Economic & Political Roundup

Monthly roundup | Investment companies | March 2021

Kindly sponsored by Allianz

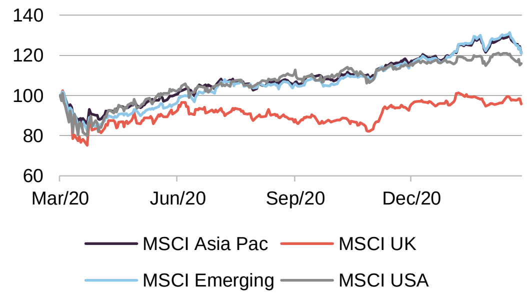
A collation of recent insights on markets and economies taken from the comments made by chairs and investment managers of investment companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Exchange rate	26/02/21	Change on month %
GBP / USD	1.3933	+1.6
USD / EUR	0.8283	+0.5
USD / JPY	106.57	+1.8
USD / CHF	0.9085	+2.0
USD / CNY	6.4737	+0.7

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/03/2020 to 26/02/2021



Source: Bloomberg, Marten & Co

	28/02/21	Change on month %
Oil (Brent)	66.13	+18.3
Gold	1734.04	(6.1)
US Tsy 10 yr yield	1.4049	+31.9
UK Gilt 10 yr yield	0.82	+150.8
Bund 10 yr yield	(0.262)	+49.5

Source: Bloomberg, Marten & Co

Roundup

The sharp increase in long-term government bond yields (as bond prices fell, given that they move inversely with yields) over February reflects a growing likelihood of inflation's influence returning, after a benign decade or-so. Sterling and the oil price continued to strengthen too.

Global

Promising progress continues

Katie Potts, Herald's manager, provides a wide-ranging review of the operating environment over the pandemic period. She touches on a number of themes, including a view on why public markets will remain critical sources of capital for smaller companies in the US, notwithstanding the far-reaching success of venture capital.

Brunner's chairman, Carolan Dobson, shares Brunner's base-case for a strong recovery, though new virus strains could yet slow progress.

Scottish American's chairman, Peter Moon, discusses the importance within investment management of distinguishing between the short-term prospects for economies and share prices, and the long-term prospects for companies.

UK

Vaccine rollout success fuelling optimism

Denis Jackson, CEO of the manager of Law Debenture, notes that while we saw some bankruptcies, government measures have allowed businesses to stay afloat in some form or another.

Contents

Roundup	1
Global	**1**
UK	**1**
February's highlights	**4**
Financials	5
Other	5
Global	**6**
UK (continued)	**8**
Europe	**15**
Japan	**17**
Global emerging markets	**18**
Financials	**23**
Debt	**26**
Private equity	**27**
Hedge funds	**28**
Renewable energy infrastructure	**29**
Commodities & natural resources	**33**
Property – UK and Europe	**34**

Analysts

James Carthew
jc@martenandco.com

Matthew Read
mr@martenandco.com

Shonil Chande
sc@martendandco.com

Richard Williams
rw@martendandco.com

February's highlights

UK (continued)

> We are some way from fully understanding the human and economic impact that COVID-19 will ultimately have

John Evans, chairman of JPMorgan Mid Cap, juxtaposes the optimism generated by the vaccination programme that is progressing to best expectations in the UK and the grim realisation that the human and economic effects of the pandemic have proven to be significantly worse than forecasts made this time last year despite public health and economic stimulus packages that would have been hard to imagine a year ago.

Harry Nimmo and Abby Glennie, manager of Standard Life UK Smaller Companies, discuss why they currently feel pretty positive about the short and long term outlook for smaller companies as we see the continuation of the new economic cycle, which effectively started on 19 March 2020.

Sir Laurie Magnus, chairman of City of London, says that while interest rates remain at a rock bottom level, UK equities offer a much more attractive yield and have scope to build on recent capital appreciation if expectations for profits and dividends are met.

> Potential headwinds to the recovery include further mutations and/or a vaccination setback, government policy being unable to lift the economy out of recession, rising interest rates, the massive stimulus leading us into a new era of inflation plus global political uncertainty

Murray Income's chairman, Neil Rogan, discusses possible tail and headwinds going forward. On the latter, Neil notes they include further mutations of the COVID-19 virus or a vaccination setback, government policy being unable to lift the economy out of recession, rising interest rates, the massive stimulus leading us into a new era of inflation plus political uncertainty as the US, China, Russia, European Union and the UK spar with each other.

Gervais Williams and Martin Turner, managers of Diverse Income, say that were the inflationary outlook to become less benign, then the valuations of many high-volatility market favourites could fall back significantly. The managers note that a change such as this would be favourable for the UK stock market, given that it has few mega caps with very elevated valuations.

BlackRock Throgmorton's manager, Dan Whitestone, says he remains very excited about the opportunities ahead. Dan notes that the Brexit resolution is the removal of a huge cloud of uncertainty that has significantly impacted valuations across the small and mid-cap universe, and so it would not surprise him at all to see more inflows into this universe.

Peter Jones, chairman of Henderson Opportunities, points out that stock market prices are not correlated to economic activity and managers need to be careful as some company valuations have priced-in better times.

> UK valuations remain at multi-decade lows against a number of other markets

Adam Avigdori and David Goldman, managers of BlackRock Income and Growth, add further credence to the UK valuation opportunity that has been widely discussed. They note that valuations are extreme and even on an industry-adjusted basis remain at multi decade lows versus other international markets.

Global emerging markets

The manager of Gulf Investment provides a detailed analysis of the main goings on across Saudi Arabia, the UAE, Oman, Bahrain, Kuwait and Qatar.

Emerging markets continue to provide a valuation opportunity

Maria Luisa Cicognani, chair of Mobius, says they believe that investors will continue to view emerging markets positively: companies which have learned lessons during the pandemic and have been able to embed efficiency gains by turning to technology improvements are expected to out-perform. Maria notes that valuations in emerging markets continue to be low compared to their developed markets peers.

The manager of Genesis Emerging Markets notes that some of the more vulnerable markets that had been hit hard earlier in the year bounced back towards the end of the year, most notably Brazil, Mexico, Indonesia and Turkey.

A number of frontier markets also look well placed

The managers of Aberdeen Emerging Markets share their view that many frontier markets, whilst increasingly marginalised and thus overlooked by most investors, are attractively valued and likely to deliver attractive returns for patient allocators of capital.

Financials

Banks were overly penalised over 2020, given their underlying capital buffers

Nick Brind, John Yakas, and George Barrow, the mangers of Polar Capital Global Financials Trust, explain why the significant underperformance of the financial sector over the past year has been exacerbated by the difficulty investors have found in quantifying the impact on it. The managers consistently believed that the downturn brought on by COVID-19 would be an earnings event for the sector given its underlying profitability and capital buffers, not a capital one, and therefore the fall in valuations was not justified by the fundamentals.

Other

We have also included comments on Europe from European Opportunities and TR European Growth; Japan from CC Japan Income & Growth; debt from CQS New City High Yield; private equity from Pantheon International; hedge funds from Gabelli Merger Plus+; renewables from Greencoat UK Wind and The Renewables Infrastructure Group; commodities from Riverstone Energy and BlackRock Energy and Resources Income; and UK and Europe property from Alternative Income REIT, Custodian REIT, SEGRO, Primary Health Properties, Civitas Social Housing, and Irish Residential Properties REIT.

Global

(compare global funds **here**)

Katie Potts, manager of Herald - 23 February

Had I been told that much of the world would be in varying degrees of lockdown for much of the year, I would have anticipated an evaporation of profits in portfolio companies and weaker share prices.

In the early part of the year manufacturing stopped in China and supply chains for certain components led to widespread product shortages. We did not envisage that China would control the virus so quickly and that much of the developed world would have failed to do so nearly a year later. Asia dominates as the location for manufacturing technology products, while North America and the UK are more focussed on software, IP services and media. The latter have generally been remarkably effective in continuing operations with workers at home. It is extraordinary how seamlessly and quickly the adjustment took place. The smaller quoted company investment world in which we operate moved from face-to-face meetings and conferences to video conferencing, which has enabled some continuity.

These calls are better than reading reports and analysing balance sheets alone, and better than telephone calls, but an inferior means of communicating than in person. We have found them effective for catching up with companies we know well, but less effective for group meetings, and companies new to us. We are reluctant to make new investment in companies until we have got to know management, but this year for the first time we have had to. We look forward to a return to normal operations as and when vaccinations permit this, and to a time when communication within our team will be easier again.

The endless Zoom calls have made me appreciate that the seamless transition has not occurred without huge efforts, because I have seen many tired looking chief executives on the screen. I am enormously grateful, and shareholders should be too, for the evident grit and effort that has clearly been made for the benefit of shareholders, employees and the wider economy.

I am aware that in the early part of my career there was greater respect for entrepreneurs and a respect for the associated wealth creation, which was so needed after the dire economy of the 1970s. They are needed as much again now. I would go further and say it is a cri de coeur that we must respect more those who take responsibility, pay taxes and create wealth. Happily, the UK has many with a creative and entrepreneurial spirit.

My concern is that the stock market has become less supportive, with fewer professional smaller company investors, and a more arduous legal and regulatory environment. I observe also how many fewer companies there are in our remit in the United States than there were. The expense of Sarbanes Oxley made it less economic to float small companies in the US, while private equity has been able to use more favourable tax structures and cheap bank debt to take many businesses private. Forty-five companies in the Company's portfolio have been taken over in the last few years by private equity, mainly in the UK and US. In the UK there has been a greater replenishment cycle with companies coming to AIM for development capital, whereas IPOs in the US tend to be exits at a later stage for smart venture investors. In contrast the number of companies has grown in Europe and Asia.

To quantify this, I show below an analysis of the number of companies within the Bloomberg's technology and communications sectors with a market capitalisation >$100m and <$3bn now and a decade ago:

	2010	2020	% change
UK	82	103	+26
EMEA	239	310	+30
Asia (developed)	836	1,369	+64
US	574	394	(310

Source: Herald

There may be an argument to say that the US has been so successful with venture capital that public companies are not needed. I am sceptical. In an ideal world, companies would have permanent capital and investors would have liquidity at any time. The stock market has offered this for many years to companies and to small investors alike and to a lesser extent to institutional investors. In contrast, venture capital and private equity offer neither permanent capital nor liquidity and impose overleverage. At the same time, the concentration of quoted funds in a few hands means genuine efficient asset allocation becomes difficult and small companies become irrelevant for the large funds. It is a pity. I hope that in time the powers that be in the US and elsewhere will appreciate the benefits of public markets.

Outlook

The COVID shock has put us all into particularly uncharted waters. At least governments the world over are expanding the money supply so the possibility of disruptive relative currency devaluations is reduced. Social unrest would be the worst outcome, and governments want re-election, so interest rates are likely to remain low for a while globally, and equity prices are likely to remain expensive. The UK is less expensively rated, but liquidity is challenging so it is likely to fall as a percentage of assets longer term.

. . . .

Carolan Dobson, chair of Brunner - 18 February

Our managers believe we should see a strong economic recovery this year as the vaccine roll out allows lockdowns to reduce and more normal working conditions to emerge. However, there is a danger that new virus strains may delay that. Governments have played an effective roll in cushioning many of the effects of lockdowns by making large payroll and business subsidies and the provision of copious quantities of cheap credit. However, the longer many sections of the economy remain closed the more difficult it is for governments to be able to provide that cushion. So, whilst our central thesis is that economies recover this year there is an outside chance that may not be the case.

. . . .

Peter Moon, chairman of Scottish American - 12 February

It seems insensitive to look forward to a return to normality at a time when the world remains in the grip of the pandemic. Nonetheless, we can be optimistic that eventually advances in treatment and the rollout of effective vaccines will bring us through the crisis. As well as being immensely grateful to scientists, health workers and to all those who have kept the wheels of society turning, we can begin to consider what 'the new normal' will bring. At the same time, we also have to consider other developments such as trade deals and growing protectionism and the political aftermath of the crisis, both domestically and internationally. In the world of investment, it is important as always to distinguish between the short-term prospects for economies and share prices, and the long-term prospects for companies. This is especially the case now, after a year of immense strain and challenge, but also a year in which the pace of change has quickened. Traits which we have long viewed as desirable, such as adaptability and a long-term mindset, have become essential for companies if they are to survive and thrive.

. . . .

UK (continued)

(compare UK funds **here**)

Denis Jackson, CEO of the manager of Law Debenture - 26 February

Following the challenging operating environment in 2019, remarkably the onset of COVID-19 and the actions of policy makers provided a favourable operating environment for this business.

Primary market activity recovered well in 2020 and we were able to capture our fair share of roles on new bond issues. Our main market, Europe, had a particularly challenging 2019 with investment banking revenues down 14%, but recovered well in 2020 with debt issuance revenues up 21%.

Post issuance work increased materially as many businesses around the world saw their revenues severely challenged, or in some cases even evaporate completely, as economies went into 'lockdown'. While we have seen some bankruptcies, policymakers have provided a number of support mechanisms that have enabled businesses to stay afloat in some form or another. Unsurprisingly, this has led to a plethora of covenant waivers and restructuring type work. The longer-term position for many challenged companies and sectors remains unclear as the global economy works its way through this crisis.

. . . .

John Evans, chairman of JPMorgan Mid Cap - 25 February

There is a sharp contrast at present between the optimism generated by the vaccination programme that is progressing to best expectations in the UK and the grim realisation that the human and economic effects of the pandemic have proven to be significantly worse than forecasts made this time last year despite public health and economic stimulus packages that would have been hard to imagine a year ago.

However stock markets are forward looking and the returns seen in the first half of your Company's year reflect the optimism about economic recovery and success with vaccinations. A significant cause of uncertainty with respect to the UK economy lifted with the Brexit deal in December 2020. There is mounting evidence that the UK and UK equity market are now finding favour with a wide range of investors - a significant change when compared to the past five years during which the UK was an investment area easy to dismiss.

. . . .

Harry Nimmo and Abby Glennie, manager of Standard Life UK Smaller Companies - 25 February

Market performance during the period in question can be divided into two parts, that of pre and post the announcement of COVID vaccines. Small and midcap indices moved sideways during the summer and autumn but, following the first vaccine announcement on 9 November 2020, accelerated upwards. The growth and technology-heavy AIM index however moved up throughout. Continued ultra-low interest rates across the world combined with monetary stimulus have pushed markets ahead.

UK markets in general have performed less well than many other markets including the technology-heavy Nasdaq index in the USA and Far East markets, where COVID was tackled in a more robust fashion and economies came out the other side more quickly. European markets faired only slightly better with only Spain being behind the UK. Brexit and the fear of a negative out-turn was also unhelpful during most of the period in question.

We currently feel pretty positive about the short and long term outlook for smaller companies as we see the continuation of the new economic cycle which effectively started on 19 March 2020. The future looks increasingly brighter albeit from a low base. The improvements will come in fits and starts but commencing with the vaccine announcements last year. The unknowns of Brexit are now largely behind us. Ultra-low interest rates are likely to remain for some time making equity assets look attractive. Finally, a new President in the US brings a welcome level of sanity and predictability to that divided country. While geo-political issues are unlikely to go away it is helpful to see that a sense of rationality has returned.

In theory, the new lock down announced on 4 January 2021 should be good for our investment process, favouring "Quality, Growth and Momentum". However the announcement of vaccines (assuming they work with all variants of the COVID virus) is good for the economy, good for smaller companies, and good for higher risk cyclicals but bad for our process. Currently the vaccines are driving performance but with each news item both positive and negative, market leadership will wax and wane.

The AIM market was the star of 2020. As many as 80% of the top 100 AIM stocks are profitable. More than half pay a dividend. The sector spread is now very diverse with a wide range of growth sectors represented. It's a far cry from ten and twenty years ago. AIM is becoming somewhat of an engine for growth in the UK economy, creating wealth and employment.

Sir Laurie Magnus, chairman of City of London - 19 February

The roll-out of three vaccines against the COVID-19 virus is very encouraging and provides "light at the end of the tunnel". It is unlikely, however, that there will be a smooth path to herd immunity for the UK or globally given current limitations to the supply of the vaccines and the apparent scope for the virus to mutate.

Governments and central banks have responded to the enforced lockdowns of economies as a result of COVID-19 with unprecedented fiscal and monetary easing. It is likely that, after a contraction in the first quarter of 2021, the UK and global economy will recover sharply over the rest of the year, with consumer demand bolstered by running down the high savings ratios accumulated while economic activity was restricted. The scale of the lockdowns could still leave deep scarring in some sectors, such as travel and hospitality, with the resumption of dividends some way off. City of London's portfolio remains biased towards large companies with defensive and cash generative qualities.

The UK's trade deal with the EU at the end of 2020 removed an uncertainty and may improve sentiment towards UK equities from global investors. While interest rates remain at a rock bottom level, UK equities offer a much more attractive yield and have scope to build on recent capital appreciation if expectations for profits and dividends are met.

. . . .

Neil Rogan, chairman of Murray Income - 18 February

Just about everybody who has expressed a confident view in the past year about what would happen regarding the pandemic, politics or the economic outlook has been made to look foolish at some point, often very quickly. There are still large forces of unusual magnitude interacting with each other. Trying to predict the residual economic or stock market outlook is so difficult that whatever the conclusion, a very low level of confidence should remain. Possible tailwinds include a successful vaccination programme meaning that the UK can move much closer to normal during the summer, the pent-up demand from UK consumers who have more savings but have had fewer opportunities to spend, companies adapting to Brexit faster than many predicted, the stimulation programmes from governments and central banks and overseas investors still being at historically low weightings in the UK. Possible headwinds include further mutations of the COVID-19 virus or a vaccination setback, government policy being unable to lift the economy out of recession, rising interest rates, the massive stimulus leading us into a new era of inflation plus political uncertainty as the US, China, Russia, European Union and the UK spar with each other.

The Austrian economist Joseph Schumpeter revised the Marxist concept of "creative destruction". Essentially, he wrote how capitalism continually reinvents itself with new companies or technologies coming along that render old ones obsolete. Typically the process speeds up in times of recession or technological advance, which would aptly describe the last ten years except that super-low interest rates have kept afloat many companies that would not normally have survived. Think high-street retail, airlines or European banks for example. The pandemic has put such a serious hole in the cash flows of many of these zombie companies that it is likely that a large number of these will not be around for the recovery. It has also accelerated trends that were already established, such as Zoom versus business travel and online versus high street shopping. Whatever your view on Brexit, it is going to be different: some companies will be winners, some losers.

All in all, it would seem that the next ten years are going to be very different from the last ten. To succeed, companies will first need the balance sheet strength to survive long enough and to be able to invest in the future. They will need well-rehearsed strategies to navigate changing conditions. They will be exposed to future growth areas or if not they will be spinning off cash for their shareholders. They will act responsibly in consideration of their employees, their customers and the environment. In other words, they will need to be quality companies.

. . . .

Gervais Williams and Martin Turner, managers of Diverse Income - 18 February

During the pandemic-induced recession, both central banks and governments have greatly scaled up their policies of financial stimulus, which has led to stock market valuations around the world actually increasing faster than corporate earnings have declined. As long as inflationary pressures remain benign, we anticipate that these current policies will remain in place.

As successful vaccines are rolled out in 2021, some market commentators anticipate that consumer spending may catch up much more quickly than previously thought. To some degree the valuation of US government bonds appears to reflect inflationary apprehensions. Were the inflationary outlook to become less benign, then the valuations of many high-volatility market favourites could fall back significantly.

A change such as this would be favourable for the UK stock market, given that it has few mega caps with very elevated valuations, and greater weightings in recovery stocks such as financial and energy companies. Specifically, the valuation of many UK-quoted companies has fallen behind that of comparatives around the world so we believe its recovery prospects are strong – always assuming that the implementation of the Brexit agreement with the EU is not chaotic.

In practice, the potential for premium return is often more pronounced further down the market capitalisation scale, because small caps tend to be more overlooked than those in the mainstream indices. Finally, should a number of private businesses fail after such a deep recession, quoted companies with strong balance sheets may find they can enhance their growth prospects by expanding into vacant markets, as well as making low cost acquisitions from the receiver. Companies with a listing have access to external capital, giving them the scope both to repay debts and to fund any additional working capital that may be required in the acquired businesses, whilst retaining key skilled employees.

Dan Whitestone, manager of BlackRock Throgmorton - 10 February

The COVID-19 pandemic remained the principal focus for stock markets globally throughout the period. The strong start for the UK market at the beginning of the financial year (December 2019), in response to the Conservative Party's convincing majority in the UK General Election was soon a distant memory. The outbreak of Coronavirus sparked one of the most rapid contractions in equity markets ever witnessed, as investors became concerned over the potential impact of the virus on the global economy. Governments around the world continue to take steps to mitigate the pandemic's impacts on their economies, through both lower interest rates and monetary easing as well as direct interventions to cover labour costs and ease business costs in the face of social shutdowns.

Since the trough in late March, markets have rebounded despite the unsurprising slowdown in global economic activity and sharp rise in unemployment as a result of the lockdowns. Throughout the period, stock markets have swung from responding favourably to signs of easing restrictions and positive updates in relation to potential vaccines, to heightened levels of volatility as spikes in case numbers continued to see regional lockdowns reinstated across the world. The year ended with the significant announcement of effective vaccines against COVID-19, which at the time of writing are now starting to be administered to the most vulnerable in certain countries, including the UK. This sparked an extreme reversal towards value and away from growth shares.

Outlook

The economic outlook remains highly uncertain, however, we remain very excited about the opportunities ahead.

The Brexit resolution is the removal of a huge cloud of uncertainty that has significantly impacted valuations across the small and mid-cap universe, and so it would not surprise us at all to see more inflows into this universe. If anything, COVID-19 really should illustrate the attractions of investing in UK small and medium sized companies as so many businesses have performed so strongly through the pandemic, reflecting the strength of their offering and the global universe they serve.

Both of these make us think this rising tide should lead to a re-rating in valuations for many of our holdings. Furthermore the UK is leading the charge on rolling out its vaccinations, and while there is clearly potential for spikes in cases of the virus in the short-term, a viable vaccine provides light at the end of the tunnel for the world to emerge from the pandemic and return to normality.

History has shown that crises accelerate industrial trends, market share shifts, and changes in consumer behaviour. We thought this would be the case with COVID-19, but we have been surprised by the sheer speed and scale of the level of dispersion of financial performance that it has created across industries and companies. Some companies have been hit hard while others have been able to take market share at an accelerated rate. We remain of the firm belief that there are sizeable opportunities for companies that can differentiate themselves and/or are exposed to long-term secular trends, while the pressure on balance sheets and cashflows for struggling companies is intensifying. This dispersion of returns between sectors and intra-sectors is likely to persist.

Going forward, we expect two major trends to dominate at the stock and industry level. First is our belief in the acceleration of many secular trends catalysed by COVID-19, e.g. digital transformation, and as we have discussed in this report we believe we own many companies well placed to benefit from this. Second is our belief in the "Corporate Darwinism" unfolding across many industries as the differentiated and financially strong take market share at an accelerated rate from the weak and solidify their market leading positions. In fact we can already see growing evidence of this across retail, veterinary services, electrical component distribution, building materials to name just a few. What has been remarkable about this crisis is the level of dispersion of financial performance that it has created across industries and companies.

. . . .

Peter Jones, chairman of Henderson Opportunities - 5 February

The prospect of success with the vaccine roll out and a substantial resolution of Brexit tariff concerns provide the ingredients for a pick-up in economic activity in the second half of this year. Stock market prices are not correlated to economic activity and the managers need to be careful as some company valuations already anticipate the better times. Therefore, there will be some reduction in holdings that have performed well to allow the Company to take on new opportunities as they arise.

. . . .

Adam Avigdori and David Goldman, managers of BlackRock Income and Growth - 1 February

The word unprecedented is often overused, but this year has been truly extraordinary. From an operational perspective, as the pandemic hit, an internal operation took place within BlackRock as we adapted smoothly to new working conditions. We are incredibly grateful to the teams of people who worked tirelessly to ensure a seamless transition.

The speed with which the situation has evolved this year made it very challenging for companies leading to new opportunities and threats within the portfolio and wider market. We have had more company meetings this year than at any point in our recent history on the UK team. In 2020 the UK team had 1,729 company meetings. We have also benefitted from being able to meet with corporates via virtual conferences. Initially the focus of company meetings was to understand how company management teams were adapting to the initial lockdowns; the liquidity position as well as the likelihood of breaching debt covenants and the consequences of doing so. As the year has continued, we have pivoted to focus on understanding how consumer and corporate behaviour is changing and how businesses are positioned for reopening, furlough schemes ending, as well as the possibility of returning to the dividend list.

There have been some large binary events this year. Starting with COVID-19, at the time of writing, we are in the third lockdown in the UK, with national lockdowns imposed across Europe, as well as rising cases in developed markets, including the US. This is impacting economic activity once more and we think this is likely to persist throughout the winter. On a more positive note, though, we now have vaccines. This news showed the market towards the end of 2020, and particularly those industries hardest hit by COVID-19, that there is light at the end of the tunnel, and that a return to 'normal life' as we used to know it, could be within our reach at some point in 2021. In the meantime, we anticipate governments and central banks will continue to provide fiscal and monetary support. We would also note that corporate balance sheets have, in many cases, increased their levels of debt to withstand the liquidity shocks. Whilst economies will recover in 2021, some companies' earnings and cash returns will take longer to recover under the burden of higher levels of borrowing.

Although Joe Biden's win was largely expected in the US presidential election, the Republicans have fared better in Congress and the Senate remains finely balanced. The passageway of legislation through the House and Senate is still likely to be tough, with significant change subject to the historical checks and balances of US politics. It is, as yet, unclear how Sino-US tensions will evolve from here, but we do not anticipate a material change.

We would also note that UK valuations are extreme and even on an industry-adjusted basis remain at multi decade lows vs other international markets. We do believe that once the market has certainty, we could see this divergence narrow, supporting our view that now is a great time to invest in the UK market.

North America

(compare North American funds **here**)

Tony Despirito, Franco Tapia, and David Zhao, managers of BlackRock North American Income - 5 February

For the year ended 31 October 2020, U.S. large cap stocks, as represented by the S&P 500 Index, advanced by 9.7% in US dollar terms. In sterling terms, they appreciated by 9.7% for the performance period. Value stocks, as represented by the Russell 1000 Value Index, fell by 7.5% in sterling terms, illustrating the extreme divergence between 'growth' and 'value' stocks last year. The S&P 500® Index rallied strongly in the fourth quarter of 2019, as risk appetite was boosted by expectations for a U.S. and China trade deal, solid economic growth and easy monetary policy. U.S. stock prices continued to climb higher through early February 2020 following encouraging earnings results, better business sentiment and the first phase of a U.S.-China trade deal. U.S. equity markets reached a peak on 19 February 2020 before beginning a sharp correction as COVID-19 began to spread globally. The pandemic prompted countries to adopt varying degrees of social distancing, self-quarantine and lockdown measures. The global economy shrank at a historically high rate as non-essential businesses were forced to close in many countries. Concern over the human and economic toll also fuelled measures from governments and central bankers across the globe. This combination brought the longest enduring U.S. bull market to an abrupt end.

A combination of aggressive monetary and fiscal policy measures helped to stabilise U.S. financial markets in the final two weeks of March 2020. The Federal Reserve cut its benchmark interest rate twice to a current range of 0.00% - 0.25% for overnight bank lending and declared an unlimited balance sheet expansion for the foreseeable future. These steps helped to improve market liquidity across credit markets. An unprecedented U.S.$2 trillion stimulus package, roughly 10% of annual U.S. gross domestic product, to support individuals and businesses hardest hit by lockdown measures boosted sentiment. These coordinated policy efforts helped U.S. stocks to rebound swiftly from their March lows.

A decline in U.S. COVID-19 cases in April and May, subsequent easing of lockdown measures and improving economic data in the second and third quarters also boosted investor sentiment. These factors culminated in an extended U.S. stock market rally from April 2020 through August 2020. Market leadership was carried by high growth companies which tapped into secular growth trends supercharged by the pandemic, including trends towards e-commerce, digitisation and enterprise spending on cloud infrastructure. Finally, U.S. stocks retraced lower in September and October as investors weighed the upcoming U.S. election cycle, stalled negotiations for a new fiscal stimulus package and ongoing COVID-19 uncertainties. Overall levels of economic activity continued to normalise higher through the end of the reporting period, while investors took a 'wait and see' approach to the upcoming election results and potential readouts on COVID-19 vaccine trials.

We believe the long-term opportunity in U.S. stocks remains compelling. The U.S. offers us exposure to best-in-class businesses that are positioned to benefit from durable megatrends and investments in R&D and technology. In the short term, our views are more balanced. A look at the macro regime and valuations all point to trade-offs investors must weigh in the months ahead. For the reasons we lay out below, we advocate for a barbell approach to portfolio construction. This stance can align portfolios with sectors tapping into secular growth trends while also targeting high alpha opportunities in cyclical value sectors that have been temporarily hurt by COVID-19.

Macro Regime: The COVID-19 pandemic, through mass social distancing and the transition to working from home, has supercharged secular growth trends towards e-commerce, digitisation and enterprise spending on cloud infrastructure. A narrow subset of U.S. stocks has reaped the lion's share of financial gains from this sudden shift. Many of these high growth companies have also benefited from a world characterised by lower nominal growth, lower interest rates and low inflation. First, a scarcity of growth has increased demand, and valuation multiples, for stocks that can potentially deliver high growth to investors. A collapse in interest rates has also pushed valuations higher, to the benefit of longer duration growth companies. A case in point, in financial models the net present value of future cash flows increases when the cost of debt financing (i.e. the discount rate) decreases. Finally, low inflation gives policymakers flexibility to keep the current macro regime intact (i.e. lower interest rates for longer). These factors have culminated in vastly different year-to-date investment returns across sectors, industries and investment styles. The bifurcation between COVID-19 winners and losers has also resulted in wide valuation spreads, which suggests there are ample stock-picking opportunities for investors.

Valuations: A glance at traditional valuation metrics, such as the price/ earnings (P/E) ratio, suggests U.S. stocks are richly priced versus history. However, U.S. stocks appear to be cheaply valued versus bonds in a low interest rate world, as measured by the equity risk premium. Further, as businesses are increasingly asset-light today, a company's value is less determined by its tangible assets and more determined by its cash flows. This can make traditional valuation metrics less relevant. So, are stocks expensively valued or cheap today? We argue stock valuations can be both high and attractive, with the caveat that high valuations offer less of a buffer versus downside risks. With interest rates at historic lows and poised to stay there for some time, equities are a relative bargain and can be a compelling option for growth, value and income seekers.

Europe

(compare Europe funds **here**)

Alexander Darwall, manager of European Opportunities - 25 February

Quantitative Easing (QE), initially a short-term measure in the wake of the 2008/2009 financial crisis, has become a mainstay of policy making in the decade since, its consistent failure to stimulate inflation towards policy targets generally interpreted by Central Bankers as evidence that the QE was not big enough (never that the policy tool itself might need review). As a specific response to the economic ravages of COVID-19, European governments have also embarked on massive fiscal expansion. These policies, a combination of monetary expansion (interest rates at or close to 0%) and fiscal stimulus (governments across Europe giving grants and loans), both increase the reach of the state in economies and are likely to be inflationary. The Great Moderation before 2008 might be explained by the downward pressure on costs from China's integration into the international trading system, but that downward pressure is now reversing. Protectionist sentiment is on the rise, partly to protect European businesses from the loss of competitiveness.

The first manifestation of inflation has been in rising asset prices including quoted equities. European equity markets have risen in 2020 despite the damaging policy responses to the COVID-19 pandemic. In due course, we think that there will be consumer price inflation at which point interest rates are bound to rise. Our caution about debt is reflected in the relatively low level of gearing in the portfolio. The Company's net borrowings were £19.6 million at the end of the reporting period, representing gearing of 2.3%, a level of gearing much lower than we have had in the past.

European equity markets' buoyancy, sustained by the effect of massive fiscal and monetary stimulus, cannot disguise the sharp reversal of earnings and Gross Domestic Product in Europe. UBS recently estimated that European corporate earnings have fallen by 31% in 2020; they expect a 38% rebound in 2021. GDP in the European Union contracted by 7.6% in 2020 according to International Monetary Fund ("IMF") forecasts; the same forecaster expects a 5.0% rebound in 2021. Other regions of the world appear to have resisted the COVID-19 effects more successfully, especially Asian countries. The ASEAN 5 countries suffered only a 3.4% reduction in GDP in 2020 according to the IMF. The Chinese economy even grew, it is estimated, 1.9% in 2020; the US economy contracted by 4.3%; and Brazil by 5.8%. Yet European equity markets matched the advances of other global markets. The MSCI World Index, sterling adjusted, improved by 12.0% during the period under review. The S&P500 returned 10.7%. However, this belies the bigger story in the US which was the performance of the NASDAQ. Bolstered by the strong performance of leading technology stocks, the NASDAQ returned 19.0% in the six month period in sterling terms. Technology stocks are viewed as 'winners' in the post COVID-19 world: electronic communications and entertainment replacing physical contact. The surge in technology stocks was a major factor also in Asia where the MSCI AC Asia ex-Japan was up 23.0% in sterling. Europe has less exposure to technology stocks than the US or Asia. European governments and the European Commission decided that it would make 'green' technologies the centre piece of recovery. This was crystallised in 'The European Green Deal'. 'Striving to be the first climate-neutral continent', as the European Commission says, involves huge amounts of public money being poured into the new technologies needed for the energy transition. We have not invested in those stocks which are, initially at least, beneficiaries of new energy ideas like hydrogen. Europe's high-cost energy polices risk putting Europe's companies and consumers at a disadvantage in global competitiveness. As a result, we expect a reversal or moderation of policies in due course. Though the price of WTI crude in sterling rose by 17.8% in the period under review, it remains low by historic standards. Oil and other fossil fuels will remain staples of the energy mix for decades to come.

Outlook

Fundamental investment tenets are being challenged by a new order, 're-purposing capitalism', that started before COVID-19. The new order's impact is hardened by COVID-19 related policies. The increasing emphasis on Environmental, Social and Governance (ESG) issues, the EU's Green Deal and similar programmes, and a significant expansion in the role and reach of central governments are part of this new order. Private equity is attracting capital more easily than public equity. In short, free market capitalism appears to be out of fashion with the investment community and the political class. As governments and other stakeholders increasingly influence the allocation of resources, inefficiencies and higher costs are inevitable. This is inflationary. Whereas private capital values (stock markets or privately held assets) adjust quickly when the fundamentals are disproved, with so much political capital invested in the 'green' recovery, European governments will be slow to recognise a misallocation of resources. The massive increase in debts makes markets more vulnerable to setbacks. Furthermore, where so much public money is deployed protectionist urges will become greater.

. . . .

Ollie Beckett and Rory Stokes, managers of TR European Growth - 23 February

The impact of the pandemic will be with us for some time to come. There are, however, notes of optimism, despite the mixed handling of the health crisis across Europe; the Next Generation EU recovery fund breaks the taboo of fiscal transfers within the European Union, the mantra of austerity economics has been dealt a serious blow which should provide relief to southern EU members and the Trump Twitter account will no longer cause the market volatility and trans-Atlantic trade tensions that characterised much of the last few years. The strong technology offering in the European small cap market has been highlighted by the discovery of the vaccine by German (formerly) small cap BioNtech.

As we head into 2021, we see opportunity in a vaccine-driven, stimulus loaded, global economic recovery, though have reservations about pockets of valuation in the market and the risk of unanticipated events relating to the COVID-19 virus.

. . . .

Japan

(compare Japan funds **here**)

Harry Wells, chairman of CC Japan Income & Growth - 26 February

Markets have already taken succour from the successful development and impending distribution of a range of COVID- 19 vaccines, together with the Biden victory in the US elections; China's economy is picking up smartly, providing stimulus to Japanese exports (20% of their total). With increased focus on security of supply chains in a tariff-ridden, increasingly protectionist world, Japan is an attractive proposition, offering world class industrial solutions in many fields, such as automation and robotics. Critically, Japan also has a stable domestic political environment; the transition of the premiership to Prime Minister Yoshihide Suga after Prime Minister Shinzo Abe's resignation was achieved seamlessly. The new Prime Minister is committed to continuing Abe's legacy reform initiatives and although his and the LDP's popularity has waned, opposition, led by the impressive Mayor of Tokyo, Yuriko Koike, appears to offer a credible alternative in this year's elections due by 22 October 2021, should she decide to stand. Governance is on an improving trend with younger more independent managements buying into better practices boding well for ESG compliance. The Government has launched successive fiscal programmes with a third package worth 30 trillion yen (US $294 billion) to boost spending, critical in the run up to this year's rescheduled Olympics although there is considerable concern that these may be cancelled.

Of course, risks remain, particularly in the area of strained US/China relations. It remains to be seen how the Biden administration approaches diplomatic relations with China, although it appears that an initial improvement is the restoration of communications between Washington and Beijing. China has become more resolute in its foreign policy and there is a strong containment lobby in the Pentagon, so much diplomacy will be required to prevent relations deteriorating further.

The valuation metrics for the Japanese market appear cheap and it is remarkable that foreign investors are so underweight and have actually sold in monetary terms all of the stock they have bought since Shinzo Abe was appointed Prime Minister in 2013. Japanese household savings are still prepared to take foreign exchange risks by buying offshore premium yield products at the expense of ignoring income yield available in their own domestic market. When Warren Buffett took 5% stakes (with options to double the Berkshire Hathaway holding) in five leading trading companies in September 2020, collectively they yielded 4%. This served as a prelude to a return of positive foreign investment flow. M&A activity is also becoming more prevalent as Shareholder activism and private equity funds are targeting asset and cash rich underperforming companies.

The prospects for Japanese investment returns look promising, conditional on the level of global economic demand and a resumption of domestic spending including the reopening of hospitality, travel and tourism.

Global emerging markets

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

Manager's report for Gulf Investment - 26 February

GCC countries delivered a comprehensive response to limit the spread and impact of the coronavirus including strict lockdown measures, and also launched a series of relief measures for businesses and individuals. These stimulus packages added to governments' existing spending commitments, even as public revenues declined as the oil price fell and lockdowns impacted domestic economic activity. Despite the emergency response that dominated the year, GCC governments' core policy of diversification away from the oil sector continued.

Saudi Arabia's 2021 budget shows a continued commitment to achieving fiscal stability and sustainable long-term economic growth amid oil market volatility. Planned expenditure for 2021 is US$264 billion, with focus on promoting economic growth and better spending efficiency.

Spending in Saudi remains focused on building the non-oil economy, which will support higher economic and social returns, as well as job creation. The government is committed to spending on healthcare and education, as part of the Vision 2030 objectives of creating a better quality of life and a diversified economy with higher local content.

The budget deficit in 2021 is expected to be US$38 billion (4.9 per cent of the estimated 2021 GDP), an improvement on US$79 billion (12 per cent of GDP) expected for 2020, owing largely to improving oil revenues. Public debt in 2021 is expected to reach US$250 billion (32.7 per cent of the estimated 2021 GDP) vs. US$228 billion (34.3 per cent of GDP) estimated for 2020 and 22.8 per cent of GDP in 2019.

Real GDP growth in Saudi is expected to reach 3.2 per cent in 2021 driven by economic recovery and strengthening of the private sector. The Investment Adviser agrees with the government's sentiment of driving economic growth by increasing the role of the private sector.

Saudi Arabia's PMI rose to 57.0 in December from 54.7 in November, the highest reading since November 2019. Output and new work rose sharply in December, with the latter driven by increased domestic demand as new export order growth was slower than in November. Firms increased purchasing activity and inventories on the back of increased demand.

The UAE PMI rose to 51.2 in December from 49.5 in November, as output witnessed a solid rise underpinned by rising new orders.

Qatar's PMI eased slightly from 52.5 in November to 51.8 in December, broadly in line with the fourth quarter average of 51.9 and well above the long-run trend level of 49.6.

Dubai and the UAE approved several structural reforms in 2020 including allowing foreign investors to own 100 per cent of onshore companies in some sectors and new more flexible visa regulations. These measures should start yielding benefits in 2021. The new agreement with Israel has already led to an estimated 50,000 visitors from there, which has helped to offset the decline in visitor numbers from traditional markets. Finally, Dubai's Expo2020 is set to go ahead from October 2021, which should spur the recovery in tourism in 2H2021. Dubai began rolling out coronavirus vaccines in December 2020, and as the vaccination program in other countries continue, it is expected that restrictions in the UK, Europe and elsewhere would start to see some easing in Q1 2021. With the global economy likely to rebound from 2H2021, accordingly, the outlook for Dubai's transport, logistics and hospitality sectors looks brighter.

Additionally, the central bank of UAE (CBUAE) extended parts of the Targeted Economic Support Scheme. Under this extension, the CBUAE will extend the duration of the zero cost facility of AED50 billion (US$13.5 billion), which benefits retail and corporate banking customers and facilitates liquidity management for banks through collateralised funding at zero cost, for an additional period of six months.

The Dubai government has approved a budget of US$15.6 billion for 2021 with an estimated deficit of US$1.3 billion. The 2021 budget makes a provision for a 1.6 per cent increase in total expenditure over the revised budget of 2020 (US$15.3 billion). Revenues are expected to recover in 2021 as activity normalises. Total revenue is projected at US$14.3 billion in 2021, almost 70 per cent of which is non-tax (fee income, investment income and oil & gas income). Dubai government expects GDP to shrink by 6.2 per cent in 2020 before recovering 4 per cent in 2021.

The UAE Cabinet also approved the US$15.8 billion federal budget for 2021. This focuses on social and economic development. The budget aims to expand development plans and projects to raise the standard of living for Emiratis and residents. A large share of the 2021 budget will be allocated to social development including social welfare, health and education.

Qatar's 2021 budget sees huge spending on major projects, as well as on education and health, affirming the importance of these sectors. US$19.8 billion has been allocated for major projects, a 37 per cent of the total expenditure worth US$53.5 billion. The budget also allocated funds to develop citizens' lands by providing an integrated infrastructure of water, electricity, sewage, roads, and all other facilities in different regions of the country. Development of these lands will lead to the expansion of residential communities, which would enhance urban expansion.

Oman's government drew up a budget for 2021 with the objective of economic expansion and efficient spending. Higher non-oil revenues, economic growth and diversification, optimal public spending, increasing domestic and foreign investment and enabling the private sector to help achieve economic growth and job creation were the key goals. Public expenditures are expected at US$28.3 billion, while revenues are expected to reach US$22.5 billion, leaving a deficit of US$5.8 billion. The implementation of 5 per cent VAT in 2021 is expected to add US$779 million in tax revenue.

Oman also announced a new medium-term fiscal plan (National Plan for Fiscal Balance 2020-2024) with an introduction of the GCC's first income tax on wealthy individuals from 2022. The Sultanate aims to bring the budget deficit down to 1.7 per cent of GDP by 2024. Oman also plans to raise debt in 2021 outside of the government's balance sheet by transferring its 60 per cent stake in Block 6, the largest oil-producing block (650k barrels per day) to a new entity that could then tap international capital markets.

The Oman government will start reducing power and water subsidies in January 2021, in line with the medium-term fiscal plan. Initially, households earning more than US$3,260 per month will not be entitled to a subsidy, and by 2025, all utility subsidies are to be phased out.

On January 5, GCC leaders signed a solidarity and stability agreement to end a 43-month long blockade against Qatar. The Investment Adviser believes the end of the blockade will bring political stability in the region and build a stronger GCC block. The opening of airspace and land borders will help tourism (both leisure and business) and trade & investment in the region. Real estate and hospitality sectors will benefit as the pandemic eases and GCC tourists start to visit Qatar. Additionally, Qatari bank's funding and liquidity profile would also get a boost. Qatari banking system had witnessed ~US$30 billion outflow of deposits when the blockade was imposed which was managed by ~US$40 billion liquidity injection by the government.

. . . .

Maria Luisa Cicognani, chair of Mobius - 25 February

There are a number of factors that are boding well for emerging markets. First of all, the roll-out of an effective vaccine against COVID-19 should lead to the normalisation of the emerging markets consumer and export themes. Capital markets in our countries have seen a strong rebound since the lows in March and we believe the economic recovery will follow. The IMF has forecast emerging markets to grow by 6% in 2021: growth that will benefit companies and investors. Whilst the pace of the recovery will vary by region, China and Asia will lead, but other markets will follow. Furthermore, certain sectors will continue to outperform. Technology and healthcare are the prime beneficiaries of the changed consumer behaviour in the wake of the pandemic.

We believe that investors will continue to view emerging markets positively: companies which have learned lessons during the pandemic and have been able to embed efficiency gains by turning to technology improvements are expected to out-perform. The signed second stimulus package in the US and further expected stimulus action under the Biden administration is likely to keep the Dollar relatively weak. This will benefit emerging markets as investors look for yield elsewhere. Experience has shown that emerging markets equities generally tend to outperform developed markets during periods of US dollar weakness. Furthermore, valuations in emerging markets continue to be low compared to their developed markets peers, offering access to innovative companies at attractive prices and in markets which will experience high and faster rates of real GDP growth.

. . . .

Manager’s report for Genesis Emerging Markets - 25 February

Emerging Markets began the six-month period under review in recovery mode. The momentum which began in the second quarter continued into July and much of August, before pausing in September and October. Then November and December brought news of vaccines, with high efficacy levels, to fight COVID-19 and markets climbed sharply - albeit not quite as quickly as they plummeted in March. The MSCI EM (TR) Index posted a return of 13.3% in Q4 2020, the second-best quarterly return since the 2009 recovery from the global financial crisis. From the low point in March to the end of the year EMs rose by 47% in aggregate. Some of the more vulnerable markets that had been hit hard earlier in the year bounced back in the period under review, most notably Brazil, Mexico, Indonesia and Turkey.

This narrowly led Index performance is partly explained by north Asia's particularly effective response to the COVID pandemic. Markets seemed to reward this as China, South Korea and Taiwan, which by year-end collectively accounted for two-thirds of EMs by Index weight, together returned 35% in 2020. Other EMs declined 4% during the year.

....

Manager’s report for Aberdeen Emerging Markets - 18 February

In general, the impact of the pandemic has been to accelerate pre-existing trends in emerging markets, as in other asset classes. Thus, the underperformers of recent years saw their margin of underperformance expand, while the relative "winners" continued to deliver impressive returns. This was evident in the "melt-up" of growth companies compared to those in traditional value / cyclical sectors, with the former outperforming the latter by almost 35% over the year (MSCI Emerging Markets Growth Index +25.9%, MSCI Emerging Markets Value Index -8.5%). This represents the largest deviance between the two measures over a twelve month period since their inception in 2000. Asia continued to outperform the rest of emerging markets and larger companies continued to outperform smaller ones. The benchmark saw further concentration at a country and a company level, with the top three largest constituent countries now comprising 67.8% (compared with 56.0% a year ago) and the 10 largest companies comprising 32.5% (compared with 23.2% a year ago).

Emerging Asia gained 20.1% in aggregate, largely as a consequence of the resilient performance of index heavyweight China. Despite being the epicenter of the COVID-19 outbreak, China implemented aggressive measures to control the spread of the coronavirus quickly and effectively, enabling a gradual resumption of economic activity as the lockdown was eased earlier than in many other parts of the world. Corporate earnings data was robust and allowed the market to shrug off concerns over ongoing friction with the US, while local sentiment was buoyed by state media reports early in July that suggested local equities were ready for a "healthy bull market". Within China, as elsewhere, the market was led by those stocks seen as beneficiaries of the pandemic. Many of these are largely "online" businesses and thus those companies active in e-commerce, social media and electronic gaming were amongst the biggest gainers. Such stocks included Alibaba Group and Tencent Holdings, the two largest stocks in the Chinese index, which gained 72.4% and 86.7% respectively and were responsible for almost two thirds of that market's gain. The other large North Asian markets of South Korea and Taiwan also benefitted from being "first in, first out" as well managed pandemic response plans helped both countries deal more efficiently with the crisis than was the case in many other parts of the world. Taiwan gained 26.4% over the year while South Korean equities rose by 14.1% with both markets also benefitting from the positive sentiment towards technology stocks. The impacts of the pandemic were felt more keenly in the rest of Asia and that was reflected in stock market performance. Despite a sharp rebound in the second half of the period, Indian equities declined 2.6% with performance in the earlier part of the period hampered by the perception of being behind the curve in its response to the coronavirus. As well as coping with a shutdown of its tourism sector, a major source of income and employment, Thailand ended the year in a State of Emergency, imposed against a backdrop of pro-democracy protests demanding the removal of the Prime Minister. The market was the weakest performer in the region, falling 30.8%. Indonesia also fared poorly, losing 21.2%, although there was some good news late in the period as parliament approved the Omnibus Law - a broad based reform aimed at simplifying labour regulations, licensing procedures and improving the ease of doing business.

In Eastern Europe, the Middle East and Africa, the regional index fell by 18.0% and all constituent markets ended the period in negative territory. The Russian market fell by 29.3% which reflected a sharp decline in energy stocks over the period. The price of Brent crude fell by 37.2% in sterling terms as the pandemic depressed demand in a world where renewable energy continues to gain traction. Despite this, Saudi Arabia (-0.9%), Qatar (-3.4%) and the United Arab Emirates (-11.3%) all proved relatively defensive, with measures to contain the coronavirus within their populations proving effective and US dollar pegs serving to avoid the currency declines seen in oil producing countries with floating currencies. The South African market fell 13.3%, despite a 36.4% gain from index heavyweight Naspers, which derives the majority of its value from its holding in Tencent Holdings. In Eastern Europe, equity markets in Hungary (-30.3%), the Czech Republic (-25.7%) and Poland (-37.3%) were all significantly impacted by the pandemic. Turkey was also amongst the weaker markets, declining by 33.3%, largely as a consequence of currency weakness.

Latin America was the worst performing emerging market region, declining 33.2% as the spread of COVID-19 accentuated the economic challenges for the region, notably through the weakness in commodity prices1 and the resulting impact on currencies. Brazil, the largest market in the region, lost 38.1% as the real depreciated by over 30% against sterling. Chilean equities fell 28.1% against a backdrop of macro and political headwinds while Mexican stocks lost 21.4%.

We continue to believe that many frontier markets, whilst increasingly marginalised and thus overlooked by most investors, are attractively valued and likely to deliver attractive returns for patient allocators of capital.

Outlook

Emerging markets have, over the last five years, quietly delivered strong returns for investors (MSCI Emerging Markets Index +74.4%), while at the same time remaining largely out of favour as an asset class. While 2020 has obviously presented many challenges, we believe it has also provided reasons to believe this spell of performance can continue, if not accelerate.

In aggregate, emerging markets have been less impacted by COVID-19 than most commentators feared at the outset of the pandemic. China, South Korea and Taiwan (collectively 60.0% of the Company's portfolio) obviously stand out in a global context as having benefitted from early and decisive measures to quell the spread of the coronavirus, whilst also having a healthy representation of growth companies on their exchanges (technology platforms in the case of China, and hardware in the case of Taiwan and South Korea). For China in particular, we believe 2020 will prove a year in which asset allocators finally overcame many of their fears (trade wars, growth concerns, sovereign and corporate governance) and began taking steps to more adequately reflect the importance of this market in their portfolios - the pandemic, perversely, having served as a positive catalyst for this.

Outside of these three markets, the COVID-19 experience has been more mixed, but one unifying factor is the more muted policy response employed by emerging market central banks. There is much evidence to suggest that emerging market economies will shrink less in 2020, bounce back faster in 2021 and emerge less indebted than developed markets. The likelihood of vaccines being rolled out in 2021 has already been reflected in improved performance in the likes of Brazil, South Africa and India.

The combination of the US congress coming under the control of the Democratic Party, the roll out of vaccines, the accommodative stance of the Federal Reserve (with record levels of debt and low interest rates likely to prevail in the coming years) all suggest the US dollar will continue to weaken. At the same time, emerging equity and debt markets are amongst the few to still offer positive real yields, which are likely to attract capital back into the asset class to the benefit of emerging market currencies. The importance of this should not be underestimated, as can be seen in Chart 3 contained in the Annual Report, which shows quite clearly how long and painful the current cycle has been, whilst also reminding one of how lucrative the prior cycle was.

Many of the major beneficiaries of a decline in the US dollar are outside of the major North Asian economies, and thus we would caution against investors limiting their emerging market exposure to the obvious Asian economies at the expense of Eastern Europe, Latin America and frontier markets, all of which would benefit materially from the trends discussed above. In addition, a weaker US dollar has tended to favour smaller companies and "value" investments. We retain exposure to these unappreciated regions and themes based on fundamentals and future prospects, not recent past performance. Trying to time exactly when any rotation in leadership (by country, market capitalisation or sector) will take place is extremely challenging, as the dash to value following the announcement of the first vaccine highlights.

Risks to this "goldilocks" scenario for emerging markets include geopolitics (in China and Iran, for example), a disappointment in 2021 earnings (currently forecast to grow by 25-30% across emerging markets) and the interplay of this with valuations (a 15x aggregate emerging market forward price to earnings ratio offers less value than has been present in much of the recent past). The major risk we perceive in markets more generally is an earlier than expected withdrawal of the easing measures put in place to deal with the pandemic (higher US rates being the most obvious barometer of this). On this latter point, it is interesting to note that China has already begun tightening, making it the first country globally to do so.

Financials

(compare financials funds **here**)

Nick Brind, John Yakas, and George Barrow, managers of Polar Capital Global Financials - 23 February

Despite the discount at which the sector was trading relative to underlying equity markets at the beginning of the year, the onset of COVID-19 led to material underperformance. Banks initially suffered very large falls in share prices as the combination of falling interest rates, which for most banks reduces net interest margins, rising provisions for loan losses brought on by lockdowns and behavioural changes around spending, had a significant impact on profitability.

Globally banks raised loan loss reserves against future losses significantly, particularly in the US and Asia, but to a smaller extent in Europe, in part driven by a change in accounting rules that means banks have to recognise potential losses earlier in a downturn than they would have previously. These estimates assumed significant falls in GDP and real estate prices as well as a sharp rise in unemployment.

There was a strong pick up in loan growth at the start of the crisis as corporate customers drew down on facilities, which offset some of the headwind of falling net interest margins, although the vast majority was quickly repaid over the ensuing months as companies were able to tap capital markets. Larger banks benefited from strong trading and investment banking revenues, resulting from the volatility in financial markets, which was a significant offset to weaker retail and commercial banking revenues.

Regulators in the UK and Europe were quick to react to the crisis, telling banks to suspend dividend payments and buybacks. Regulators elsewhere took a more pragmatic approach. In the US restrictions were limited to a ban on buybacks and a cap on dividends not to exceed earnings over the previous four quarters while in other markets regulators put some limited restrictions on the level of dividends banks could pay.

Conversely, regulators also lowered capital requirements, reducing counter-cyclical buffers to zero while also reducing other buffers, giving banks more flexibility to take loan losses but still support borrowers. They also told banks to not automatically treat borrowers who asked for loan payment holidays as likely to default as they would have had to do under the new accounting rules.

Insurance companies also suffered large falls in share prices. Life assurance companies, which are highly geared to credit markets and to a lesser extent equity markets, corrected sharply. Counterintuitively, non-life insurance companies, which historically have acted very defensively in market corrections as earnings are driven by claims which are largely accident or weather related, also suffered large share price falls, driven by concerns over their exposure to COVID-19 insured losses due in part to poor policy wording.

Consequently, a number of insurance companies raised capital to either repair their weaker balance sheets and/or to take advantage of the more positive pricing environment going forward. The one exception has been those insurers primarily focused on auto or home insurance which have benefited from lower frequency of claims brought on by the significant increase in people working from home and thus much reduced road traffic. Some of these savings were returned to policyholders as rebates but the lower claims have also resulted in a fall in car insurance rates.

The share prices of payment companies were very resilient over the financial year and hit all-time highs. While not immune to the downturn which has reduced revenues from the travel industry, their business models have remained resilient as they have little or no balance sheet risk. They have also been seen as beneficiaries of lockdowns, as it has accelerated the shift of consumers using cash to cards and led to faster growth of e-commerce.

Stock exchanges have also proved very resilient, benefiting from their reliance on data revenues but also higher trading volumes on the back of volatility in financial markets. A number similarly hit all-time highs during the year. The share prices of asset managers, not surprisingly, also fell sharply but rallied along with financial markets, with alternative asset managers and those traditional asset managers with large passive fund businesses continuing to outperform their peers focused primarily on actively managed fund mandates.

Dividends

The decision by UK and European regulators to make banks and some insurance companies under their jurisdiction suspend dividend payments at the onset of the crisis has reduced dividend payments in the short-term and as such the revenue generated from the portfolio. We have also reduced the Company's exposure to some of the higher-yielding stocks in the sector over the last year, which has had an impact on income, countered by positive capital performance.

There had been some expectation that regulators would push back the decision to reinstate dividends until March or April 2021 when there would be more visibility about the outlook for economic growth. However, in November 2020, the Bank of Thailand lifted restrictions on banks under its jurisdiction paying dividends and this was followed in December by regulators in Europe, the UK and the US similarly reducing restrictions on the banks under their jurisdiction returning capital to shareholders.

Regulators in the US have taken a more pragmatic approach and have allowed buybacks to restart in January 2021, albeit the combination of buybacks and dividends cannot exceed the last four quarters of net income. This will mean the potential for higher capital returns in the second half of 2021 as weaker first-half 2020 earnings drop out of the calculation. In the UK and Europe regulators have made it unnecessarily complicated by limiting capital return to the higher of 25% of earnings or 20bps of risk-weighted capital in the UK, while in the Eurozone to the lower of 15% of earnings or 20bps of risk-weighted capital.

Looking forward, assuming global growth picks up as expected over the course of 2021 and 2022 we would expect dividend growth to be in the order of high single-digit to low double-digit per cent annually.

Outlook

The significant underperformance of the financial sector over the past year has been exacerbated by the difficulty investors have found in quantifying the impact on it, given the size of the exogenous shock to economic activity and lack of historical comparisons. We consistently believed that the downturn brought on by COVID-19 would be an earnings event for the sector given its underlying profitability and capital buffers, not a capital one, and therefore the fall in valuations was not justified by the fundamentals.

We continue to hold sizeable investments in a number of payment companies and emerging market financials among others, which continue to exhibit good earnings growth, as they are benefiting from structural growth trends, which we expect to remain resilient even if there is further volatility in financial markets. While valuations for some of these companies are very high by historical standards, along with some of our fixed-income and other more defensive holdings they counterbalance the more cyclical parts of the Company's portfolio.

Nevertheless, the majority of the company's assets are invested in banks and non-life insurance stocks. The valuation of non-life insurance stocks has fallen quite sharply over concerns that the sector will suffer a significant hit to earnings. However, banks have seen the sharpest falls in share prices, taking their valuations, earlier in the year, down to levels only previously seen during the global financial crisis when, unlike today, the solvency of the banking sector was in question.

While the sector rallied from the lows in March it was not until November 2020, on the back of the announcement of positive test results for a number of vaccines that markets saw a very sharp rotation back into financials, in particular bank stocks. Despite the rally, the underperformance of the sector versus underlying equity markets since the onset of COVID-19 remains material at close to 20% for the 2020 calendar year. However, if the distribution of vaccines allows governments to pivot and reduce restrictions more quickly, it is likely that growth will surprise in 2021 and 2022 and the sector will continue its recent outperformance.

Certainty about loan losses will be critical to the performance of bank stocks and therefore the sector. Evidence so far is that companies and individuals who have taken up payment holidays have by a significant majority returned to paying interest and principal as normal. The reality is that the size of loan losses will not be known until the second half of 2021 and by then the sector will have rallied further if economic growth is as strong as currently forecast. The recent pickup in M&A activity would suggest management teams are increasingly confident about the outlook and therefore balance sheet risks.

Governments and central banks continue to provide significant fiscal and monetary stimulus. Against this background banks have taken provisions for a deeper downturn, for higher unemployment and for a fall in house prices that is yet to be borne out. As a result, it is likely that some of the loan loss reserves they have taken will have to be written back which will boost earnings. Any pick-up in loan growth and fee income growth where expectations are muted will further boost earnings.

In that vein one of the biggest headwinds for the banking sector in recent years has been the decline in interest rates. Part of the reason for this is that central banks have had to do most of the heavy lifting in stimulating demand by keeping interest rates low as governments have run tight fiscal budgets. The steps that governments have taken this year, as a consequence of COVID-19 induced lockdowns, has led to broad money growth in the OECD hitting at a 30-year high and its highest in the US since the Second World War. The implications of this are unclear but may well lead to a less disinflationary/more inflationary environment looking forward which should materially benefit the sector.

The financial sector operationally has performed well during the crisis, and unexpectedly incumbents have for the most part been a bigger beneficiary of lockdowns than some of their smaller digital competitors. It has also facilitated government guaranteed lending to businesses through the likes of the Coronavirus Business Interruption Loan Scheme in the UK and Paycheck Protection Programme in the US. Balance sheets remain robust, earnings will recover sharply over the next few years and capital trapped by regulators will inevitably be released. While the discount at which the sector trades relative to the underlying equity markets has narrowed from the lows of March, it remains high historically, offering significant further upside.

Debt

(compare debt funds **here**, **here** and **here**)

Ian "Franco" Francis, manager of CQS New City High Yield - 26 February

Markets have already rallied globally as they look through the pandemic. Where they go from here will be based on the speed and strength of each country's economy recovery rates.

In the UK we see a positive recovery from the very efficient vaccine roll out which is considerably ahead of our former EU partners. This means that our domestic economy is likely to recover well before most of Europe. How fast and in which areas will be decided by the government, along with our ability to travel abroad over the coming months. Brexit has so far been kept out of the news headlines, but evidence of many businesses' both large and small having to relocate part of their manufacturing in the EU in order to access markets, meaning the loss of jobs in the UK. Another big question mark is as yet there is no framework or agreement over financial services which is potentially troubling for the UK economy.

Private equity

(compare private equity funds **here**)

Helen Steers, manager of Pantheon International - 25 February

This is no doubt that 2020 will go down in history as a year of extraordinary social and economic upheaval. The damage wrought by the COVID-19 pandemic has unleashed an unprecedented monetary and fiscal response from governments around the world. Interest rates have been cut to zero, central banks have launched vast programmes of quantitative easing and policy makers have applied emergency fiscal stimulus to soften the effects of the crisis. These policy actions have led to a recovery for most financial assets, with public equity markets bouncing back from the sharp declines that were triggered by the onset of the pandemic. The development and deployment of a range of effective vaccines have further boosted markets, and at the end of 2020 the MSCI World index was up by 14%, having rallied over 40% since the end of March. This aggregate performance masks a huge dispersion between countries, industry sectors and companies, and a vast amount of public market volatility during the year. There was a similar pattern of returns in private equity, although the valuation write-downs in the first quarter of the year were not as severe as those seen in listed equities, and the asset class as a whole recovered steadily in the second and third quarters of the year.

The impact of COVID-19 was felt in other ways in the private equity sector: new deal activity ground to a halt as private equity managers focused on their existing portfolio companies, assessing and resolving the operational and financial issues caused by the pandemic. The deep experience of the private equity managers in PIP's portfolio has served them well so far during this difficult period. Through rapid action - securing the safety of portfolio company staff, managing the closure and re-opening of sites, sorting out supply chain problems, meeting key customer demands, pivoting towards online solutions and obtaining financing - PIP's private equity managers were able to support our underlying companies and protect their portfolios. Although we had anticipated a potential surge in capital calls, and were ready for this eventuality, this did not materialise. Furthermore, although exit activity slowed during this initial phase of the pandemic, realisations then picked up and PIP has continued to receive distributions from the portfolio, albeit initially at lower than average levels.

During the second half of 2020, deal activity recovered as our private equity managers sought out add-on acquisitions for their existing investee companies, taking advantage of the opportunity to consolidate fragmented market segments. They also completed new transactions, frequently targeting businesses that they had tracked for several months or years prior to the pandemic. They also made use of the dislocation in public markets to pursue certain take-private deals. With this resurgence in activity, preliminary estimates for deal volumes at the end of 2020 are positive, and the momentum has continued into 2021. The large war chests amassed by private equity managers pre-crisis means that there is now an estimated US$1.5tn[1] of dry powder (capital raised and available to invest but not yet deployed) globally. This indicates a lively M&A market for private equity in 2021 and beyond, and we see this reflected in PIP's active deal pipeline.

Traditional secondary deals from investors seeking to exit existing investments and rebalance their portfolios were delayed in anticipation of a market recovery in 2021. Meanwhile, within those sectors faring well through the pandemic, the number of "sponsor-led" (where the private equity managers themselves are actively involved in finding liquidity for investors in their funds) and single asset deals (individual companies carved out of older funds) increased significantly. These types of deals have already been a growing part of the secondaries market and we expect this to continue.

....

Hedge funds

(compare hedge funds **here**)

Manager's report for Gabelli Merger Plus+ - 18 February

It took COVID-19 to end the United States' longest bull market at 131 months, only to give way to its shortest bear market at just over one month. After declining 34% peak-to-trough February to March, the S&P 500 Index ended the year up over 16%, 64% off its March low. Market participants are clearly looking forward to easy earnings comparisons in 2021 and beyond. But the market is also being fuelled by two powerful impulses: TINA (There Is No Alternative) and FOMO (Fear of Missing Out), as low interest rates continue to force savers out of cash and bonds into equities, which are gaining momentum.

The S&P 500 2021 forward price/earnings multiple of 22x as of year-end is high compared with history, but more defensible given the level of rates and the nascency of the economic cycle. The recent IPO and SPAC frenzies, extreme hype around electric vehicles, everything SAAS companies, and increasing involvement of retail/Robinhood investors are emblematic of a bubble, but not one that encompasses a majority of the market.

The M&A market is one we would classify as robust and healthy. Merger activity set a new record in the second half of 2020, surpassing $1 trillion in each of the second and third quarters and totalling $2.3 trillion globally-an increase of 90% from the first half of the year. We believe this resurgence was more than just the backlog of those deals put on hold in the first half of the year. The drivers for a strong M&A environment persist: borrowing costs remain historically cheap, and central banks have cut rates to zero and expanded their balance sheets to help spur economic recovery. Despite sales declines across many industries, companies implemented aggressive cost saving measures to preserve their liquidity, potentially as a means for future acquisitions. Robust debt and equity issuance has boosted cash balances on corporate balance sheets by about $2 trillion, according to Goldman Sachs. Additionally, private equity maintains a record level of dry powder, which should continue to drive sponsor activity. These dynamics should continue to propel M&A in 2021 and beyond.

....

Renewable energy infrastructure

(compare renewables funds **here**)

Manager's report for Greencoat UK Wind - 25 February

There are currently over 25GW of operating UK wind farms (14GW onshore plus 11GW offshore). In monetary terms, the secondary market for operating UK wind farms is approximately £70 billion. The Group currently has a market share of approximately 5 per cent. As at 31 December 2020, the average age of the portfolio was 6 years (versus 5 years at listing in March 2013).

In November 2020, in advance of the delayed COP26 conference scheduled for November 2021 in Glasgow, the Prime Minister announced a 10 point plan for the delivery of the 2050 net zero emissions target. A key part of that plan is a 40GW offshore wind target for 2030, supported by the CFD regime. New build onshore wind and solar are also expected to contribute, both on a subsidy free basis and supported by the CFD regime. We do not expect any material change to the Company's business as a result of the UK exiting the European Union.

It is anticipated that the Group will continue to invest in ROC wind farms, with CFD wind farms and subsidy free wind farms continuing to provide further diversified pipeline opportunities.

....

Manager's report for The Renewables Infrastructure Group - 17 February

The role of electrification in achieving net zero emissions

Despite the ongoing global pandemic, 2020 has been an important year for the climate change agenda with a significant number of countries pledging to reduce their CO_2 emissions levels to help combat climate change in an effort to ensure global warming remains within 2 degrees Celsius of pre-industrial levels by 2100.

Of the major global economies, during 2020 China and Japan joined the European Union and the UK in setting out targets to achieve net-zero emissions by 2060 and 2050, respectively. In the Unites States, President Joe Biden has led the country to re-join the Paris Agreement and to target net-zero carbon emissions by 2050. With a clear global tailwind behind the drive to reduce carbon emissions, policy decisions will be crucial to achieving these bold ambitions.

Importantly, there have been indications on the direction policy will take to achieving net-zero in the Company's core markets of the UK and Europe. For example, the UK Government's Energy White Paper "Powering our net zero future" provides a framework for the UK's path to net zero emissions. It includes significant electrification of heating and transport powered by renewable electricity bringing about a shift to electricity over other forms of power, whilst reducing overall energy consumption. The UK Government's analysis suggests electricity demand could double by 2050.

Similarly, in mainland Europe, significantly increasing electrification of energy use has been identified as essential in the EU's Strategy for Energy System Integration, published in summer 2020. The EU is also focusing on greater electrification of end-use sectors, specifically targeting heating and transport.

In both Europe and the UK, hydrogen has also been identified as a key tool for the decarbonisation of industry and buildings' energy usage where electrification is more difficult to achieve. Hydrogen is also a useful alternative for long-term energy storage to balance variable renewable electricity generation. The cleanest form of hydrogen production utilises renewable energy generation (commonly referred to as "green hydrogen"), though the development of technologies such as Carbon Capture Usage and Storage (CCUS) may also enable hydrogen to be produced using gas but capturing the carbon released by the process (commonly referred to as "blue hydrogen"). It is likely that both hydrogen production techniques will be necessary to decarbonise, with renewable electricity generation playing an essential long-term role in providing green hydrogen.

Building the renewable capacity required for net zero

With renewable electricity demand clearly expected to accelerate as we move towards 2050, there have been a number of pledges made by governments across Europe for the build-out of renewable generation capacity to support this. Reducing capital costs and low operational costs now makes most renewables the cheapest form of electricity generation across Europe.

UK

2020 saw the UK Government commit to holding regular Contract-for-Difference ("CfD") auctions every two years, with the fourth allocation round scheduled for late 2021. This fourth allocation round will reintroduce subsidies for onshore wind and solar. The UK Government is seeking to double the overall capacity awarded in allocation round four to 12GW. TRIG and its Managers each responded to the UK Government's consultation on the proposed amendments to the Contracts for Difference scheme, and will be submitting evidence to the 'Enabling a High Renewable, Net Zero Electricity System: Call for Evidence' consultation. TRIG's Managers also engage directly with policy makers and indirectly through industry bodies such as the Global Infrastructure Investor Association, The Infrastructure Forum and RenewablesUK.

Whilst it is positive for the renewables market in the UK that subsidies will be re-introduced for new onshore wind and solar projects, due to onshore planning and physical constraints it is still expected that the vast majority of renewables capacity developed in the UK will be offshore wind. The UK Government also reiterated its 40GW offshore wind capacity target for 2030. This is juxtaposed with the December 2020 GB power price forecasts that incorporate an assumption of c. 30GW of UK offshore wind is deployed by 2030, which itself is a substantial increase from 10GW today. This difference reflects the ongoing debate regarding the practicalities of the rate of deployment achievable, such as permitting timescales and build capacity; although as industry scales up, faster assumed deployment would put downward pressure on power price forecasts. The power price forecasts are expected to continue to change as market events and the consequences of the commitment to net zero evolve.

During 2020, the UK Government, as part of its Ten Point Plan for a green economic recovery, also set a target of 5GW of low-carbon hydrogen capacity by 2030 aiming to attract £4bn of private investment, with a detailed hydrogen strategy to be published in early 2021. Increased demand for electricity would help mitigate the impact of faster renewables deployment on power price forecasts.

Mainland Europe

The most significant EU policy development during 2020 in respect of the net zero carbon transition was the €750bn NextGenerationEU recovery fund pledge, as part of the next EU budget, which includes near-term support for renewable auctions and support to meet hydrogen deployment plans of 40GW of electrolyser capacity by 2030. EU member states will now incorporate this funding into established renewables frameworks.

Germany has also published a detailed hydrogen strategy as part of its economic stimulus in response to the COVID-19 pandemic, with €9bn of funding for hydrogen projects. The strategy aims to have 5GW of hydrogen production capacity by 2030 with a further 5GW added by 2040. Importantly, the strategy emphasises that green hydrogen is the most sustainable form of hydrogen generation in the long term, which could support demand for excess renewable generation in Germany during periods of high renewable resource.

In 2020, Germany, the Netherlands and Portugal also held auctions for wind and solar co-located with storage - an increasingly important trend to support grid stability. Whilst the past year demonstrated that European grids are capable of managing high levels of variable renewable generation (solar generation peaked at 54% in Spain, whilst Germany saw levels of intermittent renewable generation as high as 57%), the high costs of system flexibility in 2020 highlighted that further investment into grid infrastructure will be essential to decarbonisation.

Energy System Implications

With the increasing imperative to decarbonise energy consumption and utilise renewable electricity wherever possible, the European energy systems will need to adapt. Whilst the COVID-19 pandemic has provided insight into how a system with higher levels of renewable generation may operate, it has also highlighted the need for flexibility in the system as intermittent renewable generation becomes a greater proportion of the energy mix.

As well as the challenge of the physical integration of ever higher levels of intermittent generation, other market challenges will also emerge. With the low marginal cost of renewable electricity, in instances where renewables can meet or exceed the required demand the power price is reduced significantly ("cannibalisation") and can, at times, be negative. This results in increases in expected renewables deployment having a dampening effect on power price forecasts, as renewables are expected to set the power price more than previously expected over the long term. This phenomenon has been a factor behind the reduction in long-term power price forecasts seen over the year and reflected in the Company's 2020 financial performance and portfolio valuation.

Given this dynamic, it is likely that market behaviours will need to change if the desired renewables build out is to be achieved. A suitable investment return is a prerequisite for private sector investment and whilst this return is achievable on current power price trajectories, if the market power price forecasts were to reduce to such an extent that a reasonable return were not achievable this would lead to a slowing in the expected capacity build out for renewables. Allowances are made in the power price forecasts used by TRIG for reductions in the base load prices where renewables set the marginal price more often and for the cannibalisation effect, reducing the captured prices beneath that which would be expected for a base load (i.e. "24/7") generator. Such allowances increase over time in keeping with power price forecasters' assumptions for renewables deployment.

This potentially negative impact on investment into renewables may be addressed by the expansion of subsidy mechanisms, but this may present upwards pressure on subsidy levels if the market power price is not providing sufficient pricing signals for returns to be achieved outside of subsidy periods. The UK Government's call for evidence to enable a high renewable, net zero electricity system is specifically consulting on many of these factors and demonstrates the UK Government's appreciation for the requirement of private capital investment and the importance of a supportive market environment for existing and future investments in renewable capacity.

How society uses energy will necessarily change. Enabling users to shift their demand to react to power pricing in a dynamic way will be essential to the transformation of Europe's energy system to address both physical and market requirements. Similarly, flexibility will also need to be provided through green hydrogen and other storage technologies, such as batteries, leading to smarter matching of the supply and demand for clean electricity. The transition to a net zero carbon energy system necessitates that currently separate networks for electricity, gas for heating and petrol or diesel for transport will increasingly need to become one system, as renewable electricity becomes the bedrock of the future energy system. In such a system, investment from companies such as TRIG will be fundamental to the future wellbeing of our societies and environment.

Expectations in respect of renewables build-out and electricity demand assumptions will evolve as the path to net-zero carbon becomes clearer. Nonetheless, important markers have been laid down by policy makers that point to a substantial role for investors in renewable energy in the energy transition and the Company will continue to play its role in the decarbonisation of energy systems across its key markets.

Outlook

2020 was a turbulent year for the European power sector with a reduction in economic output having a significant impact on the sector. Gas prices reached a low of 3 Euro per megawatt hour whilst electricity consumption fell by significantly across Europe[16]. These factors, combined with record levels of renewable generation, served to depress European power prices through much of 2020. On occasions, a confluence of abundant renewable resource and lower than usual levels of demand due to reduced economic activity led to instances of power prices turning negative in Germany. In the Nordics, where hydro power has a significant impact on short term power prices, higher rainfall contributed to the depression in power prices, but helped to stabilise short term pricing in comparison to other markets.

As economies begin to recover over the course of 2021, and with higher gas prices and thermal generation outages, European power prices are set to recover with forward prices significantly ahead of the troughs seen in early 2020; however, the timing and pace of this recovery is uncertain. In relation to the medium to long term, upcoming policy announcements addressing the plans for electrification will be key to providing the demand for their renewables build-out ambitions.

. . . .

Commodities & natural resources

(compare Commodities & natural resource funds **here**)

Manager's report for Riverstone Energy - 24 February

Macro headwinds are expected to continue well into the first half of 2021 as the coronavirus pandemic shows no signs of subsiding. Until a vaccine is widely distributed, volatility and depressed energy valuations will likely persist, regardless of a recovery in the broader equity markets. While WTI prices have rebounded following a record decline in April 2020, ending the year at just over $48 per barrel, prices remain below 2019 levels. As further indication of future hurdles, forward WTI prices ended the year in the mid-$40s per barrel, a sign of continued uncertainty regarding economic recovery in the future and structural challenges facing the industry. Against this backdrop, REL is working closely with portfolio companies to manage liquidity in 2021 and restructure balance sheets as necessary.

The rally in WTI prices in the fourth quarter of 2020 was due in part to the successful development of a coronavirus vaccine, coupled with OPEC+ agreements that extended production cuts into 2021. This late stage recovery was further supported by better than expected economic growth in the U.S. and some Asian countries as spending and demand increased. Despite these gains, WTI prices ended the year 21 per cent. lower year-over-year, and the future of OPEC+ production levels is still uncertain. Supply decreases may not outweigh the structural and cultural changes impacting oil demand since the beginning of the pandemic. During what was already a tough period for energy markets, COVID-19 exacerbated investor concerns and has led to decreased valuations and lower portfolio company earnings at a time when a broader economic recovery is still fragile.

Despite a relatively brightening outlook for oil demand in the second half of 2020, following OPEC+ actions and the lifting of initial lockdowns, forward price gains which support valuations remain capped. In December, OPEC+ agreed upon extending production cuts into January 2021 following an initial disagreement in supply levels driven by Russia. While Saudi Arabia agreed to further curtail production to achieve necessary output levels, it is unclear how long Russia's posturing can persist and this will be an important factor influencing the market going forward. Further developments in the fourth quarter paint a more difficult picture of the future, including the emergence of a new more transmissible coronavirus variant, the threat of new lockdowns, and unanticipated delays in COVID-19 vaccine distribution and administration.

This extraordinary landscape in 2020 has led to one of the least active periods in history for public energy equity and M&A activity in North America. With energy now just 2 per cent. of the S&P 500 Index, a decline in trading multiples and subsequent strategic options has created new hurdles for energy companies in an industry already facing tighter margins due to lower pricing and balance sheet concerns. In 2020 alone, 46 energy companies filed for bankruptcy, an unfortunate trend that is likely to continue into next year.

Near-term prices are expected to continue to face headwinds as 2021 is shaping up to be a continuation of the preceding six months. While supply will most likely remain curtailed, demand is not expected to recover close to pre-pandemic levels until coronavirus vaccines are more widely available.

Ed Warner, chairman of BlackRock Energy and Resources Income - 4 February

This year has been challenging for investors with the COVID-19 pandemic creating deep uncertainty about the prospects for economies and triggering extreme volatility in markets. As the pandemic took hold, demand for commodities collapsed and significant operational and supply disruption exacerbated sharp falls in their prices. Stock markets subsequently rallied, aided by positive economic data from China and the oil price staged a partial recovery on the back of Organisation of Petroleum Exporting Countries+ (OPEC+) production cuts.

The second half of the year was generally more positive for markets, and the emergence of several successful COVID-19 vaccines in November 2020 further restored investor confidence. Companies in the mining and energy sectors generally had a strong end to 2020, benefiting from the environment of ultra-low interest rates and supportive fiscal policy. However, as the COVID-19 pandemic continues to evolve, some market volatility is expected to remain until vaccines have been rolled out and economic conditions have become somewhat more normal. On a positive note, investment in renewable and sustainable resources has continued to rank highly in terms of fiscal commitment and prioritisation for most governments despite the economic challenges posed by the pandemic. Sustainability trends continued to progress through 2020 with governments across the world announcing new carbon reduction targets and technology advancing in the renewable power and electric vehicles arenas.

Outlook

Recent signs of economic recovery in many of the world's major nations have boosted oil and mined commodity prices and in turn share prices in these sectors. In the mining sector in particular, free cash flow yields are high and companies are delivering strong returns. As economic activity normalises with the rolling out of COVID-19 vaccines and as governments, companies and consumers strive to decarbonise economic activity over the coming years, mining companies will play an important role in providing the materials required to enable the growth of the lower carbon economy and our managers are positive about the prospects for the mining sector for 2021. The shift to a lower carbon economy and the amount of capital that is being committed to its development also presents a significant investment opportunity.

....

Property – UK and Europe

(compare UK and European property funds here and here)

M7 Real Estate, investment adviser for Alternative Income REIT

Forecasts suggest that it is likely to be several years before the UK economy fully recovers to pre-pandemic levels. Whilst a steady recovery can be expected throughout 2021, the risk of sustained damage to some economic sectors (including retail, hotels, hospitality, aviation and tourism) means that there is a high level of uncertainty in the outlook, however, greater clarity over the timing of COVID-19 vaccine distribution will undoubtedly help the mapping of the route to recovery.

Despite economic uncertainty, the UK property market continues to deliver healthy spreads over government bond yields, both in absolute terms and relative to other markets. A global pandemic, Brexit transition and ongoing economic slowdown, has seen central banks keep interest rates low, with the chance of negative rates in the UK now becoming a possibility. As a result, we expect to see yield stability for many property sectors as investors seek a safe haven offering attractive risk adjusted returns. Coupled with the weight of frustrated capital which has been unable to invest over the past year due to lockdown measures preventing in-person inspections, investment demand is likely to be bolstered as the UK enters its recovery phase with the potential to compress yields further in certain markets.

Sectoral change stimulated by the COVID-19 pandemic had a significant impact on specific markets during 2020, with high street retail, shopping centres and leisure assets being impacted most heavily by lockdown restrictions, whilst the extent of the impact to offices is yet to be fully understood. Conversely, the industrial and logistics sectors thrived during the year with the ongoing trend to e-retailing only being accelerated.

The property industry continues to benefit from strong competition amongst investors seeking long, inflation linked income. Those markets that offer bond like income streams or are linked to social infrastructure, such as distribution, last mile logistics, supermarkets and certain alternative income will continue to attract significant demand.

Richard Shepherd-Cross, manager of Custodian REIT

While the COVID-19 pandemic dominates the headlines, recent levels of commercial property investment activity demonstrate that investors are looking beyond the pandemic. The focus on reporting rent collection statistics over the past nine months highlights the importance of real estate's strongest investment attribute - the right to receive rent and its consequent distribution as dividends. Direct investors seek to secure properties to provide long-term cash flows and indirect investors are primarily pricing investment company stocks off their capacity to pay cash covered dividends rather than off NAV.

The property market has shown itself to be remarkably resilient in a year when the enforcement of rent obligations was suspended, occupiers deserted their offices and shoppers were forced online. Landlords have been able to work closely with most tenants to reach agreement on the payment of rent and, across the board, rent collection rates of 90% plus have not been unusual. While property investment company dividends were set at cautious levels early in the pandemic, rent collection has been better than many feared and dividends appear to be reacting to a more optimistic outlook for real estate.

David Sleath, chief executive of the manager of SEGRO

The increase in e-commerce penetration has been much talked about and there has some debate over where it will settle once the pandemic has passed. We believe there has been a step-change in consumer behaviour. Some of the factors that were considered as barriers to increased levels of online sales penetration (for example concerns about the quality of food bought online and reluctance to share financial information over the internet) have been overcome and habits have potentially changed irrevocably. Our customers certainly do not expect there to be a significant retreat and are already preparing to adapt their businesses to respond to levels of online sales that are well ahead of previous expectations.

Whilst the pandemic may change the way that cities such as London, Paris and Berlin operate, we continue to believe that they will act as centres of commerce, innovation and culture and, in our opinion, that they will continue to attract people to work, live and 'play'. The nature of our urban warehouses, being mostly located inside or on the edges of cities, also means that they attract businesses servicing the commuter belt and beyond.

Finally, we expect that localisation and the renewed focus on supply chain resilience will also contribute to occupier demand over the coming years. In the UK we have been seeing their effects for a number of years as e-commerce has taken off and our customers have modernised their supply chains and distribution networks to respond to it. On the Continent however, our customers are much less advanced in this journey and e-commerce has been lagging in the UK. The pandemic has accelerated the need for them to make these changes. We see this as a significant opportunity going forward.

....

Steven Owen, chairman of Primary Health Properties

Healthcare provision in the UK has been transformed in 2020, as the NHS has responded to the requirements of dealing with the COVID-19 pandemic. Despite a large number of consultations now being carried out remotely we have also seen a large increase in workload for GPs and wider primary care teams at our buildings with many of our assets and occupiers now engaged in the delivery of COVID-19 vaccines as well as dealing with the resultant backlog of non-COVID-19 treatments that need to be addressed, with more services expected to move away from hospitals and into primary care facilities in the future. This trend will undoubtedly require substantial investment into other areas, most notably primary care that will be able to take on the non-urgent and peripheral procedures.

The conclusion of Brexit for the UK is unlikely to have a direct impact on the primary health centres we invest in, which perform a vital role in the provision of healthcare across the UK and Ireland. Demand for our properties is driven by demographics and in particular populations that are growing, ageing and suffering from more instances of chronic illness.

Despite the continued volatility in the economic and political environment and the prolonged era of low interest rates, there continues to be an unrelenting search for secure and reliable income. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary of this trend. The UK market for primary healthcare property investment continues to be highly competitive with strong yields and prices being paid by investors for assets in the sector throughout 2020 and in particular in the second half of the year.

....

Paul Bridge, manager of Civitas Social Housing

As the anniversary of the first COVID-19 lock-down approaches, the sector in which Civitas operates continues to demonstrate strong fundamentals and robust operational characteristics that reflect the essential care services delivered within the company's properties.

Demand for high quality homes in the community to provide lifelong housing for people with learning disabilities, mental health and autism is continuing to grow. This is the result of a number of key drivers: the closure of old remote hospitals, an increasing number of young people requiring adult care services and as parents and guardians themselves require elderly care support, the need for people to move from family homes into permanent care-based accommodation.

In addition, substantial demand exists for housing for those who have suffered homelessness and also require long term suitable housing in the community, with additional support to prevent them from returning to homelessness.

. . . .

Margaret Sweeney, chief executive of the manager of Irish Residential Properties REIT

The most pressing issue facing the Irish housing market remains the significant shortage of rental accommodation and, while supply has been increasing since 2014, the impact of COVID-19 will see output fall below original expectation for 2020 and below 2019 levels.

Therefore, demand for quality, well located and professionally managed accommodation will remain strong, underpinned by steady population growth. In addition, inward Foreign Direct Investment across key sectors has remained resilient through the pandemic, particularly in ICT, Pharma and Financial Services. The Industrial Development Authority Ireland reported that employment growth of 3.6% was achieved in 2020 in IDA supported companies.

While rent collections across our residential portfolio remained strong during 2020, this may not be indicative of the rate of rent collection in the upcoming months. The ongoing uncertainty related to the COVID-19 pandemic, including uncertainty surrounding measures taken to mitigate the economic impacts could give rise to increases in bad debts and vacancy levels in the future. We will continue the open dialogue with our tenants as the situation progresses.

We will also continue to monitor and assess the potential risks and opportunities for the group arising from market events such as the recently announced Brexit deal, US policy on FDI in Ireland, as well as taxation and increased regulation risks. We remain confident in the long-term prospects of the Irish multi-family rental market, which has proven itself to be highly resilient and counter cyclical during the pandemic.

. . . .

QuotedData
BY MARTEN & CO

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)