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Monthly summary | Investment companies

November 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

The UK was, once again, one of the weakest stock markets globally but, generally equities did well in October. Asian technology stocks were especially strong. Japan was buoyed by the results of its general election, which returned Shinzo Abe to power with an increased majority. The oil price climbed and has gone higher still, since the end of the month, on fears of instability in Saudi Arabia. The UK finally saw a modest uptick in interest rates.

United Kingdom

Diametrically opposed views on market valuations give rise to very different stances. Familiar stories of increased M&A and Brexit uncertainty persist.

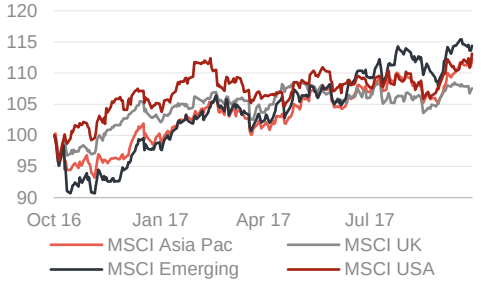
Georgina Brittain and Katen Patel, managers of JPMorgan Smaller Companies, are comforted that valuations for smaller companies are 'compelling' and they expect to see more M&A activity. Nicholas Fry, chairman of BlackRock Smaller Companies, disagrees, saying valuations are not cheap. He thinks share prices are vulnerable to reduced growth expectations or any economic setback. The manager of that fund, Mike Prentis, concurs. He also highlights the uncertainty created by Brexit negotiations.

Exchange Rate	31/10/17	Chg. on month %
GBP / USD	1.3283	-0.9
USD / EUR	0.8587	+1.5
USD / JPY	113.64	+1.0
USD / CHF	0.9976	+3.0
USD / CNY	6.635	-0.3

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 31/10/16 to 31/10/17



Source: Bloomberg, Marten & Co

	31/10/17	Chg. on month %
Oil (Brent)	61.37	+6.7
Gold	1271.45	-0.6
US Tsy 10 yr yield	2.3793	+2.0
UK Gilt 10 yr yield	1.332	-2.4
Bund 10 yr yield	0.362	-21.6

Source: Bloomberg, Marten & Co

Asia

In Asia, as in the UK, views on the outlook for equities are polarised with some commentators convinced that valuations are excessive while others think earnings growth justifies optimism

The managers of Scottish Oriental Smaller Companies are cautious. They say that the improved growth outlook is priced into markets and companies are finding it hard to grow earnings beyond reaping the rewards of lower input costs. Kate Bolsover, chairman of Fidelity Asian Values, thinks that further earnings upgrades are required to justify current valuation levels. The manager of that fund thinks a combination of indicators suggests that market participants are leaning towards "greed" rather than "fear". The managers of Pacific Assets are downbeat. They say that valuations are stretched across the board in Asia, both in equities and property, and are focused on capital preservation.

To give the contrary view, Nigel Cayzer, chairman of Aberdeen Asian Smaller Companies notes the economic and geopolitical risks that overshadow markets but remains enthused about the prospect for nimble smaller companies. The managers of that fund say that they are cautiously optimistic. They say that China is being pragmatic, backed by a desire to keep the economy on a sustainable growth path. Ewan Markson-Brown, manager of Pacific Horizon, focuses on the profound technological changes that are both creating and destroying wealth across a range of sectors. He thinks that increasing free cash flow will feed through into positive earnings surprises for Chinese companies. Susan Platts-Martin, chair of Witan Pacific, says that earnings growth is finally picking up and this contributes to a positive environment for investors.

Europe

Europe is doing okay and so attention may switch to an unwinding of accommodative monetary policy

Eric Sanderson, chairman of BlackRock Greater European, believes that the European recovery remains intact and thinks investors will continue to increase their exposure to the area. The managers of that fund think that the ECB will take a cautious approach to raising rates. Nicola Ralston, chairman of Henderson EuroTrust, thinks judgement and experience are needed in an environment of higher political risk. Tim Stevenson, the manager of that fund, sees headwinds from a strengthening euro and exaggerated fears over the unwinding of quantitative easing. Audley Twiston-Davies, chairman of TR European Growth, would welcome a period of relative stability in European politics. Olly Beckett and Rory Stokes, managers of that fund, discuss the possible impact of a normalising of monetary policy. They point out that the process may raise questions about the valuations of 'bond proxies' and say that there has to be more to the equity story than dividends.

Japan

Japan is on the up

The managers of Schroder Japan Growth say that earnings estimates may still be, in aggregate, too conservative and so valuations look attractive. Nick Bannerman, chairman of Baillie Gifford Japan, says he has had first-hand experience of an impressive entrepreneurial spirit in Japan and a real commitment to the social fabric of the country. The managers of that fund are encouraged by the corporate governance reforms that have been enacted in Japan. They note the tight labour market and wonder whether this will manifest itself in wage rises and increasing domestic consumption.

Politics and less accommodative monetary policy give cause for thought

Debt

Paul Meader, chairman of Volta Finance, says that a combination of expensive valuations and less accommodative monetary policy should give cause for thought about returns. The managers of that fund appear more sanguine. Ian Francis, manager of CQS New City High Yield, expects more rate rises in the US and the end of quantitative easing (QE) in Europe but he is most worried by Brexit and Trump.

Other

In addition, we have comment on Latin America from Aberdeen Latin American Income, an exhaustive look at the Vietnamese economy from VinaCapital Vietnam Opportunity, a comprehensive roundup of the factors affecting the gold price from Golden Prospect Precious Metals and an examination of the factors affecting care homes in the UK from Target Healthcare REIT.

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United Kingdom

(compare UK funds **here**)

Georgina Brittain and Katen Patel, managers, JPMorgan Smaller Companies: The outlook for the UK economy is mixed. It is all too easy to paint a gloomy picture in the short-term. Consumer confidence is down, consumer spending is down, GDP forecasts have recently been reduced, and business investment is down. Add to this rising inflation and rising consumer debt levels, all against the backdrop of a destabilising UK election which provided a minority Government, and a further 18 months of Brexit negotiations.

However, few of these are surprises (bar the election outcome). On the positive side, it is clear that interest rates will continue to remain accommodating for some time to come. Unemployment is at a 40 year low at 4.3% and the employment rate (the proportion of people of working age who are in employment) is over 75%, which is the highest figure since records began in 1971. Foreign direct investment into the UK continues to be strong; and as predicted, our weakened currency is proving a boon to UK exporters.

Post the Referendum vote, the smaller companies arena has been extremely sanguine regarding the eventual outcome. While this might raise questions as the eventual outcome is debated and negotiated, a number of factors give us comfort. First and foremost are valuations for smaller companies - the index remains compelling at 12.9x P/E ratio (12 month forward number). Secondly, the amount of M&A we have seen within the portfolio over the last year provides a strong level of comfort - acquirers clearly see value at this level. And lastly, we would continue to stress that a significant benefit of smaller companies is their comparative immunity to the broader economy. Niche growth companies should be able to continue to grow, and grow significantly, whatever the backdrop.

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Nicholas Fry, chairman, BlackRock Smaller Companies: The unexpected result in the UK General Election has increased uncertainty around Brexit negotiations which, as time passes, could have an impact on market confidence, economic growth and investment decisions by business. Although earnings growth has been good for many [*companies*], UK company valuations are not cheap. Thus share prices will tend to be more vulnerable to reduced growth expectations or any economic setback.

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Mike Prentis, manager, BlackRock Smaller Companies: Markets have remained firm based on generally positive economic data around the world, however UK GDP growth has been below the long term trend, whilst wage growth remains lower than inflation. UK companies have been reporting good results, although we have seen some consumer related profit warnings, reinforcing our cautious view on the outlook for UK consumer focussed companies.

The unexpected result in the UK General Election has undoubtedly increased the uncertainty around Brexit negotiations and may have an impact on business investment decisions. The unknown with regard to how Brexit will look remains one of the largest challenges facing the UK at present.

Meanwhile valuations are not cheap. Given this and the potential for further political surprise or economic setback, the share prices of UK small & mid-caps may find it difficult to make further progress over the coming months.

Asia

(compare Asian funds **here**)

Vinay Agarwal, Wee-Li Hee and Scott McNab, managers, Scottish Oriental Smaller Companies: Although interest rates have increased in the US, a recent moderation in inflation has reduced pressure on Asia's central banks to raise rates, which has allowed domestic monetary policies to remain accommodative. Most Asian countries have experienced falling exports for the last two years, but there are signs export growth has now resumed. This, combined with various government-led infrastructure programmes, is resulting in a tentative return to investment.

The improved growth outlook appears to be priced into stock market valuations - particularly for quality companies. When we meet with companies, we are being told that volume growth is weak and it is difficult to increase prices given the lack of inflation expectations. Earnings growth has improved but in many cases this has been because of falling input costs which, in our view, is not sustainable. Debt levels in Asia are high, and getting higher. This will act as a significant dampener on Asia's economies when interest rates eventually rise. In the meantime, cheap money has lowered the cost of capital thereby increasing competition.

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Nigel Cayzer, chairman, Aberdeen Asian Smaller Companies: Asian equity markets have been resilient so far, but could face a pullback amid the still uncertain environment. Geopolitical tensions are simmering in the Korean peninsula. China's high debt level remains a risk. In the US Donald Trump's election as president has been tempered by concerns over his policy unpredictability and the administration's ability to deliver the agenda. All that market noise does not dim the appeal of smaller companies in Asia, however. Rising affluence, healthy consumption, as well as structural reforms and economic liberalisation create opportunities, and the smaller businesses stand to benefit. Many of them are nimble and can evolve their strategy to exploit niches unexplored by their larger counterparts.

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Aberdeen Asset Managers, managers, Aberdeen Asian Smaller Companies: We are cautiously optimistic about Asian small-cap equities in the months ahead, with positive momentum in the global economy providing the underpinning for growth within the region. China's increased pragmatism, backed by Beijing's desire to keep the economy on a sustainable growth path, while holding in check its reform agenda ahead of leadership changes, should also bode well for market sentiment. As such, each economy within Asia is likely to maintain their current trajectories, backed by the broad recovery in exports, which will benefit smaller companies dependent on the domestic sector. In addition, inflation is expected to remain benign, with oil prices penned in by a significant oversupply and record US shale production.

However, risks to this global backdrop persist too, particularly with a combative Trump administration and its penchant for brinksmanship, uncertainties surrounding the Brexit negotiations, federal elections in Germany and the direction of monetary policy among the world's major central banks, as well as geopolitical developments on the Korean peninsula and the Middle East, all of which will play a part in shaping investor sentiment.

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Kate Bolsover, chairman, Fidelity Asian Values: Notwithstanding the geo-political tension and uncertainty, particularly in relation to North Korea, the Board believe that the long term outlook for Asia Pacific excluding Japan remains strong. Focus on policy reforms along with strong structural growth drivers such as positive demographics, rising income and domestic consumption, and higher infrastructure spending are expected to provide multi-year investment opportunities across the region. Notably, India and China are witnessing significant progress on reforms. China's focus on deleveraging and liberalising its financial markets is likely to be positive for sentiment.

However, from a valuation point of view, equities are no longer cheap versus their historical prices. Given current valuations, it is harder to find many businesses which offer a substantial margin of safety. Although we have seen positive earnings revisions in the past few months, we need further earnings upgrades to justify current valuation levels.

Nonetheless, given that Asia has more than 17,000 listed companies, the opportunity to find hidden gems remains.

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Nitin Bajaj, manager, Fidelity Asian Values: Most economies are growing at a healthy rate with unemployment falling quickly and in a few big economies the unemployment rate is close to all time lows. Interest rates continue to be low, as is inflation. Profit margins for most businesses are very healthy and close to their all time peaks. Liquidity is ample. China continues to lead the charge in liquidity creation through record amounts of incremental debt being injected into the economy.

This has driven most equity markets to their all time highs (if not significantly ahead of their previous peaks). That in turn has led to record amounts of margin trading activity. Finally, Cyclically Adjusted Price to Earnings ratio (CAPE - current prices divided by average profits of the last 10 years) is currently at a level that was exceeded only twice in its history, during market peaks of 1929 and 2000.

None of the above mentioned data are individually a cause of alarm - and some of it is actually quite encouraging. But all of them put together - economies nearing full employment, increasing levels of debt and stock markets close to peak CAPE ratios - paint a very clear picture that most market participants are leaning towards "greed" rather than "fear". Either there is general belief that the buoyant global scenario is likely to continue for quite a few years, or everyone believes that they can ride the wave better than others and get off at the right time. They may be right. Or they may not be. Do we want to dance until the music stops playing?

I am more inclined to the old adage - be fearful when others are greedy (and vice versa).

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Ewan Markson-Brown, manager, Pacific Horizon: We believe that the rapid development of technology is creating a tectonic shift in society, with digitalisation driving profound changes in economic and political systems, businesses, consumer habits and behaviours. Many winners and losers are emerging and there is a growing awareness of these changes. Artificial Intelligence ('AI') is now taken for granted and the concept of electric rather than gasoline powered cars is considered to be an inevitable commercial development rather than a vision of the future.

Nevertheless, the cascade of these potential ground-breaking changes into broader society is only just being felt and negativity still abounds: Brexit, Trump, low

productivity concerns, anti-globalisation, anti-capitalist sentiments, environmental risks, to name but a few. It is our belief, however, that the underlying global economy is improving and societies in aggregate are getting richer at a much greater pace than people realise. In retrospect, this era may well be seen as generating the largest improvement in living standards for the greatest number of people in history. The majority of those people live in the Asia Ex-Japan region.

The number of sectors and industries that are becoming digitalised and connected is increasing rapidly. Previously, when a customer went into a shop to buy an item and paid with cash, there would have been no digital imprint of this purchase; the data inherent in this transaction would only have been available to the shopkeeper. Today, every transaction online and its place in the entire supply chain leaves a data imprint which can be used to improve customer service and efficiency. In the retail industry, e-commerce continues to grow rapidly and has led to an explosion of data which captures what people buy and when, and how choices change over time. This results in both better targeted sales and an improvement in logistics, in products and in customer service; as well as an overall fall in cost for the consumer. In the US, this trend is leading to the rapid closure of shopping malls and offline businesses. In China, it is fuelling the growth of two large retail platforms, with a resulting fall in more traditional offline activity.

When an industry moves towards a digital model, the resultant explosion in the quantum of data leads to a profound change to that industry's dynamics: traditional competition theory breaks down. Rather than encouraging the involvement of many firms and a form of perfect competition, digitalisation tends to produce increasing, rather than decreasing, returns for scale. We have witnessed this in the chip and software industries for two decades. As a more immediate example, JD.com is today the largest retailer in China, with no offline stores; a marginal cost of every additional order through its platform that is close to zero; no shops, no salesmen and fixed overheads. JD.com has recently announced its first 100% automated sorting warehouse and is testing the use of drones to deliver parcels, replacing delivery workers with machines and software. Scale leads to marginal cost being below average cost and thus, importantly for shareholders, to significant financial returns. In a world of digitalisation and increasing returns based on scale, we may expect more oligopolies and monopolies to be sustainable in the longer term. The competitive threats to these new monopolies are not to be found within their industries but without, from adjacent sectors, or from totally new disruptive technologies.

In China, the use of mobile phones and the acceptance of new technology are leading to a faster rate of adoption of online shopping than in the developed world. An example of this is online grocery shopping. This is a market worth more than $1 trillion and ripe for disruption.

Humans are intensely visual. Sight is the leading sense by which we analyse and interact with the world. Our contention is that machines, as they increasingly take over human tasks, will initially use reproduction of the visual 'sense' to help them understand the world. Whereas a new car used to have on average less than one camera, a modern advanced driver assistance system ('ADAS') enabled car has 8 to 12 cameras; and, in future, a fully autonomous car may need up to 20 cameras or more.

The global automobile sector is an area where we see significant disruption occurring in the medium term. We believe that the end of the gasoline engine is in sight and that electric vehicles will increasingly dominate new car sales of the future; especially in China as the government tackles the problem of pollution, which has become the most pressing social issue for the emerging middle class.

The growth in the amount of data being produced by social media, commerce, gaming and machines requires a significant jump in both computing power and the associated hardware capabilities in order to run, manipulate and take full advantage of the data generated. This is leading to a rise in technology prices and what we would characterise as the largest technology hardware cycle since the 1990s boom.

In the first half of the year, markets worried over Brexit, Trump and a potential reduction in world trade. This supported the USD and hid the nascent recovery in Chinese economic growth which, having slowed sequentially since 2011, reached its nadir in 2015; since then, it has been recovering. It is likely that 2016 will prove to be the second year of a Chinese cyclical economic expansion; we are seeing this in the rising Chinese Producer Price Index ('PPI'), increasing imports, rising commodity prices and a stabilisation in the exchange rate. Free cash flow, the money left after costs and capital expenditure, is, on average, increasing for Chinese companies, and we would therefore expect growth and probably earnings to continue to surprise on the upside.

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James Williams, chairman, Pacific Assets: On a macro level, there remains plentiful liquidity, the residue of years of almost zero interest rates and quantitative easing. This creates challenges for the fundamentally driven investor with parts of the market being bid up to excessive levels. As yet markets have not found reason to recoil from the geopolitical tensions that continue to escalate.

Your Board remains of the view that the diverse Asia Pacific Region continues to provide quality investment opportunities, which will reward patient investors over the long term. As has been demonstrated previously, companies where managements take a sustainable approach to their business will be more likely to provide good returns.

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Stewart Investors, manager, Pacific Assets: The damage caused by a prolonged period of extremely loose global monetary policy has affected Asia as elsewhere. Equity valuations are now stretched across the board, with very few exceptions. For example, our favourite Indian industrial companies now all trade on over forty times future earnings. Our favourite Indian and Indonesian consumer companies are trading on fifty times next year's earnings. These valuations are well beyond the upper limits of our tolerance levels. Such companies are now priced for perfection, and we have yet to meet the perfect company. Even poor quality companies are expensive. Our 'least favourite' Indian and Indonesian consumer companies now trade on over thirty times earnings.

While low interest rates are largely to blame, the rise of 'machine' investing, via Algorithm Investing and low-cost Exchange Traded Funds (ETFs), has also played a part. Both approaches tend to be almost entirely agnostic to valuation or quality. It is now argued that only ten percent of all trades are undertaken by 'active' investors. The machines have truly taken over, for now at least.

It is not just equity valuations that are stretched. The bubble sitting within the debt market is well documented, while property prices have reached extreme levels, even by Asia's elevated standards. The Hong Kong property market appears particularly vulnerable to a serious correction. The surge of interest in the Island's "nano flats", one room apartments smaller than a standard car parking space, is perhaps a sign that the bubble is nearing its peak.

In short, historically low interest rates and historically high debt levels, asset prices and asset valuations are not a reassuring combination. In such market conditions, our eyes are firmly set on capital preservation, rather than trying to keep up.

We are very nervous for the reasons noted above. It is also worth noting that political risk has jumped sharply in Asia in recent months, although the market has yet to notice. The Indian and Chinese armies are currently facing off in Bhutan, the Government in charge of Pakistan's nuclear weapons has collapsed, tensions are rising in the South China Sea and the situation in North Korea has reached a dangerous impasse. While we are poor market forecasters, it is hard to imagine how equity returns in Asia (and elsewhere) are not going to be considerably lower than in recent history for some time to come.

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Susan Platts-Martin, chair, Witan Pacific: Asian equities have underperformed their Western (particularly their US) counterparts over recent years. One of the key reasons for this is a lack of growth in corporate earnings across the region despite a more buoyant economic environment than enjoyed by many Western nations. Earnings growth finally appears to be picking up and this, when aligned with a broadening and improving outlook for global GDP growth, should provide a positive environment for investors. As ever, geopolitical events can cause short-term uncertainty and the events in North Korea are likely to impact sentiment in the region for as long as this sabre-rattling continues.

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Europe

(compare European funds **here**)

Eric Sanderson, chairman, BlackRock Greater European: Europe's economy is enjoying a cyclical upswing, supported by an accommodative European Central Bank and subdued inflation. Additionally, after several years of stagnation, European companies have been reporting strong earnings, driven by rising sales, and economic indicators show that growth may be sustainable.

Notwithstanding some continuing political uncertainty in certain countries, positive economic and corporate results have underpinned the attraction of European equities and the Euro and, following a protracted period of outflows, investors appear to be responding to optimism over Europe's prospects. As unemployment falls and business confidence grows, we believe that the European recovery remains intact and retain our confidence that investors will continue to increase weightings to this asset class.

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Stefan Gries and Sam Vecht, managers, BlackRock Greater European: Overall we are positive on the European economy as the recovery remains on track. We are cautious about valuations given the strong run the market has enjoyed but would note that valuations remain undemanding relative to other developed market equities and bonds. With the positive inflection in both cash flows and earnings in Emerging European markets, we believe there is potential for a number of attractive investment opportunities in this region in the coming years.

The potential for political cohesion in the euro area should also support markets if the EU is to become more stable and robust going forward. With core elections in the euro area now passed, we believe investor focus is likely to fall to central bank action, as the ECB nears the end of its bond buying programme. Given the continued deflationary pressures present in the economy and the structural drivers apparent that keep downward pressure on rates, such as high levels of debt, demographics and technological innovation, we believe Mario Draghi will take a cautious approach to increasing rates. A slow, steady and considered increase in rates parallel to a sustained economic expansion should continue to be supportive for European equities going forward.

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Nicola Ralston, chairman, Henderson EuroTrust: For once, Europe is surprisingly fashionable as a destination for investors. Some of the political and economic difficulties predicted to beset Europe over the last financial year have failed to materialise, whilst risk is perceived to have risen elsewhere. Political risk is higher than in the previous decade. This makes for a fluctuating environment where long-term judgement and experience will be essential prerequisites for stock-picking.

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Tim Stevenson, manager, Henderson EuroTrust: European equity markets have been drifting down since the results of the French elections. Once again the old adage of "travel and arrive" has proved true, as markets had perhaps jumped too quickly ahead of political calm and economic improvement. The headwinds in the next few months are likely to be the sharp rebound in the Euro against the US Dollar (Sterling is a sideshow), as well as exaggerated fears about a tapering of the huge amount of quantitative easing undertaken in recent years by the ECB. Valuations of European equity markets are not high when seen through the lens of bond market valuations, and while I would not be surprised to see German 10 year bond yields rise towards 0.8%, I would see that as a healthy sign of relative normality rather than anything more ominous. Dividend yields remain very supportive of equities, as does a steady increase of around 10% in earnings predicted for 2017 and 2018 (even if the latter year may see some reduction due to Euro strength).

Overall I continue to feel that we are in a low growth era, and as such we shall remain wary of valuation levels which become too high relative to growth expectations.

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Audley Twiston-Davies, chairman, TR European Growth: Despite the ongoing backdrop of fraught politics on both sides of the Atlantic, it has been another good year for European equity markets, especially in the smaller company arena.

Clearly there are serious issues that markets will need to navigate around in the coming year and no doubt the noisy political environment will periodically concern markets. A period of relative political stability within continental Europe would be most welcome, as would clarity around the expected shape of the UK relationship with the EU once the Article 50 period ends in March 2019. We are confident that there is still a large pool of investment opportunities to exploit in European smaller companies to deliver good returns.

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Olly Beckett and Rory Stokes, managers, TR European Growth: The world provides no shortage of things to worry about: the threat of war in the Korean peninsula; Brexit; European migration, banking and integration crises; the

sustainability of the Chinese economic model; and an absence of global political leadership to name just a few. Whilst these keep headline writers busy, so far they have failed to hinder global stock markets or global economic growth.

As Europe has shaken off its reputation for being a crisis creation engine and the mantle has been taken on by the US and UK there has been a revival in interest in European equity. This has even begun to extend as far as European midcap equities.

We are neither complacent about nor desperately focused on the global risks. These are a feature of the market we operate in. Whatever the eventual outcomes of the German elections, Brexit or even the seemingly imminent end to the period of extremely loose global monetary policy, there will continue to be management teams taking the right decisions to either fix or grow their businesses. The debate around the benefits and costs of quantitative easing is often heated and not a topic to be resolved here. However, global central banks have long been signalling an intention to normalise monetary policy which has the potential to induce bouts of volatility in global markets and if executed poorly, especially in Europe, poses risk to asset values. We suspect any unwinding of the extraordinary monetary policy of recent years will be slow and after the ECB policy mistakes of 2011, with the Trichet interest rate rises, will be handled carefully. This process may begin to raise questions about the prices of bond proxy equities with rich valuations. There has to be more to the equity story than dividends.

Whilst European performance measurement indicators have picked up strongly in the last twelve months, US and Chinese economic data is more mixed, though overall we judge the global economic environment to be pretty benign. We keep one eye on the global macroeconomic environment and stay alert to any signs of euphoria in our markets. The deep pessimism surrounding European equities has clearly seen quite a reversal in the last year, but despite strong performance in our markets, valuations look anything but stretched, especially given the comparatively poor economic performance of Europe compared to the US and UK in recent years. There is clearly a substantial economic gap to close and this should show itself in the form of decent earnings growth in the coming years.

Japan

(compare Japanese funds **here**)

Schroder Investment Management, managers, Schroder Japan Growth: Market fundamentals remain broadly favourable. For the first time in more than 12 years the economy has recorded six consecutive quarters of positive GDP growth. A supportive global backdrop is a precondition of this relatively positive performance continuing, but domestic indicators have also improved. Inflation targets remain elusive, but the chances of a pick-up here are better than they have been for many years due to the extremely tight labour market. Bank of Japan policy is likely to remain accommodating until more concrete progress is visible in generation of inflationary expectations.

One area of domestic macro concern had been a fall in Prime Minister Abe's opinion poll ratings. However, the perceived threat to national security from North Korea is the type of event which usually favours an incumbent. This has been the case in Japan, such that the Prime Minister has called a snap election. Current polling suggests the Liberal Democratic Party (LDP) should win this handsomely but it does introduce short term risk. Were there to be a change of leadership, this would most likely

undermine short term sentiment but ultimately it would be unlikely to lead to a change in policy, as the LDP is likely to remain the dominant party.

Previous reviews have mentioned the stronger incentives for companies to improve corporate governance. This remains the case and is being reflected in improved shareholder returns. Companies have just announced better than forecast first quarter profits. It seems likely that estimates for this year are in aggregate still too conservative. On this basis valuations look relatively attractive and this should contribute to more positive flows from international investors than has been the case so far in 2017.

Whilst the last six months have seen a reversion to outperformance by domestic/steady growth sectors, valuation premiums attached to these areas have not reached the extremes of mid-2016.

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Nick Bannerman, chairman, Baillie Gifford Japan: The year to 2017 saw ongoing strength in Japanese equities. Business sentiment in Japan has been improving in recent years, with many positive aspects to the economic and consumer confidence indices following through into company results and consumer activity. However, with political tension in the region rising following North Korea's missile testing and President Trump's written and verbal reactions adding to that tension, we remain vigilant in assessing the impact such uncertainties can bring to the stocks we invest in. There are many things to remain positive about within Japan as a whole. Corporate governance changes are continuing, for example, it is now a requirement for shareholders to disclose how they vote on resolutions, and distributions to shareholders have continued to rise. These developments are all adding to the underlying strength of the economy and confidence in the management teams running the companies we invest in.

The Board visited Japan in May, meeting CEOs and senior management of many current and potential investments. We returned home with an even more positive outlook given the impressive entrepreneurial spirit we found that many fail to give Japan credit for, a real commitment to the social fabric of the country through profitable progress and investment, allied to new technologies that will blossom in this evolving technological age.

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Managers, Baillie Gifford Japan: Japan has made major corporate governance improvements over the past several years, driven by the launch of the Stewardship Code in 2014 and the Corporate Governance code in 2015. In general companies have been paying more attention to shareholder returns with dividends continuing to grow and share buybacks remaining at similar levels.

Japan's domestic economy continues to perform well, enjoying 6 consecutive quarters of positive growth, the longest such streak in over a decade. Both domestic consumption and corporate spending on capex have been key contributors to domestic growth. The labour market remains very tight with the unemployment rate below 3% and the jobs-to-applicants ratio has now exceeded levels seen during Japan's economic bubble era. This is also beginning to put considerable upward pressure on wages which is likely to have positive implications for domestic consumption. Recently, Mr Abe has decided to call an early election with a view to extending his mandate. Meanwhile the strength of overseas demand has continued, being felt especially keenly in areas such as robotics which seem to be in a period of secular growth.

Where might the challenges come from? A global slowdown would reduce demand for Japanese exports, as would any trade dispute between the US and China that reduced total demand given that they are Japan's two most significant export markets. There continues to be the potential for geopolitical difficulties around Japan, with North Korea of particular concern. Moreover, it is a simple fact that the stock market has made considerable progress since the dark days around the global financial crisis.

We believe that there are significant opportunities available to long-term stock pickers in Japan. In areas such as the internet, automation and healthcare, rapid development is taking place and this gives the opportunity for dynamic businesses to prosper.

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Latin America

(compare Latin American funds **here**)

Richard Prosser, chairman, Aberdeen Latin American Income: A rigorous rebound since July has propelled Latin American equities to more than compensate for the May 2017 sell-off, and markets are likely to continue being supported by both local and external factors. A pick-up in global trade, a moderating US dollar and a fairly stable China could be helpful. A somewhat balanced oil and commodity prices environment would also reduce volatility. Meanwhile, the moderate growth and inflation outlook bodes well for the local bond markets, and we can expect lower or stable policy rates in the coming quarters. However, key global risks remain, not least among which is the threat of geopolitical turmoil triggered by heightened rhetoric between North Korea and the US.

On the continent, politics continues to take centre-stage with a host of elections anticipated for the next year. Brazil goes to the polls next October, leaving the Temer administration a quickly-diminishing window of opportunity to make its mark. Despite the overwrought headlines, the government has so far made progress in steering the economy into greener pastures and staying focused on improving the business environment. This bodes well for the future. Elsewhere, Mexico remains resilient as it asserts itself in trade negotiations with key partners in the lead-up to next July's presidential elections. In Chile, many are looking to the outcome of the November ballot for a sense of the direction in which the country will turn.

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Aberdeen Asset Managers, managers, Aberdeen Latin American Income: Latin American markets appear to be on firmer ground and well-positioned to sustain their upward trajectory, supported by low inflation and accommodative policies. Risks persist, however. The increasing probability of interest rate normalisation by central banks in the US and Europe may dampen risk appetite. In the region, greater uncertainty due to upcoming elections in key markets could hurt the nascent economic recovery.

In Brazil, attention now turns to the government's reform push. Improving economic growth, along with interest rate reductions due to subdued inflation is expected to boost consumption, benefiting consumer names there. However, significant slack remains in the economy after the deepest recession on record, preventing improving labour incomes translating into inflationary pressures. Similarly in Mexico, the peso's

strength and tight policy could foster disinflation and help consumption remain resilient. This could benefit holdings like Femsa and Walmex. However, NAFTA renegotiations and the vagaries of President Trump could yet dent sentiment. On a broader level, firmer demand for commodities, aided by a stabilising China, will support Chile's economy, a major copper exporter, as well as the portfolio's mining stocks.

The improved operating environment, coupled with companies' efforts over the years to cut costs, improve efficiencies and expand margins, indicate the potential for profitability to rise even more.

Vietnam

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

Steven Bates, chairman, VinaCapital Vietnam Opportunity Fund: The global investment landscape is challenging. Valuations are generally at the high end of historic ranges, the economic cycle is mature and monetary policy remains unorthodox and highly supportive of risky assets such as equities. When you combine these factors with the geopolitical risks evident in a number of areas, it is perhaps surprising that markets have been so positive and that investors seem complacent about the outlook. There is a widely held view that the global economy is still not sufficiently robust to deal with an economic slowdown, and that monetary stimulus would swiftly add liquidity should anything untoward appear on the horizon. The main reason for this belief rests in the fact that price inflation has remained much more subdued than predicted by economic models and does not justify any 'quantitative tightening', as the jargon would have it. Recent indications of gradual tightening of monetary policy in developed markets may slow the inflation of asset prices, including equities.

In this environment, where growth is in short supply and is highly priced, it is encouraging that countries like Vietnam are appearing on more investor radars. Here we see rapid growth which is occurring naturally as a result of continued integration into the global economic system, productivity improvement, investment and greater participation rates in the economy. Inflation is higher than in the developed world but remains well controlled and the country is on course to deliver more of its economy into the private sector. The awkward banking problems which resulted from the hangover in the real estate market have been well corralled and the markets have negotiated the thorny problem of Trump's abandonment of the Trans Pacific Partnership trade agreement without too much of a hiccup.

As everywhere else, valuations in Vietnam have responded to the good economic news, but they are still low by regional and international standards, especially given the level of earnings growth. It is true that Vietnam is no longer undiscovered, but it is not yet part of the mainstream investment universe and should continue to see growing international interest from both direct and portfolio investors.

The country remains one of the most attractive investment 'stories' available.

Michael Kokalari, Chief Economist, VinaCapital Vietnam Opportunity Fund: Vietnam's macro economy was very stable throughout 2016, a trend that has continued into 2017, as evidenced by modest inflation, a stable VND exchange rate, and steady interest rates. This stability, coupled with robust yet sustainable Gross Domestic Product ("GDP") growth, is fostering an ideal environment for the continued appreciation of Vietnamese stock, bond, and real estate prices.

Vietnam's GDP grew 6.2% in 2016, and we expect the country's economy to grow at a 6.3-6.5% annual pace in 2017, with growth in both 2016 and 2017 driven by domestic consumption and by the continued expansion of the country's manufacturing output, which is in turn being fuelled by foreign direct investment ("FDI") inflows.

In 2016, Vietnam's GDP growth was held back by a severe drought, which impeded production in the country's agriculture sector, which comprises about 18.1% of Vietnam's GDP, and by a decline in oil production due to weak global oil prices (Vietnam's oil production cost is about USD40/barrel, according to the Vietnam Institute of Economics). Agricultural production has rebounded from a 0.8% decline in the first half of 2016 ("1H16") to 2.7% growth in the first half of 2017, but Vietnam's oil production volume fell 12.5% year-on-year ("yoy"), outweighing any recovery in agricultural production. The net result of these two transitory factors was that Vietnam's GDP grew by an annual rate of 5.7% in the first half of 2017, nearly unchanged from the country's 1H16 GDP growth rate. Had oil production not plunged, it is estimated that the economy would have grown by nearly 7% yoy in the first half of 2017.

Domestic consumption is now the primary driver of Vietnam's economic growth, accounting for nearly two-thirds of Vietnam's economy and contributing an estimated four percentage points out of the country's 6.2% GDP growth in 2016; we expect a similar contribution this year. Consumption grew by an estimated 8% in real terms in 2016, accelerating to an 8.4% yoy pace in 1H17. Furthermore, a 25% surge in tourist arrivals to more than 10 million visitors in 2016 (and a further 30% yoy leap in 1H17) augmented consumption by locals. Tourism now directly comprises nearly 7% of Vietnam's GDP, and the aggregate contribution of tourism, including spending in local restaurants and other services, may be as high as 15%, according to some estimates.

Vietnam's manufacturing output grew by 12% in 2016, and at a 10.6% yoy pace in the first half of 2017. Manufacturing now accounts for about 16% of Vietnam's economy, and the importance of Samsung and other global electronics makers within the country's manufacturing sector has become particularly pronounced in recent years.

Finally, we note that construction, which comprises 5% of Vietnam's GDP, grew by 10% in 2016 and 9% in the first half of 2017, with growth driven by both infrastructure development and the thriving residential real estate market, which is discussed in more depth below. Also, the services industry, which accounts for over 40% of Vietnam's GDP, grew by about 7% yoy in both 2016 and in 1H17, although the contribution of the services sector is also captured in certain of the segments of the economy discussed above (domestic consumption, tourism, etc).

Prudently, Vietnam's policymakers have been prioritising macroeconomic stability over GDP growth for the last few years, and the results have been an encouraging decline in the country's inflation rate, and a marked improvement in the stability of the VND exchange rate.

The deceleration in Vietnam's headline inflation rate from the end of 2016 to mid-2017 was attributable to weak energy prices and falling food prices, with the latter largely attributable to a circa 50% decline in pork prices since late 2016. Stripping out food and energy prices, Vietnam's core inflation rate was below 1.5% at the end of 1H17,

with the increase in the country's core CPI more-or-less attributable to administrative price hikes.

Government mandated hikes in the prices of medical goods and services (which account for 6% of the CPI basket) helped lift the country's CPI inflation rate to a 4.7% yoy increase by the end of 2016. Medical-related prices continued to rise in the first half of 2017, and rocketed 46% yoy as at the end of1H17, but the increase in consumer prices receded to a 2.5% yoy increase by the end of 1H17.

The country's low, stable core inflation rate (excluding medical price hikes) prompted a steady decline in VND interest rates, and fostered a high degree of stability in the USD/VND exchange rate, with the exception of a brief burst of volatility at the end of 2016, triggered in part by India's demonetisation of its currency. The VND depreciated by 1.2% against the USD in 2016, but the unofficial value of the USD/VND exchange rate was more-or-less unchanged in the first half of 2017, despite a degradation in Vietnam's trade balance from a 1.8%-of-GDP trade surplus in 2016 to a 2.6%-of-GDP trade deficit in 1H17 (Vietnam's imports surged 24% in the first half of 2017).

In a slight contrast to the stability of Vietnam's unofficial exchange rate in 2017, the official daily USD/VND FX rate increased 1.4% in 1H17, because the State Bank of Vietnam (the "SBV") has been proactively depreciating the VND (albeit at a very modest rate) in anticipation that rising US interest rates will support the value of the USD. Despite the SBV's concerns about the possibility of higher US interest rates, falling domestic inflation expectations and declining risk premiums prompted a 70-basis point plunge in one-year Vietnam government bond ("VGB") yields to 3.6%, and a 120-basis point plunge in five-year VGB yields to 4.9% over the past twelve months ending 30 June 2017. Concurrently, Vietnam's five-year credit default swap rate, which institutional investors use to assess a country's risk premium, fell by 60 basis points.

FDI, Rapidly Emerging Middle Class and Infrastructure Development

Vietnam's impressive long-term growth prospects are supported by the FDI-funded expansion of the country's manufacturing base, which is driving export growth and supporting the emergence of a vibrant middle class. Furthermore, Vietnam is outspending its regional peers on infrastructure development (as a proportion of GDP), which also supports the country's long-term growth prospects.

Expenditure on the construction of new roads and mass transit systems facilitates the physical expansion of Vietnam's major cities, the populations of which are growing at approximately 3% per annum - the highest rate in the region. Simultaneously, expenditure on logistics infrastructure (including airports and sea ports), as well as the development of new electricity generation facilities, should help ensure the continued flow of FDI into Vietnam's manufacturing sector.

FDI in Vietnam increased by 9% in 2016, and equated to 7.7% of GDP, and FDI continued growing at a healthy 7% yoy rate in 1H17, despite the withdrawal of the US from the Trans Pacific Partnership at the beginning of the year. The resiliency of Vietnam's FDI inflows is a reflection of the continued migration of production facilities from China to Vietnam, which has helped drive a 30% increase in the number of manufacturing jobs in Vietnam (and a 12% decline in agriculture jobs) since 2013, according to Standard Chartered Bank research.

Rapid Credit Growth, Modest Banking Sector Reforms

Vietnam's commercial banks grew the total amount of their outstanding loans by 19% in 2016, and by a further 9% to 30 June 2017, which was the fastest pace of first half credit growth in over six years. About one-half of Vietnam's system-wide credit growth is reported to be attributable to the extension of new loans to consumers; outstanding consumer loans grew by about 30% in both 2016 and in 1H17.

Unfortunately, the rapid pace of Vietnam's credit growth has not been matched by a corresponding acceleration of long-overdue structural reforms in the banking sector, or a ramp up in the disposal of banks' legacy non-performing loans ("NPL"). Vietnam's NPL problem peaked at about 17% of outstanding loans in 2012, when the government set up the Vietnam Asset Management Company ("VAMC"), to facilitate the removal of NPLs from banks' balance sheets.

The VAMC purchased about USD12 billion of NPLs from commercial banks (as at 31 March 2017), and certain banks have aggressively written off bad debts, which has significantly lifted Vietnam's system-wide credit cost rate over the last few years. These measures have reduced Vietnam's official, on-balance sheet, NPL ratio to below 3% but, as less than 20% of the NPLs the VAMC purchased have been resolved, so the estimated aggregate NPL ratio, when non-performing loans held by the VAMC are considered, is still about 8-9% of outstanding loans.

The majority of the loans which the VAMC purchased are backed by real estate collateral and as Vietnam's property market has roared back to life in recent years, so foreign distressed asset buyers have expressed a strong interest in acquiring the collateral assets underpinning those non-performing loans. The bottleneck impeding the consummation of transactions between those prospective buyers and the holders of the defaulted loans is the lack of a clear legal framework enabling the VAMC and/or the banks themselves to foreclose on collateral originally pledged by borrowers.

The good news is that the government announced a new set of regulations at the end of June 2017 that are meant to greatly expand the powers of both banks and the VAMC to foreclose on distressed assets. The details of how these new rules will work in practice are still unclear, but this new regulation seemingly has the potential to address one of the two most important issues in the banking sector. The other major issue which banks face is an urgent need to raise new capital in order to fund their growth and to prepare for the eventual implementation of the Basel II capital adequacy standard.

At the end of 2016, the system-wide Capital Adequacy Ratio ("CAR") of the Vietnamese banking system was 12%. The rapid pace of credit growth in 2016 reduced the system-wide CAR by nearly two percentage points. The rapid pace of credit growth in 2017 is likely to again reduce the system-wide ratio by about two percentage points, but as certain state-owned commercial banks have already reached the maximum limit on the amount of Tier II capital (long-dated, subordinated debt) they are permitted to employ, so those banks will need to raise Tier I capital (straight equity), in order to meet the 9% statutory minimum CAR for individual banks.

The conundrum for Vietnam's banks and for the government is that the most eager providers of new capital to the banking system are foreign investors, but Vietnam's current 30% FOL makes it difficult for foreign investors to inject new equity into many individual local banks because they have already reached their FOL. At the end of 2016, Vietnam's Prime Minister indicated that the government would consider liberalising the FOL for banks, as it did for listed, non-bank companies, but there have been no further developments on this topic since that time.

Finally, the implementation of the stricter Basel II standard will reduce Vietnam's system-wide CAR by about four percentage points, and necessitate that banks raise over USD7 billion of new capital. The SBV previously guided that the phased implementation of Basel II would commence in 2018, but the start-date was subsequently pushed back - presumably because the FOL issue needs to be addressed first.

The Property Sector

Vietnam's residential real estate market remained robust during the financial year, with modest price increases across the various segments and specific geographies of the market.

There are clear signs that the current uptrend in the property development cycle remains robust but, within the real estate sector, we observe an increasing bifurcation of the market between ever-increasing activity in the affordable and mid-tier segments of the market, where demand is being driven by mortgage-funded purchases of housing units by end-buyers, and a slight deceleration of activity in the high end segment, where purchases are typically motivated by investment and speculation (and often paid for with cash).

While the market continues to absorb a surfeit of new supply, buyers are reportedly becoming more discriminating in their assessments of prospective property purchases. Specifically, the leading real estate brokers report that buyers are now showing heightened sensitivity regarding the price, location, and developer's reputation of the projects being evaluated, evidenced by the tepid pace of sales of certain high-end projects built by less esteemed developers, and situated in less prime locations.

The increased discernment by buyers of high-end condominiums is likely to be attributable to an oversupply of new high-end apartment units in both Ho Chi Minh City and Hanoi, following a flurry of development activity in recent years. The absorption rate of the high-end segment fell from 50% in 2016 to 45% in 1H17, and a plethora of anecdotal evidence suggests that prices in this segment of the market have already peaked.

That said, foreign buying of high-end apartments reportedly rocketed during the financial year, with an increasing number of projects reaching the 30% foreign ownership limit for individual developments. The proportion of CBRE's buyers who are foreigners surged from less than 40% in 1H16 to nearly 60% in 1H17.

The other hotspots in the market include the affordable, mid-tier, and landed property niches, with purchases in the latter two - which now account for over half of Vietnam's residential real estate purchases - predominately funded with 15 to 20 year mortgages.

A few years ago, mortgage-funded purchases of newly constructed apartments were rare, but today mortgage lending by banks is driving Vietnam's real estate market, with about half of Vietnamese banks' newly created consumer credit in the form of housing loans. According to our analysis, the mortgage payment of a typical professional couple (with circa five-years work experience) for a typical affordable apartment (circa USD70,000) or mid-tier apartment (circa USD130,000) equates to between 20% and 35% of that couple's joint monthly salary respectively at current interest rates.

Finally, we note that although the number of new housing units constructed annually has surged in recent years (particularly in HCMC & Hanoi), many analysts believe

that Vietnam's housing supply still falls well short of demand. We see no risk that excess supply could prompt a downturn in the market, but we are concerned about the capacity of banks to continue extending mortgages to home buyers.

Mortgage rates increased by about 50 basis points ("bps") during the financial year to approximately 10.7%, owing to capital and liquidity pressures in the banking system (the latter is partly attributable to new macro prudential regulations that constrain local banks' asset-liability mismatches). If mortgage rates (which are typically floating interest rates in Vietnam) were to reach 13%, a high proportion of home owners would have difficulties making their mortgage payments - although we believe the possibility of an imminent, steep increase of interest rates in Vietnam is remote.

Risks

In both 2016 and 2017, Vietnam's government set the identical, somewhat ambitious 6.7% GDP growth target. The country's economy grew by a respectable 6.2% in 2016, but since GDP growth fell well short of the official target last year, the government appears to have intensified its effort to stimulate growth in the first half of 2017.

Policymakers are currently relying heavily on monetary stimulus, as the government's ability to use fiscal stimulus is impeded by the fact that Vietnam's public debt-to-GDP ratio has already essentially reached the government's self-imposed 65% limit. Furthermore, intensified spending on infrastructure development and other programs lifted the government's budget deficit to 5.5% of GDP on average during 2013-2016, leaving some local lawmakers lamenting Vietnam's lack of fiscal prudence.

The SBV supplied the interbank market with an abundance of liquidity in the latter part of 2016, and again in the second quarter of 2017 (the SBV cut policy interest rates by 25 bps to 6.25% a week after the end of VOF's financial year on 30 June 2017). The stated hope of the SBV is that banks' excess liquidity will manifest into the "real economy" in the form of higher credit growth and lower lending rates. However, excess liquidity also risks inflating asset bubbles and reigniting inflation.

As Vietnam's policymakers worked hard to rein in inflation after the country's CPI increased by as much as 23% in 2011, so the central bank regularly reiterates that it remains vigilant to guard against a potential re-emergence of inflation. Fortuitously, there are no signs of significant inflationary pressures on the horizon in Vietnam, especially given the current stability of oil prices, which will help ease year-on-year consumer price comparisons as 2017 progresses.

Furthermore, the gap between Vietnam's money supply growth and the system-wide growth of banks' loan books reached four percentage points in late 2016, indicating that Vietnam's economy was generating excess liquidity that likely fuelled increases in asset prices at that time. However, by the end of 1H17, Vietnam's credit growth was about two percentage points higher than year-on-year M2 growth, indicating that the "real economy" was absorbing a disproportionate share of the new liquidity the economy generated, thus alleviating concerns about the emerging of asset bubbles for the time being.

That said, Vietnam's money supply growth is high in absolute terms, while at the same time there is an ongoing, notable increase in the number of new foreign investors to the market that have not experienced the pronounced peaks and troughs that characterise the investment cycles of Vietnam's public equity markets. For that reason, we believe an extra degree of prudence is required.

Commodities and natural resources

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

Malcolm Burne, chairman, Golden Prospect Precious Metals: Gold is currently giving its followers one of its notorious roller-coaster rides with its continued volatility reflective of the huge number of issues that are buffeting the world's economic and geopolitical climate. It is widely recognised and acknowledged that we are at a critical point in global affairs and there are plenty of reasons for both large scale financial cynicism and scepticism. There are so many "maybe's", "would be's" and "could be's", it is hard to escape the increasingly deafening noise.

So let's look at many of the situations and possible events that could trigger the next major swings in the price of precious metals and attempt to navigate our way through. For ease of comprehension we will break down the scenario into three major areas.

Finance and Economics

- The FED has announced it is unwinding its $4 trillion QE (Quantitative Easing) programme which will force up interest rates, prop up the dollar, which as we know gold reacts to negatively.
- The US debt ceiling that Congress has to approve or not is approaching $20 trillion and any uncertainty about extending this beyond the already revised December date this year will have a substantial impact in terms of market volatility.
- Trump is proposing to reduce corporation tax from 35% to 20% which has been holding up equities at the higher levels. Further, middle class tax cuts could, it is argued, provide substantial stimulus for the economy which could lead to further monetary breaks.
- Trump is also proposing a tax repatriation of the estimated $4 trillion from the Tech and Social Media giants who have been hoarding their funds in offshore jurisdictions. Capital inflows from this should have a dramatic impact on the $US, Wall Street and the Global financial system. A survey of 300 firms found that most have few plans to invest these repatriated funds in the real economy, however. It is believed that they are more likely to pay down debt, instigate share repurchase programmes or engage in M & A activity. It is feared that this repatriation will drain dollar liquidity from offshore markets at a time when the FED has declared it will begin quantitative tightening.
- Interest rates must eventually rise, pushing bonds down which traditionally leads to a big sell off in equities. Inflation, however, is still being held back by lacklustre wage growth.

De-dollarisation

- There is a lot of comment and punditry about an attack on the dollar and the death of money. China has allegedly sold $100bn of securities in the past year and is buying/stock piling high purity gold bullion bars. In fact, many Countries are collectively hedging an estimated $1.4 trillion and it has been noted that Germany has at last received its gold bullion back from the US which it requested 3 years ago.
- Many economists like to argue that all FIAT currencies inevitably or eventually go to zero. Over the last few hundred years a substantial number of FIAT currencies have become worthless with over one quarter of those due to hyperinflation.
- The message from history seems to be that no FIAT currency has lasted forever and that in today's world they are all made of paper and backed by nothing.

Worse still total debt derivatives, according to estimates, have reached circa $1.2 quadrillion (Source unknown). However, the same economists are the same who believe that a debt- default tsunami could devastate wealth overnight. Russia, as well as China, has been taking steps over ten years to prepare for this possible eventuality by boosting its gold reserves. Even the Eurozone, the 19 euro-using nations collectively have just over 10,000 metric tonnes of gold with most of their central banks still in the accumulation mode.

- Commentators for some time have been writing about China, Russia and Iran coordinating a new monetary order that does not involve US dollars. China would buy oil from Russia and Iran in exchange for the Yuan, or so the argument runs and apparently the BRIC's leaders have indicated their support for oil to be priced in Yuan and then convertible into gold.
- Russia has actively been promoting the Ruble as a regional hard/reserve currency. It has also been expanding its digital economy and exploring the use of Blockchain technology and cryptocurrencies as a medium of exchange.

All of the above seem eminently feasible and not just rhetoric as there has been too much complacency over the soaring debt to GDP ratios in recent years. It is feared that US consumers are now being subject to a record $13 trillion in household debt, raising the national debt well passed $20 trillion which would have been unimaginable just 10 years ago.

Geopolitics

- Geopolitically there is no shortage of potential conflicts in the world today. North Korea's pursuit of nuclear armed weapons masks the other emerging conflicts which include a possible coalition of Arab states, including Saudi Arabia and Egypt, promoting a fight with Iran.
- The South China Sea is another fiashpoint where a violent confrontation between the US and China could happen in the near future.
- Venezuela is another country that is declining into political chaos and social disorder.

The months ahead will no doubt see a rise in tension in many areas of the world and it is not surprising that gold is promoted as a quasi insurance policy in terms of being the obvious safe haven asset.

The gold price has been under undue infiuence of the unconventional monetary policy and growth of cryptocurrencies as an alternative safe harbour. This could explain gold's relatively poor responsiveness to the recent political tensions and has appeared weaker than expected.

There is an increasing level of chatter about a dollar reset or reboot and the return of the gold standard leading to a quantum leap in bullion and other precious metals.

The current market dynamics in play for gold are more challenging for investors than I can ever recall. The short term view is that gold will stay under pressure as interest rates rise and until the dollar loses its strong grip of late, the gold price will be constrained despite all the 'black swans' circulating the globe.

However, as gold pitches and tosses in these turbulent waters it still remains, in our view, the only real place to park money and it has shown plenty of signs that it is ready to take off and accelerate should even more fear increasingly grip the worlds stage. According to some major investment banks, in the last gold bull market their clients had roughly a 7% allocation to the gold sector whereas now their client's gold ownership is only at about 1%. We have been waiting for the Dow/gold ratio to substantially change and I believe we are very near to a major reversal.

It is interesting that the market research team at Deutsche Bank very recently published an assets survey that devoted almost all of it to "The Next Financial Crisis". They predicted that a crisis is coming and that it is imperative to prepare for it.

Summarising, the financial system is more precariously poised today than I can recall in my last 50 years of financial and investment commentating with few options for an orderly outcome other than hyperinfiation with gold the only real protection against it!

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Debt

(compare Debt funds **here**)

Paul Meader, chairman, Volta Finance: The overall economic backdrop proved increasingly benign over the last year as global growth began to become more synchronised for the first time since the financial crisis, some ten years ago. There is also a sense that growth is more self-sustaining than previously, albeit underpinned by exceptionally accommodative monetary policy. So it is, with hindsight, unsurprising that markets generally have prospered, including credit markets.

The political backdrop has been generally less favourable and future shifts in regulation may also be less benign. With most asset classes looking expensive in a historical context and a likely reduction in monetary policy accommodation, this must give pause for thought about returns in the near term.

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AXA Investment Managers, managers, Volta Finance: Like every reasonable investor, we are alert for signs of imbalances that could cause volatility. Late in 2016 we identified the new US administration and the possibility of some interest rate volatility as potential sources of volatility for our markets. However, none of this has materialised so far. There are, of course, still concerns (the end of QE in the US and later in Europe, Brexit, the threat to classic retail businesses from online sales, political instability in the Middle East, etc.) but we cannot see, at the time of writing, anything that is expected to be of significant impact.

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Ian Francis, manager, CQS New City High Yield: It is likely that we will continue to see rate rises in the United States in the forthcoming 12 months and we would expect QE to cease in Europe, where inflation looks to be under control and is being matched or bettered by wage rises in real terms. We feel the greatest risks to global markets going forward are from the potential impact of Brexit in our economy and the unpredictable effects of Donald Trump's dictate by Twitter.

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Property

(compare UK property funds **here**)

Target Advisers LLP, managers, Target Healthcare REIT: The UK care home market remains highly fragmented. The top four independent care home groups account for less than 15 per cent of the overall market and the industry continues to be dominated by smaller operators. Whilst the much-speculated HC-One / Bupa transaction has been making the headlines in recent months, this transfer of a group of older assets from one large group to another does not reflect the current focus of market activity, which is focused on either new developments, single assets or small portfolios where purchasers are willing to consider a mix of prime and secondary assets.

A number of new REITs (both specialist and generalist funds) have launched over the last twelve months and Sterling's recent devaluation post-EU referendum has made all classes of UK real estate more attractive to international investors. Key overseas buyers include Asian and Middle Eastern private investment groups and developers as well as US buyers, albeit appetite in the sector from US REITS remains muted. These new entrants have all been active in the UK care home market which has resulted in significant investor demand, in particular for high quality, purpose-built care homes in prime locations with a focus on the self-funded market, such as the South East of England. This demand is further accentuated where strong operator covenants are on offer and which have led to some substantial prices being paid for highly sought-after assets.

Health/social care

Once again the last year has been a challenging and frustrating one for the UK care sector. Political uncertainty, staffing shortages whether Brexit-induced or not, public funding and a challenging regulatory regime continue to challenge operators, particularly those working in poorly equipped properties and reliant on local authority funding.

Laing & Buisson, the sector analysts, confirmed in July that the average English council had raised its 2017/18 fees paid for residents in privately-owned homes by 3.6 per cent, stating this does little more than cover National Living Wage (NLW) costs than inflation costs in general. This would appear to have been funded by councils again, utilising the full 3 per cent 'Adult Social Care Precept' Council Tax (CT) rise sanctioned by the Chancellor on top of their standard CT rise.

Scotland, Wales and Northern Ireland have had similar experiences. Fee increases in Scotland, though nominally higher, have been decried as inadequate by Scottish Care given the higher than NLW 'care-worker' minimum wage of GBP8.45. Scottish Care have for many years successfully negotiated a national fee via COSLA, the umbrella organisation for most Scottish councils, but worries abound that this era is coming to an end.

In contrast, Laing & Buisson note that private fees have been relatively buoyant, and are likely to continue to experience faster growth than public fees.

Margin erosion contributing to closures

Operators are finding staff costs, the single highest expense for any home, challenging to manage to achieve profitability improvements. Alongside the hourly

rate increases from NLW, regulators, particularly the English CQC, are rightfully pressing for robust staffing levels, increasing the number of hours required. The lack of qualified nurses is an additional problem, with many operators facing high agency rates to adequately staff homes.

Homes who are overly-exposed to public fee payers are seeing margins eroded year on year, as they lose the traditional ability to achieve savings by tailoring and careful planning, something being taken out of their hands by the regulator's demands. Whilst the practical impact of the regulator driving higher standards is to be welcomed, commentators continue to note an increasing number of smaller home closures as these often single 'mom and pop' operators (as they are known in the sector) throw in the towel after 20 or 30 years in business. Most of these smaller establishments are unsellable as going concerns, both due to their inability to achieve economies of scale operationally, and also due to their unsuitable and dated facilities (for example, greater than 25 per cent of beds have no en-suite facility at all, never mind full wet-room shower facilities).

Politics and long-term funding of social care

The recent general election campaign demonstrated clearly the sensitivities inherent in sector funding with adult social care and the NHS featuring heavily. The Conservative party's manifesto launch featured a controversial proposal which would fundamentally change funding, consistent with growing calls from think tanks for the public to either pay for their own care via housing wealth, through such additional taxation of their estates, or for the public as a whole to pay into social care through increases in taxation or national insurance. The plans were shelved in reaction to widespread criticism, most memorably a 'dementia tax' branding. It is worth noting that a 2010 proposal by Labour to introduce a property tax for older home owners was similarly branded a 'death tax' by the Conservatives. Politics does, perhaps, slow the pace of essential social care policy changes.

And yet the problem will persist, and grow, as the number of over-85s is set to double over the next 20 years and an estimated 1.2 million people are expected to be living with dementia by 2040 relative to today's 0.85 million. The sector is promised another 'Green Paper' on funding in the autumn, cynics note there have been a dozen such reviews of Social Care in the last 20 years!

We retain our conviction that operators utilising purpose built, modern properties and managing their operations effectively with a focus on staff training, retention and care quality can continue to perform well. Those who also have an element of control over fee-setting are particularly well placed to serve a sector with such fundamental demand drivers.

QuotedData

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

www.quoteddata.com

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

Edward Marten
(em@martenandco.com)

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)