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Monthly summary | Investment companies

December 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

Sterling strengthened a little in November, or perhaps it might be more accurate to say that the US dollar weakened. The UK stock market fell a little over the month while most other markets climbed, notably Japan extended its post-election rally. Oil was up.

Global

As equity markets continue their climb, the reaction ranges from sanguine to extreme concern.

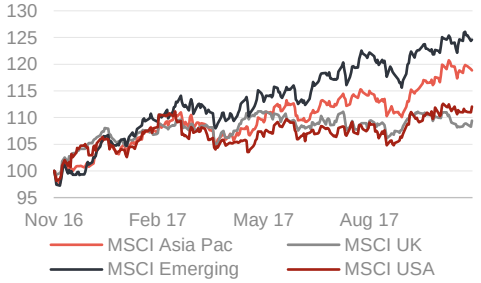
Christopher Jonas, chairman of Henderson International Income, stresses that global economic cycles are not synchronised. Fiona McBain, chairman of Scottish Mortgage notes markets' ability to shrug off geopolitical events. Rachel Beagles, chairman of Securities Trust of Scotland thinks the sustainability of the current market rally is dependent on corporate earnings growth. Sebastian Lyon, manager of Personal Assets, is convinced that equities are too expensive and is waiting for a correction before investing.

Exchange Rate	30/11/17	Chg. on month %
GBP / USD	1.3525	+1.8
USD / EUR	0.8401	-2.2
USD / JPY	112.54	-1.0
USD / CHF	0.9836	-1.4
USD / CNY	6.6091	-0.4

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 30/11/16 to 30/11/17



Source: Bloomberg, Marten & Co

	30/11/17	Chg. on month %
Oil (Brent)	63.57	+3.6
Gold	1275.01	+0.3
US Tsy 10 yr yield	2.4097	+1.3
UK Gilt 10 yr yield	1.330	-0.2
Bund 10 yr yield	0.366	+1.1

Source: Bloomberg, Marten & Co

United Kingdom

Most UK focused funds are concerned about the political uncertainty created by Brexit. A recurring theme is the impact on companies exposed to the UK consumer. However, a minority think that domestic UK stocks look attractive

James Goldstone, manager of Keystone, lays out his theory as to why he thinks domestically focused UK stocks look attractive; he thinks we could see dramatic share price moves. It is a stance that is also espoused by his colleague, Mark Barnett, manager of Edinburgh and Perpetual Income & Growth, and the managers of Montanaro UK Smaller Companies make a similar case. This is in sharp contrast to most of the other commentary from UK focused funds. David Warnock, chairman of Troy Income & Growth is concerned about political uncertainty. The manager of the fund favours UK listed multinational companies, particularly those with pricing power. The managers of Schroder Income Growth are worried about companies exposed to the UK consumer. Andy Irvine, chairman of Fidelity Special Values, stresses the importance of stock selection in the current environment. Alex Wright, manager of that fund, thinks that the market is vulnerable to a shock.

The managers of Chelverton Small Companies Dividend are surprised that there hasn't been more M&A activity given weak sterling. The managers of Value & Income Trust are encouraged by the dividend growth that the UK market has been experiencing. Judith MacKenzie, manager of Downing Strategic Micro-Cap, highlights the growth in British manufacturing. Robert Talbut, chairman of Shires Income, thinks that market returns may be more volatile than they have been.

Asia

Positive outlook for dividend growth tempered by fears of a trade war between the US and Asia. China and India are expected to be key drivers of growth in the region

The managers of Schroder Oriental Income see solid value in dividend paying stocks in Asia and expect to see an encouraging flow of dividend news. John Russell, chairman of Henderson Far East Income, is less fearful of a trade war between the US and Asia than he was. Mike Kerley, the manager of the fund is also cautiously optimistic and echoes the Schroder team's positive view on likely dividend growth. Allan McKenzie, chairman of Edinburgh Dragon, thinks Asian companies are in good shape and stresses the importance of rapidly growing consumption in the region. The managers of that fund believe China will remain at the forefront as the main driver of regional growth but also think India's economy should be raring to go again after the governments reforms slowed growth. Harry Wells, chairman of Martin Currie Asia, says valuations in Asia are not particularly demanding. The manager of that trust says that they are in line or a little above long-term averages but attractive relative to other regions.

Japan

Potential upside as corporate governance reforms take effect. Economic backdrop is encouraging with improving domestic consumption and demand for Japanese exports

Andrew Fleming, chairman of JPMorgan Japanese, thinks that share buy backs and dividend increases could surprise on the upside as corporate governance reforms take root. The managers of that fund lay out a number of themes that they think are at work in the Japanese economy. They think the overall picture is encouraging. Neil Gaskell, chairman of Aberdeen Japan, says improving domestic consumption is being augmented by higher demand for Japanese exports. The managers of the trust are concerned about geopolitical and macroeconomic issues external to Japan.

Emerging Markets

Trends of GDP growth and low inflation are welcome, as are undemanding valuations relative to developed markets more generally. Concerns about geopolitical and macroeconomic threats remain

John Rennocks, chairman of Utilico Emerging Markets, highlights some of the geopolitical and macroeconomic threats to markets but is cheered by GDP growth and low inflation. Harry Wells, in his capacity as chairman of Establishment Trust, says regional valuations in Asia are undemanding relative to the US. The managers of that fund hail a recent move to recapitalise India's public sector banks. Carlos Hardenberg, manager of Templeton Emerging Markets, notes that large investors have an underweight exposure to emerging markets. He also points out that technology is a key driver with almost half of global patent registrations originating in emerging markets.

Property

Concerns that values of London office properties could suffer with Brexit persist, although demand appears to be resilient. Crossrail expected to boost London's west end. Rents rising in European cities

Brian Bickell, chief executive of Shaftesbury, talks about London's west end and the benefits that Crossrail will bring to that area. Picton Property Income talks about Brexit's impact. Land Securities thinks that the valuations of London offices could come under pressure as more property is offered for sale. Great Portland Estates highlights that much more money is looking to be invested in London than there is property available to buy. British Land talk about the interaction of online and physical shopping. Richard Shepherd-Cross, manager of Custodian REIT thinks rents will have to rise before meaningful new development can take place in the regional property market. Civitas Social Housing's managers talk about the social housing market in the UK. Hugh Seaborn, chairman of TR Property, says rents are rising in virtually all continental European cities. The manager of the trust takes a comprehensive look at the state of the market. LondonMetric Property highlights the contrasting fortunes of industrial and retail property.

Other

In addition, we have comment on Europe from The European Trust and Montanaro European Smaller Companies. North America, from Gabelli Value Plus. India from Aberdeen New India, extensive comment on the biotech sector from International Biotechnology, Biotech Growth Trust and Worldwide Healthcare. Debt from TwentyFour Income Fund and Alcentra Floating Rate Income. Infrastructure from HICL and John Laing Infrastructure; and renewable Infrastructure from John Laing Environmental Assets and NextEnergy Solar where the latter trust says new solar plants are competitive without government subsidy.

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Global

(compare Global funds here)

Christopher Jonas CBE, chairman, Henderson International Income: Equity markets have performed well in recent years. This raises inevitable questions about the cycle peaking, but within the headline numbers there is much divergence in performance between stocks and between geographies. The United States and China have shown some signs of reducing stimulus in the last six months, which if continued may temper growth rates in the future. At the same time Brazil, Japan and Europe continue to ease monetary conditions.

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Fiona McBain, chairman, Scottish Mortgage: It is notoriously difficult to predict which events will or will not generate a market tantrum. The last six months have seen significant political tensions rising in the Korean peninsula and Sea of Japan, and there has been no shortage of news flow surrounding a US president who, at the very least, shows no diminution in his love of controversy and the limelight. This is to say nothing of the ongoing saga around Britain's exit from the European Union. Perhaps rather surprisingly, markets seem to have weathered the various geopolitical events of the summer almost with equanimity. This might have surprised many investors, had they been asked to predict the outcome of such events even just a year ago.

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Rachel Beagles, chairman, Securities Trust of Scotland: Since the end of September, markets have made further upward progress and valuations are generally high in a historic context. Global growth expectations have risen and on the whole companies are beating expectations but earnings growth is needed to push markets higher. Whilst acknowledging that inflationary threats still seem modest, there is a need for central banks to continue to increase interest rates, if only to provide a monetary cushion for the next downturn. This will increase the risks of a market setback should demand respond negatively to a higher cost of capital.

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Mark Whitehead, manager, Securities Trust of Scotland: Volatility remains stubbornly low despite clear risks, such as an escalation in the North Korean missile fracas, other geo-political complications, the rise of populist politics or of central bank policy surprises.

Both the US and European central banks have commenced a withdrawal of the stimulus/quantitative easing that has been in place since the global financial crisis. This indicates that they are certain that economic activity is sufficiently strong; and most of the indicators they are using to confirm structural growth are showing a very healthy level of expansion. The US Institute of Supply Management (ISM)'s manufacturing index, which monitors employment, production, inventories, new orders and supplier deliveries, has been particularly strong. Non-manufacturing data also points to an expansionary mode, with the economy travelling at, or near to, full employment.

With their economies blooming, the policy setters feel it is time to begin normalising monetary and fiscal activity. But, it is our contention that both the Federal Reserve and the ECB have to tread carefully. They must not withdraw stimulus too fast, as it may well cause a toxic shock, igniting a sell-off in bond markets that could trigger a

contraction in activity and shift in sentiment. The economy's sensitivity to adjustments in interest rates must not be underestimated, and there is a real chance of policy error here. Policymakers are therefore unlikely to withdraw the stimulus too aggressively, so lower-for-longer interest rates should allow economic growth to build; and the prolonged business cycle should be good for equities, despite their heady valuations.

Much of the equity strength we have seen in recent years has been driven by valuation expansion, as investors have agreed to pay a greater multiple of the level of profits generated. This is unusual, as the longer-term drivers of equity returns are dividends and corporate profits. We therefore believe the sustainability of the current equity market rally is dependent on corporate earnings growth. However, against this backdrop of chronically low rates, equities offer investors the best opportunity for accessing returns. If anything, this environment highlights the need to find, and ultimately invest in, companies exhibiting genuine, sustainable growth.

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Julian Cazalet, chairman, Lindsell Train: The bull market in global equities is considered by some to be mature, with returns accruing almost uninterrupted since March 2009. Monetary authorities are now withdrawing liquidity at the margin rather than adding to it. Interest rates, led by the USA, are beginning to rise. Many investors and commentators are urging caution and some investment strategies are positioned defensively. The competition from other asset classes such as bonds, even with interest rates up a little, remains relatively benign.

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Sebastian Lyon, manager, Personal Assets: We wait for better value to emerge in the equity market. Market leadership has become highly concentrated in a small number of stocks. This is a common feature late in the cycle. At a recent meeting we were asked what would drive us to increase our allocation to equities. The answer is simple: valuation. Impatient capital is finding its way into inappropriate, low-return opportunities. Low market liquidity has exacerbated the rises in equities and bonds. When sellers start looking for the exits, a lack of liquidity will compound losses and provide opportunities for patient investors.

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United Kingdom

(compare UK funds **here**)

James Goldstone, manager, Keystone: The UK equity market continues to push higher. This is despite a growing list of things worth worrying about. In no particular order and to name but four: geopolitics (North Korea), domestic politics, monetary policy (global QE tapering/ reversal and rising base rate) and the uncertainties of Brexit. Whilst the headline valuation of the constituents of the FTSE All-Share Index looks reasonable at around 14 times 12-month forward earnings, that average conceals some stark valuation differences between stocks, sectors and "styles" that by historical standards look extreme and have thrown up some compelling opportunities.

The sharp fall in sterling in the wake of the EU referendum flowed through quickly to the prices of food, energy and fuel and the tail-end of this move was still being felt in September with CPI at 3%. However, the recent recovery in sterling against the dollar

(including on a trade-weighted basis) means CPI is likely to be at or close to peak for now and is a factor in the market's view that interest rates will rise only very gradually. This potentially misses the significance of wage inflation. Private sector wage growth is already above 3% and the 1% cap on public sector pay has now been lifted. Wages at the bottom end of the pay scale will continue to accelerate thanks not just to the pre-determined increases in the national living wage, but also, according to anecdotal evidence from management teams we meet, to a very tight labour market. Since being given independence, the Bank of England has signalled consistently that inflation expectations, rather than current rates of inflation, drive interest rate policy and wage inflation is surely the biggest driver of those expectations.

This leads to several conclusions: firstly, that the risk to UK base rates and market rates of interest is clearly to the upside (against a similar backdrop globally); secondly, that in the near term, the recent decline in real disposable income is set to reverse and boost UK consumption and, in turn, the revenues and margins of companies exposed to the UK consumer; thirdly, that the pound, still well below purchasing power parity, could strengthen substantially and in the process dent the earnings of export-led and internationally based businesses, at the same time as expanding disposable incomes further.

The impact of all this could be very significant indeed, given the current valuation disparity between the potential winners and losers. The momentum that has characterised the last several years in the equity market has left the share prices of companies exhibiting "value" characteristics, relative to those exhibiting "growth" characteristics, at levels rarely seen in the last forty years; money has poured into so called "bond proxies" and into shares of companies perceived as capable of growing in a low growth environment. As an example, shares in UK Financials are still very close to their post referendum twenty year low relative to Consumer Staples. If the received wisdom that the low growth, low interest rate environment is permanent proves erroneous, sector rotation and the resultant correction in share prices could be dramatic.

Added to all this is the outcome of the Brexit negotiations and, in the shorter-term, the perception of the likely outcome. Whilst the process will inevitably continue to generate headlines about the two sides' positions and the economic impact of a good deal or of no deal, I believe that in time an agreement will be reached that avoids unnecessary mutual pain. An intervening period of brinksmanship will of course bring volatility to the UK stock market but in time I expect this to be seen to have presented unusually attractive investment opportunities.

Another risk to domestic resurgence is the rise of the Labour party under Jeremy Corbyn, who has successfully identified a number of serious societal and generational issues and capitalised upon them in the face of a Tory party weakened and distracted by Brexit and the surprise general election result. Whilst a Labour majority in parliament could turn the valuation scenario discussed above on its head, it is difficult to envisage a set of conditions under which the Conservative party would precipitate another General Election over the next 24 months. I am therefore watching the domestic political situation extremely closely but don't view the threat as imminent.

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David Warnock, chairman, Troy Income & Growth: Political uncertainty remains at elevated levels on both sides of the Atlantic. The direction of European integration, the shape of Brexit and its impact, the threat of Catalonian secession, and an unusual and unpredictable US presidency, are amongst a long list of uncertainties which, when combined with a potential change in central bank policy (not least the recent

increase in interest rates by the Bank of England) and a maturing bull market in equities, create considerable risk.

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Troy Asset Management, manager, Troy Income & Growth: In the first few days of October 2016 the threat of a hard Brexit precipitated a further fall in sterling to lows against the dollar not seen since mid-1985. Since then the commencement of the negotiations with the EU has allowed sterling to first stabilise and then to strengthen modestly ahead of Theresa May's Florence speech. Also contributing to this complex equation has been the influence of central bankers and their desire to make the first tentative steps towards withdrawing from the extraordinary easy monetary policy that has dominated the last 9 years. The US central bank communicated its intention to begin normalising its $4.5 trillion balance sheet in October. In the UK, the Bank of England has reversed the 25 basis point cut implemented following the 2016 EU referendum but Governor Mark Carney continues to steer the market away from pricing in a series of further hikes. Both bond and currency markets have moved to price in these changes in expectations.

However, the forces of deflation have never been far away and, despite US unemployment falling to 4.3% in September, a broad reflation of the US economy, and wage inflation in particular, have remained elusive. In the UK, although inflation has been fuelled by a weakening currency it has not been underpinned by a higher rate of economic growth or a rise in real wages. The result has been vacillation from central bankers and only the first tentative steps toward tighter policy.

This persistence of loose monetary policy has allowed equity markets to rise steadily despite the continued deterioration of the geopolitical backdrop. The rise of populism, an unpredictable US president, the aforementioned Brexit negotiations and an increasing number of foreign policy challenges have all been brushed aside.

Despite a rise in consumer price inflation for the month of October to 3.1% it is only a matter of time before the impact of the initial drop in the value of the pound following the Brexit vote falls out of the annualised figures entirely. Market participants will only then be able to clearly observe whether Britain's decision to leave the European Union has resulted in a transient or more permanent increase in the rate of inflation. The Bank of England, attempting to strike a delicate balance between preserving growth and containing inflation, will continue to sound a cautious note in its guidance on the path of future interest rates and we would anticipate a meaningful gap before any further increases are announced.

Movements in the foreign exchange rate notwithstanding, UK-listed multinationals should remain relatively resilient regardless of the political climate and companies that command pricing power stand to be beneficiaries of the return of modest inflation in the developed world. In addition, even against a low-growth backdrop, opportunities remain to streamline operations, improve margins and pass through some of the incremental cash flow to shareholders.

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Ian Barby, chairman, Schroder Income Growth: While politics is not always a dominant factor in financial markets, its influence is currently particularly material - arising primarily from uncertainties over the Brexit negotiations, a domestic political scene made less clear by the June 2017 general election, and a global backdrop that includes a more protectionist US and a threatening North Korea. On top of that, monetary policy in the UK, US and Europe all seem to be on the cusp of a change from the loose conditions of the last nine years.

Schroder Income Growth: The global economy has continued along its path of sustained growth and muted inflation. The decision by the Federal Reserve and the ECB to slow their stimulus programmes signals another step to normality after the global financial crisis. Even so, global liquidity is still expected to rise, largely supported by the Bank of Japan, and this continues to provide support to equities. However, given the optimism within markets, and as the pace of liquidity expansion slows, we continue to be selective in looking for new opportunities.

The UK continues to fare better than the majority of forecasters predicted after the referendum. This, in combination with the recent CPI inflation rate of 2.9%, has led the Bank of England to increase interest rates in November. This has caused bond yields to rise, which is generally positive for financials.

Despite this economic backdrop, low unemployment has still not translated into wage growth. Our conversations with companies confirm that they remain concerned about the UK consumer. This and the impact of higher input costs keep us cautious on this area of the market.

This caution has been justified by examples of UK domestic shares performing poorly after disappointing profit announcements. Pub and restaurant operators, for example, have generally reported weaker trading than expected. We are particularly mindful of companies with low gross margins and relatively little pricing power, making it difficult to offset cost pressure. We also continue to keep a firm eye on balance sheet risk.

Opportunities will present themselves, as UK domestic stocks remain relatively unloved. Profits of UK domestic companies have improved whilst share prices in aggregate continue to underperform.

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Chelverton Asset Management, managers, Chelverton Small Companies Dividend: We have been surprised that there has not been more takeover offers, building on the increase last year however one can only suppose that the Brexit uncertainty is holding corporates back from taking advantage of the sterling discount.

UK Gross Domestic Product growth has been subdued for the last six months, although there are signs that UK Growth will increase in the future mirroring the recent pick-up in the Eurozone.

The Brexit position will likely remain unresolved until the "eleventh" hour, that being the EU's usual modus operandi in negotiations. Repeatedly "experts" have said that a deal is of equal importance to both sides however until the Germans and the French properly engage then little or no obvious progress will be made.

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Andy Irvine, chairman, Fidelity Special Values: The outlook for GDP growth has weakened. Economic activity remains sluggish in the near term as the squeeze on households' real income continues to weigh on consumption. The strong run in markets seen over the last year has also left valuations above their historical averages in some areas. In this environment, a more discriminating approach will be required to separate the best opportunities from those that could disappoint.

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Alex Wright, manager, Fidelity Special Values: A strong run in the market over the last twelve months and indeed over the longer term has left valuations above historical averages in some areas, and sentiment relatively elevated. While this need not be a cause for immediate concern, we believe it constrains the ability of the

overall market to continue making above average returns in the future, and makes it more vulnerable to a shock.

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OLIM Limited, managers, Value & Income: Global growth in GDP is expected to continue to rise steadily, with more than 3.5% forecast for 2017. American GDP is growing at just over 2% and China's rate of growth, though gently declining, should remain above 6.5% in 2017, with a small further decline next year. Growth in the Eurozone has picked up, following years of relative stagnation. In 2017, growth of close to 2% is forecast. UK growth has been more muted so far this year with just 0.2% in the first quarter and 0.3% in the second quarter. Growth of 1.5% is currently expected for the year, trailing the major developed economies, apart from Japan. The UK consumer has been under pressure with lower wage growth and higher inflation following last year's depreciation of sterling. Some consumer facing companies reported slower growth in sales during the summer, but concerns about consumer spending and a slowing domestic economy were partly alleviated by strong retail sales reported in August and September. The annual rate of CPI inflation reached 2.9% during the summer but should now moderate with the recovery in sterling against the dollar. Further grounds for optimism stem from the rate of unemployment which is now at the lowest rate for 42 years, at 4.3%.

Interest rates in America have risen four times so far and the Fed Funds rate now stands at 1.25% with further rises expected. Statistics concerning unemployment in the USA report very low levels, similar to the UK, prompting fears of rising inflation. In the UK, the Bank of England has warned about the level of indebtedness across the economic spectrum, with particular concerns about the level of consumer debt. Mark Carney warns that the Bank will raise base rate, possibly before the end of 2017, from its current rate of 0.25%. The Bank reduced base rate to this level shortly after the Brexit outcome of the EU Referendum in August 2016 and also announced a further programme of Quantitative Easing, which has now come to an end. Tightening interest rates are now generally expected both here and in America.

Investors have had to contend with a highly uncertain future for more than a year now with unexpected outcomes of major electoral decisions and changes of leadership in America and in the UK. Nevertheless, our equity market has remained positive and steady. Equity investors have been much encouraged by the growth in equity dividends; so far in 2017 dividends declared on the companies in the All Share Index have risen by nearly 16%. This is partly due to the translational effect on dollar earnings and dividends declared earlier in the year when the pound was lower against the dollar, but it also reflects steady growth in the majority who declare in sterling. Despite the rise in capital values of equities during the last half year, the yield on the All Share Index has risen to its current level of 3.7%, which remains at a high premium over gilt yields.

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Judith MacKenzie, manager, Downing Strategic Micro-Cap: Our outlook for UK companies is largely influenced by what we hear from the management teams that we meet. Notwithstanding the potential adverse impact of sterling devaluation and a general election, we believe that most are cautiously optimistic.

A useful source of gauging wider sentiment that we use is the Deloitte CFO Survey, published quarterly. The Q3 2017 issue highlights increasing optimism versus earlier in the year. Adverse impacts from Brexit are still the greatest concern and this is expected to curtail investment plans for the time being until the picture becomes clearer. Weak domestic demand is cited as the second greatest cause for concern

while an interest rate hike is the third - 92% of CFOs surveyed expect base rates in one year to be higher than today's 0.25%.

Companies with high exposure to the discretionary consumer have had to experience the combined impact of weaker sterling increasing their purchasing costs, higher inflation and low to no wage growth reducing spending power. This has squeezed margins and reduced profitability.

However, there are promising pockets of growth particularly with British manufacturing activity, which is growing at its fastest pace in three years. The Confederation of British Industry's measure of export order books was its highest in almost 30 years, fuelled by sterling weakness and economic growth elsewhere in the world.

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Robert Talbut, chairman, Shires Income: Any debate regarding the prospects for the domestic economy is dominated by the Brexit process. Currently there is little clarity regarding the outcome which will materialise, how long it will take to reach or how much it will cost. Such an environment creates material uncertainty for investors. However, companies and fund managers alike need to work with the information that they have. The complexities and indeed costs of doing business may increase but these should not be insurmountable.

In the meantime, the domestic economic fundamentals show rising inflation, with the CPI reading reaching 3% in September. The upward pressure arose principally from food and transport costs which have been pushed higher by the weakness in Sterling. At the time of the increase in interest rates following the period-end, the Governor of the Bank of England, Mark Carney, also expressed a view that no further increases are expected in the near term.

Although the major central banks are at different points in the interest rate cycle, they are generally pointing towards a tightening of monetary conditions and a reduction in either the rate of or absolute size of their stimulus packages. This all suggests that policy makers have a broadly favourable view of the outlook for their economies. Indeed when one considers the outlook for the global economy the prognosis is quite positive. Although there is the potential for additional political disruption, investors have so far looked through this and focussed on the fundamentals.

The US economy is continuing to grow strongly and, whilst this will inevitably slow at some point, Europe is recovering well and growth is picking up across the region. Elsewhere, the increasingly significant Chinese and Indian economies also appear on good growth trajectories. In the former, the recent Communist Party Congress seemed to re-emphasise the importance of further developing domestic demand while the reform agenda in the latter still appears intact.

Valuations, and in particular those of good quality companies, remain elevated, and any disappointment in the levels of growth achieved has the potential to result in a de-rating of equities. For the time being, and despite the fact that we are entering a rising interest rate cycle, markets are in an optimistic frame of mind. However, the number of potential political and geopolitical flashpoints that could materialise, together with the uncertainty generated by the likely scaling back of central bank support to global financial markets, should make investors vigilant to the possibility of more volatile market returns than have been enjoyed over the last few years.

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Mark Barnett, manager, Edinburgh Investment Trust: The performance of the UK stock market will continue to be dominated by the countervailing forces of better than expected global economic growth and ongoing UK domestic political concerns. A sense of complacency may now exist over the global growth outlook, which has led to narrow but rising market levels, low volumes of shares traded and little volatility in share prices.

This positive backdrop has also led to a renewed belief in a so called "goldilocks" environment, where the key economic variables of growth, inflation and interest rates are set up to sustain a perfect environment for rising stock markets. This may prove to be the case over the near-term, and is certainly illustrated by the further fall in market volatility, but this kind of stock market status quo does not tend to last too long. It is also worth remembering that a combination of high valuations in certain sectors, shifting monetary policy and a volatile geopolitical environment may still provide a catalyst which alters this bullish global outlook.

By contrast, the market seems incapable of looking beyond the uncertainty of the Brexit negotiations when it comes to valuing sterling assets which, by historic standards, are now heavily discounted. Again, this seems unlikely to persist for long.

The best performing sectors this year have been those most exposed to this bullish global scenario, which has created opportunities to invest within the more domestically exposed sectors that have performed poorly and which look undervalued. As previously mentioned, there is an apparent strong consensus pessimism about the outlook for the UK economy, despite recent data points indicating a continuation of current growth trends. Although a materially improved domestic outlook may be unlikely, there should be some respite from the pressure on real incomes as elevated inflation levels decline next year and wages continue to grow. This gives us confidence that an excessively bearish view is already reflected in domestic share prices.

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Montanaro Asset Management, manager, Montanaro UK Smaller Companies: Brexit and the accompanying uncertainty is a dampener to investment sentiment, both at the stock market and corporate levels. Uncertainty is never welcome. Investors should be more discerning than ever about the types of businesses they own. Indeed, while the second quarter of 2017 saw a good earnings season, things have not been as rosy since then: profit warnings in the UK are on the rise. In such an environment, the case for active management should strengthen. Quality companies with strong fundamentals should be well-rewarded if they can deliver on realistic expectations.

Although Sterling has strengthened during the period, the currency remains at historically low levels. Indeed, against a basket of currencies, Sterling is close to the bottoms of February 1993, December 1995 and January 2009. Some historical basis therefore exists for believing that Sterling could continue to rise from here. Clearly, this would benefit domestically focused companies at the expense of the large multinationals that are over-represented in the FTSE 100 index. This would support the case for continued outperformance by UK SmallCap.

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Asia

(compare Asian funds **here**)

Schroder Unit Trusts Limited, managers, Schroder Oriental Income: Over the last 12 months, investors have taken a relatively sanguine view of global equity markets. The stance has been rewarded and Asian equities have more than participated in this strength. The scale and extent of returns naturally raises the question of whether enough is enough, and at least a pause for breath, or a correction, is imminent.

Perhaps the first point to make is that many fundamental supports to equity markets remain in force. PMI data (Purchasing Managers' Indices) paints a picture of an impressively co-ordinated upturn in global growth, with 80% of countries solidly in expansion territory. Equity valuations relative to bonds remain in extremely attractive territory, and there have been few of the usual signals that surround a market peak such as narrowing market breadth, widening credit spreads or excess investment by corporates. This suggests that the outlook for the region's exporters remains relatively sound, although the pace of expansion is likely to moderate over coming quarters as comparisons get more demanding.

As regards the external environment for Asia, the extent of any tapering following on from recent Federal Reserve and European Central Bank announcements must be taken seriously. However, the $300bn projected withdrawal by the Federal Reserve over the next 12 months must be seen against a total central bank balance sheet expansion globally of $11trn since 2009, and in aggregate Central Bank balance sheets are likely to still grow until Q4 2018. The key will remain inflation expectations, and the risks here surround tightening labour markets (including a surge in Euro area companies reporting labour shortages) and the impact of supply curtailments in China.

As regards domestic conditions in Asia, the impact of the self-induced (and hopefully controlled) slowdown in Chinese growth will need to be closely monitored. Our calculation is that this can be smoothly managed, aided by the broadly helpful global environment in terms of liquidity (aided by a gently weaker US dollar) and robust trade flows. The October political transition in China has seen a smooth entrenchment of President Xi, but accompanied by the departure of a number of more pro-reform cadres. In all probability, the prospect of real reform has receded, with the exception of supply curtailments in a number of basic industries driven by the pressing need to tackle pollution. Credit growth will remain a key lever of State economic control. Although there must be an eventual end to the process, we believe it is too early to incorporate the serious long-term consequences of the debt build up given that China continues to enjoy a strong external balance and growth is gradually shifting towards services and the consumer.

As we reported at the half way stage, we also take heart from the fact that the corporate sector around the region is generally in robust health. Outside sectors and companies whose investment patterns are determined by state and government-led priorities, capital spending discipline remains impressive, resulting in a strong expansion in underlying cash flows and stronger balance sheets. We continue to see an encouraging flow of positive dividend news. It may be difficult for an income-oriented company such as this to access the high growth low yield areas of the market so much in favour over the last 18 months, but we see solid value across the income universe in Asia.

John Russell, chairman, Henderson Far East Income: Global tensions are rising. Popularism is beginning to embed itself in mainstream politics in a number of countries with negative implications for global growth. North Korea presents a significant challenge to the region and the world. Terrorism is also increasing and deaths caused by regional wars have been rapidly rising since 2008. President Trump's approach is not helpful in a world calling out for stability. While the EU is showing better economic growth the underlying tensions and disagreements among the 28 countries remain high with no consensus in sight.

Against this gloomy backdrop there are still some very positive developments. Global economic power has moved decidedly eastward to the world's most populous region in the past few decades, China and India in particular. The impact of the 2008 financial crisis would have been much worse if not for China's policy response in stimulating its economy to further improve its contribution to global GDP. It was this policy that gave rise to much debate among investors about rising debt in China and the sustainability of an economy driven by low cost manufacturing and debt. The concerns have been shown to be overstated. President Xi Jinping has clearly put China on a more sustainable economic growth path. Household aggregate demand is rising sharply, the services sector is now the major driver of economic growth and, in contrast to many western economies, the percentage of GDP going to wages is rising, further stimulating consumption. The household savings rate is also in decline as social security measures strengthen.

President Xi has also introduced supply side reforms by dissolving some non-performing state owned enterprises and introducing much tougher regulation to reduce financial risk. These measures will further improve economic performance giving him more room to tackle the severe environmental degradation that has resulted from past policies.

The risk to this optimistic view remains populist driven trade disputes. However, even on this front, the outlook seems a little better than may have been imagined following the aggressive stance taken by President Trump in his election campaign and immediately following his election. He has not declared China a currency manipulator and appears to have discovered how damaging a trade war would be to the global economy including the US. The stakes are just too high. Some mutually agreed compromise will probably be the final outcome.

The Board attended a conference in Mumbai, India in June. It was an opportunity to meet a number of Indian companies and hear from numerous experts and commentators. The energy and the growth of a wealthy middle class was very evident as was the Government's efforts in supply side reform notably the introduction of a goods and services tax and the cancellation of large denomination bank notes to reduce the size of the black economy. Much is made of India's young population and it is no doubt a great advantage in a region where other major players, notably China and Japan, face poor demographic outlooks. However, we were confronted by the severe challenges India faces as evidenced by the very long queues of young educated people outside employment offices looking for a job. India needs to find around 15 million new jobs each year to absorb those leaving full time education. We harbour some doubts that reform in India will be fast enough to address the issue. Corruption is widespread in government and business while ethnic and religious tensions remain high. Infrastructure developments, so critical to growth, are promised but progress is very slow with an outdated and cumbersome planning process. Clearly a significant part of the population has benefited from an opening up of the economy but the vast bulk of the 1.3 billion people are still rural with average farm sizes of around 1.5 hectares with very high levels of illiteracy and inadequate infrastructure support. It is difficult to see in these circumstances how India can

achieve its potential without a much more determined Government effort and deep structural reform.

Overall, despite all the global problems, the Asian region still offers a strong growth outlook and attractive opportunities for investors.

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Mike Kerley, manager, Henderson Far East Income: We remain cautiously optimistic on the outlook for Asia Pacific in the medium to long term. Earnings momentum is positive and, although markets have risen, valuations on a price to earnings basis have not changed markedly as earnings growth has kept up with price movements. This is not true of developed markets which are trading at, or close to, all-time highs. Without the same kind of earnings support developed markets are looking fully valued. These levels of valuations are a risk in themselves and together with the headwinds of geopolitical tension, rising interest rates and Brexit negotiations, merit some caution.

Despite the strong performance in some of the expensive new economy sectors we will stick to our discipline of focusing on well managed companies with attractive valuations which have the ability to sustain and grow their dividends in the years ahead. Our focus remains on domestic orientated areas which are exposed to the improving spending power of the consumer across the region. The outlook for dividends in Asia Pacific is still a compelling story. Asian companies have low levels of debt, a pragmatic view on capital expenditure and strong cash flow generation which should allow dividend pay-out ratios to continue to rise in the years ahead.

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Allan McKenzie, chairman, Edinburgh Dragon: Confidence in the global economy has waned in recent months. President Trump's plans for an overhaul of the tax and healthcare systems remain unattained. In Europe the German electorate, while supporting Angela Merkel, returned a larger than expected number of far right members of the Bundestag. In France, Emmanuel Macron's reforms are facing a hostile reception. Coupled with the Brexit negotiations apparently making little headway this has led to increasing levels of uncertainty in western economies. These challenges may seem far removed from Asia, but they have worldwide repercussions. Within Asia, North Korea's latest missile threat is another timely reminder that geopolitical risks are never far away.

Nonetheless, the Board remains positive about Asia's resilience. Robust foreign exchange reserves and strengthening external positions provide the reassurance that regional markets have the wherewithal to withstand sudden shocks to the system.

At the same time, Asia's fundamentals are sound. The export upswing continues to underpin the region's growing consumerism. Chinese domestic demand now makes up more than half of the mainland's economy, while the other two most-populous nations of India and Indonesia are similarly driven by rapidly growing consumption. Frontier economies, meanwhile, offer fresh opportunities as they play catch-up to their more advanced Asian peers.

Overall, Asian companies are in good shape but investors must have ample resources to seek them out.

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Aberdeen Asset Management Asia Limited, managers, Edinburgh Dragon: The global economic recovery is expected to continue. Asian economies are still reporting

continued expansion and export growth. At the same time, Asian policymakers are pulling ahead with market reforms, and this will raise potential growth for their economies.

China will remain at the forefront as the main driver of regional growth. Although there are worries over how policy tightening may hurt the Chinese economy, these remain short term concerns, as its financial system and economic growth will emerge more robust in the longer term. China is pouring huge sums into its One Belt, One Road Initiative to improve the region's infrastructure, and this can help tighten intra-regional trade flows. The other Asian growth engine, India, experienced temporary disruption following the nationwide rollout of the Goods and Services tax, but once companies become more familiar with this development, India's economy should be raring to go again, underpinned by favourable demographic conditions and good quality management.

On the policy front, the expected gradual monetary tightening by major central banks outside of Asia is likely to strengthen major currencies such as the US dollar and the euro. This makes Asian currencies cheaper, and in turn, their exports will be more attractive to consumers in advance economies. Higher interest rates will also bode well for the many Asian financial stocks that the portfolio holds.

We remain upbeat about corporate earnings growth in the coming year.

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Harry Wells, chairman, Martin Currie Asia: A decade on from the global financial crisis, the combined effect of multiple quantitative-easing programmes are at last beginning to propel a sustained global economic recovery. While central banks continue to support accommodative monetary policy in the absence of inflation, the US Federal Reserve (Fed) is now committed to modest increases in interest rates and some trimming of its US$4 trillion-plus balance sheet. Despite naysayers predicting the collapse of the Chinese economy, through endemic credit problems and capital outflow, the Chinese authorities have successfully stabilised the situation by cracking down on shadow banking, corruption and ushering in important and effective supply side reforms drastically reducing steel, coal and aluminium output and capacity. Commitment to vast infrastructure programmes remains key policy but the Chinese economy is becoming much more consumer based reflecting a real rise in disposable incomes. Retail spending is up over 60% year on year. A tenet of the 15th Plenum in 2012 was to double the size of the economy and disposable incomes by 2020. This is on track. While India is quietly growing at more than 6% per annum and digesting an impressive array of market-friendly reforms, China's position is crucial in terms of both world trade and inflation. The world has enjoyed a long period of low inflation, thanks partly to China exporting deflation. We should be alert to potential changes in this trend, if input and commodity prices rise in response to reductions in industrial capacity or perhaps tightening oil supplies given the growing risk for Middle Eastern conflict.

There is no disguising the risk over North Korea and perhaps an accident leading to conflict on the Korean peninsula - or indeed spreading further afield.

Policy direction from the Federal Reserve in America is always crucial given that the supply of liquidity ultimately determines the level of stock markets. Jerome Powell 's confirmation as the new Governor of the Federal Reserve effectively endorses the "dovish" policies pursued by the incumbent, Janet Yellen. A more hawkish position could cause renewed 'taper tantrums' and a strengthening US dollar has historically been a headwind for Asian markets.

The base case for investing in Asia remains compelling, with strong consumption, inter-regional trade and infrastructure programmes driving growth at the company level. Valuations are not particularly demanding and, with a general improvement in corporate governance resulting in improved capital management, we should see better returns flowing through to shareholders.

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Andrew Graham, manager, Martin Currie Asia: We are now in the early stages of a notable change in the global monetary environment. Quantitative easing (QE) worldwide has been running at record levels, but has essentially peaked. While central banks collectively will remain net suppliers of substantial amounts of liquidity, we are now on a trajectory that will see the absolute amount of this contract over the coming years. The Fed is leading this process. It plans to shrink its balance sheet over the next two years by tapering reinvestment in treasury bonds and mortgage-backed securities as they mature. Other major central banks seem to be moving in this direction; the European Central Bank, for example, while not abandoning QE, may also scale back its programme of financial asset purchases in 2018. Given that central-bank balance-sheet expansion since the global financial crisis of 2008/9 has been unprecedented in its scale, the market reaction to a reversal is hard to predict. Banks will ultimately have to compete harder for deposits while individuals, businesses and governments will see borrowing costs rise, although perhaps not by too much to begin with. Companies that are highly cash generative and have strong balance sheets should be able to navigate this environment with relative ease and continue to build the value of their businesses.

Although share prices are on the up and we have seen a valuation re-rating of Asian equities over the interim period, the rise has largely matched the growth of earnings so that, while not cheap relative to their own history, Asian stockmarket valuation metrics are in line with, or a little above, long-term averages. Relative to other regions, valuations still appear attractive.

One note of caution is that, over the summer months, while earnings growth has exceeded expectations and prompted positive revisions to analyst earnings forecasts, this growth has been confined to only a few sectors, particularly a handful of large technology and internet stocks, as well as the Chinese real estate sector. This is a factor also reflected in the 'market breadth' which is the proportion of stocks that have outperformed the market. Data on the latter reveals quite narrow market leadership, towards the low end of historical experience. For now, this is merely something to be aware of rather than a major concern. It means earnings growth and market performance have been dependent on a relatively narrow list of stocks - we would like to see this broaden out and will be watching the approaching third-quarter earnings season with great interest.

The geopolitical backdrop is obviously creating unwelcome noise. However, as the experience of the period under review attests, investors still invest and stock prices can move higher, if supported by positive underlying fundamentals, particularly if earnings are growing and valuations are palatable. We therefore find ourselves repeating last year's message that earnings growth remains key to the market outlook. Given the current macro backdrop, low double-digit earnings growth expectations for 2018 might not look like a stretch, but are nonetheless above the long-term average for the region (which is about 6%). However, it is also true that we are currently only about a year into the earnings recovery phase; it would be highly unusual for it to falter so soon. While we remain cautiously optimistic, we are also mindful of history.

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Europe

(compare European funds **here**)

Craig Armour, manager, The European Trust: European economies remain on a recovery path which should support continuing growth in corporate earnings. Since the financial crisis, monetary stimulus has supported a rise in valuations across a range of asset classes including equities. When this stimulus is withdrawn, the cost of money should rise and we are likely to see bouts of volatility and an increased focus on absolute valuations.

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AR Irvine, chairman, Montanaro European Smaller Companies: On 3 January 2018, the EU's Markets in Financial Instruments Directive (MiFID II) legislation will come into force. One significant feature of the legislation is that banks and brokers will no longer be authorised to provide research to asset managers without this research being separately priced and paid for. Historically such research costs have been "bundled" into trading commissions, but this will no longer be permitted under MiFID II. The Board and the Manager expect MiFID II to result in brokers facing significant revenue and cost pressures, which in turn will lead to a reduction in the volume of research conducted on smaller companies in Europe. This may make the market less efficient, providing well-resourced managers with a higher number of unresearched investment opportunities.

Leading indicators of economic growth continue to improve in Europe and across most of the rest of the world. Such conditions are usually synonymous with improved corporate earnings. Valuations remain neither obviously over-extended nor categorically cheap. In addition, interest rates are still low, although it is uncertain for how long this will last if the global economic recovery continues to gather steam.

We should not be complacent, however. Investors have enjoyed excellent returns from European quoted smaller companies in recent years. Absent a significant pullback in the near future, the MSCI Europe SmallCap (ex-UK) Index will record its sixth consecutive calendar year increase in Euro terms at the end of December.

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Japan

(compare Japanese funds **here**)

Andrew Fleming, chairman, JPMorgan Japanese: There is no doubt that the overall Japanese economy and quoted companies are huge beneficiaries of a strong synchronised recovery in global GDP growth. In particular some 59% of overall Japanese corporate earnings come from outside Japan.

In addition to corporate earnings benefitting from global growth, Japanese companies have in general built very strong balance sheets with cash or near cash of nearly Y400trillion (US $3.5trillion) in corporate reserves. This combination of gearing to global growth and conservative financing should become more appealing to investors, particularly those based outside Japan who have generally been sceptical of prospects for the Japanese stock market and are underweight Japanese equities.

Japanese companies have been increasing dividends and share buyback programmes and introducing more shareholder friendly targets such as return on equity. There is some evidence that corporate Japan's natural caution in implementing more 'Western' style shareholder measures has caused some scepticism among investors as to how deep and enduring these programmes will be, particularly among overseas investors. The Board believes that as corporate profits recover further in this cycle there is the potential for share buybacks and dividend increases to surprise positively, adding to the appeal of Japanese equities in a global context.

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Nicholas Weindling and Shoichi Mizusawa, managers, JPMorgan Japanese: One of the most visible changes in Japan over the last five years has been the boom in inbound tourism. For example, in July 2013 around one million tourists came to Japan. In July 2017 this had increased to 2.7 million. This has happened for three reasons. Firstly, visa restrictions were lifted for visitors from some parts of Asia. Secondly, the yen weakened making Japan a more affordable destination and thirdly, rising wages across Asia have led to a growing middle class who want to travel more. We believe that growth in tourism to Japan is a long term structural trend.

Whereas Asian tourists visiting Europe often purchase luxury goods, other types of products are also popular in Japan including skin cream, medicines, cosmetics and baby goods. These products all have an image of being high quality, safe and reliable. Additionally, not only do Asian consumers buy these products when visiting Japan but continue to do so once they return to their home countries.

Wages in China, the workshop of the world, have increased 2.8 times in the last ten years. Although this is good news for consumption, it is also affecting the profitability of companies that produce there. To cope with this margin pressure some companies are increasingly automating production; others are shifting production nearer to the end consumers in the West. To do this profitably also requires automation. Japanese companies are the leaders in factory automation with several being the global number one in their respective fields.

The single most important change that has taken place in Japan over the last five years is the improvement in corporate governance. This began with the adoption of a stewardship code and was followed by a corporate governance code. As a result we have witnessed steady increases in both dividends and share buybacks. We also note the rise in the number of outside directors that sit on company boards as well as more companies officially stating return on equity and/or return on asset targets. Although the pace of change is moderate, we believe it will endure and could help Japanese equities start to close the discount that they trade on versus other developed markets.

Although Japan is very advanced in some areas it, perhaps surprisingly, lags in others. E-commerce is a prime example of this. The penetration of online shopping is lower than in many developed nations but, importantly, growth rates are higher. Japan is following exactly the same pattern as countries like the United Kingdom. This allows us to look at business models that have been successful in other markets and find Japanese equivalents.

Around the world people are living longer. More illnesses are becoming treatable and procedures are becoming less risky. People living longer and healthier lives is a good thing but over the long term it also means that healthcare costs will continue to rise for governments.

Japan's population is ageing and falling. Today there are 127 million people living in Japan but by 2050 this will have fallen to around 95 million. The demographic mix will also shift with older people accounting for an increasingly large percentage of the total. It is important to understand that not only Japan faces this problem but many other countries including China, Korea, Thailand, Russia and Italy as well. Clearly, this is bad news for many companies with a domestic bias as demand for their products will drop in the long term. It is, however, good news for a small number of companies. This presents an outstanding opportunity for active managers to eschew the many and focus on the small number of corporates that will enjoy a strong following for many years to come.

The Japanese equity market is more cyclical than other developed markets and can more easily be impacted by global economic developments, both positively and negatively. The current outlook is positive; government policy is supportive, the global economy is improving and companies continue to talk about return on equity and increasing returns to shareholders. The October election victory of the Liberal Democratic Party ensured another term for Prime Minister Shinz Abe. Stable leadership is unusual in Japan and should be helpful as he is expected to be able to continue with his reform programme. Currently there are concerns about rising tensions with North Korea. However, we believe the overall picture is encouraging.

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Neil Gaskell, chairman, Aberdeen Japan: Having tracked global stock markets higher throughout 2017, Japanese equities seem well-placed to maintain positive momentum. While sentiment has been upbeat, as a long-term investor, your Investment Manager remains a little more cautious over lingering global political concerns, including simmering Middle-eastern tensions, and an increasingly belligerent North Korea. So far, markets appear to have shrugged off these events, preferring instead to focus on positive macroeconomic drivers. But any escalation of uncertainty could undermine this optimism and trigger a return to safer assets.

Higher demand for Japanese exports, along with improving domestic consumption, should keep the economy on its growth trajectory, and improve the outlook for corporate earnings. Prime Minister Abe's successful snap-election gamble, which saw his coalition maintain its two thirds Lower House majority, is also expected to give renewed momentum to the expansionary policies of Abenomics. All of which is further underpinned by the synchronised recovery in the global economy that appears to have taken root. These factors all augur well for Japanese equity markets.

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Aberdeen Investment Management Kabushiki Kaisha, manager, Aberdeen Japan: Looking ahead, the Japanese stockmarket appears likely to be underpinned by positive global economic growth and firming oil prices. However, we prefer to remain a little more circumspect because investors appear to have ignored a raft of broader worries on the external front. These include a White House in turmoil, rising protectionism, the start of monetary policy normalisation, with the Bank of England the latest to jump on the bandwagon, as well as other geopolitical uncertainties, from the secessionist movement in Spain to the simmering spat between the US and North Korea. Meanwhile, company fundamentals remain firm.

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North America

(compare North American funds **here**)

Andrew Bell, chairman, Gabelli Value Plus: Although the U.S. Federal Reserve is tightening policy (via rate increases and sales of its bond holdings), the objective seems to be to normalise rates rather than to induce a slowdown in the economy, which has historically been the usual reason for tightening (usually in response to late cycle inflationary pressures). In the absence of such pressures, the authorities are taking baby steps towards recreating conditions in which the market sets the cost of capital and the ratings of financial assets, rather than central banks determining prices as a result of unusually liberal monetary policy.

A backdrop of slowly rising interest rates may be consistent with continued economic growth, but it increases the risk of fragile links in the economy being put under stress. Although at this stage they are probably just taking some pressure off the accelerator, when the Fed hits the brakes, those without seatbelts risk hitting the windscreen.

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Gabelli Value Plus: The U.S. economy continues to grow at a modest pace. The days of 4% real gross domestic product (GDP) growth are over, and it has been a long time since we saw a year of 3% growth, although we are happy to report that second quarter 2017 real gross domestic product was calculated to be 3.1% versus the 1.2% that was calculated for the first quarter of 2017. Part of the slowdown in real GDP growth can be attributed to demographics - slower population growth and an aging workforce. We seem to be stuck in an annual real growth range of 1.5% to 2.5%. That has been the case since this recovery commenced in July 2009. Although the Trump administration would like to get the economy growing at a 3% real rate once again, the odds of that happening in 2017 are very dim. Growth this year will once again probably be about 2.0%. The bad news is this is the slowest expansion on record. The good news is that it is one of the longest. Slow and steady is a recipe for enduring growth. There are certainly policy prescriptions that could elevate us out of this 2% growth range, some of which the Trump administration is advancing, such as tax reform and infrastructure spending, but the likelihood of achieving such legislation through Congress remains to be seen.

The Federal Reserve has been on a path of raising short term interest rates slowly to a more normalized level. After the financial crisis, the Fed slashed short term interest rates down to near zero, but now rates are at 1.25% after three increases over the past four quarters by the Fed. We expect that gradual increases will continue, and, that by this time next year, short term rates will be around 2.0%. In addition to raising short term interest rates gradually, the Fed is also beginning to unwind its massive $4.5 trillion asset portfolio, which it built up during the quantitative easing, or QE period. We expect the unwinding will be very gradual, whereby some maturing securities will not be reinvested, and the whole process will go on for many years.

Investors are facing an acute shortage of good income generating opportunities. While not a realistic choice for some investors, stocks must play a larger role overall in meeting investors' income needs. At this writing, 37% of the stocks in the S&P 500 Index have dividend yields that are higher than the ten year U.S. Treasury yield, which is currently about 2.3%. Stocks offer compelling current income and growth of income for investors who can tolerate stock market volatility. Stocks also offer the potential for growth in capital over time. It is hard to imagine growing capital by investing in bonds at historically low interest rates. We are probably in the final innings of a thirty-five year bull market in bonds.

Emerging markets

(compare global emerging markets funds **here**)

John Rennocks, chairman, Utilico Emerging Markets: We have made the point for some time that markets in general remain outside normal historic parameters. From a monetary policy perspective, we remain in an environment where unconventional tools are being deployed, such as negative interest rates in several countries and quantitative easing still being implemented in both Europe and Japan.

From a political perspective, we continue to witness a rise in populist politics with a move away from established parties and candidates as voters seek change. Additionally, we are noting an increase in geopolitical tensions in places such as North Korea and Turkey.

These factors, individually and collectively, create uncertainty and ultimately could have negative implications for markets. These issues are a concern from an investment perspective.

However, despite this uncertain backdrop, it is encouraging to see that most economies are delivering positive GDP growth with low inflation and especially low wage inflation which is expected to be positive for corporates and in turn investment markets.

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Harry Wells, chairman, Establishment Trust: At long last and after a decade of aggressive monetary expansion through the co-ordinated action of Central Banks, we appear to be seeing a synchronised global economic recovery. From February 2018, the US Federal Reserve will be led by Jerome Powell, believed likely to follow the "dovish" policies set by the present Governor, Janet Yellen. Powell may now contemplate trimming the Fed's balance sheet and moving to raise interest rates gradually. However, inflation appears to be contained for the time being, although important supply side reforms executed by China have seen cuts in industrial capacity and a rebound in commodity prices, which could start to unwind the exporting of deflation to Western economies. There is a risk that a pickup in inflation could accelerate tightening of policy and hence, liquidity. Nevertheless, our manager is confident that the outlook for Asian economies remains bright. The rise in disposable incomes in the region is creating secular domestic demand while infrastructure programmes and inter regional trade are all pointing to sustained future growth. Asian corporate earnings are forecast to grow in the current year and the next. Regional valuations are still undemanding, particularly when compared to the US stock market.

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Blackfriars Asset Management, manager, Establishment Trust: In America, the good news is that the tried and tested checks and balances enshrined in the American constitution are working. Simply put, President Trump has been unable to deliver on the vast majority of his isolationist economic policies and so the global economy led by China rolls on.

Over the past five years, General Secretary Xi Jinping has reversed or eliminated the majority of the disastrous economic policies of his predecessor. Specific supply side reforms and tighter control of the capital account have both been actioned very efficiently while Xi's new slogan "Beautiful China" suggests further substantial efforts to curb pollution. Economic growth has slowed but the quality of this growth, driven more by rising consumption levels than investment, has improved significantly. More

importantly, Xi has restored the credibility of the Communist Party in the eyes of the Chinese people with his five year long anti-corruption agenda and is set to stay in power for a considerable period. Markets love certainty. A stable Chinese economy lies at the heart of Asia's future.

Meanwhile, in India, Prime Minister Modi continues to impress. Demonetisation and the recent introduction of a nationwide General Sales Tax have presented corporate India with significant challenges over the past year. Despite these severe disruptions, the economy has continued to expand, driven primarily by rising consumption, itself supported by India's outstanding demographic profile. The lack of a recovery in the investment cycle has worried many observers, including ourselves. The availability of credit in recent years has been compromised by the poor financial health of the public sector banks which, collectively, account for roughly two thirds of the banking sector. The recent announcement, therefore, by the Modi administration of a US$32bn recapitalisation of the public sector banks is significant. A recapitalised banking system will, in time, fund a new investment cycle which will power India's growth for years to come.

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Carlos Hardenberg, manager, Templeton Emerging Markets: We believe that the recovery in emerging markets which has been underway since 2016 is showing little sign of abating. Prior to the turning point in 2016, the gap between emerging market growth and that of developed markets was shrinking. Now it is growing and this is one of the key indicators of a sustainable recovery as it has shown a strong correlation historically with emerging market outperformance of developed markets. In addition, emerging market currencies are on average still undervalued, earnings are improving and emerging markets generally continue to trade at a discount to their developed market peers. The combination of all of these factors should support emerging market equities in the near future. There will undoubtedly be volatility ahead, particularly as investment flows can often reflect ever changing attitudes to perceived risk, with inflows as investors move 'risk-on' and outflows as they move 'risk-off' in outlook. Less mature markets tend to be heavily sentiment driven and so will naturally quickly reflect any scepticism in share prices. The supportive economic fundamentals combined with discounted valuations should, however, make emerging markets less susceptible to negative global news flow as there is not as high a level of 'unwinding' of trades to occur as there would be in developed markets. Furthermore we are still seeing underweight exposure to emerging markets from large institutional investors, sovereign wealth funds and large insurers, below what we would expect given the proportion of global GDP and market capitalisation that emerging markets represent. This should support continuing capital inflows.

Asia remains the most exciting region for us. In China, at the Communist Party Congress in October, Xi Jingping and the Party leadership clearly demonstrated a desire to promote stability, both geopolitically and in the economy. Chinese internet stocks continue to surprise with their growth on a global scale whilst the government's aim of moving to a consumer driven economy remains on target. We are seeing lots of interesting opportunities in the smaller countries such as Indonesia, the Philippines and Vietnam. These countries are very quickly developing their own niches of expertise with interesting companies able to take advantage of improving domestic consumption. Whilst the Korean peninsula remains a concern to the world, many analysts and commentators believe that there is plenty of space for diplomacy with neither side actually benefitting from starting a conflict. We will keep a close eye on events, but, in any case, a US-North Korea military conflict will have global implications that would not be confined to emerging markets.

Latin America also remains interesting from an investment perspective and we recently started a new investment in Argentina. Although there are challenges in Brazil from massive unemployment and corruption scandals, we are seeing good opportunities, buoyed by the massive reform efforts of the Temer regime. Investors in Mexico need to monitor developments surrounding the renegotiation of the North American Free Trade Agreement (NAFTA).

In Europe, Russia has been unpopular with investors for some time - suffering under sanctions and simply being run in a generally sub-optimal fashion. However it is still possible to find well run companies operating in the private sector. These companies are able to exploit the situation and demonstrate fast growth. This is enabling us to gain access to the country and its consumer growth and development at attractive valuations due to the overall negative market sentiment.

There are many frontier markets in Africa and Latin America where we are also seeing potential. However, they are currently looking at a longer time horizon of beyond five years.

Technology remains the key driver for the emerging markets. We are continuing to see high levels of investment in R&D and workforce demographics comprising younger populations that are benefitting from increased investment in education. We are now seeing a huge number of patent registrations - almost half of the global total - coming from emerging markets and, increasingly, companies are not only supporting the products from developed markets with component or licensed device manufacture, but are actually developing desirable branded technology products which are being exported to the rest of the world, gaining traction and market share. It is the idea generation occurring in emerging markets and driving business models there which we are keen to invest in.

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India

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

Hasan Askari, chairman, Aberdeen New India: While Indian equities appear to be treading water with foreign investors holding back over the last few months, your Manager's view is broadly supportive of the government's policies. For example the fiscal benefits, in the long term, of the demonetisation exercise should not be overlooked. In a country where cash is king and few pay taxes, the opening up of more bank accounts and expansion of the tax net are positive steps towards further formalisation of India's economic structures.

One challenge that Mr Modi's government has yet to grapple with is labour reform. Flexibility in the labour market is critical to new investment, especially in support of the 'Make in India' initiative which is a cornerstone of the Indian government's efforts to reform and expand the economy.

In the meantime, the Indian consumer remains resilient, helped in rural areas by the first normal monsoon in three years, and consumer demand is steady. The country remains one of the more politically stable emerging markets with good potential for sustainable development. While domestic equities have been consolidating their gains recently, your Manager is sensitive to valuations. Nevertheless, one of the great advantages of the Indian market is that it boasts a diverse range of companies with good fundamentals and experienced management.

Aberdeen Asset Management Asia Limited, manager, Aberdeen New India: Indian equities have taken a breather in recent months, which provided some relief given they are trading at a premium to their Asian counterparts, but are still in positive territory year-to-date. Although Prime Minister Modi is facing some scrutiny recently for his handling of the more controversial reforms, the changes should result in more benefits in the long term. However, he may need the expected further reforms to reignite confidence in his ability to steer the economy onto a more sustainable path.

There remain some key areas of concern. Investment is lacklustre, private-capital spending has stalled, and the country's purported demographic dividend could well prove to be a thorn in its side instead if jobs growth is not forthcoming. With rural demand not pulling its weight as was earlier expected, increased urbanisation may be the answer, but that hinges on how well it is executed. Still, one of the major appeals of India is that there is no dearth of quality companies run by experienced management who are agile and innovative enough to generate profits in spite of the present constraints.

Biotechnology & healthcare

(compare biotechnology and healthcare funds **here**)

SV Health Managers LLP, managers, International Biotechnology: As mentioned above, we saw a return to performance for biotechnology stocks during the second half of our financial year. We believe that the value of the sector is being recognised by the investment community and generalist investors are moving back after a quiet period during the uncertainties of the US election. Our expectation is for the growth in large cap companies to continue, and for the mid to smaller names to follow suit. Three main drivers are influencing the return to growth of the sector:

Executive Order on drug pricing

Drug pricing concerns abated as a result of the administration's leaked draft Executive Order on the matter in July 2017. Based on President Trump's comments on the campaign trail, a more negative stance on drug pricing was expected. However, the draft Order focused on increasing competition between pharmaceutical companies by reducing FDA regulations on bringing drugs to market. The draft Executive Order also contained comments around value-based pricing, which links drug pricing explicitly to the benefit received by patients. This could be favourable to highly innovative therapies with significant impact on patients' lives.

Tax reform & M&A

Towards the end of the year under review, it became clear that the potential for real tax reform was back on the agenda, despite failure to unite the Senate to overhaul the Affordable Care Act. The US administration appears to be making inroads by negotiating with all parties to push a new bill through to modernise the taxation structure. One of the goals within tax reform is to allow the 'repatriation' of cash from corporate profits held overseas. Currently the US tax regime is such that companies would rather keep their cash abroad and not bring it back into the US. One idea to change this is to allow a lower one-off rate to encourage corporations to bring the money back into the US, giving a one-off injection of tax revenue to the US

administration, which can then be used for investment. A side effect of such a ruling is that the US corporations themselves will have cash to invest again whereas this cash was previously tied up abroad. Such investments may include M&A. Many larger biotechnology and pharmaceutical companies hold tens of billions of dollars abroad. These companies are all actively looking for growth to replenish their pipelines and therefore we believe the prospects for the sector are even more interesting with this proposal on the horizon.

Changes at FDA

In May of this year, the Senate voted to confirm Dr. Scott Gottlieb as commissioner of the FDA. This was positively received by investors as Gottlieb was considered to be industry friendly and pragmatic. So far Gottlieb has been very vocal about his views on drug pricing and how to address rising costs. His goals are to increase competition in order to bring down costs, rather than through any changes in legislation. This is pleasing to the healthcare industry as the changes required to bring more competition should benefit drug companies. One such idea is to reduce the time taken to get drugs approved. Over the past decade, drug approval times have shortened dramatically. Typically, drugs undergo three stages of clinical trials, Phase 1 (safety), Phase 2 (dosing regimen establishment) and Phase 3 (proof of efficacy and safety). Today however, in areas of great unmet medical need, companies can jump from early Phase 1 trials straight into pivotal trials, after which the drug may be considered by the FDA. Gottlieb is in favour of continuing this trend. These steps should benefit companies with innovative therapeutics in development.

Innovation remains a key driver of value

The above three factors are addressing short to medium-term trends that are influencing the sector. However, over the longer-term, we firmly believe the main positive attribute of the biotechnology sector is its ability to innovate. There are no signs of the rate of innovation slowing, in fact the opposite is true. Scientific advancements continue apace and new drugs are being discovered each year, which will generate further growth for the companies that own those assets.

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Sven Borho, manager, Biotech Growth Trust: Compared with the same period last year, sentiment in the sector has improved significantly as concerns about the possibility of new regulation of drug prices have lessened. The Trump administration failed in its effort to repeal and replace the Affordable Care Act (or 'Obamacare') due to objections from a small number of Republicans and universal opposition from the Democrats. Although President Trump has recently signed an executive order which will weaken Obamacare, we believe without legislative action there will not be significant changes that would adversely impact the biotechnology industry.

With the failure to pass meaningful healthcare reform, the Trump administration has changed its priority to tax reform. The most recent proposal reduces the corporate tax rate to 20% from 35%, with companies paying little or no tax to the U.S. on foreign profits. Some biotechnology companies with high tax rates will benefit directly from these changes. In addition, a one-time reduced repatriation tax has been proposed, which will allow U.S. companies to bring their overseas cash back into the U.S. at a reduced tax rate. Because many major pharmaceutical and biotechnology companies have significant offshore cash balances, a repatriation of that cash could catalyse merger and acquisition ('M&A') activity by making it easier to acquire U.S. biotechnology targets. Although the tax proposals still need to be refined and debated in Congress, we expect tax reform to eventually be enacted.

2017 is poised to become a landmark year for innovative modalities of drug treatment. The FDA recently approved two groundbreaking CAR-T therapies, which use genetically modified immune cells that are re-programmed to fight cancer. There has also been significant progress in the gene therapy space this year. In terms of recent clinical developments, we would highlight two potentially transformative clinical trial outcomes for new drugs to treat previously unaddressable patient populations. The new three-drug regimens by Vertex Pharmaceuticals recently showed dramatic benefit in patients with cystic fibrosis. These regimens should enable the company to treat the majority of cystic fibrosis patients, and their ability to slow or halt disease progression with chronic administration may provide a "functional cure" that will restore patients to normal life spans. Similarly,Alnylam Pharmaceuticals reported impressive phase III data of their drug patisiran for the treatment of hereditary transthyretin-mediated amyloidosis. This is the first successful pivotal trial of an RNAi drug, which is a new therapeutic class that can selectively block gene expression and address diseases not easily treated by conventional approaches. We believe advancements that we are now seeing with new therapeutic platforms such as RNAi, CAR-T, and gene therapy are the beginning of a new wave of productivity for the sector, as biotechnology companies apply these approaches to generate therapeutic candidates against previously intractable diseases. We expect more M&A activity in these innovative areas.

The biotechnology sector suffered a correction in October, largely due to some disappointing earnings and long-term guidance from Celgene, one of the bellwether stocks in the sector. Given the compelling valuations among large capitalisation biotechnology, we believe this correction will be transient.

We believe the biotechnology industry is now at another inflection point, where new innovative technologies are set to transform clinical practice. When combined with the increasingly friendly macro and regulatory environment, we see the potential for continued strong returns for investors in the sector.

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Sir Martin Smith, chairman, Worldwide Healthcare: Our portfolio manager believes that investors are now focusing more on the sector's strong fundamentals rather than political uncertainty, with factors such as strong revenue generation, continued high levels of innovation, a more benign approval environment at the FDA and expected increased merger and acquisition activity expected to be key drivers. In addition, anticipated U.S. tax reforms and cash repatriation are also expected to be positive for the sector. However, on a cautionary note, volatility remains an issue as evidenced by the recent correction in the biotechnology sector.

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Sam Isaly, ex-manager, Worldwide Healthcare: Whilst 2016 was marked primarily by landmark political events such as the prospective withdrawal of the United Kingdom from the European Union (commonly known as Brexit) and the unexpected election of Donald Trump as the 45th President of the United States, 2017 can thus far be characterised as a return to fundamentals for global healthcare equites; and the fundamentals are good.

Politics are never completely obviated, however, and the current situation has been quite favourable for therapeutic stocks in the six-month period, especially in the largest drug market in the world, the United States.

First, with Republicans in power, the concern over a dramatic overhaul to drug pricing rules in the U.S. has dropped considerably (despite the odd Tweet to the contrary from constantly combative President Trump). Second, President Trump has proposed

his plans for significant tax reform in the U.S. Of import to the healthcare industry are twofold: (1) the substantial lowering of the U.S. corporate tax rate and (2) a "tax holiday" for the repatriation of overseas cash. If adopted, in whole or in part, it would be a windfall of earnings and cash flows for all large, U.S. domiciled healthcare companies. In particular, large capitalisation pharmaceutical and biotechnology companies, such as Pfizer or Amgen would reap significant rewards given they possess - cumulatively - hundreds of billions of U.S. dollars of cash overseas. It would be a boon to the industry and almost assuredly stimulate a M&A frenzy.

Further, whilst the new Commissioner of the U.S. FDA, Scott Gottlieb, has introduced some new plans to increase competition (with the hope to affect drug prices) in the U.S. drug market, overall, he is viewed as very aligned with the drug industry's best interests. Dr. Gottlieb's "Drug Competition Action Plan" will accelerate generic drug approvals (he inherited an FDA backlog of over 2,600 generic drugs seeking approval), ease generic versions of complex and biologic drugs onto the market, and seek to reduce the number of older medicines that lack generic competition by regularly highlighting the nearly 200 off-patent drugs with no generic alternatives available. This approach is appealing, utilising a market-based, lower regulation approach favoured by conservatives to deliver the drug price cost containment desired by progressives. Generic drug competition is an effective and under-appreciated tool for lowering drug prices over time that, importantly, does not stifle innovation.

Moreover, what is the FDA's scorecard? It is not a perfect measure, but we note that as of 30 September 2017, the FDA had approved 34 novel drugs for the U.S., already eclipsing the total for all of last year and a 100% increase year-over-year. This total does not include another 12 new cancer indications granted to already approved "immuno-oncology" drugs, one of the most innovative advances in the treatment of cancer over the past three decades.

Finally, a comment on M&A, a secular theme for us and most healthcare investors, but the modest pace and subdued level of M&A activity seen in 2017 has been a source of frustration. However, we do note the August 2017 blockbuster transaction with Gilead's U.S.$11 billion acquisition of Kite Pharmaceuticals. Kite is one of the pioneers of CAR-T immunotherapy a next generation variation of gene therapy that reprograms a patient's own T-cells to attack malignancies. The large valuation is a compelling validation of biotechnology innovation considering Kite is still a pre-revenue company with no approved products. We believe more such transactions will occur, with a potential feeding frenzy of activity possible if a U.S. tax reform package is enacted with a repatriation provision for offshore cash balances held by U.S. companies, as discussed above.

Biotechnology

The major biotechnology sub-sector continued its recovery during the six-month period as macro concerns about the biotechnology sector continued to abate. Heading into 2017, investors were principally concerned about two issues overhanging the biotechnology sector: 1) any policy announcement by President Trump about his plan to lower drug prices, and 2) the potential repeal of "Obamacare", President Obama's signature healthcare reform bill.

However, despite making public comments about high drug prices on numerous occasions since the election, President Trump has yet to announce any official plan to reduce drug prices. Moreover, investors now believe he will no longer do so and has moved on to other policy priorities.

In addition, despite controlling both the Presidency and Congress, the Republicans have failed to repeal Obamacare despite multiple attempts. The biotechnology industry is less sensitive to the fate of Obamacare, but uncertainty around the future of the healthcare system in the United States had caused many investors to avoid the healthcare sector altogether. As the prospects for a near-term repeal of Obamacare have dimmed, the cloud of uncertainty surrounding healthcare has lifted somewhat. With these macro overhangs dissipating, sentiment on the biotechnology sector has improved and investors have begun to realise the attractive valuation of major biotechnology relative to other sectors.

Meanwhile, the regulatory environment for the biotechnology and pharmaceutical sectors has remained extremely favourable, with drug approvals occurring in a timely manner despite less-than-perfect data sets. Initial product launches from select large capitisation biotechnology companies have exceeded expectations, including Biogen's launch of Spinraza (nusinersen), a novel treatment for spinal muscular atrophy, and Regeneron Pharmaceutical's launch of Dupixent (dupilumab), a novel antibody for atopic dermatitis. Moreover, these drugs have launched with significant price tags, costing hundreds of thousands of dollars and tens of thousands of dollars, respectively.

We would also highlight that this year has been important for the development of new treatment modalities from small capitalisation biotechnology stocks. Spark Therapeutics' voretigene neparvovec is poised to be the first gene therapy approved by the FDA. Alnylam Pharmaceuticals recently reported positive phase III data for patisiran for hereditary ATTR amyloidosis. This is the first successful pivotal trial of an RNA-interference based therapy, which is a novel class of drugs to downregulate expression of genes. Advances with new therapeutic platforms such as gene therapy, RNA-interference, and CAR-T will expand the capabilities of the industry to target diseases that were previously not addressable by conventional drug therapies.

Whilst M&A activity has been relatively quiet, this is likely due to uncertainty about the specifics of President Trump's corporate tax reform plan. We would expect activity to reaccelerate once there is more clarity on tax reform, which is expected at the end of 2017 or perhaps early in 2018. Even so, M&A activity has not been completely absent given the "innovation engine" of emerging biotechnology stocks discussed above,

Pharmaceuticals

Pharmaceutical stocks, like their biotechnology brethren, have enjoyed a renaissance in 2017 as the political overhang has vastly diminished, allowing investors to look past the rhetoric and focus on fundamentals; in the case of large capitalisation pharmaceutical stocks, those fundamentals are arguably mixed.

Perhaps most important is that innovation in drug discovery and development appears to be at or near all-time highs, and nothing drives value and accretion like new product flow. However, we do note the inherent heterogeneity within the companies who comprise this universe. In other words, innovation is not spread equally across them all, and thus we believe stock selection is key.

Whilst "patent cliffs" are currently at a low level, looming losses of exclusivity across this sector are not de minimis. Once again, patent expirations are not spread equally across the group, hence the growth outlook can be quite variable amongst these peers. In addition, a new "cliff" is on the horizon with respect to biosimilars. A host of blockbuster antibody drugs are poised to lose patent protection over the next three to five years. However, the approval, uptake, utilisation, and interchangeability of the biosimilar product to replace the incumbent brand remains a source of investor debate and thus a source of market uncertainty.

In the U.S., whilst angst over drug pricing from a political perspective has subsided, payers and managed care players have become much more savvy with trading patient access for increased rebates and this has become a hot button topic for drug companies and investors alike. While generic drug prices continue to decline, branded drug prices continue to rise, and are even accelerating given the increased approval rate of higher priced "specialty" drugs (such as biologics across many therapeutic areas including oncology, rheumatology, immunology, dermatology, etc.). The payer's response to this is to manage patient access to new drugs with tight controls such as step therapy, prior authorisation, restricted drug lists, high deductibles, and increased co-pays. The result can dramatically impact the uptake of a new drug launch. Of course, truly innovative new drugs with real value propositions - such as an increase in patient survival - can overcome such hurdles.

For small capitalisation pharmaceutical stocks, the performance of U.S.-focused specialty and generic pharmaceutical companies has disappointed, as companies continued to struggle with the multiple challenges facing the sector, including: reduced pricing power, heavy debt burdens, heightened competitive pressures, underperforming assets, increasingly restrictive third-party payer formularies - including reduced coverage of new product introductions - and, unsurprisingly, senior management changes.

Although valuations remain depressed for many companies in the specialty and generic pharmaceutical sector, we see opportunities in a handful of reasonably-leveraged companies with important upcoming clinical and regulatory events and differentiated new product introductions benefitting from a lesser degree of third-party payer management. We anticipate that increased M&A activity, including greater participation from private investors, could improve sentiment for this group of beleaguered stocks and drive valuation recoveries over the next 12 months.

Medical Technology and Devices

A number of factors for the medical technology and devices spaces remain favourable and thus we have a positive view on a forward-looking basis. First, organic growth rates are tracking at healthy levels whilst reported growth rates are benefitting from small and mid-size acquisitions. Undeniably, absolute valuations remain high, but relative valuations against the S&P 500 Index are now roughly in line with historical averages despite relatively superior earnings per share growth in the "MedTech" sector.

Importantly, we view current earnings growth rates as sustainable through the end of the decade, at least. Though there has been some investor consternation surrounding U.S. hurricane-related adverse impacts to sector volumes for the third quarter earnings period, we believe that these are one-time events. In our view, procedures are more likely to be delayed into the fourth quarter than cancelled outright and underlying procurement volume trends remain strong.

Lastly, U.S. tax reform remains a key catalyst for almost all MedTech companies, as does the potential delay or repeal of the medical device excise tax. Turning to stock selection, we continue to prefer (1) cardiology - where innovation remains industry leading, (2) surgical robotics - where technology advances have been and will continue to be disruptive to historical surgical paradigms, and (3) extremities implants/biologics - which remain at the very early stages of the adoption curve.

Life Sciences Tools and Services

We remain somewhat guarded for the prospects of the life science tools space. Certainly valuation continues to be demanding in both relative and absolute sense. Nevertheless, outperformance in the past six months was driven by a perceived

political and regulatory shield from an unpredictable administration and healthy end markets.

Federal funding environments in bio-pharma and academic research institutions remains buoyant driven by excitement around developments in oncology. Despite healthy end markets, valuation and sub-sector rotation dynamics will play even more of a critical role in positioning as we look ahead into 2018. Major U.S. corporate tax reform and subsequent repatriation of overseas cash could catalyse material M&A, especially in bio-pharma. However, the consolidation of bio-pharma could pressure the life sciences tools sector as pharmaceutical companies rationalise their research and development ("R&D") programmes. Coupled with this potential headwind and aforementioned valuation, we remain selective in life sciences tools.

The diagnostics industry, as has been the case for the last several years, remains an industry beholden to reimbursement policies set by both private payers and U.S. Medicare. Utilisation has seen both ups and downs during this period with "Obamacare" backed tailwinds offset by severe weather-related headwinds.

More importantly, the industry hit a major fundamental set back this year when the Protecting Access to Medicare Act enacted legislative reimbursement cuts for Medicare lab fee services that were more draconian than expected. Set to take effect from January 2018, if finalised, Medicare reimbursement for high volume lab tests could be reduced by up to 10%.

The remainder of 2017 could be quite volatile as the lab industry awaits the final ruling after a contentious public hearing period. Given the expected reimbursement cuts and potential reduction in insured lives under the new administration's political efforts, we remain cautious on the sector until further clarity can be observed.

Healthcare Services

In healthcare services, payers have outperformed providers due to weaker than expected utilisation of healthcare. Specifically, payers such as health maintenance organisations (also known as HMOs, a type of health insurance plan that usually limits coverage to care from doctors who work for or contract with that HMO), reported strong earnings upside and raised full year 2017 guidance. In contrast, providers such as hospitals experienced decelerating volumes and reduced their financial outlooks for the year. (Severe hurricanes that plagued the southern United States in September 2017 were also disruptive, although generally viewed as one-time non-recurring impacts.)

Macroeconomic trends have also favoured payers over providers. For example, payers stand to benefit most from corporate tax reform because all of their business is conducted in the U.S. and from rising interest rates because they would generate higher income on investment portfolios. Rising interest rates is bad for levered hospitals.

Going forward we remain bullish on HMOs with a view that utilisation will remain modest, the macroeconomic environment benign, and the regulatory environment under the Trump administration favouring the private sector over Obamacare. We remain bearish on provider stocks including hospitals because they are negatively impacted by these conditions. Separately, we are bearish on Pharmacy Benefit Managers ("PBM"s) (who serve as the middlemen between insurance companies, pharmacies and manufacturers to secure lower drug costs for insurers and insurance companies) as this industry transitions from a disciplined duopoly to an increasingly competitive and more transparent market due to new entrants.

Emerging Markets

Throughout 2017, the Chinese government has continued to enact reforms to raise drug quality, improve regulatory speed and efficiency, and promote innovation. To improve overall drug quality in China, the government has been enforcing bioequivalence standards for generic drugs, forcing companies to certify the quality of their clinical trial data, and allowing more foreign high-quality drugs into the Chinese market. These reforms have led to a dramatic drop in the backlog of drugs pending review at the China Food and Drug Administration ("CFDA"), as lower-quality pharmaceutical companies with deficient data packages have pulled their applications.

To improve regulatory speed and efficiency, the CFDA has been approving clinical trial initiations more quickly, adding more drug reviewers, and improving the frequency and quality of communication between the sponsor and the agency. To promote innovation, the Chinese government has been accelerating the regulatory review of innovative drugs, increasing reimbursement of innovative drugs, and decreasing reimbursement of drugs with questionable clinical data. These reforms have occurred while implementing regulations to discourage over-prescribing of drugs and enacting rules to simplify the drug distribution chain to remove cost.

In the short-term, all of these policies have led to a fall in prescription drug sales. Over the long-term, we believe these policies are positive for the innovative drug industry and will remove many of the low-quality companies that have historically pressured prices. Indeed, the regular drug price cuts that have characterised the industry have been more moderate recently than in the past. We continue to favour Chinese players with innovative pipelines in light of these policies.

The Indian pharmaceutical industry has recently experienced several regulatory headwinds and policy changes, but despite these challenges the underlying demand in the sector remains robust. The industry's growth rate has declined to c.3.0% during the reported period, down from c.10.0% the previous year. The reasons behind this slowdown are multifactorial, including the introduction of the Goods and Services Tax (GST) that triggered trade inventory corrections, and the impact of the new draft pharmaceutical policy aimed at controlling costs and stoking competition. We anticipate continued volume growth for the industry due to strong underlying demand owing to rising disposable income, increasing insurance penetration, improving medical infrastructure, and increasing incidence of chronic diseases. That said, we are closely monitoring industry pricing dynamics, with a keen eye on the potential negative impact of additional government cost control initiatives. This could emerge as an important near-to-intermediate-term risk.

Indian companies with significant exposure to the U.S. generic drug market have also faced additional challenges, similar to their U.S.-based competitors. These challenges include: (1) increasing regulatory scrutiny on both manufacturing and marketing operations, (2) customer consolidation, and (3) higher than expected base business price erosion. Despite these challenges, the U.S. market remains an important contributor of revenues and profits to most Indian pharmaceutical companies. Such challenges should help well-run Indian companies become more compliant and cost efficient, allowing management to strengthen and re-focus product pipelines toward differentiated generics.

Additionally, Indian pharmaceutical companies have benefited from the high double-digit growth rates witnessed in emerging markets such as South East Asia, Middle East, Africa, and Eastern Europe. Currency dynamics in some of these geographies have become more favourable allowing Indian companies to reap the benefits of

widely diversified product baskets via leverage of supply agreements and acquisitions reached in quarters past.

Despite recent volatility in the biotechnology sector our collective optimism is high for 2018. Global healthcare stocks are clearly now trading on fundamentals again rather than retreating on political rhetoric. Importantly, our view on the fundamentals of healthcare is decidedly positive, and we expect continued moves higher as secular demand and consumption of healthcare goods and services should continue unabated.

Therapeutic stocks, pharmaceuticals and biotechnology, will continue to prosper during this golden era of innovation. While the fruits of genomics were not ripe enough to pick at the turn of the century, today's discoveries are turning into real drugs with real benefits to patients and the entirety of the healthcare system. Political risk for the sector is perhaps at an all-time modern low. In fact in the U.S., politics may turn into a tailwind in 2018 if tax reform can be enacted, creating even more cash flow into a system which notably benefits from such circumstances.

Overall, with technical and macro pressures fading, company-specific events that are central to our investment process should return to prominence, with clinical, regulatory and M&A catalysts driving individual stock price performance.

Debt

(compare debt funds **here**)

TwentyFour Asset Management: manager, TwentyFour Income Fund: Sentiment in the [*Asset Backed Securities*] ABS market is clearly bullish, and the expectation is for performance to continue in this manner for the rest of 2017. On a long term basis, additional support will come with the adoption of standardised requirements for high quality transactions that will attract in the current lower capital weightings of institutional investors, thus increasing demand.

The ABS market is expecting that there will be more supply going forward as schemes such as the ECB's ABS Purchase Programme tapers, and as the Bank of England's Term Funding Scheme comes to an end, which will partly offset the additional appetite for bonds.

Brexit negotiations have disappointed so far, and while Brexit itself is not going to be positive for the UK over the short to medium term, it is highly unlikely that it will create the degree of fundamental issues that will have investors questioning whether most UK ABS deals can pay coupons or will ultimately redeem principal at par. It is important to remember that these deals performed largely as expected through the global financial crisis, which saw material spikes in unemployment and drops in asset values.

However the ABS market does not operate entirely in isolation, and while the presence of external risk events, such as the elections in France, have lessened, the Portfolio Manager continues to monitor the most likely causes of wider market volatility for any signs of contamination.

Alcentra Limited, manager, Alcentra European Floating Rate Income: Alcentra expect to continue to see strong demand for the asset class over the remainder of 2017 and into 2018. A broad range of investors are moving into the asset class, given the low yields available elsewhere and an increased appetite for low duration assets as rates begin to rise. CLO formation is expected to be robust, continuing the strong demand for loans.

- Given the strong demand for the European loan asset class and the amount of Private Equity dry powder, Alcentra is cautiously optimistic that new issue volumes will improve as we move into 2018. The pipeline for the remainder of 2017 includes some large M&A transactions which is encouraging, but overall volumes are expected to be relatively modest.
- The new issue supply will have a direct impact on spreads, which have already tightened in over 2017, particularly in the early part of the year and again more recently, with the period either side of the summer seeing an increase in spreads as primary issuance increased.
- As a result of the strong demand for the asset class, secondary markets have remained well bid.

Risks to Outlook

- Geopolitical events continue to create some uncertainty and although financial markets have remained resilient to date, there could be volatility ahead.
- The new issue pipeline is difficult to predict and will have an influence on returns.

Infrastructure

(compare infrastructure funds **here**)

Ian Russell, chairman, HICL Infrastructure: There is higher political uncertainty in the UK following the June 2017 general election result and the continuing process to leave the EU. Due to their monopolistic nature, infrastructure assets typically interface with a variety of public sector counterparties and regulators. Political risk therefore continues to be a material risk. The UK public sector maintains an impressive record of honouring its financial commitments in respect of infrastructure projects, which is highly valued by international capital markets. The Investment Adviser has not seen a material impact from the current UK political environment on the valuation of investments.

Following several recent profit warnings from UK-based construction contractors and facilities management service providers, counterparty exposure more generally is also of particular note.

Overall, the pipeline for new opportunities is likely to be more muted for the remainder of the financial year than we have seen thus far.

For the future, we must look squarely at the economics of infrastructure, which provide good reason for optimism around the continuation of the role played by the private sector in the efficient delivery and management of infrastructure assets. The Board recognises that western economies have ever-pressing financial challenges posed by ageing societies, technological change and, in some cases (such as the UK), population growth.

Infrared Capital Partners, managers, HICL Infrastructure:

Political Risk

With a wide range of public sector counterparties, political risk is inherent in HICL's business model.

The use of PPPs (of which PFI is one example) to procure capital investment in infrastructure in the UK has, at various times since HICL's IPO, been subject to negative political comment. Most recently, there has been political comment suggesting that a future UK government could contemplate terminating some existing PPP projects. Typically, public sector counterparties are entitled to voluntarily terminate a PPP contract and, if this occurs, project companies have a corresponding right to receive compensation. For the majority of HICL's investments in UK PPP projects, this compensation is contractually based on market value which would, we believe, be equal to the prevailing value of the asset in the portfolio.

We are aware of recent commentary comparing a) the compensation payable by public sector counterparties in the event they choose to terminate PPP contracts, with b) the value attributed to investments in those PPP projects on the balance sheets of listed infrastructure companies. We caution against drawing firm conclusions from analysis based on scenarios that are unrealistic and extrapolated to precisely quantify the effects of portfolio-wide voluntary termination.

There have also been suggestions in recent months that a future UK government may consider taking utilities, including water companies, back into public ownership. There is a need to balance the interests of consumers and those of investors. According to Water UK, over GBP150bn has been invested in the industry since privatisation and customer satisfaction levels are around 90% according to the independent water consumer watchdog. While future public ownership is a possibility, some comfort can be taken from the reasonable assumption that any future government will take a pragmatic approach to its overall infrastructure investment programme and seek to preserve the relationships that enable this.

Market Outlook

In the Company's 2017 Annual Report, we flagged increased expectations for a new pipeline of PPP projects in the UK through 2017. The political environment remains changeable, and with the UK general election in June 2017 unexpectedly resulting in a hung parliament, alongside continuing negotiations over the process to leave the EU, we have not seen a material change in the UK greenfield PPP pipeline which we previously anticipated. While we welcome the balanced comments on the infrastructure industry made in the National Infrastructure Commission's report dated 13 October 2017, the weak greenfield pipeline has had the effect of materially reducing the flow of opportunities to acquire operational UK PPP projects.

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John Laing Infrastructure: The market for operational, availability-based PPP projects remains competitive in all mature jurisdictions. In some cases, such as the UK and parts of continental Europe, this is largely a consequence of a lack of deal flow (with the majority of projects already under the ownership of long-term investors). In other markets, such as the US, Canada and Australia, the level of funding available for new investment continues to drive competition and prices.

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Property

(compare UK property funds **here**)

Brian Bickell, chief executive, Shaftesbury:

The West End economy

In our long experience, the breadth of the West End's economy provides considerable protection from the cyclicality and headwinds experienced by the UK national economy.

Over the year, business and consumer confidence has begun to come under pressure, and growth in the national economy is slowing. However, conditions in the West End have so far largely been unaffected. In particular, weakness in sterling has provided a boost to the spending power of international visitors as well as increasing visitor numbers. Our restaurants, cafés, bars and shops are reporting resilient trading growth, better enabling them to absorb upward pressures on operating costs currently faced by all businesses.

Demand for the smaller accommodation that traditionally we offer is healthy. Macro-economic uncertainties are now showing signs of slowing potential occupiers' decision-making processes.

The widely reported increase in national business rates took effect in April 2017. As we anticipated, average increases for our occupiers were in the range of 30% to 40%, with a large number of our smaller tenants able to benefit from a four-year transition period. Occupiers of large space on streets where rental levels are above our average have seen greater increases, and only limited transition provisions. Despite these unwelcome increases in operating costs for our tenants, we have not seen any direct impact on occupancy levels or interest in leasing space.

West End connectivity and infrastructure

The completion of Crossrail 1 is now a year away, with the first services on the Elizabeth line expected in December 2018. Once fully operational, this important addition to London's transport network will add 10% to its capacity, and materially improve accessibility to the West End. Over the medium term, we expect the new transport hubs at Tottenham Court Road and Bond Street will result in significant changes to traditional footfall patterns throughout the West End. With all our portfolio in close proximity to these hubs, we anticipate being a major beneficiary of these changes, with a number of our streets expected to see much increased footfall and profile, enhancing their long-term rental growth prospects.

Continuing investment across the transport network is improving reliability and increasing capacity, encouraging travel by public transport to the West End. Last year's introduction of 24-hour running at weekends on certain underground lines has been well-received, and initial passenger numbers have exceeded forecasts.

Elsewhere, we are seeing a number of Crossrail-related public realm schemes progressing. Of great importance to the West End is the initiative announced, earlier this year, to pedestrianise much of Oxford Street. This will bring significant benefits, including a much-improved pedestrian environment and a reduction in traffic-generated air pollution. Currently, it is expected that the first stage of pedestrianisation, west of Oxford Circus, will be operational by mid-2018. Planning for the eastern end of Oxford Street is underway.

Looking ahead

The uncertainties created by last year's EU referendum decision have increased during 2017. It may be some time before the UK's future trading and other arrangements with the EU become clear, and there could be further challenges as their ramifications become apparent. Inevitably, business and consumer confidence is being affected, slowing economic growth and business investment.

The broad economic base of the West End, and its enduring global appeal to visitors and businesses, underpin its resilience and long-term prospects, providing a considerable degree of protection against national economic headwinds. This has been evident in the strength of our performance through different business cycles and operating environments in our 31-year history.

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Picton Property Income: During the last six months no significant progress appears to have been made in the negotiations surrounding the UK's exit from the European Union, creating a general feeling of uncertainty. Despite this, UK GDP has been positive, albeit growing at a modest rate of 0.4% in the third quarter of 2017 and 0.3% in the second quarter of 2017.

Together with persistently higher than expected inflation, primarily driven by weak sterling as well as low productivity, the future economic growth outlook remains subdued. Despite this, the labour market has been resilient, recording its highest level of employment in over four decades.

The decision to leave the European Union is having a noticeable impact on the economic outlook. The increase in the inflation rate reflects the impact of the fall in sterling on the price of imports. In order to counter this inflationary pressure earlier this month the Bank of England increased the Base Rate by 0.25% to 0.5%, its first rise in ten years. In our view, this suggests that they are sufficiently confident that the economy can absorb this rise without significant impact and whilst further rises are possible, the Monetary Policy Committee stated that any future increases would be expected to be at a gradual pace and to a limited extent. They also indicated that there remains considerable risks to the economic outlook, including the response of households, businesses and financial markets to developments related to the process of EU withdrawal and with this move, the Committee has further headroom to respond as required.

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Land Securities: [*In London offices*] despite the current uncertain political and economic climate, we have seen higher than expected levels of activity in both the investment and occupational market during 2017. However, with more assets being offered for sale and a weaker outlook for rental values, capital valuations will be tested. Reduced business confidence is likely to have an impact on occupational demand. [*In retail*] consumers and retailers continue to face an uncertain outlook as rising costs put pressure on disposable incomes and retail margins. Achieving rental growth will be challenging while these conditions continue, but we believe the best destinations will be more resilient as they enable retailers to develop and deliver their multichannel offer and to engage with their customers.

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Great Portland Estates: Central London's commercial property markets have to date proven resilient in spite of the uncertain political and economic background. Business confidence surveys have recovered from immediate post-EU referendum lows and

have stabilised in positive territory, although they remain subdued. Forecast levels of GDP continue to show modest levels of growth. However, there are clear signs of slowing consumer confidence, in part due to increased inflationary pressures and the recent increase in UK base interest rates. Furthermore, levels of political risk continue to be heightened following the summer's snap general election and we can expect confidence to remain low whilst the shape of our future trading arrangements with the EU remain unclear.

Against this unsettled backdrop, activity in London's commercial property markets was maintained over the last six months with healthy transaction levels in both the occupational and investment markets, supporting property valuations. In the near term, we expect the uncertain economic and political environment to weigh on rental levels and yields for secondary properties. However, we remain positive on the long-term prospects for London as a truly global city offering significant attractions for a diverse range of businesses and investors.

Lower but stable economic growth

UK GDP forecasts have decreased very marginally over the period with Oxford Economics forecasting annual GDP growth over the next three years of 1.5%, down from 1.6% in March. However, London is expected to continue to outperform the wider UK economy with annual GDP growth of 1.8% forecast over the next three years. Moreover, the most recent Deloitte UK CFO survey undertaken in September showed a small bounce in business confidence following the post-election drop over the summer, although the proportion of CFOs who think now is a good time to take risk onto their balance sheet still remains well below the long-term average.

Despite the lower economic growth outlook, London's population is forecast to continue growing and Oxford Economics forecast the creation of 115,000 new office-based jobs in inner London over the next five years (down from 129,000 at May 2017). Together, we expect lower levels of growth, combined with some businesses deferring investment decisions in the more uncertain environment, to have an adverse impact on our occupational markets, although relatively low vacancy rates and the limited supply of new space should provide some near-term mitigation.

The attractions of investing in central London real estate, particularly to the overseas buyer, remain intact with transaction volumes of GBP4.8 billion in the quarter to 30 September 2017, the second highest quarterly level for two years. Investor demand has largely been focussed at the prime end of the market, with strong liquidity particularly in large lot size City office properties. With the level of equity capital looking to invest in London remaining near record highs, prime office yields were unchanged over the period.

Occupational markets resilient

Over the six months to 30 September 2017, central London office take-up was 6.6 million sq ft, an increase of 4.7% on the preceding six months and 8.7% above the ten-year average of 6.1 million sq ft. Central London availability marginally reduced over the six months to 14.3 million sq ft at 30 September, down 0.4 million sq ft and below the ten-year average of 14.7 million sq ft. This has helped broadly maintain rental values and pre-letting activity across our markets. However, tenant incentives (including rent frees) have continued to rise, increasing by around one to two months over the period, and larger leasing transactions are typically taking longer to close.

In the central London office market as a whole, development completions in the six months to 30 September 2017 were 2.2 million sq ft, with an overall vacancy rate of 4.6%. However, in the core of the West End completions totalled only 42,000 sq ft in the six month period. This supply shortage has meant that occupiers have sought to

secure space well in advance, with 45% of the 12.9 million sq ft of space under construction already pre-let or under offer. Looking ahead, the speculative development pipeline continues to moderate. In central London, we estimate that 10.6 million sq ft of new speculative space could be delivered over the five years to December 2021 of which only 1.7 million sq ft is in the West End core, equating to only 0.3 million sq ft per annum.

West End occupational market

Over the six months to 30 September 2017, West End office take-up was 2.7 million sq ft, up 30.0% on the preceding six months with current availability of 4.1 million sq ft, 0.8 million sq ft below the ten-year average. Vacancy rates remain low at 3.7% at September 2017, with grade A vacancy estimated by CBRE to be only 2.8%. Despite the relatively robust leasing market, CBRE reported that prime office rental values reduced by GBP5 per sq ft to GBP105 per sq ft over the last six months with rent frees increasing on average by around one month to 22-24 months on a ten year lease.

Whilst UK retail sales have come under pressure given the squeeze on consumer income, the West End retail market (where 30.5% of our West End portfolio by value is located) has continued to demonstrate relative strength. Over the six months, demand for well-configured units on London's prime retail streets remained healthy, with flagship stores an important part of an omni-channel offer. As a result, vacancy on Oxford Street, Regent Street and Bond Street remains low at c.4% with prime Zone A rents on Oxford Street and Bond Street stable at GBP1,000 per sq ft and GBP2,225 per sq ft respectively.

City, Midtown and Southbank occupational markets

Over the six months to 30 September 2017, the City leasing market has been trending in line with the ten-year average, with City office take-up at 2.5 million sq ft and availability increasing to 6.3 million sq ft. At 30 September, the amount of space under offer was 1.4 million sq ft, 21% above the 10-year average, suggesting a strong final leasing quarter for 2018. However, the City vacancy rate increased to 5.9% with grade A vacancy estimated by CBRE to be 4.1%, up from 3.9% at March. CBRE also reported that City prime rental values reduced marginally over the period to GBP69.50 per sq ft, from GBP70 per sq ft in March, whilst the rent free period on a ten-year lease increased by six weeks to 24 months.

Take up in Midtown and Southbank was strong, up 45.1% on the preceding six months at 1.3 million sq ft. CBRE reported that this strength, combined with a lack of new space, resulted in prime office rental values increasing to GBP80 and GBP65 per sq ft respectively. Rent frees remained largely unchanged at 22-24 months on average on a ten-year lease.

Investment market activity robust driven by overseas purchasers

The pickup in the investment market activity witnessed in the first quarter of 2017 has been maintained. The six months to September 2017 saw GBP7.9 billion of transactions, including a number of high profile, large scale purchases in the City. Interest from overseas investors continues to dominate, accounting for 83% of transactions over the last six months (and 94% over the last three months), as the low value of Sterling and London's safe haven status continued to attract international buyers, particularly from Asia and the Middle East.

We reported in May 2017 that we estimated GBP39.5 billion of equity capital was seeking to invest in commercial property across central London compared to only GBP5.3 billion of stock on the market available to buy. Today we estimate that there

is currently GBP11.1 billion of stock on the market available to buy, whilst the weight of money seeking to invest remains high at GBP39.0 billion. With levels of equity demand at elevated levels and debt availability still good for prime quality assets and sponsors, investment yields for office properties remain unchanged. At 30 September 2017, prime yields were 3.75% and 4.00% in the West End and City respectively, according to CBRE.

Poor visibility on market outlook

Given the cyclical nature of our markets, we actively monitor numerous lead indicators to help identify key trends in our marketplace. Over the last six months, our property capital value indicators are largely unchanged and continue to provide limited market visibility. Investment activity in the central London commercial property market is healthy and the real yield spread over gilt yields remains supportive, however, we expect yields to increase for higher risk, more secondary properties. Furthermore, given lower forecast rates of economic growth and tempered business confidence, we do not expect significant rental value movements in the very near-term and we have upgraded our rental value growth range for the financial year to 31 March 2018 to +1.5% to minus 2.5%

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Chris Grigg, chief executive, British Land: In the wider London office market, occupiers are more thoughtful about their requirements as a result of political and economic uncertainty. However, we continue to see both international and British companies leasing well in London, confident in its enduring ability to evolve with changing circumstances and attract talent from around the world.

Our data demonstrate that although digital shopping is changing the role of the store, physical retail remains core to most retailers' propositions. As part of an omni-channel strategy, retailers need the store portfolio to perform three functions: a showroom where customers can discover which product they want to buy; a location for transactions; and as a site from which purchases can be fulfilled. At present, the industry only measures the quantity of transactions taking place in a particular store, but research shows that a quarter of all online purchases are first browsed in store, helping customers to narrow their range of options and become comfortable with a purchasing decision. In addition, 13% of online purchases are now fulfilled through in-store Click & Collect, and we see this reflected at our Local centres where 30% of shoppers use them to collect online purchases, up from 19% just three years ago. Importantly, 67% of these collectors make an additional purchase while doing so, on average spending twice as much as someone shopping through physical retail alone. 39% of unwanted online purchases are returned by consumers through a store, with 80% of these returners making an additional purchase at our centres while doing so.

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Richard Shepherd-Cross, manager, Custodian REIT: Occupational demand remains healthy and we are witnessing rental growth and low vacancy rates across the portfolio, giving us comfort that there is still an opportunity to invest. There are no signs of an oversupply of property in the occupational market and there continues to be a low level of development. It is this, rather than excessive demand, that is driving rental growth so we believe the market should be better insulated from shocks than it was in previous rental growth cycles.

Many regional markets are witnessing rental levels which remain below the threshold necessary to bring forward new development. It would appear that there is the opportunity for rental growth on which the market must deliver before we see supply reach equilibrium with demand, thus maintaining pressure on rents to grow.

Across the market many tenant negotiations remain finely balanced, with strong tenants keenly aware of their value to landlords. However tenants are also accepting rental growth, which they may have avoided for as long as 10 years in some instances. This greater general acceptance of rental growth, combined with limited supply of alternative premises, should make it possible to minimise rental voids and secure rental growth. We expect to see larger funds selling smaller lots regarded as being sub-scale for their ambitions, once they have further invested their cash balances. Rental growth in regional markets, driven by the significant lack of supply of good quality, modern real estate combined with healthy occupational demand, will be a key driver of performance.

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Michael Wrobel, chairman, Civitas Social Housing: There remains a chronic shortage of all forms of Social Housing in the UK, including specialist Social Housing, with estimated demand from 4.5 million people awaiting allocation of a social home.

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Civitas Housing Advisors Limited, manager, Civitas Social Housing: The UK Housing market continues to feature prominently on the national agenda, with all major political parties indicating the provision of housing is a priority. There is broad consensus that the UK requires up to 300,000 new homes each year to meet current and projected demand.

The Department of Communities and Local Government statistics as of March 2017 show that housing supply has been on an upward trajectory in recent years with 162,880 completed units in 2016/17 but this still falls well below the widely accepted target.

At the same time the lack of supply and funding, together with changes to how welfare is delivered, means housing options for vulnerable people remain limited. Indeed the need for Specialist Supported Housing continues to grow (currently around 10,000 people with a learning disability are on waiting lists for housing with support) as councils struggle to rehouse vulnerable people within suitable community settings (an obligation placed on adult social services teams under the Care Act 2014).

This is further reflected by the existence and cost of NHS "bed blocking" which is estimated to be in the region of GBP900 million per annum. As a result, patients are left in hospital with needs that would be better and more cost-effectively served via care in the community. Lord Patrick Carter's 2016 review included an estimate of the cost of caring for all delayed transfer patients in a residential care setting at GBP835 million over five years to 2020/21, compared to c.GBP3.3 billion for acute care in hospitals; this is before considering the benefits for patients in terms of quality of care which are significant.

Encouragingly, and in line with our expectations, the Government announcement of 25 October 2017 reversed an earlier proposal to cap social rents at the local housing allowance rate, providing reassurance to existing providers; and accepting that specialist housing costs more to deliver than general needs housing. The Government has further announced on 4 October 2017 that for the five years from 2020 the general needs rent settlement will be set at CPI plus 1%.

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Hugh Seaborn, Chairman, TR Property: Our view is that the UK economy will continue to experience headwinds. Employment levels may be close to historic highs but the combination of weakening in both consumer confidence and house price

growth, coupled with investment indecision as we await news of progress with the European Union, is expected to lead to economic growth that is slower than for the remainder of Europe. Of course, conversely, if negotiations advance well and there are improved levels of certainty for businesses, then this could lead to a sharp improvement in sentiment, particularly for London as our most internationally orientated conurbation.

The considered reduction in the ECB's bond buying programme (from EUR60bn to EUR30bn) due to commence in January 2018, suggests central bank confidence which is positive for the markets and for real estate in particular. Rents are rising in virtually all major continental European cities as economic growth results in a recovery in employment and spending, although we keep a wary eye on political events, not least in Spain.

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Marcus Phayre-Mudge, manager, TR European Property: in certain sub-markets, there is currently a broad gulf between the expectations of investors in physical assets and the performance of listed companies exposed to those markets. The Central London office market is the epitome of this phenomena. Transaction volumes are set to reach record levels of over GBP20bn this calendar year. This purchasing wave is almost exclusively overseas capital but the sums involved are huge and include the trading of London's two newest skyscrapers, 20 Fenchurch Street ('the WalkieTalkie') and 122 Leadenhall Street ('the Cheesegrater'). However beyond those headlines there has been a broad based range of purchasers (Savills estimate 28 nationalities have purchased London commercial property this year) prepared to look beyond the Brexit negotiations and take advantage of the weakness of GBP. Domestic buyers remain scarce and the discounts to asset value at which Great Portland Estates and Derwent London share prices currently stand reflect the market expectation that demand will wilt and rents will fall next year. However this expected weakness is not yet materialising in asset pricing. It is fair to comment that the Central London office market is experiencing an atypical pricing environment with rents either stagnating or falling but yields remaining firm and indeed exceeding expectations for prime assets being acquired by overseas investors.

The polar opposite can be said for retail. There is very little investor demand for the underlying assets and there has been very little transactional evidence. Vendors are not forced sellers, debt remains very cheap and buyers want bargains in a sector which is unloved. Whilst the deals have yet to close the expectation of a sale of Intu's share of Chapelfield in Norwich and a 7% slice of Bluewater are two transactions eagerly awaited by market participants and the valuation community.

Industrial and logistics has seen record rental growth and remains the only mainstream sector to experience yield compression in the last six months both in the UK and across Europe. Investors in listed companies have watched as private equity has stepped up investment in this sector and acquired businesses which we hoped would be listed such as Blackstone's sale of Logicor (EUR12.2bn) to China Investment Corporation. The sale by Brookfield of IDI Gazeley's GBP1.5bn pan European logistics platform is expected to provide further evidence of yield compression in this sector.

Likewise listed companies selling portfolios (and returning capital) such as Hansteen's European portfolio sold to Blackstone / M7 provides valuable evidence of yield tightening in non-prime industrial space.

Alternative asset classes such as self-storage, hotels and student accommodation have all seen healthy transaction volumes. There was GBP1.9bn of UK student

accommodation traded in the first half of the year, ahead of the GBP1.7bn traded in H1 2016 and expectations are for 2017 to set a record of over GBP5bn. Again investors clearly see this sector as a growth market and are less concerned about the short term political risk which regularly surfaces around future overseas student numbers. In fact non-EU overseas student figures have continued to rise, due in part, we surmise, a reluctance to study in the United States.

Investment markets across Continental Europe also remain buoyant with both domestic and international capital attracted to all submarkets experiencing rental growth. Even shopping centres - with the most muted growth rates - continue to attract investment. Top of investors' shopping lists is prime offices in capital/dominant cities, industrial and logistics in both Western and Southern Europe as well as the Nordics. However it is important to emphasise that investors are all too aware of the risks to the sustainability of economic recovery and we see the focus on primary assets reflecting these concerns.

Offices

The Central London office leasing market remains subdued, particularly when compared to 2015. An ongoing theme is the increasing proportion of take-up coming from the loosely described 'creative' industries, also identified as the Tech and Media (T&M) sector. Even in the City of London submarket, 21% of this year's take up (according to Savills data) was T&M with Banking at 15% and Professional Services at 14%. The other growing sector has been Serviced Office Providers which is 7% year to date. Whilst overall take up is expected to exceed last year's total of 5.8m ft the increase in supply has pushed vacancy to 5.8% (from 5.2%). Rents have fallen modestly (<5%) and incentives increased back towards 12 months for every 5 years of lease commitment. The West End submarket has remained more robust, partly through lack of new supply and vacancy still less than 4%. We have seen little weakness in rents and good ongoing demand for larger (+10,000 ft) floor plates which remain rare with both Landsec and British Land securing more tenants in Victoria and Paddington respectively.

Outside of London and the South East, demand has have been more robust, in that the pace of demand hasn't materially deteriorated when compared with the previous year. Savills estimates based on the year to September is that regional UK markets will see take up of 9.8m sq ft, a 4% increase on 2016. There has been no material change in the speed of pipeline delivery and collectively availability still remains below two times the average yearly take up, a generally accepted metric which denotes ongoing supply constraints. South East supply has increased particularly in the Western Corridor (M40, M4, M3) but this just returns the sub-market to its longer run average. Prime rents have continued to grow, albeit more modestly, averaging 3.7% over the last year (JLL data). The fastest rental growth has been seen in less fashionable markets such as Croydon, Brighton and Basingstoke.

Amongst both the dominant and capital cities of Europe, London is now the outlier with a weakening outlook for returns. We are seeing rental growth and improving demand in every other large city across Western and Southern Europe. In the 2017 Annual Report, I gave a large number of statistics particularly on the improving Paris office market driven by growth in the French economy and improving sentiment following the Macron Presidential win. However the fastest growth remains in the core and Western markets (including La Defence) whilst many peripheral markets still have vacancy which is too high to engineer growth.

The cities with the fastest rental growth are in Spain, Germany and Sweden. Madrid has seen growth of over 12% (CBRE data) over the last two years and notwithstanding the current political turmoil in Catalonia we expect take up to continue

and rental growth to filter out from the core in both Madrid and Barcelona. Stockholm rents continue to confound the sceptics with little new supply resulting in strong rental growth. The Riksbank are remaining dovish in an effort to keep their currency competitive and property yields continue to look very attractive in this environment. In Germany, all the big six cities continue to have attractive supply/demand characteristics. Berlin shines the brightest with Colliers reporting 5.7% rental growth in the first half of 2017.

Retail

Barclaycard continue to publish their spending data across 34 retailer categories and they estimate that their debit and credit cards account for c20% of all UK card transactions and that cards are now used in approximately 80% of all spend. This data is therefore an excellent source of retail detail. The growth rate of online sales - as measured by them - continues unabated at about 15% per annum. Online sales in the UK reached 28.4% of all non-cash spending (Barclaycard analysis) in September 2017. When Barclaycard first published this data series in September 2011 the equivalent figure was 18%. The UK continues to have the highest online penetration globally and the ONS statistic for online sales as a % of all sales (cash and card payments) stands at 16.4%. Within Continental Europe, Norway (11.5%), Finland (10.8%) and Germany (9.4%) are the highest. The latter is interesting because German consumers have traditionally had a higher propensity to save than any other European consumer. None of this is good news for retail landlords who continue to battle with this enormous structural shift in purchasing behaviour.

However, shopping via physical stores still accounts for the vast majority of retail sales, particularly in many Continental countries and where there has been strong job and wage growth we have seen the commensurate increase in retail sales and this has resulted in rental growth in both shopping centres and on the high street. This has been the case - to varying degrees - in Spain, France and Germany over the last year.

Given the rate of online penetration and the relative weakness of the UK economy compared to our European neighbours, it is no surprise that UK retail has been the poorest performing sector across European markets so far this year.

Distribution and Industrial

Once again, London Industrial (as classified by the Investment Property Databank) has produced the fastest rental growth rate of any UK sector (3.3%). The market continues to experience strong demand coupled with a lack of supply. This supply constraint is also being observed across the country and rents are rising in the majority of regions. The greatest demand and fastest growth remains edge of town and suburban markets where the evolution in logistics networks requires much more 'last mile' distribution in densely populated areas. London is a hotspot and Colliers have recorded rental growth of 5.5% over the six months to June 2017.

The picture across Europe remains much the same with suburban (<100,000ft) outpacing the rate of rental growth in larger 'big box' formats (>250,000 ft) where supply is often tenant led 'build to suit rather than speculative development. Build to suit results in slower growth as the tenant has a strong negotiating position as they are removing the leasing risk from the development process.

According to Colliers data, rental growth exceeded 6% in the first six months of the year in Dublin, Bristol, Gothenburg, Stockholm and Budapest. The top performer was Bratislava (17%) and other Central European hubs are enjoying growth as the wave of supply is absorbed rapidly. Even in Romania, a traditionally oversupplied market, vacancy is down to 2% in Bucharest.

Over the next year the fastest rates of growth are expected to be the Nordics, Iberia, Southern Germany and again the UK. The latter might surprise investors given the economic outlook but we sense that the immense structural changes in industrial and distribution demand are outweighing the immediate short term impact of slowing economic growth. However, part of the anticipation of renewed growth is driven by the expectation of a slowdown in speculative development as developers temporarily pause to assess the impact of the Brexit slowdown. Colliers expect just 3.5m sq ft of speculative completions this year, a 60% decline on 2016. This slowdown in supply will see vacancy rates driven down further from their already low (sub 4%) levels.

Amazon remains a huge driver of demand across Europe. After accounting for 26% of total take up last year in the UK we understand that their global run rate is currently 1.2m sq ft per month and they anticipate this rate continuing for several years. They have recently completed a 650,000 sq ft unit at Barcelona's airport and are currently building Italy's largest multi-level logistics facility at Fiumicino, Rome's main airport.

Residential

Prime Central London values continue to fall. The drivers of this weakness continue to be changes in both stamp duty and the tax regime for 'buy to let' coupled with (not unsurprisingly) a reduction in demand from European nationals. Elsewhere across the UK, house price growth is moderating as wage inflation weakens and the expectation of increases in the base rate weigh on potential buyers. The extension and enhancement of 'Help to Buy' will enable housebuilders to maintain margin and continue to deliver the supply of new homes which is a crucial part of government policy but this tool of government intervention remains an inadequate response given the amount of demand. With not enough homes being built tenant demand in the rented sector remains strong.

Elsewhere in Europe where the private rented sector is very much a core part of the residential market we have seen strong valuation growth. This has been the case in Germany and in particular the Berlin market where the bi-annual rent table (the government fixed rent level) rose on average 9%. There is real wage inflation in Germany and we remain confident that tenants can absorb the average increases of c3%.

In Spain and Sweden prices have continued to grow strongly. The Riksbank have imposed various macro-prudential restrictions on mortgage availability and levels but this has had only a modest effect on demand with house prices up 7.9% year on year across Sweden.

Back in May, I concluded my commentary with the expectation that the high income return from property would continue to attract investors and particularly so towards those sub-markets, across Europe, which were experiencing rental growth. Whilst those expectations have broadly been the case the relative performance between the most and least preferred sectors has been more dramatic than I envisaged. The result has been a polarisation with stock prices of those companies carrying expectations of low or negative growth standing at significant discounts to their assets values and in some cases, decade price lows whilst almost all stocks with a whiff of growth are at premiums and in many cases all time high prices.

The ECB announced in late October a well flagged reduction in the pace of bond buying marking the true 'beginning of the end' of quantitative easing and unorthodox monetary policy a decade after the beginning of the global financial crisis. As expected the Bank of England increased the base rate by 0.25% in early November but the Governor also signalled that further increases would be gradual and dependent on improving economic conditions. We remain concerned that the slowing

of growth in the UK as companies defer decisions, due to Brexit uncertainties, will lead to the UK being amongst the weakest performing European nations in the coming year. The outlying risk in the UK is that the current government suffers a vote of no-confidence over the handling of the Brexit negotiations. In that situation exposure to student accommodation, residential, healthcare and long secure income would be a (relative) safe haven.

Concerns around the political environment across Continental Europe have moved on from the national elections in the Netherlands, France and Germany and focused on Spain and to a lesser extent the right wing success in Austria. Our experience is that macro concerns can weigh heavily on market sentiment.

The brightest outcome for property is the successful absorption of a steepening and normalising yield curve. If economies are growing then rates must reflect that inflationary movement.

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LondonMetric Property: We continue to live in an environment of both political and economic uncertainty and in a world where technology increasingly affects our everyday lives.

The extended period of low economic growth and near historically low interest rates is creating an almost desperate search for yield, which we believe is set to continue as the world adapts to a demographic tsunami. In the UK, having remained static for a long period, the percentage of the population defined as old age dependent is forecast to increase from 29% in 2016 to 41% in 2036. This demographic shift will only accentuate the need for income.

We see this trend as an unstoppable force as more of the investing fraternity, including dedicated income funds, private investors, corporate and local authority/government pension funds, focus on alternative investment sources for an acceptable income return.

Those sectors of real estate that can deliver a reliable, predictable, long and growing income stream are benefiting significantly in an increasingly competitive market. Reflecting this growing need, CBRE estimates that GBP25 billion is invested in UK 'long income' real estate and that, since 2010, they have seen a 42% compound annual growth rate in the value of long income funds that they advise.

Structurally supported real estate is seeing significant demand

The real estate market continues to pivot towards those sectors that are underpinned by structural support. In common with many other sectors, technology continues to disrupt real estate, particularly physical retail.

Industrial and logistics have been a significant beneficiary of this disruption and have been the strongest performing sectors in 2017 with investment yields pushed to record lows. Buoyant occupier demand, much of it driven by e-commerce, combined with rational levels of new supply have supported high occupancy rates and strong levels of rental growth. This has been an area of significant investment for us, particularly urban logistics, where we are building critical mass off attractive yields and which are supported by compelling income growth metrics.

With reports suggesting that nearly 40% of online deliveries are next day or specified day services, supply chains are having to rapidly evolve to satisfy increasingly demanding consumers. As operators seek closer proximity to population centres where supply of suitable logistics space is severely restricted, we expect strong rental

outperformance of urban logistics ('spoke') against a more muted rental outlook for national distribution ('hub').

Convenience retail is also benefiting from changing shopping patterns as consumers look to 'top up' shop on the go and seek value propositions. This sector has performed strongly as investors have sought to take advantage of the impact that the likes of Aldi and Lidl are having in disrupting the established grocery market; these two retailers alone are reported to account for half of the growth in all UK food sales.

For assets with strong income characteristics and structural support, we expect the deep pockets of liquidity to continue and the investment market to remain very much open for business.

Real estate continues to see further polarisation

We continue to advocate that capitalisation yields should reflect future occupational trends, the expected trajectory in future rental income and security of future cash flows.

Those real estate sectors that lack structural support, face political uncertainty and/or are being disrupted by new technology continue to find the going tough and are suffering from poor liquidity. Pricing of these sectors is beginning to factor in the value destructive forces and the impact of obsolescence, shorter leases, risks of income disruption, operating expenses and defensive capex.

These forces are particularly pronounced in physical retail, where retailer failures are rising and the 'right sizing' of store estates continues to play out. Operators are having to adjust to the impact that online and convenience shopping is having on their business model and prioritise investment in distribution over stores.

Shopping centres have seen a record low in investment transactions and, along with department stores and large food, are particularly exposed. We believe it is only a matter of time before valuers start to properly reflect the future outlook for challenged real estate sectors and the cost that comes with avoiding income disruption and keeping real estate fit for purpose.

Renewable Infrastructure

(compare renewable infrastructure funds **here**)

John Laing Environmental Assets: There has continued to be strong demand for income--producing infrastructure assets, including environmental infrastructure projects as the market matures.

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

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

Short-term electricity prices have remained robust, supported by the ongoing weakness of sterling impacting on the cost of gas imports for the gas-fired power stations that tend to be the marginal generators that set the price of electricity. However, the longer-term outlook for electricity prices has softened, informed in part by the low prices bid into auctions for new plants seeking subsidies throughout Europe. In the UK, the most recent CFD auction for offshore wind delivered the lowest bid strike price of GBP57.50/MWh, significantly lower than the lowest price in the previous auction in 2015 of GBP114/MWh. This winter will also be the first delivery year for the Capacity Market ("CM"), aimed at ensuring security of electricity supply by providing a payment for reliable sources of capacity, alongside electricity revenues, to ensure the delivery of electricity when needed. National Grid's view of the generation margin for the GB electricity network is that the position is improved compared to the previous year, and if this develops into a trend then another factor feeding into future electricity prices is weakened.

Despite this backdrop, we see no indication that pricing is softening in core UK wind and solar markets, and competition remains fierce. Finding opportunities in stable, well-understood markets that meet the investment requirements while offering an acceptable risk profile is a challenge.

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Kevin Lyon, chairman, NextEnergy Solar: With the end of the ROC regime on 1 April 2017, the UK solar sector has experienced a reduction in new solar plant constructions, with all the major operators focused on consolidating and onboarding the assets constructed before that deadline.

With a total of 12.8GW connected at the end of Q2 2017 there is a significant secondary market opportunity in the UK with many assets assumed to be held by short term investors that could be acquired in due course. The Investment Adviser has been observing growing appetite for these operating assets.

Nevertheless, the cost of new solar energy installations has been continuing on a downward trajectory and as a result there is less or no need for subsidies in many regions of the UK for solar to be cost competitive with other energy sources. In September, the UK had its first non-subsidy utility scale solar PV plant connected to the grid.

We therefore expect the next stage of growth in UK solar energy to be driven by cheaper system costs and possibly integration with electricity storage technologies. The UK's recent Fifth Carbon Budget considers scenarios in which solar will reach between 20 and 40GW of installed capacity by 2030 compared to the current 12GW. Solar plants built during this next phase will not require Government incentives and will compete with other forms of electricity generation.

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