Matteo Renzi resigned as Prime Minister in December 2016 and a caretaker government was formed with new elections likely in 2017, or 2018 at the latest. One of the new government's first acts was to approve up to EUR20 billion in capital to support the troubled banking sector which should help banks clean up their balance sheets.

On the employment front, Istat reports that the economy added 242,000 jobs in 2016 while the unemployment rate edged up slightly to 12% as new people entered the labour market.

Despite the political instability, the investment market continues to improve with total transaction volume of EUR9.1 billion in 2016, according to CBRE, a 12% increase over the prior year. While the investment market continues to be dominated by international investors, domestic investors have become significantly more active, bringing additional liquidity to the market.

Investor focus continues to be on the office market, particularly Milan, where CBRE reports prime office yields of 3.75%, a 25 basis point decrease over the prior year. Annual absorption was 304,000 sq m, 7% above the 10-year average and helping generate a 2% increase in prime office rents to EUR500psm per annum, according to CBRE. The Rome market is also improving with annual take-up of 150,000 sq m, a 43% increase over the prior year, and CBRE also reports that prime rents in the CBD and EUR submarkets increased by 5.3% and 3.1%, respectively, over the prior year. The ongoing improvement in both the occupational and investment markets should positively affect our Rome and Milan office assets, which account for a combined c. 60% of our Italian portfolio, by value.

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Stephen Vernon, executive chairman, and Pat Gunne, chief executive, Green REIT:

Ireland - Continued growth amidst increased uncertainty

Despite the economic headwinds and the heightened level of geopolitical uncertainty that has prevailed since the result of the UK referendum on EU membership ('Brexit') and the US presidential election, the Irish economy continues to experience relatively strong growth. Ireland is expected to have been the fastest growing economy in the EU again in 2016, and while growth has been more moderate compared to 2014 and 2015, it is expected to continue through 2017 and 2018 at levels that are well above the EU average.

Importantly, growth in the domestic economy continues to be the greatest driver of this, with the country's unemployment rate at 7.1 per cent in January 2017, down from 8.6 per cent in January 2016, and forecast to end 2017 at 6.3 per cent. Long term interest rates remain low, and while the Irish government 10 year bond rate has increased from 0.50 per cent at 30 June 2016 to 1.1 per cent currently, we believe that both continue to be supportive of commercial property yields.

The potential impact from Brexit on both the Irish economy and Irish commercial real estate is still to be determined, with the general expectation being that export led sectors are likely to be most adversely affected, with Dublin offices a potential beneficiary. While we have not seen many Brexit related relocations or expansions in the Dublin office market to date, the view of some market commentators is that these are likely to be seen from the second quarter of this year. The potential impact of US policy changes on Ireland and on FDI in Ireland in particular is too early to call in our view; we do however continue to see positive sentiment from US office occupiers.

The outlook for the Irish property investment market remains positive, with longer term interest rates being substantially below the prevailing yield levels in the market place.

The bifurcation of pricing between prime and secondary is an ongoing theme, with core international capital continuing to seek out prime assets, whilst there is considerably less identifiable capital chasing the secondary market in any meaningful scale. The exception to this is US private equity acquiring loan portfolios which hold a lot of secondary quality assets, who are ultimately likely to be looking to execute a wholesale to retail strategy.

On the occupier side, Brexit is still the predominant theme, and the outlook for corporates moving to, or expanding in, Ireland, particularly in the financial and fund administration sectors, is improving all the time, with the expectation that we will start to see first movers from quarter two 2017 onwards. Our future development at Central Park is well positioned in that context, and we continue to monitor the supply of and demand for space in assessing the risk reward metrics for future capital allocation decisions.

We feel the growing theme around e-commerce driving logistics demand in the retail sector is a secular as opposed to cyclical play, with Ireland at the early stages of that evolution.

The geopolitical environment across the globe continues to challenge conventional wisdom and we expect the year ahead will have heightened volatility as we pass through the various scheduled elections in Europe.

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Renewable Infrastructure

Foresight Solar Fund: The upward trend in forecast power prices seen in the second half of 2016 has been driven by an increase in gas prices, which have been buoyed by assumptions of a weaker Sterling to Euro ratio in the wake of Brexit. Tighter capacity margins and rising future demand, based on GDP growth expectations, is expected to increase this upwards momentum.

While the imminent closure of the ROC regime from 1 April 2017 marks the end of an era of frenetic growth for the UK solar industry, we continue to see new opportunities as the sector evolves. With no new subsidies likely to be available in the near future, there is now a fixed, albeit extensive, pool of large-scale solar generating capacity. Meanwhile, corporate power purchase agreements and private-wire deals have the potential to provide a new impetus to market activity.

With an estimated 12GW of installed generating capacity creating an active secondary market, the UK's evolving solar market remains attractive. Driven by falling interest rates and an improving outlook for power prices.

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Helen Mahy, chairman, Renewables Infrastructure: Looking ahead, we are both challenged and excited by a number of evolving features of the renewables market.

The market for secondary purchases is becoming increasingly competitive, driven by the steady increase in global investor allocation to the infrastructure asset class - of which renewables is now an important component.

So far, the Brexit vote in 2016 has not had any materially negative impact. In fact, as mentioned above, currency effects of the vote have been positive so far in terms of the power price curve as it increases the sterling cost of imported fuels and currency gains on overseas assets. Developments in UK onshore wind and solar PV will slow, in the absence of new subsidies.

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

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

Owing to significant sterling devaluation since the EU referendum vote, the price of gas has increased in sterling terms and this has fed into higher current and forecast future power prices. In addition, global oil and gas prices have strengthened throughout the year.

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Greencoat UK Wind: The regulatory outlook for operational wind farms in the UK remains stable owing to the UK Government's policy of "grandfathering" for operational projects.

There is currently over 10GW of operational onshore wind capacity plus over 5GW offshore. Installed capacity is set to grow over the next few years to over 12GW onshore plus over 12GW offshore, despite recent policy changes for new projects, as assets in construction come into operation. In monetary terms, the secondary market for operational UK wind farms is approximately GBP35 billion, increasing to GBP60 billion in the medium term.

In general, independent forecasters expect UK wholesale power prices to rise in real terms from current levels, driven by higher gas and carbon prices combined with the ongoing phasing out of coal-fired power stations.

Long term power price forecasts fell through 2015 and the first half of 2016, reflecting falls in global oil and gas prices, and achieved power prices were below budget in Q1-Q3 2016. However, power prices in Q4 were above budget and forecast power prices have risen reflecting post EU referendum sterling devaluation and recovery in global oil and gas prices.

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Resources

(compare Resources funds **here**)

Ed Warner, chairman, BlackRock Commodities Income: The outlook for the natural resources sector has improved significantly over the year [*to end November 2016*], with improving global economic growth driving up demand.

This, coupled with the fact that companies have significantly cut capital expenditure to reduce costs in leaner times, has pushed prices higher and driven a resurgence across the sector. Oil prices also gained strength as year-on-year declines in non-OPEC production emerged; the recent OPEC deal appears to have removed much of the downside risk in oil-related equities, as long as it is adhered to.

Looking ahead for 2017, the Managers are optimistic. Although commodity prices could still be derailed by an economic recession in China, or a collapse of the OPEC deal, on balance there is a reasonable expectation that neither is likely to transpire. Overall, companies in the natural resources sector have stronger financial fundamentals than a year ago, and the sector seems well positioned to deliver for investors.

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Olivia Markham and Tom Holl, managers, BlackRock Commodities Income: At the end of November, OPEC made a major announcement that has materially changed the range of outcomes we would expect to see for the oil price in the coming years. OPEC agreed to reduce production by 1.2 million barrels per day to a targeted output of 32.5 million barrels per day and non-OPEC countries, including Russia, indicated they would cut by close to 600,000 barrels per day.

The scale of the cuts and the inclusion of Russia in the deal was ahead of even the most optimistic expectations going into the meeting and the oil price responded very strongly, rising 8% on the day. If the agreement is successfully implemented, it brings forward the anticipated re-balancing of supply and demand in the oil market to early 2017 and should drive inventory draws through the year. This should be supportive for oil prices and we would see the oil price moving higher from the $50/bbl level as the market gains confidence and sees these inventory declines happening.

The actions of OPEC do not entirely remove the downside risk to oil (for example there could be a negative demand shock if global economic growth disappoints that causes the oil price to fall) but it does significantly lower the probability of a lower oil price. This improves the risk-adjusted return outlook for energy companies and is of particular benefit to the US oil producers. The longer that the agreement holds true, the more confidence the equity market will have in this reduced downside risk and the sector should begin to trade at a higher valuation multiple to reflect the lower risks than it has faced in the last three years.

The impact of the mining sector slashing capital expenditure and underinvesting over the past few years is beginning to be felt by global production.

In terms of company behaviour, we are seeing the first signs that deflation in cost of production has ceased, particularly with commodity related currencies broadly stable and the increase we have seen in the oil price. Capital expenditures in 2016 also likely hit a cyclical low. However, we remain optimistic that mining boards and management teams learnt important lessons about the use of debt given the cyclicality of the sector, and the propensity to destroy shareholder value using M&A. Thus it appears unlikely we will return to the capital expenditure excesses of the last cycle, and we have already seen a return to dividend payments from some players.

Finally, on valuation, whilst the sector has risen this year, it has only returned to July 2015 levels and many of the miners are trading at attractive free cash flow yields. Company earnings are likely to be upgraded as the high spot prices persist and generalist fund managers appear underweight.

For the first time in a number of years, we are optimistic as we look to the year ahead. The OPEC deal has tightened the oil market and put a floor underneath the oil price, which removes much of the downside risk in oil-related equities. Enough scepticism remains in the market about whether the deal will be honoured to result in the energy equities still offering attractive returns even after the initial share price rises seen in November.

Clearly the key risk to our more positive outlook for the oil market is that one or more of the parties in the deal reneges on their committed output, the deal falls apart and the members turn on the taps and compete for market share.

We view the risk of this happening as lower than the market views it because the responsibility for production cuts sits with members that have a reasonable track record of adhering to quotas in the past and not with those who have lacked discipline.

On the mining side, most of the commodities are seeing an improvement in the balance between supply and demand next year with some, such as zinc, forecast to move into meaningful deficit. This should be supportive for prices and the lack of capital investment in new projects means that the supply side should remain tight, at least in the next year or two. Some of the bulk commodities have performed exceptionally well in 2016 and could fall from their highs if speculative activity in China does reverse strongly but we think they would still settle at prices above those forecast at the start of 2016 as the underlying fundamentals have improved. There is the risk that an economic shock in China could derail the mining recovery but, as we have seen early in 2016, the authorities in China have levers which they are not afraid to pull to avoid a hard-landing scenario.

The companies themselves are in a stronger financial position than a year ago, particularly on the mining side, and are still valued at a discount to the wider equity market. If management teams remain disciplined in their capital allocation and do not make the same mistakes they made in the post financial crisis upcycle then the sector is well positioned to deliver for investors.

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Technology

Robert Jeens, chairman, Allianz Technology: Since the end of the reporting period markets have performed well, reflecting hope that the new US administration will prove positive for the economy both within the US and globally. However the world's financial system continues to face significant challenges, which include questions around geopolitical stability, the health of the global economy and the impact of diverging monetary policies between the US and the rest of the world. While the global economy is expected to grow at a slow pace, we continue to see attractive investment opportunities in technology. It is to be expected that some of the more mature industries will see limited growth. Technology, however, can create new markets, provide lower cost ways of doing things and generate growth when other sectors are less buoyant. Whilst many technology share prices reflect demanding multiples, company balance sheets in the sector are unusually strong. Your Investment Management team is seeing a wave of innovation in the sector that they believe has the potential to produce attractive returns for companies with best in class solutions. Stock selection will be of paramount importance, but it is expected that a carefully selected portfolio of technology investments should be able to perform well over the longer term despite current headwinds.

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Walter Price, manager, Allianz Technology: We believe the policy changes the Trump administration is proposing should be good for the economy and business, which should lead to higher economic growth. A stronger US economy, potentially lower corporate taxes, and rising interest rates are all good for technology companies. We could potentially see more spending on innovative technologies, which could benefit higher growth companies; M&A activity could rise if large companies repatriate cash back to the US; we also believe that valuations are more favourable for high growth companies focusing on profit growth; and in addition to our exposure to high growth and Growth at a Reasonable Price ("GARP") companies, large and mega companies could benefit from cash repatriation in the US.

Over the next few months, there may be a continued migration from the technology sector into other cyclical sectors that have been hurt by recent policies, such as banks, and beneficiaries of low taxes, such as the consumer durable industries. However, after the shift to other sectors subsides, the technology sector should benefit from a better US economy and the stocks should participate in the rising stock market.

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

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

Despite high valuations for some cloud and internet companies, we continue to see massive addressable markets much larger than the revenue today. However, we have consolidated our exposure to these areas in select companies having the most compelling solutions and whose business models demonstrate a discernible path to deliver strong earnings and cash flow growth over the next few years.

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

AI is also becoming a significant trend. From consumer goods, such as the Amazon Echo, to autonomous driving, practical applications of AI are emerging. We expect AI will increasingly be used to make our lives more convenient.

Lastly, we believe the Augmented/Virtual Reality (AR and VR) theme is poised to accelerate in 2017. This theme has been slow to take off due to insufficient and expensive hardware and relatively new software applications. However, declining hardware costs, more gaming software availability, new mobile phones from Apple and Google, and ongoing AR work by Microsoft and Tesla with productivity applications should pave the way for this theme to deliver attractive growth.

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Katie Potts, manager, Herald Investment Trust: Smaller companies were in the shade for a period when the big consumer names were in the limelight, and generalist fund managers were investing in Facebook, Amazon, Netflix and Google (Alphabet). This year has seen a bit of a catch up from the myriad of technology companies that are behind the scenes enabling the internet. We are moving to a period where internet growth is sub 10%, but that does not mean that at the smaller end there are not still many opportunities. The automotive sector has become a hot talking point as cars move towards being driverless. Batteries remain the stumbling block for full electric vehicles but plug-in hybrids are quite practical. The trends are evident. Cheap electricity is incredibly exciting. Now that solar panels and wind turbines have become so inexpensive, it opens the prospect of a great proportion of the earth's population enjoying mobile phones, and the technology that drives GDP growth.

In the UK (and Ireland) there has been a surge in venture investing. Figures from Ascendant Corporate Finance suggest GBP2,591m was invested in 2015 in 534 deals and GBP2,248m in the first three quarters of 2016 in 459 companies. Meanwhile the university funds continue to gain assets. I am doubtful whether they will achieve good returns but optimistic that some of the companies that have been seeded will require follow on funding in due course and this will provide a pipeline of IPOs. In addition there is a particularly entrepreneurial culture in the UK. In part, this comes from bright graduates emerging from university with debt, who struggle to find secure lucrative employment in the conventional way and are eager to take the risk. Inward investment by the US technology companies has become significant. We are in a knowledge based world where skills are more valuable than capital. This is reflected in huge pay packages in Silicon Valley in particular. Bright developers prefer to work for a start-up with share incentivisation rather than in established businesses. In order to keep staff, established businesses have responded by giving restricted stock units, or shares that vest after time. When I hear companies justifying 5% dilution each year to keep good staff I shiver, and think of adverts in 2007 for 125% mortgages. It is a bubble and many valuations do not reflect the viciousness of this dilution. The side effect is that large US companies want to expand outside the Californian hotspots, and thanks to sterling weakness, an available skill set and work ethic, London is a target. I was initially dismayed that US companies kept buying the UK's good companies cheaply, and now they are just buying the people, including poaching staff from investee companies. On reflection, it is good news because these big companies will train people, and some will leave and start businesses. It is noticeable that the last generation of tech companies including Microsoft, Cisco and Oracle came to the M4 corridor. The new generation including Google, Apple and Amazon are focused on central London.

As far as Brexit is concerned, portfolio companies do not seem perturbed. Regulation in its widest sense is the frustration and I sense that is why so many of the entrepreneurial CEOs in our UK portfolio seemed to vote for Brexit. I grew up as a child in an era of militant trade unions. They were the managements' challenge. Unions have long since ceased to be the headache, but the law in its widest sense has become the big headache, because it encroaches on business practices more intrusively than right and wrong.

The sector continues to provide attractive opportunities. On valuation grounds the UK seems the most attractive, but at the small end where illiquidity is at its most challenging. The overseas listings have had the currency bounce, while UK companies with overseas earnings should benefit over time on translation of profits.

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