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Monthly summary | Investment companies

September 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

As tension rose on the Korean peninsula, gold rallied and the dollar weakened. Emerging markets led the way, helped by favourable numbers from China. Russia and Brazil had a good month. Stronger sterling fed through to a drop in the UK market.

Global

Easy money policies are drawing to an end. Some commentators feel markets are expensive and some see opportunities in emerging markets and value stocks.

Patrick Gifford, chairman of Invesco Perpetual Select, highlights a divergence between an improving economic outlook and the dramatic political scene. He thinks that markets have not yet reached peak optimism. Nick Mustoe, Invesco's chief investment officer and manager of the global equity income portfolio of Invesco Perpetual Select, says that the US market looks expensive on many measures. Scott Wolle, manager of the fund's Balanced Risk portfolio, suggests that we might start to see monetary tightening. Harry Henderson, chairman of Witan, says that this is likely to exert upward pressure on bond yields and equity investors will need earnings growth to compensate for this. Kevin Carter, writing in his capacity as chairman of Murray International, favours the developing world over the debt-laden developed world. Teddy Tulloch, chairman of EP Global Opportunities, advises an increasingly cautious stance but foresees a beneficial environment for investors in value-based stocks.

Exchange Rate	31/08/17	Chg. on month %
GBP / USD	1.2930	-2.2
USD / EUR	0.8397	-0.6
USD / JPY	109.98	-0.3
USD / CHF	0.9587	-0.8
USD / CNY	6.5901	-2.0

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/08/16 to 31/08/17

Source: Bloomberg, Marten & Co

	31/08/17	Chg. on month %
Oil (Brent)	52.38	-0.5
Gold	1321.43	+4.1
US Tsy 10 yr yield	2.117	-7.7
UK Gilt 10 yr yield	1.034	-15.9
Bund 10 yr yield	0.360	-33.5

Source: Bloomberg, Marten & Co

United Kingdom

Brexit negotiations are preoccupying UK investors. The election result may be helpful for business.

James Goldstone, manager of Invesco Perpetual Select's UK equity portfolio, feels that valuations are not overstretched. He thinks that sterling strength/weakness is the key macro factor to watch in the near term. Jamie Cayzer-Colvin, chairman of Henderson Smaller Companies, thinks sterling will remain weak until the way forward for the UK, post Brexit, is resolved. The manager of that fund thinks the election result will mean a more conciliatory stance from UK negotiators. Margaret Littlejohns, chairman of Henderson High Income, believes markets will remain volatile during this period. Andrew Sutch, chairman of JPMorgan Claverhouse, thinks the election result opens up the possibility of a transitional period post Brexit, which he thinks would be business friendly. The managers of that fund also think that this helps the UK's interest rates stay lower for longer.

India

Politically and economically India is powering ahead but valuations look rich

Fred Carr, chairman of India Capital Growth, hails the reform agenda of the Bharatiya Janata Party and thinks the party could win a second five-year term in 2019. The managers of the fund point out a number of positive economic developments but caution that the market is looking expensive.

Japan

Japan's political stability and low valuations look attractive

Noel Lamb, chairman of Atlantis Japan, thinks corporate governance reforms are working and praises Japan's political stability in a world awash with populism. The investment advisers to the fund think Japanese valuations look low when compared to other developed economies. They expect the economy to expand at 1%-1.5% a year for the next 2-3 years.

North America

The US economic cycle is mature but we aren't about to plunge into a recession

Kevin Carter, chairman of JPMorgan American, acknowledges that the economic cycle in the US is mature and thinks equity prices could be quite volatile. The manager of that fund says high valuations, particularly for low volatility stocks, are a cause for concern but sees a low risk of recession in the near term and is confident that corporate earnings will continue to rise. The managers of JPMorgan US Smaller Companies agree with this assessment but suggest it is worth keeping an eye on the possible consequences of an unwinding of loose monetary policies. The managers of Canadian General Investments think investors have become overly cautious about Canada and are watching to see what NAFTA negotiations bring.

Commodities and natural resources

Energy prices could be volatile, miners could be cheap

Riverstone Energy notes that US oil production is near highs as producers focus on low cost, productive locations. They highlight the possible consequences of rising costs in the industry and expect energy prices to be volatile. Ian Cockerill, chairman of BlackRock World Mining, is upbeat, pointing to capital discipline, healthy margins and

balance sheets, and rising dividends. The managers of the fund take us through the prospects for a range of commodities and conclude by saying that valuations look anomalous given what they see as decent demand for commodities.

UK Property

Property market, with the possible exception of City of London offices, shrugs off Brexit

Richard Jewson, chairman of Tritax Big Box REIT, says the market for 'big boxes' has strengthened since the EU referendum but says there is increased competition for acquisitions. The managers of the fund take us through the dynamics of that market. Chris Russell, chairman of F&C Commercial Property, expects that the prospect of rising interest rates will become a bigger factor in investment decisions. Richard Kirby, the manager of that fund, says Brexit negotiations are weighing on the market and is particularly cautious on the outlook for Central London offices. Robert Peto, chairman of Standard Life Investments Property Income, agrees but thinks that the fundamentals for the sector as a whole remain robust. The manager of that fund points out that lending to the sector is at a lower level than in 2007/8 and says developments levels are constrained by historic standards.

Other

In addition, we have comment on Asia from Aberdeen Asian Income, the Debt sector, from City Merchants High Yield, NB Global Floating Rate Income and Honeycomb. BBGI takes us through the prospects for the infrastructure sector. Hamish Mair, manager of F&C Private Equity, talks about his sector. CatCo Reinsurance comment on the reinsurance market and Alexander Ohlsson, chairman of Foresight Solar, talks about developments in the solar power market in the UK and elsewhere.

Contents

Global

(compare Global funds **here**)

Patrick Gifford, chairman, Invesco Perpetual Select: There is a marked divergence between the economic outlook and the political scene worldwide. Economically the picture is improving almost everywhere, with the UK as a possible exception, and the OECD has generally raised its growth forecasts. Employment is rising and there are signs of greater wage growth, though generally either regionally or skill-based rather than economy-wide. In consequence it seems reasonable to expect a rebalancing of economic policy, at least by independent central banks, away from the exceptionally easy money policies which have dominated since 2008. However, more accommodative fiscal policies look more distant, particularly in the US and UK which are both deadlocked politically. Regionally, the biggest changes are in Europe, where the Eurozone is finally growing more evenly and reducing the stresses caused by the Euro and in the UK, where growth now appears to be under pressure.

Politically the scene is much more dramatic. The unexpected combination in the UK of an inconclusive General Election and the difficulties and uncertainties of "Brexit" make for a very problematic outlook, both politically and economically as major uncertainties persist, no matter who is in government. While this may well mean that a potential "Brexit" is softer it is likely to make the negotiations and their implementation extremely difficult. My plea in an earlier statement that the US system should remain dysfunctional if Donald Trump became President has been answered positively to an embarrassing extent. Domestic government has been erratic in its implementation and internationally the US has become an unreliable partner, to the probable advantage especially of China. No resolution is in sight.

Elsewhere, the political scene is more stable. The economic recovery in the Eurozone has definitely helped mainstream politicians, though a lasting solution to the problems of the common currency is likely to be difficult to achieve. The Middle East seems tragically to be condemned to war and disruption without end as political rivalries and stirred-up religious hatred combine. External intervention is only likely to be short term and palliative and unlikely to lead to longer term peace.

Against this political and economic background securities markets have been calm. Equities and bonds both appear rather expensive, particularly the latter. However, there remain plenty of things for markets to worry about, which suggests that they have not yet reached a peak of optimism. The UK market should be helped by its relative lack of exposure to its domestic economy.

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Nick Mustoe, manager, Invesco Perpetual Select Global Equity Income: Our global outlook remains one of slow and prolonged economic growth, against a backdrop of some market uncertainty. The surprise outcome of the UK general election in June and its potential impact on Brexit negotiations have added to this uncertainty. Other factors include the forthcoming elections in Germany and Italy, while in the US President Trump's ability to implement spending and tax-cut plans is far from certain. With the European economic recovery continuing to gain ground, we remain optimistic that a number of European companies offer compelling relative valuation opportunities and should benefit from the combined tailwinds of a weak euro and loose monetary policy. In Asia, we also see positive signs of structural reform in a number of countries. We had hoped the election of President Trump would herald more infrastructure spending in the US, as well as a simplification of the tax code.

However, those policies may be severely watered down. Meanwhile the US market looks expensive to us on many measures.

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Scott Wolle, manager, Invesco Perpetual Select Balanced Risk: The second half of 2017 may well find reduced monetary policy support and possibly the beginning of monetary tightening, assuming central banks view economic data as being supportive of such actions. Politics remains a wildcard, as tension and discord have become the standard with angry voters making it challenging, if not impossible, for representatives to collaborate and forge solutions.

Despite the daunting challenges policy makers face, global economic conditions have improved slightly and remain stable. Headline unemployment rates remain low with job growth showing some improvement despite tepid wage growth rates. Top line inflation numbers have shown some uptick globally, but this is mostly due to the pick up in year-on-year gains in energy prices.

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Harry Henderson, chairman, Witan: Economic recovery appears to have taken firmer root in Europe and Japan, while remaining established in the US. Although there are some concerns over the ability of China to maintain robust growth while addressing excesses in its banking system, so far these have proven incorrect, or at least premature.

Several of the world's Central Banks signalled in late June that they were sufficiently reassured by the recovery, and receding risks of deflation, to tighten the stance of monetary policy. In the US this has taken the form of rising short-term interest rates and a plan to reduce the Federal Reserve's bond holdings. In the UK and Europe, actual tightening seems a more distant prospect but the nuance has changed towards reducing monetary support for the economy.

Over the year ahead, a combination of gradually-rising interest rates and reduced central bank buying of bonds is likely to exert upward pressure on bond yields, presenting a valuation headwind for equities. Equity investors will need confirmation that a tailwind from improving corporate earnings is in place to offset this. Recent inflation numbers worldwide suggest a relatively modest underlying rise, which should allow the central banks to take their time in tightening and reduce the extent of any rise in longer-term bond yields. It also seems likely that the improvement in corporate earnings will be unevenly distributed, with positive cyclical effects interacting with disruption from technological change in many sectors.

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Kevin Carter, chairman, Murray International: I have previously observed that the distortions in the global financial landscape stretching out in front of us would prove extremely challenging for savers and investors alike. Artificially low bond yields and historically extended equity valuations continue to prevail, compounded further by escalating political disquiet. There can be little doubt that the impact of political uncertainty on the future path of interest rates and fragile economic growth will become an increasingly powerful influence on financial markets. Unfortunately its magnitude, geography and consequences are virtually impossible to predict.

Beyond these uncertainties, the reality of investment management must focus on more tangible possibilities. Compelling evidence suggests the developing world still possesses powerful, wealth-creating forces from rising incomes, favourable demographics, improving economic fundamentals and numerous businesses

favourably positioned to capitalise on opportunities that arise. Sadly, for the debt-laden developed world the outlook is essentially the exact opposite.

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Teddy Tulloch, chairman, EP Global Opportunities: The global economy is now on an improving trend. While the International Monetary Fund recently reduced growth forecasts for the US and UK, it increased them for Europe's major economies and is still forecasting world economic growth of 3.5 per cent in 2017 and 3.6 per cent in 2018. We believe that the period of artificially low interest rates and bond yields is starting to come to an end, although Governments worldwide will not wish to risk damaging the economic recovery prematurely by tightening monetary policy too rapidly as they need continued economic growth in order to reduce their large fiscal deficits.

Given the strong rise in global equity markets seen in recent years, which continued into the first half of 2017, it makes sense to take an increasingly cautious stance, with an increasing emphasis placed on the potential risks of investment relative to the potential rewards.

However, despite a degree of caution after an extended period in which momentum and other associated factors have driven share prices higher, we believe the current investment backdrop provides a beneficial environment for investors in value-based stocks.

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United Kingdom

(compare UK funds **here**)

James Goldstone, manager, Invesco Perpetual Select UK Equity: Despite the ongoing rally, the UK equity market valuation does not look overstretched at a headline level and is currently trading at around 14 times 12-month forward earnings. At both stock and sector level there still appear to be a number of undervalued companies, particularly in domestic cyclicals and the portfolio has been tilted in that direction. The consumption component of GDP has surprised on the upside since the EU referendum, but it will be interesting to see how this trend fares against a backdrop of higher headline inflation resulting from sterling weakness. It has been assumed that wage growth would keep pace with and mitigate headline CPI, preserving disposable incomes; however, recent months' wage data has fallen behind and it is fair to say that this has started to become a cause for some concern.

In this regard the bounce in sterling in response to the government's call for a snap general election brought some relief with strengthened sterling alleviating some pressure from imported food and energy prices, reducing the onus on wage growth to preserve consumers' spending power.

At the same time, strong sterling, if sustained, could present some headwinds for sectors which have benefited from currency related upgrades since the referendum, such as mining and energy. The movements of sterling will remain the key macro factor to watch in the near term. The surprise outcome of the general election and the opening weeks of Brexit negotiations have provided additional political uncertainty.

Beyond the UK, the outlook for US interest rates and economic growth remains uncertain as President Trump struggles to enact the pro-growth elements of his agenda necessary to free up budget for tax cuts. Against that, his recent interaction with President Xi of China appears to have been successful, which may alleviate some concerns around trade.

Against this backdrop, the market continues to present opportunities to invest in undervalued companies with strong balance sheets, strong performance track records and established market positions, which are well-equipped to weather further uncertainty ahead.

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Jamie Cayzer-Colvin, chairman, Henderson Smaller Companies: Last year was dominated by two important votes; the Brexit referendum and the US Presidential elections. The outcomes of these events were a surprise to many people, not least the world's equity markets, and have been a major influence on their movements since. I said last year that uncertainty would remain until investors felt confident that the way forward for the UK was resolved. Given these conditions it seems unlikely that interest rates will rise significantly anytime soon and therefore sterling is likely to remain weak.

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Neil Hermon, manager, Henderson Smaller Companies: The recent UK General Election represented a political gamble that has spectacularly failed for the Conservative Party. Pre-election expectation of a significantly increased majority in the House of Commons have now transformed into a hung Parliament and a minority Government supported by a 'confidence and supply' arrangement with the Democratic Unionist Party. The frailties and complexities of such an arrangement combined with the narrow majority it provides means it is highly unlikely that the current Government will last its full term and indeed there is a reasonable chance that we will have another election in the short to medium term. At the same time, the UK Government is entering into Brexit negotiations with the EU. There is clearly a range of outcomes from these negotiations but what deal the UK will end up with is, at this point, unclear. One potential positive from the recent election is a more conciliatory stance from the UK in these negotiations and a softer Brexit as an outcome.

This political uncertainty will probably make UK consumers cautious. At the same time they are facing the pressure of more expensive imported goods. This has already squeezed consumers' net disposable income as wage inflation fails to match price inflation.

Outside the UK, economic conditions remain mixed, but on balance things seem to be getting better, particularly in the US and Europe. The recent rises in US interest rates have flagged to investors that loose global monetary conditions will at some stage reverse. However the 'normalisation' of monetary policy will probably be a slow and measured process.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008-9. Balance sheets are more robust and dividends are growing. In addition, a large proportion of UK corporate earnings comes from overseas, even among smaller companies, and will be boosted by the devaluation of sterling.

In terms of valuations, the equity market is roughly in line with long term averages. M&A remains a supportive feature for the smaller companies area. If corporate confidence improves, M&A will increase, especially as little or no return can currently be generated from cash and the cost of debt is historically low.

Margaret Littlejohns, chairman, Henderson High Income: The health of the global economy is steadily improving. Europe is now beginning to recover from its financial difficulties and has lately shown more cohesion following the rejection by the Netherlands and France of extreme nationalism in their recent elections. Britain and the European Union, however, still need to resolve the significant issues raised by Brexit now that Article 50 has been triggered. Negotiations have been further complicated for the current Conservative Government by the loss of an overall majority. Until greater clarity about the terms of Britain's withdrawal from the EU emerges, the next couple of years are likely to be characterised by more market volatility. There may be increasing pressure on Central Banks, including the Bank of England, to begin reversing their accommodating policies of "easy money" by tapering their bond purchases and increasing interest rates in due course, should the recent rise in inflation prove persistent.

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Andrew Sutch, chairman, JPMorgan Claverhouse: It seems inevitable that sentiment in the UK stockmarket over the coming months will be dominated by developments in the Brexit negotiations and any further upheavals in the British political scene. There is, in my view, now a greater likelihood than before that transitional arrangements covering many aspects of Britain's EU exit will be agreed for the period after March 2019 and thus there is some hope that the outcome will be more business friendly than might earlier have been expected. However, considerable uncertainty will remain for some time, which will not help companies with their business and investment decisions.

There have been mixed messages about the ability of UK companies to continue paying the level of dividends that they have paid in recent years. There has been concern that, with UK growth slowing, the earnings and dividends of more domestically focussed companies would be put under strain. While this remains the case, it is likely that UK companies are heading for the highest total of dividends ever paid this year, due to the lower pound which has increased the sterling value of international earnings.

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William Meadon and Sarah Emly, managers, JPMorgan Claverhouse: The economic and political outlook for the second half of 2017 and beyond has become more uncertain. The Prime Minister's authority has evaporated and only the lack of appetite on the Conservative benches for another leadership election keeps her in place. At some stage that will change but, for the moment at least, Mrs May is likely to remain in office, a much diminished figure whose position as Prime Minister hangs by a thread, ready to be cut once her party has re-grouped.

However, at least two good things should come out of a compromised, minority government: firstly, the likelihood of a more business friendly Brexit and secondly, against such an uncertain backdrop, the likelihood of interest rates staying lower for even longer. Both of these should provide some support for equities. Sterling may well weaken further from here, but this would, at the margin, be good for overseas earners and exporters. Moreover, global growth is accelerating and equities are also a better hedge than bonds or cash against the UK's rising inflation.

Notwithstanding all of the above, we will be led by events, many of which will be difficult to predict.

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Asia

(compare Asian funds **here**)

Peter Arthur, chairman, Aberdeen Asian Income: Asian stockmarkets have made a sharp comeback since their relative sluggishness in the preceding period, buoyed by optimism about a worldwide economic recovery. Chinese demand remains closely watched given the influence on regional trade but there are also concerns about rising financial leverage in China as shadow banking activity shows little sign of abating. Political risks in the region continue to be a wild card while inflation in Asia could pick up if commodities recover.

Nevertheless, there are compelling reasons to remain invested in Asia. Population demographics and a rising middle class offer good potential for long-term growth. Many companies that had delayed capital expenditure on the back of the softened macroeconomic backdrop redirected their cash towards paying down debt obligations and strengthening balance sheets. We are beginning to see a trough in earnings downgrades in Asia and our holdings are starting to see a recovery in earnings. We remain positive for the longer term as Asia's contribution to global nominal GDP far outstrips Asia's representation in the world index, and dividend yield remains higher relative to the Western markets.

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India

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

Fred Carr, chairman, India Capital Growth Fund: Whilst it would appear that the demonetisation exercise created a spark to reignite interest in India's equity story, it is the broader reform agenda orchestrated by the Prime Minister that is whetting investors' appetites. The budget was well received by investors, particularly for its fiscal prudence, and this was shortly followed by the ruling Bharatiya Janata Party winning a number of key State elections, particularly in Uttar Pradesh, India's most populous state, suggesting Modi's party currently looks set to win a second five-year term in 2019. More recently the Government is grappling with the substantial task of implementing the recently passed Goods and Services Tax ("GST") Bill. Though likely to witness significant implementation challenges, once this has been bedded in effectively, GST is expected to bring significant improvements in corporate productivity and tax revenues for the Government.

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Ocean Dial Asset Management, managers, India Capital Growth Fund: On the macro front, GDP has been slowing in the last two quarters reporting 7% in December 2016 and 6.1% in March 2017, the slowest pace of quarterly growth for three years. This was partly a result of upward revision to earlier data but more a consequence of demonetisation, which virtually brought the economy to a halt for two weeks. Some pockets of the country are still to get back to normal. Concerns remain on the lack of capex by the private sector, which is still saddled with surplus capacity. Government spending has however accelerated. The Reserve Bank of India (RBI) however remains optimistic on growth, expecting gross value added (or GVA, a proxy for GDP) to improve to 7.4% in FY18 and 8.1% in FY19, with increased consumption demand

forecast to be the predominant driver of stronger growth. The monsoons also appear to be normal, and this bodes well for rural demand.

Another positive is on inflation. After a nine-month pause, the RBI announced a 25 basis points cut in the policy rate to 6% following a sharp fall in CPI inflation to 1.5% in June, mainly led by a fall in food prices. Going forward, RBI maintains a neutral stance as it expects inflation to move up in the range of 3.5% - 4.5% by the second half of FY18, as the base effect fades and assuming the States implement salary and allowance increases similar to those of the Central Government.

On the corporate front, results for the quarters to December 2016 and March 2017 indicated a lower impact of demonetisation on corporate profitability than was expected. Energy, Materials and Financials outperformed. Private sector banks reported healthy loan growth, predominantly in retail credit. However asset quality pressures persist mainly for the public sector banks. In efforts to meaningfully address the issue of non-performing assets in the public banking sector, the Government passed an ordinance (circumventing the legislative process) giving additional powers to the RBI. This should facilitate broader recognition by the banks of the extent of the problem, but falls short of addressing any far reaching solution.

Consumer Staples and Consumer Discretionary companies reported weaker volume growth impacted due to demonetisation. Encouragingly though, management commentary was upbeat, pointing to a swift resumption in demand as cash in the economy normalises. The IT sector's woes continue; weak earnings on the back of disappointing volume growth combining with currency pressure, and limp guidance for next year. Health Care also disappointed as pricing pressure in the USA on generic drugs persist, impacting companies' revenue growth and margins. Cement companies surprised positively however on better volumes, despite demonetisation concerns.

Indian equities appear no longer to be cheap, as markets have run up, while earnings are yet to catch up. Value stocks are increasingly hard to find. Aggregate price/earnings ratio for Main Board (BSE Sensex) stocks suggest the market is trading at 19x FY18 and 16.1x FY19 (Bloomberg consensus estimates) reported earnings against the longer term average of 16.1x. Given that FY18 earnings may disappoint due to GST implementation challenges and might get pushed to FY19, some caution at this point may be well advised.

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Japan

(compare Japanese funds **here**)

Noel Lamb, chairman, Atlantis Japan: Recently released economic data from Japan indicate the economic expansion, that began five quarters ago, continues with exports, household consumption and private sector capital expenditure making positive contributions to growth. Economists are projecting this balanced growth may be sustained over the medium term thus providing an encouraging backdrop for further corporate earnings growth as well.

Furthermore, the Japanese equity market is selling on lower Price-to-Earnings and Price-to-Book Ratios than other equity markets in developed economies.

As I commented in my Chairman's statement last year, the Japanese Corporate Governance Code, implemented in June 2015, has begun to have a meaningful

impact on Japanese corporate behaviour. I am pleased to note that over the past year Japanese companies, either through share buybacks and / or higher dividends, have increased the amount of cash being returned to shareholders by about 12%. It is also encouraging to see that financial targets, such as Return on Equity, are now being set by Japanese company management teams and strategies are being devised to map the company's progress toward those goals.

Lastly I believe global investors fail to appreciate, and adequately discount, Japan's political stability. In a world awash with populism, Japan's political calm is noteworthy.

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Tiburon partners LLP, managers, Atlantis Japan: The Investment Adviser believes that the outlook for Japanese equities is now encouraging with a strong tailwind for equity prices provided by sustained economic expansion feeding into rising corporate profits. In addition, the Bank of Japan is not expected to deviate from its loose monetary policy. Finally, Japanese equities presently carry exceptionally low valuations particularly when compared to other developed economies.

Recent data releases indicate that Japan's economy continues to expand. In the calendar quarter January to March 2017 Japan's GDP rose at a 1.0% annualized rate for its fifth consecutive quarterly increase. The major catalysts contributing to Japan's growth are export demand and private consumption. The export recovery has come despite a relatively firm currency and is occurring in both value and volume terms. External demand is being driven in particular by demand for capital goods, IT equipment and automobiles / parts from China, the rest of Asia and North American. Japan's merchandise trade surplus continues to be supplemented by a brisk 'in-bound' tourist flow resulting in a sizable current account surplus.

In addition green shoots are emerging which support the Investment Adviser's expectation of a sustained, balanced, economic recovery. The labour market continues to tighten and this has translated into greater availability of high paying full time jobs rather than lower rewarded part time employment. This should feed into wage gains, improving consumer confidence and eventually more robust household consumption. In response to tight employment conditions and the economy's capital stock operating at near capacity, Japanese corporations are revising upward their medium term capital expenditure plans.

Despite an exceptionally loose monetary policy which features yield targeting and an aggressive Japanese Government Bond purchase programme, deflationary expectations remain deeply rooted. Key price measurements still hover sluggishly around zero and the BoJ's +2% CPI target is unlikely to be attained in the medium term. That said, a degree of inflation could be injected into the economy through rising labour and commodity costs.

In summary the Investment Adviser expects the Japanese economy over the next 2-3 years to expand at an annualized rate of approximately 1.0% to 1.5% supported by brisk external demand and private sector capital spending with a modest contribution from household spending. Risks to this scenario would be a steep appreciation of the Yen, intensified geopolitical hostility in the troubled northeast corner of Asia, and a sharp Chinese economic deceleration.

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North America

(compare North American funds **here**)

Kevin Carter, chairman, JPMorgan American: It is indisputable that the current economic cycle in the US is mature, certainly by comparisons with history. The Federal Reserve has begun to raise short term interest rates and is making an attempt to restore some kind of normality to monetary policy after the many years of unorthodox Quantitative Easing. Even so, Fed Chair Janet Yellen has indicated that prospective interest rate rises will likely be modest as the cycle proceeds.

Company profits will be under some pressure but expectations are that no major decline will occur. Equity valuations are high but not extreme by historic standards. Investors have to digest this environment against a background of the political and policy uncertainty that characterises the present White House. Taken together there must be an expectation that equity prices could be quite volatile from time to time over the forthcoming period.

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Garrett Fish, manager, JPMorgan American: Our fundamental outlook for continued US economic expansion and associated growth in corporate earnings remains intact. However, we would be remiss not to address the risks currently facing US equity markets. Higher equity valuations in the US, particularly for low volatility stocks, present some cause for concern. Rich valuations for low volatility and low beta equities have yet to be corrected. These high prices continue to pose risks for investors searching for yield in a still-low interest rate environment. In China, financial sector leverage has risen steadily in the past few years, although the debt burden is not as great as it has been in past cycles. Also of particular interest to investors is the impact of the Fed's interest rate hikes on the pace of economic growth. Other risks are whether any of the recommended policies from the new Presidential administration will be fully enacted. While there are risks the economy continues to grow at a very modest rate, inflation remains very low by historical standards and wage rates remain muted even with a very low unemployment rate.

Although the US economy is entering late cycle, we see a low risk of a recession in the near term, expecting earnings growth to remain on an upward trajectory. As prudent investors, we must be vigilant in identifying all potential sources of volatility. Central banks around the globe are beginning to signal the deceleration of their balance sheet expansion. The consequences for equity investors are somewhat unclear. We are encouraged by historically attractive equity valuations relative to the bond markets, but we also are wary of the unintended shocks and consequences from the ending of what is, after all, an unprecedented monetary experiment. Headlines coming out of Washington can create additional uncertainty as well. However, it is the confidence in our forecast for continued earnings growth that supports our view that equity markets can continue their upward trend.

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Canadian General Investments: Many of the issues that have been holding back the Canadian markets should be addressed in the near-to-medium term. NAFTA negotiations are set to get underway soon, the U.S. administration is working its way through its policy agenda and economic indicators should confirm that global growth prospects remain favourable.

A saying that “the one constant is change” applies directly to equity markets and adjustments will occur as both real and perceived changes are incorporated into

markets. It seems that there has been an overly negative bias built into the outlook for the Canadian market compared to other markets and, if the overriding concerns are resolved, their alleviation has the potential to greatly improve prospects.

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Don San Jose and Dan Percella, managers JPMorgan US Smaller Companies: With markets flirting with all-time highs, investors have grown increasingly concerned with valuations. In our view, compared with historic measures, US stocks are trading somewhat above long run equilibrium but not excessively so. Relative to bonds, equities still look attractive with the earnings yield (inverse of P/E) well ahead of the bond yield.

At the time of writing this report, Wall Street's 2017 estimates stand at 7% earnings growth for small caps, as measured by the Russell 2000 Index. Absent the passage of meaningful pro-growth policy reforms, we expect US economic growth to remain at levels consistent with its post-recovery average. While we consider the odds of a near-term recession to be low, we remain cognizant of the inherent risks of a fluid geopolitical environment globally. We will also be paying close attention to the unwinding of the greatest monetary experiment in history. As the Fed and other central banks around the world start to reduce their balance sheets we need to be vigilant for potential unintended consequences. An area of obvious concern would be companies with excessive leverage, although some of the egregious examples in energy and M&A related health care have already corrected.

We think stock prices can continue to move higher, albeit at a slower pace and with the occasional episodes of volatility that are an inevitable fact of life for equity investors.

With fewer overwhelming macroeconomic trends expected in the year ahead, company fundamentals should emerge as critical factors in driving stock performance.

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Commodities and natural resources

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

Riverstone Energy: The oil market rebalancing, which we saw earlier in the year, has paused as drillers across North America responded to temporarily higher oil prices. This, along with plentiful access to equity and credit, has resulted in oil production once again increasing in North America.

Drilling activity in the United States, measured by oil rigs, remains at less than half of its peak in late 2014. Nevertheless, oil production continues to expand, approaching record levels, with 9.4 million barrels per day at the end of June. Several forces have contributed to this growth. Producers continue to be selective in where they choose to drill, focusing primarily on the most productive locations which allow them to extract hydrocarbons at the lowest cost. For this reason, areas such as the Permian Basin of Texas with its multiple layers of oil-bearing shale are seeing significantly increased rig activity and growing production, while activity in higher-cost regions remains muted. Second, the "revolution" of hydraulic fracturing continues to evolve as engineers increase well productivity through longer laterals, higher frac stages, tighter cluster spacing and more intense fracs. This has resulted in higher well productivity and lower per barrel well costs, and is further supported by cyclical declines in supply

chain service costs. Finally, strong capital availability, particularly when oil traded above $50 per barrel earlier in the year, has fuelled drilling activity by allowing producers to access capital markets on relatively advantageous terms.

Energy prices are likely to continue to be volatile as the market, in search of equilibrium, parses through the abundance of data generated by both North American producers and OPEC. We continue to monitor a number of drivers, in addition to commodity prices, which could impact production growth going forward. These include cost inflation as producers pour into select geographies thereby increasing demand for water, sand, frac crews and other services and also the exploitation of core acreage within a basin, forcing drillers into fringe acreage following several years of "high-grading." As described above, credit conditions play a key role in enabling or curbing capital expenditure plans. With many producers free cashflow negative across the industry, a tightening of capital availability would significantly rein-in drilling activity. This could have a pronounced impact on supply due to shale's larger share of North American production, which experiences sharp decline rates relative to conventional wells, and therefore requires continued expenditure to maintain production levels.

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Ian Cockerill, chairman, BlackRock World Mining: After the difficulties of the last few years it is pleasing to see capital discipline now in place across much of the mining sector. The combination of this with healthy margins, strong balance sheets and the prospect of increasing cash returns to shareholders makes us feel positive about the outlook. The sell-off in the sector was at odds with the fundamentals and we can only put this down to investors still questioning whether management teams will remain disciplined in the way they allocate capital. Sizeable increases in dividends paves the way for the doubters to refresh their views and, if the cash returns continue, then the industry could see a rerating in share prices over time.

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Evy Hambro and Olivia Markham, managers, BlackRock World Mining:

BASE METALS

Base metal prices continued their run during the first half of 2017, with global restocking and improved fundamentals seeing all metals (except nickel) trade higher. The consequence of underinvestment over the last five years is now beginning to be felt in commodity markets and we feel that this is supportive for prices at current levels and leaves room for moves higher if companies continue to be disciplined.

Supply side disruptions have dominated the copper market during the first half of the year, with the world's top three mines (10% of global supply) out, or down simultaneously, at one stage. While production has resumed at Escondida and Cerro Verde, strikes and discussions continue around the still unresolved Contract of Work at Freeport's Indonesian Grasberg operation. We see a broadly stable copper market over the next few years, but retain our longstanding view that the market looks set to tighten beyond 2019 on falling Chilean mine supply driven by grade decline.

The darling of the base metals over the last year, zinc, has continued its run higher rising 7.6% year-to-date, with the average first half 2017 price +49.1% year-on-year. With inventories on both the London Metal Exchange (LME) and Shanghai Futures Exchange (SHFE) declining to 'price critical levels', premiums rising and Chinese domestic supply faltering, the price looks set to test the US$3,000/t level again. A key focus for the market is when Glencore looks to bring back the production it took off the market in 2015, when prices were much lower.

The Chinese government push to rationalise the aluminum industry (as they have done with steel and coal) has led to it being the best performing base metal increasing by 12.3% year-to-date. The test will be whether or not the industry can reverse the behavior of the past and remain disciplined now that prices have risen. Finally, on nickel, the industry continues to face headwinds - primarily the relaxation of the nickel ore ban in Indonesia and the Philippines that was imposed last year.

GOLD AND PRECIOUS METALS

The macro environment has given mixed messages for gold this year. A strong US economy, rising US interest rates and clarity on European election fears were all negative for the price of gold, whilst rising geopolitical tensions in North Korea and the Middle East have been supportive for gold, alongside the prospect of newly mined production starting to fall.

The sell-off in the gold price post the US Presidential election and Trump's pro-growth agenda in November last year was short lived and prices soon recovered. However, as we entered the second quarter of 2017, gold gave back much of its earlier gains with the US Federal Reserve (the Fed) beginning its rate hike cycle targeting three rate increases in 2017, with a longer term target of 3%. The focus for the market is now on the pace and trajectory of future rate rises and whether or not the Fed will continue to overlook weak economic data in order to achieve their longer term rate target. Should rates not rise as much as feared, this has the potential to be supportive for gold.

Investor appetite for gold remained positive despite the strong performance of broader equity markets. Gold exchange-traded funds recorded net inflows of 3.6Moz to approximately 60.7Moz at the end of June. Whilst lower than the record inflows seen during the first half of 2016, it highlights that investor appetite for safe-haven assets remains strong with political uncertainty in the US and Europe at the forefront of investors' minds.

Turning to the physical market, demand improved during the period largely driven by India, which saw exceptionally weak demand at the end of 2016. This was due to the impact of demonetisation, as the government withdrew the Rs 500 and Rs 1,000 notes which account for 85% of the notes in circulation as part of the government's plan to tackle corruption and tax evasion. While Indian demand was expected to recover it was quicker than anticipated, almost matching the pre-intervention years of 2011-2013. Chinese imports remained solid, while Central Bank purchases were a little stronger than in the last two years.

DIVERSIFIED MINING AND INDUSTRIAL METALS

China's economy has continued to outperform expectations during the first half of the year. Strong infrastructure and property investment has created a robust environment for steel demand, with China achieving record steel production in April of 886mtpa (annualised). Part of this has been driven by restocking and, as we look into the second half of the year, we believe demand will moderate but still remain at healthy levels.

Iron ore consumption in China has risen to a new high with spot iron ore prices peaking in February at US$94.5/t, but since mid-May have traded at a relatively steady range of US$59-62/t with tighter credit conditions imposed in the country. While the spot price has declined 30% since its February peak, the average first half 2017 price of US$74/t was in fact 15% higher than the average price in the second half of 2016. Unsurprisingly, this has seen the supply side respond with Chinese domestic production reaching its highest level since October 2014. However, the

major producers continue to remain disciplined with limited low-cost supply entering the market this year as Vale's S11D project continues to ramp-up.

The last 18 months has reminded investors of the upside tail risk in commodities, such as met coal and copper which face structural supply issues. The surge in met coal prices has resulted in windfall profits for a number of the low-cost producers.

The expected easing in thermal coal prices has taken longer to play out following the removal of China's supply restrictions put in place last year to support the price. While the spot thermal coal price is down 18% during the first half of 2017, the average price is flat on the second half of 2016. There is an assumption that Beijing will provide a floor to the price over the medium term, which has driven a rerating in a number of the thermal coal producers.

BATTERY MATERIALS

Whilst we live in an age of disruption, few industries have the potential to change as much as the automotive sector over the next decade. The rise of the electrified vehicle (EV) appears to have reached critical mass in terms of consumer preference, government incentive, technological capability and model launches from the automakers. Companies and countries alike are announcing goals on an almost monthly basis: Volvo has promised 100% electric drive trains by 2019 and China is targeting five million EVs and Hybrids on the road by 2020. Whilst the success of these goals will be proved over the coming years, the investments needed to meet them are being made now.

One of the keys to meeting this future demand will be the supply of raw materials particularly for the battery. Increases in demand for several metals including lithium, cobalt and nickel is widely anticipated and this means new mines must be incentivised to produce the additional volume of these metals through higher prices.

After a strong start to the year it was disappointing to see share prices fall from the February high and finish the period only marginally higher than when they started the year. This is in stark contrast to the strong margins, improving balance sheets and positive tone to the world economy meaning that improved profitability of the industry seems not to be recognised by investors as doubts persist that management will remain disciplined in the way they allocate capital. Recent tightening measures imposed in China, alongside slowing growth momentum, have concerned investors; however, the recent falls in share and commodity prices more than reflect this. Macroeconomic indicators continue to point to solid activity which should support decent commodity demand this year.

We see this valuation anomaly as an opportunity.

Debt

(compare debt funds **here**)

Tim Scholefield, chairman, City Merchants High Yield: The supportive environment enjoyed by high yield markets in the first half of the year might suggest that prospects are set fair. However, the Board agrees with the Manager's view that a note of caution is appropriate. Yields and credit spreads are at exceptionally low levels and history suggests that in this type of environment there is growing risk that prices might not fully reflect an issuer's long-term fundamental prospects. Moreover,

low yields owe much to the exceptionally easy monetary conditions maintained by central banks since the global financial crisis and toward the end of the period under review we were reminded of the challenges markets may well face when this largesse eventually starts to be unwound.

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Rhys Davies, Paul Read and Paul Causer, managers, City Merchants High Yield: Our view on the high yield market remains cautious. Yields are exceptionally low and credit spreads (the difference in yield between corporate and government bonds) are relatively tight. However, default rates remain low and, all else being equal, we would expect the default outlook to remain benign in the months ahead.

The focus of markets has now switched to the tapering of the European Central Bank's asset purchase programme. Discussion around this will be an important factor for markets and could cause yields to rise. Meanwhile other risks have reduced. Politics in Europe is now supportive of markets and the Eurozone economy continues to show signs of strength. Furthermore, the rescue of troubled banks in Italy, Spain and the UK has taken some of the risk out of the banking sector.

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Neuberger Berman Investment Advisers LLC, NB Global Floating Rate Income: Our outlook for the loan market remains positive. Generally we feel that issuers are performing steadily, leverage is being controlled and cash cover metrics are strong. The market today is pricing in approximately a 1.77% imputed U.S. default rate, which is in line with our 2017 expectations of 1.5 - 2.5%. We believe that moderate U.S. economic growth will lead to continued interest rate hikes which should be constructive for senior floating rate loans. We continue to believe that loans will be attractive given the returns on offer, the expected low volatility compared to other risk asset classes and their senior secured nature.

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Robert Sharpe, chairman, Honeycomb: Despite the competitive consumer finance marketplace, we believe that the retrenchment of mainstream lenders from specialist markets presents an opportunity to engage with customers in markets which are underserved by traditional lenders and platforms. We further believe that through targeting verticals that require a specialist understanding, more detailed underwriting, or where the vertical pre-selects higher quality borrowers, attractive risk-adjusted returns can be delivered with low volatility throughout the cycle.

We continue to closely monitor the political and economic uncertainty created by Brexit, however clear conclusions cannot yet be drawn.

The supervisory framework for consumer credit continues to develop under the Financial Conduct Authority (the "FCA") and the Prudential Regulation Authority (the "PRA") with a focus on good customer outcomes, income verification, affordability and forbearance, all subjects which are at the heart of our business. Developments in these areas have the potential to require changes to the way the industry transacts business, but we welcome oversight which encourages good customer outcomes. We will closely monitor the impact of the removal of the Term Funding Scheme ("TFS") by the Bank of England in February 2018, it may have some impact on the overall liquidity and competitive dynamics in the market, opportunities as well as risks may exist.

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Infrastructure

(compare infrastructure funds **here**)

BBGI SICAV: A key theme among investors remains the search for high-quality income, particularly from asset classes uncorrelated to general equity market volatility and economic cycles. This has made PPP infrastructure a very desirable asset class.

In the current market environment, yields on many asset classes, such as gilts, government bonds and cash deposits, remain at very low levels. Interest rates have started to increase slightly from historic lows, with this impacting on infrastructure valuations via the discount rates used in the discounted cash flow valuation methodologies, however there continues to be a very strong demand from both established and new investors in the infrastructure sector, who are bidding aggressively for PPP assets because of the attractive risk adjusted returns they generate. Demand for infrastructure investments continues to exceed supply and is resulting in continued pressure on pricing. While this continues to be positive for BBGI's portfolio valuation, it does make it more challenging to source accretive transactions in the secondary market.

North America - Canada

The Canadian market continues to deliver an impressive and transparent pipeline of primary development opportunities within an environment of strong political support. It also contains an emerging secondary market.

The use of the PPP delivery model is well established throughout Canada, with over 250 deals reaching financial close. The vast majority (over 240) have closed since 2004, and the current pipeline indicates this is poised to increase. The enhancement of infrastructure through the utilisation of private capital is a concept that has the firm backing of the Canadian government. The five most active regions of the country are Ontario, Saskatchewan, Alberta, British Columbia and Quebec with a number of future projects announced or planned in a variety of sectors.

We expect to see further activity in the Canadian secondary market in the coming years as a number of projects come into operation. Many of the projects developed over the last 3-5 years had prohibitions on re-sales until after construction completion. The expectation is that the equity interest in some of these projects may soon start to trade.

North America - U.S.

The U.S. is one of the largest infrastructure markets globally in terms of potential, with a substantial requirement for private investment. Current estimates are that over US$4 trillion in infrastructure spending will be required in the U.S. by 2020.

The scale of this infrastructure investment requires the government to look to the private sector to play an increasingly important role in delivering its critical projects. In response, most jurisdictions have now introduced specific legislation to enable PPP investment, with a primary focus on the transport sector.

Despite its promise, in the past 24 months only about 11 deals reached financial close with just over US$800 million of equity invested. We continue to be cautiously optimistic that future infrastructure spending may exceed recent levels, especially given that increased infrastructure investment has been a key policy platform of the Trump administration. In his "America's Infrastructure First" policy, President Trump

pledged to use "public-private partnerships, and other prudent funding opportunities" to deliver economic and jobs growth.

Europe

2016 was a reasonable year for the European PPP market and current indications suggest that 2017 will be more of the same. During 2016, the aggregate value of PPP transactions, which reached financial close in the European market, totalled EUR12 billion; 69 PPP transactions closed, including six large transactions (i.e. transactions in excess of EUR500 million).

The UK remained the most active market in Europe by number of projects, with 28 transactions closed in 2016 (compared to 15 in 2015). The UK had a total deal value in excess of GBP3.3 billion.

The UK, post the Brexit referendum, is now in what could be a prolonged period of political and economic uncertainty. It is difficult to assess with certainty the impact this environment may have on the future of UK PPP infrastructure investment. The recently established National Infrastructure Commission, an independent body headed by Lord Adonis, provides at least some comfort that there is long-term public sector thinking as to the needs of the UK infrastructure sector. Much of the UK pipeline will focus on the transportation sector.

In second place was France with a value of PPP transactions closed equal to EUR2.4 billion where two large transactions with toll or technology risk accounted for almost half of the French PPP market. Seven countries closed at least two deals and 10 countries closed at least one PPP transaction in 2016.

In Europe, the transportation sector remained by far the largest in terms of value. Education is the second most active sector, followed by Healthcare.

Looking to the future, Germany and the Netherlands are two of the more promising PPP markets in Europe with primarily new road projects planned under the PPP model.

Another promising PPP market is Norway. The Norwegian Public Road administration has provided information on two road PPPs it is planning to launch in 2018/19. These are the NOK 9 billion Rv555 motorway and the NOK 7 billion E10/RV 85. We are watching this market closely and as at the date of this announcement only three highway projects have been constructed as PPPs. There are other markets within Europe that are showing promise and may provide potential investment opportunities.

Australia & New Zealand

With a mature and continuing PPP market, Australian PPP deal flow has remained consistent. The need for significant private investment in the nation's infrastructure is anticipated to result in the emergence of a variety of innovative funding and financing models.

Infrastructure Partnerships Australia and BIS Oxford Economics' latest Australian Infrastructure Metric report, is forecasting an AUD2.6 billion rise in construction in the transport sector in 2017. Much of the new PPP work will be in New South Wales and the State of Victoria.

Another promising market is New Zealand. In May 2017, the New Zealand government released a budget announcing a doubling of its spending on infrastructure from just over NZ$2 billion (GBP1.1 billion) in 2016-17 to more than NZ$4 billion in 2017-18, with NZ$11 billion in total to be spent over the next four years.

Private equity

(compare private equity funds **here**)

Sir Laurie Magnus, chairman, Pantheon International: Despite global political and economic uncertainties, the private equity market remains buoyant and demand for good quality assets remains high.

Changing market dynamics are causing many companies to turn to private equity managers to raise capital rather than using the public markets.

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Hamish Mair, manager, F&C Private Equity: There is no doubt that experienced private equity managers with mature portfolios are taking advantage of current conditions to secure exits and many of the recently raised private equity funds, aided by a liquid banking sector, as well as trade buyers have facilitated this objective. It is pertinent to question whether in these circumstances it remains possible for private equity managers to find new deals at attractive prices. The perils of buying through a highly competitive auction process are well known to our investment partners and increasingly mid-market players source deals outside auctions through their own carefully created networks. In many of the European countries the private equity market is remarkably deep as the adoption of private equity for financing the growth of smaller and medium sized companies increases. Notwithstanding some unpredicted events in the political arena in the developed markets, confidence levels amongst investors and business people remain high.

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Property

(compare UK property funds **here**)

Richard Jewson, chairman, Tritax Big Box REIT: Over a year on from the EU Referendum vote, our market has strengthened, as evidenced by a continued supply vs demand imbalance both within the occupational and investment markets for "Big Boxes". The fundamentals of our market remain positive. Competition for high quality investments is ever greater, particularly for the smaller lot sizes, and this has led to further yield compression. Whilst this benefits valuation[s], it does mean that finding and executing acquisitions at attractive prices may become more challenging and take longer.

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Tritax Big Box REIT: Big Boxes offer previously unavailable flexibility, economies of scale and low cost of use. They are often the nucleus for distribution at a national level and increasingly at a regional level and can be the most important component of an occupier's supply chain. Many companies use Big Boxes to centralise previously dispersed distribution into fewer, larger facilities, helping to optimise staff and stock management and expand product ranges.

Demand for Big Boxes comes from three main sources: conventional and online retailers, third-party logistics companies (3PLs), and other companies such as manufacturers. These organisations are responding to structural changes in their markets, weaker economic growth and increased competition. Import costs have increased for UK businesses following the devaluation of Sterling. Companies are seeking ways of absorbing this imported inflation whilst protecting profits and minimising the impact on customers. Big Boxes can help deliver operational efficiencies and cost savings to absorb this cost price inflation, thereby protecting profits and enabling occupiers to remain price competitive.

Growth in e-commerce

The growth in e-commerce is unrelenting. According to the ONS, online sales in the UK increased by 15.9% in the year to June 2017 and now make up 16.2% of total retail sales. The convenience and value from buying online, coupled with reduced delivery times, mean that this trend has much further to go. Forecasts from eMarketer suggest that e-commerce is expected to grow to 23% of UK retail sales by 2020. Big Boxes are central to fulfilling these online sales.

Online retailers are also looking to improve their handling of returns, to ensure that goods are available for redistribution as quickly and efficiently as possible. Increasingly they are looking to add dedicated returns points to their Big Boxes, creating asset management opportunities for landlords and increasing occupier demand for buildings.

This omni-channel framework is becoming increasingly complicated and requires ever-more sophisticated buildings and systems to efficiently handle and distribute the myriad of orders. This favours modern and therefore more efficient buildings which tend to benefit from improved energy ratings, higher power availability, greater size (including height) and flexibility - features of our portfolio properties.

Strong occupational demand vs constrained supply

Occupational demand for Big Boxes continues to outstrip supply. Across the UK there is currently only one used and no new buildings of more than 500,000 sq ft that are vacant and are available to let. Developers are also not typically building Big Boxes greater than 400,000 sq ft on a speculative basis. This means that occupiers seeking a Big Box can usually only obtain one by agreeing a pre-let on a forward funded development. New sites are being brought forward and planning permissions are being granted for some developments but in a controlled way. The overall result is that supply remains constrained, with new Big Box logistics assets being built to meet demand rather than exceed it.

Competition for alternative land uses, particularly housing, have served to increase land prices following the recession, as have the rising cost of importing building materials and labour. Following several years of strong rental uplifts the imbalance between occupational supply and demand continues to be favourable for landlords although there are signs that the rate of UK logistics rental growth could be slowing to a more sustainable level.

Investment value growth

The structural change in UK retailing, caused by the growth in e-commerce and the desire to reduce costs and improve efficiency, has heightened occupier demand, which has in turn increased investment demand for UK Big Boxes. Investors are also drawn by the attractions of modern assets producing secure and growing rental incomes from well respected tenants with strong balance sheets. Both UK and

international investors are active in the market, with the latter typically looking for larger lot sizes and assets that offer capital preservation.

After the significant hardening of logistics yields over the last couple of years, the rate of yield compression had to slow, but we have been a little surprised by the extent to which values have continued to rise in the first half of 2017. The fundamentals of the market remain favourable; institutional property funds are re-weighting sector allocations in favour of industrial and logistics assets and overseas investment into the UK remains strong despite the prospect of Brexit. We therefore expect further value growth in the second half of 2017, continuing into 2018 but at a slower rate, partly due to lower-end yield resistance and also as a result of rental growth continuing but at more sustainable levels.

Although yields have hardened, investors can still source attractive assets at prices that represent good value. Property yields remain well above the cost of debt, maintaining a positive yield gap and a sizeable premium to ten-year gilts.

In the current environment, the frictional costs of buying and selling property are an important consideration for investors. With typical purchase costs of around 6.8% and selling costs of at least 1.7%, the total cost of selling an asset and reinvesting the proceeds can be 8.5% or more.

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Chris Russell, chairman, F&C Commercial Property: There remains considerable uncertainty surrounding the Brexit negotiations, the exit terms and the timeline for departure, and the general election result may have further complicated matters. Developments overseas, and the UK's relationships with EU member states and the wider world, particularly the US and China, will be critical to the UK's future economic success.

The rapid changes taking place with regard to technology, infrastructure, working practices and shopping patterns will also affect relativities within property, presenting both opportunities and challenges. The markets have benefited from a prolonged period of low interest rates and although it is expected that changes to official rates will be well flagged and gradual, this could now start to become a greater factor in investment decisions.

The outlook for London offices after Brexit is still highly uncertain and the issues affecting much of the town centre retail market and secondary retail and offices seem likely to persist. With uncertainty in the political, economic and property spheres, it is anticipated that investors will remain focused on securing a long-term income stream. Given pricing in other asset classes and the prospect of securing a relatively favourable long-term contractual income stream from property, the asset class is expected to remain in favour with investors.

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Richard Kirby, manager, F&C Commercial Property: The outlook for property continues to be strongly influenced by the Brexit negotiations and we would expect investors to remain cautious and risk averse, and for this to favour core/core plus properties in established locations. The current era of very low interest rates may be drawing to a close, but any increases in official rates are likely to be small and gradual. The timing of this is unknown but expectations of the change could lead to greater focus by investors on yield, the scope to add value to an asset and the resilience and flexibility of the asset over time.

Industrials, distribution and alternative assets may all provide investment opportunities but are very expensive and we remain cautious about Central London offices until the Brexit negotiations are further advanced. The structural problems affecting much of the town centre regional retail market seem likely to persist. Assuming that the economy performs in line with consensus forecasts, and there are no major shocks, we are looking towards a period of positive total returns, supported by the income return.

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Robert Peto, chairman, Standard Life Investments Property Income: The political uncertainty that has surrounded the UK since the EU referendum vote has been ramped up with the result of the UK general election. The focus for the next few years will undoubtedly be on the twists and turns in the Brexit negotiations and what this may mean for politics in the UK. However, while the economy has so far managed to shrug off this unprecedented level of uncertainty, there can be no doubt that the devaluation of the pound following the Brexit vote has led to an increase in the rate of inflation and has hit consumer confidence. The benefits for manufacturing of a lower pound have taken longer to come through which has also contributed to the slowdown in the economy. With UK GDP growth forecasts for 2017 and 2018 now being pared back, how the UK economy reacts to the ongoing political uncertainty combined with inflationary pressures and the implications this may have for interest rates will determine the extent of the slowdown.

In relation to the UK real estate market, normality has returned following the volatility experienced after the EU referendum vote with the sector continuing to provide a yield profile that is attractive when compared to other asset classes. Looking forward, the fundamentals of the sector remain robust with lending to the sector at a lower level than in 2007/2008, relatively limited development and vacancy levels which are below the long term average. Furthermore, unlike in the Financial Crisis, liquidity remains reasonable. In this environment, the steady secure income component, with a yield that continues to provide a significant margin compared to other asset classes, is likely to be the key driver of returns going forward.

From a geographic point of view, the City of London, [*is*] forecast to be one of the weakest markets due to the uncertainties over how Brexit will affect the financial services industry.

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Jason Baggaley, manager, Standard Life Investments Property Income: UK real estate continues to provide an elevated yield compared to other assets and the market has stabilised following the post Brexit upheaval last year. Furthermore, lending to the sector is at a lower level than in the Financial Crisis of 2007/2008 and liquidity remains reasonable. Additionally, development continues to be relatively constrained by historic standards, and existing vacancy rates are below average levels in most markets, which should all help to maintain the positive returns the sector is currently recording. In this environment, the steady and predictable income component generated by the asset class is likely to be the key driver of returns going forward. The market is likely to continue to be sentiment driven in the short term as the politics and economic impact associated with the UK's withdrawal from the EU continue to evolve. The retail sector continues to face a series of headwinds that may hold back recovery in weaker locations due to oversupply and structural issues.

Given the backdrop of continued macro uncertainty, investors are becoming more risk averse and better quality assets are once again broadly outperforming those of poorer quality.

Reinsurance

(compare Reinsurance funds **here**)

CatCo Reinsurance Opportunities: [*writing before hurricanes Harvey and Irma*] Global industry insured losses during the first half of 2017 were below the ten-year average due to relatively low frequency of worldwide catastrophic activity. Munich Re estimates the losses for the first six months of 2017 to be approximately USD 19.5 billion, down significantly compared to the ten year average of USD 29 billion.

The severe weather season in the U.S. accounted for the majority of global insured losses to date, with the occurrence of a high frequency of tornado, hail, and severe convective storm events. Aggregate industry insured losses due to these severe weather events are currently estimated at USD 14 billion (Source: PCS), contributing to more than 70 percent of all insured losses incurred globally during the first half of 2017.

While the U.S. experienced an active severe weather season, catastrophic activity elsewhere remained relatively low. One of the most notable catastrophic events outside the U.S. included Cyclone Debbie, which made landfall in Australia on 28 March. The effects of Cyclone Debbie were mostly experienced in parts of Queensland and New South Wales in the form of heavy rainfall and flooding. According to Munich Re, the current insured industry losses due to Cyclone Debbie are estimated at USD 1.4 billion.

Renewable Infrastructure

(compare Renewable Infrastructure funds **here**)

Alexander Ohlsson, chairman, Foresight Solar Fund: While there remains political uncertainty following the UK's decision in June 2016 to withdraw from the European Union ('Brexit') and the recent snap election, which resulted in a hung parliament, current indications suggest that the UK Government remains committed to a carbon reduction agenda. On 24 July 2017, as part of the Industrial Strategy, the Business and Energy Secretary, Greg Clark, announced a plan to give UK homes and businesses more control over their energy use and support innovative new technologies. It is expected that this initiative will maximise the use of renewable energy such as solar, while potentially saving consumers up to GBP40 billion by 2020. A ban on the sale of new petrol and diesel fuelled vehicles by 2040 has also been announced; these will predominantly be replaced with electric cars.

There is now c.12GW of solar capacity in Great Britain with over 8GW of ground mounted solar. The Department of Business, Energy and Industrial Strategy ("BEIS") reported that at the end of 2016 energy from renewables represented 24.4% of all electricity generation in the UK, with solar PV representing c.12.4% of renewable generation in 2016. On Friday 28 May 2017, the UK saw a new record for solar power generation, when a quarter of the nation's electricity mix in one afternoon was derived from solar generation. The UK produced more electricity from solar than nuclear and coal power combined.

The end of March 2017 saw the closure of the Renewable Obligation scheme to new solar projects, and as a result no new solar projects will receive Renewable Obligation

Certificates ("ROC") for energy generated. ROCs have been replaced by the Contract for Difference ("CfD") subsidy regime, however solar technology is currently not eligible for CfD allocation. Although the lack of regulatory support for large scale solar projects has reduced the availability of primary market solar assets, the company continues to see significant opportunities available in the secondary market. The Investment Manager expects that between 1 and 2GW of projects will be sold in the secondary market in the coming 12-18 months.

As costs fall, the deployment of solar power in other developed markets continues to grow at a rapid pace with Bloomberg New Energy Finance predicting global solar capacity will reach 92GW in 2018. Investing in solar projects, however, remains a relatively niche activity in many countries.

QuotedData

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