



Economic & Political Roundup

Monthly roundup | Investment companies | January 2021

Kindly sponsored by Allianz

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

It was the year that nobody will forget. Industries re-shaped, many of them probably permanently, a change of leadership in the US, and finally a remarkable feat of human ingenuity in the roll-out of several vaccines by the year-end, are just some of the many themes touched on by managers and chairs in this final monthly roundup of 2020.

Global

Unsustainable divergence in valuations?

BMO Global Smaller Companies' manager, Peter Ewins, says that the scale of economic and market dislocation this year means that there are still opportunities even after the recovery so far.

James Will, chairman of Scottish Investment Trust, believes that the divergence of valuations within markets has reached new extremes, a position that they believe is unsustainable and likely to reverse.

As the events of 2020 serve to melt away inertia, Henry CT Strutt, chairman of Edinburgh Worldwide, expects digital-first models to prevail.

J William M Barlow, CEO of Majedie's manager, says that it is noteworthy that the UK equity market, after four years of lacklustre performance, has been one of the better performers recently and market leadership in terms of sectors has broadened away from technology.

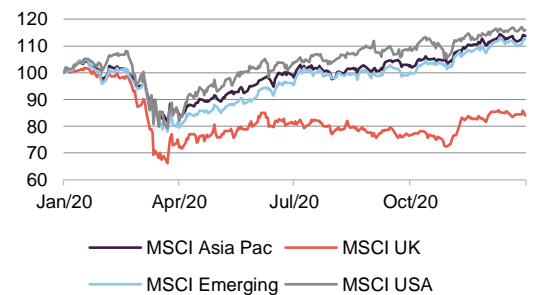
James Harries, manager of Securities Trust of Scotland, looks at the pandemic's impact on equity income. James notes that it seems quite clear that income available to investors will remain scarce, owing to the need to keep debt servicing costs low.

| Exchange rate | 31/12/20 | Change on month % |
|---------------|----------|-------------------|
| GBP / USD | 1.3670 | +2.6 |
| USD / EUR | 0.8186 | (2.4) |
| USD / JPY | 103.25 | (1.0) |
| USD / CHF | 0.8852 | (2.6) |
| USD / CNY | 6.5272 | (0.8) |

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/01/2020 to 31/12/2020



Source: Bloomberg, Marten & Co

| | 31/12/20 | Change on month % |
|---------------------|----------|-------------------|
| Oil (Brent) | 51.8 | +8.8 |
| Gold | 1898.36 | +6.8 |
| US Tsy 10 yr yield | 0.9132 | +8.9 |
| UK Gilt 10 yr yield | 0.197 | (35.4) |
| Bund 10 yr yield | (0.572) | 0.0 |

Source: Bloomberg, Marten & Co



Contents

| | |
|---------------------------------|-----------|
| Roundup | 1 |
| Global | 1 |
| December's highlights | 3 |
| UK | 3 |
| Technology & media | 4 |
| Other | 4 |
| Global | 5 |
| Flexible investment | 7 |
| UK | 8 |
| Europe | 11 |
| Japan | 12 |
| Asia Pacific | 14 |
| Global emerging markets | 16 |
| India | 18 |
| Biotech & healthcare | 19 |
| Renewables | 27 |
| Infrastructure | 30 |
| Property - UK | 34 |

Analysts

James Carthew

jc@martenandco.com

Matthew Read

mr@martenandco.com

Shonil Chande

sc@martendandco.com

Richard Williams

rw@martendandco.com



AS FOCUSED ON DIVIDENDS AS YOU ARE

The Merchants Trust PLC

The Merchants Trust aims to provide a rising income by investing in large UK companies with the potential to pay attractive dividends. Although past performance is no guide to the future, we've paid a rising dividend to our shareholders for 37 consecutive years, earning us the Association of Investment Companies' coveted Dividend Hero status. Beyond a focus on dividends, Merchants offers longevity too. This year we celebrate our 130th anniversary, making us one of the oldest investment trusts in the UK equity income sector. To see the current Merchants dividend yield or to find out more about us, please call or have a look at our website.

A ranking, a rating or an award provides no indicator of future performance and is not constant over time. You should contact your financial adviser before making any investment decision.

0800 389 4696 www.merchantstrust.co.uk



1889 – 2019

INVESTING INVOLVES RISK. THE VALUE OF AN INVESTMENT AND THE INCOME FROM IT MAY FALL AS WELL AS RISE AND INVESTORS MAY NOT GET BACK THE FULL AMOUNT INVESTED.

This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D-60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de). Allianz Global Investors GmbH has established a branch in the United Kingdom which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk).

Allianz 
Global Investors

December's highlights

UK

The impact of the pandemic might ultimately provide a platform for long-awaited progress in improving productivity

Caution did not pay off in 2020

Money supply is now growing at its fastest rate since the 1980s

The manager of Schroder UK Mid Cap anticipates a wobbly V-shaped recovery in terms of a rebound in GDP. The frustratingly low growth in UK Plc's productivity is also touched on, in the context of how the pandemic might trigger progress.

George Ensor, manager of River and Mercantile UK Micro Cap, says that the opportunity set remains as rich as ever, noting the lack of sell-side coverage and the inability for larger funds to access micro-cap stocks.

Nick Train, director of the manager of Finsbury Growth & Income, says that professional investors are always too cautious about the stock market and that this caution creates opportunities for those who take a more constructive view. Nick notes that the S&P 500 Index in the US was up 14% over 2020 and NASDAQ up 40%. Those gains may seem inevitable in hindsight, but few professionals would have predicted them.

John Dodd and Kartik Kumar, managers of Artemis Alpha, believe that the combination of Brexit and now COVID has created a significant value opportunity in exposed UK equities.

Robert Robertson, chairman of Lowland, paints a less sanguine picture. He reflects on how money supply hardly grew after 2007 but is now growing at its fastest rate since the 1980s. He says Lowland struggles to understand whether inflation can continue to lie fallow. We also face the prospect of increasing unemployment and bankruptcies. Robert adds that we cannot yet know which of these contrary influences will prevail.

John M Evans, chairman of BMO UK High Income, reflects on Brexit, the US election, vaccine developments, and what shape the recovery will take.

Ciaran Mallon, manager of Invesco Income Growth, reflect on the difficulties in predicting dividend growth.

China

China will continue to grow faster than its global peers

Capital markets reform has accelerated in China

Shumin Huang, Rebecca Jiang, and Howard Wang, managers of JPMorgan China Growth and Income, say that China's importance in the world continues to grow and its economy is likely to continue growing faster than its global peers. The economic transformation and evolving role of the country as a global economic superpower is well underway with recent challenges unlikely to derail progress in any material manner.

Dave Nicholls, manager of Fidelity China Special Situations, notes that while there are variances between regions and sectors, overall, the economy continues to recover. The manager also discusses how we continue to see an acceleration in capital market reforms in China; from the loosening of short-selling restrictions, the lowering of foreign investment restrictions and the implementation of a registration-based IPO mechanism.

Technology & media

Technology's outperformance does not need to end as the pandemic diminishes

Fintech remains a very fertile ground

In a far-reaching and detailed tour-de-force, Ben Rogoff, manager of Polar Capital Technology, discusses a multitude of topics. One of Ben's conclusions is that technology's outperformance does not have to end with the pandemic diminishing. COVID has clearly accelerated several key technology trends, but the redistribution of profit pools across myriad industries began long before the pandemic.

Tim Levene, CEO of Augmentum Fintech's manager, believes that with the opportunity still in its nascency (incumbent players still control >90% of the global market for financial services) it's all very much still to play for.

Other

We have also included comments on the flexible investment sector from Aberdeen Diversified Income and Growth and Miton Global Opportunities; Europe from JPMorgan European Smaller Companies and Henderson European Focus; Japan from Japan Small Cap Growth & Income, Atlantis Japan Growth, and JPMorgan Japanese; Asia Pacific from Schroder AsiaPacific and Aberdeen New Dawn; global emerging markets from Blackrock Frontiers; India from JPMorgan Indian; biotech & healthcare from Polar Capital Global Healthcare; the debt sector from Henderson Diversified Income; the royalties sector from Hipgnosis Songs; renewables from SDCL Energy Efficiency Income and Gore Street Energy Storage; the environmental sector from Jupiter Green; infrastructure from Ecofin Global Utilities & Infrastructure, Sequoia Economic Infrastructure Income, and GCP Infrastructure; leasing from Doric Nimrod Air Three and Amedeo Air Four Plus; and UK property from Shaftestbury, Ediston Property, Stenprop, Schroder European REIT, Tritax EuroBox, Custodian REIT, and Residential Secure Income.

Global

(compare global funds [here](#))

Peter Ewins, manager of BMO Global Smaller Companies - 15 December

News of highly encouraging results from the trials of several potential COVID-19 vaccines in November have led to a dramatic further rally in global equities. Most of the best performing stocks since this news have been those which did badly as the pandemic struck, while companies which had been more resilient in the first half of the financial year have mainly lagged. This has been a rational response by the markets to the potentially transformed outlook for 2021. However, the speed with which vaccines can be rolled out safely to the general population will be key to determining if the recent changes in sector trends are to be maintained and the extent to which corporate earnings can be re-built. As mentioned above, the conclusion of the Brexit discussions will be important for the UK equity market especially at the smaller company end of the spectrum. This will also have wider ramifications especially for European stocks and sterling in the foreign exchange markets. We have made some adjustments to the portfolio to increase exposure to companies we see as offering greater exposure to recovery in a post-pandemic world, while trimming some of those where valuations look more stretched after the market run-up. The scale of economic and market dislocation this year means that there are still opportunities even after the recovery so far, although at the macro-level many countries will take some time to get back to pre-COVID levels of activity. We need to be conscious of the lasting damage done to certain sectors and companies in these areas. Frighteningly large fiscal deficits are not today's central problem but will need to be addressed in time.

.....

James Will, chairman of Scottish - 14 December

The course of the pandemic remains a matter of serious concern to markets and recent news about vaccines has been well received. Clearly there will be challenges to come, not least managing the current wave of COVID, but we believe the reaction to the vaccine newsflow demonstrates the potential for recovery in beaten down and overlooked areas should the good news be sustained.

The drama around the US presidential election was emblematic of Donald Trump's tenure, but apparent President-elect Joe Biden is likely to bring a more diplomatic approach to the role. That said, President Trump clearly galvanised a substantial portion of the population and his better than anticipated showing perhaps suggests that the populist tendencies of recent years could be a durable trend.

At the time of writing, Brexit negotiations remain ongoing and have proven fractious. Although we continually review the potential effects of Brexit, we remain of the view that it will not have a material adverse impact on the Company's business model or operations.

While it is certainly premature to look beyond the impact of the virus, eventually attention will turn to how we deal with the long-term effects of the 'whatever it takes' fiscal and monetary response. While these measures were undoubtedly necessary to avoid more lasting damage to jobs and businesses, we have now entered a new era in economic policymaking. It has become obvious, especially to those who wish to control the levers of power, that governments can borrow without regard to the

tax-base as interest rates remain very low. Borrowing and spending money is popular.

Central banks have directly or indirectly communicated a greater tolerance for inflation, which may prove an unstoppable development once it becomes apparent. This, combined with the eventual prospect of higher rates of interest, may favour our investment style over others.

The divergence of valuations within markets has reached new extremes, a position that we believe is unsustainable and likely to reverse. This favours a contrarian approach which seeks out mispriced investments that have been overlooked. We believe that the Company is well placed for the future.

.....

Henry CT Strutt, chairman of Edinburgh Worldwide - 10 December

The past year has been marked by continued market turbulence and dislocation driven largely as a consequence of COVID-19. Further uncertainty has been created by the US Presidential election and, closer to home, the continuing Brexit negotiations.

Enforced or abrupt shocks to the system act to melt away inertia. Events of 2020 have seemingly accelerated the rate of change that companies and business models are undergoing with a push for more flexibility across multiple fronts and digital-first models prevailing.

.....

J William M Barlow, CEO of Majedie's manager - 10 December

The pandemic dominates the outlook for stock markets and its effects on the global economy. The successful development of several vaccines, within eight months of the first cases, is an amazing scientific achievement and provides a much clearer view for companies and governments. Whilst it was likely that global economies would recover into 2021 due to the fiscal and monetary stimulus by governments around the world, the vaccine is a game changer and markets, being forward looking, have reacted accordingly.

It is noteworthy that the UK equity market after four years of lacklustre performance is one of the better performers and market leadership in terms of sectors has broadened away from technology.

.....

James Harries, manager of Securities Trust of Scotland - 10 December

2020 has been a tumultuous year and a tragedy for many families. From an investment perspective it has had the notable features of accelerating pre-existing trends in economies and massively increasing the role of Government and associated indebtedness. The recent announcement of a highly effective vaccine is very welcome and likely reduces the risk of a very bad outcome. At the same time, the global economy is effectively undergoing a major restructuring as profit pools are undermined and shifted as a result of technological disruption, changing consumer habits and environmental pressures. That this is happening while markets trade at elevated levels relative to most long-term valuation measures makes for a confusing backdrop.

In a world of such uncertainties, one area that seems quite clear is that income available to investors will remain scarce, owing to the need to keep debt servicing costs low. Conversely, equity markets do still provide income. It must be

acknowledged, however, that they carry greater volatility than alternative sources such as government bonds. In such a world, an approach that is highly selective about the businesses in which we invest and that views risk as the permanent loss of capital is key. Further, by being conservative in our attitude, and recognising the cross-currents that both markets and the economy currently face, we can look to the future with confidence.

.....

Flexible investment

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

Nick Greenwood and Charlotte Cuthbertson , managers of Miton Global Opportunities - 18 December

Since the end of our interim period, markets have risen sharply in response to positive news on the efficacy of COVID vaccines in development. Investors now have a roadmap as to how the crisis will end. They are now prepared to make assumptions as to future corporate profitability. We are conscious that when the economy actually starts to recover vast amounts of stimulus will remain within the financial system. This combination should propel markets further although progress will inevitably be choppy. Buoyant equities must seem counter intuitive to those outside the markets at a time when so much of our economy is operating at reduced levels of activity. Looking into the future it is difficult to see how governments will resolve their indebtedness given the scale of what is owed in comparison to the size of their working populations. Some will embrace modern monetary theory which could in time see a revival of inflation.

In the trust world, we expect to see an increase in corporate activity within the sector. In all parts of the stockmarket, there is a greater focus on governance leaving trust boards facing greater scrutiny. Shareholders will be quicker to react than in the past where they have concerns. Although we are not arbitrageurs, this is a useful tool in the box to extract value. In the past we have seen certain points in the cycle where this has become more important, and we appear to be on the cusp of another of these periods.

.....

Nalaka De Silva, manager of Aberdeen Diversified Income and Growth - 17 December

It is now more than a decade since the end of the Global Financial Crisis. Ever since 2009, global investment markets have faced periodic waves of uncertainty. Investors have fretted about the potential collapse of the Eurozone, the Brexit saga and the health of China's economy while, at the same time, always being aware of the impact of the eventual withdrawal of central bank liquidity support from markets. The COVID crisis of 2020 raised the 'threat level' to investors substantially. Even today, as the year approaches its end and in light of vaccine deployment, it is not at all clear what 'normal life' will look like in 2021.

Aberdeen Standard Investments' economists and market strategists have adapted to this particularly uncertain outlook by considering different 'paradigms' that might prevail in the post-COVID world. For example, global growth may accelerate as the technological changes of the past year become more widely embedded or, at the other extreme, there may be a deflationary slump, perhaps caused by a global trade war as economies struggle to adapt to the challenges they face. Some investment

historians worry about 'financial repression' where higher inflation erodes government debts but interest rates are kept at low levels under government / central bank control, effectively eroding the purchasing power of investors' savings.

Emerging market bonds

After a strong start to the period under review, emerging market ("EM") investments performed poorly during the COVID-related sell-off in February and March. The 'flight to safety' saw sharp declines in EM bond prices and currencies as international investors deserted the asset class, concerned over how economies might struggle in the face of the pandemic. As the leading central banks boosted global liquidity over the summer, investor risk appetite increased once again and EM bond prices staged a sharp recovery. A number of emerging market central banks introduced quantitative easing programmes during this period and short term interest rates were also reduced widely. However, for the large part, emerging market currencies failed to regain the ground they lost during the Q1 sell-off.

Brazil was one of the weaker EM performers during the period, responding particularly poorly to the crisis. A number of EM economies outperformed the worst expectations of Q1. In particular, the resilience of China in this crisis is likely to continue to be supportive of sentiment and economic activity in EM, particularly in Asia.

Equities

Looking ahead, Aberdeen Standard Investments' central view is that the economic environment for equities is likely to remain benign. Corporate earnings will recover as the COVID-19 recession abates. As long as risk free rates remain near all-time lows, equity valuations are likely to remain high. Against this background, higher growth companies and markets are likely to remain in favour. However, the probability of tail risks is significantly higher than in the past. If economic growth stagnates, or in the opposite case, where uncontained fiscal and monetary stimulus result in much higher inflation, equity returns would suffer severely. For now at least, with central banks continuing to provide plentiful liquidity, these malign outcomes are relatively low probability events.

.....

UK

(compare UK funds [here](#))

Manager's report for Schroder UK Mid Cap - 21 December

Looking back over the last year, the only thing we can say with certainty is "well, nobody expected that." This has been a year of significant highs and lows, of human tragedy, volatility, of economics battling life sciences and of emotions running high. At the time of writing, two announcements on stage 3 trials of COVID-19 vaccines have driven a recovery in many of the shares sold off aggressively at the start of the pandemic. The US is preparing to welcome a new president, and Brexit deliberations are moving at an accelerated pace, as is news flow on incoming UK M&A. We are not trying to second guess any of this: instead, we are focusing on making sure that we hold shares in companies which are either disruptors, changing the status quo within the marketplace, or established companies which can grow sustainably as they reinvent themselves in response to the disruption, companies which we refer to as long-term growth opportunity stocks. Neither do we target a

specific level of gearing: future levels of gearing will be a function of the opportunities we see in the market.

In the first few months of the pandemic, we were asked what new trends were emerging and if they would change our investment approach. This led us to examine our core long-term growth opportunity stocks, and whether we believed that the opportunities we saw previously would persist in a post COVID-19 world. Trends which we observed early on do seem to be becoming established. The shift from store-based to online retail and more frequent working from home have accelerated, and been reflected in strong trading. Though many of these stocks have been coronavirus beneficiaries, we see them as able to continue to deliver sustainable growth post pandemic.

News that the UK economy grew by 15.5% in Q3 has been dismissed by some commentators as merely the product of pent-up demand, but salaries are also, now, higher than they were in Q4 2019, which shows that fiscal transfers are supporting income (albeit at a cost). This in turn should support a strong recovery once the current lockdown eases. Though we anticipate a wobbly V-shaped recovery in terms of a rebound in GDP, we recognise that companies will continue to face headwinds caused by this most recent disruptive event.

We have said previously that economic turmoil could trigger progress, thinking of the post-World War II era, for example. Much has been written about the frustratingly low growth in UK plc's productivity. The one good thing to come out of this pandemic is that it has forced 'old economy' stocks to cast aside entrenched behaviours, achieving five years of change in six months. That can only be a good thing in the long term for the profitability of companies and the health of the economy. It is too early to tell, but it might also be the case that behaviour around distribution of earnings as dividends to shareholders might moderate, long term, with management teams seeking to increase investment to grow companies in preference to distribution.

.....

George Ensor, manager of River and Mercantile UK Micro Cap - 18 December

The opportunity set remains as rich as ever; the combination of our approach, the lack of sell side coverage and the inability for larger funds to access this part of the market remains supportive for investing in great undervalued businesses. UK equities are a consensus underweight for global asset allocators and, whilst narrower than a year ago, there remains an additional discount on smaller cap equities within the UK.

.....

Nick Train, director of the manager of Finsbury Growth & Income - 16 December

The pros are always too cautious about the stock market. And this caution creates opportunities for those who take a more constructive view. Now, I grant you, this third idea has proven harder to justify in 2020 – at least from the perspective of an investor in the moribund UK stock market. Perhaps it has been right to be cautious about the short-term outlook for the FTSE All-Share Index. Nonetheless, to demonstrate what we mean, consider that as I write this – with the virus still rampaging – the S&P 500 Index in the US is up 14% in 2020 and NASDAQ up 40%. Those gains may seem inevitable in hindsight, but few professionals would have predicted them, we submit, if apprised of what was actually about to befall the world.

No - we still act on the assumption that it is a winning investment strategy to take a steadfastly optimistic view about the prospects for equity markets – including that of the UK. This means that we hold as little cash as possible and don't try to time the market.

.....

John Dodd and Kartik Kumar, managers of Artemis Alpha - 10 December

Our outlook is broadly unchanged: we think the combination of Brexit and now COVID has created a significant value opportunity in exposed UK equities. In our judgement, the prospects for returns are high. In our last report, we commented on how perspective is the "first casualty in a crisis". At the time of writing, the potential of a successful vaccine has allowed the market to regain some perspective, which has benefited our positioning. We continue to focus primarily on risks and opportunities within our existing portfolio, and our attention is turning towards areas that will fail to keep up with improving fundamentals or that will become unpopular due to the change in market sentiment. Above all, we remain committed to opportunism.

.....

Robert Robertson, chairman of Lowland - 8 December

Hopefully it is safe to believe that the US presidential election has been resolved, and that the roll-out of vaccines will enable the COVID-19 virus to be brought substantially under control over the course of 2021. We shall know soon whether good sense from the EU and the UK will prevail in bringing about an orderly Brexit. The resolution of so much serious uncertainty should make us optimistic.

Whilst asset prices generally are at elevated valuations, the exception is the UK equity market. Our approach to investment will remain bottom-up, but in looking at the prospects for individual companies, the prominence of macroeconomic challenges will be unusually apparent. It is impossible to foresee how governments will deal with the massive levels of debt incurred by their reactions to the pandemic, and there are many differences between this and the last severe recession. After the financial crisis, the British and many other governments chose financial orthodoxy by spending cuts to rebalance the books. This time around, governments seem more inclined to respond with expansionary policies. Money supply hardly grew after 2007, but is now growing at its fastest rate since the 1980s. We struggle to understand whether inflation can continue to lie fallow. We face the prospect of increasing unemployment and bankruptcies. We cannot yet know which of these contrary influences will prevail.

Assuming that the very immediate dangers which have preoccupied the last months are overcome, markets' initial relief may soon be displaced by a new focus on the more medium-term concerns of this sort.

.....

John M Evans, chairman of BMO UK High Income - 3 December

Markets enjoyed a period of strong returns in the first half of the Company's financial year driven by the sentiment that the COVID-19 pandemic was being brought under control and also by evidence that the corporate sector in aggregate was dealing with tough trading conditions better than anticipated.

There are now more causes for uncertainty. It appears that infection rates have risen significantly from the summer lows and governments around the world are

now in a phase of reimposing lockdown measures - but on a more regionally selective basis than before.

Brexit is beginning to rear its head as the rhetoric between the UK and Europe escalates. Given the backdrop of COVID-19, Brexit has not managed to grab the same headlines, or the markets' attention as otherwise might have been anticipated. While this is the case for now, this ongoing unrest does not help the perception of the UK market, despite the fact there is a lot of value on offer. The outcome of the US Presidential election was well received by markets. The consensus was for a Biden win, which we got, but a split Senate would see a dampening of some of the more left-wing policies which would have affected markets.

With the announcement of vaccines from Pfizer, Moderna and Oxford/AstraZeneca the backdrop has again changed very sharply. The rotation out of quality growth companies into value was the sharpest seen in over two decades, which should not come as a surprise given how extended relative valuations have become since the outbreak of the pandemic.

Another debate is what will the recovery look like - is there a new normal, with a drive to working from home and shopping online and does the shape of the investment landscape change? The answer is almost definitely yes

.....

Ciaran Mallon, manager of Invesco Income Growth - 3 December

Company earnings estimates have been revised down significantly since the start of the pandemic. However, in the climate of uncertainty visibility remains very low, and guidance by companies has been in large part withdrawn. Dividend growth from the portfolio is still currently difficult to predict as so much depends on the length of the disruption.

.....

Europe

(compare European funds [here](#))

Marc van Gelder, chairman of JPMorgan European Smaller Companies - 11 December

In the short term, it is likely that the COVID-19 pandemic will continue to weigh on business activity in Europe, and with it on the fortunes of the smaller company sector in which we invest. What impact the recent approval of various vaccines and their future roll out will have on economies is difficult to predict given the lack of historical precedence. However, they do sign post finally a path towards a return to normalcy.

.....

John Bennett and Tom O'Hara, managers of Henderson European Focus - 10 December

It may be the DNA thing again but when we think in terms of outlook, we tend to think of what could challenge, disrupt or derail the prevailing investment consensus. Our report this year has referenced the very real and very durable threats and opportunities presented by Environmental, Social and Governance challenges. For us, ESG is now a given, it is hard wired into how we think, act and invest. It is here to stay.

It's the things that might not be here to stay that challenge, as well as fascinate, us. There is one particular investment challenge which has been prevailing, dominating investors and shaping their portfolios for some decades now. This has meant that it, too, is deemed to be hard wired. It is the lack of inflation. Such has been the dominance of disinflation, globally, that we have a generation of equity fund managers which has only known the supremacy of growth stocks over value stocks. We also have a whole bunch of other assets priced for more of the same: continuing disinflation. Witness Italian versus German government bond yields or the price of Austrian 100-year bonds.

The last of our DNA strands referenced at the beginning of this report is the one we shall therefore end on: be ready to be wrong. Such has been the bonanza in disinflationary beneficiaries that we stand at a time when some of today's most popular holdings in investment portfolios cannot afford to be wrong. In other words, they cannot afford for inflation to return. Humanity is currently battling a pandemic. As the recent vaccine news demonstrates, humanity will win that battle. We suspect that part of the recovery process, in the financial and economic world, may well involve the return of at least some inflation. If this proves to be the case, many a portfolio, having gotten religion, is not ready to be wrong.

.....

Japan

(compare Japan funds [here](#))

Eiji Saito, Naohiro Ozawa, and Michiko Sakai, managers of JPMorgan Japan Small Cap Growth & Income - 16 December

On the ground in Japan, we see that COVID-19 and its aftermath have cast a shadow over the country's economic outlook. The pandemic has already delivered a massive shock to global economies, with Japan and most other global economies stunned into recession. Whilst we acknowledge that investors will need to maintain a patient attitude during this unprecedented period, we believe that the problems will ease with time. We may see industry consolidation and productivity growth through trends such as diversifying production sources, adoption of flexible working practices and better use of information technologies.

Japan remains set on its long-term goals of achieving sustainable and broadly-based growth, driven by digitalisation, free trade and the government's major corporate governance and stewardship reforms. Japan's signing of the RCEP (Regional Comprehensive Economic Partnership), an agreement between 15 Asia-Pacific member states to reduce trade tariffs and lay the foundation for deeper cooperation, represents a positive step towards boosting its trade in the decades to come. In sharp contrast to other developed economies, it is Japan's smaller and more entrepreneurial companies which are at the forefront of innovation; as such, we are confident that the long-term outlook for smaller companies remains positive

It is important to highlight that average valuations of Japanese companies remain reasonable, both lower than historical averages and below those of most other major markets.

.....

Manager's report for Atlantis Japan Growth - 11 December

The Investment Adviser believes that Japan's economy has bottomed out and has begun to recover from the COVID-19 pandemic and its unfortunate consequences. Transmission rate trends, particularly in Hokkaido and Tohoku, suggest viral risks remain. However, with a vaccine(s) on the horizon, arguably, for Japan, the worst has passed. Recent economic data points are, for the most part, trending higher. Retail goods sales have returned to pre-pandemic levels, automobile and electricals production is rebounding. Services sales remain depressed owing to weak hospitality demand. The Investment Adviser notes that research house consensus forecasts project TSE1 pre-tax profits dropping by 20.5% in the current fiscal year but rebounding by 37.9% in FY 3/22 followed by 15%-20% growth in the subsequent fiscal year. Based on these estimates the Tokyo equity market is carrying an attractive 16x forward PER multiple.

Over the longer term, Japan will likely encounter numerous challenges including sustained depopulation, a sizable public sector financial deficit, rising welfare expenditure commitments, and geopolitical risks in its corner of northeast Asia.

.....

Miyako Urabe and Nicholas Weindling, managers of JPMorgan Japanese - 9 December

In October 2019, the global economic outlook appeared to be improving somewhat, with equity markets gaining ground after months dominated by trade disputes, stagnant economic growth and plummeting corporate profits. Within Japan, the economy had been hit by weaker global demand for its exports, whilst a rise in Japanese sales tax on nearly all goods and services, which had become effective in October, was expected to dampen the domestic economy and broader business confidence in the short term. There were, however, glimmers of hope that the general direction of travel for the Japanese economy was positive.

The outbreak of the COVID-19 pandemic in early 2020 changed everything. First and foremost a human tragedy, the pandemic precipitated severe and instant economic weakness across the world. Industrial activity was curtailed in many territories and consumer demand weakened as normal daily life was severely restricted. Japan did not escape unscathed as it too fell into deep recession, its economy experiencing a record slump in the second quarter of 2020. The pandemic also suppressed international travel, with tourist visitor numbers to Japan collapsing and the Tokyo 2020 Olympics pushed back to 2021.

By March and April 2020, businesses across corporate Japan were assessing their chances of survival with sales channels completely shuttered. A state of emergency was rolled out across the country in April, but was then lifted at the end of May, once new daily COVID-19 infection levels had been brought down. Despite Japan's high population density and, globally, the highest percentage of older people, Japan has been relatively unscathed so far, in terms of infection and death rates.

While Japanese companies typically have extremely strong balance sheets, with some 55% of non-financial companies having net cash balances, which meant most were in a relatively robust position to survive the initial COVID-19 shock, they did begin to recognise the need to consider the long-term consequences of the pandemic.

In some respects Japan has been a global laggard, for instance its widespread use of physical ink stamps to certify business and personal documents, the continuing use of fax machines, low penetration rates for online retail and continuing very high

cash usage in retail. COVID-19 also highlighted how ill-equipped Japanese businesses were to allow their employees to work from home as they had failed to invest in the necessary IT infrastructure to support this. The pandemic has accelerated structural changes that were already under way, which then received further support coming from an unexpected change of leadership in Japan's government.

On 16th September 2020, the Japanese parliament approved Yoshihide Suga as the country's new Prime Minister. This followed the resignation of Shinzo Abe, who stepped down on deteriorating health grounds. Suga was formerly chief cabinet secretary within Abe's government and his policies are closely aligned to those of his predecessor, so his appointment was generally welcomed. He starts his leadership with high approval ratings and an expectation that he will follow the policies of Abe.

One positive point of differentiation between Suga and his predecessor relates to digitalisation across government and the corporate world. The new PM is spearheading a digital revolution in Japan, which he considers crucial to speeding up recovery to pre-pandemic levels and improving Japanese competitiveness.

Reflecting on the last ten years, we believe that real and permanent change has been and remains underway in Japan. Corporate governance will continue to improve following the kickstart given by the Abe administration; real returns to shareholders can rise further; and digital transformation is being embraced by many. This provides Japanese equities with longer term attractions relative to some other global markets and our conversations with investors over the last 12 months suggest that others are recognising this. These changes are widespread, but not uniform across the market; so careful research and stock selection will continue to be important.

COVID-19

COVID-19 is driving and accelerating change in Japan as it embarks on its digital revolution and, looking ahead, we expect to see industry consolidation and productivity growth through trends such as adoption of more flexible working practices and better use of information technologies.

COVID-19 has cast a huge shadow over the global economy, with a 'second wave' resurgence in infections affecting many countries at the time of writing. Whilst the Japanese equity market has been one of the world's strongest this year, we acknowledge that it is more cyclical than other developed markets and can therefore commensurately be more impacted by global economic developments, both positively and negatively.

Whatever challenges lie ahead, Japanese companies remain relatively well positioned with their robust net cash balance sheets.

.....

Asia Pacific

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

Donald Workman, chairman of Aberdeen New Dawn - 17 December

After a tumultuous six months dealing with the impact of both COVID-19 and resurgent geopolitical tensions, there is now the prospect of a resolution to both in the medium term. The advent of potentially viable vaccines has already proven

positive for share prices. There are expectations that these new drugs will enable a return to normality by this time next year, although challenges related to manufacturing and distribution could surface in the interim. Meanwhile, Joe Biden's victory in the US presidential elections augurs well for geopolitics. Many observers expect him to adopt a more multilateral approach on the world stage, while taking a less confrontational approach towards China. The strategic rivalry between the two countries will likely persist but a more constructive dialogue is anticipated which should hopefully reduce market instability.

.....

Matthew Dobbs, manager of Schroder AsiaPacific - 14 December

The rate of earnings downgrades across the region has slowed recently, but there is still a lack of visibility on the timing of an end to global lockdowns and travel restrictions, and the likely path of the subsequent recovery in activity. This is especially the case now given secondary spikes in infections in several countries, though so far largely outside Asia itself. It is, therefore, no surprise that companies are providing limited guidance on their shorter-term outlooks and continue to plan conservatively. In our interaction with management teams, our focus has been on understanding what measures they are taking to deal with the crisis and how well placed they are to ride out the downturn - operationally and financially. For many companies, this year's earnings are likely to be something of a write-off, so it is important to focus on the longer-term prospects for our investee companies. As performance in the past few months has demonstrated, markets by and large are willing to look beyond this crisis, as long as there is scope for a healthy recovery next year to a more 'normalised' level of profitability.

Consequently, aggregate valuations for the region have risen to slightly above historic average levels. This is clearly already pricing in a measure of the recovery in earnings expected into 2021 and the upside for the 'lockdown winners'. There is scope for disappointment, but the ultra-low level of interest rates and bond yields around the world provides support to valuations.

Behind the aggregate valuation measures, there is a very wide spread of multiples. This means that valuations in some of the sectors with strong momentum this year - notably selected healthcare, e-commerce, online gaming, 5G equipment, electric vehicle-related and other popular China A-listed shares - are much more stretched. We are also seeing some signs of 'froth' emerging in the very strong flows and performance of new initial public offerings in Hong Kong and South Korea. This froth is also evident in the high levels of retail participation in these deals and in market trading more generally. Although not yet at worrying levels, this sort of optimism does leave markets more vulnerable to disappointment.

The obverse of this is that many companies in less "fashionable" sectors are offering great value. However, we must be very selective as some industries are facing severe, even existential, disruption; for example the portfolio has relatively little exposure to hydro-carbon energy and autos, and we continue to take a very selective approach in banks and real estate. Across all sectors we remain sensitive to the long-term sustainability of company business models, working closely with our local analysts and our Environmental, Social and Governance (ESG) team.

.....

Global emerging markets

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

Sam Vecht and Emily Fletcher, managers of Blackrock Frontiers - 11 December

With frontier markets yet to see the rebound of more developed markets, performance has been disappointing, down 15.6% for the year. There is, as yet, no anticipation of recovery priced in, with 11 markets still down more than 20% over the last twelve months.

Our positive view on fast growing economies, Indonesia and the Philippines, was among the largest detractors. While we did see some recovery from March lows, both markets remain considerably lower than where we started the year. We note the better than expected remittance trends in the Philippines and foreign exchange reserves are at all time highs. Fiscal trends calendar year to date are better than expected in Indonesia and we maintain our high conviction in this trade as these countries continue to offer significant growth and yield in a world where both are increasingly difficult to come by.

Outlook

While COVID-19 remains a key short-term global uncertainty, we are more optimistic on the medium-term outlook for frontier markets. Many countries within our universe have seen a near V-shaped rebound in economic activity and now have considerably less fiscal overhang than their peers in developed markets. It is also worth highlighting that these smaller economies remain a material source of growth and yield in a world that lacks both. Furthermore, in several countries, currencies are now highly attractive on a real effective exchange rate basis.

On our analysis, frontier markets currently represent close to 30% of the world's population, 12% of total gross domestic product (GDP), and 5% of net profits. Despite this, they account for only 1% of world indices, a number that has declined significantly over the last 10 years. We remain convinced that over time frontier markets' index representation should grow towards their share of world profits, which in turn should be more reflective of their contribution to GDP. Over the longer term, as these countries become richer, we believe that considerably more than 1% of investors' capital will be allocated to the countries in which nearly 3 billion people live. In an investment world increasingly focused on ESG, we find it strange that the poorest 3 billion have been increasingly side lined by both index providers and allocators of capital.

While during recent years, frontier markets, despite their growth, have been out of favour, we believe that in a post COVID-19 world awash with record liquidity, investors will remember the considerable attractions of our investment universe. The megatrends highlighted above have not been impacted by COVID-19. On the contrary, their importance and duration have been amplified during this most challenging of years.

We have identified climate change, rapid urbanisation, emerging global wealth, and demographics as key megatrends that will dominate the investment climate for years to come. We believe that nowhere are these themes more prevalent than in frontier markets; and that this will become increasingly recognised over the next decade offering numerous opportunities to the Company.

We are broadly positioned for a normalisation in global economic activity. We remain positive on areas where policy makers have taken upfront, prudent measures to contain COVID-19, where the foreign currency debt situation is relatively manageable, and countries that will benefit from a lower oil price and whose currencies appear inexpensive. As such, Indonesia, the Philippines, and Vietnam appear attractive.

.....

China

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

Shumin Huang, Rebecca Jiang, and Howard Wang, managers of JPMorgan China Growth and Income - 9 December

The Chinese government is continuing to promote coordinated pro-growth policies, while deepening reform measures in order to deal with the cyclical (domestic) headwinds and structural (external) challenges. The magnitude of such supportive policies will be dependent on how the world ultimately deals with the pandemic and the eventual outcome of the ongoing China-U.S. trade negotiations. The latter seemed to have been superseded in importance by the clearest indications yet that the US is seeking to limit China's access to the latest cutting edge technologies, so as to slow the country's ability to catch, or even surpass, US dominance.

China's importance in the world continues to grow and its economy is likely to continue growing faster than its global peers. The economic transformation and evolving role of the country as a global economic superpower is well underway with recent challenges unlikely to derail progress in any material manner. Moreover, given the recent fiscal and monetary measures (such as VAT reductions, waiving toll fees, liquidity injections and interest rate cuts) we believe that the market outlook remains broadly positive.

Globally, the continued spread of COVID-19 means that the outlook is likely to remain challenging for the immediate future. Yet we take some comfort from the Chinese government's strong containment measures and proactive economic policies which have clearly defined the country's bounce-back from the coronavirus shock: corporate revenues, supply chains and investment markets have all recovered decisively.

Looking ahead, we expect the Chinese government's countercyclical policies to continue to be measured and appropriate, both in terms of size and scope, targeting the real economy without significantly increasing leverage risks for the financial system. This points to moderately slowing but likely higher-quality macroeconomic growth. Valuation wise, our internal data suggests that we are around long-term average levels. We acknowledge that volatility and external shocks (such as trade and politics) may hinder a broader-based cyclical recovery in the short-term but we are reassured that interest in the domestic market from foreign investors has remained strong, on the back of the opening up of the onshore equity markets. Given this macro backdrop, we remain broadly optimistic on the outlook for China equities.

.....

Dave Nicholls, manager of Fidelity China Special Situations - 8 December

While there are variances between regions and sectors, overall, the economy continues to recover. Successful control of the COVID-19 virus has clearly been a factor supporting the China recovery. Small localised outbreaks within the China region were handled swiftly and have not dented the improving overall economic momentum.

This is reflected in China's Purchasing Manager's Index ("PMI") which has recovered much sooner than other Asian countries.

The third quarter GDP growth figure of 4.9% was supported by stronger services and external demand. Key laggards in the service sector – travel and leisure – are now gaining momentum after restrictions were loosened in mid-July 2020. Government stimulus has clearly been a factor supporting the recovery, but on the whole has been more restrained and targeted than measures seen in most Western economies. Among supportive measures, the People's Bank of China ("PBoC") announced cuts in its re-lending and re-discount facilities to reduce funding costs for smaller firms and rural sectors. Separately, both the end of July 2020 Politburo economic meeting and the PBoC's second quarter Monetary Policy Implementation Report confirmed that the monetary policy has turned towards a more neutral stance since May 2020, although the rollover of fiscal stimulus will continue. China remains on track to be the only major economy to grow in 2020.

We continue to see an acceleration in capital market reforms in China; from the loosening of short-selling restrictions, the lowering of foreign investment restrictions and the implementation of a registration-based IPO mechanism. The registration-based IPO mechanism was launched last July on STAR Board and is now being employed on ChiNext.

In these markets, listing requirements are more flexible, such as alternative criteria on market cap, profitability, and allowing variable interest entity (VIE) structured companies to list. These were restricted under previous rules, so given this flexibility we could expect more technology/new economy companies listed on the A-share market. We have already seen more IPOs of A-share and Red chip companies this year, and it is probable that we will see more to come given the US issues and the more flexible listing requirements. For example, the Hong Kong Stock Exchange raised a total of HK\$ 87.3 billion in the first half of 2020 from 59 new listings, marking a total increase of 22 percent in total funds raised compared with the same period last year*, and ensuring it maintained the top position in equity raising globally. Recent changes such as the removal of the QFII quota, the widening of the investment scope and the integration of the QFII and RMB QFII schemes will likely further boost inflows. The delay in Ant Group's IPO could be viewed as a setback, but we believe the momentum is clearly in the direction of deregulation and the opening up of markets.

.....

India

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

Rajendra Nair, manager of JPMorgan Indian - 23 December

Although markets have rebounded significantly since September, the outlook in the near term remains clouded by the pandemic. The silver lining is that there are distinct signs of a peak, with the daily rate of confirmed cases falling sharply from

almost 100,000 per day in mid-September to below 30,000 at the time of writing. Furthermore, the fatality rate has also fallen steadily to 1.5%, which is materially lower than global averages. There is a risk of a second wave, as witnessed in other parts of the world, following the onset of winter in North India. Nevertheless, the implicit assumption is that the government will respond to a possible second wave with localised lockdowns, and consequently the economic disruption is unlikely to be as severe as we experienced earlier this year. Consensus forecasts imply a "V-shaped" recovery in economic activity, with the economy expected to contract by 5-10% in FY 2021 and rebound by 8-10% in the following year. This is also reflected in the earnings forecasts across most companies.

Progress on the development of a vaccine will also gradually ease the pandemic related risks. In this regard, India is relatively well placed as one of the largest vaccine manufacturers in the world. Subject to regulatory approvals, vaccines are expected to be available from early next year, although vaccination on a reasonably large scale will be complex and undoubtedly take a long time.

Notwithstanding these challenges, the Indian economy remains at a nascent stage of development with a long runway of growth. In this context, it is worth noting that while the structural reforms recently unveiled by the Modi government are unlikely to make a material difference to the economic outlook in the near term, they have the potential to boost the sustainable growth rate of the economy over the next decade. This presents a fertile environment for well-managed companies across a wide spectrum to grow profitably for a long time.

.....

Biotech & healthcare

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

James Douglas and Gareth Powell, managers of Polar Capital Global Healthcare - 15 December

The healthcare sector outperformed during March, but driven by defensive stocks, including large-capitalisation pharmaceutical and large-capitalisation biotechnology. Also, any companies attempting to develop or manufacture drugs or diagnostics in relation to COVID-19 saw their stocks outperform. By contrast, reallocation of resources away from standard hospital procedures to care for COVID-19 patients led to a dramatic decline in elective procedures, negatively impacting medical device companies and healthcare providers, which had a material negative impact on the portfolio.

The substantial fall in the markets in March was followed by an equally dramatic recovery, driven mainly by an unparalleled fiscal and monetary response, with \$10 trillion of global stimuli announced, a figure three times more than the response to the 2008-09 financial crisis.

Politics have also been prominent during the reporting period, with the US election a big driver of sentiment amongst investors. During 2019, when the more progressive Democratic nominees, Bernie Sanders and Elizabeth Warren, were still in the running for office, we witnessed periods of severe stress as the market focused on the risks associated with Medicare for-all (in essence, a Government run and funded healthcare system not that dissimilar to the UK's National Health Service). 2020, however, saw Joe Biden grab the Democratic baton which we believe has removed the worst-case scenario for the healthcare industry given his

intention to invest more dollars into the current system, as opposed to dismantling it. The affordability of pharmaceuticals is on the agenda of both political parties, but it will be the make-up of Congress that will determine the ultimate success or failure of the various policies.

As one would expect, this dramatic shift in the healthcare landscape presented an opportunity to markedly change the positioning of the Company's portfolio. As at the 30 September 2019, the biggest sub-sector relative over-weight was healthcare equipment, a decision driven by innovation-fuelled revenue acceleration, with pharmaceuticals the biggest relative under-weight. As at the 30 September 2020, healthcare equipment's weighting was reduced to a modest relative overweight driven by uncertainty surrounding a potential second COVID-19 wave. The biotechnology sub-sector exposure was increased materially, with the relative over-weight reflecting our positive view on the high levels of innovation in areas such as gene therapy, precision oncology and rare diseases. Attractive valuations, healthy balance sheets and supportive regulators helped underpin the decision further. To the latter point, regulators are accelerating access to medicines that meet high unmet medical needs. For example, the US FDA has approved a comparable number of new medicines this year as it did in 2019, this despite the challenges presented by COVID-19. We continue to have an under-weight position in pharmaceuticals, given the sub-sector's lack of top-line growth and mature operating margins.

2020 has been an extremely challenging year, but one that under-pins the value of the healthcare industry. This is corroborated not just by the high levels of innovation that have accelerated development of COVID-19 therapeutics and vaccines, but also by the mass coordination and mobilisation of resources to ensure wide-spread access to effective testing. The crisis has also, however, highlighted the need for healthcare systems globally to become more efficient as the demand for products and services continues to rise.

Politics and COVID-19 cannot be ignored

If one assumes that ballot recounts in Georgia fail to change the course of the US election, then democrat Joe Biden will have won the race, an outcome that prima facie sets a cautionary tone for the healthcare industry. Importantly, however, the balance of power in the Senate will be key to determining how far-reaching Biden's healthcare reform can go. At the time of writing, the Republicans hold 50 seats in the Senate, the Democrats effectively hold 48 seats, with 2 seats yet to be decided. Those 2 seats are in Georgia and are heading to run-off elections to be held on the 5th January 2021. The outcome of those run-offs will determine the make-up of the Senate, a critical factor given it holds sway over judicial nominations and legislative agenda. A 51:49 outcome favouring the Republicans would make it very difficult for the Democratic party to pass its more progressive healthcare policies, especially with senator Mitch McConnell leading the Republicans in the Senate. Even if the Senate gets split 50:50, with the President carrying the tiebreaking vote, disruptive changes to law are unlikely given the reliance on bi-partisan coordination and agreement.

Heading into the election Joe Biden's focus was on building on and investing in the current healthcare system, known as the Affordable Care Act (ACA), and addressing the high cost of prescription drugs. With regards the former, Joe Biden has signalled he will consider a public insurance option and will also consider lowering the eligibility age for Medicare from the current 65 years of age. Investing in the ACA, and lowering the eligibility age for Medicare, are both tailwinds for the insurance industry given the positive volume implications. A public insurance option,

however, could present a challenge but only if administered and under-written by the Federal government. Head-line grabbing perhaps, but unlikely to present a material challenge to the managed care industry.

With bi-partisan support, addressing the high out-of-pocket costs for prescription drugs, especially for US seniors, is a directive that will have traction. A divided Senate is unlikely to support the more draconian policies such as direct negotiation of drug prices by the Government, but we do believe that the Administration will look at a number of plans including, but not exhaustively; Using international pricing mechanisms to value drugs ahead of US launch; Prohibiting drug manufacturers from increasing prices above the general rate of inflation; Allowing for drug reimportation; Supporting the development of lower-cost generics. Regardless of the potential changes, the message to the bio-pharmaceutical industry is very clear - innovate and target unmet medical needs because pricing pressure is here to stay.

On a more positive note, the first Phase III COVID-19 vaccine update was extremely encouraging. Early in November, Pfizer and BioNTech announced positive results from the first interim analysis of the Phase III study for their vaccine candidate, BNT162b2. The vaccine was found to be >90% effective in preventing COVID-19 in participants without evidence of prior SARS-CoV-2 infection. Importantly, no serious adverse concerns had been observed. A hugely uplifting update, and one that should be widely applauded, it is important to check euphoria by reflecting on some of the yet unanswered questions. Whilst there were no serious adverse events reported, we are yet to fully understand the tolerability profile of the vaccine (fever, chills, nausea etc), nor do we know if the vaccine is effective in the elderly or in high-risk groups. The vaccine's ability to prevent re-infection is also an unknown. When trying to assess access and availability, capacity and distribution should also be considered. A two-dose course, Pfizer/BioNTech will have approximately 50 million doses of BNT162b2 available by the end of 2020, and up to 1.3 billion available in 2021. It is also worth noting that the vaccine needs to be stored at -70 degrees Celsius, so wide-spread distribution is not a trivial matter and will require substantial investment. With multiple COVID-19 vaccines in late-stage development, using a variety of mechanisms and approaches, we firmly believe an optimistic stance is the right one to adopt.

M&A is a theme that feels especially relevant in the biotechnology sector as companies look to bolster either their pipelines or financial profiles or both. We are increasingly positive on the life sciences tools and services sector given it is an area of the market that has the benefit of being insulated from political rhetoric, has fastgrowing end-markets such as bio-processing, and has potential COVID-19 upside driven by the testing market and by supplying consumables needed to manufacture COVID-19 therapeutics and vaccines. Contract Research Organisations (CROs) are also insulated from political pressure and have the added benefit of operating in an extremely well-funded environment, with biotechnology financing hitting record highs. For context, as at the end of August 2020 biotechnology companies had raised \$100bn in 2020, a broad measure of the health of the industry and the end-markets.

2020 will of course be remembered for the COVID-19 pandemic, the biggest economic, social and healthcare crisis of our generation. Importantly, however, the crisis has been a genuine catalyst for positive change in the healthcare industry, accelerating the adoption of products, technologies and services designed to make wide-scale access to healthcare more efficient and more affordable without compromising quality.

.....

Technology & media

(compare technology and media funds [here](#))

Ben Rogoff, manager of Polar Capital Technology - 11 December

At the time of writing, vaccine progress is providing some recovery light at the end of the COVID tunnel. Alive to the risk of further factor rotation against a backdrop of extreme outperformance of growth over value during the pandemic (with valuations aided by low interest rates and growth scarcity), we decided to pare our exposure to some of our greatest stay-at-home beneficiaries and exited a few stocks where valuations appear extended or where year-over-year comparisons in early 2021 will be challenging. In return, we have added to stocks (existing and new) that we expect to benefit from a global reopening or a more normalized macroeconomic backdrop. Despite this modest recalibration, we retain high conviction in our 'new normal' thesis. COVID-related behavioural changes will persist long after the pandemic, particularly where new solutions address inefficient, expensive or outdated practices. Telemedicine, digital payments, online banking, social commerce, direct to consumer retail and food delivery are just a few consumer-facing trends and applications that we expect to continue. Likewise, businesses are not likely to return to earlier practices having embraced next-generation software that facilitates higher productivity and flexible working patterns. The need for businesses to digitally transform themselves to avoid obsolescence will not cease with a vaccine, nor do we expect industries that were challenged before COVID to enjoy lasting succour from reopening.

In our last annual report, we drew on the Second World War as a parallel to the pandemic with focus on the role it played in accelerating technology innovation. We are equally excited about what it might reveal about the world post COVID - a parallel we hope to draw out in next our Annual Report. For now, a cursory study suggests that the world we knew before the pandemic is unlikely to return, just as the pre-war world was lost forever even after war was concluded. In the UK (and elsewhere) post-war elections produced governments that radically altered social policies. Expansion of the welfare state was epitomised by the creation of the NHS in 1948, while the Education Act of 1944 ensured free secondary education for all children. Today's pandemic has significantly accelerated change within healthcare with regulators more amenable to change, health agencies working closely with technology companies while telemedicine and AI chatbots have been widely deployed during the lockdown and are likely to prove critical if governments are to keep to their 'cradle to grave' post-war pledge. Likewise, Zoom, Microsoft Teams and other platforms have not only kept schools open virtually during the pandemic, but now that they have been broadly adopted, they also offer us a glimpse of how remote learning and digital-only schools might be able deliver best-of-breed education for all children regardless of where they might live in the real-world.

We might also have something to learn from post-war reconstruction, in particular the creation of new towns such as Hatfield, Milton Keynes and Stevenage designed to address a housing shortage and the overspill of population from London. Today, COVID has made remote workers of us all. With flexible working likely to persist, less need to commute to cities in the future has also resulted in some de-urbanisation and the rise of so-called Zoom Towns - 'gateway communities' with more affordable housing. Likewise, automation and AI is likely to have a lasting impact on workforces long after COVID 'acceleration' has normalised, just as WWII and the post-war labour shortage had a profound effect on the role of women and

the use of migrant workers. The case for robots has also been greatly aided by the pandemic ("a crisis robots were built for") with the need for social distancing advancing the case for self-service checkouts in supermarkets, co-bots in factories and "touchless hospitality" in hotels with room keys collected by scanning a QR code and even food and drink being delivered by robots to guests under quarantine.

The end of COVID may also presage a reordering of relations between countries, just as the postwar world saw the rise of internationalism and the creation of supranational bodies such as the UN designed to foster greater cooperation (and help prevent war) and a new beginning for globalisation which saw exports as a share of global GDP rise from 4% to 9% between 1945 and 1970 before doubling again in the 1980s. With cross-border trade in goods and services now at c.28% of global GDP, the post COVID world might see more countries reasserting their national interests (a la Brexit) in order to tackle a number of challenges exacerbated by globalisation, including widening economic inequality, unprecedented movement of people and of course, climate change. Thankfully the pandemic has helped highlight how humans tend to overlook low-probability, high-impact risk - something equally applicable to climate change - and the need for a global coordinated response. While NATO might not survive Turkish expansionism, the Paris Agreement should be just fine, especially with a new US President.

One final observation from our post-war parallel might be that expectations of above-trend global growth post COVID could disappoint. In the case of the UK, the economy did not recover its pre-war level until the 1950s, in part due to government indebtedness. The war also accelerated the decline in British power that peaked at the end of the 19th century and - thanks to two world wars, Bretton Woods, decolonisation and the rise of America - was laid bare by the time of the Suez Crisis in 1956. Today, we might consider whether COVID and the rise of China represent the same existential threat to US power and Pax Americana as it (and world war) did to the British Empire. While the Fed remains the world's lender of last resort, US debt levels may not matter, but they are already at / around 100% of GDP - the first time since WWII; far from the 258% reached by Britain in 1946/47 but an inauspicious waypoint, nonetheless.

While the immediate path for the technology sector may wax and wane with vaccine / COVID developments, our constructive medium-term view remains unwavering. The 'new normal' is unlikely to prove as costly a moniker as the 'new economy' proved post 2000, a view supported by a profoundly different valuation starting point. Today, the S&P technology sector trades at 26.7x forward earnings - meaningfully higher than where it stood twelve months ago (20.6x) but largely a function of the re-rating of equity markets. In terms of relative premium, the sector continues to trade at/around 1.3x the broader market - little changed from where it stood six and twelve months ago. As in prior years, these metrics ignore the technology sector's superior collective balance sheet. In contrast to the dotcom years when technology accounted for 32% of S&P 500 market cap and c.13% of earnings, today the sector explains 27.4% of S&P 500 market cap and 26% of its earnings.

The sector's superior growth profile that has driven much of its recent outperformance was once again evident during Q3 earnings season. With 92% of the S&P 500 having reported, the technology sector has delivered overall revenues and earnings growth of 3.5% and 4.0% y/y respectively, as compared to the S&P 500 which has seen y/y revenues and earnings decline by 1.6% and 7.1%. For the full year, technology is expected to grow earnings at 4.0% as compared to -14.5% for the S&P 500. However, in part due to easier comparisons, the S&P 500 earnings

2021 rebound is expected to outpace the technology sector with growth pegged at 22.1% and 14.3% respectively.

While the market may simply look through this reversal in (one year) earnings fortunes, the prospect of less scarce growth once the worst of the pandemic is behind us, may represent risk to elevated valuations within technology. As we have outlined in our monthlies, we have been relatively cautiously positioned in areas such as software, a subsector we have long favoured, as we have found it increasingly difficult to justify valuations. According to a report from Morgan Stanley, the five most expensive software stocks recently traded at an EV/next twelve-month revenue multiple of 34.6x as compared to the 2019 peak of 28.4x and five-year average of 14.8x. We have also recently expressed some discomfort with the growing sense of inevitability about the primacy of technology and the reordering of everything (which is where the 1990s parallel feels most uncomfortable) as well as the elevation, and valuation of a narrow list of stocks that perfectly capture the zeitgeist of today's disruption look every bit as nifty as their 1960s predecessors. Likewise, the IPO market has enjoyed its best year since 2014 (raising \$67bn in 2020) while SPACs (Special Purpose Acquisition Companies) - companies with no commercial operations designed to raise capital from investors in order to acquire operating companies - raised an additional (and eye-watering) \$64bn.

Greater regulatory scrutiny and/or higher taxation could also detract from the technology story over the coming year despite our earlier hope that the munificence of 'big tech' during the pandemic might mitigate this risk. Instead, the fact that the technology sector has been able to keep the global economy working effectively during a pandemic (and made lockdown far more bearable) has shone a light on the enormous power of the largest technology companies. Thankfully, efforts to rein in the largest US technology companies have been mostly shadow boxing to date with Congressional hearings, EU antitrust investigations and House subcommittee findings delivering little more than adverse headlines and occasional fines. Even the widely awaited Department of Justice (DoJ) pursuit of bete noire Alphabet failed to live up to earlier fears, its antitrust lawsuit presented in October having a narrow focus (on app pre-installs and default search distribution deals) rather than on broad issues around search result prioritisation or anything that could result in a company breakup or meaningful change in business model. However, President Trump's plan to ban or force the sale of TikTok – a Chinese-owned app used by 165m Americans and more than 2bn people globally - was a salient reminder of the primacy of politics. So too were "last minute" changes to Chinese regulations in late October which halted (if not derailed) the Ant Group IPO . Without knowing what prompted this sudden intervention, we reduced our exposure to Chinese Internet stocks as this unexpected regulatory overhang seems unlikely to dissipate for now.

While these potential headwinds, together with light at the end of the COVID tunnel may continue to drive rotation towards reopening beneficiaries, we do not believe that technology outperformance has to end with the pandemic diminishing. COVID has clearly accelerated a number of key technology trends, but the redistribution of profit pools across myriad industries began long before the pandemic. Companies have been forced to adapt their business models to a digital-first world. A recent McKinsey survey revealed that the pandemic has seen 85% of executives somewhat or greatly accelerated their implementation of technologies that enable employee interaction and collaboration, and two-thirds accelerate automation and artificial intelligence. More importantly, the COVID-19 hiatus has provided a rare opportunity for management teams to re-evaluate the role of technology across their operations such that technology adoption will become the next driver of differentiation between companies within traditionally non-tech industries. As Satya

Nadella recently noted on a Microsoft earnings call, "in a world of uncertainty and constraints, every person and every organization need more digital technology to recover and reimagine what comes next."

The pandemic has also exposed any limitations associated with legacy, on-premise systems, while the accelerated adoption of next-generation technologies appear to have shortened their timeline to reinvent themselves. Weakness at Oracle was evident in Q2 when Cloud and on-premise licence growth declined 21% y/y in constant currency. SAP surprised investors in October when it slashed both annual and medium-term guidance, ostensibly due to a muted demand recovery and the reimposition of lockdowns in Europe, although Salesforce CEO Mark Benioff was quick to label SAP's troubles as "unique to them". Intel's own travails are well documented and despite delivering a better than feared FQ1, Cisco enterprise order activity has fallen to levels last seen a decade ago. As such, we remain hopeful that the current rotation within the technology sector in favour of value following positive vaccine news is likely to prove another tremor rather than a seismic shift in investment style.

.....

Tim Levene, CEO of Augmentum Fintech's manager - 2 December

As we stated in our March results, the opportunity to capitalise on the shifts in consumer and business behaviour in regard to digital financial services is greater than ever. With the opportunity still in its nascency (incumbent players still control >90% of the global market for financial services) it's all very much still to play for.

.....

Debt

(compare debt funds [here](#))

Jenna Barnard and John Pattullo, managers of Henderson Diversified Income - 8 December

"Idyllic" is the word we have been using to describe the investing environment for corporate bonds during the six months since the end of April 2020. This is clearly in stark contrast to the news flow surrounding the pandemic (the positive vaccine news only arrived in November) but a confluence of market factors served to make this economic crisis one which has had only minor ripples for credit markets. Indeed, it is worth observing that lenders (neither banks nor credit markets) are not the villains of the piece on this occasion as they have been in the last two economic downturns in which they either caused or exacerbated economic weakness. Rather, this time around, lenders have stepped up to bridge liquidity shortfalls for companies adversely affected by COVID-19, ensuring that a liquidity crisis has not become a widespread solvency crisis for the large companies that access public capital markets such as ours.

Defaults have been remarkably muted in aggregate and concentrated in obvious problem areas which have disappointed for years (e.g. energy fracking companies in the US, traditional retailers in structural decline). Clearly, government and central bank support have played a crucial part in encouraging this generosity and putting a floor under the economy and capital markets. However, it has been a most unusual credit cycle, different to any experienced in living memory.

In the following paragraphs we will seek to give readers a sense of just how muted the credit cycle has been relative to the size of the economic shock. Before doing so, it is worth noting that at the time of writing we have already passed the peak in default rates, credit ratings downgrades and issuance whilst we sit at a peak in leverage (debt ratios) which is expected to fall as earnings recover in 2021. With the impressive efficacy of vaccine results to date we are ever more certain in this upbeat diagnosis on the outlook for defaults. Companies that have got this far will no doubt be supported to summer 2021, a point at which it would appear normalcy will begin to resume to a large extent. Balance sheet repair is likely to remain a theme of corporates for many months to come. Indeed, post the first vaccine news we saw companies in the cruise and airline industries immediately issue equity in order to reduce debt.

If we turn now to the banking sector, a similar experience has also occurred whereby actual impairments have not been anywhere near as high as the expectation when banks aggressively provisioned for future losses in their second quarter results (based on what proved to be overly harsh macro-economic assumptions, particularly on house prices). Amazingly, for credit investors, this crisis has been beneficial for their bonds as banks across the UK, Europe and US actually built their equity capital levels despite this conservative provisioning. The reason for this was twofold: strong organic earnings (especially for banks with investment bank / trading arms) and the intervention of regulators who unilaterally banned ordinary dividends and share buybacks. The following table shows how the second quarter results were viewed as the "all-clear" for credit investors in banks with the total return of the most subordinated, hybrid "CoCo" bonds recovering all their losses at this point whereas the ordinary equity returns languished until very strong quarter three results convinced equity investors of this resiliency.

The outlook for credit investors remains positive, albeit tempered by the much lower yields on offer relative to spring / summer 2020. It is with this in mind that we are pleased to have locked in additional income for the Company earlier in the year (see previous annual report). The backdrop remains fundamentally positive for credit investors, it being an early cycle environment in which debt investors continue to be treated preferentially relative to equity investors. The positive vaccine news cements this outlook and 2021 looks set to be a more interesting year for central banks than credit investors. Should the economic recovery be stronger than their pessimistic forecasts, then the guidance of no rate hikes for circa 5+ years will be tested. As will their willingness and ability to monetise government debt via continued quantitative easing programmes.

.....

Royalties

(compare royalties funds [here](#))

Merck Mercuriadis , founder of Hipgnosis Songs and CEO of its investment advisor - 4 December

Music streaming income continues to grow and now makes up 85% of all income in the US where almost every household now has a music streaming subscription. This has replaced and exceeded physical sales which now command only 7% of music income, just slightly higher than the 6% made by digital downloads.

Lockdown has also significantly changed music consumption, with more listeners reaching for songs they grew up with for comfort and escape. This leaves us

perfectly placed during these challenging times with a Portfolio concentrated around incredibly successful and culturally influential proven hit songs that are in high demand. 'Don't Stop Believin' by Journey, as just one example from our catalogue, has been streamed at least 10,000,000 times per week every week since March up to the present moment. Data from the H1 2020 global music revenues have confirmed our expectations that the growth in revenue from both existing (Spotify/Apple) and emerging (Peloton/TikTok) streaming platforms is more than offsetting shortfalls elsewhere brought on by the pandemic.

Market Conditions

Despite some short-term negative impacts due to COVID-19 the music industry continues to grow, including earnings relating to music publishing and songwriters. The '2020 Independent Music Publishers International Forum Report' showed a 7.5% increase in the global value of music publishing, including songwriters and composers, in 2019 to €10.7 billion (£9.63 billion) from €9.95 billion in 2018.

Whilst the ongoing COVID-19 pandemic has shaken up the entire music industry, streaming continues to dominate and is more than making up for the revenues lost from other income sources. Spotify's Q3 20 results showed total revenue growth of 14% year on year to €1.97 billion (\$2.29 billion) with total monthly active users rising to 320 million, up 29% year on year, exceeding company expectations.

Lockdowns globally have impacted live and performance revenues; the RIAA 2020 mid-year report showed growth in paid subscription streaming more than offset revenue declines in other areas of the US recorded music market in the first half of the year. In 2020 first half US music revenues increased 5.6% overall led by streaming which grew by 12%. If the second half grows at the same pace US streaming revenues will increase by more than \$1 billion in 2020 despite the pandemic. With almost every household in the US now holding a music streaming subscription, streaming now makes up 85% of all revenue in the US. Physical sales now represent just 7% of US music revenues, just slightly higher than the 6% made by digital downloads.

In Europe, Italy's recorded music industry grew 2.1% in H1 2020, with streaming up 26.4%, Spain posted 4% growth and Germany 4.8%, despite the pandemic.

The challenging times in 2020 have not only impacted how people consume music but what music they consume. In particular a report from the University of Leuven, in Belgium, found that lockdown has "significantly changed music consumption", with more listeners reaching for tracks that evoke nostalgia, classed as songs older than three years.

During 2020 emerging social platforms that incorporate music (TikTok, Triller and Peloton) have experienced a surge in growth and payments from these will start flowing into royalty statements in 2021 and beyond.

.....

Renewables

(compare renewables funds [here](#))

Manager's report for Gore Street Energy Storage - 18 December

The energy industry continues to undergo change. With the ongoing integration of more variable renewable forms of electricity generation onto power systems (including wind, solar, electric vehicles stations and other technologies), there is

greater complexity in managing demand and supply and ensuring stability in power systems. Energy storage remains a critical tool of national power systems to support the successful transition to a net-zero economy.

Despite turbulent global markets caused by the COVID-19 pandemic, market projections for the global energy storage market remain optimistic across all regions, with significant growth in energy storage capacity expected and with annual revenue predicted to reach US\$546 billion by 2035.

The GB market remains a key focus, with the fundamental drivers for storage remaining strong, including the UK Government's target of net zero emissions by 2050. The GB market has seen significant increases in renewable generation. For example, in 2020, the UK Government reported statistics on the performance of the industry over the previous year. In that document it set out that renewable generation in GB and Northern Ireland reached 44.6 per cent in Q2 2020, growing from 35.6 per cent in Q2 2019.

With regards to energy costs of operating the Group's assets in GB, the fundamental market changes in the economy in response to the COVID-19 pandemic, such as the need for remote working and reduced use of transport, has resulted in reduced demand for electricity, which, when coupled with the favourable weather conditions that facilitated greater renewable energy generation, has resulted in more frequent periods of negative electricity pricing since March 2020. National Grid resorted to paying renewable power generators to reduce output to limit excess supply on the grid as well as to maintain inertia on the system. These factors introduced new challenges to managing the grid, as the system became less resilient to sudden changes in frequency, inducing greater grid balancing (BSUoS) charges. In this scenario, energy storage is well placed to support the electricity system.

The Impact of COVID- 19

In the short term, there has been limited interruption in the Company's business activities due to the COVID-19 pandemic.

There were delays in the early weeks of the initial lockdown resulting in a five-week suspension of construction activities relating to two assets located in Northern Ireland but they did not impact on the expected commercial operation start date, due to this having been conservatively set. The Company does not currently anticipate that the delays will impact the ability of the assets to meet market deadlines for commencement of service. However, the longer-term economic impact of the COVID-19 pandemic and resulting lockdowns on the Group and its portfolio remains difficult to assess.

.....

Tony Roper, chairman of SDCL Energy Efficiency Income - 8 December

The energy efficiency market in Europe is set for substantial growth following the launch of the European Commission's Renovation Wave policies. This wide-ranging and ambitious plan seeks to implement energy efficiency measures in 35 million buildings across Europe in the coming decade. This marks what we believe will be a very significant increase in the policy tailwinds for energy efficiency and should ensure that the sector remains front and centre of public planning around future energy policy.

The United States is one of the largest and most dynamic markets for investment in clean energy and energy efficiency and can be expected to gain further momentum under the incoming Biden administration which has put energy efficiency at the forefront of its climate policies. There is a strong case and tendency for American

business to prioritise greater efficiency and to transition towards carbon neutrality. At a sub-national level, many states have prioritised achieving net zero by 2050, providing substantial momentum and commitments. The case for cheaper, cleaner and more reliable energy solutions also remains commercially compelling in the UK.

.....

Environmental

(compare environmental funds [here](#))

Charlie Thomas, manager of Jupiter Green - 14 December

In the aftermath of the Global Financial Crisis of 2008/9, governments largely backtracked on their sustainability goals. Perhaps they felt sustainability was a luxury unaffordable during a recession. Thankfully, history does not always repeat itself.

The recession of 2020 caused by COVID-19 may turn out not to be as long-lasting as that caused by the Global Financial Crisis, but it is much deeper. Despite today's profound economic uncertainty, this time politicians show little sign of backtracking on sustainability. The proposal on 16 September from the European Commission to reduce greenhouse gas emission by at least 55% by 2030 from 1990 levels, a hike on the 40% cut currently targeted, is the latest in a string of signals that climate and wider sustainability issues remain at the forefront of political agendas. There is growing acknowledgment from governments, commercial organisations, and civil society of the need for change.

Climate change and COVID-19 are both systemic risks that must be faced collectively. The pandemic has brought into focus the acute nature of such risks and presented an opportunity to redirect financial and political capital towards solving them, and as a means of reinvigorating economic growth.

An example of this is the EU's COVID-19 recovery package. The EU is planning massive investments to fight the economic effects of COVID-19 and embedded within them is action on climate change. The EU's package includes investment in renewable energy, clean hydrogen, batteries, and sustainable energy infrastructure. Meanwhile, although at the time of writing President Trump is still refusing to concede, Democratic President-Elect Joe Biden has called for a US\$2 trillion investment in clean energy to address the climate crisis.

The cost of renewables has continued to fall, and so have the insurance and financing costs. For a renewable energy project, such as a wind farm, financing costs have never been so low. Yet there remains massive potential: about 80% of the world's energy consumption is still derived from fossil fuels.

With an unprecedented energy transition underway, we are prepared to invest in energy companies that are committed to transforming their business rapidly towards clean sources. Our experience is that much of the investment value is to be found during the transition, rather than after it has been completed.

We believe that companies focused on providing solutions in areas such as climate change mitigation, pollution prevention, the circular economy, and the sustainable use and protection of water and natural ecosystems, present multi-decade investment opportunities.

.....

Infrastructure

(compare infrastructure funds [here](#))

Ian Reeves CBE, chairman of GCP Infrastructure - 17 December

The UK is at a critical juncture in determining its future infrastructure development. Without seeking to understate the adverse impacts the COVID-19 pandemic has had on those affected and the economy generally, the need to generate an economic recovery is likely to prompt government policies that create opportunities for private sector investment. Furthermore, the UK has left the EU and, at the time of writing, has no clear route to a comprehensive trade deal to replace the transitional period arrangements. Binding emissions reduction targets that commit England to net zero by 2050 (2045 in Scotland) require significant action to be taken now, to ensure any real prospect of achieving these ambitious goals.

The recent publication of the National Infrastructure Strategy, in response to the National Infrastructure Commission's 2018 assessment, points to an ambitious plan for the UK's infrastructure across a number of areas. Further, the conclusion of the Treasury's Infrastructure Finance Review highlighted a number of opportunities and challenges for the private sector to participate in the financing of such strategy. As part of this, the Government confirmed it will not re-introduce the PFI or PF2 procurement models, and expressed support for the Contract for Difference ("CfD") and Regulated Asset Base ("RAB") models, highlighting the potential for these to be applied in new sectors. The recently published Energy White Paper proposes an overhaul of our energy systems to support the path to net zero emissions and provides a framework for the significant investment that will be required.

Ofgem are proposing to significantly lower the rate of return used in the next electricity transmission price control, a process by which the regulator determines a target rate of return for a monopoly company. Brexit, and more recently COVID-19, have both imposed significant demands on government resources and have created a moving target for policy and budgetary considerations. Delays have, understandably, been the result.

The clear need for infrastructure investment, whether to support the transition to net zero, maintain and upgrade existing infrastructure, or satisfy the need for investment to drive economic recovery, all provide reasons for optimism over the medium term.

.....

Manager's report for Sequoia Economic Infrastructure Income - 7 December

Across the range of sectors in which we invest, the outlook for some remains largely unaffected though the situation remains fluid and dependent on the length and severity of impact on the economy of continued COVID-19 lockdowns. These relatively unaffected sectors include renewable energy, data centres, mobile phone cell towers, smart metering, specialised health care, US power, specialist shipping and residential infrastructure. Other sectors, however, such as transportation, transportation assets and midstream oil & gas, have greater exposure to COVID-19 and low oil prices, and have required close monitoring and communication with the borrowers in the last six months.

.....

Manager's report for Ecofin Global Utilities & Infrastructure - 14 December

There is little dispute that investment in infrastructure must increase substantially in order to achieve commitments consistent with the Paris Agreement, SDGs, and national and corporate responsibility and climate policies. In Europe, which wants to reach carbon-neutrality by 2050, national energy plans require total investments of €825 billion over the next decade alone according to Goldman Sachs. Myriad initiatives are pulling in the same direction to drive greenhouse gas emissions lower, adopt cleaner and renewable energy sources, and promote more efficient use of those resources. Companies at the sharp end of innovation and strategies that will enable sustainability goals to be accomplished are growing and we expect their shares to be rewarding.

While there may be a pandemic-related pause in infrastructure investment recorded for 2020, the growth trajectory for global investment in clean power and efficiency measures appears secure; cleaner energies should, we believe, continue to capture a greater share of overall energy related investments - due to pure economics and political priorities. Utilities are the specialists, developers, owners and leaders in low carbon energy. It is interesting to note that oil majors BP, Royal Dutch Shell and Total recently pledged to begin spending ambitiously to develop cleaner fuels, potentially eyeing utilities' existing renewables assets and backlogs as an effective way to make quick inroads.

.....

Leasing

(compare leasing funds [here](#))

Robin Hallam, chairman of Amedeo Air Four Plus - 21 December

International travel has not rebounded in the way predicted at the start of the COVID-19 crisis. Airlines have used up much of the liquidity provided to them by governments and shareholders, but the expected restoration in air travel has been blighted by poor COVID-19 testing facilities, lack of coordinated action by governments, increased infection rates and the expected ending of many of the most generous furlough schemes. More recently, many parts of the world have seen an increase in rates of infection and it should be noted that many airlines are now cutting rather than establishing their schedules and IATA has noted that many airlines cannot cut costs to match their reduced cash inflows.

In relation to the situation in Thailand, the country has not reopened to tourism at present (its biggest industry). It expects to have received 7m tourists this year, as opposed to 40m in 2019. As the flag carrier for the country and an entity dependant on tourist inflows, Thai Airways International Public Company Limited ("Thai Airways") has once again deferred restarting operations, this time until 1 December 2020. Our A350-900 aircraft consequently remain grounded. The aircraft have been recently inspected and at the time of such inspection were being maintained in "flight ready" status as opposed to long term storage status.

As previously noted, Thai Airways are in rehabilitation proceedings and the Central Bankruptcy Court has now appointed the Planning Committee to administer the formal process. The Asset Manager, Amedeo Limited ("Amedeo" or the "Asset Manager") has maintained dialogue with the airline operations staff and their advisers and are now commencing dialogue with the Planners. Discussions have commenced with the airline around the use of the aircraft with the potential for

(limited) income and Amedeo have also arranged with lenders that debt service can be limited to interest only on a three monthly basis and are seeking to extend that arrangement. We therefore anticipate that we may have to fund interest for a longer period from the existing arrangement in a worst case scenario whilst the rehabilitation process is completed, assuming the lenders are willing to grant principal deferrals for that period in full.

We also wish to be in a position where, if negotiations with the Planner about the ongoing use of our aircraft, prove unsatisfactory, we are able to walk away from those negotiations and take back the aircraft. The Board has therefore created a contingency reserve of £30m to cover 18 months interest and funds to allow us to repossess, store, remarket and return to service our aircraft in 2022/23; if such becomes necessary. Overall, the A350-900 has suffered one of the lowest value impairment of all widebodies and we are focused on preserving equity investment in these aircraft with a view to weathering the storm, hopefully reaching a satisfactory deal with a renewed and restored Thai Airways. Repossession is very much a last resort and we would not look to take such action without the most careful thought. However, we regard the Planner's initial timeline of having a plan agreed with all creditors within Q4 this year, and implemented and working within Q1 next year, as being optimistic. We are working on the basis that the timeline needs to be shifted at least two quarters further out and that we will receive little or no income before the end of Q2 next year from the Thai leases.

Emirates is a different story and we appreciate their perseverance and wish them well in hopefully capturing market share that will be left by shrinking airlines in the next few years. Emirates continue to pay rent and they are returning aircraft to service including some of the Company's own aircraft. However, we believe the majority are B777-300ER aircraft operating for cargo purposes. Only 12 A380s are back in service. Our two B777-300ER aircraft have returned to service Emirates' operations, as well as one of our A380 aircraft. As mentioned in a press release for the carrier's Half-Year Financial Results, Emirates received a \$2bn equity injection and reported a solid cash position of AED 20.7bn (US\$ 5.6bn) as of 30 September 2020. We have assumed that Emirates will continue to pay rent in full and we have seen some 1 hour flights to keep the aircraft in a "flight ready" status.

More broadly, Qantas Airways have placed all their A380s into long term storage, even the refurbished ones. The same applies to Singapore International Airways, who will reportedly retire 7 of its A380s. Lufthansa has announced that the B747-8 will be the "flagship" of their long-haul fleet and the A380s will all be stored. They evidently believe there may be a market for a 450 seat aircraft but not a 550 seat aircraft. Etihad has removed its fleet of Airbus A380s from its flight schedule until at least September 2021 and a return of these aircraft is uncertain. Finally Hi Fly are returning their A380 to its owners and switching to their A330 aircraft at which point there will be no A380 operating under a secondary lease of any kind.

Most appraisers have now adjusted their values to account for COVID-19. We have held extensive and detailed discussions with appraisers about the assumptions they have made about values. For example, an appraisal which assumes a balance between supply and demand is of no value if one's judgment is that the balance will be heavily in favour of the buyer. The valuation results for the A380 are not pretty. The International Bureau of Aviation describe the aircraft as "one of the worst casualties" of the downturn. One of the advantages we may have, although making such a prediction is a stab in the dark, is that as our first A380 comes off lease in 2026, it is possible that by then, international travel will have come back to life as people realise that Zoom is no substitute for human contact and seeing places with your own eyes. The contraction in available supply as aircraft are permanently

retired, as a result of the pandemic and slow production rates, may create a need for lift by the middle of the decade. However, much of the residual value in scrapped aircraft is in its engines and there will be a considerable oversupply of GP7270 engines in 2026 and thereafter. We have had to manage our residual value expectations accordingly. We are more positive about the A350-900 residuals because it is the favourite, alongside the B787-9, to replace the "big" four engine widebodies.

The B777-300ER remains the most successful widebody ever, with a wide user base and now a freighter conversion programme.

.....

Charles Wilkinson, chairman of Doric Nimrod Air Three - 10 December

Emirates, the sole lessee of the Company, has undertaken a number of measures since the onset of COVID-19 to support its business. These measures included the difficult decisions to cut jobs, reduce staff wages and offer voluntary unpaid leave in order to help reduce costs. The airline was also bolstered by its cargo operations in response to increased demand. Further, as a means to contain the outflow of cash, Emirates adopted the policy that no operation is allowed to go below the cash operating cost. Reassuringly, and according to Emirates's president Tim Clark, the Airbus A380 has proven economically viable in this regard, as solid load factors have led to profitable operations - although this is in the context of only 14 of Emirates's 115 A380s currently being in service at the time of writing. The Company's Aircraft are stored at Dubai International Airport (DXB) and Dubai World Central International Airport (DWC). Perhaps the key development during the period is that Emirates had received 7.3 billion dirhams (USD 2 billion) from the government of Dubai. The Government of Dubai sold USD 2 billion of dual tranche bonds in early September with the USD 1 billion 30-year conventional bond pricing at a yield of 4% according to Reuters. Emirates reportedly reinstated the full salaries of its employees from the beginning of October.

In its recent half-year results Emirates Airline reported that revenue fell by 75% resulting in a loss of USD 3.4 billion. Despite the significant drop in operations during the six months, Emirates' EBITDA was still positive at US 79 million with strong cargo business supporting revenue. Emirates reported a cash position of USD 4.25 billion as at 30 September 2020. His Highness Sheikh Ahmed bin Saeed Al Maktoum, Chairman and Chief Executive, Emirates noted "No one can predict the future, but we expect a steep recovery in travel demand once a COVID-19 vaccine is available, and we are readying ourselves to serve that rebound."

Whilst Emirates do not have a formal credit rating they have previously issued unsecured USD bonds with maturities in 2023, 2025 and 2028, at the time of writing these respective instruments are trading at approximately par (100 cents), equivalent to USD running yields in the range of roughly 3.9% to 4.5%.

Since my statement accompanying the Annual Report the International Air Transport Association (IATA) has forecast an airline industry-wide net loss of USD 84.3 billion for this year. Revenue passenger kilometres contracted by 73 per cent in the year to September 2020. The liquidity and creditworthiness of airlines, both large and small, continues to be in focus while a significant part of the global aircraft fleet remains grounded. IATA continues to see a recovery to 2019 levels of passenger traffic by 2024.

.....

Property - UK

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

Brian Bickell, CEO of Shaftesbury:

In the year ahead, the widespread distribution of effective vaccines will bring a gradual return of confidence and activity across the West End and, a recovery in domestic footfall and spending to our villages. At the present time, it is not possible to predict at what point conditions will improve but it is likely social distancing and other restrictions, with the risk of further lockdowns, will continue into the spring and possibly early summer, putting further financial strain on many of our occupiers. The overhang of unusually high vacancy across the West End will take time to be absorbed.

The direct and immediate impact of restrictions to control the pandemic are being seen in cities across the country and much of the world. However, the economies of London and the West End have a long history of structural resilience, having weathered many episodes of challenges and uncertainties. Their unique features, which come from a culture of constant evolution across a broad-based economy, attracting talent, creativity, innovation and investment from across the world, will hasten their recovery and reinforce their enduring appeal to businesses, visitors and residents alike.

.....

William Hill, chairman of Ediston Property:

COVID-19 is making us rethink how we live, work, shop and play. Irrespective of whether the economy gets back to where it was, we will be using real estate in a different way to that pre-crisis. Some of the change was already in the pipeline. Mega trends relating to the climate crisis, demographics, digitalisation, disruption from new technologies (such as robotics), the emphasis on health and well-being and the circular economy were all there before. The post COVID-19 'reset' will accelerate the pace of many of these changes. Other changes will be new and reflect risk management against future pandemics. As owners of real estate we want to be on the right side of these changes by holding assets that are likely to both show resilience to short term economic volatility and the ability to generate attractive long term performance from current valuations.

.....

Paul Arenson, CEO of Stenprop:

The current low interest rate environment is likely to remain for some considerable time, which will favour high yielding assets with sustainable and growing rental flows. Notwithstanding the recent positive news regarding a vaccine, we are very aware of the continued threat from the pandemic and the additional uncertainty regarding Brexit. The multi-let industrial (MLI) sector has displayed its strength over the last six months and we have seen a material increase in demand from a new and ever diversifying occupier base. The pandemic has accelerated the adoption of e-commerce and the importance of regional distribution channels, which are served well by businesses operating within MLI property.

.....

Sir Julian Berney Bt., chairman of Schroder European REIT:

Faced with a global pandemic such as COVID-19 and ongoing political risk such as Brexit, it is impossible to accurately forecast with any degree of confidence how European economies and real estate markets will perform this year. In the face of uncertainty, we believe there will continue to be caution amongst occupiers, investors and banks, which will put downward pressure on rents and values in the short-term, particularly in certain sectors such as retail. We expect the consequences of COVID-19 to continue to present a challenging market backdrop for the foreseeable future and lead to long-term and permanent structural changes affecting how we live, work and play, particularly for leisure and shopping centres.

.....

Robert Orr, chairman of Tritax EuroBox:

Occupier demand is set to remain strong, while the supply of new logistics space will be constrained for some time to come, which is positive for market rental growth. While each European country is different, there are common themes of rising occupational demand, constrained supply, increasing rents and improving lease terms. There is a growing body of evidence that the COVID-19 pandemic is leading to an acceleration in many of these trends, intensifying occupational demand and increasing investment returns. Logistics property occupiers are responding to profound structural and operational changes in their markets. To ensure these occupiers have sustainable business models, they must focus on meeting the needs and changing demands of modern consumers; optimising their supply chains to reduce costs; and ensuring they occupy sustainable assets that will be fit for purpose for years to come.

.....

Richard Shepherd-Cross, manager of Custodian REIT:

As we see increasing confidence in the collection of contractually deferred rents and once landlords can formally pursue non-payers, positive sentiment towards the income credentials of commercial real estate investment is likely to return. In a low return environment, where dividends are under pressure across all investment markets, we believe that property returns will look attractive and the search for income and long-term capital security will bring many investors back to real estate. We expect further tenant failures as government support packages are withdrawn, the lockdown and subsequent restrictions bite and while CVAs remain legal, if questionable, practice, but this is likely to be heavily weighted towards the retail sector and should not diminish the overall appeal of real estate.

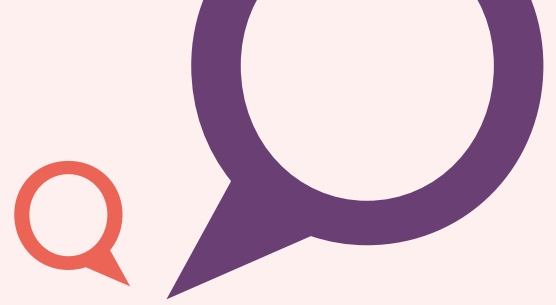
.....

Rob Whiteman, chairman of Residential Secure Income:

Regardless of the implications of the COVID-19 outbreak, the country will still have a significant shortfall of housing and even more so affordable housing. The past 12 months has highlighted the need for new investment by long-term investors into this sector, particularly given the need of housing associations to invest huge sums into ensuring their existing stock is both safe and energy efficient reducing their ability to provide new affordable homes. Last year brought to everyone's attention the importance of good quality, fit for purpose, affordable housing. All of our homes have highlighted their social value for residents; be it the ability for retirees to live with peers and avoid loneliness, provide accommodation for those otherwise

homeless; or to provide spacious high quality affordable home ownership to lower- and middle-income households through shared ownership.





IMPORTANT INFORMATION

This note was prepared by Marten & Co (which is authorised and regulated by the Financial Conduct Authority).

This note is for information purposes only and is not intended to encourage the reader to deal in the security or securities mentioned within it.

Marten & Co is not authorised to give advice to retail clients. The note does not have regard to the specific investment objectives, financial situation and needs of any specific person who may receive it.

This note has been compiled from publicly

available information. This note is not directed at any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of this note is prohibited.

Accuracy of Content: Whilst Marten & Co uses reasonable efforts to obtain information from sources which we believe to be reliable and to ensure that the information in this note is up to date and accurate, we make no representation or warranty that the information contained in this note is accurate, reliable or complete. The information contained in this note is provided by Marten & Co for personal use and information purposes generally. You are solely liable for any use you may make of this information. The information is inherently subject to change without notice and may become outdated. You, therefore, should verify any information obtained from this note before you use it.

No Advice: Nothing contained in this note constitutes or should be construed to constitute investment, legal, tax or other advice.

No Representation or Warranty: No representation, warranty or guarantee of any kind, express or implied is given by Marten & Co in respect of any information contained on this note.

Exclusion of Liability: To the fullest extent allowed by law, Marten & Co shall not be liable for any direct or indirect losses, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note. In no circumstance shall Marten & Co and its employees have any liability for consequential or special damages.

Governing Law and Jurisdiction: These terms and conditions and all matters connected with them, are governed by the laws of England and Wales and shall be subject to the exclusive jurisdiction of the English courts. If you access this note from outside the UK, you are responsible for ensuring compliance with any local laws relating to access.

No information contained in this note shall form the basis of, or be relied upon in connection with, any offer or commitment whatsoever in any jurisdiction.

Investment Performance Information: Please remember that past performance is not necessarily a guide to the future and that the value of shares and the income from them can go down as well as up. Exchange rates may also cause the value of underlying overseas investments to go down as well as up. Marten & Co may write on companies that use gearing in a number of forms that can increase volatility and, in some cases, to a complete loss of an investment.

QuotedData is a trading name of Marten & Co, which is authorised and regulated by the Financial Conduct Authority.

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

www.QuotedData.com

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

Edward Marten (em@martenandco.com)

David McFadyen (dm@martenandco.com)

Alistair Harkness (ah@martenandco.com)

Colin Edge (ce@martenandco.com)

INVESTMENT COMPANY RESEARCH:

Matthew Read (mr@martenandco.com)

James Carthew (jc@martenandco.com)

Shonil Chande (sc@martenandco.com)

Richard Williams (rw@martenandco.com)