

Economic & Political Roundup

A collation of recent insights on markets and economies taken from the comments made by chairmen and investment managers of investment companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Roundup

The rally in markets was reinforced, as the ongoing impact of stimulus and the easing of lockdowns acted as catalysts for the wider participation of cyclical sectors, such as energy and banks. The recovery in the oil price was particularly strong. Led by the US, the market appears to be preparing itself for the next business cycle. Although this is set against a backdrop of the global economy entering what many observers believe will be the most severe slowdown since the 1930s.

Global

Acceleration in digitalisation and healthcare innovation?

AVI Global's manager, Joe Bauernfreund, expects the impact from lockdowns to be felt across both the supply and demand-sides of the global economy. In his review of global equity markets, Majedie's CEO, William Barlow, says the UK was particularly hard hit for two reasons; its heavy exposure to banks which are now discouraged from paying dividends and secondly the collapse in the oil. He expects stock picking and fundamental analysis to come to the fore in the current climate. Scottish Mortgage's manager, James Anderson, says that as investors they would like to see the current crisis provoke a further acceleration in digitalisation and healthcare innovation. As observers they would hope that the current crisis will prompt increased concern over the threat driven by other extreme outcomes in inequality or climate decay.

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Exchange Rate	31/05/20	Change on month %
GBP / USD	1.2343	(2.0)
USD / EUR	0.9006	(1.4)
USD / JPY	107.83	+0.6
USD / CHF	0.9616	(0.4)
USD / CNY	7.1364	+1.0

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/06/2019 to 31/05/2020



Source: Bloomberg, Marten & Co

	31/05/20	Change on month %
Oil (Brent)	35.33	39.8
Gold	1730.27	2.6
US Tsy 10 yr yield	0.6526	2.1
UK Gilt 10 yr yield	0.184	(20.3)
Bund 10 yr yield	(0.449)	(23.8)

Source: Bloomberg, Marten & Co

UK

A once in a decade opportunity to add cyclical names, though patience will be needed

The agility and flexibility of smaller companies can be an asset in crisis-times

2020 to be the worst year for global growth since the 1930s

Many investors do not focus enough on the 'survivability' of a business. Also, subscription-based models have been much less affected

BMO UK High Income's manager, Philip Webster, says that there is a once in a decade opportunity to add to some of the more cyclical names they hold which have been impacted most, although for now patience is required.

The chairman of Chelverton Growth, Kevin Allen, believes that as more people return to work, there will initially be a sharp upturn followed, over time, by a slower growth in economic activity.

River and Mercantile UK Micro Cap's chair, Andrew Chapman, notes that while smaller firms tend to lack the formalised planning and resources of larger businesses, they do benefit from agility and flexibility in times of crisis. In the wake of the unprecedented steps taken by Chancellor, Rishi Sunak, Andrew adds that it remains to be seen to what degree this will ensure that the banks unblock this provision of finance.

Thomas Moore, manager of Aberdeen Standard Equity Income, says that it is important to remember that markets tend to move several months ahead of economic data. Just as in 2009, negative sentiment has created asymmetrical risk/reward for investors willing to remain focused on stock-level opportunities. Thomas adds that, on a quarter-on-quarter basis, economic activity should start to show a sequential improvement in Q3. Investors will not wait for year-on-year growth to turn positive before they start to buy cyclicals.

Adam Avigdori and David Goldman, representing the manager of BlackRock Income And Growth, discussed the cuts and suspensions to dividends, by companies such as Shell.

Schroder Income Growth sound a cautionary note, saying that their economics team expect 2020 to be the worst year for global economic growth since the 1930s, and very few holdings will be immune.

Aurora say that they have used the drop in share prices to invest the cash in the portfolio at very attractive levels. They have looked to purchase at one-third of intrinsic value (i.e. with 200% of upside) even adjusted for the impact of covid-19.

Nick Train, of Finsbury Growth & Income, says that that Lindsell Train have always thought that other investors underestimate the value of "survivability" in a company. Nick contrasts the relative prospects of companies with subscription-based models, many of which the fund holds, with business models whose sales have effectively been suspended in the current crisis – such as airlines and high street retailers.

The chair of Troy Income & Growth, David Warnock, believes it is unlikely that the speed at which the global economy has entered this crisis will be mirrored by the rate of recovery. In his view, the impact on listed companies and their ability to pay dividends will be widespread - only time will tell whether these cuts will be temporary or permanent.

Keystone's manager, James Goldstone, discusses the extent of fiscal and monetary stimulus globally. He says that the fiscal and monetary response has been hugely decisive and has represented an intervention by the authorities on a historic scale. However, this support comes at a cost. Both in the UK and elsewhere, these programmes have been funded by an expansion of central banks' balance sheets on a hitherto unprecedented scale. In the US in particular, the pace of expansion (from below \$4tn to almost \$7tn) and the broadening of the asset base that qualifies for purchase has been breath-taking.



Recovery in stocks has been nearly as swift as the initial sell-off

North America

Franco Tapia and David Zhao, from BlackRock North American, reflect on the surge in stocks over April. The rebound was as swift as the selloff. The team discuss attribution over recent months. Technology-focused holdings have been performing especially well.

Peregrine Moncreiffe, chair of North Atlantic Smaller Companies, says that once we move into the mitigate phase, there should be some return to some normalcy and economic growth with the restoration of supply chains and consumer demand. He adds that valuation of the fund's positions in the pharmaceutical and medical testing sectors should continue to see support



Europe

The banking sector is much better positioned than it was in 2008. Shareholders, though, have been relegated further down the pecking order

Henderson European Focus's managers, John Bennett and Tom O'Hara, discuss the state of the banking sector. Banks, courtesy of much tougher regulation since the global financial crisis, seems better prepared than usual. That preparation now includes the forced 'postponement' or cancellation of dividends. They note that shareholders in banks are now relegated further down the pecking order, more than a decade after what many saw as the great bailout of 'greedy bankers' at the expense of the wider workforce.

We also hear from Matthias Siller, Maria Szczesna and Adnan El-Araby, the managers of Baring Emerging Europe. They note that Russia, has long since prepared for a low oil price environment. Through a substantial build-up of its currency reserves and the implementation of a counter cyclical fiscal policy, Russia is able to support budget spending in a low oil price environment while saving extra revenues during periods of high energy prices. Looking forward, they believe that covid-19 will amplify many existing secular economic trends and reward prudently-run companies with market share gains while rooting out weaker players. In this vein, corporate earnings will once again become the decisive determinants of share prices and dividend recovery across the Emerging European universe.



Asia Pacific

The pandemic has accelerated trends across Asia Pacific, such as e-commerce growth, more widespread use of mobile and PC gaming

JPMorgan Asia Growth & Income's management team, comprised of Ayaz Ebrahim, Robert Lloyd and Richard Titherington, discussed the impact of the pandemic on trends. Some of the bigger trends that have been happening in Asia and across the globe, such as e-commerce growth, more widespread use of mobile and PC gaming, as well as lower interest rates, are mostly all being accelerated.

Schroder AsiaPacific's chair, Nicholas Smith, says that there are grounds for some optimism. Asia was the first affected by the virus, and parts of the region are among the first to unwind the lockdowns. Secondly, Asia has a history of reacting well to shocks.

Aberdeen Asian Income say that as a result of the rally in growth stocks over the past year, good quality dividend-paying companies are trading at relatively attractive levels,

Susan Platts-Martin, chair of Witan Pacific, says that in mainland China, long-term growth forecasts remain strong. Some sectors such as travel, will be much more hurt than others, and some companies will be casualties of the imposed tough operating conditions



Any recovery in Brazil will be uneven, at best

Latin America

Ed Kuczma and Sam Vecht, representing the manager of BlackRock Latin American, expect lockdowns to ease modestly by June and more significantly in the second half of the year. Activity in the industrial sector and in parts of services where "social distancing" is less of a concern should rebound relatively quickly. The team do not expect most economies to return to their pre-crisis levels of GDP until 2021.

Aberdeen Latin American Income's chair, Richard Prosser, says that mixed data in Brazil indicates that any recovery remains uneven at best, particularly as countrywide lockdowns will result in a decline in business activity. Richard also discusses Mexico, Argentina, and Chile.



Debt

We hear from Pollen Street Secured Lending, who say that a number of structured borrowers have asked for temporary amendments to their facility to reflect the regulatory guidance on forbearance requests as well as a deterioration in underlying economic conditions.

Honeycomb say that the SME segment has seen the biggest initial impact from the covid-19 restrictions with forbearance and missed payments at 20 per cent of the portfolio at the time of writing. In most agreed forbearance plans borrowers are still paying at least the full interest payment.

High yields in particular will probably lag the recovery, and this includes CLOs, which holds high yield rated leveraged loans

In the view of TwentyFour Select Monthly Income, as rating agencies begin to analyse corporates for the new economic reality, ratings will ultimately be cut, but it's too early currently to say what the impact will have, but high yields in particular will probably lag the recovery, and this includes CLOs, which holds high yield rated leveraged loans.

VPC Specialty Lending do not anticipate a "V" shaped recovery, but instead expect the global economy to remain depressed for an extended period, albeit with lockdowns easing gradually in the coming months. They also discuss why they believe that 'duration' is a misunderstood risk.

Blackstone / GSO Loan Financing discuss the outlook for global default rates, noting that as of 31 March 2020, the trailing twelve-month default rate was 1.6% in the US and 0.5% in Europe (according to Credit Suisse). They expect that these will continue to increase throughout 2020.

Credit spreads offering some of the best value in several years

Invesco Enhanced Income's management team, comprised of Paul Read, Paul Causer and Rhys Davies, believe that credit spreads still offer some of the best value we have seen for many years. That said, there are undoubtedly challenging times ahead for many companies and default rates are likely to increase.



Defensive nature of infrastructure investing is being put to the test. Despite re-pricing, volatility in public market benchmarks and stay at home and social distancing policies, will make it hard to price and diligence investments in infrastructure assets

Infrastructure

GCP Infrastructure’s chair, Ian Reeves CBE, says that the company's focus on availability-based assets has meant the loan interest income received by the company has not been, and is not expected to be, materially impacted by the covid-19 lockdown.

3I Infrastructure’s manager, Phil White, believes that the defensive nature of investing in infrastructure is now being put firmly to the test and some assets are experiencing stress beyond that seen during the Global Financial Crisis, especially those connected to the transportation sector. He adds that, despite the re-pricing of many assets, new investments will become increasingly difficult to execute the longer the covid-19 crisis goes on. Volatility in public market benchmarks and stay at home and social distancing policies, will make it hard to price and diligence investments in infrastructure assets.



Other

We have also included comments on the flexible investment sector from Capital Gearing, Caledonia and Livermore; Japan from JPMorgan Japanese; China from JPMorgan China Growth & Income; global emerging markets from BlackRock Frontiers; Thailand from Aberdeen New Thai; Biotech and healthcare from Polar Capital Global Healthcare; growth capital from Adamas Finance Asia; Infrastructure securities from Ecofin Global Utilities and Infrastructure; commodities and natural resources from BlackRock World Mining; UK property from Urban Logistics REIT, Standard Life Investments Property Income, Ediston, LXI REIT, and Residential Secure Income; European property from Aberdeen Standard European Logistics Income and Tritax EuroBox and Property securities from TR Property.



Contents – extracts from full-year and interim results announced over May

6	Global (thoughts from AVI Global, Majedie, and Scottish Mortgage)
9	Flexible investment (thoughts from Capital Gearing, Caledonia, and Livermore)
13	UK (thoughts from BMO UK High Income, Chelverton Growth, River And Mercantile UK Micro Cap, Aberdeen Standard Equity Income, BlackRock Income And Growth, Schroder Income Growth, Aurora, Finsbury Growth & Income, Troy Income & Growth, and Keystone)
22	North America (thoughts from BlackRock North American and North Atlantic Smaller Companies)
23	Europe (thoughts from Henderson European Focus and Baring Emerging Europe)
27	Japan (thoughts from JPMorgan Japanese)
28	China (thoughts from JPMorgan China Growth & Income)
29	Asia Pacific (thoughts from JPMorgan Asia Growth & Income, Schroder AsiaPacific, Aberdeen Asian Income, and Witan Pacific)
32	Latin America (thoughts from BlackRock Latin American and Aberdeen Latin American Income)
33	Global emerging markets (thoughts from BlackRock Frontiers)
33	Thailand (thoughts from Aberdeen New Thai)
34	Biotech and healthcare (thoughts from Polar Capital Global Healthcare)
36	Debt (thoughts from Pollen Street Secured Lending, Honeycomb, TwentyFour Select Monthly Income, VPC Specialty Lending, Blackstone / GSO Loan Financing, and Invesco Enhanced Income)
40	Growth capital (thoughts from Adamas Finance Asia)
41	Infrastructure (thoughts from GCP Infrastructure and 3I Infrastructure)
42	Infrastructure securities (thoughts from Ecofin Global Utilities and Infrastructure)
43	Commodities and natural resources (thoughts from BlackRock World Mining)
44	Property – UK (thoughts from Urban Logistics REIT, Standard Life Investments Property Income, Ediston, LXI REIT, and Residential Secure Income)
45	Property – Europe (thoughts from Aberdeen Standard European Logistics Income and Tritax EuroBox)
46	Property securities (thoughts from TR Property)



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Global

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Joe Bauernfreund, manager of AVI Global – 29 May:

As I write these concluding remarks from my stay-at-home office, the economic outlook continues to look deeply uncertain. The impact from quarantines and lockdowns is unknown, but likely to have a highly negative impact on both the supply and demand sides of the economy.

The pace and severity of the March sell-off was breath-taking, exceeding even the depths of the global financial crisis. One would need to look back over thirty years to find declines of similar magnitude in such a short space of time.

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William Barlow, CEO of Majedie – 27 May:

This first quarter of the financial year was relatively strong for stock markets and in particular the UK, which was emerging from three years of Brexit chaos with a newly elected Government whose mandate was to fiscally pump prime the economy. The low valuation of the UK market was attracting the attention of international asset allocators. It seemed the patience of retaining an overweight UK stance would be rewarded. The chaos of covid-19 and the resulting lockdowns across the world hit markets hard. The UK market was particularly hard hit for two reasons; its heavy exposure to banks which are now discouraged from paying dividends and secondly the collapse in the oil price as Saudi Arabia and Russia increased supply just as demand was falling heavily. Investors reacted to the chaos by buying the large technology stocks in the US, thereby ensuring the UK market underperformed its Global peers.

Markets have recovered some composure, but the shape of any recovery is difficult to judge. It does seem that in the new investment world good stock picking based on fundamental analysis will come to the fore.

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James Anderson, manager of Scottish Mortgage – 15 May:

We cannot know the consequences of covid-19 beyond human tragedy. It is presumptuous to make predictions about complex and inherently uncertain matters at any time. Under conditions of stress in society and markets it is even more dangerous. We are better observing rather than concluding prematurely. When faced with the extraordinary it is far too easy to retreat to preconceptions. As investors we would like to see the current crisis provoke a further acceleration in digitalisation and healthcare innovation. As observers we would hope that the current crisis will prompt increased concern over the threat driven by other extreme outcomes in inequality or climate decay. But it is not at all clear that these are more than pious hopes.

It is far harder to identify how and why the pandemic has changed our views. Generally it is perilously early to do so. It is also dangerous to focus solely on one event however terrible. Two years ago this report quoted the late, great Hans Rosling. He frequently cited a global pandemic as his greatest fear. But he also warned that unusual and negative events warp our minds: 'If we are not extremely careful, we come to believe that the unusual is usual: that this is what the world looks like.' At some point he emphasised that we need to return to 'the secret, silent miracle of human progress'.

The End of Carbon

One such miracle may already have occurred. It may eventually be seen as equally historic and as beneficial as the pandemic has been malign. The age of carbon may have ended before the virus spread. For all the drama of the Saudi-Russian clash or of negative oil prices this was a transformation long foretold but finally turning unstoppable in the first quarter of 2020. The remorseless fall in the prices of renewable energy has at last translated into savage competition against traditional fuels.

In the first three months of 2020, 52% of German electricity came from renewables. In the UK that figure was 45%. No wonder the share prices of Exxon, BP and Schlumberger were already falling sharply in January and February. Sad though it is to say pandemics are far more common than energy transitions in the history of the world. The rise of renewables and the electrification of transportation will be central to the investing world of the next twenty years at least. It matters.

Geography

Covid-19 has already exacerbated the name calling between America and China. It could hardly be otherwise given the characteristics of leadership in both countries. But it seems clear to us that the geographical centre of the global economy continues to move to Asia, generally at an accelerated pace. This is an observation not an endorsement of one country or a political system. It is likely at the simplest level that Asian GDP can grow in 2020. That is improbable in the USA and impossible in Europe. Before and beyond the virus we have been disconcerted by the extent to which business model leadership and systemic dynamism appear to be fading in America, even on the West coast. This too appears to be in contrast to Asia and, in the world of corporate giants, particularly relative to China. I will leave the specific examples to Tom Slater to discuss in the next section of this Report to our shareholders.

Risk and the index

Scottish Mortgage has long believed in the energy revolution. But we cannot become unduly confident. It is critically important to test all our beliefs. This applies more strongly to our general contentions than to our individual stock decisions. The latter are necessarily subject to specific uncertainties that we cannot wish or diversify away. But if our underlying beliefs are structurally wrong and we are therefore unable to make sense of the investing world for a prolonged period, then we need to reassess. We need to ask ourselves if our philosophy is adapted to the world as it will be rather than as we hope it is. This applies at all times. It applies at least as much when we have been successful as in times of disappointment. It applies even more when the shape of the investing world is changing dramatically.

Two years ago in this report we wrote that 'We do not share the presumption that Scottish Mortgage is doomed to suffer unduly in a bear market. To us the underlying cause of the next market retreat is most likely to be the dawning realisation that broad swathes of the stock market that are assumed to be strong and stable in difficult market conditions are instead acutely vulnerable to severe setbacks'. Three years ago we said that 'We do not accept that risk resides in owning a portfolio that is different from the index' and suggested that this definition of risk owed more to the self-interest of the investment industry than to economic reality. We did not predict the current pandemic although the possibility of such a disaster was always present as experts in healthcare and fragility have repeatedly observed. So we did not suspect that the trigger for the collapse in the businesses and share prices of so many major index constituents would lie in covid-19. But they were indeed vulnerable to severe setbacks even if we expected this to unwind over a decade not a year.

There is not much evidence that capital market ideology will take much notice of the crass failings of its prescriptions. Managers and consultants will continue to talk to themselves of tracking errors and Sharpe ratios as risk controls (the reader is fortunate

if they are unexposed to such terms) whilst their clients suffer. The curriculum of the ever more dominant Chartered Financial Analyst (CFA) will not change although its teachings bear little resemblance to market outcomes.

These comments are meant to convey meaning beyond irritation. The opportunity for us in the last decade has come about because stock markets did not learn. This is unusual. Normally investors, speculators and traders leap restlessly onto new paradigms however questionable their underpinnings. But that has not happened despite, for example, the clear evidence of the power of the internet, the increasing returns to scale it tends towards and the consequent deep competitive moats it offers. Instead of embracing exponential growth, investors and asset allocators have fled. Performance chasing has its own evils but replacing it with endless rebalancing towards 'value' strategies backed by a blind conviction that reversion to the mean is inevitable has been an investment tragedy. It has largely been prompted by misguided theorising. But the theory has been reinforced by the extraordinary grip that Warren Buffett has exercised over the investment world. Of course the very long term record of Berkshire Hathaway is brilliant, of course Buffett has a splendid way with words and the public, of course he does not believe in the silliness of risk as divergence from the index. But Buffett's success has sanctified a freezing of the investment narrative. Or as Buffett's brilliant partner, Charlie Munger, puts it with the clarity of a 96 year old, too many investors are 'like a bunch of cod fishermen after all the cod's been overfished...that's what happened to all these value investors. Maybe they should move to where the fish are'. So where will the fish be in the future?

Whilst the collective investment world has shown little enthusiasm for shifting to new hunting grounds the market has adapted, as it does, without most participants. This carries potential problems. The universe of great growth whales is swallowing the minnows. At one point in April the US Nasdaq index, dominated by technology companies, enjoyed a market capitalisation greater than all the developed markets outside America. Or on a plaintive local note Amazon and Alphabet combined are more highly capitalised than all quoted British companies. It is not clear that this is unjustified. Moreover the perception of relative vulnerability has changed. Most investors craving safety now see Amazon and its kin as far less exposed to economic angst. In general our quoted portfolio has therefore become more conventional and gradually, then suddenly, less differentiated from the index than in the past. This does not unduly concern us at present as the world adapts to wrenching changes but it may become an issue in the future. We must continue to evolve.

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Flexible investment

(compare flexible investment funds [here](#))

Peter Spiller, Alastair Laing and Christopher Clothier, managers of Capital Gearing – 27 May:

Where will we be once the virus has been contained and ultimately defeated? That partly depends on the duration of restrictions and the shape of the recovery. It is clear that some pre-existing trends have been accelerated. British Land believes that online retailers will double their market share to 40%; some estimate that 30% of closed shops and restaurants will never re-open. On the other hand, the evidence from China is that manufacturing can snap back relatively quickly. Travel may be constrained for much longer and is at risk from border controls; this will be particularly tough on tourist-dependent countries in Southern Europe. Deeper structural changes are more

important. Globalisation, already under pressure from trade wars, will roll back as its weaknesses emerge. The model of just-in-time, single sourced but complex international supply chains may be replaced by more emphasis on higher inventories with a greater number of, and more local, suppliers.

The extent of policy support has been, and is likely to continue to be, astonishing. The U.S. Committee for a Responsible Federal Budget estimates that the U.S. budget deficit will quadruple to 19% of GDP. In 2021 it is likely that Trump's ambition (or the Democratic presidential candidate, if he is elected) for a substantial infrastructure programme will still be in place, suggesting a second year of double digit deficits. Central bankers have already spent over \$5trn on public and private assets and are a long way from finished. Indeed, with the U.S. Treasury backstopping credit risk in corporate and junk bonds, the distinction between monetary and fiscal policy is completely blurred. Monetary finance of government spending will be a sustained feature and will not be deemed an issue so long as inflation does not rise to problematic levels. However, this very mindset significantly increases the risk of inflation actually becoming problematic.

The overwhelming policy support unleashed during March rapidly re-inflated the deflating asset price bubble. At the trough, valuations in mid-March equity values were at interesting levels. At the time of writing, however, the S&P 500 is at 2,940, a level it was at in May 2019. We thought valuations expensive then, corresponding to a cyclically adjusted price earnings ratio of 29x. Since then fundamental values have fallen but prices have not.

Investors have learned the lesson over recent decades "not to fight the Fed" and they may be right to do the same again and to buy equities. Their calculation may be that, poor though the prospective returns to equities may be, there is no alternative. Our investment approach has been, and remains, not to be reliant on the kindness of strangers – even one as munificent as the Federal Reserve. For the time being, we continue to proceed with caution, by focusing on wealth preservation and seeking no more than to achieve a modest positive return after inflation, taxes, and fees. We will leave it to others to exploit the opportunities of a reflating asset price bubble, with all the risks that entails.

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Will Wyatt, CEO of Caledonia – 27 May:

The principal effect of the pandemic has been in our Private Capital valuations, where we have taken account of the potential covid-19 impact in our internally generated company valuations and in the valuation of our fund interests, typically based on managers' reports dated 31 December 2019.

Much of the portfolio has performed in a resilient fashion despite the immense disruption caused by covid-19. Until we have clarity on the lifting of restrictions and economies begin to normalise, it would be unwise to predict how quickly trading will recover in those companies most adversely affected.

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Manager's report for Livermore– 20 May:

Global economic growth weakened in 2019, affecting mostly large economies and pronounced mostly in the industrial sector. Global trade in goods deteriorated due to a slump in global manufacturing and subdued investment activity as the trade disputes and tariffs between the US and China worsened. The political unrest caused by the UK's exit from EU, which was finally achieved at the end of January 2020, also had a dampening effect. Growth slowed in Europe, India, China, and Russia. The emergence

of the coronavirus towards the end of 2019 led to disruptions in China that started to spill over to the rest of the global economy. Consumer price inflation declined in most advanced economies compared with 2018, primarily as a result of lower increases in energy and food prices. Core inflation changed marginally in most countries. The unemployment rate dropped in most economies and labour market strengthened overall.

Financial conditions eased in second half of 2019 supported by accommodative actions by central banks and positive developments on political front, including progress on the US-China trade negotiations and diminished risks of a disorderly Brexit. Global equity prices moved higher later in the year, sovereign bond spreads in the European periphery narrowed, and emerging markets rebounded as well.

USA: Economic growth slowed somewhat in 2019 with GDP growth rate at 2.3% as compared to 3% in 2018. Consumer spending and residential investments in the US increased a moderate rate in the second half of 2019 whereas businesses fixed investments due to trade policy uncertainty and weak global growth. Lower oil prices curbed investment activity in the energy sector. Private consumption remained a driving force on the back of solid disposable income and upbeat consumer confidence. With mortgage rates declining, construction investment also recovered from the contraction in 2018. Overall capacity utilisation remained good. The labour market continued to strengthen and the labour force participation rate also increased. Wage gains remained moderate but at an above level from last year. The unemployment rate moved down from 3.9% at the end of 2018 to 3.5% in December 2019.

In the US, annual average headline inflation fell to 1.8% in 2019 while core rate remained steady at 2.2%. The Federal Reserve's preferred price inflation measure, personal consumption expenditure (PCE) deflator, which excludes volatile energy and food prices, weakened in the first half of the year but picked up again later in the year. In December it was 1.6%, slightly below the Federal Reserve's target of 2%.

The slowdown in economic growth and inflationary pressures, coupled with heightened risks prompted the Federal Reserve to change the course of its monetary policy. In the second half of 2019, the FOMC lowered the target range a cumulative 75 basis points, bringing it to the current range of 1.5 to 1.75 % undoing the increases made in 2018 to counter the possibility of a more pronounced weakening in growth.

Euro Area: Economic activity weakened in the euro area. Real GDP rose by 1.2% on an annual average basis, its lowest value recorded since the sovereign debt crisis in 2013. There was modest growth in equipment investments and exports. Trade tensions and regulatory changes in the automotive industry particularly impacted Germany as overall capacity utilization declined. Despite this backdrop, consumption in the euro area remained supportive due to a robust labour market with the unemployment rate falling to 7.4% and wage growth picking up somewhat.

European headline inflation declined to 1.2%, having at times been pushed above 2% in 2018 by higher energy prices whereas core inflation hovered around 1.0%.

Considering the economic and inflation conditions, the European Central Bank (ECB) lowered its deposit rate by 0.1 percentage points in September taking it further into negative territory (minus 0.5%). It also announced its intention to maintain key rates at their present or lower levels until inflation dynamics are sufficiently robust. Further, the ECB decided to restart asset purchases from November, having previously left its holdings unchanged since the end of 2018. Net asset purchases are expected to end shortly before the ECB raises its key rates again.

Japan: Japan's GDP grew at 0.8% supported by the solid performance of the services sector. Overall production capacity utilisation remained good. The development of GDP growth over the course of the year was influenced by special factors such as exceptional public holidays in May, a powerful typhoon in October and an increase in

the consumption tax as of 1 October. Fiscal policy measures partially cushioned the curbing economic impact of the higher consumption tax. Labour market conditions remained favourable and the unemployment rate declined to its lowest level at 2.2%.

Headline inflation in Japan decreased to 0.5%, while core inflation rose to 0.4%. The free education programme introduced to stabilise the economy largely offset the inflation effect of the higher consumption tax. Medium-term inflation expectations also persisted significantly below the Bank of Japan's target of 2%.

The Bank of Japan maintained the target for 10-year government bond yields at around 0% and its short-term deposit rate at - 0.1%. The Bank of Japan intends to maintain interest rates at a low level for as long as progress towards its inflation target of 2% remains uncertain.

China: GDP growth in China was at 7.1%, weaker than 2018. This was due to weaker manufacturing output owing to trade tensions with the US which imposed additional tariffs on more than two-thirds of imports from China by the end of the year. The modest domestic demand for vehicles and weaker demand for information and communications technology (ICT) sector weighed on industrial activity. Growth remained robust in the services sector.

Headline inflation in China rose to 2.9%, whereas core inflation fell to 1.6%. The People's Bank of China left its policy rate unchanged. However, it cut commercial banks' reserve requirement ratios in several steps with the aim of reducing financing costs for businesses and boosting lending. The government launched fiscal policy measures to support the economy including tax cuts for households and companies and increased infrastructure spending.

Brazil, India, and Russia: Economic growth remained lacklustre in Brazil but did not weaken any further compared to 2018, while India and Russia both recorded declines. There were problems at a few banks in India that led to a tightening in credit conditions. GDP growth in India fell well below potential at 5.3% and government lowered the corporate tax rate to provide support to the economy.

Headline inflation in Brazil was at 3.7%, largely unchanged from 2018. In India, headline inflation of 3.7% was somewhat lower year-on-year, while the core rate was markedly weaker. Russia recorded a rise in headline inflation of 4.5% driven by the increase in the value added tax and the depreciation of the rouble.

Policy rate cuts were made by the central banks of India (by 1.35 percentage points to 5.15%), Russia (by 1.25 percentage points to 6.5%), and Brazil (by 2.0 percentage points to 4.5%).

Commodities

Commodity prices declined over the year, albeit with marked fluctuations. Early 2019 saw recovery in oil prices as OPEC restrained supply but lowered again due to modest economic growth worldwide. Prices of Brent Crude at the end of 2019 stood at approximately USD 66 per barrel. The lower oil prices curbed investment activity in the energy sector. Gold prices rallied. Industrial metals prices declined on average due to US tariffs on China and slowdown in manufacturing industries.

Equities

The equity market rebounded in early 2019 due to the Federal Reserve's shift to policy easing. The rally stalled mid-year due to concerns about global economic growth. Emerging markets rebounded as well. The Information Technology sector topped in gains. Demand concerns and lower prices held back energy whereas debate in the US over drug prices weighed on healthcare. Industrials did well despite low manufacturing demand. The financial sector slightly underperformed the MSCI world as flat or inverted yield curves dented earnings.

Loan Market

Overall, 2019 delivered strong returns across most major asset classes. The Credit Suisse Leverage Loan Index⁶ ("CSLLI") generated a return of 8.17%, while the S&P 500 Index and Merrill Lynch High Yield Master II Index⁷ ("MLHYI") generated returns of 31.49% and 14.41%, respectively. U.S. high yield funds saw a net inflow of \$18.8bn for 2019 due to reduction in demand for floating rate exposure as US interest rates trended lower. According to S&P Capital IQ, total institutional loan issuance was \$309.4bn, down 29% from 2018, while total institutional loans outstanding stood at \$1.2trn as of December 31, 2019. During 2019, the loan market grew 4% from the \$1.15trn outstanding as of December 31, 2018. For many corporate borrowers in the leveraged loan market, both top-line revenue and EBITDA grew during 2019, though at a slower pace than 2018. Interest coverage ratios remained strong as many corporate borrowers over the last several years were able to take advantage of the strong demand for loans and more flexible terms to refinance their existing debt. They were also able to extend loan maturity dates.

CLO Market

After a strong performance in early 2019 across the CLO market, a divergence based on credit quality emerged during 2019, as high- and low-quality assets became increasingly bifurcated. A few one-off credit events in certain borrowers raised idiosyncratic risk in the markets and credits rated B3/B or lower faced increased attention, and investors exhibited a preference for higher quality issuers. This trend reversed itself late in the year, with many investors believing the selloff in B3/B loans was overdone.

2019 was another strong year for CLO issuance. According to S&P Capital IQ, total new US CLO issuance in 2019 was \$118bn, with a modest 8% decline from 2018's record-breaking \$129bn of new issuance. Refinancing and reset volumes fell markedly as the cost of debt remained relatively high compared to 2017 and 2018. In early 2020, however, the market saw a sharp tightening for most classes of CLO debt versus year end levels and several deals refinanced their cost of debt to lower levels.

The par-weighted default rate finished 2019 at 1.39%, falling from 1.63% at the end of 2018 and significantly lower than the 2.9 long-term default rate, according to S&P LCD.

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United Kingdom

(compare UK funds [here](#))

Philip Webster, manager of BMO UK High Income – 29 May:

When it comes to the current environment, it is difficult to know where to start. I have listened to numerous commentators and economists over the last few weeks and the more I hear, the more questions I have. How long will we be in lockdown? How do governments start to get the system back to work? (the answers will vary by region). Will there be a second wave of infections as social distancing is relaxed? And, of critical importance, what happens when the government withdraws support for wages? Consumer behaviour and demand post-pandemic will ultimately decide the level of unemployment and help to answer the key question: will the economy grow or contract, and how will markets react?

While this may be a slight tangent, it is relevant to the above discussion. As you will know, we embarked on a new strategy three years ago. This was a combination of

simplifying the message, concentrating, and differentiating the portfolio, and importantly, upgrading the quality of our holdings.

At the outset of the pandemic the focus was on the ability of companies to survive while Government restrictions were in place. We believe our focus on the quality of our holdings has stood us in good stead and given us comfort on both the level of liquidity held to meet obligations, including debt repayments and investees' margins over bank covenants which indicate the likelihood of them defaulting on their debt. This was all about liquidity, or more simply, having enough cash to survive a collapse in revenue, and for how long? Without this shift we would have been in a tougher position to weather the liquidity squeeze that drove the initial sell-off.

Given the number of unknowns, we have focused our efforts on the knowns, i.e. the liquidity of each company in the portfolio. As a team, we have run due diligence on all of our holdings, speaking with most management teams to assess how they plan to deal with the current environment. Clearly, the dispersion of answers is extremely wide at this juncture and none have all the answers. Like us, they have stress-tested some very extreme scenarios, especially those that will be hit hardest, in some cases, for example Wizz Air, their extreme scenario was zero revenue for the rest of this year.

Forecasting the direction of economies and markets is not within our skillset, our focus lies elsewhere - a sensible stance given there is very little visibility on anything as we stand. If we consider for example just the practicalities of getting back to normal working life and how that knocks-on to the wider economy in terms of activity one can see how difficult it is to predict outcomes. There is a once in a decade opportunity to add to some of the more cyclical names we hold which have been impacted most, although for now I feel patience is required. The second quarter earnings are going to be very messy indeed as the full effect of the lockdown in the US and Europe comes to the fore. What recovery from that looks like is hard to gauge and rather than indulging in guess work, our near-term focus is on trying to protect capital, monitoring positions, and identifying opportunities which we can harness once more clarity emerges.

Outlook

Forecasting the direction of economies and markets is not within our skillset, our focus lies elsewhere - a sensible stance given there is very little visibility on anything as we stand. If we consider for example just the practicalities of getting back to normal working life and how that knocks-on to the wider economy in terms of activity one can see how difficult it is to predict outcomes. There is a once in a decade opportunity to add to some of the more cyclical names we hold which have been impacted most, although for now I feel patience is required. The second quarter earnings are going to be very messy indeed as the full effect of the lockdown in the US and Europe comes to the fore.

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Kevin Allen, chairman of Chelverton Growth – 26 May:

It is impossible to make any kind of forecast at this time other than to say that gradually, the economy and society will move towards a new settled outcome. This new situation will resemble what the position was before the arrival of covid-19, but almost certainly will not be the same.

Every day, as businesses adapt to and resolve the constraints placed upon them by the virus, more and more people are going back to work. We believe that there will initially be a sharp upturn followed, over time, by a slower growth in economic activity, as the economy strives to recover losses caused by the reaction to covid-19.

It is undoubtedly the case that unemployment will rise, partly as a result of the severe economic jolt caused by the lockdown, but also as a result of a change in working patterns and a drive to greater efficiencies. Given the UK economy had been operating

at effectively full employment for the past few years this is not surprising and in some cases is to be welcomed.

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Andrew Chapman, chairman of River and Mercantile UK Micro Cap – 22 May:

As you are all aware, the outlook for both the UK and Global economies deteriorated sharply in only a matter of weeks, since covid-19 struck around the world. There are a range of estimates for the expected decline in U.K. GDP in the second quarter of 2020, but most forecasters expect a strong recovery in the following quarter. This could well mark the deepest recession since the financial crisis in 2008 for the UK. Unlike the financial crisis, it is not just financial pain we are feeling, since we are all concerned about our families and loved ones too. Therefore, the human toll of this crisis will be felt in untold ways.

Whilst this is the economic backdrop at the time of writing this report, I thought it worth considering how small and micro-cap stocks might be positioned in responding to times of market stress and what attributes they have that could set them apart from larger companies. An example of resilience in times of crisis is the family-owned furniture retailer, the House of Reeves, that suffered a horrendous fire after the rioting in London during August 2011. Images of firefighters being unable to save the store from the engulfing flames were broadcast and became emblematic of the London riots. This business had been owned within the same family in Croydon for over 145 years. The day after the fire the House of Reeves began its recovery, with staff helping to relocate the business to a nearby building and they continue trading profitably to this day.

While smaller firms tend to lack the formalised planning and resources of larger businesses, they do benefit from agility and flexibility in times of crisis. A smaller business is unlikely to have run several disaster recovery exercises and considered what each response might be to these different scenarios; but then, they are much more adaptable in being able to react to any scenario. Rather than having to turn an oil tanker around, the people with the hands on the tiller have a much more nimble vessel to helm. Secondly, a lack of an unwieldy infrastructure may afford business owners the potential to make decisions quickly with an ability to tap into their close networks at short notice. It will also be beneficial that those in control of small businesses quite often are the owners of the key relationships, whether that be with suppliers, lenders, local authorities, or insurers, and can use a personal touch to make a difference in any negotiation.

Another factor to consider when weighing up the benefits of a smaller company's agility, is its ability to access finance. We have seen that the UK Chancellor, Rishi Sunak, has taken unprecedented steps recently to improve access to finance for smaller companies, with the provision of the Coronavirus Business Interruption Loan Scheme. Yet, to what degree this will ensure that the banks unblock this provision of finance still remains to be seen.

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Thomas Moore, manager of Aberdeen Standard Equity Income – 19 May:

Global equity markets were generally buoyant during the first four months of the period as investors took encouragement from dissipating US-China trade tensions and a US Federal Reserve rate cut. The UK market responded positively to a landslide Conservative majority in the General Election in December and stocks with exposure to the UK domestic economy benefited from the decisive Conservative election victory.

Sentiment turned sour in late February when it became apparent that covid-19 was becoming a global pandemic. A global recession became inevitable once governments

announced lockdowns to limit the spread of the virus. The UK lockdown, announced on 23 March 2020, caused the economy to go into an induced coma. This led to a spate of profit warnings, dividend cuts and calls for additional capital by companies. The market quickly priced in these negatives. For the three months to the end of March, the FTSE All-Share Index was down by 22% on a total return basis - its most significant quarterly decline since the Black Monday sell-off in 1987.

As pessimism set in, large-cap defensive sectors fared less badly than small and mid-cap cyclical sectors. The worst-affected sectors over the period were those where social interaction is fundamental to their business and which were consequently most directly affected by the lockdown and which saw an almost total collapse in their revenues, such as Travel & Leisure and General Retailers. Oil stocks fell as the oil price collapsed, driven by lower activity levels and an ongoing dispute between Saudi Arabia and Russia, while Banks fell on fears of a spike in loan impairments.

Covid-19 has caused widespread dividend cuts. While dividend cuts are never welcome, the share price response to this news has often been savage. This requires us to take a view on whether the market has over-reacted. We recognise that the hiatus in economic activity is an issue for companies with vulnerable balance sheets. The judgement that needs to be made is to assess how a company's cash flows will be affected and whether it can weather a period of short-term balance sheet pain. Our research incorporates an assessment of each company's financial position. This requires nuanced analysis, stock by stock.

Investor uncertainty over the economic effects of covid-19 caused an emotional response in March, with many of our holdings falling by over half within a matter of weeks as markets priced in a deep recession causing a prolonged period of depressed revenues and balance sheet stress. The level of despondency appears at least as bad as the financial crisis in 2008/09, with no shortage of economists publishing reports predicting the most painful recession in living memory. While such reports make uncomfortable reading, it is important to remember that markets tend to move several months ahead of economic data. Just as in 2009, we believe that extreme negative sentiment has created asymmetrical risk/reward for investors willing to remain focused on stock-level opportunities. As panic subsides, we expect investor time horizons to lengthen.

Share prices respond to incremental change. Once negative outcomes are priced in, share prices can go up even if the news flow is only marginally less negative than feared. It would be misguided to wait for the news flow to turn outright positive. Therefore we believe it makes sense to look forward and ask whether the reality will justify the pessimism that is priced into valuations.

While it is impossible to predict the shape of the economic recovery, we can be confident that the disruption to economic activity caused by covid-19 will ease as lockdown restrictions are gradually lifted. Decisive government action will help to bridge the private sector through this period of exceptionally weak activity. With each incremental easing measure, economic activity is likely to pick up. Given that the economy virtually ground to a halt in April, we are set to see a month-on-month improvement in economic activity as soon as the easing measures start. On a quarter-on-quarter basis, economic activity should start to show a sequential improvement in Q3. Investors will not wait for year-on-year growth to turn positive before they start to buy cyclicals.

On a longer-term view, the challenge will be how to pay down the deficit. It is likely that the Government will favour debt monetisation, followed by a period of inflation designed to erode this debt, rather than increasing taxes. The combination of a recovery in economic growth and tolerance of higher inflation is a benign environment for equities, in particular the domestic cyclicals that are currently trading on valuations which price

in a sustained period of depressed profitability. Many of these domestic cyclicals will emerge from the crisis in better shape with increased market share. This is what makes this environment a particularly rich hunting ground for investors looking over to the other side of the current turmoil.

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Adam Avigdori and David Goldman, representing the manager of BlackRock Income and Growth – 18 May:

Global equity markets rose in April. Remarkably, it was a month of both unprecedented global contraction in economic activity and yet strong “risk on” market sentiment, with the S&P posting its largest calendar month gain since 1987. The spread of covid-19 remained the primary focus globally. The number of confirmed virus cases globally surpassed 4m, however, data indicated the curve of new cases began to flatten in most countries. Oil prices jumped sharply on news that Russia and Saudi Arabia had agreed to cut supply but then plunged into negative territory on the expiry of the May WTI (West Texas Crude Oil) future, as the lack of available storage meant investors holding the May contract would be forced to take physical delivery on expiry of the contract. Record-low Purchasing Managers Indices (PMIs) were reported globally, and unemployment rates rose at alarming levels. Global and national economic forecasters (IMF, OBR) updated their gloomy growth projections, capturing the beginning of the downturn in the developed economies.

Despite continued uncertainty and disappointing economic activity data, the Volatility Index (VIX) remained in the range of 30 to 45 likely attributable to the announcements of further stimulus packages which came from the Fed (additional \$2.3trn) and the euro zone (additional €500bn). In the UK, composite PMI of 12.9 (from 36.0) was significantly below the prior low of 38.1, recorded in November 2008 during the Global Financial Crisis. Lockdown measures were extended after the hospitalization of prime minister, Boris Johnson due to severe coronavirus symptoms.

Towards the end of the month, Chancellor Sunak confirmed that very small businesses will be offered loans of up to £50k with full state guarantees and no interest payable for the first 12 months. About 160 companies in the UK FTSE have now announced a cut or suspension to their dividends, including Shell's first dividend cut since the 1940s. The FTSE All Share benchmark rose 4.9% in April with Technology, Consumer Services, and Consumer Goods as top outperformers while Oil & Gas was the top underperformer.

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Manager's report for Schroder Income Growth – 15 May:

Covid-19's impact on the corporate sector worldwide is severe. Our Economics team expect 2020 to be the worst year for global economic growth since the 1930s, and very few holdings will be immune. Governments and central banks are providing unprecedented levels of fiscal and monetary support, but the portfolio net asset value is currently 13.8% lower than at the end of February. The investment thesis for some holdings has also been disrupted. Since the half year end we have sold out of four holdings (ITV, Next, Taylor Wimpey and RBS) where the investment case predominantly rested on an improved UK economic backdrop, and Micro Focus, where the operational turnaround will likely prove harder. In all these companies the dividends appeared vulnerable to being, or had already been, cancelled. Proceeds were in part invested in companies which we have a high degree of confidence will continue to pay dividends, such as British American Tobacco and Prudential, which has a strong Asian franchise. We established a new position in UK life assurance and fund management

company M&G, where the share price had fallen to extremely low levels and where the dividend yield in our view is affordable and likely to be paid.

The sheer pace of developments and the uncertainty about how long the lockdowns will last mean that the timing and shape of the recovery is unclear. In this context it is hard to be precise on the outlook for the portfolio's likely investment income this year and next. In the last global crisis, in 2008/09, dividends for the whole UK market fell c.20% peak to trough. Given the response from corporates so far, the outcome this year is likely to be significantly worse. Many of the management teams of the companies in the portfolio are still reacting to the situation, prioritising the safety of employees, preserving liquidity and focusing on their balance sheets whilst assessing whether to access government support schemes. We have already seen some holdings (for example BAE) suspend dividend payments until there is more clarity around their operating environment, while others taking government support (for example Whitbread, William Hill, G4S, Hollywood Bowl, Unite Group and Lloyds Bank) have cancelled their dividends.

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Manager's report for Aurora – 14 May:

At the very outset back in January, we considered whether our businesses were at risk of ruin if the virus in China ended up being a global pandemic with a shutdown of the economy. We also asked whether our businesses will be weakened competitively by it or strengthened. Our assessment then was that our businesses are all robust enough in their financing that they will be here on the other side and their competitive positions will either be the same or better after. Now we are in the reality of the lockdown and we have had the chance to see the impact and speak to our managements, we still believe those assessments are correct.

That is not to say that the economic shutdown does not do damage - it does. Our holdings in easyJet, Ryanair, JD Wetherspoon, and Frasers in particular will suffer big losses this year from the ceasing of activity. When we apply that to the overall portfolio, that damage is around 13% of our starting estimate of Intrinsic Value. This is bad but not disastrous. In the meantime, the portfolio price has dropped by 40%.

We have used the drop in share prices to invest the cash in the portfolio at very attractive levels. We have looked to purchase at one-third of intrinsic value (i.e. with 200% of upside) even adjusted for the impact of covid-19. As we do this, we add considerable future value, and if we are to do our job well, then we have used the opportunity presented by covid-19 to build the next leg of our performance.

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Nick Train, director of the manager of Finsbury Growth & Income – 12 May:

This certainty of being in uncharted territory makes us reluctant to engage in speculation about the duration of the crisis or in grandiose theorising about trends in the global economy that will emerge in its aftermath. We know enough to know that we do not know. Instead, at this stage, we are focussed on the day-to-day demands of guarding shareholders' capital and, in particular, we are focussed on the financial health of the companies we have invested capital into.

Lindsell Train Limited's investment approach is based on the identification of excellent companies. That approach has certainly helped our relative performance through these first weeks of the crisis. And, in truth, we are hopeful that the portfolio in aggregate really does comprise the sorts of company that will get through to the other side of all this. We have always thought that other investors underestimate the value of "survivability" in a company. For us it is the start point in our investment process. Is this

business still going to be around in 10 years' time? A surprising number will not be – even in “normal” economic conditions.

We have big holdings in companies with regular, subscription-type revenues; including the asset managers. RELX, Sage and important parts of the LSE all benefit from being able to charge their customers at regular intervals for continuing services that by and large those customers need to stay in business. This is also true for parts of Daily Mail and Euromoney – and this pair also both have net cash balance sheets. Nearly 50% of the portfolio is today invested in companies of this type.

Contrast such business models with those whose sales have effectively been suspended in the current crisis - like shops on empty high streets or airlines. The portfolio has little exposure to companies facing disruption of this magnitude. However, I must point to the holdings we have in two football clubs, tiny (0.2%) in Celtic, but a c1.7% holding in Manchester United. Of course competitions have been suspended. Who knows for how long? We also have two holdings in those London pub companies, Fullers and Youngs – comprising together just 0.8% of the portfolio. Their pubs are empty this evening.

Then the rest of the portfolio is made up of companies that own beloved or essential consumer brands. AG Barr (IRN-BRU), Burberry, Diageo, Fever-Tree, Heineken, Mondelez (Cadbury, Oreos), PZ Cussons (Carex), Remy Cointreau and Unilever. These amount to another 47.0% of the portfolio. Some of these proved to be very resilient share prices through to the end of March. And this is not surprising. Pubs and bars may be shut, but as the world hunkers down to isolation beer and gin offer solace (always only in moderation). And it is said that consumption of chocolate actually increases during economic downturns, as people turn to comfort treats. At the same time we feel it is important to maintain the size of the holdings in the luxury product companies, like Burberry or Remy, where current sales are declining and share prices have been weak. This is in part because we believe these companies have “survivability” – Burberry has net cash (if one excludes lease liabilities) and Remy low debt. More important, though, we expect a burst of hedonism on the other side of the virus, as the world and especially the young celebrate deliverance. That will be some party.

To repeat: there will be unexpected challenges for all the companies we have invested in. The boards of the companies facing these challenges must be encouraged and supported by shareholders to do the right thing. And that means promptly taking action to ensure the survival and future prosperity of the company. If the result is suspension of dividend payments, for instance, then so be it. Several portfolio companies have already announced such suspensions as I write this report – namely AG Barr, Euromoney, Fullers, Heineken and Youngs. They have done the right thing and I will be amazed if they are not joined by other holdings.

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David Warnock, chairman of Troy Income & Growth – 11 May:

It is unlikely that the speed at which the global economy has entered this crisis will be mirrored by the rate of recovery. Governments will be keen to avoid allowing a second wave of the pandemic to take off if restrictions are removed too quickly. So much uncertainty still exists with regard to the nature of the virus and its behaviour, and with the prospect of a vaccine in any volume being available for at least twelve months it would be imprudent to expect a return to pre-covid-19 normality any time soon. The economic damage will be extensive and the impact on listed companies and their ability to pay dividends will be widespread - only time will tell whether these cuts will be temporary or permanent.

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James Goldstone, manager of Keystone – 7 May:

With the emergence of covid-19 in China in January, the market initially moved to price in supply chain disruption in a number of sectors but overall things remained relatively calm. That changed very suddenly in late February once a spike in cases in a number of Western countries made it clear that this was a global pandemic. As one country followed another imposing social lockdown in an attempt to limit the spread of the virus, markets began to face the fact that there would be a decline in global economic activity of historic proportions. At its low point in mid-March, the FTSE All-Share Index had fallen 35% from the start of the year before recovering somewhat to finish the quarter down 26%.

The economic damage from the virus was laid bare as weekly jobless claims in the US multiplied from the average of around 200,000 that had prevailed over many months to 6.7m for the final week of March. Global financial markets exhibited extreme volatility. The VIX Index, a measure of the stock market's expectation of volatility, hit 85 as forced liquidations produced highly correlated moves across asset classes and, within equities, across sectors. These declines were punctuated by sharp rallies which, on a number of occasions, promptly reversed the same day. The US 10-Year Treasury bond yield was range-bound for the first five months of the period but broke the bottom of that range at 150bps in late February and in mid-March touched 31bps. The price of oil had also remained in a tight range through the second half of 2019 with Brent Crude averaging just over \$60. The price rose above \$70 in early January but by the end of March it had collapsed to \$22 and sparked discussions between OPEC and Russia on steep cuts in output. Credit spreads jumped almost 200bps with high yield spreads particularly hard hit, up 750bps.

However, stocks and credit rallied towards the end of March as governments around the world launched dramatic stimulus measures while central banks cut interest rates and expanded their balance sheets at an unprecedented rate to support economic activity in the coming months. The strength and depth of the measures announced by the Chancellor and the Bank of England in the form of the furlough scheme to pay workers and the various corporate liquidity facilities to ensure businesses remain solvent should provide material support to the real economy. Volatility has since subsided, however the lags in economic data mean that the impact on economic activity to date is yet to be fully understood. Without knowing how long the outbreak or social distancing measures will last, markets appear to be struggling to anticipate what may lie ahead with any confidence.

Given the extraordinary events witnessed in recent weeks, some companies have already announced the suspension or deferral of dividends and some are refinancing to ensure that they have sufficient liquidity to see them through the crisis. Additionally, some company boards have announced cuts to executive pay. On the last day of March, the UK's biggest banks were forced by the Prudential Regulatory Authority to preserve their balance sheets by cancelling dividends that in a number of cases had already been declared. Whilst disappointing, this should be seen in the context of extensive support they have been given by the authorities around the recognition of impairments as well as the underwriting of so much credit risk by the government schemes. Twelve years on from the global financial crisis the banks have a role to play in supporting lending to households, businesses, and large corporates to help the economy weather the storm of covid-19.

Outlook

At the time of writing, economies and markets are in the grip of perhaps the greatest global crisis since the late 1920s. Alongside the human tragedy of covid-19, the government response to the virus has been to shut down swathes of the global economy and we therefore face an economic as well as a health emergency.

The duration of restrictions on people's movement, and therefore on economic activity around the world, is unknown and as a result there is a huge amount of economic and financial market uncertainty. The lags in economic data mean we are not yet able to judge the impact of the millions of job losses and thousands of insolvencies that have already occurred, let alone those that extended social lockdowns would cause. Estimates of second quarter GDP range from -15% to -40% and economists are sparring over whether forthcoming quarters will resemble a V, a U, a back-to-front tick, or an L, as well as the timing of a potential recovery. There is risk on all sides. Risk of further downside should this evolve into a multi-year rolling lockdown, but also upside risk from such depressed market levels should government priorities shift to restarting the economy or should a medical breakthrough appear.

With no insight into public policy or medical innovations, I have decided to position as best I can for the various possible scenarios. The changes I have made have de-risked the portfolio by reducing direct exposure to the worst affected sectors of the economy in favour of those that should prove resilient, but not to such an extent that the portfolio would be left behind on the emergence of better news. In making these changes I have stuck rigidly to my valuation-based philosophy and only sold riskier shares at attractive relative prices and purchased their more defensive replacements at appealing absolute valuations. This will not change.

In the midst of all this uncertainty, there is one issue on which I have strong conviction. The fiscal and monetary response has been hugely decisive and has represented an intervention by the authorities on a historic scale. However, this support comes at a cost. Both in the UK and elsewhere, these programmes have been funded by an expansion of central banks' balance sheets on a hitherto unprecedented scale. In the US in particular, the pace of expansion (from below \$4tn to almost \$7tn) and the broadening of the asset base that qualifies for purchase has been breath-taking. As we await deteriorating economic data, governments' tax bases have been dramatically reduced whilst their spending commitments have significantly increased. It is my belief that announcements of further stimulus are therefore inevitable. There will be more of the same, but we should also be prepared for various flavours of Modern Monetary Theory, be that something akin to Ben Bernanke's famous helicopter money or direct monetisation of ballooning fiscal deficits on an ever larger scale.

The banks enter this crisis in a far stronger position to absorb the coming losses and are therefore more likely to lend to the real economy as it recovers. The US monetary base is already growing at twice the pace it did in 2009-11 and four times the pace Japan's has done during three decades of monetary experiment. There is no doubt that the current situation is deflationary and that is the direction for economic data in the near-term. But the "whatever-it-takes response" has sown the seeds for that impending deflation to turn to inflation that will be very difficult to control at a desirable level. We have been used to monetary policy that has resembled fine tuning. This will be more like filling a hole in the ground by tipping soil from a 20 tonne truck: the hole will get filled but it will be impossible not to leave a large mound of soil where the hole used to be.

I have long believed the US fiscal position, and therefore the dollar's reserve currency status, to be unsustainable. The economic impact of the virus has brought forward the inevitable and condensed what might have taken several years into what is likely to be several quarters. We have just witnessed the effective unification of the US Treasury and the US Federal Reserve into a single force to fight deflation, to monetise government deficits and to lay the ground for recovery. It may very well succeed, but will in my view prove to be inflationary. Inflationary forces that were already in play from tariffs and the rolling back of globalisation will also remain once economies stabilise and recover. Real interest rates can be expected to be in significantly negative territory for an extended period as all this new debt is inflated away.

The one currency than cannot be diluted in this way is gold. The portfolio's holdings in four North American gold mining companies have performed their protective role admirably during this market rout and now represent c.15% of the portfolio. At the current gold price their valuations remain extremely attractive and if things develop as I anticipate, gold has further gains to make. These stocks continue to play a critical role and I intend to maintain the position at or around its current weighting for the foreseeable future.

The outcome I expect will be good for equities in general, certainly relative to (non-index-linked) fixed-income and cash. Within equities, inflation and negative real interest rates will be good for the value style relative to other investment styles and it will be a particularly good environment for gold. In the short-term the recent changes I have made to increase the defensive allocation should offer protection as we face the potential of a deflationary shock. As the full impact of fiscal monetary policy is felt in the coming years I believe that this portfolio should generate very attractive returns.

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North America

(compare North American funds [here](#))

Franco Tapia and David Zhao, representing the manager of BlackRock North American – 19 May:

A rebound in U.S. stocks, over April, was as swift as the selloff seen through February and March, with all 11 GICS sectors in the benchmark index rising in the month of April. The portfolio's cash position, which averaged 8.8%, accounted for the majority of relative underperformance amid the rapid appreciation in stock prices. However, cash remains a source of stability in the portfolio and a tool to control the portfolio's level of market risk in a period where uncertainty remains elevated. Stock selection in consumer discretionary also detracted from relative returns, including selection decisions in the household durables industry. Lastly, stock selection in industrials and energy detracted from relative performance.

The largest contributor to relative performance was an underweight to the utilities sector. A broad underweight to this defensive area of the market boded well for relative returns amid the sharp reversal. In information technology, selection decisions in IT services and an overweight to the software industry improved relative results. Other notable contributors included underweight exposure to both real estate and consumer staples, and stock selection in materials.

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Peregrine Moncreiffe, chairman of North Atlantic Smaller Companies– 12 May:

Many of our businesses face serious issues as a consequence of the Coronavirus outbreak. It is no consolation that the evident real risk that this disease represents highlights the irrelevance of the former Governance requirement to describe the Brexit risks to our business. Certainly, the worst-case scenario of more frequent global pandemics goes some way to explain the all-time low bond yields. These rates will probably rise when the global moves towards massive fiscal stimulus ceases to be primarily financed by central banks.

The largest economic contractionary impact is likely to be felt during the containment and delay stages of the global strategy to combat the virus. Once we move into the mitigate phase, there should be some return to some normalcy and economic growth

with the restoration of supply chains and consumer demand. Even if effective vaccines take time to develop, the clarification that there are a number of potential treatments will help to alleviate public alarm during the mitigation phase.

The valuation of our positions in the pharmaceutical and medical testing sectors should continue to see support, while our tendency to avoid debt-laden companies should protect extreme downside outcomes in our investments which are exposed to the ongoing decline in discretionary consumer spending.

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Europe

(compare Europe funds [here](#))

John Bennett and Tom O'Hara, managers of Henderson European Focus – 28 May:

As this virus has spread west, so has its effect on financial markets. Here in Europe, the month of March 2020 saw quite astonishing levels of volatility and severe strain within the financial system. For example, the EuroStoxx 50 index sold off by 30% to begin the month, before rebounding by 19% from trough to peak. As ever, headline indices rarely tell the full story and we have seen wild swings at the individual stock level, often intra-day. Not for the first time, extreme volatility has been aggravated by forced liquidation of excess leverage: leveraged corporates, leveraged funds, whether managed by computer or by human, have found themselves in the crosshairs.

The banking system, courtesy of much tougher regulation since the global financial crisis, seems better prepared than usual. That preparation now includes the forced 'postponement' or cancellation of dividends. Shareholders in banks are now relegated further down the pecking order, more than a decade after what many saw as the great bailout of 'greedy bankers' at the expense of the wider workforce. It is the latter that governments are desperate to be seen to protect this time around. Governments have decided that it is time to try - the emphasis is on try - to favour one factor of production over another: labour over capital. They know they will be judged on this, as well as on protecting the health of their voters. The era of big government has truly arrived. We would remind investors that we sold out of the banking sector, a large component of most European indices, in early 2019. A prime reason for that decision was that we saw the industry headed inexorably toward regulated social utility status: recent events have probably guaranteed that.

The extraordinary monetary and fiscal stimulus unleashed worldwide should provide the necessary credit and liquidity to get through this recession. While this cannot reduce the severity of the economic crash in the very near term, it is at least hoped that it shortens its duration.

Whilst we are now starting to see some lockdown restrictions easing, we are expecting to see a very different backdrop and level of economic activity over at least the next 6 to 12 months to the ones we have been used to. We have been reviewing the company's holdings, and in particular their balance sheets, to assess whether they would be able to survive several months of shutdown, whether they have had to access covid 19-related state support and the resultant recessionary phase which could follow, reassessing how companies are likely to fare in these uncertain times and whether they will come out of the current crisis stronger. Our focus remains on looking beyond the news headlines and focusing instead on individual businesses and their fundamentals.

Away from tactics, it is at times such as this that our innate preference for well capitalised, cash generative businesses comes to the fore. Any business entering this crisis in an over-leveraged state finds itself much weakened, some terminally so. As with all crises, the situation will pass, recovery will take hold and it is those businesses, with strong market shares, talented management teams and strong balance sheets, who will emerge as the winners.

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Matthias Siller, Maria Szczesna and Adnan El-Araby, managers of Baring Emerging Europe – 27 May:

The acute shift in global market expectations, which began from a position of anticipated economic expansion in early 2020 to deep recession, is unparalleled in modern market history. Furthermore, the sharp spike in underlying volatility (the rate and severity of daily fluctuations) across all asset classes, is indicative of the high degree of uncertainty investors are faced with. The humanitarian and economic aspects of this pandemic present themselves together as one of the largest socio-political challenges of the coming years, if not this generation. Bold measures taken by the central banks of developed nations have secured financing for medium and large enterprises and flooded the market with much needed liquidity, while relevant governments complement these actions via expansionary budget policies not seen since World War II.

This picture appears more challenging, when observed through the prism of emerging markets, which are increasingly constrained by the availability and scope of monetary and fiscal manoeuvrability. This is due to the often scarce foreign exchange reserves (reserves act as a shock absorber against factors that can negatively affect a currency's exchange rate) to protect from the severe devaluation pressures local currencies would experience in the event of ballooning budget deficits. Secondly, the effects of covid-19 on global trade, specifically the export commodities of emerging markets, negatively impact major sources of export revenues. Within Emerging Europe, the oil market presents itself as a prime example. The severe reduction in global demand for oil products stemming from covid-19, caused a drastic fall in energy prices. As energy exports contribute a substantially larger portion to emerging market economies, this development represents a significant external macroeconomic shock.

Amid this backdrop FX currency weakness contributed significantly to the overall (USD) performance of Emerging European stock markets over the last six months. The Russian Rouble's 20% decline over the period explains almost the entire stock market performance, while the Turkish Lira's 17% depreciation accounts for almost two-thirds of the Istanbul stock market's decline in USD. Central European markets' currency performance played a significantly smaller role, but those markets were still exposed to currency depreciation, best exemplified by the Hungarian Forint's 8% decline relative to the Euro over the period. Moreover, the almost lockstep performance of normally lowly correlated currencies such as the Turkish Lira and Russian Rouble, from our perspective, highlight the wide reaching implications of the covid-19 crisis. Here, currencies which traditionally exhibit negative correlations have become positively correlated, with the Russian Rouble impacted by the severe fall in commodity prices, whilst the Turkish economy, traditionally a major beneficiary of lower energy prices, has been negatively impacted by the fall in global demand for its exports and its exposure to rising financing costs.

Russia

Russia, as one of the largest global energy exporters, has long since prepared for a low oil price environment. Through a substantial build-up of its currency reserves and the implementation of a counter cyclical fiscal policy, Russia is able to support budget

spending in a low oil price environment while saving extra revenues during periods of high energy prices. This prudent approach provides policy makers with crucial degrees of freedom when considering the measures to take in mitigating the economic and humanitarian impact, ranging from health care investments and household subsidies to credit guarantee schemes and infrastructure spending. In the political environment that led to the US and EU sanctions regime, which has been in place for almost six years, Russia has been excluded to a substantial degree from the international financial system for quite some time. This, in turn, led to a general reduction in outstanding debt levels in Russian corporates as companies were forced to reduce interaction with foreign creditors. This has consequently insulated the Russian corporate sector, from a financing perspective, to a tighter global liquidity environment.

After a multi-year stand out performance versus global peers, Russian oil and gas companies have found it increasingly difficult to surprise markets positively given that market expectations have since increased meaningfully. This holds especially true for Russian energy companies' ability to further improve dividend pay-out ratios, the key differentiating factor relative to global peers over the last couple of years. The reduced scope of cash distribution and smaller scale inefficiency improvements has left Russian energy companies' future cash

flows increasingly dependent on global oil price movements. Amid this environment the portfolio's exposure to conviction names Novatek and Gazprom fell significantly. However, the portfolio's significant underweight relative to the Benchmark contributed to relative returns.

Metals and mining stocks were also negatively impacted by the recessionary environment but against an increasingly prevalent stock specific backdrop. Firstly, the relatively large contingent of Russian gold miners within the mining sector introduced a key positive performance tailwind to select metals and mining stocks, as investors rushed to traditional safe havens. This served to benefit a number of companies in the Benchmark not held within the portfolio such as Polymetal, one of the largest producers of gold globally.

Turkey

The Turkish corporate sector's high dependence on international FX financing flow poses the potential for liquidity risks at the most inopportune of moments, while the Central Bank's depleted FX reserves have left little room to reposition. However, we believe that liquidity will not evaporate entirely, supported by international financing arrangements with European banks' and FX financing lines with Turkish banking counterparts as a means enabling upcoming FX debt roll-overs. Additionally, the introduction of a facility by the US Federal Reserve, which enables central banks to enter into repurchase agreements with the US central bank to release dollar liquidity, has eased constraints, with Turkey a key beneficiary.

While Turkey's population is a quarter larger than Italy's, (one of the most affected countries), its 65+ years age cohort (the most affected by covid-19) represent only 7.5% of the total population, half the percentage of Italy's. This leads us to believe that Turkey's young demographics place it as probably one of the most well placed countries globally in terms of average age and this, in combination with a prudent testing regime will, in our opinion, lead to a relatively contained humanitarian toll.

Food and beverage retailers have benefitted from resilient product demand in the face of macroeconomic headwinds which has served to benefit our holding in food manufacturer Ulker, whilst our underweight in the supermarket group BIM detracted. Not surprisingly, the utility-like, stable business models found in the telecom sector were much sought after by investors, leading to outperformance.

Here our position in Turk Telekom was a strong beneficiary to relative returns, supported by its dominant market position and robust business model, whereas a lack of exposure to Turkcell at the start of the quarter detracted.

Central Europe

The small, open Central European economies of Poland, Hungary, Romania, and Czechia have been successfully growing their share in global exports markets over the last decade, a rare phenomenon for economies outside Asia. Faced with the substantial decline in global trade triggered by covid-19, these economies will undoubtedly face challenges in the near term as manufacturing across Europe wanes. However, we believe that over the medium term the relative attractiveness of Emerging European manufacturing hubs will grow, considering the increasing focus in securing procurement and diversification of supply chains to production close to end consumers (the EU consumer and European high end manufacturing). Additionally, as members of the European Union, these economies stand out in an Emerging Market context, given the European Central Bank's commitment to provide unlimited Euro liquidity wherever needed across the EU.

Not surprisingly, Greece's nascent economic recovery has been interrupted by the covid-19 outbreak. Given the dominant contribution of the tourism sector to the economy, the country's economic prospects remain dependent on an eventual lifting of travel restrictions and global leisure travel patterns. On a positive note, we believe the newly elected government under Prime Minister Mitsotakis has built a reputation for an investor friendly, can-do approach with regard to economic policy and structural reforms. Owing to a rapid and disciplined response to the outbreak, Greece reports one of the most successful anti-covid strategies, with a low death toll and a functioning health care system, in our view a huge success, and serving to highlight the country's reputation as a safe tourism destination.

Outlook

The outbreak of covid-19 brought an end to one of the longest periods of global economic expansion in history. While the duration and severity of the upcoming recession is difficult to gauge and the socio-economic consequences remain very much in a state of flux, we are of the opinion that the sharp declines witnessed on Emerging European Equity markets provide attractive investment backdrop for long term investors. Clearly, individual economic sectors will be affected to varying degrees but, as an overarching principle, we are of the opinion that covid-19 will amplify many existing secular economic trends and reward prudently-run companies with market share gains while rooting out weaker players. In this vein, corporate earnings will once again become the decisive determinants of share prices and dividend recovery across the Emerging European universe. By harnessing our investment approach, paying close attention to key areas such as balance sheet strength and the viability of business models, we believe that we will be able to effectively capture the companies that are able to adapt to the recessionary environment to not only gain market share, but capitalise on the current crisis to exit in a position stronger than before. Furthermore, we expect that companies' commitment to improving ESG standards remains a decisive value driver in an environment where investors will scrutinise business models more closely than ever. We note that many companies now communicate initiatives in a clear and transparent manner, setting goals which we believe increase the sustainability of their business models, a development we welcome.

Ultimately, we believe that Emerging European markets will succeed in managing the enormous humanitarian challenge while preserving their vast economic potential for four reasons. Firstly, from a macroeconomic perspective, overall debt levels across Emerging Europe remain low on a corporate, household, and sovereign level, especially when compared to developed market peers, allowing crucial breathing space

in a difficult economic environment. Secondly, the dependence on international funding flows is low and, in the case of Russia, approaching non-existent. It is important to note that Turkey's external foreign exchange funding needs remain an outlier but manageable sovereign debt levels and a flexible, highly competitive corporate sector make a strong case for the sustainability of Turkey's business model to the international investment community. Thirdly, the relative valuation of Emerging European Markets versus Developed European securities continues to appear very attractive on both a price-to-book and price-to-earnings basis. This suggests investor expectations for the asset class remain overly depressed, despite the more favourable medium term growth outlook. Fourthly, we believe that many multinational companies will seek to diversify global supply chains, bringing production hubs closer to home – a trend that stands to benefit the new EU member states and Turkey.

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Japan

(compare Japan funds [here](#))

Nicholas Weindling and Miyako Urabe, managers of JPMorgan Japanese – 21 May:

Covid-19 has been a human tragedy that has also caused major global economic, and in the very short-term, societal disruptions. Japan is not alone in this respect. The virus struck at a time when the domestic economy was already quite weak following the October 2019 consumption tax rise. Tourist numbers to Japan collapsed as a result of the outbreak of the virus and very weak demand followed, both overseas and domestically, as people were encouraged to stay at home. Supply chains were also disrupted. At a late stage, and reluctantly, the Tokyo 2020 Olympics were postponed to 2021.

Japanese companies look relatively well positioned to weather this economic storm as more than 50% of non-financial companies have net cash positions. This compares to 23% in Europe and 15% in the United States, as at 3rd April 2020.

We have, naturally, been thinking about how the world might change over the long-term as a result of the fall-out from the impact of the covid-19 crisis. We believe that many existing trends are likely to accelerate. Examples of this include:

- Companies may look to further diversify production bases and this may boost demand for robotics and automation. Japan is the home of world leading automation companies.
- E-commerce may become more popular. In Japan, the percentage of shopping conducted online is still relatively low compared to other developed countries but we believe this will change in the long-term.
- Cashless payments, adoption of which has been relatively slow in Japan, may start to be more widely used because of health concerns about touching physical notes and coins during the pandemic. Once people start using these payment methods they may discover how convenient they are and may not return to using cash in the same volume.
- People may download computer games rather than buying a physical copy. Downloads are more profitable for games software companies. Additionally, as people spend more time at home during lockdowns, new users may discover gaming.

- Many Japanese companies use internally developed systems that have not been upgraded for many years; they are also not suitable for a working from home environment. As a result of the increase in employees working from home, Japanese companies may invest more in software systems.

It is impossible in current circumstances to forecast the short-term outlook for the economy or the stock market. Covid-19 has already had a significant impact on both. The Japanese market is more cyclical than other developed markets and can therefore commensurately be more impacted by global economic developments, both positively and negatively.

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China

(compare country specialist: Asia Pacific ex Japan funds [here](#))

Howard Wang, Rebecca Jiang and Shumin Huang, managers of JPMorgan China Growth & Income – 22 May:

The investment landscape changed materially over the six months to 31st March 2020. A sluggish global economy and ongoing trade wrangles between China and the United States - the world's two economic powerhouses - challenged markets from the very start of the review period but nobody could have foreseen the devastating impact of the covid-19 outbreak: this pandemic has dominated hearts and minds since the beginning of the year and remains an ongoing human and global health crisis at the time of writing.

The company's review period began in similar fashion to the end of its previous financial year, with uncertainty surrounding the China-US trade negotiations still unnerving Chinese manufacturers and unsettling both domestic and global stock markets. There was a glimmer of hope towards the end of the year with seemingly positive steps forward, leading up to the signing of the Phase I trade deal in January. This bolstered sentiment, particularly as it coincided with a weaker US dollar and signs that Chinese government fiscal initiatives had started to stimulate domestic consumption. However, the escalation of the covid-19 outbreak later in January crushed that optimism. Apart from the devastating human cost of this global pandemic, the economic repercussions of lockdowns and containment measures were stark and immediate, with share prices around the world tumbling into bear market territory. By March, investors were further spooked by the slump in the oil price, precipitated by the breakdown in OPEC and negotiations endeavouring to cut output. Interest rates fell further, and the U.S. dollar rose but with heightened volatility. The Chinese economy ended the period in turmoil, shrinking 6.8% in the first quarter of 2020, the first quarterly fall in more than four decades. Chinese stock markets slumped in February on the back of the developing crisis but went on to rally strongly in March, perhaps in anticipation that further Shanghai stimulative measures to boost liquidity would follow.

Outlook

The covid-19 crisis remains fluid and its repercussions present an enormous challenge: short-term disruption to both domestic consumption and the global supply chain is unavoidable. However, we take comfort in the Chinese government's strong measures to contain the outbreak as well as its proactive countercyclical economic policies to mitigate the negative impact on consumption and employment. At the time of writing, the outbreak seems more contained domestically, but the main concerns are how long the virus will persist, how long the inevitable global recession will last and what that will do for end demand.

With 'phase two' trade talks grinding on, and policymakers looking to provide further support, we expect this backdrop will ultimately provide support for Chinese equities. At the time of writing, domestic markets have rallied from their February lows, but we believe they remain at a reasonable level for long-term investors.

Whilst mindful of the short-term challenges and economic worries we face, we remain focused on delivering the company's long-term strategic goals. We continue to seek out 'New China' companies and sectors that are capitalising on the transition of the country to a more consumer-driven economy. That means identifying quality businesses in sectors where we see structural growth opportunities, namely Health Care (especially services, outsourcing and diagnostics), Technology (especially secular areas in software and semiconductors) and certain investments in the Consumer Staples/Discretionary sectors (on a long-term view).

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Asia Pacific

(compare Asia Pacific funds [here](#))

Ayaz Ebrahim, Robert Lloyd and Richard Titherington, managers of JPMorgan Asia Growth & Income – 20 May:

Within Asia, China was the only market to post a positive return over the six months to 31st March 2020, on the back of its seemingly successful containment of the coronavirus, expectations of further government stimulus, as well as economic activities gradually resuming towards the end of the period. Taiwan also outperformed, led by Technology stocks which were more resilient during the sell-off. The worst performing countries were Indonesia and Thailand, as the Indonesian Rupiah experienced a sharp depreciation (-12%) in March following indiscriminate selling across asset classes, while Thailand suffered a double shock due to the coronavirus outbreak and its reliance on tourism. Indian equities also performed poorly given continued disappointment in growth, rising inflation, and a troubled banking sector, which saw the implosion of a bank and its subsequent bailout led by the State Bank of India along with a group of private sector banks. Sector-wise, Health Care and Communication Services were the only two sectors posting positive returns, followed by Information Technology. Cyclical sectors such as Energy, Materials and Industrials underperformed the most, followed by Utilities and Financials.

After a dismal quarter to the end of March and the worst start to the year for Asian equities since 1991, market sentiment is now at the crossroads of panic sentiment and compelling valuations. With new covid-19 cases still emerging across the world at large, predicting an end to economic disruption is premature and recovery from here may be long and slow. This adds further risk to earnings forecasts, despite these having already swung to extreme levels across Asia, and to near 2008 financial crisis lows globally. Companies' revenues and supply chains are being hit whilst commodity prices and freight rates are reflecting an extremely cautious outlook with current prices indicating material demand slumps in the near term.

This backdrop certainly paints a challenging outlook for the coming months. Yet, notwithstanding the unknowns, the coordinated response we have seen from global central banks and governments provides some comfort and most Asian countries have committed to further stimuli should the demand shock become more material. The true impact of demand losses can only be gauged over time, however, valuations are arguably very attractive and there will come a point at which we are comfortable buying into such market weakness.

Some of the bigger trends that have been happening in Asia and across the globe, such as e-commerce growth, more widespread use of mobile and PC gaming, as well as lower interest rates, are mostly all being accelerated as a result of covid-19 and its subsequent economic impact. A continuing low inflation environment remains our most likely longer-term scenario, due to changing technological trends and demographic forces. However, there is the risk that substantial and sustained government interventions could become increasingly ineffective and that central bank monetary policy may not always be able to influence the direction of the real economy as it has done historically.

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Nicholas Smith, chairman of Schroder AsiaPacific – 18 May:

There are grounds for some optimism. Asia was the first affected by the virus, and parts of the region are among the first to unwind the lockdowns. Secondly, Asia has a history of reacting well to shocks: it is what strong competent governments and flexible corporate sectors do. This may be why share prices have so far held up better than some Western markets. Helped by sterling's fall, the company's share price as at 13 May 2020 is down just 5.4% since the end of the last financial year.

Full economic recovery is some time away however, and parts of the corporate sector will come out of this much changed. The long trend of the West outsourcing its low-cost manufacturing to Asia was already under challenge, for example. Recent events may also accelerate the move to e-commerce, flexible working patterns, digital working patterns, social media use and more factory automation. Asia's future lies with higher value-added products and its own internal growth potential, and we want the portfolio to continue to invest in companies that benefit from these. Markets will continue to be volatile as they react to covid-19 developments, and there may be more bad news to come.

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Manager's report for Aberdeen Asian Income – 15 May:

The sharp rally in growth stocks over the past year has resulted in quality and income stocks underperforming the broader market. This means that good quality dividend-paying companies are trading at relatively attractive levels, providing us with an opportunity to add to the portfolio at compelling valuations.

However, no one could have prepared for the covid-19 pandemic and its far reaching repercussions across the world. As manufacturing closures and sweeping lock down measures feed through to lower revenues and profits, companies are facing the difficult decision of whether to pay or not pay dividends. In normal circumstances, a dividend cut is considered a negative signal that reflects poorly on capital management and treatment of minority shareholders. However, we are far from normal today and the decision to not pay dividends can help pay wages and protect the balance sheet from what could still be a long and arduous journey.

We have already seen a reduction in travel and leisure activities and if the spread of covid-19 is not contained, companies could take a more prudent approach to new capital expenditures and increasingly hoard cash on the balance sheet which could have a further negative effect on growth and dividends. Global mobility restrictions are forcing companies to postpone Annual General Meetings (AGMs) to comply with quarantine laws. AGMs are where shareholders vote to approve dividends so this is having a knock on effect which will shift dividend collection in 2020 towards the latter end of the year.

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Susan Platts-Martin, chair of Witan Pacific – 7 May:

Over the year under review, Asia Pacific equities underperformed most major regions as a series of local and global factors conspired to limit the upside of the region's markets. The primary concerns surrounded US/China trade negotiations, US Federal reserve policy, pro-democracy demonstrations in Hong Kong and the lack of global economic growth. Despite these headwinds, equity markets ended the year higher with our benchmark, the MSCI AC Asia Pacific Free index, up 8.7% in sterling terms. Asian equity markets started the year positively following the US Federal Reserve's suspension of its plans to raise interest rates. This gave the Asian Central banks more flexibility with their own monetary policies helping to support the growth of their respective economies. Markets continued to be influenced by the ongoing trade negotiations between the US and China through the year. The signing of a 'Phase One' deal as the year drew to a close in January was viewed positively by markets though quickly followed by concerns surrounding the impact of the rapidly spreading coronavirus which led to falls of 2.4% in Asian markets in January 2020. As you will be well aware, the spread of covid-19 has resulted in significant market falls and volatility since then.

During our financial year, there was a wide divergence in the performance of Asian markets. Taiwan, the best performing market returned 28.7% closely followed by the China A share market which returned 28.5%, helped by MSCI's increased weighting of China A shares in its Emerging Markets Index. The developed markets in the region on the whole did better than the emerging markets with Japan and Australia gaining by 11.4% and 14.7% respectively. Japan was led higher by high-tech, healthcare and speciality materials companies while Australia enjoyed a resurgence in fortunes on the back of an improving economic environment. South Korea and the ASEAN nations were impacted by the global trade uncertainty and a slowing economic outlook. The regional laggard was Thailand which was down 8.7% having been one of the top performers in the last financial year. Pro-democracy demonstrations in Hong Kong hit retail sales there and the Hong Kong market ended the year lower. Elections in India and Australia were initially positive for markets though both leaders have been under pressure (Modi for treatment of non-Hindu minorities and Morrison for handling of bushfires). Both countries have seen their GDP growth rates slow.

The best and worst performing sectors reversed position during the year compared with the previous year. The worst performing sectors were the energy and utilities sectors. The energy sector was held back by lower oil prices while the defensive qualities of many utility companies led to underperformance in the second half of the year. In addition, both sectors are seen as structurally challenged in a world which is paying closer attention to Environmental, Social and Governance (ESG) issues. Technology, the worst performing sector last year, topped the tables this year returning over 23%. The technology sector benefitted from the return of the semiconductor cycle which was boosted by demand for processors especially in Internet of Things and 5G applications. Taiwan was the main beneficiary of this.

Outlook

It is difficult to predict how long it will take for businesses to return to their normal modus operandi. The pandemic began in China which now appears to have contained it and has started to reopen its factories. Long-term growth forecasts for mainland China remain strong. Some sectors such as travel, will be much more hurt than others, and some companies will be casualties of the imposed tough operating conditions. From an investment perspective, an active approach to selecting stocks rather than tracking indices should prove particularly valuable in this investment climate although it may take time for these investment decisions to bear fruit. Eventually, however, Asia's economic spirits will prevail, and this, together with the extraordinary measures provided by governments and central banks, are likely to stimulate positive returns once

fear subsides and the global economy reopens for business. The region's long-term attractions remain, underpinned by structural drivers such as high educational standards, rising discretionary consumption, and advances in technology.

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Latin America

(compare Latin America funds [here](#))

Ed Kuczma and Sam Vecht, representing the manager of BlackRock Latin American – 19 May:

The coronavirus disease has spread throughout the world, prompting "social distancing" and often strict government control measures throughout developed and emerging markets, Latin America included. While China has been gradually easing restrictions since late February, most other emerging economies are still passing through the "peak lockdown" phase. Policy responses have been considerable, but many markets in Latin America—notably those reliant on foreign capital flows—face constraints in the scale of their response, in addition to questions about the robustness of their health systems. We expect lockdowns to ease modestly by June and more significantly in the second half of the year.

Most governments plan to ease lockdown on this timeframe, though it should be noted that almost everywhere, government control measures have been kept in place longer than originally envisaged. Activity in the industrial sector and in parts of services where "social distancing" is less of a concern should rebound relatively quickly. Still, we do not expect most economies to return to their pre-crisis levels of Gross Domestic Product until 2021. The extent to which policy action now limits business bankruptcies and a breakdown in the labour market will be an important differentiator of the speed of recovery.

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Richard Prosser, chairman of Aberdeen Latin American Income – 6 May:

I remain cautious about the near-term outlook for Latin American equities as covid-19's impact on Latin America and the wider global economy continues to unfold. The intensification of the pandemic, severe financial stress, border closures, country lockdowns and a halt in business activities threaten to drag the region into recession this year.

Meanwhile, mixed data in Brazil indicates that any recovery remains uneven at best, particularly as countrywide lockdowns will result in a decline in business activity. Hence, further progress in President Jair Bolsonaro's reform agenda will be needed to bolster the country's prospects, in addition to measures announced in response to the global pandemic. In Mexico, despite steps made towards the ratification of a trade agreement with the US and Canada, further rate cuts are expected, on the back of dismal economic data, after the latest one in February. The government's delayed response to the outbreaks and travel restrictions at the US-border also threaten to further contract growth. Since the period end, Argentina's biggest bondholders have rejected the government's offer to restructure \$83bn of foreign debt, raising the prospect that the country is headed for its ninth sovereign debt default. Investors will stay watchful over the outcome of Chile's constitutional referendum, which has been postponed due to the viral outbreak, and whether the government's stimulus measures can arrest slowing growth.

Global emerging markets

(compare global emerging markets funds [here](#))

Emily Fletcher and Sam Vecht, managers of BlackRock Frontiers– 28 May:

While it is impossible to overstate how unprecedented the current situation is, given that one third of the world's population is currently under lock down, we fully believe that the recent spikes in volatility and bearish global sentiment have created pockets of opportunity, which we are selectively taking advantage of. Broadly, we believe that the world will get Covid-19 under control; with virus cases peaking in Europe, we believe support will be given to markets amid hope that other countries can follow.

We have seen large scale fiscal and monetary responses from governments and central banks across both developed and emerging markets and expect this support to remain in place. Many emerging and frontier countries have gone into this crisis in a much better position than the 2008/9 crisis with lower debt levels, especially foreign currency debt, and with economies at much earlier stages of their economic cycles. This means that they have seen little of the excesses in credit extension that characterized 2007/8. Once we pass through the pain point of tighter financial conditions, we believe that the better growth and yield dynamics across these markets will shine through. In a world that is looking ever more starved of growth, the ability to generate endogenous growth as is found in countries such as Philippines, Peru, Indonesia, and Poland should deserve a valuation premium, to the developed world, rather than the current significant discount. We believe that countries which have low levels of debt/GDP, with cheap currencies and are able to show strong levels of growth should attract significant attention from investors.

Valuations in frontier markets are at very attractive levels. Trading at around 1x trailing price/book value, our portfolio is as cheap as it has been since we launched the trust. Our universe is trading at an almost 40% discount to developed markets on a price/book basis. We are positioned in a number of companies that we believe will demonstrate their resilience and earnings power and we remain confident that these qualities will come to be recognized by the market. In a world searching for scarce growth and yield we believe strongly that following an unrewarding period for many emerging and frontier countries, that has lasted for more than dozen years, prospects might well improve in the post-covid-19 era of 2020.

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Thailand

(compare country specialist: Asia Pacific ex Japan funds [here](#))

Manager's report for Aberdeen New Thai – 7 May:

Thai equities ended lower in the year under review, as stocks mostly traded sideways before tumbling in February, a month marked by surging risk aversion amid covid-19 fears. Over the company's financial year, Thailand experienced a perfect storm. Political uncertainty and the extended period it took for the ruling coalition to solidify its position in the Lower House hampered public and private investment. Externally, tensions between the US and China weighed on supply chains and consequently, its exports. An appreciating Thai baht, due to positive trade balances and current accounts, further eroded the competitiveness of its products, while making it more

expensive for inbound tourists. A drought dealt another blow to its agricultural commodities sector. More recently, tourism, a main pillar of the economy, has been hit hard by the covid-19 outbreak as lockdowns have been enforced globally.

The economy grew by 2.4% in 2019, its weakest pace in five years and significantly below its 4.1% expansion in 2018. In response to the economic malaise, the central bank cut rates three times in the review period. The government also unveiled numerous stimulus measures, and intervened to control the baht's strength. The strong Thai currency drove the company's returns in the first half of the year. With the pound appreciating relative to the baht's weakening in the second half, currency driven returns fell. A weaker baht would prove helpful in boosting exports and tourism when the economy starts to recover.

Outlook

The Thai government, in common with its counterparts across the globe, has increased measures to contain covid-19. Travel curbs on foreign arrivals and the closure of pubs and sports stadiums, among others, will undoubtedly heavily dampen the economy and corporate earnings in the near term. Nevertheless, rapid disbursement of a 3.2trn baht (US\$98bn) national budget, approved in February following months of political deadlock, should at least have provided some assistance. At the time of writing, the government had unveiled a 117bn baht (US\$3.6bn) economic relief package with cash handouts for low income earners beyond the tourism sector. The central bank also made an unscheduled interest rate cut, bringing the total reduction to 0.5 percentage points so far this year.

As a result of the recent financial market volatility, valuations have dropped to multi year lows, with certain stocks becoming increasingly attractive to us. Our holdings' solid balance sheets, clear competitive edges and historically healthy cash flows should we hope help buffer many against the current shock from covid-19 witnessed not only in Thailand but across the world. Our emphasis on regular engagement with our companies we believe will help ensure that we can adjust our portfolio positioning if there are material changes to their outlook. From a macro perspective, the country's fundamentals, prior to covid-19, remain robust, including a solid external balance sheet and liquidity, limited government debt, and a track record of orthodox monetary and fiscal policies.

Beyond the pandemic, receding political uncertainty bodes well for eventual progress in implementing national reforms and strategic plans. Longer term, Thailand is home to some outstanding businesses which provide goods and services both domestically and overseas. When the economy does recover, key beneficiaries will include exporters, consumer companies and services sectors, such as healthcare and, eventually, tourism. With Thailand regarded as the gateway into Cambodia, Laos, Myanmar and Vietnam, the market appears set to benefit as these neighbours climb the development curve, with many Thai companies gearing up to become regional leaders.

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Biotech and healthcare

(compare biotech and healthcare funds [here](#))

James Douglas and Gareth Powell, managers of Polar Capital Global Healthcare – 18 May:

Pharmaceutical and biotechnology companies and academia are working 24/7 to generate both therapeutics to treat covid-19 and vaccines to protect patients from

infection. There are currently over 250 clinical trials planned, many of which are actively recruiting patients, and results from a significant number of these studies are expected within the next 12 months. There is tremendous support from regulatory bodies to boost the speed at which these products can be used in patients. There are three main strategies at present, targeting the virus directly, targeting downstream and the vaccine approach.

Significant efforts have been made to improve diagnostic testing of covid-19. The first tests using a technology called PCR were developed to detect if a patient is infected. The second tests just being launched now are called serological tests. These identify whether a person has had an infection, developed antibodies and therefore hopefully immunity from reinfection. Serological testing will be critical for determining the scale of the disease, especially as many people have been infected but experienced none or only mild symptoms. At present, there is no way of determining how many of these people there are. From the results of this test, those that have antibodies should have immunity against covid-19. In the case of SARS for example, patients that had suffered from the infection were able to generate antibody-based immunity for up to 3 years. This test could therefore change how this pandemic is managed. Those that test positive may well have immunity and therefore could be allowed out of lockdown and be able to return to a “normal life” and head back to work.

US political environment more supportive

During the reporting period the political environment in the US has become more supportive for the healthcare sector, or at a bare minimum the greatest fears have dissipated. With the more progressive candidates (Elizabeth Warren and Bernie Sanders) no longer in the running, the more moderate Joe Biden is the clear favourite for the Democratic nomination removing some of the more draconian threats to the healthcare industry. Focusing purely on healthcare, if Biden wins the Presidency one of his primary priorities will be bolstering the Affordable Care Act (ACA), essentially reversing the actions taken by the Trump Administration. Prima facie this would be positive for the healthcare industry, increasing the number of insured US citizens in the system which has positive implications for volumes (i.e. up) and bad debts (i.e. down). A note of caution however, as Biden has raised the spectre of Medicare-like public insurance plans which would have negative implications for the managed care industry. This risk is diminished if the Democrats have a slim majority or if a number of moderate Democrats are in those Senate seats, but it is something to be aware of. One additional risk worth highlighting is one of tax reform with one of Biden’s proposals being raising corporate tax – the managed care industry was one of the biggest beneficiaries of the Trump Administration’s tax reform.

With regards to drug pricing there are near and medium-term scenarios worth discussing. In the near-term, Congress is unlikely to act on drug pricing legislation until after the November election. Why? The recently announced CARES Act included funding through 30 November 2020 for certain Medicare programs, extending the funding that was previously in place and set to expire on 22 May 2020. That May date was the original catalyst to start drug pricing negotiations but it has now been lost and Congress does not have a legislative vehicle with which to work. Further, the covid-19 crisis has lifted some of the near-term political pressure on the pharmaceutical and biotechnology industries rendering an Executive Order less likely ahead of the elections. Looking further out, one of Biden’s policies is to allow Medicare to negotiate directly on drug pricing but that would need a change in Law and a majority in the Senate.

Strategy and positioning

Covid-19 has had a significant impact on the medical device sector as the market digests the dramatic slowdown in elective and non-urgent procedures. As a reminder,

hospitals and providers swiftly moved to free-up capacity for covid-19 patients at the expense of procedures considered to be non-urgent. We remain constructive, however, given there is absolutely no doubt that the demand for medical devices will resume, and the industry will continue to innovate. It is the pace and magnitude of that recovery that is hard to quantify, this uncertainty is reflected in our modest over-weight stance.

The political backdrop has been very supportive for managed care and services companies, plus the near-term sales and earnings trajectories should be reasonably secure given postponed or cancelled elective procedures could ease medical cost trends for the industry. Looking further out, the cost of treating severe covid-19 patients could be material and rising US unemployment is also a challenge, especially for those with more exposure to the commercial market. Lastly, and this is not healthcare specific, a Biden presidency could bring with it higher corporate taxes, which would have implications for managed care's medium-term earnings power.

Outlook

The outlook for healthcare is positive given we anticipate the demand for healthcare products and services to continue, and in some cases accelerate, post the covid-19 crisis. In an uncertain world, the resilient growth profile of the healthcare sector offers appeal, with financially sound large-capitalisation companies especially well positioned. At the same time, the political back drop is supportive, valuations in the US are attractive and we have only just begun to see a change in sector leadership relative to the S&P 500.

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Debt

(compare debt funds [here](#))

Manager's report for Pollen Street Secured Lending – 29 May:

We have seen that a number of the structured borrowers have asked for temporary amendments to their facility to reflect the regulatory guidance on forbearance requests as well as a deterioration in underlying economic conditions. We are assessing these individually.

The portfolio and underlying asset security benefits from much of the portfolio being asset backed with 66 per cent at year end benefiting from some structural protection, while a significant majority of the underlying assets are amortising and generate strong levels of cash.

The manager is not proposing to re-invest the cash generated by the portfolio in new investments for the foreseeable future. In the structured portfolio where the company provides finance to nonbank lenders, the manager is working with the borrowers to help them navigate the difficult environment whilst ensuring most of the cash generated by their portfolio is utilised to repay loans due to the company.

We expect the company to generate significant cash over the coming months as the loans amortise and repay.

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Manager's report for Honeycomb – 28 May:

The outbreak of covid-19 has caused major disruption across the globe. The principal effects of the outbreak in the UK occurred in March and therefore it has not had a

material effect on the financial year under review. However, by end of April 2020 we have started to see requests for forbearance. Requests for payment holidays differs by platform and sector. For the consumer sector the average is between 5 to 10 per cent of customers requesting a temporary reduction in payments. The SME segment has seen the biggest initial impact from the covid-19 restrictions with forbearance and missed payments at 20 per cent of the portfolio at the time of writing. In most agreed forbearance plans borrowers are still paying at least the full interest payment. The property exposure can be divided into term mortgages and shorter-term bridging and development exposures. The term mortgage exposure consists predominately of second charge residential (13 per cent of portfolio) and first charge commercial mortgages (15 per cent of portfolio). The second charge residential mortgages have had forbearance requests averaging between c5-10 per cent. The first charge commercial mortgage portfolio mainly consists of mortgages secured on mixed use property (office with a residential flat above, retail with a residential flat above, residential, industrial and land etc) has seen a higher proportion of requests for payment holidays since the onset of covid-19 (averaging c20 per cent). Whilst the impact in this portfolio has been more significant, we would note that in most cases the properties generate a diversified income stream and the average loan to value of c60 per cent provides the company with significant protection in the event of increased defaults. The majority of bridging and development exposures in the portfolio have continued construction through the lockdown as smaller developments have largely been able to progress work uninterrupted.

The longer-term financial impact of coronavirus is not yet clear and given the significant change in the operating environment and economic expectations the manager is proposing to re-invest the cash generated by the portfolio very selectively during this period of uncertainty with the majority of cash going to reduce net debt.

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Claire Whittet, chair of TwentyFour Select Monthly Income – 26 May:

Not in living memory have risk assets seen such a dramatic sell-off, over such a short period of time, as they did in March 2020. This was obviously the dominant factor for the six-month period ended 31 March 2020. In the proceeding five months, market sentiment was driven by a strong technical backdrop, driving credit spreads ever tighter as yield became an ever more scarce commodity. The managers' main concern going into 2020 was reinvestment risk, with approximately 9% of the underlying company assets expected to either redeem in or amortise over the year ahead.

This all changed in early March, when it became clear that the covid-19 epidemic had spread beyond China and new epicentres had formed in South Korea and Italy; the realisation that the world was facing a pandemic shock immediately reverberated through markets. Liquidity evaporated from credit markets and prices gapped lower as indiscriminate selling from ETFs sparked a wave of forced selling from leveraged accounts that breached margin calls. The result was two to three weeks of a self-fulfilling spiral of falling prices.

The impact on the company was considerable given many leveraged accounts are invested in AT1 and CLOs, two sectors to which the company is exposed for relative value reasons. The company showed a 17.41% decline over the six month period to 31 March 2020, with -20.94% derived from March alone. CLOs (26% average allocation over the period) contributed to 10.4% of the total decline and AT1s (27% average allocation over the period) accounted for 3.4% of the total decline over the period.

Despite the dramatic change in asset valuations, the Portfolio Managers' concerns regarding reinvestment risk have been alleviated and market opportunities have become more abundant now than at any time since the inception of the company.

As regards the impact on the business, the UK government has implemented unprecedented measures to restrict the possibility of transmission of the covid-19 virus by limiting personal contact and international travel. The impact on the portfolio management team has been relatively muted, with “work from home” (“WFH”) systems all operating very well and investment committee meetings taking place virtually, twice a week, rather than monthly. Trading has also operated smoothly, although with most of the investment bank trading desks also working from home, liquidity has been further negatively impacted. As regards operational resilience, the functioning of front and back office systems have been tested under Business Continuity Plans and have performed well.

Whilst the ultimate scope and duration of the covid-19 measures are currently unclear, they are likely to have a severe impact on the UK Economy, which the government and the Bank of England are attempting to offset with both traditional and unconventional fiscal and monetary policy measures. The assets in the portfolio will undoubtedly be impacted by this, although many sectors have probably already seen the highs, in terms of spreads, and have begun the recovery process, with many banks and insurance bonds having recovered 50-60% of the price moves already. As rating agencies begin to analyse corporates for the new economic reality, ratings will ultimately be cut, but it's too early currently to say what the impact will have, but high yields in particular will probably lag the recovery, and this includes CLOs, which holds high yield rated leveraged loans. The structured nature of the CLOs will mean that further analysis is required to gauge how each deal and tranche will ultimately perform.

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Manager's report for VPC Specialty Lending – 21 May:

As we enter this period of uncertainty caused by covid-19, we continue to exercise caution on the macro front, structuring our portfolios with the goal to perform in any economic environment. We structure and underwrite our investments with a focus on downside protection in addition to stress-testing our loan pools across various scenarios. From a purely macroeconomic standpoint, we continue to believe that our current portfolio's main advantages include the floating rate, short duration, and fully amortising underlying collateral. Specifically, the weighted average duration of VPC's underlying collateral as of year-end was less than one year. We believe that duration is a misunderstood risk, which has been added to fixed income portfolios in recent years as interest rates have come down and borrowers have looked to lock in long duration fixed rate credit. In the extremely competitive credit markets over the past few years, borrowers have inevitably succeeded, and as a result, investors are largely exposed to long duration covenant-lite loans and bonds. From a credit ratings perspective, this can be demonstrated by the continual degradation of quality of investment grade bonds. For the first time, the lowest rating level needed to achieve an investment grade rating from Moody's (Baa) makes up a majority of corporate debt outstanding.

As of the publication of this report, we are two months into what may be the worst economic and social crisis of our lifetimes. But the data we have seen thus far gives us reason to be cautiously optimistic that the downside protection structured into our portfolio of balance sheet investments will remain resilient to the shocks we are seeing in the economy. We do not expect a "V" shaped recovery, but instead expect the global economy to remain depressed for an extended period, albeit with lockdowns easing gradually in the coming months.

Gross primary CLO issuance forecasts for 2020 were initially robust due to expectations of liability tightening. However, as a result of covid-19 and the resulting volatility within the loan and CLO markets, these forecasts are being re-evaluated in light of a halt in primary issuance in the month of March and we have begun to see the gross annual issuance forecasts be reduced by approximately 40% in the US from \$90-100bn to \$50-

70bn. While primary issuance has not resumed in Europe, there has not yet been an update to the initial gross issuance of €26bn projected for 2020.

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Manager's report for Blackstone / GSO Loan Financing – 19 May:

Throughout 2019, default rates for loans remained below historical averages and ended the year at 1.2% in the US and 0.0% in Europe, per Credit Suisse data. However, the disruption caused by covid-19 has already resulted in increases to global default rates; as of 31 March 2020, the trailing twelve month default rate was 1.6% in the US and 0.5% in Europe (per Credit Suisse). We expect that these will continue to increase throughout 2020.

Covid-19

The medium- and long-term impacts of the global pandemic remain uncertain. However, in the short-term, rating agency downgrades and corporate defaults of companies within GSO's portfolios may lead to temporary cash flow diversions away from subordinate note distributions as a result of breaches in interest diversion and/or over-collateralisation ratios within a number of CLOs to which the company has exposure.

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Paul Read, Paul Causer and Rhys Davies, managers of Invesco Enhanced Income – 18 May:

The performance of the high yield bond market over the six months to the 31 March 2020 was dominated by the market's reaction to the impact of covid-19 in late February and March 2020. The deterioration in sentiment was further compounded by a collapse in the oil price. This had a significant impact on the US high yield market, which has a high number of energy companies.

By end of March, most countries across the world had, in response to the virus, introduced some form of lockdown. Economic activity has been significantly curtailed and many companies shuttered.

The world's central banks have responded to these shocks with unprecedented stimulus, slashing interest rates and restarting Quantitative Easing programmes. In the US, the Federal Reserve has committed to direct support of the corporate bond market including the unprecedented step of announcing it will purchase high yield bonds under certain conditions. After a very sharp market correction from late February, these announcements sparked the biggest rally in high yield bonds since the global financial crisis in 2008.

Large fiscal policy stimulus programmes have also been a part of the response of many governments. This has included loans and support for companies. Nonetheless, the period has been extremely difficult for many companies, in particular those in leisure, travel and parts of the retail sector. For many companies, the impact of this crisis will be felt for some time.

The banking sector has also come under pressure and many banks have announced that they are stopping dividends, in-line with recommendations from both the European Central Bank and the Bank of England. The payment of interest on bank capital bonds, including additional tier 1 (AT1) bonds, is not affected.

Unsurprisingly, this difficult environment for companies has led the rating agencies to revise their predictions of default rates higher. The market has also aggressively repriced the risk of default with large moves in credit spreads (the premium over government bonds that companies need to pay to borrow). By 31 March 2020 European

high yield spreads had increased to 854 basis points (bps). This compares to a level of 405 bps at the 30 September 2019 and a low of 316 in mid-January 2020.

With a recessionary backdrop it is inevitable that default rates will rise, and indeed we have already observed several high yield issuers appoint financial advisors with a view to restructuring their debt.

Outlook

High yield bond markets have repriced to reflect the severe economic shock that the crisis is inflicting. A lack of market liquidity at the start of the crisis exacerbated price moves and created some very attractive opportunities for the company. We were able to add positions to the portfolio, buying bonds from companies that we believe have a balance sheet and business profile that can survive.

Looking ahead, although markets have rallied from the lows of 23 March 2020, credit spreads still offer some of the best value we have seen for many years. That said, there are undoubtedly challenging times ahead for many companies and default rates are likely to increase. A thorough and comprehensive analysis of each issuer and maintaining a diversified portfolio remain a crucial part of our approach, as we seek to add exposure and lock in value for when markets do recover.

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Growth capital

(compare growth capital funds [here](#))

John Croft, chairman of Adamas Finance Asia – 18 May:

Whilst the markets in which our portfolio companies operate have been affected by the pandemic to varying degrees, many of these countries, including China and Hong Kong, are exhibiting early signs of recovery with the gradual lifting of lock-down measures.

Asian countries generally have benefited from the experiences gained from previous pandemics such as Bird Flu and SARS and this resulted in far quicker changes to behaviours and travel restrictions than was the case in the West. As a result, in Hong Kong and China, new cases of covid-19 have now largely been eliminated.

Some of our portfolio companies, like DocDoc the digital healthcare company, have been largely unaffected, whilst others in sectors like hospitality, such as FLM Holdings, have unsurprisingly suffered from a reduction in revenues caused initially by the protests in Hong Kong earlier in 2019 and now by the covid-19 pandemic. Our investment in the high-end ski resort property project in Niseko, Japan has been unaffected thus far but we will have to wait to see how quickly tourism levels return to previous levels to gauge the future impact this will have.

Through Harmony Capital, the company is also seeing an increasingly attractive and growing pipeline of investment opportunities in emerging and established small and medium sized enterprises across Asia, which are even more starved of capital, a situation that is accelerating due to the impact of this global pandemic.

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Infrastructure

(compare infrastructure funds [here](#))

Ian Reeves CBE, chairman of GCP Infrastructure – 29 May:

The impact of covid-19 has dominated the final month of the reporting period and the time since. Whilst the lockdown on the movement of people has a number of immediate direct impacts for as long as it remains in place, predominantly relating to the availability of people and/or parts to service assets, there are likely to be significant medium and long-term indirect implications.

The company's focus on availability-based assets has meant the loan interest income received by the company has not been, and is not expected to be, materially impacted by the covid-19 lockdown. In the medium and longer term, in addition to reductions in electricity prices, covid-19 is likely to contribute to a low central bank interest rate environment for a longer period.

Further significant fiscal stimulus has been injected into the economy in an attempt to mitigate the impact of the virus. The UK Government's balance sheet will look very different coming out of this crisis compared with going into it. Appetite, and capacity, for publicly financed infrastructure investment is likely to be impacted. The National Infrastructure Strategy, due to have been published in late spring 2020, is likely to be further delayed and the cancellation of the UN Climate Change Conference scheduled in Glasgow at the end of the year is likely to further set back the implementation of policies intended to support the 2015 Paris Climate Change Agreement.

Brexit continues to contribute additional uncertainty in the medium term. The current transition period is due to expire at the end of 2020. In the absence of an agreement ahead of this time, or an extension to it, there remains the risk of cost and volume friction in the UK's access to EU markets. This would include a number of supply chains on which renewables projects in the company's portfolio rely. Further, the operation of the Single Electricity Market on the island of Ireland remains unclear in a hard Brexit scenario.

Notwithstanding a backdrop of uncertainty, the need for infrastructure investment in the UK remains as relevant as ever. The covid-19 crisis has highlighted weaknesses in the healthcare and social systems that infrastructure has a role in addressing. The UK's emission reduction commitments have not gone away. Significant infrastructure investment is required across all emitting sectors to be on track to achieve these ambitious targets.

Existing infrastructure needs to be upgraded and maintained, as well as adapted to meet the evolving needs of technology and a growing and ageing population. The company remains well placed to benefit from investment opportunities as and when policies are developed to support the private sector financing of such infrastructure.

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Phil White, manager of 3I Infrastructure – 7 May:

There are significant uncertainties linked to the current economic turmoil and this has created a dislocation in markets across almost all asset classes.

As parts of the world's economy and supply chains have gone into temporary and partial shut-down, the equity markets have found it difficult to price future corporate earnings, leading to a period of volatility and downward correction. We have seen swift central bank interventions which have delivered aggressive monetary policy solutions alongside unprecedented fiscal stimulus. Low interest rates and targeted quantitative

easing will be part of the solution to keep the funding costs for businesses as low as possible.

The defensive nature of investing in infrastructure is now being put firmly to the test and some assets are experiencing stress beyond that seen during the Global Financial Crisis, especially those connected to the transportation sector. Companies have been drawing down on their debt facilities in case financing markets worsen or in anticipation of falling foul of debt covenants. We have a portfolio of resilient and defensive assets, which provide essential services to their customers, and are working hard to support our management teams to navigate and adapt to this uncertain environment.

Despite the re-pricing of many assets, new investments will become increasingly difficult to execute the longer the covid-19 crisis goes on. Volatility in public market benchmarks and stay at home and social distancing policies, will make it hard to price and diligence investments in infrastructure assets. We expect the market for transactions to decline in 2020.

Outlook

Institutional investors still have capital to deploy and the infrastructure market should demonstrate its defensive and resilient characteristics relative to other asset classes.

Climate change is an area of focus. This is likely to make decisions around financial support for new technologies in the transition to low-carbon energy even more critical. Private finance will be needed to support the energy transition and to enhance digital infrastructure, which will provide new opportunities to invest.

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Infrastructure securities

(compare infrastructure securities funds [here](#))

Manager's report for Ecofin Global Utilities and Infrastructure – 21 May:

The epic market dislocations during the last few weeks of the half-year caused by the rapid-fire spread of covid-19 completely overshadowed the progress in global equity markets and the company's portfolio before then. Much like the October to March stretch of the previous year, the backdrop for most of the company's half-year which ended on 31 March included protracted trade friction, a deceleration in economic growth and declining long-term government bond yields. The unfortunate addition this time of the devastating coronavirus and an oil price war between Saudi Arabia and Russia, followed by myriad monetary and fiscal pledges to mitigate some of the more immediate and visible damage, sets this six-month period apart from any other. Government bond yields declined to record low levels across developed markets, and equity markets suffered swift and giant declines; volatility was extreme, and liquidity was poor. The MSCI World Index, which reached new record highs mid-February, declined by 14.8% during the half-year (total return in sterling), very considerably off the lows reached in mid-March.

Utilities and infrastructure shares behaved very differently from each other during the half-year, even before risk aversion escalated. The S&P Global Infrastructure Index did much worse than the broad global equity averages and fell by 26.5% over the six months, while the MSCI World Utilities Index declined by 12.8%. This is quite a remarkable dispersion considering the S&P Global Infrastructure Index is 50% comprised of utilities and the two indices share six 'top ten' constituents.

Until equity markets collapsed, the interest rate backdrop was clearly favourable to most of the stocks in our investment universe and the scarcity of reliable and non-cyclical growth in the broader market made these companies particularly attractive given their organic growth and strong pipeline of future projects. The more economically sensitive parts of the universe that the company invests in, such as waste management, energy infrastructure and transportation services, did not fare well as growth forecasts were scaled back and oil and other commodity prices declined.

Outlook

Uncertainty of some magnitude is likely to linger for an extended amount of time. We cannot predict the course of the economic and business recovery from this health crisis, and degrees of uncertainty and fear may blanket the financial markets for many months yet. It is our task to try to be diligent and disciplined in our analysis in these uncomfortable circumstances, and not to lose focus on the many growth opportunities in the company's investment universe. The economic backdrop for companies will stabilise at some point and the anxieties embedded in share prices will fade. Our time horizons for cash flow and dividend growth delivery by many companies in the portfolio will need to be extended, but we firmly expect that climate-friendly policies will be prioritised again post the coronavirus crisis and that the decarbonisation themes propelling the investment space will endure. The portfolio invests in essential assets and services and infrastructure critical to livelihoods and economic growth; these cannot be immune from the severe contraction in growth we are experiencing but the regulated nature of many business models provides protection. In the meantime, we are buying stocks in well-run, high quality and under-valued companies - focussing on leaders amongst networks and renewables - knowing that there will be a quarter or two of bad news and a drop in consensus estimates but that these will thrive in the medium to long-term.

Our sectors are behaving as we would expect, showing defensive characteristics when markets are falling and good upside-capture in rallies due to underlying growth drivers.

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Commodities and natural resources

(compare commodities and natural resources funds [here](#))

Evy Hambro and Olivia Markham, representing the manager of BlackRock World Mining – 18 May:

We see an attractive valuation opportunity in mining today. Mining companies have sold off in recent weeks in anticipation of a lower level of global economic growth in 2020. Global stimulus measures on infrastructure and carbon transition are likely to be commodity intensive.

The balance sheets of mining companies continue to be in strong shape and companies remain focused on capital discipline. Mining companies are therefore well positioned to continue to generate robust free cash flow and return capital to shareholders through dividends and buybacks. In a low-income environment this could be a catalyst for a rerating.

We expect most mined commodity prices to finish 2020 higher than the lows they have reached over the last few weeks. On the commodity demand side, we do not anticipate a hard-landing type event in China and we have been encouraged by stimulus measures beginning to feed through into improvements in some economic data points. On the commodity supply side, supply is tight in most mined commodity markets and,

given the cuts in mining sector spending since 2012 (down ~66%), we expect it to remain so.

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Property - UK

(compare UK property funds [here](#))

Nigel Rich CBE, chair of Urban Logistics REIT – 29 May:

Clearly there remains considerable uncertainty about the speed of recovery in the UK's economic growth. Life will not be the same post covid-19. The lockdown has further improved the adoption of ecommerce which is a central tenet to our business. We believe in our medium to long term strategy and the experience of our manager to invest well in these markets and of the need to invest to generate the income needed to meet the dividend expectations of our shareholders. The investments we have made in March and April will help to grow the income of the business and we are well set to be making further investments in the coming months. At the same time, we will keep a close watch on the financial wellbeing of our tenants and our level of gearing. We are confident that we will continue to successfully grow our business despite all that is happening around us.

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Jason Baggaley, manager of Standard Life Investments Property Income – 27 May:

Covid-19 is likely to accelerate and accentuate trends that existed before the virus, rather than totally change the fundamentals of the real estate market. Holding the most robust and durable income streams may not be a major point of difference this quarter or next; history suggests this divergence emerges as the market approaches its nadir. But we expect significant relative outperformance of such assets to come through later in the year – and for a protracted period if the economic downside materialise – as the degree of income risk at the asset level becomes clearer.

Urban logistics continues to be an area of the market we favour on a structural basis – likely amplified by this crisis – and one where the fundamentals remain supportive of rental tension. There is strong potential for consumers, previously cautious around online shopping, to gain confidence and retain a higher proportion of spending online after the crisis, which will drive increased demand for 'last touch' logistics in particular. Online grocery demand has increased substantially with the UK in lockdown, but we do not believe this will have the same impact on logistics as discretionary goods. The crisis has exposed the constraints on capacity for home delivery and the importance of large superstores in fulfilment.

The government is providing previously unimaginable levels of stimulus, and yet it remains unclear at present what the nature of recovery is going to look like. We anticipate many tenants having difficulty in meeting rental obligations over the remainder of this year, and quite possibly for the first half of 2021, whilst they try and repair their balance sheets. However, rent is contractual and a fairly rapid pick-up in activity is expected in 2021, which the industrial sector is most likely to benefit from.

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William Hill, chairman of Ediston – 21 May:

The real estate market will have to grapple with some extremely testing issues over at least the next two quarters and possibly beyond, including more difficulty in collecting rent, potential tenant failures and a transactional market that will struggle with price discovery to provide meaningful valuation data points. Where it goes from here will depend considerably on whether we have a V, U or L shaped recovery for the economy and the duration of the restrictions on movement and activity and what those restrictions entail.

Whilst the timing of the recovery from the impact of covid-19 is unknown, the board is confident that the convenience-led retail warehouse assets the company owns, together with its other assets, should provide attractive returns to shareholders in the future. The creative and proactive asset management of the Ediston team puts the company in a strong position to deal with the challenges ahead and to identify the opportunities for value creation within the portfolio to unlock in the future. However, the immediate priorities for the company are income collection and value protection.

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Stephen Hubbard, chairman of LXI REIT – 18 May:

We are in unprecedented times and there is still uncertainty as to how the crisis will develop and on the full economic impact on the UK and Global economy. However, it is now clear that the UK and economies globally will enter a deep recession, the length and depth of which is still to unfold given all the uncertainties that currently exist.

The extent of this crisis has been widely recognised as an unforeseen risk in the corporate world. The board has carefully reviewed the additional risks that have now arisen in our portfolio. Many of our tenants are continuing to operate from their premises, and their business models have been comparatively less affected by the crisis.

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Rob Whiteman, chairman of Residential Secure Income – 18 May:

Regardless of the unfortunate implications of the covid-19 outbreak, the country will still have a significant shortfall of housing and this supply demand gap will most likely become more acute through a countrywide lockdown causing reductions in earnings and housing delivery (caused by construction sites closing and financial pressures on housing developers), which will likely increase the demand for social housing.

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Property - Europe

(compare Europe property funds [here](#))

Tony Roper, chairman of Aberdeen Standard European Logistics Income – 28 May:

Notwithstanding the unprecedented economic environment we are now operating within, the board and investment manager continue to believe that logistics will remain one of the most favoured sectors for investors in the coming years. The logistics industry is experiencing unprecedented disruption as a result of systemic changes to the way global economies are functioning and these challenges are manifesting

themselves in different ways across different sectors. So far, logistics assets have benefited from additional occupier demand arising from necessary supply chain restructuring.

New technology is creating challenges for supply chains as clients demand frequency and more complexity whilst the nature of ecommerce, where Europe has lagged the UK, has increasingly required operators to adapt faster to future shifts in consumption, particularly so since the start of European lockdowns.

Leasing 'tension' has been robust with land values under pressure from competing uses and with income growth prospects potentially stronger than for ultra-big-boxes where risk is higher at maturity of the lease as the number of potential occupiers are limited.

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Robert Orr, chairman of Tritax EuroBox – 19 May:

The global spread of covid-19 means we are in a period of prolonged uncertainty. It is not possible to know how long the pandemic will last or its impact on the global economy. Even so, we are continuing to see good interest in our vacant units and are having positive conversations with potential occupiers. Covid-19 is likely to accelerate occupier demand while further tightening supply, creating further upward pressure on rents and demand from tenants for longer leases, so as to secure their supply chains.

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Property securities

(compare property securities funds [here](#))

Hugh Seaborn, chairman of TR Property – 29 May:

As we all know, the COVID-19 virus exacerbated by the collapse in oil prices, has disrupted financial markets and undermined global economic growth prospects.

The period of the pandemic and whether it will re-escalate once containment measures are relaxed, is unpredictable. Therefore, it is very difficult to gauge the extent of the impact as the timing of this document coincides with the first tentative steps in the relaxation of the lockdown across much of Europe.

One of the strong characteristics of property as an investment has been its healthy income prospects. It is clear that rent receipts in the immediate future will be severely disrupted across many of the companies we are able to invest in and this will vary widely with consumption focused properties likely to face disruption for longer. However, it is pleasing to report high rates of rent collection from healthcare, logistics and rented residential; all sectors we favour.

There will be an increased polarisation between sectors; the acceleration of the structural decline of retail is an example of this. Those assets able to produce good quality income streams with potential for growth are likely to be defined more narrowly and be in greater demand. Consequently, the level of divergence between those businesses with growth prospects and those without has widened enormously due to the pandemic.

The low costs of borrowing and skinny yields on fixed income will remain a feature of the financial landscape, increasing the value of income particularly where it is index-linked. This will support the attractiveness of property as an asset class although not

necessarily protect it against market fluctuations caused by macro events that move global equity markets, such as that which we have witnessed in the closing weeks of this financial year.

The delivery of performance in this environment requires a meticulous and rigorous approach to evaluating investment opportunities.



QuotedData

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