

January 2020

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2019 – sticky bull market defies expectations

There was plenty to worry about in 2019, though this did not stop risk assets having a year that would have defied all but the most optimistic forecasters. The initial trigger came from the US, where the central bank performed a U-turn, abandoning planned interest rate increases. Gold also had its best run in years.

- The year ended with a tense stand-off between the US and Iran that served as a reminder that relative geopolitical calm should not be taken for granted. This helped to boost the price of oil.
- The UK gave the Conservative government an emphatic parliamentary majority to carry out Brexit, though many uncertainties remain. The non-election of Corbyn and the absence of a hung parliament drove flows into UK assets.
- The shine returned to technology stocks in the US while, in China, a new breed of technology companies are challenging incumbents in a manner the US has not witnessed.

For 2020, caution is still the watchword with high asset values, ongoing trade disturbances, a US Presidential election and an unclear path on Brexit (see page 21) lurking.

At QuotedData, we:

- Launched an enhanced real estate service that includes monthly, quarterly, annual and thematic writeups – you can refer to these for news and analysis of property funds;
- Published 52 notes on investment companies, 15 more than in 2018 (see page two), as well as our regular monthly and quarterly publications;
- Updated the second edition of our [Independent Guide to Investment Companies](#) (if you know anyone who is considering investing in investment companies for the first time or who wants to deepen their understanding, please do pass this on); and
- Deepened our relationship with Master Investor, the biggest UK private investor show – we'll be at their [show](#) at the Business Design Centre in Islington on 28 March 2020, and many others around the country.

Investment companies sector median discount

Time period 01/1/2019 to 31/12/2019



Source: Morningstar, Marten & Co

Exchange Rate	31/12/19	Chg. on year (%)
GBP / USD	1.3113	2.8
USD / EUR	0.8930	2.4
USD / JPY	108.8800	(0.7)
USD / CHF	0.9694	(1.3)
USD / CNY	6.9840	1.6

MSCI Indices rebased to 100

Time period 01/01/2019 to 31/12/2019



Source: Bloomberg, Marten & Co

	31/12/19	Chg. on year (%)
Oil (Brent)	68.44	27.2
Gold	1515.16	18.1
US Tsy 10 yr yield	1.8788	(30.0)
UK Gilt 10 yr yield	0.8670	(32.1)
Bund 10 yr yield	(0.1880)	(178.7)

Investment company notes published in 2019

- BlackRock Throgmorton Trust – **Throg's shorts shine**
- Aberdeen Emerging Markets – **A reversal of fortune In 2018**
- JPMorgan Russian Securities – **Expert access to attractively valued market**
- Bluefield Solar Income Fund – **Walking on sunshine**
- Herald Investment Trust – **Shifting sentiment**
- Civitas Social Housing – **Regulatory action is positive**
- US Solar Fund – **Making hay - IPO**
- International Biotechnology Trust – **Beating the odds**
- Montanaro European Smaller Companies Trust – **Quality businesses at sensible prices**
- Aberdeen Standard European Logistics Income – **Poised to expand?**
- John Laing Environmental Assets Group – **Life extensions to boost NAV?**
- Geiger Counter – **Nuclear exposure**
- Premier Global Infrastructure Trust – **Quick out of the blocks in 2019**
- Henderson Diversified Income Trust – **Death rattle for bull market**
- Ecofin Global Utilities and Infrastructure Trust – **Unrecognised outperformance**
- Jupiter Emerging & Frontier Income – **Income objective exceeded**
- Seneca Global Income & Growth – **Holding steady as cycle turns**
- Polar Capital Global Financials Trust – **Don't fear a slowing economy**
- The North American Income Trust – **Time to grow?**
- Standard Life Private Equity Trust – **Now with co-investments**
- Shires Income – **Growing again**
- CQS Natural Resources Growth and Income – **Strong recovery potential?**
- Aberdeen New Dawn – **Moving up the league table**
- Standard Life Investments Property Income Trust – **KYT (know your tenant)**
- CG Asset Management – **The rewards of long-term thinking**
- Seneca Global Income & Growth Trust – **Going for gold!**
- Strategic Equity Capital – **Discounted opportunity**
- BlackRock Throgmorton Trust – **Impressive run continues**
- CQS New City High Yield – **Same as it ever was...**
- Aberdeen Emerging Markets – **The stars may be aligning**
- JLEN Environmental Assets – **Battery storage potential**
- Montanaro European Smaller Companies Trust – **Focus on the small picture**
- Civitas Social Housing – **Targeting full dividend cover**
- JPMorgan Russian Securities – **Outperforming and attractively valued**
- International Biotechnology Trust – **Healthy yield attracts investors**
- Jupiter Emerging & Frontier Income – **Unjustified discount?**
- India Capital Growth – **Discounted value**
- Herald Investment Trust – **"Profits are only profits when they are realised"**
- Aberdeen Standard European Logistics Income – **On the crest of a wave**
- Retail property market – **Ready for a renaissance?**
- Ecofin Global Utilities and Infrastructure Trust – **compelling three-year track record**
- Polar Capital Global Financials Trust – **Banks too cheap to ignore?**
- Premier Global Infrastructure Trust – **Strong income growth**
- Seneca Global Income and Growth – **Pausing on equity reductions**
- Pacific Horizon – **2018 re-calibration paying off**
- Aberdeen Frontier Markets – **Significant latent value?**
- Geiger Counter – **Supply deficit unsustainable**
- Henderson High Income – **The trust that delivers**
- Henderson Diversified Income Trust – **Soft landing likely...**
- North American Income Trust – **Macro driven market is creating opportunities**
- Vietnam Holding Limited – **Silent revolution**
- BlackRock Throgmorton Trust – **Look past the short-term noise**

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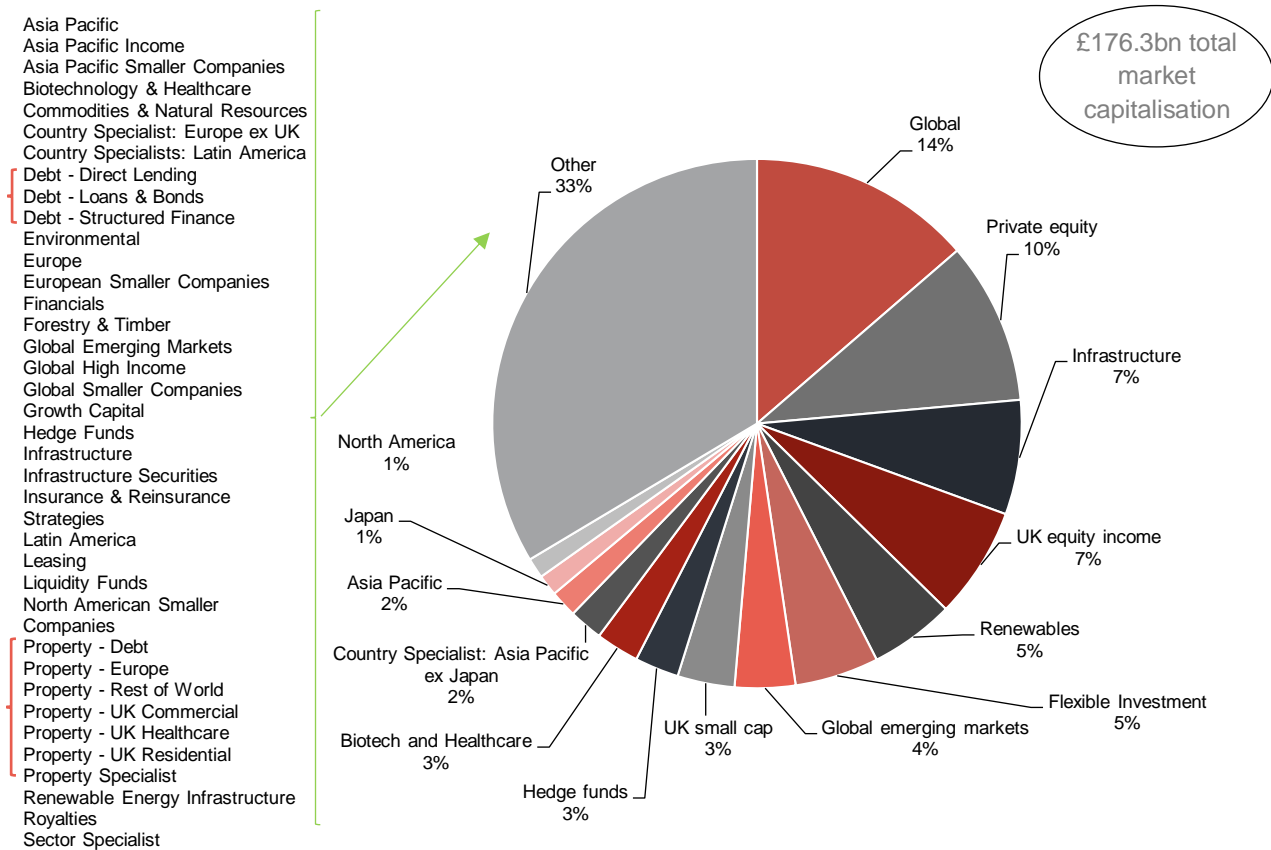
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The sector at the end of 2019

Figure 1: Split of the investment company market by AIC sector at 31 December 2019



Source: Morningstar, Marten & Co

The investment companies sector generated an average price return of 14.3% in 2019, reflecting a strong year for equity markets globally (the MSCI World Index increased by 22.7% - see Figure 4).

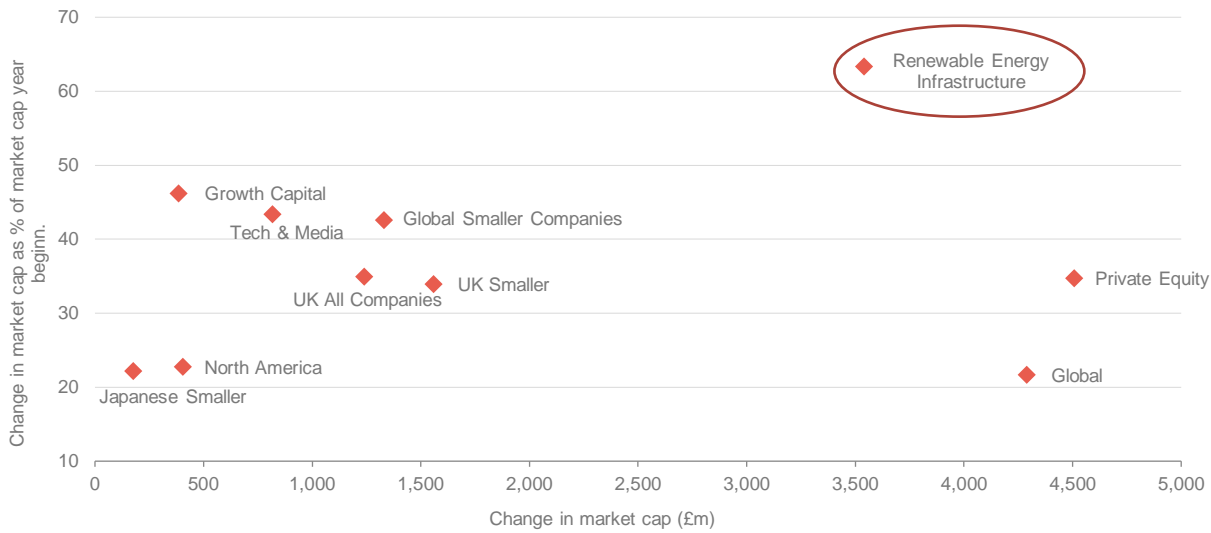
The investment companies sector grew by £34.3bn over 2019

You will notice some changes in the AIC's list of sectors above, following a review over the first half of 2019. One of the great things about the investment companies industry is that it is constantly evolving. Whole new investment areas open up and some old investment ideas become unfashionable and wither away. It makes sense therefore to conduct a wholesale review of the sectors and classifications every couple of years. Some of the main re-classifications were in the debt and property sectors (highlighted in Figure 1) – click [here](#) to read more on the changes.

The sector grew by £29.1bn over the course of 2019, with market movements accounting for most of that. Figures 2 and 3 plot the absolute and relative changes in sector sizes - Renewables Energy Infrastructure, Private Equity and Global sectors grew the most in value, with Renewables making the biggest leap as a percentage of market capitalisation at the start of the year. Elsewhere, the Commodities and Natural Resources sector shrunk the most while Leasing was heavily affected by Airbus's decision to end production of A380 jets

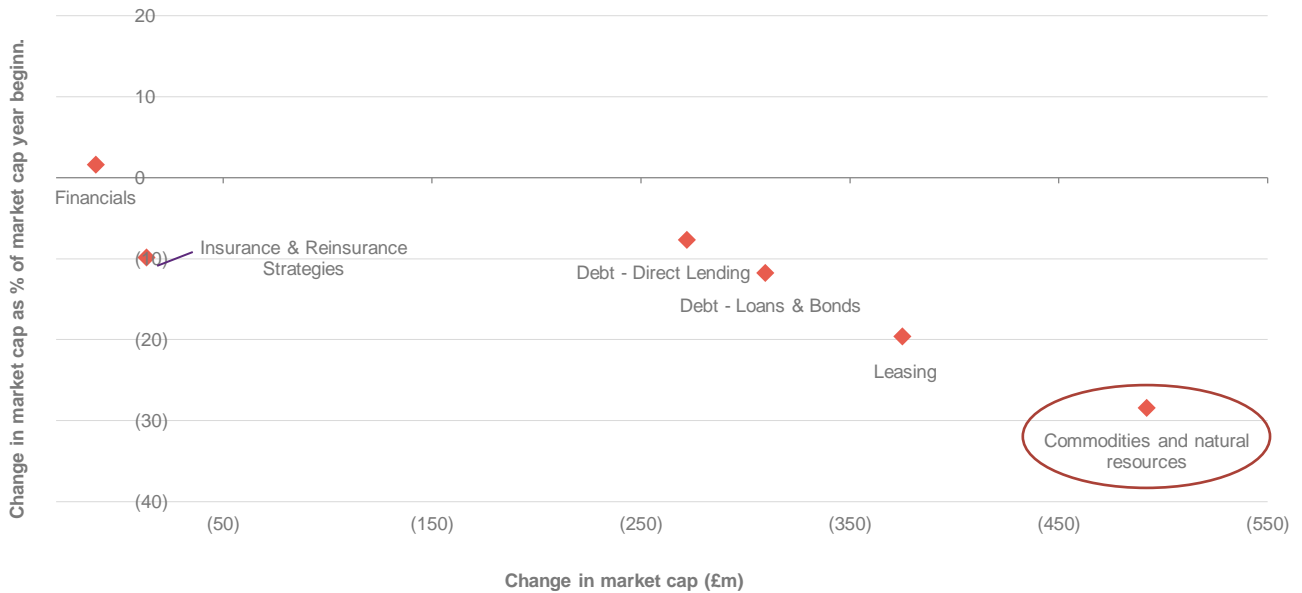
The median discount for investment companies as a whole narrowed from (6.6%) to (5.5%). This does not tell the whole story though as the discount had widened to (8.5%) at the beginning of September (illustrated by the Figure on the first page).

Figure 2: Selected sectors changes in absolute market capitalisation values (£m) over 2019 and changes as a % of market capitalisation at 1 January 2019



Source: Morningstar, Marten & Co

Figure 3: Selected sectors changes in absolute market capitalisation values (£m) over 2019 and changes as a % of market capitalisation at 1 January 2019



Source: Morningstar, Marten & Co

New issues were down considerably as Brexit-related uncertainty weighed heavily. It was a different story for existing funds, where fundraising hit a record level

Only 8 new investment companies came to market over 2019, down from 23 the year before. The launches, which were dominated by renewables-focused strategies, brought in £1.3bn of new money. By comparison, existing funds actively brought in new capital in the secondary market, raising a record £8.6bn. In aggregate, net inflow came to £7.3bn with outflows led by several funds that bought back shares through the year as they carry out managed wind-downs.

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Standardised past performance to 31 December**:

	2014	2015	2016	2017	2018
Scottish Mortgage	21.4%	13.3%	16.5%	41.1%	4.6%
AIC Global Sector Average	8.8%	10.9%	22.6%	24.1%	-4.9%

Past performance is not a guide to future returns. Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested. The Trust's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

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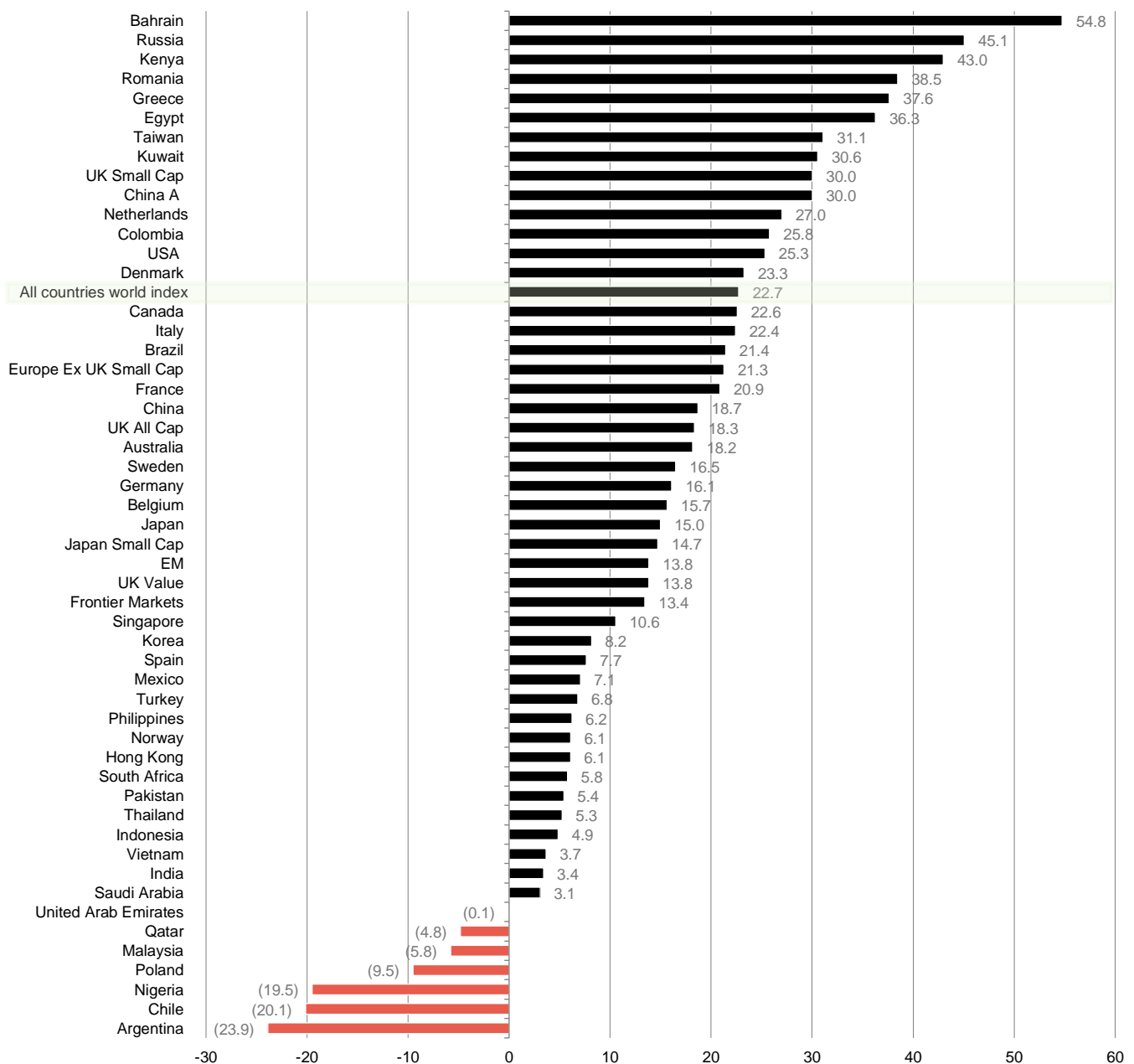
*Ongoing charges as at 31.03.18. **Source: Morningstar, share price, total return as at 31.12.18. Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Company. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.

Performance Data

Russia had a particularly good year while Argentina was shaken by its latest sovereign debt default. Another strong showing from the US shaped risk appetite globally

The US had yet another excellent year supported by the relative strength of its economy and a renewed commitment by the Fed to continue setting very accommodative monetary policy. Elsewhere, Russia sparkled, flying somewhat under the radar, although we did draw attention to it in our most recent note on [JPMorgan Russian Securities](#). Brazil bounced following the election of Bolsonaro while China also had an excellent year with its thriving tech ecosystem catching the eye while a growing willingness to adopt shareholder friendly reforms helped boost Japan. India had a mediocre year with the re-election of Narendra Modi only providing a short-lived bounce. Among the underperformers, Argentina had a particularly poor year following its August debt default

Figure 4: Performance of a selection of MSCI indices over 2019



Source: Morningstar, Marten & Co

Performance by sector and fund

Figure 5 shows how the major investment company sectors performed over the course of 2019 in price terms, and the best and worst funds in each category. Compared to 2018, where nearly every sector lost money on average over the course of the year, only the debt - structured finance, leasing and growth capital did so over 2019. The Debt - Structured Finance sector had an average beta of just 0.2, indicating that its performance is very loosely related to the wider market, while the leasing and Growth Capital sectors were brought down by idiosyncratic factors, including the collapse of Woodford Investment Management, in the case of the latter.

Figure 5: Best and worst performers by sector in price terms over 2019, ranked by sector median

Sector	Best performing Fund	Change %	Sector median. %	Worst performing Fund	Change %
Technology & Media	Polar Capital Technology	43.7	39.3	Allianz Technology	35.0
Environmental	Leaf Clean Energy	964.9	39.1	Jupiter Green	21.0
Infrastructure Securities	Premier Global Infrastructure	38.3	34.9	Ecofin Global Utilities & Infra	31.6
Global Smaller Cos.	Herald	37.7	31.9	BMO Global Smaller Companies	19.9
North American Smaller Cos.	JPMorgan US Smaller Companies	33.4	28.5	Jupiter US Smaller Companies	23.6
UK Equity & Bond Income	Acorn Income	28.6	27.8	Henderson High Income	27.0
UK All Cos.	Schroder UK Mid Cap	58.7	26.9	Jupiter UK Growth	18.0
European Smaller Cos.	Montanaro European Smaller	38.2	26.5	JPMorgan European Smaller Companies	18.6
Global	Manchester & London	35.6	24.3	Qannas Investments	(3.9)
North America	Baillie Gifford US Growth	30.0	23.9	Gabelli Value Plus+	14.5
Global Equity Income	Securities of Scotland	39.3	23.6	Henderson International Income	15.4
UK Equity Income	Shires Income	34.9	23.2	Diverse Income	6.9
UK Smaller Cos.	JPMorgan Smaller Companies	67.5	22.9	Crystal Amber	(33.2)
Europe	BlackRock Greater Europe	34.7	22.1	JPMorgan European Income Pool	13.1
Japan	Fidelity Japan	39.4	22.1	Schroder Japan Growth	9.2
Insurance & Reinsurance Strategies	Life Settlement Assets E	217.0	21.4	Life Settlement Assets B	0.1
Private Equity	Oakley Capital	57.0	21.4	St Peter Port Capital	(38.2)
Biotechnology & Healthcare	Biotech Growth	48.5	20.9	Syncona	(17.3)
Japanese Smaller Cos.	JPMorgan Japan Smaller	35.8	19.9	Baillie Giff Shin Nippon	10.3
Latin America	BlackRock Latin American	17.2	16.8	Aberdeen Latin American Income	16.3
Asia Pacific	Witan Pacific	20.5	15.8	Pacific Assets	(0.8)
Asia Pacific Income	JPMorgan Asian	24.1	14.9	Henderson Far East Income	12.7
Renewable Energy Infrastructure	Renewables Infrastructure Group	29.0	14.1	Gore Street Energy Storage	7.6
Infrastructure	Infrastructure India	71.4	13.7	Sequoia Economic Infrastructure	8.4
Flexible Investment	UIL	50.1	10.0	JZ Capital Partners	(38.1)
Global Emerging Markets	Templeton Emerging Markets	27.1	9.3	Ashmore Global Opportunities GBP	(58.9)
Debt - Loans & Bonds	Henderson Diversified Income	23.2	5.5	NB Distressed Debt Extended Life	(20.8)
Commodities & Natural Resources	Golden Prospect Precious Metal	77.5	5.3	Riverstone Energy	(61.5)

Sector	Best performing Fund	Change %	Sector median. %	Worst performing Fund	Change %
Asia Pacific Smaller Cos.	Aberdeen Standard Asia Focus	8.1	4.4	Fidelity Asian Values	2.2
Country Specialist: Asia Pacific ex Japan	JPMorgan Chinese	59.0	4.2	EIH	(34.7)
Hedge Funds	Pershing Square	45.6	3.3	Highbridge Tactical Credit	(11.1)
Liquidity Funds	Invesco Perp Select Liquidity	2.3	2.1	JPMorgan Elect Managed Cash	1.9
Debt - Direct Lending	VPC Specialty Lending Investments	13.4	1.3	Hadrian's Wall Secured Investments	(33.7)
Financials	Polar Capital Global Financials	23.1	0.3	Chenavari Capital Solutions	(19.3)
Debt - Structured Finance	Blackstone/GSO Loan Financing	15.9	(3.7)	Carador Income USD	(24.5)
Leasing	Tufton Oceanic Assets	1.9	(20.8)	Doric Nimrod Air One	(34.7)
Growth Capital	Merian Chrysalis	19.4	(53.3)	Adamas Finance Asia	(59.0)
Country Specialist: Europe ex UK*	JPMorgan Russian Securities*	55.2	-	-	-
Country Specialists: Latin America*	JPMorgan Brazil*	22.2	-	-	-
European Emerging*	Baring Emerging Europe*	42.0	-	-	-
Global High Income*	Blue Planet Investment*	1.6	-	-	-
Royalties*	Hipgnosis Songs*	6.7	-	-	-

Source: Morningstar, Marten & Co. *Note: Sector includes only one company.

The technology and media sector generated the best return for shareholders

Polar Capital Technology's strong showing reflected the performance of mid-cap holdings like AMD, as well as the portfolio's overweight exposure to software-as-a-service businesses. **Allianz Technology** also performed well with its positioning on the right-hand-side of the table reflecting the fact the technology and media sector only has two constituents.

The surge in **Leaf Clean Energy** shares was in response to a favourable ruling by the Delaware Supreme Court relating to a contractual dispute case with Wind LLC. **Jupiter Green** closed the year strongly having earlier been weighed down by its underweight allocation to the US as well as stock selection.

Infrastructure Securities also only has two constituents. **Premier Global Infrastructure** outperformed **Ecofin Global Utilities and Infrastructure**, helped by its split capital structure (which magnifies NAV returns), in what was a strong year for the sector. Both companies closed out the year strongly after the threat of a Corbyn-led government and potential nationalisation were averted.

Figure 6: Best performing funds in price terms in 2019

	% change
Golden Prospect Precious Metal	77.5
Infrastructure India	71.4
JPMorgan Smaller Companies	67.5
BlackRock Throgmorton	60.5
JPMorgan Chinese	59.0
Standard Life UK Smaller	59.0
Schroder UK Mid Cap	58.7
Aberdeen Smaller Companies	57.7
Oakley Capital	57.0
JPMorgan Russian Securities	55.2

Source: Morningstar, Marten & Co. Note: Investment companies with market caps <£15m at 31 December 2019 excluded.

Figure 7: Best performing funds in NAV terms in 2019

	% change
Golden Prospect Precious Metal	65.3
Pershing Square	52.2
JPMorgan Smaller Companies	49.8
Biotech Growth	47.4
JPMorgan Chinese	45.6
JPMorgan Russian Securities	44.2
Standard Life UK Smaller	43.9
Mercantile	39.7
BlackRock Throgmorton	39.6
Prema Global Infrastructure	39.3

Source: Morningstar, Marten & Co. Note: Investment companies with market caps <£15m at 31 December 2019 excluded.

The global smaller sector was a major beneficiary from renewed risk appetite

The global smaller companies sector had an excellent year with **Herald** leading the way. A general market recovery and a recovery in global technology stocks were catalysts. Herald's UK and US portfolios have both benefitted from a wave of takeover activity, allowing the trust to lock in significant gains on these positions. **BMO Global Smaller Companies** had less joy and its discount widened slightly.

JPMorgan US Smaller Companies had a good year as the US overcame earlier fears the bull market was about to end. **Jupiter US Smaller Companies** delivered strong absolute gains.

Like several UK-focused sectors, the two-company equity and bond income sector closed the year very strongly. **Acorn Income**, which invests in smaller companies, fixed income securities and listed investment companies marginally outperformed **Henderson High Income**. Acorn's main sector exposures are to industrials and financials, while Henderson High Income's portfolio blends household names, like Diageo and BP with smaller companies.

Going into the fourth quarter, performance wise, there was little to choose between **Schroder UK Mid Cap** and **Jupiter UK Growth**. Schroder UK Mid Cap, which focuses its research on the FTSE 250 Index, closed the year as the sixth best performing investment trust overall, with its discount narrowing considerably.

Montanaro European Smaller has been unearthing investment in less well researched markets

Montanaro European Smaller's ability to unearth gems in less well researched markets, like some in Scandinavia, saw it deliver the sector's best NAV return by a distance (and a tightening of its discount). **JPMorgan European Smaller Companies** fared less well, with its discount narrowing the least in the peer group.

Manchester & London led the global sector (which it moved into following the AIC's sector review), performing consistently well through the year. Its focus on the technology sector delivered emphatically in 2019 with many of the US tech titans having strong years. **Qannas Investments** was the only global fund to deliver a negative market return.

Baillie Gifford US Growth has had a strong start since its launch in 2018 with its growth-focus benefitting from the prevailing sentiment. In NAV terms, **Middlefield Canadian Income** had the best year. The trust's strategy allows investments into US companies too. **Gabelli Value Plus+** faces the prospect of a continuation vote in 2020. Pressure from Investec, one of its largest shareholders, grew through over the year. Invested has been unhappy with the trust's relatively high fees, lack of transparency in financial reporting and what it perceived as an unaddressed double-digit discount.

Securities of Scotland led returns in the global equity income sector with the technology, utilities and materials portfolio sectors performing best. **Henderson**

Shires Income's ability to augment income generation capacity by holding high yielding preference shares allows it to apply a growth tilt to a portion of the portfolio

There was renewed interest in biotech towards the end of 2019

International Income had a difficult year with some of its cyclical holdings in sectors such as energy and property weighing it down.

Shires Income had a great 2019, with its policy of augmenting income through its preference share portfolio working very well. This allows Shires to hold a higher proportion of growth companies than many of its peers. **Diverse Income** had a challenging year, which resulted in the shares moving to a discount.

Four funds delivered price returns of more than 50% in the UK smaller companies sector. **JPMorgan Smaller Companies** led price and NAV returns as flows into UK small-cap funds ramped up in the weeks leading up to the general election (as the threat of a 'hard' Brexit on 31 October was averted), before ramping up considerably following the convincing Conservative victory. **Crystal Amber** had a turbulent year that was compounded by being caught up in the Woodford crisis.

BlackRock Greater Europe benefitted from Russia's excellent year (see Figure 4) with Sberbank a top performer in the first half of the year before it was sold. **JPMorgan European** has two shares classes, Growth and Income. Returns from the latter were relatively muted as the benign interest rate environment continued to benefit growth.

Japanese equities have been performing well of late. **Fidelity Japan** had a strong second half of the year, led by its technology holdings – it is particularly excited by the opportunity in 5G-related stocks. **Schroder Japan Growth** said it was frustrated by its performance over its year to July where its value-bias failed to deliver.

Oakley Capital's discount narrowed considerably, driving the share performance. Its most recent re-rating, over December, came as it sold the server management company WebPros to CVS, making 6.7x on its investment.

Biotech enjoyed a resurgence towards the end of the year, benefitting **Biotech Growth**. Its near 50% price return was almost entirely driven by the portfolio with the discount only narrowing marginally. Biotech Growth was nevertheless something of a standout, with a performance that was 15 percentage points ahead of the second best performer in sector, the more pharma oriented **Worldwide Healthcare**. **Syncona's** 50% plus premium to NAV valuation fell in the period after the Wellcome Trust charity surprisingly reduced its stake in mid-March. Over Q2, the premium came down further. Over the second half of the year, Syncona was affected by the poor performance of its investment in Autolus, which was not helped by Woodford having a major stake in it.

Indications of a growing willingness to become more shareholder friendly (including introducing dividend payments) by Japanese corporates, particularly in the small and mid-cap area, could help shape sentiment going forward. Nevertheless, **JPMorgan Japan Smaller** was the only trust in the sector to see its discount narrow over the year – a dividend policy enacted in 2018 is thought to have helped. Having performed extremely well over recent years **Baillie Gifford Shin Nippon** had an untypically poor year.

There was little to choose between **BlackRock Latin American** and **Aberdeen Latin American Income**, in an up-and-down year for the region. Momentum from the election of Jair Bolsonaro in Brazil provided impetus, which unwound as first fires in Brazil and then a debt default by Argentina, weighed on sentiment.

The only investment trust with a Pan Asian mandate, **Witan Pacific**, led performance in the Asia Pacific sector. This reversed an earlier period of underperformance, which led to the board indicating the company needs to beat its benchmark in total NAV terms over the financial year to 31 January 2021 or face proposals to allow

Funds with exposure to China tended to have good years

Renewables brought in over £2.5bn of new money

Contrasting fortunes in the 'flexible investment' sector for UIL and JZ Capital Partners. UIL benefitted from gold's excellent year while JZ Capital Partners had to delay publishing results.

shareholders to exit. **Pacific Assets's** NAV return was comfortably the sector's lowest – India, its largest exposure, fared poorly in 2019.

JPMorgan Asian led performance in the Asia Pacific Income sector once again, with stock selection in China delivering for the trust. The trust outperformed its benchmark, the MSCI AC Asia ex Japan Index, for the fifth successive year over its most recent annual results period to end-September. **Henderson Far East Income's** NAV returns were not far off JPMorgan Asian's – the main difference in price performance came from the (8.1%) differential in the relative change of the their discounts.

A 20% increase in **Renewables Infrastructure Group's** premium drove shareholder returns. The sector brought in over £2.5bn in new money across new launches and secondary issuances with an attractive power price backdrop, long-dated government secured income and high yields proving compelling. It was a tougher year for battery storage-focused **Gore Street Energy Storage**, the minnow of the sector with a year-end market cap below £50m. The company was affected by the suspension of the UK's capacity market mechanism in March. There was a reprieve when Ireland's National Treasury Management Agency agreed to invest £30m in June.

Infrastructure India's share price more than doubled in December after reporting positive results. The shares were volatile over the year though. **Sequoia Economic Infrastructure**, which focuses on debt investments, delivered the lowest shareholder returns but was the most active in the secondary market, raising £380m over the year.

UIL, which has an eclectic portfolio and is one of the last remaining split capital trusts, benefitted from gold's resurgence – gold was its third largest exposure over its most recent financial year. **JZ Capital Partners** shares plunged after it was forced to delay publishing interim results in November. The delay was the result of the board having to secure a new valuation for its property portfolio.

Templeton Emerging Markets bought back nearly £270m worth of shares, though the 1.7% narrowing in the discount was relatively modest despite delivering the sector's best NAV return. **Ashmore Global Opportunities's** sterling share line was the worst performer and, among the larger funds, **ScotGems** had the toughest year. Performance since its launch has been disappointing with the trust failing to achieve the scale envisaged for it at the outset. ScotGems's manager resigned in September. Over October, the board proposed changes including narrowing the trust's focus to emerging market smaller companies (it came to market with a global mandate).

Henderson Diversified Income reaped the rewards of its managers' contrarian calls, made in late 2018, when most observers expected US central bank to raise interest rates. The trust's managers increased exposure to higher yielding longer duration bonds, believing low growth and benign inflation was not indicative of sustained interest rate cuts. This has delivered returns as central banks have shifted away from interest rate increases. **NB Distressed Debt** funds continued to return capital to shareholders as they come to the end of their investment cycles.

Golden Prospect Precious Metal was the best performing investment trust in price terms over 2019, as gold made a comeback after several lean years (click [here](#) to read an article we published on gold). Exploration, production and mid-stream-focused **Riverstone Energy** announced a 26% drop in its NAV over August, following commodity prices lower. Later in the year, the company also reported a \$275.8m unrealised loss for the third quarter, with its Hammerhead holding (previously the fund's largest holding) performing particularly poorly.

Returns from the three company Asia Pacific Smaller companies sector were modest, compared to other regional strategies. **Aberdeen Standard Asia Focus** saw results from revamps introduced in 2018, with the investment approach adapted to place a

greater emphasis on a smaller number of the manager's best ideas. **Fidelity Asian Values** performance only deviated from Aberdeen Standard Asia Focus towards the end of October

Price returns from JPMorgan Chinese were 35% greater than the next best performer

Among the Asia Pacific ex Japan country specialists, **JPMorgan Chinese** was in a league of its own with price returns of 35% more than the next best performer. Stock selection in the Information Technology and Health Care sectors contributed the most over the year to end-September. The shares found further momentum in December after it was announced the board was proposing a new dividend policy to pay enhanced dividends equivalent to 4% of NAV through the distribution of capital gains as well as net revenue. India-focused strategies had tougher years, particularly affecting **India Capital Growth**.

Pershing Square benefitted greatly from the turnaround in Chipotle Mexican Grill's fortunes

Among hedge funds, Bill Ackman's **Pershing Square** had the best year. The manager runs concentrated portfolio of US companies that he believes are undervalued and where he can see a catalyst for a re-rating. One of these is Chipotle Mexican Grill, Pershing's second largest holding. The fast-casual restaurant company had an outstanding year. **Highbridge Tactical Credit** (formerly Highbridge Multi-Strategy) had an eventful year. Following an EGM, shareholders approved a resolution to allow investment into a Tactical Credit Fund that is also managed by its manager.

There was little to choose between **Invesco Perp Select Liquidity** and **JPMorgan Elect Managed Cash** in the two-company liquidity sector.

VPC Specialty Lending Investments bucked the trend in a difficult year for debt – direct lending, which suffered both very low single digit returns and a widening in the sector discount. VPC Speciality invests in the alternative lending market through specialty lending platforms. Its shares recovered sharply following a sell-off during May when Woodford Investment Management was forced to sell its entire holding to meet fund redemptions. **Hadrian's Wall Secured Investments**'s shares began to fall in July and this continued over the rest of the year. The market's initial reaction was believed to be a knock-on from provisions the fund made in May (the provision then was 1.9% of NAV) against two loans to companies producing wood pellets. Some of the reaction can also be ascribed to nervousness, following Funding Circle's decision to wind up earlier in the year.

Polar Capital Global Financials had a good year and continues to believe banking shares are undervalued, especially in the US

Polar Capital Global Financials had an excellent year and it believes the banking sector remains materially undervalued. Notwithstanding the progress that share prices have made in 2019, many banks around the world are trading close to valuation lows. **Chenavari Capital Solutions** had the worst year with the decline in its shares entirely driven by a widening in its discount.

High yielding **Blackstone / GSO Loan Financing** was the outlier in a tough year for the debt - structured finance sector, as the market applied caution to strategies investing in collateralised loan obligations (CLOs). **Carador Income USD** is undergoing a managed wind-down.

Figure 8: Worst performing funds in price terms in 2019

	% change
Riverstone Energy	(61.5)
Adamas Finance Asia	(59.0)
Schroder UK Public Private	(53.3)
Doric Nimrod Air One	(34.7)
Hadrian's Wall Secured	(33.7)
Crystal Amber	(33.2)
Macau Property Opportunities	(31.3)
JM Capital Partners	(30.8)
CIP Merchant Capital	(30.3)
Doric Nimrod Air Two	(27.3)

Source: Morningstar, Marten & Co. Note: Investment companies with market caps <£15m at 31 December 2019 excluded

Figure 9: Worst performing funds in NAV terms in 2019

	% change
Schroder UK Public Private	(44.7)
Riverstone Energy	(43.3)
Marwyn Value	(16.3)
India Capital Growth	(12.9)
Better Capital PCC 2012	(11.3)
Hadrian's Wall Secured	(10.4)
NB Distressed Debt New Glb	(9.3)
Crystal Amber	(8.9)
Africa Opportunity	(8.6)
Miton UK Microcap	(8.0)

Source: Morningstar, Marten & Co. Note: Investment companies with market caps <£15m at 31 December 2019 excluded.

Most of the leasing sector was turned on its head after Airbus announced it was to discontinue production of A380 jets

Airbus's announcement in February that it will stop manufacturing A380 'superjumbos' in 2021 (click [here](#) to read more) emphatically shaped the aircraft-heavy leasing sector's performance, resulting in the median discount collapsing from +7.0% to (20.2%) over the year. **Doric Nimrod Air One** was the worst affected of the three Doric funds, all of whom exclusively own A380 aircraft. Doric Nimrod Air One owns just one of these planes and it is the oldest of all the A380s in Doric's stable. **Tufton Oceanic Assets** had a very quiet year in comparison, delivering a very modest price return, which was enough to lead the sector.

Investors have taken to the growth sector company **Merian Chrysalis**, following its launch in 2018. Merian was close to being 75% invested by the year-end. **Adamas Finance Asia**'s shares fell over the third quarter, resulting in the discount widening to 65.9%. Some of the reasons behind this are thought to include relatively low transparency from the fund, its track record, an overly concentrated portfolio and the presence of a dominant shareholder (reducing liquidity in the shares). However, in early weeks of 2020, they have stormed back up after Adamas announced that one of its key positions, Future Metal Holdings, had commenced dolomite production in China.

JPMorgan Russian Securities had an excellent year while Hipgnosis Songs will soon see its market cap climb above £660m

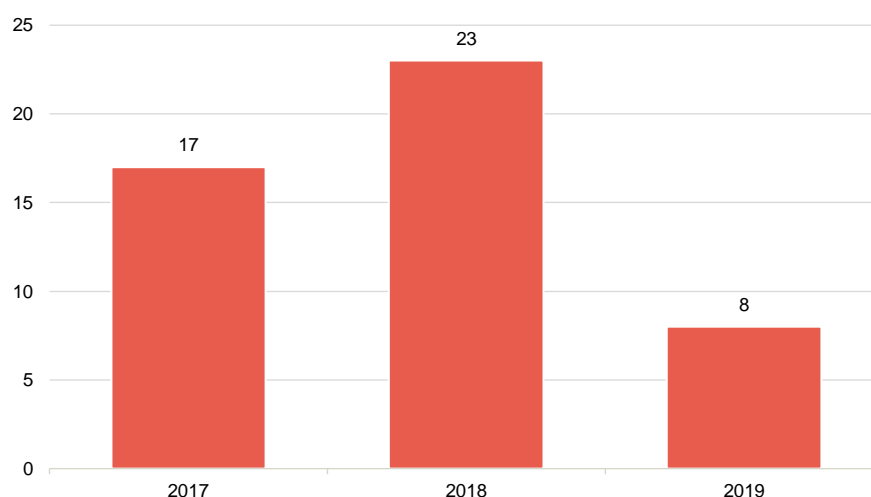
Among the single-company sectors, highlights come from **JPMorgan Russian Securities** with Russia making an emphatic comeback, while **JPMorgan Brazil** benefitted as capital flowed in following Bolsonaro's election. **Baring Emerging Europe** also benefitted from its Russia exposure, which accounts for around 55% of the portfolio. Finally, the royalties company, **Hipgnosis Songs** had an extremely active year of adding catalogues and fundraising. It raised £231m through a C share issue in October, which, when the shares convert to ordinary shares, will take its market cap to over £660m, having launched only 18 months ago.

New fund launches over 2019 were down considerably but net inflows were higher than 2018

Money in and out of the sector

2019 was a low-key year for new issues, with most of the £7.3bn net new money coming from record capital raising by existing funds. Net inflows were higher than 2018 though, where they amounted to £5.5bn. At £8.6bn, fund raising by existing funds was more than £3bn greater than the year before.

Figure 10: Number of new investment companies launched



Source: FT

Figure 11: New fund launches, ranked by amount raised at IPO

Fund	Launch date	Amount raised at IPO, £m (unless stated)	Premium / (discount) (%) 31/12/19	Investment Focus	Note or article ?
The Schiehallion Fund*	27-Mar-19	\$477*	18.1	Pre-IPO investments in growth companies	-
Octopus Renewables Infrastructure	10-Dec-19	350	9.7	Acquiring operational & construction ready renewable assets	Yes
Aquila European Renewables Income	05-Jun-19	€ 155	11.5	Renewable energy infrastructure investments in Europe and Ireland	Yes
US Solar Fund	16-Apr-19	153	7.9	Solar power assets in North America	Yes
JPMorgan Global Core Real Assets	23-Sep-19	149	8.3	Initial investment areas include real estate, transport, infrastructure and cash/near cash	Yes
Riverstone Credit Opportunities Income	28-May-19	81	(4.3)	Capital provision to lower and middle market energy companies	Yes
RTW Venture	30-Oct-19	12	18.1	Forming, building and supporting life sciences, biopharmaceutical and med. tech. companies	-
Cameron Investors**	14-Jun-19	10	**	Prior to being absorbed by Troy Income & Growth, Cameron Investors fund was positioned as a merger vehicle targeting unviable listed funds	Yes

Source: Morningstar, Marten & Co. *Note: Schiehallion was a pre-existing fund. **Note: Cameron Investors has subsequently been rolled into Troy Income & Growth

Octopus Renewables was the biggest new company launch of the year

Baillie Gifford's pre-IPO-focused **The Schiehallion Fund** raised close to \$480m. Baillie Gifford rolled over a pre-existing fund into a listed closed-end structure, as well as raising additional capital.

Fittingly perhaps, the renewables sector provided the year's biggest new company launch. **Octopus Renewables Infrastructure** raised £350m in December - £100m above its target. It is focussing on onshore wind and solar assets in the UK, Europe and Australia. Octopus is targeting returns of 7% to 8% a year and dividends of 3% in the first year, rising to 5% in the second year.

The other renewable launches came from **Aquila European Renewables Income** and **US Solar Fund**. Aquila will provide returns through a portfolio of hydropower, onshore wind and solar PV investments across continental Europe and Ireland. US Solar launched with the aim of delivering a 7.5% annual return through pure exposure to the US solar industry.

JPMorgan Global Core Real Assets's £149m raise was just shy of its £150m target. The fund is initially seeking exposure to core real assets through various real asset strategies, namely; Global Infrastructure, Global Real Estate, Global Transport and Global Liquid Real Assets. It is aiming for total annual returns of around 7-9%.

Riverstone's **Credit Opportunities Income** fund launched as an oil and gas loan fund with a high-income mandate, targeting 8-10% yields. The fund makes loans to small-medium sized energy exploration companies, filling what it believes is a void left by traditional lenders retreating from smaller loans.

Life-sciences fund RTW Venture raised a fraction of its target

Life-sciences fund **RTW Venture**, raised a fraction of its \$350m target with Woodford's struggles in biotech working against it. Finally, **Cameron Investors** has since been absorbed by **Troy Income & Growth**.

Money in and out of existing funds

Figures 12 and 13 show the approximate value of shares issued or redeemed at 31 December 2019.

Figure 12: Money raised in 2019

Fund	£m
Globalworth Real Estate	708.5
Greencoat UK Wind	580.7
Finsbury Growth & Income	405.9
Smithson	397.3
Sequoia Economic Infrastructure	379.9
Tritax Big Box	346.3
Merian Chrysalis	291.2
Greencoat Renewables	253.8
3i Infrastructure	238.5
SDCL Energy Efficiency Income	236.9

Source: Morningstar, Marten & Co. *Note: based on approximate value of shares at 31/12/19

Figure 13: Money returned in 2019

Fund	£m
NB Global Floating Rate Income GBP	(275.6)
Templeton Emerging Markets	(269.0)
Asia Dragon	(238.3)
Boussard & Gavaudan EUR	(207.4)
Pershing Square Holdings	(137.3)
Edinburgh Investment	(115.6)
Biotech Growth	(105.2)
Third Point Offshore USD	(97.7)
Perpetual Income & Growth	(71.2)
Witan	(58.0)

Source: Morningstar, Marten & Co. *Note: based on approximate value of shares at 31/12/19

Money flowed into existing funds at record amounts

Renewables, infrastructure, small-cap growth and logistics funds tended to find a receptive market for capital raising

Pershing Square's discount widened despite excellent portfolio performance and share buybacks

£482m of funds in existence at the end of 2018 have left the sector

Money coming into existing funds

Globalworth Real Estate Investors is a leading investor in office space across Central and Eastern Europe, with a particularly strong presence in Poland and Romania. The company says the value of its portfolio will soon exceed €3bn.

Greencoat UK Wind had a strong year, delivering price returns above 25%. Confidence in its business model and that of wind as a powerful component in the armour of renewables-based power generation, saw Greencoat raise close to £581m.

Finsbury Growth & Income issued shares consistently through the year, regularly featuring in our monthly roundups. Its shares traded at a premium to NAV throughout the year.

Launched in 2018, **Smithson**, the global smaller companies sector trust, found a conducive market for its US and tech-focused strategy. Fundraising continued apace, closing the year with a market cap of £1.5bn.

The boom in demand for logistics warehouse space, particularly from e-commerce-focused businesses, saw **Tritax Big Box** raise close to £350m.

Merian Chrysalis has been actively investing proceeds from its shares issuances, coming close to three quarters deployment at the year-end.

The other funds to issue shares worth at least £100m were **SDCL Energy Efficiency Income**, **Greencoat Renewables**, **3i Infrastructure**, **International Public Partnerships**, **Hipgnosis Songs**, **Capital Gearing**, **Personal Assets**, **City of London**, **Tufton Oceanic Assets**, **BB Healthcare**, **Gresham House Energy Storage** and **HICL Infrastructure**.

Money going out of existing funds

The **NB Global** funds buyback shares very frequently

We touched on **Templeton Emerging Markets** in the performance section (see page 12) while **Asia Dragon** (formerly Edinburgh Dragon) held a tender offer over the first quarter for 30% of its issued shares. 60.5% of its shares were tendered and so the tender was taken up in full.

Boussard & Gavaudan enacted its proposals to rollover investors, who wanted to, into an open-ended fund.

Pershing Square embarked on a major buyback programme through the year, though its discount widened despite an NAV total return of 52%.

The other funds to return more than £50m were **Edinburgh Investment**, **Biotech Growth**, **Third Point Offshore USD**, **Perpetual Income & Growth**, **Witan** and **SME Credit Realisation**.

Liquidations, de-listings and trading cancellations

Fewer funds disappeared in 2019 compared to 2018. Not including, **MedicX**, which merged with **Primary Health Properties**, we said goodbye to 8 funds, with a combined market cap of £482m at the end of 2018

Lazard World, **Establishment**, **Sanditon**, **El Oro**, **Terra Capital**, **Vinaland**, **MedicX** (it merged with **Primary Health Properties**), **JPMorgan Global Convertibles Income** and **Martin Currie Asia Unconstrained**.

Significant rating changes

Figure 14 shows how discounts and premiums moved over the course of 2019. Most UK-focused sectors closed the year strongly, unsurprisingly given the relative value many see in equities. Equity and specifically growth-focused sectors saw their discounts narrow (premiums widen) while some sectors focused on income performed very well, notably renewables.

Figure 14: Biggest percentage point changes to discounts and premiums by sector over 2019

Sector	Greatest improvement in rating	%	Change in sector median. %	Greatest deterioration / lowest improvement in rating	%
Insurance & Reinsurance Strategies	Life Settlement Assets D	51.2	25.0	Life Settlement Assets A	6.5
Environmental	Leaf Clean Energy	33.4	13.6	Jupiter Green	(1.5)
Renewable Energy Infrastructure	Greencoat UK Wind	21.8	11.0	Gresham House Energy Storage	4.4
Asia Pacific Income	Martin Currie Asia Unconstrained	13.6	8.0	Henderson Far East Income	(3.0)
Technology & Media	Polar Capital Technology	6.8	5.7	Allianz Technology	4.6
Growth Capital	Schiehallion	18.1	5.0	Adamas Finance Asia	(28.9)
North America	BlackRock North American	2.6	3.7	Gabelli Value Plus+	(3.3)
UK All Companies	Schroder UK Mid Cap	13.5	3.7	Independent	(5.3)
European Smaller Companies	Montanaro European Smaller	4.6	2.8	JPMorgan European Smaller Comp	1.4
Europe	Fidelity European Values	5.3	2.4	JPMorgan European Income Pool	(2.0)
Latin America	BlackRock Latin American	2.5	2.4	Aberdeen Latin American Income	2.2
Infrastructure Securities	Ecofin Global Utilities & Infrastructure	4.9	2.4	Premier Global Infrastructure	(0.2)
Global	Majedie Investments	6.6	2.2	Lindsell Train	(28.4)
Infrastructure	International Public Partnerships	10.5	2.2	Sequoia Economic Infrastructure	(0.3)
North American Smaller Companies	JPMorgan US Smaller Companies	5.8	2.1	Jupiter US Smaller Companies	(1.5)
Asia Pacific	Witan Pacific	7.2	2.1	Pacific Horizon	(7.2)
Asia Pacific Smaller Companies	Scottish Oriental Smaller Cos	1.9	1.9	Aberdeen Standard Asia Focus	0.6
UK Smaller Companies	Gresham House Strategic	17.6	1.7	Crystal Amber	(23.9)
Global Emerging Markets	Ashmore Global Opp USD	5.5	1.7	Ashmore Global Opp GBP	(18.5)
Global Equity Income	Securities of Scotland	8.8	1.5	Henderson International Income	(0.7)
Country Specialist: Asia Pacific ex Japan	Ashoka India Equity Investment	8.7	1.2	EIH	(34.8)
UK Equity & Bond Income	Henderson High Income	1.3	1.0	Acorn Income	0.6
Liquidity	JPMorgan Elect Managed Cash	0.7	0.4	Invesco Perp Select Liquidity	0.0
Japan	Fidelity Japan	1.9	0.2	CC Japan Income & Growth	(8.3)
Commodities & Natural Resources	Global Resources IT	204.0	0	Riverstone Energy	(24.6)
Flexible Investment	UIL	13.5	(0.2)	CIP Merchant Capital	(23.1)
Private Equity	Oakley Capital Investments	23.8	(0.5)	FastForward Innovations Limited	(21.7)
UK Equity Income	Law Debenture Corporation	5.5	(0.9)	British & American	(18.7)
Hedge Funds	BH Macro GBP	1.1	(1.4)	Highbridge Tactical Credit	(10.1)

Sector	Greatest improvement in rating	%	Change in sector median. %	Greatest deterioration / lowest improvement in rating	%
Debt - Loans & Bonds	Henderson Diversified Income	5.9	(1.6)	NB Distressed Debt Inv Extended Life	(14.1)
Debt - Structured Finance	Blackstone/GSO Loan Financing	6.7	(1.9)	UK Mortgages	(13.4)
Global Smaller Companies	North Atlantic Smaller	9.1	(2.2)	Smithson Investment	(3.0)
Japanese Smaller Companies	JPMorgan Japan Smaller Cos	5.9	(2.8)	Baillie Giff Shin Nippon	(6.5)
Biotechnology & Healthcare	Biotech Growth	1.2	(3.2)	Syncona	(27.5)
Debt - Direct Lending	GCP Asset Backed Income	4.9	(9.1)	RDL Realisation	(31.9)
Financials	Polar Capital Global Financials.	0.9	(10.2)	Triam Investors 1	(19.4)
Leasing	Tufton Oceanic Assets	0.6	(27.2)	Doric Nimrod Air Three	(48.6)

Source: Morningstar, Marten & Co. Note: Sectors with only one company excluded

We discussed many of the trusts in the table elsewhere in this note. Out of the sectors that became more expensive in 2019, it is worth noting that while the biggest change came from the five-company Insurance & Reinsurance sector, other than **Life Settlement Assets A**, the other three Life Settlement funds are sub £10m in market cap. **CATCo Reinsurance Opportunities**'s discount peaked at over (60%) following some of the worst ever years of insured losses, before closing the year at around (17%). The discount began to narrow after the company said it would perform an orderly run-off of the portfolio over a period of approximately three years.

Lindsell Train's sharp correction, despite a good year for the portfolio, was a poignant reminder of the dangers of a premium climbing too high

It is worth referencing the example of **Lindsell Train**, which saw its premium to NAV collapse from over 100% at one point to 12.2% at the year-end. The portfolio had an excellent year, delivering a total NAV return of 31.6%. When premiums become excessive, things get dangerous. Lindsell Train's correction followed manager Nick Train's warning (in the company's annual report released in June) over the risk of buying the fund at the more than 90% premium it was at. A major catalyst that initially propelled the trust to its peak premium was a view among investors that its largest holding, its stake in Lindsell Train Limited, the asset manager, was undervalued.

Major news stories from 2019

Portfolio developments

- **Hipgnosis** completed a £300m C share issuance and completed a move to the main London Stock Exchange market. It was a very busy year of growth for the trust as it went about buying several catalogues, including Timbaland and Kaiser Chiefs. The company also announced maiden results.
- **Amedeo Air Four Plus** discussed its A380 fleet (Airbus will stop building A380s in 2021)
- **Fidelity China Special Situations** discussed the state-of-play in the country
- **Schroder AsiaPacific** said the ongoing situation in Hong Kong was concerning
- Results from **BlackRock Frontiers** reflected ongoing challenges across many frontier markets
- **JZ Capital** reported delayed interim results, warning that it might have to write-down its property portfolio
- We had inaugural results from **Ashoka India Equity** and **US Solar**
- Growth capital company, **Merian Chrysalis**, said it was nearly 70% invested after follow-on investments
- **BioPharma Credit** said would spend its \$600m cash pile by year end
- **3i Infrastructure** closed a deal to acquire Ionisos, the third largest cold sterilisation provider globally, for around €220m
- One of **Middlefield Canadian Income REIT**'s holdings was subject to a \$4.7bn Blackstone bid
- **Syncona** sold Blue Earth Diagnostics to Bracco Imaging for \$450m
- **SDCL Energy Efficiency Income** reported inaugural results
- QuotedData attended **Civitas**' annual results
- **Leaf Clean Energy** won a major damages claim

Corporate news

- The collapse of Woodford Investment Management was probably the highest profile story. We wrote on it extensively: **Woodford Patient Capital**'s management contract was awarded to Schroder
- **Octopus Renewables** raised a whopping £350m
- **JPMorgan Brazil** asked investors to support continuation
- **Martin Currie Asia Unconstrained** offered investors a choice of cash or access to an open-end fund
- **Capital Gearing** returns reached 200x return since Peter Spiller took reins
- QuotedData took a closer look at gold over July as bullion returned to form with a gusto
- **JPMorgan Global Convertible**'s board decided against a shareholder continuation vote, preferring to press forward with proposals for an orderly liquidation
- **Polar Capital Global Financials** said it was exploring a continuation vehicle as its fixed-life end-date approached
- **Greencoat UK Wind** raised £375m; the equity capital will be used to grow the asset base
- **JLEN Environmental** discussed the scope for further diversification of its strategy
- QuotedData visited **Bluefield Solar**'s Elms farm
- Hedge fund **Third Point** said it wanted to narrow its discount with a US\$200m buyback programme
- QuotedData took a closer look at Vietnam's economy as it drew interest based on its own performance and its positioning in the trade war context

Property news

Please refer to our dedicated Real Estate publications property new. You can access the latest monthly edition [here](#)

Managers and fees

- **Perpetual Income and Growth** commented on **Edinburgh Investment Trust**'s management change decision
- It was announced that Martin Hudson, veteran manager of **Mercantile**, was retiring from JPMorgan Asset Management
- **JPMorgan American** proposed a change of strategy
- **CatCo Reinsurance Opportunities**' manager ousted its CEO
- **Seneca Global Income & Growth** announced the resignation of Peter Elston for personal reasons

Visit www.quoteddata.com or more on these and other stories plus in-depth analysis on some funds, the tools to compare similar funds and basic information, key documents and regulatory news announcements on every investment company quoted in London

Outlook for 2020

Rather than us pontificating on how events may unfold in 2020, here are a few recent comments from managers and directors drawn from our latest economic and political summary that you may find interesting.

On the global economy and interest rates

Our **January economic and political roundup** has much more detail and many more comments on topics as diverse as Europe, North America, Global Emerging Markets, the global healthcare sector, European property and even an in depth look at the global uranium market

James Will, chairman of Scottish Investment Trust notes that *“The cost of money remains too low as policy makers continue to grapple with the ramifications of the financial crisis of more than a decade ago. In August, close to a quarter of the global stock of government bonds offered negative yields, meaning that, if purchased at the prevailing price and held to maturity, the investor was guaranteed to lose money. Around the same time, a Danish bank made headlines by offering the world’s first negative interest rate mortgage. It is uncertain if this more mainstream adoption of negative interest rates will prove transient or become the norm. However, one thing that is abundantly clear is that the long-term implications are not well understood.*



Alasdair McKinnon, manager, Scottish Investment Trust believes that *“The yield curve offers a good indicator for the combined impact of central bank policy action and growth. Of late, the US 2year/10year curve has flattened, even though expectations that the Federal Reserve (Fed) will cut interest rates further have risen sharply. This is concerning as a steeper yield curve would indicate that the bond market was becoming more confident that near-term monetary easing will lead to better long-term outcomes. This would give equities a platform to move higher from.*

The best signal for a potential recovery in earnings growth would be an indication that global industrial activity has bottomed. An improved trade war outcome would also be supportive. Here, a de-escalation is possible, and equities have responded positively when there have been better news headlines in recent months. It remains to be seen though, how much long-term damage has already been done to globalisation.

If economic data deteriorates from here, we can also expect a more aggressive central bank policy response. In Europe - particularly in Germany, where growth has completely collapsed due to its high reliance on the manufacturing industry - we could expect a fiscal package to help stimulate activity. The Fed is likely to become more aggressive with its easing monetary response too.”



On Brexit and the UK economy

Jonathan Cartwright, chairman of Blackrock Income & Growth says *“It remains to be seen whether a comprehensive trade deal with the EU can be negotiated by the deadline of the end of 2020. At the same time, the UK will be free to negotiate trade deals with other countries which, although also a complex process, should be facilitated by the UK Government’s ability to present a clear position which can deliver the backing of Parliament. Overall, the higher degree of political uncertainty should be positive for the UK economy.”*



The managers of Schroder UK Mid Cap note that *“It would also appear that this (economic) growth is reasonably sustainable, underpinned by a strong jobs market, higher wages and tax changes. The unemployment rate is close to its lowest since the 1970s, and wages are growing at almost the fastest rate in a decade, continuing to outstrip inflation. There has historically been a close correlation between real wage growth and retail sales, and labour market data that the backdrop for wages remains supportive.*

In the meantime, we are starting to see an increase in corporate activity as private acquirers take advantage of cheap sterling assets. It appears that valuations are such that acquirers are no longer waiting for a resolution to Brexit negotiations. We are also continuing to see companies using the low interest rates to make acquisitions to supplement organic growth, and it seems likely that this interest rate environment can endure.”

.....

■ On China

Howard Wang and Rebecca Jiang, managers of JPMorgan Chinese say that *“We acknowledge that Chinese equity markets can be volatile and subject to external shocks, such as trade disputes and geopolitics. Nonetheless, we are reassured that foreign investors have continued to be attracted to China's domestic market, following the opening up of many of its onshore equity markets (including the financial sector) to foreign access.*

We expect the Government's personal and corporate tax cuts, together with more market-oriented reforms, to support domestic demand and private sector productivity from here. Reassuringly, Chinese equity markets remain at a reasonable level for long-term investors, close to average valuations in both price-to-book and price-to-earnings terms, so we remain broadly optimistic about finding future stock opportunities.”

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We wish you good luck with all your endeavours in 2020!

Ed, James, Matt, Shonil, Richard, Dave, Alistair, Sean and Eleanor

QuotedData

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