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BY MARTEN & CO

INVESTOR

Economic & Political Roundup

Monthly roundup | Investment companies | April 2021

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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	31/03/21	Change on month %
GBP / USD	1.3783	(1.1)
USD / EUR	0.8525	2.9
USD / JPY	110.72	3.9
USD / CHF	0.9436	3.9
USD / CNY	6.5528	1.2

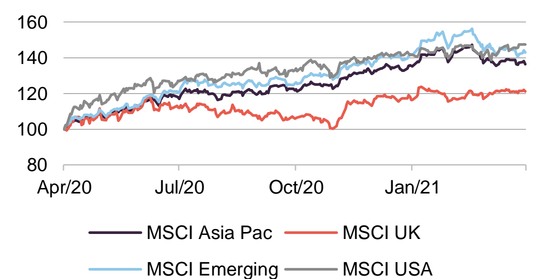
Source: Bloomberg, Marten & Co

Roundup

Small-cap stocks in the UK and US, which tend to be more closely aligned with domestic economies, had another good month. Many other countries, including most of Continental Europe, have not been as fortunate with their vaccine programmes to-date. There were further increases in US 10-year government yields, and a strengthening dollar contributed to a softening in the emerging markets rally.

MSCI Indices rebased to 100

Time period 01/04/2020 to 31/03/2021



Source: Bloomberg, Marten & Co

	31/03/21	Change on month %
Oil (Brent)	63.54	(3.9)
Gold	1707.71	(1.5)
US Tsy 10 yr yield	1.7404	23.9
UK Gilt 10 yr yield	0.845	3.0
Bund 10 yr yield	(0.293)	11.8

Source: Bloomberg, Marten & Co

Global

Cyclical sectors dull tech's lustre

David Harris, the chairman of Manchester & London, reflects on a relatively tougher period for large-cap technology stocks.

Simon Barnard, Smithson's manager, provides a detailed take on the relative performance and valuation between 'growth' companies and 'value' companies.

Andrew Bell, the CEO of Witan's manager, discusses why financial repression is likely to remain for some years, with interest rates being held at rates that offer virtually no return and, after inflation, will be loss-making.

F&C's chair, Beatrice Hollond, warns that equity markets have already discounted much of the good news. Any disappointments in earnings or inflation could lead to a sharp setback for stocks.

Helge Skibeli, Rajesh Tanna, and Tim Woodhouse, managers of JPMorgan Global Growth & Income, touch on some of the important investing lessons from 2020.

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March's highlights

Global (continued)

Kevin Carter, chairman of Murray International, notes that the lasting legacy of enormous debt obligations accrued by some nations in response to COVID-19 will linger for years to come

Alliance Trust's manager notes provide commentary on a range of themes, including the outcome of the US elections, which will cause important short-term and structural policy shifts. With small majorities in both the House of Representatives and the Senate, the Democrats are now more likely to be able to deliver on their policy agenda.

According to Russell Napier, chairman of Mid Wynd International, the most likely outcome from the current crisis is a significant change in how society demands the financial sector serves its needs. This will include but is not limited to, a greater focus on ESG issues that all stewards of capital will be increasingly attentive to going forward.

UK

Margaret Littlejohns, chair of Henderson High Income, says that the worst of the dividend cuts may now be over, as those businesses most affected by lockdowns have learned to adapt, although we should not anticipate a rapid bounce back to their pre-pandemic dividend levels in 2021.

The UK consumer is in a financially sound shape, which is unusual at the end of a recession

Guy Anderson and Anthony Lynch, managers of Mercantile, are particularly optimistic on the outlook for the UK. The economy suffered the greatest fall in economic activity of the G7 last year and so arguably has the greatest upside potential. The managers add that rather unusually, at the end of a recession, the UK consumer is in a financially robust position.

Kevin Allen, chairman of Chelverton Growth, says that in time, the Free Trade Agreement with the EU will be properly implemented and will be adjusted by agreement, to the benefit of all parties.

The withdrawal of government support may lead to a rise in unemployment, potentially to around 7%

Georgina Brittain and Katen Patel, managers of JPMorgan Smaller Companies, focus on several themes. On the risk side, they noted that the economy will decline in the first quarter of 2021, brought about by the third national lockdown, which they expect to be followed by a rise in insolvencies in small to mid-sized unquoted companies, and by unemployment levels potentially reaching 7% when the furlough scheme ends. Inflationary risks are also rising, and the record deficit continues to grow.

William Meadon and Callum Abbot, managers of JPMorgan Claverhouse, also believe the UK represents particularly good value at the moment.

The manager of Aberdeen Smaller Companies Income says that while many businesses will adapt operationally, some sectors will not recover to pre COVID-19 levels. Companies have taken this opportunity to improve operational efficiency; all these aspects could lead to falling employment.

The UK's successful vaccine rollout should draw in further equity flows, particularly in light of the ongoing discount

Ken Wotton and Adam Khanbhai, managers of Strategic Equity Capital, believe that the progress the UK has made in inoculating its population could stimulate asset allocators to re-evaluate the significant discount being applied to the UK stock market, and UK smaller companies in particular due to their domestic focus.

Global emerging markets

The investment environment in China appears to have deteriorated over recent months

Michael O'Brien, manager of Fundsmith Emerging Equities, pays particular attention to China and India. On China, Michael says that it continues to have specific issues which reduce the number of suitable investment opportunities available and if anything the investment environment has deteriorated. India returned to growth in the final quarter of calendar 2020 and it is noted that India is the largest manufacturer of vaccines in the world.

In the view of Austin Forey, JPMorgan Emerging Markets's manager, it is not an exaggeration to say that the opportunity set at the level of individual companies is as great as at any time in the last three decades, if not greater.

Private equity

Private equity activity within technology in particular has been rampant

Hamish Mair, manager of BMO Private Equity, notes that this year has seen the private equity market's appetite for new deals pivoting towards sectors that are seen as offering long term growth. Especially growth that has been little impacted or even enhanced by COVID 19. Specifically, this applies to information technology software and services.

Duncan Budge, chairman of Dunedin Enterprise, says that the Brexit deal has provided its portfolio companies with some clarity.

The manager's report extract for HgCapital Trust focuses on valuation, where the overall environment has been one of net valuation expansion, albeit with significant volatility en-route.

The pandemic accelerated a trend that saw fewer funds being raised but with a significantly higher average fund size

Oakley Capital's manager notes that private equity fundraising continued over 2020. However, the pandemic and subsequent lockdowns accelerated a trend that saw fewer funds being raised but with a significantly increased average fund size.

The manager's report for Apax Global Alpha says that the volume and value of transactions recovered strongly in the second half of 2020. Also, valuations for quality companies continued to be elevated. The private equity market is discerning between those companies viewed as structural winners (e.g. software) and those considered more structurally challenged (e.g. bricks-and-mortar retail).

Other

We have also included comments on the flexible investment sector from RIT Capital Partners and Ruffer; North America from JPMorgan US Smaller Companies and Jupiter US Smaller Companies; Japan from AVI Japan Opportunity, and Baillie Gifford Shin Nippon; Asia Pacific from Schroder Asian Total Return and Pacific Horizon; India from India Capital Growth and Ashoka India Equity; Vietnam from Vietnam Holding and VinaCapital Vietnam Opportunity; biotech and healthcare from BB Healthcare; debt from Secured Income Fund, GCP Asset Backed Income, Axiom European Financial Debt, CVC Credit Partners European Opportunities, BioPharma Credit, and UK Mortgages; growth capital from

Schiehallion; technology & media from Allianz Technology; infrastructure from BBGI Global Infrastructure and International Public Partnerships; renewable energy infrastructure from US Solar, Octopus Renewables Infrastructure, Foresight Solar, and Bluefield Solar Income; commodities & natural resources from CQS Natural Resources Growth and Income and BlackRock World Mining; leasing from Tufton Oceanic Assets; and property from Secure Income REIT, Real Estate Investors, Derwent London, Regional REIT, CLS Holdings, Empiric Student Property, Supermarket Income REIT, and Yew Grove REIT.

Global

(compare global funds **here**)

David Harris, chairman of Manchester & London - 17 March

It has been a period where small capitalisation stocks, unprofitable technology hopes, cryptocurrencies and reflation value plays have been in vogue, whilst mega-capitalisation Technology (with the exception of Apple and Tesla) has lagged.

Key variables for our second half performance are likely to be the success of COVID-19 vaccine rollouts, movements in the US sovereign yield curve, the GBP/USD foreign exchange rates, whether there is any material shakeout in certain crowded trades (such as unprofitable technology stocks), and the regulation of technology companies globally.

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Simon Barnard, manager of Smithson - 16 March

There has been intensifying discussion lately (I say intensifying, because the discussion itself has now been ongoing for some years) regarding the relative performance and valuation between 'growth' companies and 'value' companies and the potential for the market to 'rotate' from growth into value investments. For the purpose of this discussion, I refer to value investments as those companies trading on a low price to earnings or price to book value multiple (although not necessarily 'cheap' because of it) but I won't lament here the potential flaws in value investing as Terry Smith, in his annual letters to Fundsmith Equity Fund investors, has already done so far more eloquently than I could. What I would like to discuss instead are two further aspects to this debate which, to my mind, should provide further comfort to owners of high-quality growth companies, such as those held by Smithson Investment Trust plc, despite the clamouring by many that they now appear 'expensive'.

The first of these is known as the McNamara fallacy. This is named after Robert McNamara (it never bodes well when you have a 'fallacy' named after you), the US Secretary of Defense from 1961 to 1968, who believed in reducing the Vietnam war effort to a mathematical model. After developing a list of metrics to measure the progress of the war, he decided that enemy body counts were to be taken as a primary measure of success, rather than considering any of the many qualitative factors, such as morale, which he apparently claimed were difficult to measure and so must not be important. We all know how that worked out.

Today, this problem of an over-reliance on quantifiable metrics to solve complex problems can be identified in many areas of decision making, from the selection of university students to even choosing where to live. But the reason I bring it to your attention here, is because an almost exclusive focus on the valuation of companies, to the detriment of difficult to quantify factors such as brand value, distribution reach, R&D innovation, intellectual property, market dominance or network effects, will cause you to miss out on many wonderful investments over the course of your lifetime. Further, the irony is that the quantifiable company valuation metrics that are so easy to calculate and compare could be completely misleading, based as they often are on unknowable earnings forecasts, whereas it is with much greater confidence that one can determine a company as being of a high quality once you know it well (or as the philosopher Carveth Read said, "it is better to be vaguely right than exactly wrong"). So, let commentators continue to warn about relative

valuations. They may even be proved right for a time, but we are happy for them to win one battle while we focus on winning the war.

The second aspect of the debate that I wanted to bring to your attention is that of time. The length of holding period has a much greater impact on the expected risk and return of an investment than most people realise. Let me give you an example. If you were to hold an index fund tracking the S&P 500 for 1 day, you'd only have slightly more than a 50/50 chance of making money because of the daily volatility. On the other hand, if you were to hold it for 15 years, you'd be extremely likely to make money. This is based on the fact that, since the inception of the S&P 500 in 1957, there has been no 15-year period when you would have lost money.

Using the S&P Composite Index we can extend the period back further to encompass the Great Depression. Even then, we find that there were only 3% of days* when you could have bought the Composite and it traded at a lower price 15 years later, with none since 1931. So, by changing only one element, the holding period, the probability of making money in the same investment has improved from around 50% to 97%.

Of course, the US-focused S&P Composite Index has done better over time than many other regional indices. But that simply serves to highlight the second important part of the argument: this only works if you invest in assets that tend to increase in value over time. This again promotes the benefit of buying high-quality companies which sustain strong margins and returns and grow free cash flow over the long term, even at a seemingly high price, compared with low-quality 'value' companies which don't. It is ultimately why quality companies suit a buy and hold strategy, which by the way is a very good strategy, if you observe how some of the wealthiest families and individuals in the world have made their money.

In terms of the future progress of the market, it is, as always, impossible for us or anyone else to know. We can at least identify two factors though which are likely to have an effect on equity prices over the coming months (and there will be many others that no one can yet see). First is the effect of policy shifts from central banks and governments. As we have commented several times previously, market prices have been significantly impacted by the ultra-loose monetary policy that has been experienced over the last few years, and especially in 2020. It is probably no coincidence that markets started to recover on the same day that the Fed announced it was "committed to using its full range of tools" to support the market and economy, and so any change in this policy will be a primary factor in asset price movements. It also appears that at time of writing, governments continue to expand fiscal stimulus measures, a good example being that of the US government stimulus package currently being debated. This could also have an effect on the stock market, although of a second order nature, if the stimulus leads to faster economic recovery than is currently expected.

Second, and linked to the last point, is the progression of COVID-19 vaccination programmes across the globe. This will be another second order effect if it allows for the relaxation of population movement restrictions and recovery in economic activity. However, any signs that vaccination is going slower than people hoped, which is quite possible given the logistical and social challenges of vaccination on such a scale, will have an immediate effect on market sentiment.

*Since the inception of the daily S&P Composite in 1927 there have been 733 days out of a total 23,353 days where the S&P Composite was lower 15 years later.

As an aside, it is interesting to note, especially for those who fear that this COVID-19 vaccine development and approval may have taken short cuts, and suggest it

will therefore not be fully safe or efficacious, that the 11 months it took to develop the vaccines is not completely unheard of. In fact, vaccines for three pandemics during the last 100 years (Asian Flu, Hong Kong Flu and Swine Flu) were developed within 6 months of the outbreak. We can therefore conclude that a short development time for a safe COVID-19 vaccine is very fortunate, but not impossible, and therefore we may well have a credible solution to the pandemic at hand.

Finally, we wanted to end with a thought on investing through these uncertain events and volatile markets: we suggest that your ambition as an investor at all times should not be profit maximisation but rather regret minimisation. Bear with us.

There are three simple reasons for this:

1. Profit maximisation (by timing the market perfectly) is impossible;
2. Regret minimisation is possible and is also a very profitable long term strategy; and
3. Getting market timing wrong can bring both a substantial loss in profit and enormous regret.

So how do you put a regret minimisation strategy into practice? One way is to automatically buy the same amount of your investment every week or month, whether it looks cheap or expensive, uncertain or rosy. The automated nature of the strategy means you can never feel regret, because the timing is never in your hands. It also means that your consistent participation in the market will allow you to benefit from the compounding nature of equity returns without the self-inflicted damage of poor timing (the worst of which is selling and never getting back in). And finally, you will be happier, because you will achieve good returns over time and never feel bad about making a wrong decision. After all, if we don't feel content with wealth and investments, what's the point in them?

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Andrew Bell, CEO of Witan's manager - 11 March

The pandemic upended all personal plans and economic forecasts early in 2020 and reminded us that humankind, even though apparently the planet's dominant species, can be humbled by one of the smallest. For many, the costs of COVID have been severe and sometimes, at the human level, irreversible. Many businesses, aspects of society and livelihoods have suffered from the unforeseen events of 2020. Although developments in public health and improved treatments enabled societies to cope up to a point in 2020, it is the extraordinary speed with which modern science has developed effective vaccines that gives hope for 2021 to be a new start for damaged economies and people's quality of life.

The timing of economies fully emerging from the renewed restrictions in place at the end of 2020 remains uncertain. Nonetheless, it seems increasingly likely that 2021 will see a gradual but consistent reopening of activity, particularly in the sectors such as hospitality, leisure and travel that depend on human interactions that cannot be replicated in an armchair. There is likely to be pent-up demand in these areas. There will inevitably be permanent damage to many businesses as well as a reassessment of the spare capacity needed (for example in healthcare) to respond to the unexpected. In the UK's case, the economy will also need to adapt to the agreed new trading arrangements with the EU and the rest of the world.

Another feature that seems likely to remain for some years is financial repression - interest rates being held at rates that offer virtually no return and, after inflation, will be loss-making. Substantial increases in public debt have been taken on to combat the pandemic, with the current political debate (and the new US Administration)

focused on growth rather than retrenchment as the means to shrink the debt relative to the size of the economy. With governments seemingly able to lean on their central banks to buy government bonds at record low interest rates, an expansion in government spending seems in prospect, to incorporate priority areas such as infrastructure, decarbonisation, and health. The resulting boost to economic growth may well help spread the recovery in corporate fortunes and stock markets to include some of the cyclical sectors which were depressed during 2020. At some stage, the balance between spending plans and the markets' willingness to finance them will reach a limit and interest rates will rise but this does not seem to be imminent. In this environment, the potential for fixed-coupon bonds to protect wealth against even modest rises in inflation seems questionable.

Equities have become by default the only area where prospective long-term returns appear positive, but the main indices are not lowly valued and include some companies where the hopes for growth appear very high and may not always be fulfilled. A year ago, as markets were plunging in the early weeks of the pandemic, we said that for contrarians the signals were shifting from red to green, as expectations became increasingly depressed. Although areas of the equity market still have the scope to exceed expectations, this appears less likely of markets as a whole than a year ago, particularly as many of 2020's high-profile winners are also significant index components. Accordingly, greater selectivity in stock selection may be warranted as well as greater scepticism of the near-universal assumption that interest rates can be indefinitely suppressed.

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Beatrice Hollond, chair of F&C - 10 March

The coming years are likely to provide further challenges. COVID-19 remains a significant threat to near-term growth prospects and while the news on vaccine effectiveness and deployment presents the prospect of a return to normality, risks to the outlook are numerous.

While we do expect better growth as this year progresses, and a consequent improvement in corporate earnings, equity markets have already discounted much of the good news. Valuations are being buoyed by unprecedented monetary and fiscal stimulus and, while we should expect support for some time to come, disappointment on earnings delivery or, critically, on inflation, could give rise to volatility and even a sharp setback in equity markets.

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Helge Skibeli, Rajesh Tanna, and Tim Woodhouse, managers of JPMorgan Global Growth & Income - 5 March

Our confidence in the economic recovery is over multiple years, but of course predicting the events in the coming months is difficult. Vaccine rollouts have begun, with some promising progress in some countries, and some difficulties in others. The emergence of new strains has raised questions with respect to the efficacy of the vaccines, but we have confidence that these are temporary issues that vaccine developers will be able to handle effectively, and as such retain our confidence that we are on a path to normalcy over the course of 2021.

This year has certainly reminded us of a couple of important lessons on investing that are tied to gearing and the vaccine. The first is that volatility is natural, and happens every year. On average, the S&P500 will fall 14% from a peak to a trough, but as we know, equities invariably have recovered those losses. It seems reasonable to expect that hiccups in the vaccine rollout could be one contributor to

volatility as we go through this year, along with events that we are unable to predict. The second lesson is the importance of not only staying invested, but taking advantage of those dislocations.

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Kevin Carter, chairman of Murray International - 5 March

The discovery and rollout of a number of effective vaccines against the virus hold out the prospect of emergence from the pandemic. However, the lasting legacy of enormous debt obligations accrued by some nations in response to COVID will linger for years to come. Clearly, the path ahead is not likely to be smooth.

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Manager's report for Alliance Trust - 4 March

It's not yet clear how much the COVID-19 pandemic has permanently changed our lives or to what extent we will return to "normal" over the next year, but 2020 will undoubtedly go down as the most tumultuous year in living memory. At the forefront of all our minds is the human tragedy, but there is at least hope that a widespread programme of vaccination will bring an end to the immediate crisis before too long.

In the markets, investors had a rollercoaster ride. After one of the fastest collapses in the equity market in history, government and central bank stimulus packages triggered a dramatic recovery in share prices, with many markets ending the year at record highs. The 12.7% gain delivered by the MSCI ACWI Index1 in 2020 was unevenly spread across countries and sectors. Equity markets in 2020 were dominated by the advance of technology and e-commerce companies. These companies profited from an increased shift to online consumption and a rising demand for technology solutions and digitalisation as many of us started spending more time at home. Larger companies generally benefitted from the significant levels of liquidity injected by central banks, being able to access it more easily than their smaller peers. Longer duration growth stocks in particular benefited from the suppressed levels of interest rates. As such, the US and China large-cap, tech-driven companies that have dominated markets over the last few years continued to do so throughout most of 2020, gaining from the perfect storm created by the coronavirus pandemic.

Cyclical sectors were particularly hard hit, especially in areas such as 'bricks and mortar' retail, hospitality and travel. Throughout 2020 we witnessed COVID-19 devastate our high streets, as numerous retail outlets gradually succumbed to insolvency. The Energy sector was the worst performing sector over the year, hit by the negative impact of economic slowdown and lockdowns. This negative momentum was further amplified by tensions between Saudi Arabia and Russia.

The impact of multiple lockdown measures on company earnings was a key concern for many investors in 2020. Business models of thousands of companies were challenged as access to consumers was limited and workers were furloughed. This led to many businesses cutting or suspending dividend payments.

However, positive news on vaccine development in November triggered a market rotation, with many cyclical, smaller-cap companies coming to the fore. In this strong 'risk-on' environment we saw a recovery in riskier and lower quality names and a unwinding of the performance gap between large and small-cap stocks seen earlier in the year. The regional pattern of performance also shifted to some degree in the last quarter with the UK market, long the laggard, starting to gain some ground.

Geographically, we saw significant divergence in the impact of the COVID-19 pandemic across the world with each government's varied responses to the pandemic. The whole of Asia was hit first but as the year progressed Asia emerged better off, having been able to control the pandemic more effectively. US equity markets saw strong returns maintained, given the dominance of US technology names in the index and the scale of the fiscal and Federal Reserve stimulus. Despite the fourth quarter rebound, the UK was the worst performing region over the year, with UK index returns weighed by a heavier reliance on the Financials and Energy sectors which were hard hit in 2020, as well as Brexit uncertainty, which amplified an already difficult market and economic backdrop.

As well as reinforcing the dominance of New Economy stocks, COVID-19 also intensified the focus on Environmental, Social and Governance issues.

Outlook

Financial markets always face uncertainty but, as we entered 2021, uncertainty and risk remained high. We are still in the middle of a global pandemic and, despite positive news on the development and distribution of vaccines, the return to normality is still beset with challenges, with virus levels, lockdown and economic policy and vaccine distribution progress varying between countries.

The outcome of the US elections will cause important short-term and structural policy shifts. With small majorities in both the House of Representatives and the Senate, the Democrats are now more likely to be able to deliver on their policy agenda. Further fiscal stimulus packages are likely, which should have a significant impact on the level and speed of economic recovery in the US. From a structural perspective, potential changes in taxation, especially corporate taxation, and anti-trust policy are also more likely. Any potential rise in inflation expectations or significant tax changes could dramatically affect the style or sectors driving the market. We also expect the Biden administration to implement climate-changed focused stimulus policies and now it has rejoined the Paris Climate Agreement, to bring Federal momentum back to the pace of decarbonisation.

With a UK-EU trade deal now approved and the UK's separation from the European Union complete, the uncertainty of a no-deal Brexit evaporated. Whilst there may be some short-term volatility as specific details from the new trading relationship emerge, there should now be a more positive backdrop for future UK growth over the long term as it negotiates trade deals with its other major trading partners and develops its productivity strategy.

Since its outbreak in 2020, China has, to date, largely controlled the pandemic and, therefore, benefitted from a faster economic recovery. With much of the world still grappling with the effects of the pandemic, varied approaches to its control and different paces of vaccine rollout, China appears well positioned economically. We believe that China offers an attractive investment opportunity - it accounts for approximately 5% of the MSCI ACWI, yet it has the second largest economy in the world, around 66% the size of the US's. The importance of China as a global leader is likely to grow further over time.

With interest rates at close to record lows and governments prepared to support economies with extensive fiscal measures, we believe 2021 should be a positive year for equities.

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Russell Napier, chairman of Mid Wynd International - 4 March

The most likely outcome from the current crisis is a significant change in how society demands the financial sector serves its needs. This will include, but is not limited to, greater focus on environmental, social and governance issues that all stewards of capital will be increasingly attentive to going forward. Such major structural changes are not something new even if investors have to deal with them only very infrequently. The most pressing economic need that the financial system is likely to be conscripted to solve is the current excessively high level of debt-to-GDP across the developed world and also in China. Historically the preferred policy response to such indebtedness, particularly in the age of democracy, is to generate much higher levels of inflation. We should thus expect higher levels of inflation than seen over the past few decades though the path to such inflation may not be straight.

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Flexible investment

(compare flexible investment funds **here**)

Francesco Goedhuis and Ron Tabbouche, managers of RIT Capital Partners - 2 March

In our view the current level of market optimism, buoyed by the scale of policy response and benign views on the pandemic's future impact leaves investors with little margin of safety. To justify the current backdrop of record debt levels and valuations there needs to be a sustained period of economic growth. There are many reasons to doubt that this will occur, not least a frugal private sector, uncertainty around inflation and rising geopolitical and societal tensions.

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Manger’s report for Ruffer - 1 March

It now seems we are in a K-shaped recovery - that means winners and losers. The unique shape of the covid-19 crisis and accompanying recession has meant some industries have thrived whilst others have suffered. What does the K mean? In caricature, everyone now uses Zoom and Peloton and offices and gyms are forced to close. Big beats small. The digital economy beats everything. COVID-19 acted as the 'Great Accelerator' to a whole host of trends which were already in motion.

This applies to individuals as much as it does to companies. The rich have benefited from asset prices rising, access to cheap debt and more independence. Those less fortunate have faced job losses and managing precariously through a patchwork of government support.

The K is not OK because it leads to a hollowing out of the economy and, as we are observing, it will exacerbate inequality and cost far too many jobs. Despite the government schemes, the job losses dwarfed any historical comparison. Even after a significant recovery, US levels of unemployment are only just back to those levels seen at the trough of the global financial crisis.

It feels like we live in a world of two extremes - the real economy which has been severely wounded and a rose-tinted, utopian, liquidity-fuelled world in the financial economy.

Why does this matter? Because governments have a habit of bending to popular will and there are a lot of disenfranchised people as a result of covid-19 who are

looking for someone/something to blame. Capitalism, big business, the rich - all seem to be probable targets who will have to 'pay their fair share'. Furthermore, because politicians can read the mood of voters too, this will ultimately lead to government intervention and antitrust. The first signs are showing with talk of student debt forgiveness, a $15 minimum wage in the US and a coming reckoning for Big Tech in the US.

The optimistic take on the current economic situation is, as governments have realised through necessity, that the frontiers of tolerable levels of government borrowing and spending are further out than previously thought. Those, including Ruffer, who have worried about the unsustainable debt dynamics are looking more wrong than ever. This is music to political and Keynesian ears and it is an invitation they won't need to be offered twice to get more active in 'investing in the economy'. Such a policy is entirely unsustainable if bond yields rise, hence the obsession by the authorities in keeping interest rates nailed to the floor.

We can layer on top of this unexpected debt headroom the possibility of significant pent-up demand. After the Spanish flu in 1918 came the roaring 20s. The combination of the First World War plus a pandemic meant that people had put their lives on pause. It is entirely possible that for many something similar has happened during covid-19 - delayed weddings, cancelled holidays, etc. Might the animal spirits post-vaccine in mid-2021 catch us all by surprise? If so it seems plausible that bond yields will indeed rise and there will be upward pressure on prices.

A new investment regime

The question all investors need to be asking themselves today is 'why do I own conventional bonds?'

Bonds have been the cornerstone safe haven asset for investor portfolios since the creation of modern portfolio theory in the 1950s. As an asset class they have done a fantastic job, delivering strong returns and crucially acting as a wonderful portfolio offset. This is because bonds have gone up at times of stress when riskier assets in portfolios have fallen. They have been a hedge, but one with significant positive carry - the holy grail! But from here - with yields as low as they are - it is hard to see why anyone would own them. What do they add to your portfolio?

Bond prices are not just at record highs. They now offer guaranteed negative returns before considering inflation. As Jim Grant famously observed: 'they have gone from risk free return, to return free risk.' This has not escaped the notice of investors, which is why they have taken on more credit risk in order to achieve required yields and branched into assets outside traditional fixed income markets. These bond proxies (think infrastructure, renewable energy projects, property, private credit, defensive equities) are now exposed to the same risks as conventional bonds.

Investors are prepared to hold around $18tn worth of bonds knowing full well they will get back less than their original investment if held to maturity. Only 15% of the entire world bond market yields more than 2%.

At best, this is a bubble in pessimism. Are asset allocators so devoid of good ideas they will guarantee a small loss at the risk of anything worse happening? At worst, this is the tyranny of benchmarking writ large as 'investors' paint by numbers into assets guaranteeing losses.

But bonds are a mathematically bounded asset class - from here the 'bond math' is challenging. In the US the ten year bond yield would have to fall to -0.7% to offset a 10% fall in the S&P 500 in a typical 60/40 portfolio. This is possible, but not likely,

and anything worse than a 10% fall in the equity market would require even more sharply negative yields.

It is worth drawing on a recent example - had you held 10 year German bunds from 2019 through the covid-19 crash you would have lost money. That is to say that through the sharpest, deepest recession in recorded history you lost money in one of the ultimate safe-haven conventional government bonds.

For these reasons we do not hold conventional government bonds in the Company. Inflation-linked bonds offer a different opportunity

The big question - how do we pay for all this?

Regardless of how the economy recovers from the pandemic, we can say for sure that western societies will come out of this carrying significantly more debt than before. The need to address this issue has become a necessity. Step 1 is to ensure that borrowing costs are kept as low as possible. Step 2 is to look at ways to start deleveraging. We all know that austerity is politically toxic and ineffective. Growing our way out of this bind is vanishingly unlikely given that it hasn't worked for at least the last half a century. While default will always be the nuclear option to be avoided at all costs, history does show us that a default via the back door of inflation is both the most effective 'solution' and the most politically palatable. In the current situation this option also has the added political benefit of appeasing the social pressure to address wealth inequality. Financial repression (interest rates below the rate of inflation) rewards the have-nots of society at the expense of the haves. Debt is inflated away and asset values typically fall.

Conventional bonds offer no protection in this scenario and equities tend to perform poorly when inflation starts to pick up materially. Our belief is that a combination of index-linked bonds, gold and some digital currency will offer protection.

Summary

We are moving into a new investment regime in the post-covid-19 world. As ever in a regime change, there will be individual winners and losers, but perhaps more importantly the investment template from the previous regime is unlikely to work (aka driving with the rear view mirror). Our key takeaways are as follows-

1. COVID-19 as the Great Accelerator - many existing trends have been amplified. Of these the greatest threat to investors is the necessity of financial repression to pay for past debts.
2. The negative bond/equity correlation trade may be over - conventional portfolios are riskier than they appear through back-testing scenarios.
3. Expect the unexpected - a genuinely all-weather portfolio is going to be essential.
4. Beware the duration trade - many different assets have benefited from falling bond yields. A mix of cyclical equities and interest rate options gives you a genuine diversifier.

UK

(compare UK funds **here**)

Margaret Littlejohns, chair of Henderson High Income - 31 March

The experience of 2020 has taught all of us the difficulties of making predictions in such an uncertain world. Unfortunately, COVID-19 is likely to remain the dominant theme for 2021 with concerns about the duration and severity of its legacy on the global economy. The rapid roll-out of vaccines, particularly in the UK, has prompted cautious optimism, acknowledging that there may still be setbacks on the path to the "new normal" as variants of the virus start to emerge. Nonetheless, some of the other uncertainties raised in my interim statement have now been resolved, namely the US elections in November with the subsequent appointment of Joe Biden as US President, and the agreement of a last minute trade deal between the UK and the European Union at the end of 2020. Monetary and fiscal policy is still expected to remain very supportive during the coming year, given the likely long-term economic hangover caused by the pandemic. The worst of the dividend cuts may now be over as those businesses most affected by lockdowns have learned to adapt although we should not anticipate a rapid bounce back to their pre-pandemic dividend levels in 2021.

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Guy Anderson and Anthony Lynch, managers of Mercantile - 31 March

The pandemic has inflicted tremendous economic damage across the globe and there are still question marks around what the shape of the recovery will be and whether there will be long lasting economic damage. However, the speed at which a number of alternative vaccines have been developed and the pace at which they are now being deployed - in particular across the UK - provides us with great confidence that the global economy is on the path to recovery.

On the domestic front, which represents over half of the portfolio's end markets, we are particularly optimistic. The UK economy suffered the greatest fall in economic activity of the G7 last year and so arguably has the greatest upside potential. Furthermore, and rather unusually at the end of a recession, the UK consumer is in a financially robust position, with some estimates putting the 'excess savings' from 2020 as high as £170 billion, equivalent to 8% of GDP. While consumer confidence is currently at depressed levels, as life returns to normality it may improve and with it so might consumption, which would provide a further boost to the economy.

For more international exposure, an area of great importance to the portfolio is industrial activity and there is plenty of evidence that activity levels are improving across the majority of relevant end markets. Inventory levels have generally been run down, which could precipitate a re-stocking cycle and thus a period of super-normal growth in revenue and rapid margin expansion, although recent Sterling strength could provide a headwind to reported earnings growth.

The UK market has been one of the least favoured markets for the past five years, but with Brexit behind us and economic growth in front, as well as a relatively lowly valued market, this sentiment could finally start to improve.

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Kevin Allen, chairman of Chelverton Growth - 30 March

The UK economy seems to be poised to "bounce back" once the COVID restrictions are progressively eased and all parts of the economy are able to operate without constraint.

In time, the Free Trade Agreement with the EU will be properly implemented and will be adjusted by agreement, to the benefit of all parties.

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Georgina Brittain and Katen Patel, managers of JPMorgan Smaller Companies - 25 March

2020 has taught us all many things, not least to be very wary of forecasting the future. Having said that, we see several reasons to be optimistic on the outlook for the UK stockmarket. In the near term, the UK economy will decline in the first quarter of 2021, brought about by the third national lockdown, which we expect to be followed by a rise in insolvencies in small to mid-sized unquoted companies, and by unemployment levels potentially reaching 7% when the furlough scheme ends. Inflationary risks are also rising, and the record deficit continues to grow. And yet - vaccines are being rolled out at an impressive. rate, bringing normality tantalisingly close, as evidenced by the Government's roadmap. Brexit is done, and a trade deal with the EU is in place. While far from satisfactory or comprehensive, it does provide UK companies with a level of certainty that has been lacking for the last five years. There are also some counter-intuitive effects of the lockdowns. The extraordinary way of life we endured in 2020 has led to a huge increase in the savings ratio. Between January and October last year household deposits (savings as a proportion of disposable income) increased by £113 billion, and estimates are for the figure for 2020 to be closer to £150 billion.

We believe the UK economy is set for a strong period of recovery, driven in no small part by consumers' desire to get out of their homes and start spending again. We have positioned the portfolio to benefit from this and have a [14%] overweight to the UK economy relative to our benchmark. We are also at the top of our gearing range of 10%. Current economic forecasts for the year suggest GDP growth of around 5% for 2021, despite the lockdown in the first quarter, which gives an idea of the potential strength of pent-up demand. Interest rates are set to remain extremely low, and Central Banks' largesse to remain high. We do not believe the valuation of the UK stockmarket reflects this, with the Numis Small Cap plus AIM Index on less than 15x price/earnings ratio for 2021 on what are not yet fully recovered earnings. Market forecasts for earnings growth for smaller companies in 2021 and 2022 are for 23% and 24%.

For nearly 5 years, since the Referendum in 2016, the UK has been largely shunned by the global investor - Brexit, electoral uncertainty and more recently a global pandemic which hit our service-based economy especially hard all had a part in this. Viewpoints do not change overnight, but reality as we see it, has changed - the UK has a Brexit deal (comprehensive or not), a strong government majority and the vaccine roll out is progressing impressively well. Investors are slowly regaining interest in the UK stockmarket, and the domestic bias of the smaller companies arena should be a benefit to them as the economy rebounds and normality returns.

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William Meadon and Callum Abbot, managers of JPMorgan Claverhouse - 17 March

The Brexit deal was a landmark for the UK. Although the transition is likely to be far from seamless for companies trading with Europe, the end of years of negotiation and uncertainty has led to both sterling and the UK equity market rising in recent months. The US election result also cleared another geopolitical risk and although a Biden presidency will not be without its challenges for the UK, any de-escalation of the trade wars which characterised the previous administration should provide a much- needed fillip to corporate confidence.

After a disappointing 2020, UK equities now look very good value compared to both their own history and to most overseas markets. As the roll out of the UK vaccination programme continues apace and confidence about an opening of the economy builds, we believe that this value will soon be realised.

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Manager's report for Aberdeen Smaller Companies Income - 11 March

Not surprisingly, the biggest recovery in earnings next year is expected to come from the most depressed sectors. There are also grounds for believing that the value rally has a little further to run, looking at where some of these sectors' share prices sit relative to pre COVID-19. We would have concerns, however, that the earnings for many of these businesses could take a number of years to recover to those levels, and potentially structural changes mean in some cases the business position has changed forever.

In times of uncertainty, where we expect some businesses in the market will face challenges and disappoint, we think shares will be rewarded for strong earnings profiles. Historically value rallies have been short lived, and in times of much uncertainty, we would hope this is once again the case.

With regard to Brexit, we believe that the UK-EU Trade Agreement has removed many tail risks, and has improved investor sentiment towards UK markets.

We remain cautiously optimistic about smaller companies which tend to lead a market recovery.

However, there are a number of risks to the prevailing investor optimism and earnings outlook . Returning to normal will take time given the challenges in rolling out a mass vaccination programme. We may also see more spikes in infections or mutations that could potentially trigger more lockdowns. Therefore we feel many risks around the economy driven by COVID-19 remain in place. We expect unemployment levels to rise underlying, though the numbers on furlough somewhat muddy the water on true current rates. Many businesses will adapt operationally, some sectors will not recover to pre COVID-19 levels, and companies have taken this opportunity to ensure operational efficiency; all these aspects could lead to job cuts. Moreover, the scale of economic scarring is only likely to become apparent in 2021. Given that the economic crisis is a direct result of government action to combat the virus, monetary and fiscal stimulus will be in place, it seems, for as long as necessary.

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Ken Wotton and Adam Khanbhai, managers of Strategic Equity Capital - 2 March

Despite tighter lockdown restrictions so far in 2021 the UK's progress in the penetration of its vaccine programme provides some optimism that the economy

can rebound rapidly as the year progresses. This in turn could stimulate asset allocators to re-evaluate the significant discount being applied to the UK stock market and to UK smaller companies in particular due to their domestic focus. If discounts begin to narrow as markets reopen and earnings recover this may provide a strong tailwind for share prices.

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North America

(compare North American funds **here**)

Don San Jose, Jon Brachle, and Dan Percella, managers of JPMorgan US Smaller Companies - 24 March

With incredibly resilient performance, the Russell 2000 Index ended the tumultuous year of 2020 up +19.9% in US dollar terms and +16.0% in sterling terms.

After a strong close to 2019, solid US economic indicators continued to buoy the market at the beginning of the year. However, optimism was short-lived as emergence and spread of the COVID-19 pandemic resulted in swift action by governments to contain it, including broad economy-wide shutdowns. Mounting recessionary and liquidity concerns resulted in a swift sell-off in equities, driving the Russell 2000 to its worst quarterly performance in over 40 years in the first quarter. While extraordinary fiscal and monetary policy responses triggered a reversal in the market's rapid decline, volatile economic data along with swings between optimism and pessimism around the course of the pandemic, generated frequent bouts of market volatility in the second quarter.

Amid the pandemic, US GDP contracted throughout the first half of the year, ending the more than a decade-long expansion, before economic activity picked up in the third quarter. The market continued to rise, led by large cap growth stocks. In addition, investors cheered the Fed stance that they would be more accommodative for longer. However, September brought more uncertainty as a second wave of COVID-19 infections, the upcoming US presidential election and renewed lockdown measures took a toll on investor confidence.

The fourth quarter brought renewed investor optimism centred on news of a promising vaccine with an efficacy rate that was much higher than expected along with more clarity on the political front given Joe Biden's victory. The ensuing risk-on rally in small caps resulted in the best quarterly performance for the Russell 2000 Index on record, returning +32% in US dollar terms. During this run, there was a pronounced rotation into the most economically sensitive stocks, and value outperformed growth in all capitalisation ranges. Despite the exponential rise in positive COVID-19 cases toward the end of the year, investors anchored to positive vaccine developments and hopes for a continued reopening of the economy.

In terms of style and market capitalisation, growth significantly outperformed value and small stocks marginally outperformed their large cap peers for the year.

While we believe the economy is poised to recover in the coming quarters, we believe a higher-than-average period of uncertainty may persist until there is a meaningful decrease in positive COVID-19 cases and a robust vaccination roll out. Given the increase in volatility and rapid changes in market leadership, we think selectivity will be critical from here.

We expect a strong rebound in company earnings growth in 2021, though we acknowledge a wider range of potential outcomes than normal given uncertainty related to the ongoing pandemic. Aside from news around COVID-19, the trajectory of key economic indicators, including employment, as well as the outlook for fiscal and monetary support, will guide investor sentiment going forward.

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Robert Siddles, manager of Jupiter US Smaller Companies - 12 March

US equities initially made steady progress continuing the recovery begun in March, but once news broke in early November of the success of a COVID vaccine, the market took off. The Russell 2000 Index rose to new highs on 13 November and continued to do so for the rest of the year, rising above the 2000 level the day before Christmas Eve.

A feature of the rally was that smaller companies led large ones by a wide margin, reversing the trend of recent years. The domestic economy showed signs of strengthening with the normally reliable ISM Manufacturing (PMI) Index recovering to levels indicating a good rate of expansion.

All sectors of the Russell 2000 TR Index gained in the period. The leaders were energy (+71%), basic materials (+51%) and consumer discretionary (+48%), whilst the laggards were utilities (+15%), real estate (+21%) and telecom (+24%).

The US economy is gathering momentum, although it may be a while before the damage wreaked by COVID is healed. Whilst COVID still remains a threat, the Fed is likely to remain wary of increasing rates. This is a good background for US equities, but, it should be emphasised that there has already been a very strong move in the US smaller companies market since November.

The new US administration, with a majority in both legislative houses, seems to have big political challenges ahead, but the real economic challenge for the US this decade is to bring the growth in health care costs under control. Without moderation in spending, these will ultimately bankrupt the country in the following decade.

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Japan

(compare Japan funds **here**)

Joe Bauernfreund, manager of AVI Japan Opportunity - 18 March

To recap the year for investors, the outbreak and spread of COVID-19 around the world in the first quarter of 2020 induced a short, savage bear market, erasing fully one-quarter of global equity values in a matter of just four weeks. I can say, without hyperbole, that the sell-off was breath-taking for its pace and severity.

Following the lows in March, markets began a rapid recovery as investors realised that monetary and fiscal support - policy tools honed during the previous financial crisis - would underwrite the worst of the economic and financial damage. At the time of writing, the MSCI ACWI Total Return Index, a proxy for global stock markets, has risen +44% from the March lows (in GBP), and returned +13% for 2020 as a whole: a remarkable achievement given the high wall of worry that markets needed to climb, and a testament to the near-insuperable optimism of humanity.

It has been no less an extraordinary year in Japan than elsewhere in the world. While the outbreak of, and fallout from, COVID-19 was managed better than in many

other countries, the Bank of Japan's latest estimates nonetheless show a -6% contraction in GDP for 2020, highlighting the extent of the damage wrought by the pandemic. Against this difficult backdrop, the TOPIX Composite increased +9.5% for the year, the MSCI Japan Small Cap +3.2%.

These headline returns mask important trends: growth companies - in particular, technology or technology-enabled stocks - have delivered the most impressive performance as they have been natural beneficiaries of lockdowns. Cyclical, economically exposed stocks, on the other hand, have suffered and await a resumption of physical economic activity to return to full profitability. This dichotomy can be seen in the MSCI Japan Small Cap Growth Index, which returned +10.9% in 2020, against a return of -4.6% for the MSCI Japan Small Cap Value Index.

Corporate activity in Japan remains replete with potential, and since the Japanese economy exited lockdown, we have seen the return of animal spirits to capital markets. Buybacks and takeover activity returned to normal levels in the second half of the year, and foreign inflows turned positive in November and December. These inflows have been largely focused on large- and mid-cap names, but we believe that investor interest will in time turn to the small-cap segment of the market.

Large overseas private equity firms are showing significant interest in Japan, including well-known houses such as Carlyle, KKR, CVC and Blackstone. Many of these companies are raising large Asia- or Japan-focused funds, which will bring capital into Japanese markets searching for attractive deals. In a sign of the changing times, hostile takeover bids are no longer regarded as anathema, or the preserve of aggressive foreign firms.

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Manager’s report for Baillie Gifford Shin Nippon - 17 March

It would be fair to say that the impact of the pandemic goes far beyond just affecting businesses in Japan. Over the past year, we have witnessed a significant acceleration in certain trends that we have been alluding to in our Managers' Reports over the years. Traditional business practices, consumption patterns and the provision of critical services like healthcare have all witnessed a fundamental shift due to the pandemic. Historically, Japanese businesses have been notoriously slow in adopting modern business practices, including the use of technology. The discerning nature of Japanese consumers who value personal contact and high standards of service has insulated brick and mortar retailers from online competition. This has resulted in slower e-commerce penetration in Japan compared to other developed markets. This state of affairs has been shaken up by the pandemic as restrictions to avoid the spread of the virus have forced consumers and companies to adapt. Smaller companies have benefitted significantly from these trends as they have generally been at the vanguard of change in Japan. Both businesses and consumers are realising the immense value that technology and online services bring to the table, and therefore we think many of these trends are likely to persist over the long-term. This should provide very attractive growth opportunities for smaller companies in Japan.

Whilst the pandemic has caused large-scale disruption across societies and businesses, more positively, it has also accelerated some much-needed structural change. We believe this is likely to be beneficial for consumers and businesses in the long run. Japan has had a history of not keeping up with the times, especially when it comes to using technology. The pandemic has laid bare the inadequacies of corporate Japan and in the process, provided a strong tailwind for smaller companies that are at the forefront of these structural changes. What we have

witnessed over the past year is simply an accelerated expansion of the growth opportunities for numerous fast-growing smaller businesses in Japan.

Global emerging markets

(compare global emerging markets funds here)

Michael O'Brien, manager of Fundsmith Emerging Equities - 31 March

India experienced a severe disruption and slowdown in economic activity in the first half of 2020 because of strict and extended lockdown introduced by the government in light of the pandemic. Since September, the number of COVID-19 cases in the country has come down exponentially and economic activity has rebounded sharply. Prime Minister Narendra Modi also took the opportunity to make further reform to spur domestic manufacturing. India returned to growth in the final quarter of calendar 2020. India is the largest manufacturer of vaccines in the world and has started its inoculation programme, which we hope will help to sustain the rebound in economic activity in 2021.

China continues to have specific issues which reduce the number of investment opportunities available and if anything the investment environment in China has deteriorated. China lacks an independent legal system, ownership structures can be murky and biased against institutions, corporate governance can be poor, government guidance and regulation in the economy can be unhelpful and often enterprises do not naturally operate or allocate financial capital in a logical economic manner beneficial to all shareholders.

The last point can be brought to bear by a quick analysis of Kweichow Moutai, one of China's largest domestically listed businesses and widely held by a number of emerging market funds. In spite of the businesses' excellent returns and high margins, we have shied away from investing and the reasons why show some of the issues foreign investors in Chinese companies have to assess. 2020 saw the group carry out a substantial bond issue, not to develop its own business, but to refinance an indebted toll-road operator in its home province of Guizhou. Both businesses had the same controlling shareholder- the provincial government. And not stopping there, the provincial government has twice recently transferred 4% share stakes from the holding company to itself and subsequently sold them in the market. Of greater alarm to any shareholder in the group would be why at least 14 senior officials of the company and its CEO have been arrested or placed under investigation for corruption since Spring 2019 and persistent rumours of the provincial government looking at stripping the sales and marketing (and thus the main source of profitability) out of the listed entity. To us, even though these issues may not be unique in a Chinese context, they are certainly risks which rule out investing.

COVID-19 impact

At the time of writing, the 'known' global death toll from COVID-19 has reached over 2 million. Although with a mortality rate somewhat lower than past-pandemics, the economic disruption caused by the pandemic has been both severe and unprecedented in modern times. Our portfolio went into the pandemic with a high allocation to defensive businesses in areas such as consumer staples, grocery retail and healthcare. The majority of the businesses we own have no net debt, and where we do own businesses with debt we ensure that they are lightly geared.

We were also well placed to avoid businesses with characteristics which have struggled in the downturn, most notably financial leverage, an exposure to complicated cross-border supply chains, a dependency on discretionary consumer expenditure and operationally geared business models in sectors such as travel, leisure and hospitality (to put this into perspective we had just two stocks in these sectors at the outbreak of the pandemic).

Accompanying the severity of the disruption has been an acceleration of three structural changes which are going to become increasingly dominant over coming years:

- Formalisation
- Consolidation
- Digitalisation

Although the rate of acceleration of these trends is uncertain, times of economic upheaval tend to magnify and accelerate social, economic and political change.

First, formalisation will drive increasing post-pandemic awareness of food provenance, a desire to know that food and drink being consumed is safe and bought from a shopping environment which is clean and efficient. Investments in branded food businesses and modern trade retail are well placed to benefit from this, whilst we would also include greater healthcare awareness as a beneficiary of post-pandemic formalisation.

The pandemic has placed a huge number of businesses under both operational and financial strain. Those businesses with weaker business models or financially leveraged balance sheets are not going to be well placed relative to their competitors. Simply put, stronger businesses will get stronger, weaker ones will risk falling by the wayside.

The third trend accelerated by the pandemic is that of digitalisation. Digitalisation to us takes two main forms of investment opportunity-businesses which are outright digital businesses in the IT space, or non-digital businesses which can benefit from the rise of digitalisation, particularly in areas such as customer engagement and retail distribution.

As emerging markets have developed, increasing opportunities have presented themselves to invest in businesses that meet our exacting criteria in higher growth segments such as healthcare and technology. Although not exclusive to these sectors, we saw towards the end of 2020 increasing signs of valuations across emerging markets becoming more stretched, particularly in China-focused businesses where domestic and international institutional fund flows have had an impact, quite often on illiquid shareholder structures where there is scope for share price movements to be magnified. A sell-off in February 2021 seemed to suggest that our view held some credence.

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Austin Forey, manager of JPMorgan Emerging Markets - 2 March

One might think, after such a period, that one should be cautious. It is certainly true that valuations have risen, and our overall view of the prospects for markets has moderated: our analysts' expectations of potential returns are lower now than when the pandemic engulfed Europe in March 2020, and they should be, given the strong recovery in equity prices. And yet it is not an exaggeration to say that the opportunities we see at the level of individual companies are as great as at any time in the last three decades, if not greater.

How can we hold both these views at the same time? Well on the one hand, the outlook for share prices in many industries remains closely tied to the overall economic situation; and while there will be a recovery from the downturn, growth prospects in the medium term remain subdued in many areas. After all, the level of interest rates - which is still very low around the world, including in many emerging markets - is telling us something about the prospects for growth in general. But at the same time, the rate at which value is being created in certain areas of the global economy is remarkable. That is because three very powerful and long-lasting effects are producing huge challenges and huge opportunities for companies around the world.

The first of these factors is digitalisation. The ability to collect data on an unprecedented scale is overturning industries, and radically altering the skillset needed to survive and prosper within them. We are all familiar with this in our everyday lives, and need look no further than the rise of Amazon and the decline of high street retail businesses to see an example of this process in action. Yet the importance of data is now changing things in every industry, and in particular, enabling the separation of intangible value creation from the ownership of physical assets. That is bad news for businesses that depend heavily on fixed assets, and very good news for those that deal mostly in intangible value, whether through brands, or software in some form.

The second trend is the rise of China, which comes at a time of tremendous entrepreneurial business creation in that country, much of it enabled by digitalisation. In several areas, China is now ahead of Western economies in the adoption of digital and online business models. Moreover, the Chinese corporate sector as a whole is now much more accessible to external investors because of the opening of its domestic equity market to foreign capital. This presents us with both opportunities and challenges. Alone among emerging markets, we see the depth and range of the equity market in China matching that of the United States, which has big implications for the opportunity set we face as investors. Yet investment in China it is not straightforward: it comes with regulatory complexity, state involvement in many industries and companies, and a relatively immature corporate sector and equity market. Increased strategic rivalry with the West has led recently not just to trade disputes, but to direct sanctions from the USA targeted at specific parts of the Chinese corporate sector. Even so, we think that China will remain an important investment destination in the coming years, and we expect opportunities in China in sectors like healthcare, software and clean energy, as well as manufacturing and consumption, to be a continuing focus of our attention in the future.

The third secular trend is the need to develop a low-carbon economy, which has enormous implications for the ways energy is produced and consumed. While the far-sighted have been working on this for many years, it is clear that carbon transition has become a serious political priority recently in a way that was not previously the case, and that this is being reinforced with real regulatory action too. The numbers here are so large that they can be hard to comprehend: some estimates put the investment required for effective carbon transition at USD 10 trillion over the next 30 years. Whether or not that is a realistic forecast, it is certain that, like digitalisation, environmental necessity will create huge winners, and also some huge losers, in the corporate world. Can we conceive of a time when no road vehicles require refined petroleum, or when renewable energy means we don't need to burn coal? Yes. Yet somehow the view that much if not all of the value of the global hydrocarbon industry might eventually migrate to companies involved in renewable energy and electric transportation seems almost heretical. As investors,

however, we need to imagine possibilities like this precisely when they still seem unlikely; once they become received wisdom, they will also be largely reflected in share prices.

This last secular theme also has implications for the way we work as investors. As the focus on sustainability grows, it becomes a more important determinant of corporate success. I mentioned in the latest annual report that during the last year we have enhanced our research process to better assess the most material issues in each industry related to corporate sustainability; that work has already begun to inform our assessments and investment views; it is also very complementary to the broad framework for assessing ESG risks which we originally implemented in 2013. We are also working on targeted engagements with companies, both pursuing issues that this enhanced research has highlighted, and also following JPMorgan Asset Management's overall engagement priorities.

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Asia Pacific

(compare Asia Pacific funds **here**)

Robin Parbrook and Lee King Fuei, managers of Schroder Asian Total Return - 25 March

The best performing markets in Asia over the year were Shenzhen, Korea and Taiwan all of which rose over 40% in US$ terms. All three indices have two things in common - firstly a high weighting in technology companies (the perceived COVID winners) and secondly from mid-2020 onwards a high and increasing level of retail investor participation in stock market activity. ASEAN indices lagged, posting negative returns for 2020, mostly due to their make up. All are heavily weighted in property, financials, retailers (perceived COVID losers) and have minimal internet and tech exposure. However, the fact the lower income Asian countries were hit harder by the COVID-19 crisis was also a factor. Australia, India and the main Hong Kong indices all posted moderate gains of 5-15%.

Sector wise it was a hugely divergent year. Technology, internet, pharmaceutical, electric vehicle (EV) plays, and selected consumer names drove the vast bulk of market returns. Banks, property, energy, telecoms, insurance and utilities really struggled.

Overall we think the next 12 months are likely to prove challenging for investors. High valuations, frothy expectations, clear bubbles in an increasingly large part of the market and rising and often irrational retail participation leave us cautious on the outlook for equity returns in Asia.

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Manager’s report for Pacific Horizon - 4 March

In many ways, the world is becoming a better place. On average, people are richer and healthier, with more choice than ever in how they live their lives. This trend is particularly pronounced within the emerging world and in Asia ex Japan, home to 50% of the world's population. Incomes in many Asian countries are reaching a tipping point at which large segments of the population are elevated from a subsistence to a middle-class lifestyle. As their savings and their appetite for consumption soar, they demand new goods and services. Despite all the media and

political noise to the contrary and the disruptive effect of the COVID-19 pandemic, these trends will probably continue for decades to come.

The pace of technological innovation is increasing rapidly. As more people, economies and businesses connect, ideas spread and multiply, new businesses are created and old ones are lost at an accelerating rate. The adoption of the new is as rapid, and sometimes faster, in Asia ex Japan than in the West. Huge fortunes are, and will continue to be, made and lost as new technologies cause the existing order to become outdated and irrelevant.

We live in the age of information. Alongside matter and energy, information is now seen as a fundamental economic building block. Unlike matter and energy, it cannot exist on its own and takes huge resources to create and maintain. Companies wishing to succeed over the next decade need to either create and manipulate information in ever more complex ways or to make the devices that gather the data that enables these transformations.

In the technology and information revolution, it is our belief that we are closer to the beginning than to the end. The world in 2030 will be dramatically different from today's world, in ways we cannot yet fathom. For example, we have only just entered the era of machine learning. The future growth trajectory of electric and autonomous vehicle demand, as another example, is only now becoming visible.

So how will the millennials (under-40s) and Generation Z (20-somethings) transform the world? How will their tastes, social habits and consumption patterns differ from those of their parents? The current millennial generation, much of it based in Asia, could become the world's first truly globalised citizenry, connected 24/7. In this new world, fashions and trends will be set in the East as much as in the West.

This growth in the Asian middle class will make new calls on the world's resources. Despite technological change, demand for commodities is likely to keep rising. We believe that a shift towards the real economy is under way. Certain sectors will benefit from converging trends, as when increasing availability of electric vehicles meets a growing Asian middle class.

We believe it is a great time to be a business owner (if you've survived). COVID-19 and governments' responses to it have caused business costs - for example labour and rent - to be reduced. Competition has been clipped or bankrupted, and customers are desperately waiting to spend again. In the light of this, we expect that many businesses will have greater revenue and margins post-COVID than pre-COVID, industries will consolidate with the winners taking more, and profits will be higher. This is true for technology-related investment, but we think it is especially true for some of the old economy companies, where this crisis ended a multi-year bear market. Calling the tops and bottoms of long-bear markets is difficult. Bull markets tend to end in mass euphoria and bear markets with a whimper. Low interest rates have kept many zombie companies alive and allowed difficult decisions to be postponed for many years. COVID-19 has been the final nail resulting in many companies ceasing to exist, or using the situation for significant cost-cutting and structural shifts in their business models. The automotive space is the best example of this. Within five years every auto original equipment manufacturer ('OEM') will also be an EV OEM, as the industry recognises the societal change. For example, Tata Motors used the crisis to cut billions from its cost base and has just announced that it is turning Jaguar into a 100% EV luxury brand by 2025. We expect it to be much more profitable at lower levels of sales than in the past.

We remain optimistic. Change is happening rapidly, though not evenly. There will be periods of rapid growth, followed by periods of stress and retrenchment where the painful effects of change come to the fore. The best way to invest in this rapidly altering growth market is to find the best long-term growth companies. Investing in the fastest growing companies in the fastest growing region is something we call 'growth squared'.

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India

(compare India funds **here**)

Manager's report for India Capital Growth - 26 March

Indeed, after years of disruptive reforms, Indian companies were witnessing evidence of demand returning to help real GDP growth pick up from its lowest level since 2012 and corporate profitability recover from its lowest level since 2001. The pandemic has delayed but not derailed this story (more on this later). This year was very much one of two halves as the market reacted and then recovered from the global spread of COVID-19

Going forwards, the core driver for returns will be a shift in earnings expectations, and in this regard our conviction is growing. We also believe that India may be poised for a recovery in cyclical businesses which have struggled over the last four years.

As international investors grapple with challenges within their respective countries, the prospective resumption in demand and expansion of profitability in India is largely going unnoticed. The country historically produced 60% of the world's vaccines and will produce a greater proportion of doses for COVID-19. It has a strong vaccination infrastructure which should help to mitigate the impact of a potential second wave of infections which has yet to occur.

Thus far, the economy is virtually back to being fully re-opened but the key question is how sustainable is the economic bounce-back? We choose to be macro aware rather than macro driven and our conviction on the answer being a positive one is driven by our analysis of the investible universe. More broadly, at the time of writing the country is more open than it was in 2020 and liquidity is more abundant than it was in 2019.

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Andrew Watkins, chairman of Ashoka India Equity - 8 March

Nothing has changed in terms of the exciting growth prospects for the Indian economy. In fact, it is possible that the pandemic has focused investors' attention even more on the opportunities presented by the world's largest democracy, still considered an emerging market. The investment case for India remains strong and compelling.

India's fast-growing middle class and the young average age of the population are both strong drivers of demand for a whole range of goods and services. Growing access to the Internet is enabling them to buy an increasingly wide range of goods and, with growing prosperity, such a trend is destined to continue.

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Vietnam

(compare country specialist funds **here**)

Manager's report for Vietnam Holding - 29 March

Vietnam was one of few countries to see its economy expand with a full year GDP growth of 2.9%. Growth for 2021 is forecast to be an even more impressive 7.8%.

Vietnam's resiliency throughout the pandemic has helped raise its profile as a major trading partner in the world, most notably as an attractive manufacturing alternative to China, and therefore a distinctive market to keep a close eye on.

Over the last six months, Vietnam has Chaired major ASEAN meetings, attracted state visits from the new Prime Minister of Japan Yoshihide Suga, the Foreign Secretary from the UK Dominic Raab, as well as the former US Secretary of State, Mike Pompeo, only two weeks before the US Presidential Election. Vietnam also implemented free trade agreements with both the European Union and the UK, and signed up to the Regional Comprehensive Economic Partnership (RCEP), all throughout a period when most of the rest of the world was facing an economic standstill or lockdown.

Economy

Vietnam's early success in containing COVID-19 helped it re-open its economy much sooner than many other nations and as a result led to much applause from around the world for its extraordinary resiliency and growth. The government's handling of the pandemic also continued to ensure public confidence with closed borders, testing, tracking and tracing, hotspot isolating and caring for patients in the specialist National Hospital for Tropical Diseases. This enabled domestic tourism and spending to bounce back when most other countries remained in lockdown.

Vietnam's battle against COVID-19 boiled down to its people pulling together and making it their duty to follow the government's guidelines and rallying against the virus as a matter of national security.

It was not all smooth sailing, however. Vietnam experienced further outbreaks of COVID-19 in late July 2020, causing some localised lockdowns in the central province on top of violent storms which caused serious flooding and landslides that sadly saw the loss of life.

Nevertheless, the fourth quarter of 2020 still saw a remarkable rebound and an acceleration in economic growth. By the end of 2020, Vietnam watched disbursed levels of Foreign Direct Investment (FDI) reach a record USD 20.0 billion. This was coupled with a trade surplus that topped USD 19.1 billion for the full year and helped raise the country's foreign reserves to USD 100 billion.

Increased reserves have strengthened the Vietnamese Dong, which held up against the USD for a second year in a row. This is in contrast to the 20 year depreciation trend of approximately 2.4% per annum. In 2021, it is possible that the currency could actually appreciate against the US dollar. During 2020 there were some claims by the US authorities that Vietnam was one of a number of countries manipulating their home currencies. The accused nations included Switzerland, Singapore as well as Malaysia amongst others. At the time of reporting, there have been no definitive conclusions to the charges and no additional tariffs have been implemented against Vietnam. We expect any tariffs to be manageable and serve more as a signal to Vietnam to continue its dialogue with the US to better balance trade flows. Vietnam is currently contemplating purchases of US-built aircraft

(Boeings), Liquified Natural Gas and agricultural imports, for example, soybeans and wheat.

One of the key themes that stood out during 2020 was the relocation of manufacturing from other countries to Vietnam. The country is now poised to be a significant global manufacturing base for electronics, a sector which continues to see increased demand due to much of the world working from home. In addition to Vietnam's strategic location in the Asia-Pacific region, attractive labour cost and large talent pool, is the tense relationship between the US and China.

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Andy Ho, manager of VinaCapital Vietnam Opportunity - 29 March

It appears that Vietnam's successful control of COVID-19 in 2020 will carry over to 2021 as most economists around the world project that the country is poised to grow GDP by 6.1% (Asian Development Bank) to 10.9% (S&P Global). Our own view is consistent with the Government, which projects that GDP will grow by around 6.5%.

During 2020, we also experienced a steep decline and then recovery in oil prices. Since energy along with food and foodstuffs make up large components of the CPI basket, we did see inflation in Vietnam increase during the calendar year, with an average year-on-year monthly rate of 3.2%. Meanwhile, December 2020 inflation measured year-on-year against December 2019 was only 0.2%.

This has given a lot of room for the State Bank of Vietnam to drive interest rates down while maintaining a stable currency (VND) against the USD. The twelve-month deposit rates in VND at the nation's largest bank were 6.8% in January 2020 and 5.6% in December 2020.

Furthermore, resurgent trade and exports resulted in a strong trade surplus of USD20 billion for 2020 and a current account surplus. With the US being the largest export market for Vietnam, this unfortunately led to the previous US administration accusing Vietnam of being a "currency manipulator" in late 2020, the outcome of which should put pressure on the VND to remain stable or even appreciate over the coming years. Vietnam has enjoyed nearly ten consecutive years' worth of trade surpluses and historically this is typically the amount of time where most Asian "tiger" economies, as well as China, have seen a pivot on the currency front, from long-term depreciation to appreciation against the USD. It is encouraging to see that the government has built up an impressive USD reserve of almost USD100 billion which represents over three months' worth of imports; this has certainly contributed to the VND's stability and outlook.

We attribute the rapid decline in interest rates during 2020 as being one of the key contributors to the steep increase in the VN Index and the surge in trading volumes witnessed in late 2020. Along with a stable currency against the USD, domestic investors seem happy to migrate capital out of term deposits into the stock market as well as into real estate.

Looking ahead in 2021

We are cautiously optimistic for 2021. Various indicators (including Google mobility indicators, retail sales, consumer confidence, motor vehicle sales and loan growth) reflect the ongoing economic recovery in Vietnam. Its appeal to foreign and domestic investors alike remains sound and largely unchanged.

Vietnam's ability to control COVID-19, provide a stable political and economic environment, and welcome FDI, particularly in the manufacturing sector, has led to an economic resiliency rarely seen in other countries. Attractive valuations

combined with clear visibility to strong earnings growth and low foreign investment penetration mean that Vietnam is poised to enjoy significant foreign investment inflows in the coming years. Other factors that will continue to support interest in Vietnam include risk-on sentiment, continuing quantitative easing measures in the US and Europe and US Dollar weakness. While the past 12 months have certainly demonstrated that the world is unpredictable, we continue to be confident about Vietnam's ability to successfully navigate what might come its way.

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Biotech and healthcare

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

Paul Major and Brett Darke, managers of BB Healthcare - 1 March

The macro picture

At the time of writing (mid-February, 2021), the broad macro narrative continues to be dominated by waxing and waning views of the impact of the global pandemic, and various iterations of the potential consequences. Although the world is just beginning to feel the effect of a number of more transmissible variants on case growth that seemed to trigger a rapid escalation in infection rates here in the UK and elsewhere, the current viewpoint (from both a healthcare and broad economic perspective) seems to be that the US will ride this out much better than Europe.

As noted previously, the emerging macro narrative of late 2020 was "post vaccination re-opening" and we expect this to continue to be the case over the early part of 2021. Make no mistake, the next few weeks will still be challenging; the peak of the western hemisphere winter respiratory season is generally between December and February, making it reasonable to conclude that the current pressure on healthcare systems that has been exacerbated by COVID-19 is not yet over, even before any impact from these new variants is taken into account.

Vaccine rollouts are underway in many countries and, after a slowish start for the UK and the US, the pace has picked up to the extent that it may well be reasonable to think that large swathes of the most clinically vulnerable (the elderly and those with certain pre-existing conditions) will have received at least one shot by early Q2 and thus have a reasonable degree of protection. Nonetheless, the logistical challenges are significant; ramping up supply to meet demand will be almost impossible in the short-to-medium term and it looks like the EU will lag the US and UK in vaccinations over H1 2021

The key economic question of course is when the overall balance of infections and vaccinations allows governments to relax restrictions and, more importantly, not to feel that they may once again need to be re-imposed in short order. From an economic point of view, the world has split into three regional pillars:

Asia is largely open, can it remain so? China's recovery from the initial pandemic, the attendant domestic economic recovery and its export growth are undeniably impressive and many other Asian nations (Taiwan, Singapore, Thailand, Vietnam etc.) have seen little population-level impacts from the crisis. This affords some luxury with slower vaccination rollouts whilst allowing Government to keep the economy open.

Despite the serious morbidity impact on a per-capita basis, the US economy has coped well and looks set to avoid a double-dip recession, in part due to the cultural

wariness of government-level restrictions (which looks to be the case under the Biden Administration as well) and massive fiscal stimulus delivered at the both the corporate and individual level. State-by-State actions will have an economic impact, especially on the coasts, but the consensus view is that economic momentum will continue to build steadily.

Europe is much more challenging. The culture is more interventionist and the major role of Government in front-line health provision tends toward national and supranational-level decision-making. A double-dip recession appears difficult to avoid and open borders within the EU make containment all but impossible, with the new variant driving infections higher. At the margin, Brexit will not help the economic picture and political tensions between Eastern and Western EU members have slowed stimulus efforts until recently. The co-ordinated vaccine procurement programme has also fallen short of expectations. Can Europe avoid tripping over itself again?

Assuming that one accepts the premise that the approved vaccines prevent transmission to the same degree that they prevent symptomatic COVID-19 (and, as we went to press, the evidence here was still preliminary), the return to normality will depend on reaching a penetration of vaccination within the population that is sufficient to reduce hospitalisations and deaths to a level that society is willing to live with. Given the propensity of the media to conflate infection levels with morbidity risk for the wider population, this "acceptable level" could end up being quite a low number.

The reality that the majority of hospitalisations and deaths are amongst the very elderly and those with complex or serious medical conditions seems long ago lost, even if this demographic reality has actually become more stark in recent months rather than broadened: we have yet to see any robust data to support the premise these new variants increase morbidity in younger age groups.

Here in the UK, the inoculation of the very old and the vulnerable, frontline workers in health and social care and then everyone over 50 amounts to some 25 million people. Since these groups account for the vast majority of hospitalisations and deaths due to COVID-19, completion of this programme could allow the majority of restrictions to be eased.

However, that would still leave some 23 million adults and 19 million children still susceptible to infection. Whilst the attendant morbidity is likely to be mild and self-limiting, testing, tracing and isolation requirements will probably need to remain in place for many months. Disruption will thus continue, as might the possibility of localised lockdowns if there are high caseloads in certain areas. Beyond the initial programmes, there is the question of the durability of protection and need for re-vaccination. One way or the other, we will be living with COVID-19 for quite some time to come.

Tying this all together, we think it can be summarised thus: if you are investing in equities today, you are exposed to this re-opening trade. Is this to a greater or a lesser extent? Is the risk to the widely accepted consensus on the upside or the downside? The picture changes constantly; the UK was behind schedule on vaccinations in late December, but is looking more on track since mid-January.

If one accepts the re-opening narrative at face value (that restrictions will begin to be banished from Q2 21), it should usher a broad-based economic recovery and potential tsunami of leisure-related spending as consumers exercise their pent up need to socialise and travel beyond the local supermarket; who doesn't want to visit Barnard Castle?

Within healthcare, the re-opening narrative would also suggest that consumer-centric areas like dental and elective surgical procedure exposures (medical equipment suppliers and hospital operators who make more money from planned minor procedures than managing overflowing ICUs) would do well, with more defensive areas such as Tools, Conglomerates, Services and Diversified Therapeutics underperforming these areas, as their 'safe haven' elements and tailwinds from testing services become less attractive and investors rotate away from them. If the re-opening narrative fades, then testing exposures, Tools and Services should once again come to the fore.

We have said little above with respect to vaccines. Our view on this subject is unchanged. In as much as we commend the rapidity of success in this area, we expect these products to become commoditised over time as other major vaccine suppliers such as J&J, Glaxo and Sanofi ultimately join the fray and the market is already assuming that annual booster vaccinations will be the reality. Efficacy of 95% vs 90% or even 80% is technological tour de force, but is it worth paying a premium for? We doubt it. For logistical reasons, a combined Influenza +SARS-CoV-2 seasonal booster is the holy grail and these are in early development.

As things stand today, we are more concerned than relaxed. As noted above, the logistical/execution risks around a return to normal are not insignificant. It serves us all well to remember that science is the embracing of uncertainty: there are no absolute truths, only hypotheses that serve as received wisdom in respect of the available data unless or until a better hypothesis comes along or new data upends things. The dispassionate questioning of everything is the most important tenet of scientific progress.

Applying this to the COVID-19 pandemic, we can be certain there are several things that we do not know with any confidence: how quickly vaccinations will be rolled out on a globally relevant basis, how long protection will last, how quickly the virus might mutate to escape current vaccines or become more or less serious in terms of symptomatic disease. Nor do we know how low case numbers, morbidity or mortality need to fall in any given region for consumers to feel safe enough to behave as they did before, or how long such a drop needs to last to induce people to re-engage. If science is the embracing of uncertainty, then active fund management is the embodiment of educated guesswork.

Why are we concerned? The mantra of "don't worry about H1 21, it will all come good in H2" is rampant and seductive, but markets have a habit of looking through bad news, right up until the point that they don't. These singular changes in mood are notoriously difficult to pin down with any confidence and usually arise when several small factors coalesce. The backdrop we observe is one where equity valuations are high in relative and absolute terms for many sub-sectors and consensus numbers imply some sort of a 'catch-up' in 2021 that is unprecedented in nature. Looking at some forecasts and comparing 2021 projections to 2019 actuals, it is almost as if this whole pandemic never happened. That does not feel right to us.

On the positive side, the sector's classical defensive characteristics remain intact. COVID-19 may continue to transiently suppress procedure volumes and patient visits to some extent, but overall demand levels do not vary in the same way as discretionary or cyclical sectors, so we still see solid medium and long-term absolute returns from our investments irrespective of the wider economic outlook. In the following pages, we summarise our initial thoughts on the outlook at a sub-sector level, in order to provide shareholders with some additional insights into our current thinking.

The artificer may argue that healthcare valuations on a relative basis have never looked more attractive, and we could certainly inflate the page count with multiple charts supporting this contention. Instead, we will offer an alternative viewpoint. Could it rather be that the rest of the market is very expensive relative to history, due to tech leadership and record low interest rates?

From an asset allocation perspective, the previous point is arguably moot. You could choose to allocate capital to healthcare because you think it is 'cheap' versus the rest of the market or because you think the rest of the market is too expensive or risky and you like the defensive growth attributes of the sector. Whichever camp you are in, we concur that allocating capital to healthcare despite the broader pro-cyclical narrative makes a lot of sense. However, that valuation question comes right back into focus when one starts to think about where within the broad church that is healthcare one should sit.

Sub-sector outlook

We classify healthcare investments into 15 different categories.

- Conglomerates and Diversified Therapeutics: We typically combine our comments on these two categories since investing in these sorts of companies is generally antithetical to our strategy. Nonetheless, they account for close to half of the MSCI World Healthcare Index and their performance is thus critical to sentiment for the sector overall. In addition, our largest single position at year end (the diversified therapeutics company Bristol-Myers Squibb) sits in this category.

  2020 was a challenging year as the pandemic pressured routine physician visits, limiting new patient starts and curtailing refill rates on non-essential medicines (e.g. statins). In addition, it was a Presidential election year in the United States and few things find common cause along the political spectrum than bashing the pharma industry. The spectre of drug pricing reform lingers wraith-like in the halls of Congress, but it was ever thus. As the principle store of value in the sector, it is an obvious place to source funds for capital redeployment and we expect another year of lagging performance versus the overall index. There are better places to be invested, from both a return potential and a regulatory risk perspective.

- Dental: To paraphrase the "Chairman of the Board" himself, we have only a few regrets from 2020, but not foreseeing the rapidity of the recovery in the dental sector was one of them. We correctly foresaw the procedure decline in the early stages of the pandemic (hence our exit) but not the rapidity of the recovery.

  We offer no excuses: one of our children was receiving Invisalign treatment at the height of the pandemic and the uninterrupted delivery of (very expensive) aligners, allied to video consults was a clue, as was the "Zoomification" of business life - those twisted tombstones have never been so obvious as when one is staring into Apple's virtual mirror for most hours of the working day.

- Diagnostics: A strong contender for the Marmite award in 2021. Many companies have enjoyed windfall returns from the emergence of COVID testing. Whilst this will continue for some time, the need should fade significantly on a multi-year view, begging the question of what the correct forward P/E should be for such earnings. As logical as this debate seems, there is a more pressing structural change going on that we have long anticipated and now expect to reap rewards from.

  That trend is the shifting of diagnostic capabilities closer to the patient; in the physician's office or at the ward level in the hospital/clinic setting. The desire

to ramp COVID testing capabilities has led to record placements of highly capable multiplex "boxes" during 2020. Even as COVID fades, these powerful tools have many other uses and the pull-though revenue opportunities are significant in our view.

Rather like the all-powerful smartphone, you find these devices are not always used as initially intended by their purchasers but this does not matter to the likes of Apple. As long as these boxes are extant, they will drive some degree of consumables pull through. We continue to see increased usage of diagnostics as one of the key 'mega-trends' in the rapidly changing healthcare paradigm.

- Distributors: The US distributors have battled multiple headwinds in recent years; the perception that they make margins on drug rebates (which Trump had been trying to curtail), their culpability in failing to police opioid over-use and the Damoclean risk of Amazon disintermediating them. These risks have all receded to a large extent and two of the "big three" (McKesson and AmerisourceBergen) have enjoyed a material re-rating.

  2021 should be a positive year, with volumes picking up as the pandemic recedes and renewed options to improve margins through further pivoting to more biologic and "specialty" drugs, which attract higher fees. However, this feels mostly priced in to us, but this sub-sector offers an interesting balance of optionality to normalisation and structural barriers to entry that creates defensive attributes (which is why we do not accept the "tech disintermediation" risk hypothesis). Overall though, there isn't enough here to pique our interest currently.

- Facilities: Hospital operators are at the forefront of the pandemic and it has impacted their operations in an almost unprecedented manner. In the US, we have seen a gradual improvement in elective procedure capacity that has not been mirrored in Europe. These organisations should be commended for that.

  This is arguably the sub-sector most operationally geared to the normalisation theme, being as hospitals generally have low operating margins and high levels of fixed costs and financial indebtedness. Any improvement in the acuity mix toward more ambulatory care (literally 'walk-ins') would be positive for margins. However, consensus assumptions already factor in capacity utilisation at close to 2019 levels and the group overall looks fully valued in a historical context. We could only be more constructive on these companies at significantly lower valuation levels.

- Focused Therapeutics: This broad church covers all manner of specialist drug providers. Our focus is very much toward 'essential medicines', i.e. those which are critical to maintaining a patient's wellbeing and where the drive to procure repeat prescriptions is obvious. These facets are attractive well beyond the pandemic ceasing to be the dominant macro narrative.

  Looking beyond the short-term narrative, we continue to see multitudinous opportunities to own R&D innovators whose products have the potential to improve or expand the therapeutic options for a wide range of serious diseases. Therapeutics continues to be one of the most obvious areas for dramatic improvements in the standard of care over the medium-term.

- Generics: this has been a tricky sub-sector to navigate for a number of years and, once again, we do not see that changing in 2021. A confluence of factors (negative pricing, litigation, over-capacity, pro-domestic policy in China) weigh on the growth outlook for multi-nationals. Consolidation is likely to continue, but the market structure is so fragmented that it will take many years before it

can make a material difference to the business outlook. This still feels like somewhere to avoid to us.

- Healthcare IT: Technology, in all its forms, was the place to be in 2020 and healthcare proved no exception. The opportunity for software to transform our staid industry cannot be overstated and we see this as a fertile ground for future holdings.

  However, one must remain grounded from a business model and valuation perspective and this is likely to be the major challenge to further progress in 2021. Revenue growth is all well and good, but at some point it must translate into real returns for investors.

- Healthcare Technology: In many ways, these innovative Medical Device companies are similarly caught between the positives of an attractive visible growth runway and truly staggering valuations.

  Rare is it that we have a list of companies that meet all of our broader investment criteria but would need to fall by more than half to create anything like a reasonable entry point on a PEG basis. In this sub-sector, such a situation is commonplace.

- Managed Care: The US health insurers are another apparently controversial sector for investors moving into 2021. The ever-present risk of negative reform continues to worry some; especially with a Democrat in the White House who has control of both legislative branches. In addition, the 'windfall' from COVID-related treatment delays is expected to reverse as things normalise, offering a potentially challenging setup.

  We would offer an alternative perspective. The Democrats won the election but the nation is scarred and almost half of the country did not support their agenda. In addition, the balance in Congress is a fine one. Simply put, the appetite for far-reaching leftist reform is limited. Expanding Medicare and Medicaid is popular. Shoring up the ACA is popular. The "public option" (which the markets are wary of) is not.

  We therefore see a modest and overall positive legislative backdrop for the Managed Care stocks and a slower than consensus return to normality, which makes for a positive overall setup given the very attractive valuations. We think this could be a surprise bright spot in 2021.

- Medical Technology: Med-Tech currently is our most challenging sector from an intellectual and quantitative perspective. We are wrestling with a backdrop of an uncertain outlook for elective procedure volumes, valuations that are high in both relative and absolute terms and relative to any historical context.

  Consensus numbers are often higher than we would like and trading updates are mixed; with some companies much more positive than others, even within similar market segments such as orthopaedics or interventional cardiology. It is a Curate's egg.

  We would like to be more constructive on this group and continue to evaluate a number of opportunities to broaden the portfolio and increase our exposure. However, we are trying to balance the three pillars of personal clarity on the demand outlook, comfort with consensus expectations and valuation. We will not act unless all three are sufficiently positive in our view. We prefer higher acuity consumables and general equipment over more specialist 'big ticket' items and minor procedure consumables. Predicting the overall performance for 2021 feels very challenging.

- Services: Many an investor has appreciated the attributes of this sector throughout the pandemic, and we are no exception. The compelling backdrop

of predictable, contract-backed revenues during such broad uncertainty was obvious and worked very well. That has led to a backdrop of full valuations in a relative historical perspective.

At their core, these attributes of dependable revenues and steady growth are attractive in any market scenario, as long as the price is right. We are more than happy to run our existing services exposures to some degree through 2021 but our watchlist stocks in this area again are trading at valuation levels that are too high for us to take any action. These high valuations and lack of consumer upswing exposure may mitigate outperformance in the coming year.

- Tools: Much of the commentary for Services applies equally to Tools. Although revenues are less 'guaranteed' in the contractual sense, these companies enjoy high barriers to entry (both competitive and regulatory) and financially strong customers, being as they serve the research and development sector.

  Many companies have benefitted from the bolus of COVID-19 testing over the past year and accelerating research efforts and grants in various areas (e.g. massive vaccine manufacturing scale-up). This tailwind will fade in the coming years, but other customer areas that have been weaker through the pandemic (e.g. academia) will recover, offering some mitigation. There is scope for continued strong performance, but probably not on the same scale as in 2020.

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Debt

(compare debt funds here, here and here)

David Stevenson, chairman of Secured Income Fund - 24 March

The outlook for direct loans held in the portfolio has improved since my last report and this trend is expected to continue as businesses have adjusted to the challenges of COVID-19. Market conditions have continued to be challenging but the immediate risks to the portfolio, as presented at the start of the pandemic in Q1 2020, have largely dissipated. However, the manager remains mindful of the challenges posed by any reduction in furlough and bounce back policies that have greatly assisted some of our counterparties.

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Alex Ohlsson, chairman of GCP Asset Backed Income - 23 March

We remain cautious on the macro-economic outlook and this continues to be reflected in our prudent approach to discount rates. We do, however, remain positive on the performance of our loans in the medium term and believe market conditions remain favourable for the assets we lend against.

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William Scott, chairman of Axiom European Financial Debt - 23 March

One might be forgiven for thinking that the COVID-19 pandemic is the only challenge facing the world. While it will remain a significant matter for some time to come, there are grounds for cautious optimism that it is becoming, for most countries, a manageable health problem. At the time of writing, the rollout of mass vaccination is beginning to abate the current wave of infections. New variants will require a response of new vaccines and it may also be that there will be

modifications required to public behaviour for a long time to come but, all the same, more and more of our economic lives are normalising and will continue to do so. The financial sector was already well-capitalised and resilient after the regulatory capital measures introduced over a decade ago in the wake of the global financial crisis of 2008 and 2009. After the suspension of equity dividends almost a year ago as a prudential measure by regulators, it is now even more well capitalised. In December 2020, the ECB's supervisory body said in a statement that: "a continued prudent approach remains necessary, as the impact of the pandemic on banks' balance sheets has not manifested itself in full at a time when banks are still benefiting from several public support measures, and considering that credit impairments come with a temporal lag", while at the same time indicating that the current moratorium on dividends is likely to come to an end in September 2021.

A return to some level of equity dividends implies a relatively secure outlook on the part of regulators for the higher tranches of regulatory capital such as those in which the Company invests. All of this serves to underline the view expressed at the Interim Report stage that while there is likely to be a dispersion of impacts and outcomes for different institutions and quite possibly a rise in defaults by some borrowers, this should not have an existential impact on most banking and other financial issuers. Increased resilience was of course the core goal of the regulatory capital changes over the past several years and the transition to those new standards is part of what the Company was set up to exploit. That transition has continued throughout 2020 and will continue in the years to come.

There are, of course, other challenges: Brexit (an apparently unresolved matter for the financial sector), the stressed state of public finances and the implications of the latter for taxation, monetary policy and the potential for inflation or deflation, the climate emergency, the geopolitical tensions between strategic blocs. Several of these are fundamentally political rather than strictly economic matters although their consequences will be profoundly felt economically and in the financial markets. In short, we live in interesting times, as the old saying goes.

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Pieter Staelens, manager of CVC Credit Partners European Opportunities - 19 March

2020 started off on the same strong tone as the end of 2019. We saw considerable supply of new issues in January and the first half of February, and this was all well absorbed by the market as demand for sub-investment grade credit remained strong. We saw some softness in the market in the second half of February as COVID-19 started to spread to Europe. As we went into lockdown in most European countries, March experienced one of the steepest one month sell offs ever seen in the European leveraged loan market. The average bid price on the S&P European Leveraged Loan Index (S&P ELLI) bottomed at 78.92 on 24 March.

On the back of the pandemic and resulting sell-off in global equity and credit markets, we saw decisive action from central banks and governments to counter the financial impact of the pandemic and European leveraged loan markets bounced back sharply. By the end of December, the average bid price on the S&P ELLI was back at 97.55.

Default rates in the European leveraged loan market were below the worst-case scenario that was feared back in March. Based on principal amount, the default rate was 2.57%, while by issuer count, the default rate was 4.50%. This lower than feared default rate was partially the result of the policies enacted by central banks and governments. Functioning capital markets also helped issuers raise liquidity to

get through the pandemic. A prime example of this is the cruise operator Carnival which raised more than $10bn in 2020 across equity and credit capital markets.

The CLO market, still the largest buyer of European leveraged loans, of course also suffered from the pandemic and issuance came to a halt towards the end in March. However, this market came back to life in Q4 2020 as €7.4bn was raised from 22 deals.

The new issue market for European leveraged loans was down 21% year-on-year5 as mergers and acquisitions processes stalled amid the uncertainty created by the global pandemic. We saw M&A rebound in Q4 2020, as visibility on the outlook improved and progress was being made on the vaccine side. This didn't immediately lead to a surge in loan supply as initially most transactions were smaller add-ons. The due diligence processes for the larger transactions typically takes longer and we would anticipate this financing to be raised in early 2021.

The combination of strong demand for loans from opportunistic funds, SMA's and a resurgent CLO market, in combination with a lack of supply as well as better than feared fundamentals meant that the S&P ELLI returned 2.38% for 2020, despite a -14.94% sell off in March.

Outlook

We believe that credit in general is well positioned to perform well in 2021. There is strong demand for sub-investment grade credit, whilst positive developments on the vaccine side are anticipated to result in a bounce-back in economic growth, thereby keeping default rates manageable. European default rates in 2020 were roughly in line with historic averages, as a result of the fiscal and monetary stimulus enacted by governments and central banks in a response to the COVID-19 pandemic. We anticipate this stimulus to remain in place until vaccination programmes result in herd immunity which will allow economies to gradually re-open completely.

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Pedro Gonzalez de Cosio, co-founder and CEO of BioPharma Credit's manager - 16 March

The life sciences industry is expected to continue to have substantial capital needs during the coming years as the number of products undergoing clinical trials continues to grow. All else being equal, companies seeking to raise capital are generally more receptive to straight debt financing alternatives at times when equity markets are soft, increasing the number and size of fixed-income investment opportunities for the Company, and will be more inclined to issue equity or convertible bonds at times when equity markets are strong. A good indicator of the life sciences equity market is the New York Stock Exchange Biotechnology Index (BTK Index). 2020 was a volatile year, with the BTK index declining 12 per cent. during the first three months of the year followed by a quick recovery, rising 28 per cent. from March to December, ending 2020 with a 13 per cent. increase for the year. Companies in the industry took advantage of the increased volatility and sudden recovery in share prices to issue $15.3 billion in convertible notes, a 129 per cent. increase from the previous year as well as $130 billion in equity, a 110% increase from 2019. The strong equity market also allowed for a 50 per cent. increase in IPO proceeds compared to 2019.

Acquisition financing is an important driver of capital needs in the life sciences industry in general and a source of investment opportunities. An active M&A market helps drive opportunities for investors such as the Company, as acquiring companies need capital to fund acquisitions. Global life sciences M&A volume

during 2020 was negatively affected by the COVID pandemic, declining 40% from 2019 levels to $118.8 billion.

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Manager's report for UK Mortgages - 17 March

With both RMBS and housing/mortgage markets performing strongly, the outlook for origination remains positive. Whilst a slowdown at least in housing markets is inevitable later in the year when the stamp duty relief period comes to an end, following its recent extension by the Chancellor to June and then tapering at half the current level until September. It should also be borne in mind that this comes on the back of sustained growth since last summer which provides significant protection for existing stock.

Furthermore, the RMBS supply-demand imbalance, as evidenced by the very high levels of oversubscription for all primary deals so far in 2021 and the demand for secondary bonds, remains very much in play and that will be supportive for spreads in the near term. The UK RMBS new issue pipeline is most likely to be predominantly from ongoing non-bank financial issuers, with a mixture of refinancings due in 2021 and recently originated collateral, with central bank schemes such as TFSME likely to be the preferred funding choice for most banks. This will keep supply well below historical levels and therefore support ongoing demand.

On the asset performance side, we do expect deterioration as the lockdown measures are loosened and government support is gradually removed.

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Private equity

(compare private equity funds here)

Hamish Mair, manager of BMO Private Equity - 26 March

2020 has been a truly remarkable year where the dominant influence has been the COVID-19 pandemic. The impacts are widespread, various and uneven and some of the specific effects on our portfolio are considered in more detail below. Having conducted a triaging review during the first few months of the pandemic we expected that the portfolio would come under pressure and that there would be some calls for capital to support a number of the investments both in the funds portfolio and in our co-investments. At the time of writing nearly all countries are in some form of second major lockdown and the pressures for most companies remain. There is encouraging progress with vaccination programmes, although at different rates internationally, and most companies are planning for a degree of normalisation taking place by the summer. Within this broad summary there are widely differing experiences across the portfolio with nearly every company being impacted to some degree. Some have adapted successfully mitigating the worst effects. Some have seen their business models and longer term prospects severely damaged and a fortunate minority have actually benefitted from the pandemic. Other businesses have been affected but their resilience under extreme pressure has been demonstrated and sometimes this has even led to revaluation.

This year has seen the private equity market's appetite for new deals pivoting towards sectors which are seen as offering long term growth which has been little impacted or even enhanced by COVID 19. Specifically, information technology software and services. This sector has generally been boosted by the working from

home environment and the inability of people to travel. Similarly, healthcare has been of particular focus given its centrality to the pandemic and its role in management and recovery.

Another trend which has been emphasised during 2020 has been the importance of sustainability and the need to consider environmental social and governance (ESG) characteristics and factors in investment management. Currently over 90% of the 100+ private equity managers we invest with have ESG policies. This is up from just over half seven years ago.

There remains a high level of investor appetite for private equity although the preferences for individual sectors has rotated considerably.

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Duncan Budge, chairman of Dunedin Enterprise - 15 March

The onset of a comprehensive vaccination programme has improved the outlook considerably. Similarly, the agreement of a Brexit deal has provided our portfolio companies with some clarity.

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Manager’s report for HgCapital Trust - 15 March

The overall environment has been one of net valuation expansion, albeit with significant volatility en route. On an EV/LTM-EBITDA basis (enterprise value divided by last twelve months' earnings before interest, tax, depreciation and amortisation), the valuation of the S&P 500 moved from 12.5x at the start of the year to end the year on 18.0x, up 26% - via a low of under 10x at the March nadir. The pattern was similar in Europe, with the valuation of the Euro Stoxx index up 19% over the course of the year.

Looking more specifically at our target sectors, the S&P 500 Software & Services index has historically been a good valuation proxy for Hg's software and services portfolio. The overall shape of its valuation performance was similar to the broader market - starting the year at 21.4x LTM EBITDA, falling to 16.2x in March and staging a steady recovery to end the year at 25.3x, 18% up on its starting level.

Combining the valuation movements with the change in total return for the respective indices, exposes some significant differences in the performance and its components. The total return of the software and services index, at 35%, was well ahead of its valuation expansion, demonstrating the power of earnings growth combined with valuation expansion. In contrast, and unsurprisingly, given the 5.4% GDP drop during 2020, broad indices delivered total returns of 8-20% below their valuation expansion as the earnings of their constituent companies declined, in some cases quite materially, attenuating some of the benefit of rising valuations.

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Manager’s report for Oakley Capital - 11 March

COVID-19 had a marked impact on private equity dealmaking during 2020, with a reduction in the high levels of activity seen in previous years. A number of factors combined to depress activity. Plans for the acquisition or disposal of assets were paused as the macro environment deteriorated and new social restrictions created uncertainty; private equity firms' bandwidth was absorbed by a focus on supporting existing portfolio companies; and credit markets initially froze until market volatility began to stabilise. As the pandemic took full effect in Q2, deal count and value across that quarter dropped to their lowest levels since 2015, at 1,011 and $65

billion respectively. While this pause in dealmaking contributed to a c.2% fall in market activity for the full year, signs of recovery showed in the second half of 2020. The industry adapted to the new market environment and transaction levels began to rebound, as fund managers adjusted to the "new normal" and began capitalising on opportunities to deploy capital.

1,402 deals were agreed in Q3, followed by a further increase in activity in Q4, when 1,942 deals were announced with an aggregate value of $158 billion.

Private equity fundraising continued in 2020, despite the impact of COVID-19. However, the pandemic and subsequent lockdowns accelerated a trend that saw fewer funds being raised but with a significantly increased average fund size. With face-to-face meetings made impossible, investors have shied away from investing with unfamiliar funds and have instead committed larger amounts to proven managers with strong track records and with whom they already have established relationships.

In light of continued uncertainty about the speed of the global vaccination roll-out and the efficacy of vaccines against new mutations of COVID-19, we are maintaining a cautious view on society's return to normality. We anticipate that social, political and economic shocks and aftershocks will continue to reverberate globally throughout 2021, and beyond.

Nevertheless, aspects of the pandemic and indications about the post-pandemic era provide us with optimism about the future. After all, post-crisis vintage private equity funds have historically proven to be some of the best performing.

Technological adoption has accelerated, with corporate migration to cloud services and digital infrastructure delivering recurring revenues for vendors and creating new efficiencies for customers. The move to mass digital consumption is empowering those businesses who can best utilise data and analytics, creating value for customers via tailored products and services and driving the balance of power shift towards well-managed and established consumer brands.

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Manager’s report for Apax Global Alpha - 2 March

2020 was clearly an unprecedented year in modern times. A global phenomenon, COVID-19 saw c.100m confirmed cases and c. 2m reported fatalities as of 31 December 2020 according to the World Health Organisation, figures which almost certainly understate the true scale of the pandemic.

The outlook remains uncertain with the pandemic currently undergoing second and third waves in Europe and the US, with new cases and fatalities at or near peaks and the emergence of new strains of the virus which appear to be more contagious. Against the negative development of the virus is the unprecedented rollout of what appear to be highly effective vaccines which should have significant effects in suppressing the virus in the second half of 2021 in many countries.

The impact on the global economy has been severe. Global GDP fell by 19% at an annualised rate in the first half of 2020, with US real GDP falling by 19% at an annualised rate and EU real GDP falling by 28% at an annualised rate during the same period. Policymakers responded with unprecedented fiscal and monetary stimuli which mitigated potential worst-case scenarios and as economies re-opened in the US and Europe in mid-2020, we saw a strong rebound in economic activity in Q3. However, given the second and third waves of the pandemic in the US and Europe, there is expected to be a further contraction or, at the very least, a

slowdown in GDP growth particularly in the services sector which was noticeable in Q4 2020 and is expected to extend into Q1 2021.

Equity markets responded dramatically to COVID-19 in what has been a tale of two halves. Q1 2020 saw one of the most dramatic declines in recent history with S&P 500 peak-trough movement down 33.9% and the STOXX Europe 600 peak-trough down by 36.0%.

As both fiscal and monetary stimuli were unleashed markets staged one of their most impressive recoveries in Q2 with the S&P increasing by 44.5% compared to its Q1 trough and the STOXX Europe 600 gaining 34.2%. For the full year, the S&P closed up 16.3% with the STOXX Europe 600 losing 4.0% with the difference in performance attributed to both the tech weighting in the S&P and the market's view on economic prospects. Investors appeared to be looking through the crisis and valuing companies on a one or even two-year forward basis, assuming earnings return to normal levels.

Additionally, while equity markets appear to be historically expensive on a Price to Earnings basis, they are not at peaks on an equity risk premium basis given very low long-term bond yields.

There has, however, been a very significant divergence in performance between sectors and companies as investors differentiate between those which have been less impacted by COVID-19 and are likely to be long-term winners, and those that have suffered more and could be structurally challenged.

Private equity update

In private equity markets, the volume and value of transactions were materially down in H1 2020 vs 2019, however they recovered strongly in the second half of 2020 and overall, there was perhaps more deal activity than might have been anticipated.

At the start of the crisis, some private equity investors took the opportunity to invest into public equities by providing capital for structurally sound but COVID-19 impacted companies via so-called private investments in public companies ("PIPEs").

As confidence returned somewhat towards the end of Q2 and financing for transactions became available, more traditional leveraged buyout transactions were completed which accelerated in H2 2020. Valuations for quality companies continued to be elevated with the private equity market heavily discerning between those companies viewed as structural winners (e.g. software) and those considered more structurally challenged (e.g. bricks-and-mortar retail).

Credit market update

Credit markets somewhat mirrored equity markets through 2020. Through central bank action and an investor flight to safety, government bond yields compressed to historic lows across the yield curve. With euro base rates having been at or below zero for extended periods of time, the yield curve in the US tightened significantly following the outbreak of the crisis.

Simultaneously, with public equity markets seeing significant losses in March, credit spreads widened materially for investment grade, high yield and leveraged loans. In particular high yield and loan markets dislocated severely, with prices for loans in high-quality companies dropping materially in line with the broader markets.

However, spreads narrowed again in Q2 2020 as investor confidence returned and fiscal and monetary stimuli were announced. As in public equities, investors

distinguished between what were perceived to be higher and lower quality sectors and companies in the current crisis.

As might be expected, new issuance volumes for credit supporting leverage transactions were very low at the outset of the crisis, but these returned during Q2 2020 which also saw signs of second lien loans re-emerging and accelerating in H2 2020.

Outlook

The economic outlook remains uncertain in the short term but more promising in the second half of 2021. While many countries have begun to lock-down again, the vaccine roll-out is accelerating. If the vaccines prove to be as effective as forecast, this should lead to a re-opening of many economies towards the end of 2021. In addition, fiscal stimulus continues to be strong particularly in the US, and there should be significant pent-up demand.

Valuation levels for both public and private equity markets are at elevated levels and generally assume earnings will normalise to 2019 levels in 2021 for the S&P. High valuation levels are somewhat driven by very low bond yields and a lack of attractive liquid investment alternatives indicating that valuations may remain elevated for the foreseeable future. Valuations in both public and private markets will also likely continue to be materially superior for those companies viewed as better positioned for the long-term compared to those which are more impacted or structurally challenged.

In Private Equity, there is continued focus on transformational, "good-to-great" investment opportunities where sub-sector insights, operating capabilities, and access to a global platform can deliver operational value creation. In Derived Investments, the quality of underlying exposures continues to be key.

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Growth capital

(compare growth capital funds **here**)

Manager’s report for Schiehallion - 19 March

When we look at the history of venture backed businesses, we are often surprised that the dogma of the 'exit' post IPO persists. There is no truly great company that has come out of the Venture Capital ecosystem where it would have been the right decision to sell within the first year, or even five years, of a listing. If you had been lucky enough to be a Venture investor in Amazon and sold shares a year after the IPO you would have got about US$7 per share (adjusted for subsequent stock splits). Through much of the subsequent years you might have been kicking yourself if you hadn't sold at the peak of the dotcom boom two years later where perfect timing could have netted you about US$100 per share. But if you had been truly patient and held on until today, your shares would be worth over US$3,000 each, a gain of more than 400x.

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Technology & media

(compare technology & media funds **here**)

Walter Price, manager of Allianz Technology - 15 March

Global stock markets were volatile in 2020. There was a savage sell-off in March when it became clear that the virus would spread from Asia into Europe and the United States. The S&P 500, for example, dropped over 30% in a matter of days. While markets subsequently recovered, it proved to be a bifurcated market, with the winners and losers from the pandemic driving in opposite directions.

Technology remained at the top of the heap. Lockdowns forced individuals and businesses to rely on technology more than ever before. If companies didn't have the infrastructure for remote working, they needed to act quickly to ensure it was in place. They came to rely on communication tools such as Zoom and Microsoft Teams to keep in touch with clients and staff. In other words, technology kept the economic wheels turning at a time of crisis.

This was reflected in share prices. The tech-heavy Nasdaq outpaced the S&P 500 and Dow Jones Industrial indices, rising 42.9%, compared to 16% for the S&P 500 and 6.9% for the Dow Jones Industrial Average. Our benchmark index, the Dow Jones World Technology Index, delivered 41.7%. Investors sought comfort from companies with reliable earnings and a well-established growth story.

The market turned in a different direction in November as progress on a vaccine and some apparent stability returning to US politics saw some cyclical areas revive. Those sectors worst-hit by the virus - airlines, leisure, tourism - bounced from their lows and it appeared that the long-awaited rotation from growth to value would finally happen.

Certainly, at the margins, this may be happening, but technology proved resilient even with this rotation. Share prices for the technology sector continued to be supported by strong earnings. Many companies have found that remote working has improved productivity while reducing costs and that has been reflected in better margins.

Technology developments

Deal activity

Mergers, acquisitions and new listings continued apace in 2020. The buoyancy of the cloud market galvanized deal activity, among software and hardware providers. The biggest deal of the year was Salesforce.com's ambitious purchase of Slack for $27.7 billion. The group plans to make Slack the new interface for its Customer 360 platform. Slack is also an increasingly important feature for software as a service apps in areas such as conferences, tickets and project management.

The semiconductor sector, also in flux, saw significant deal activity. A move from generic to specialist chips and the necessity of scale prompted companies to seek partners and targets. AMD agreed to pay $35bn for Xilinx, using its Field Programmable Gate Array (FPGA) technology to improve its delivery of specialist chips. Analog Devices agreed to buy Maxim Integrated Products for $21 billion, combining expertise in high-frequency radio semiconductors and data centre components.

Any sense that the technology IPO market was moderating proved misplaced. Snowflake, DoorDash and Airbnb all successfully launched multi-billion dollar IPOs.

Snowflake's stock jumped over 100% on its first day of trading. DoorDash benefited from a boom in online ordering, attracting a valuation of $71bn after doubling on its first day's trading. In spite of the pandemic compromising its key activities, Airbnb still went public in 2020 with a valuation of $47bn.

TikTok/Huawei

This was the year the US government took firm action against Chinese companies operating in US markets. The administration spent much of the year trying to ban Chinese social media app TikTok but had not succeeded by the end of the year. It had better luck with Huawei, imposing sanctions on the Chinese telcos giant, denying it access to crucial semiconductors and threatening its international expansion plans. The UK reversed its previous decision to let UK networks use Huawai, while Sweden and Germany also imposed restrictions. It may be that a Biden administration tempers its antagonism towards China, but the Democrats have shown little sign of it to date.

Content moderation

The need to moderate content on social media took on a new urgency following the assault on Capitol Hill. It followed a year where social media had helped spread conspiracy theories about the virus and then the vaccine. The major social media providers recognized the need to get serious about content moderation and by the middle of the year, communications from the President himself were subject to censure. The debate on free speech continues to rage, but more regulation - either from within or above - now appears inevitable.

The pandemic

As we explore in the insight piece, the pandemic has had a profound effect on the way we live and work and many of these changes will not be reversed. Individuals have become well-versed in conducting everything from school lessons to work meetings to family gatherings via videoconferencing software. It's even being used to conduct trials.

Streaming services took centre stage as people found themselves stuck at home. Adoption of Neflix, Apple TV, Disney+ and Amazon Prime accelerated, with shows attracting record audiences.13 Ecommerce was another major winner, with the pandemic speeding up the adoption by five years, according to IBM.

Some of these habits may reverse when the world returns to normal. However, it is doubtful that agile working will simply be abandoned as corporations recognize the productivity and cost benefits from the move away from offices. Habits such as online shopping and home delivery, once established, are often 'sticky'. It seems unlikely that many of the changes wrought by the pandemic will reverse.

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Infrastructure

(compare infrastructure funds here)

Frank Schramm and Duncan Ball, co-CEO's of BBGI Global Infrastructure's manager - 25 March

On a macro level, the future for global infrastructure investment also looks strong. Ongoing low interest rates and a substantial premium over risk free rates continue to drive demand from investors that are looking for yield and to increase their exposure to long-duration investments, and this has provided a boost to

infrastructure investment valuations. We believe there is further room for valuation uplifts in the future.

What's more, the type of much-needed public infrastructure we provide is universally supported in all the markets in which we operate, and this remains a bipartisan issue for all governments. This focus on infrastructure as a fiscal stimulus tool to back national economies has only been bolstered this year, with more infrastructure spending committed to by governments in order to stimulate the economic recovery.

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Mike Gerrard, chairman of International Public Partnerships - 25 March

Since the outbreak of the pandemic at the beginning of 2020, there has been a broad recognition that governments need to focus on ensuring resilience against future threats, but also the pivotal role that infrastructure will play in generating economic recovery.

The UK published its first National Infrastructure Strategy ('NIS') in November 2020, in response to the UK's first ever National Infrastructure Assessment, produced by the National Infrastructure Commission in 2018. The NIS focuses on driving recovery and rebuilding the economy and it recognises the importance of infrastructure investment to achieve this, by maintaining jobs and creating conditions for long-term sustainable growth and decarbonising the economy to achieve net-zero emissions by 2050. Whilst it is currently unclear what role the private sector will have in this renewal of the UK's infrastructure, we remain confident that the need for infrastructure investment will prompt policy support and further clarity.

The EU echoes a similar sentiment recognising the role of infrastructure in the transition to net-zero and maintaining and upgrading existing infrastructure, as well as driving economic recovery as a consequence of the COVID-19 pandemic. The EU's €1.8 trillion stimulus package comprises the €750 billion Next Generation EU Recovery Fund, a large component of which is focused on infrastructure. The emphasis of this package is on providing funding and direction for pan-European infrastructure projects targeting improved public transport, renewable energy generation, transmission and supply, including infrastructure for hydrogen, digital investments and supporting sustainable growth. The Company expects that over time these initiatives will continue to stimulate opportunities for private investment in infrastructure.

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Renewable energy infrastructure

(compare renewables funds **here**)

Gill Nott, chair of US Solar - 16 March

The US is a leading global solar market and is expected to experience continued strong growth in the future. The Company believes this growth will largely be driven by the improving cost competitiveness of solar PV and, to a lesser extent, the continued support of state and federal incentive schemes.

During the period, the global COVID-19 pandemic continued spreading and the US has struggled to contain the virus. However, the initiation of the roll-out of vaccinations around the US, as well as the major focus on tackling the COVID-19

pandemic by President Biden, are both positive signs for 2021. Despite the widespread economic impact of the disruption caused by the virus, the US solar market has fared well during the period. Operation and construction of Solar Assets were both largely deemed essential services and allowed to continue with little or no interruption. Indications of further growth of the industry also remain strong. 87GWDC of utility-scale PV is expected to be installed in the US from 2021 to 2025 according to Wood Mackenzie. This includes an 8.5GWDC increase on earlier forecasts (one month prior), after the ITC extension was recently passed. As solar is the most cost-effective new build source of power generation in much of the US, the outlook for solar in the US remains positive.

In January 2021 US legislation extended US$900 billion of coronavirus relief and decreed US$1.4 trillion in federal spending and tax extensions. The legislation delays the ITC step down for solar power by two years. This means that the ITC will remain at 26% for projects that begin construction by the end of 2022, will fall to 22% for projects that begin construction by the end of 2023, and then fall to 10% for commercial solar projects commencing construction from 2024 onwards. These changes do not impact the Company's operating portfolio, with the tax equity funding process completed on all projects, however the Company expects to see increased acquisition opportunities resulting from the ITC increase.

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Octopus Renewables Infrastructure - 15 March

Whilst the reduction in economic activity led to reduced power demand and hence lower power prices, renewable generation showed itself to be less affected than other industries. Unlike other infrastructure sub-sectors output volumes were not reduced, as the zero-marginal cost nature of renewables meant that assets continued to generate despite the reduction in demand.

Asset Valuations

The relative resilience of the renewables sector, combined with increasing appetite amongst investors for assets demonstrating strong impact and/or ESG credentials, has led to significant demand for renewable generation investments, particularly for operational assets with fixed revenues. This increasing demand has led to a downward trend in discount rates over the period.

The reduction in discount rates offset the impact on market valuations of declining power prices across most power systems in the first half of the year, both in the short term as the impact of COVID-19 on power demand led to very low prices in Q2 in particular, and in longer term forecasts as advisors updated their assumptions on long term gas prices and levels of new renewable capacity.

The combination of these opposing factors has led to asset prices in the market remaining broadly stable or slightly increasing over the course of the year.

Decarbonisation and the investment opportunity

Whilst governments have been necessarily preoccupied with the immediate response to COVID-19, many have also recognised the opportunity for a 'green-led recovery', which should serve to add to the existing momentum behind decarbonisation. As well as new or extended support for renewable generation via Contract for Difference (CfD) or grid capacity auctions, a number of countries have announced ambitious targets for green hydrogen production, which will create significant increases in demand for renewable electricity. The EU targets for electrolyser capacity imply incremental demand on European power networks roughly equivalent to the current total power demand of the UK.

Announcements of note during the period included:

- UK announcement of CfD auctions to be held in 2021. Whilst the allocation to different technology pots is yet to be determined, the 12GW capacity announced suggests a significant allocation to 'Pot 1' which includes onshore wind and solar, given the expected capacity of offshore wind which will be available to bid into its new dedicated auction pot.
- Spanish Royal Decree confirming a series of auctions for renewable capacity expected to procure over 3GW of generation per annum between 2021 and 2025
- France increasing auction targets for renewable capacity to be procured in its energy roadmap up to 2028, finalised in April 2020
- EU Hydrogen Strategy targeting 6GW of renewable-powered hydrogen electrolysers by 2024 and 40GW by 2040
- German Hydrogen Strategy targeting 5GW of renewable hydrogen by 2030 with a further 5GW by 2035
- UK Energy White Paper targeting 5GW of hydrogen electrolyser capacity by 2030
- France allocating €30bn of its 'Relaunch France' coronavirus recovery package to 'ecological transition' including ensuring France is at the forefront of green hydrogen

Following the end of the period the UK government has in its 3 March 2021 Budget further demonstrated their commitment to supporting the energy transition. The Chancellor of the Exchequer announced the launch of a new UK Infrastructure Bank, and an amendment to the monetary policy remit for the Bank of England to include an objective to "transition to an environmentally sustainable and resilient net zero economy".

As well as the significant opportunities in construction-stage assets arising from existing support schemes and auctions, the ever-increasing enthusiasm amongst governments and other institutions for supporting decarbonisation, alongside projects brought forward on a merchant basis or with support from corporate offtakers, is expected to drive a healthy supply of investment opportunities over the coming years. Attractive opportunities also remain amongst operational assets. Research from BNEF suggests significant fragmentation in solar ownership and scope for consolidation, with only 9% of utility scale capacity outside China held by the top ten owners.

Notwithstanding the strong supply of assets, investor demand is also increasing rapidly, driven by a number of factors, including ESG, and a desire for stable yielding assets, not correlated to equities and with resilience to economic demand shocks. As such, competition for assets has increased.

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Alexander Ohlsson, chairman of Foresight Solar - 9 March

Tangible progress towards net-zero remains a top priority for the UK Government in 2021. Whilst COVID-19 has disrupted all areas of life for individuals, businesses and society, the consequences of the pandemic seem set to boost the decarbonisation agenda rather than to hinder it. The 'Build Back Better' and 'Green Recovery' agendas place renewables at the heart of the UK economic recovery plan and the country will take centre stage in global climate change discussions in November when Glasgow hosts the 26th UN Climate Change Conference of the

Parties. Other international governments have also announced ambitious decarbonisation targets.

The commitment to decarbonised economies is expected to create new support mechanisms for solar technologies. The UK's Contracts for Difference auction expected to take place in late 2021 will reintroduce solar as a qualifying technology and the successful Spanish auction announced in January 2021 awarded 2GW of new solar PV capacity.

In this context, the demand for renewable energy assets such as utility scale solar, is only set to increase as renewables become an increasingly central component of the energy mix.

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Manager’s report for Bluefield Solar Income - 2 March

From the historic lows seen in Q2 2020, as the UK Government placed the country into a nationwide lockdown in response to the COVID-19 pandemic, power prices rose steadily during the second half of 2020 (increasing from £24.18/MWh in April 2020 to £54.98MWh in December 2020).

This increase in baseload pricing was driven by a combination of factors; initial easing of national restrictions during the summer and autumn, as well as rising carbon pricing (which returned to pre pandemic levels) and increasing gas prices. The last is a result of tightening of gas supplies, as extended outages on both nuclear and thermal generating stations, combined with below average winter temperatures, drove demand to levels comparable to Q4 2019 despite a second national lockdown.

On the 24 December 2020 the UK and EU finally reached a post-Brexit trade deal, one week before the end of the transition period. Whilst the deal provides a framework for future energy market relations between the UK and EU, Great Britain will no longer be part of the Internal Energy Market ("IEM"), and uncertainty remains over the future of GB carbon pricing and cross border electricity trading across interconnectors.

Whilst plans are in place to develop models to address both these issues, the lack of certainty in the short term could lead to increased volatility in day ahead and intraday power prices.

Looking beyond the near term, medium to long term power price predictions have once again been lowered as forecasters continue to predict prices will be suppressed by falling commodity prices and increased renewable generation post-2030.

UK solar photovoltaic capacity and deployment

According to BEIS, the UK's total installed solar photovoltaic capacity as at the end of November 2020 (the latest statistics available) was 13.45 GWp, across just over one million installations. This compares to 13.39 GWp in June 2020. Expansion over the period, of 66 MWp, has been driven exclusively by the deployment of c. 20,000 small unaccredited installations with capacities below 50 kWp. The chart below illustrates how the deployment of new generating capacity has diminished significantly since the closure of the RO scheme in 2017.

Capacity accredited nationally under the RO Scheme is 7.3GWp, represents 50% of the total solar capacity in the UK, but constitutes only 2.2% of the number of installations. Capacity accredited under the FiT scheme was 5.1 GWp according to the latest data from BEIS released in November 2020. This equates to about 38%

of total solar capacity and 82% of all installations. Subsidy-free capacity stands at 1.1 GWp and 16% of installations, although many of these are micro installations.

Secondary market transactions and subsidy-free activity

Transactional activity in the UK secondary solar PV market saw a slight resurgence in 2020 after a quiet period in 2019 as investor appetite for subsidised assets continued to increase. According to the most recent figures from Bloomberg New Energy Finance (BNEF) and the manager's market knowledge, 552 MWp changed hands between July and December 2020. For reference, some 300 MWp of solar PV project deals were reported in 2019.

Development activity in the UK subsidy-free market has also gained momentum, despite potential disruptions during the COVID-19 pandemic. Significant development activity is now underway within the UK, which is being driven by factors such as ambitious decarbonisation targets, falling installation costs and anticipation over the inclusion of solar PV into the upcoming CfD auction round. Estimates from Solar Power Media indicate that there is now a 13 GWp pipeline of large-scale solar projects in the development phase (as at the end of December 2020), a 44% increase on the 9 GWp reported in June 2020.

There have also been indications that the construction of larger-scale unsubsidised projects is beginning to gain momentum as projects progress through the development phase. A significant number of these projects are extensions to existing assets, community schemes or local council funded.

Various companies have continued to launch tenders for PPA agreements over the period, signalling their continued desire to procure electricity from renewable sources. This source of demand provides a potential route to market for subsidy free projects, if mutually beneficial offtake agreements can be reached.

Another theme is the co-location of unsubsidised solar assets with battery storage facilities, which have the potential to bring efficiencies to construction costs and opportunities to optimise use of the grid connection.

Update on Contracts for Differences (CfD)

The CfD scheme is now the Government's main mechanism for supporting low-carbon electricity generation and operates via an auction process. During the period BEIS announced that solar PV will be allowed to participate in the next CfD allocation round (AR4) for the first time since 2015.

The UK Government is aiming to support up to 12 GW of renewable energy projects in AR4, which is set to open in late 2021. The tender will split technologies across three 'pots'. Pot 1 includes established technologies such as onshore wind and solar PV; pot 2 includes less-established renewable technologies such as advanced conversion technologies and tidal stream, while a new pot 3 has been set up for offshore wind.

Further details on the design parameters for AR4 are expected to be published during the period. Subsequent rounds are then expected to be held approximately every two years.

UK net zero target

Since the UK introduced legislation requiring net greenhouse gas emissions to reduce to zero by 2050, the Government has published its Ten Point Plan for a Green Industrial Revolution and the Energy White Paper. These documents address how the Government envisages development of our energy system to

accelerate the delivery of net-zero emissions and how it will promote a greener future for the country.

In December 2020 the UK Government also announced its new Nationally Determined Contribution (NDC) under the Paris Agreement, which commits the UK to reducing nationwide greenhouse gas emissions by at least 68% by 2030, compared to 1990 levels. The Climate Change Committee (CCC) also published its 6th carbon budget (covering the period 2033 - 2038), which targets a 78% reduction in emissions relative to 1990 levels.

The Ten Point Plan

This document, published on 18 November 2020, outlined the government's vision to become a global leader in green technologies and details targets for different sectors including offshore wind, hydrogen, transport, carbon capture and buildings. The plan also outlines ambitious funding plans, including £12 billion of Government investment to help create and support up to 250,000 green jobs.

Solar is not specifically referenced within the document, besides the plan to include it in the next CfD auction round.

Energy White Paper

The Government published its highly anticipated Energy White Paper on 14 December 2020, which provides further clarity on how the UK aims to achieve its net zero target. The three objectives stated in the paper are to: i) transform the energy system; ii) support a green recovery and promote green jobs; and iii) to create a fair deal for consumers. The paper provides further detail on how to achieve the targets set out in the Ten Point Plan, as well as announcements such as the establishment of a UK emissions trading system.

Commodities & natural resources

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

Ian Francis, Keith Watson, and Rob Crayfourd, managers of CQS Natural Resources Growth and Income - 18 March

Raw materials

Industrial commodity prices have been on an upwards trajectory and despite the waning effect of opportunistic Chinese stock building from mid-2020 (while western governments imposed lockdown measures), metal prices have sustained their positive momentum. As a proxy for wider base metals performance the LME copper price, having rebounded from March lows of US$4,630/t to over US$6,400/t at the end of June, rose a further 21% to 31 December 2020 and has continued to gain with a current price of US$9,147/t.

The US election result has also played a part. While both Democrat and Republican campaigns outlined significant spending plans, Democrat stimulus measures incorporate a significant "green" energy and electrification focus while the Biden win has also eased concerns over fraying US international relations. In tandem with the drive for greener power generation the electrification thematic has benefitted copper. Despite its recent price recovery, signals suggest a growing market deficit is building for this metal providing continued upside pressure on prices: Metal Exchange inventories are at lows and bonded stocks continue to decline; China's

premium for copper cathode has lifted and coinciding with strong demand price increases remain to the upside for copper.

An ancillary benefit arising from the change in US government is a thawing of international relations with the rest of the world, especially China. In this regard China has begun to import significant quantities of US goods, notably crops and energy, an indication of easing tensions. However in some aspects of China policy the need to improve supply security remains for critical minerals such as rare earth metals. Despite the Biden administration this factor particularly relevant to the US economy.

Gold still has a place, silver playing catch-up

Safe haven gold, which was far less affected during the lockdown selloff, slipping back only 3% over the first quarter of 2020, has also recorded strong gains rising

nearly 25% over the second half of 2020. There has latterly been some selling pressure with investor risk appetite tilting more in favour of industrial metals. Vaccine news prompted this shift in sentiment and the gold price experienced some abrupt sell-off with a US$100/oz decline in early January 2021 following news of the roll-out of the newly approved AstraZeneca and Pfizer vaccines. Nevertheless, ballooning government debt and the accompanying rise in issuance of negative yielding debt coupled with attractive equity valuations results in a strong justification to retain exposure to precious metals which currently represent 22.8% of the portfolio. Within the precious metals sector the performance of silver miners has been extremely good. Given its use in solar panels and electronics, silver mining companies have experienced extremely positive share price performances.

Oil prices have also risen appreciably as demand expectations improve, with the vaccine roll out and the reopening of global economies. This was further supported by continued discipline from OPEC at the March meeting when they rolled the existing quota cuts. However, the market now appears to have returned to a level where US shale production is switching back on, albeit slowly with discipline from the major listed US shale producers. At the time of writing WTI prices have recovered to US$65/bbl and US onshore rig count has bounced. The potential return of spare OPEC production capacity remains a risk and this may cap future gains. Reflecting this, E&P equities have lagged with resources and the Fund continues to prefer indirect exposure via crude shipping, which we feel are more exposed to the improving outlook for strong activity.

Outlook

Despite some slowing in Chinese credit growth, other leading indicators seem to be improving. Also, the continued rollout of the vaccine in the West is a clear positive for commodity demand, while the lack of corporate investment remains a constraint to supply, which may worsen. As a result, the cyclical upturn appears to have some momentum, especially in base metals such as copper. The outlook for continued recovery is encouraging for the sector and we look forward to a new growth economy as the world endeavours to transition to a low carbon economy and build back better.

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Evy Hambro and Olivia Markham, managers of BlackRock World Mining - 4 March

Companies operating in the most affected sectors such as travel, leisure, fitness studios, tourism, high street retail and entertainment saw revenues reduce radically and share prices collapse. On the other side of the equation, beneficiaries saw

trends in place prior to the pandemic accelerate in their favour. Digital retail revenues exploded, home media entertainment soared, online grocery deliveries grew market share and at home, fitness services displaced gyms. These swings in economic fortune were reflected in the stock market with a massive divergence in performance by sector.

Mining companies were well-positioned to see out the immediate volatility due to the robustness of their businesses. Strong revenues, rock solid balance sheets and long duration debt maturities softened the blow from lockdowns. In addition, immediate closure of capacity in response to virus outbreaks meant that inventories did not build into a supply overhang so that when demand restarted prices were able to react positively to the recovering activity. Finally, with limited amounts of new supply coming onstream, this has left the market looking 'short' compared to the likely ongoing demand recovery during 2021.

During the year a number of governments committed to carbon neutrality, most notably China, which is targeting to become carbon neutral by 2060. The scale of investment required to meet this goal is enormous and will be a key driver of China's GDP growth and commodity demand for decades to come. We view copper and other sustainable materials such as nickel, lithium and cobalt as the clear winners from this transition. Substantial investment will be required into these commodities with the mining sector a clear beneficiary of the energy transition. On the flip side, thermal coal faces increasing regulatory and societal pressure with demand expected to decline as cleaner and cheaper sources of renewable power become available.

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Base metals

The rerating of base metal prices since the virus-hit lows of March has been exceptional, with all base metal prices finishing the year higher. However, with the exception of copper, it is worth noting that average prices were actually lower on a year-on-year basis reflecting the steep COVID-19 drawdown in March. As we have seen in similar demand shock periods, financial investors used the base metals forward markets to express a negative view on the global economy. Much of the price rally can be explained by the broad-based pick-up in end demand. However, there were a number of other factors which intensified the rally such as COVID-19 related supply impacts, a collapse in scrap collection, speculative inflow into commodities and green related stimulus packages benefiting copper in particular.

Copper, the standout base metal in 2020, led the recovery. Its price bottomed at US$2.10/lb in March but subsequently rallied circa 70% to finish the year at US$3.53/lb, a price level not seen since 2013, with the market benefiting from strong Chinese imports for investment into the state grid, property and strategic stockpiling, a feature we have not seen in the market for a number of years. This surge in demand saw the copper market move into a deficit by year end, with investors beginning to reassess the longer-term demand picture as governments prioritise

'green-related' stimulus into renewables, electric vehicles and the grid which has the potential to see medium-term copper demand increase by 3% to 5% per annum. We view copper as a clear beneficiary from decarbonisation spending, which is a key multi-decade theme for the sector. Copper supply fundamentals also remain supportive with production impacted in key regions such as Peru and Chile, growth projects delayed by 12 to 24 months and scrap underperforming. We have previously talked about the long-term supply challenges the copper industry faces and, given the acceleration in green-related demand, we continue to remain positive on the commodity.

Bulk commodities

Iron ore was the standout commodity during 2020, with the price rallying more than 70% to finish the year at US$161/t. It was a perfect storm for the iron ore market which saw record steel demand in China, coupled with ongoing supply issues in Brazil. Following the tragic Brumadinho tailings dam incident at the beginning of 2019, the iron ore market has significantly tightened with the price more than doubling. This tightness was intensified during 2020 with China surpassing expectations in ramping its steel production back above pre-COVID-19 levels by the middle of the year, as the government increased infrastructure investment and eased the property sector in an effort to support the economy. China's overall steel output grew by 5% in 2020 to 1.05Bt and is poised to remain strong during 2021, underpinned by existing infrastructure projects. We would expect to see a moderation in steel demand during the second half of 2021 as policy stimulus is phased out. However, we still expect China's steel output to remain strong with the iron ore market to be in deficit again in 2021.

Supply disruption was a key feature of the iron ore market in 2020. This was largely centred on Brazil which saw Vale miss the mid-point of its original 2020 guidance by over 40Mt, as operations were initially hampered by excessive rainfall and then by COVID-19. The Australian iron ore producers performed far better with BHP, Rio Tinto and Fortescue Metals Group seeing minimal operational impact from COVID-19. However, supply risks have risen following the Australian parliamentary inquiry into the destruction of Juukan Gorge and the review of the Native Title Act in Australia. This has the potential to force changes to current and future mine approvals, consequently impacting production and capital expenditure for the Australian iron ore producers.

We would expect supply tightness to begin to ease from the end of 2021, as Vale continues to bring tonnes into the market and China looks to increase its use of scrap steel. Market commentators have talked about a 'stronger for longer' iron ore market which seems plausible and underpins a strong dividend outlook for the major producers. However, the last two years of elevated iron ore prices have incentivised new production into the market. The world class Simandou iron ore project has received approval from the Guinean government to be developed by a China led consortium. Despite the high capital intensity of the asset due to the associated infrastructure development, Simandou offers strategic benefits to China reducing their dependency on Australian iron ore and also providing them with another source of high-grade supply. The ultimate outcome of these additional projects coming to the market is likely to result in a larger oversupply of iron ore once China's steel production starts to moderate longer term.

Precious metals

2020 was a stellar year for the precious metals with a new all-time high gold price set at US$2,064/oz in August. Gold and silver prices were up 25% and 47% respectively which follows strong performance for both commodities in 2019. The

huge expansion in central bank balance sheets, as governments adopted a 'whatever it takes' approach in response to COVID-19, has seen a collapse in rates globally with the US 10 year real rate moving into negative territory in 2020. This, combined with the US Federal Reserve moving to an average inflation target and willing to tolerate periods of higher inflation, we believe has opened the door for real rates to reach never previously seen low levels and a new higher trading range to be established for gold.

An encouraging feature of the gold equity market in recent years has been the increased focus on shareholder returns, with higher gold prices translating into higher margins and dividends. The gold sector has generated decent returns in recent years with balance sheets deleveraged and growth projects rationalised, which has seen several companies materially raise dividends during 2020.

The last few years have been a busy period for M&A in the gold sector. The end of 2018 saw the merger of Barrick Gold and Randgold Resources followed quickly by the takeover of Goldcorp by Newmont Corporation. This was then followed by the merger of Barrick Gold and Newmont Corporation's Nevada gold assets to create a massive market-leading US gold business. The gold M&A market has been more subdued in 2020, the most notable transaction being the merger between Northern Star Resources and Saracen Mineral Holdings, its Joint Venture partner in the Kalgoorlie 'Super Pit'. Northern Star Resources has a proven track record of value creation from M&A where it has grown from a single asset, 100koz producer in 2010, to today being over a 1Moz producer.

The PGMs continued their strong performance in 2020 with the palladium and platinum price up 23% and 11% respectively. We continue to remain positive on the PGM space and believe the PGM basket will remain high relative to history given limited new supply projects, increasing PGM loadings for auto catalysts to meet emissions standards and a sustained global auto recovery. In terms of supply, a combination of Anglo American Platinum's converter failure and South Africa's COVID-19 lockdowns, saw 2020 refined platinum and palladium supply fall by 22% and 24% respectively. In the year ahead, the PGMs we see as particularly strong are palladium, with the market forecast to remain in deficit in 2021 and rhodium the less talked about PGM which is seeing increasing demand to meet Nitrogen Oxide (NOx) emission standards. The move in the rhodium price in 2020 has been nothing short of spectacular at +280%.

Outlook

This time last year we made the following bold statement: 'After the strong returns generated during the year it might seem foolish to expect another year of competitive total returns for the mining sector in 2020 but with macro risks seemingly on the turn for the better this might easily play out'. With the benefit of hindsight, it is clear that whilst our forecast of strong returns played out, we never expected the scale of disruption caused by the COVID-19 pandemic. This leads us to the often used quote from Mark Twain 'it is difficult to make predictions, particularly about the future' so this year we will limit our forecast to that of another strong year of expected returns without linking it to seemingly unforecastable macro events.

Our confidence on returns comes from two areas: strong corporate outlook and commodity market imbalances. The former is based on the robust balance sheets, higher profit margins and five-year track record of shareholder return discipline. The combination of all of these gives us conviction when expecting companies to do the right thing for shareholders when faced with windfall gains from better than expected market conditions. With regard to the latter, as mentioned earlier in the report, the expected pick-up in fiscal spending around the world is set to drive commodity

demand growth to levels above that of the last decade or longer. In addition, the underinvestment into supply over the last five years or more means that industrial commodity prices should be well supported in 2021.

As always there are risks to the outlook and we are well aware that margins are elevated, especially for producers of iron ore where these are well above historic levels. Given the mean reverting nature of commodity markets, these will at some point contract despite ongoing supply side issues and better than expected demand from steel producers. In addition, the pressure on management to spend money on growth projects is at its greatest when balance sheets are strong, metal prices are high and demand is rising. We hope that any investment decisions are thoroughly reviewed to limit the chances of value destroying history repeating itself.

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Leasing

(compare leasing funds **here**)

Manager's report for Tufton Oceanic Assets - 22 March

The shipping market

The shipping market demonstrated resilience in 2020 amidst the global pandemic. The Clarksea Index, an indicator of earnings from Clarksons Research across the main commercial vessel types, ended the year down only c.2% YoY despite the uncertainties associated with COVID-19. Some notable highlights of the shipping market (based on Clarksons Research) include:

- Global seaborne trade contracted by 2.8% (ton-miles) in 2020 after a slowdown to c.1% growth in 2019. Global seaborne trade grew by 3.3% CAGR in the two decades leading up to 2019.
- Fleet growth decelerated to 3.1% in 2020 and is expected to slow further as the global orderbook is at its lowest level in more than three decades, at only c.7.5% of the fleet compared to over 50% in 2008.
- Over the full year 2020, compared to 2019:
  - Average 12-month time charter rates for handysize bulkers fell c.5.7% YoY.
  - The average Clarksons containership time charter rate index rose c.3.9% YoY.
  - Average 12-month time charter rates for handysize tankers fell c.3.5% YoY, while Suezmax 12-month time charter rates rose c.4% YoY.

World GDP growth recovered in 2H20, supported by unprecedented fiscal and monetary stimulus measures. For the full year 2020, the IMF estimates that world GDP contracted by c.3.5% compared to its previous forecast of a 4.9% contraction. This section includes data from the Investment Manager's Tufton Real Time Activity Capture System ("TRACS") which analyses satellite data to track the international shipping fleet by segment. By monitoring the overall levels of cargo on water, TRACS enables the Investment Manager to have a close to real-time measure of shipping demand. Other statistics on demand and supply are from Clarksons Research.

Tankers

The tanker market was strong in 1H20, supported by demand for floating storage. As expected, the market weakened over 2H20 as capacity in floating storage was gradually released back into the market. The weakness in the tanker market in 2H20 was exacerbated by the decline in oil demand from the impact of COVID-19. Global oil demand is estimated to have fallen by c.9% YoY in 2020 led by declines in Europe and the United States. TRACS data show that tanker demand peaked in early May 2020. Capacity tied up in floating storage (c.4.5% of fleet in early February 2021 according to TRACS) and renewed travel restrictions to contain COVID-19 in 1Q21 suggest that the tanker market recovery may be delayed to 2H21.

Dry Bulk

In contrast, the dry bulk shipping market was weak in 1H20 but recovered in 2H20 as COVID-19 related restrictions were relaxed and demand for seaborne iron ore imports into China grew with the restart of the steel industry. While the iron ore trade weakened slightly over 4Q20, handysize bulker rates were supported by strong demand for grain and minor bulk commodities. TRACS data show that iron ore imports into China started growing again towards the end of the year.

Containerships

The containership market benefited from pent-up demand and inventory re-stocking after the 1H20 lockdowns as well as shifts in consumer activity towards goods. Idle containership capacity fell from c.11% at its peak in May to less than 4% by end of the year. The strong demand continued into early 2021. The sudden increase in demand also brought with it logistical disruptions. Supply side limitations on container availability in Asia and regional port congestion enhanced the effects of the increase in demand, sending benchmark time charter rates to the highest levels since 2009. Many Chinese factories have indicated that they will work over the Chinese New Year holidays to address the backlog of orders, suggesting that the market will remain firm beyond 1Q21.

The uncertainties associated with COVID-19 amplified existing concerns over changes in environmental regulations and the lack of capital from traditional sources, leading to a fall in new orders. The fall in new orders in 1H20 was c.40% compared to 1H19 but a few large containership orders were placed in 4Q20, resulting in orders for the full year 2020 being lower by c.29% YoY. The shipping orderbook dropped to c.7.5% of fleet at the end of the year, the lowest in more than three decades. Fleet growth decelerated to 3.1% in 2020 and will slow further in coming years, based on the shrinking orderbook. A contributing factor to the slowdown in new ship orders has been the uncertainty associated with the appropriate vessel design to meet emerging emissions regulations. Containership industry leader Maersk recently stated that it would order carbon-neutral ships within the next three years, starting off slowly with smaller ships aimed at regional trade, before taking the knowledge and experience from this landmark first generation of new ships to order larger vessels.

The continued reduction in new orders has resulted in the closure of yard capacity and industry consolidation. According to Maersk Broker, global yard capacity has fallen by c.30% since peaking in 2011. The capacity reduction will enable the surviving yards to command better pricing power and protect margins, pushing up newbuild prices. According to Clarksons Research, an increasing array of energy saving technologies are being added to newbuild designs to meet new emissions reduction regulations from the IMO. This will also serve to increase newbuild prices.

The Investment Manager believes the ongoing supply side adjustment and increase in newbuild prices will serve to increase the values of secondhand vessels. Based on in-house research, the Investment Manager believes that shipping performs well during periods of inflation. According to Stifel Research, the past eighty years of data show that periods of increasing inflation/ a weaker US dollar has coincided with higher commodity prices and price appreciation for dollar denominated assets like secondhand ships.

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Property

(compare UK property funds **here**)

Martin Moore, chairman of Secure Income REIT:

The government's road map envisions the reopening of outdoor visitor attractions from mid-April, followed by indoor activity in most hospitality assets permitted from mid-May, with the caveat that these dates are not cast in stone. The expectation that the rollout of vaccinations to the entire UK adult population by the middle of this year provides much stronger foundations for an enduring release from the impact of the pandemic. The capital markets reflect this view, pricing in a strong recovery in both the publicly traded equity and debt of many companies in the leisure and hospitality sectors. While many of our leisure and hospitality assets have been closed for an extended period, 78 of our 123 hotels are already open, serving those unable to work from home. But we expect clear benefits for our leisure, hotels and pubs tenants from the easing of restrictions anticipated in May. In the meantime, our healthcare assets have proved very resilient and remain in strong demand, further underpinned by an NHS tender valued at £10bn over four years to the independent hospital sector to try to clear the backlog of procedures.

The pandemic has created a recession unlike any other with its economic effects felt very unevenly - devastating for a minority but leaving a surprising number financially untroubled. Lockdown restrictions have pushed up household savings ratios to record levels, creating high levels of enforced savings in the UK which provide the means to accompany the natural desire to make the most of leisure and hospitality when it reopens. In tandem, the unprecedented size and nature of government financial support has driven down interest rates to record lows and unleashed a surge of liquidity seeking a suitable investment home - a home that may soon require inflation protection. Highly expansionary monetary policy has seen the Bank of England continue to increase its quantitative easing programme to a level over four times higher than after the Great Financial Crisis. With debt levels hitting unprecedented heights the government has a strong incentive to manage its cost and deflate its value by letting inflation run above interest rates. Unfortunately, the other side of the same coin is the prospect of a protracted period of negative real interest rates which would pose a challenge for savers. This is where REITs with long-dated Inflation linked leases can prove their worth, delivering healthy dividend yields and inflation protection.

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John Crabtree, chairman, and Paul Bassi, chief executive of Real Estate Investors:

As the market place normalises, we anticipate a healthy recovery in valuations and sales at pre-COVID-19 levels with a strong investor demand for regional assets that

performed well during the global pandemic, supported by high levels of equity and low costs of debt available for real estate. Signs of market recovery are emerging, supported by the recent budget announcement, with many business owners optimistic about future trading. Our regional economy looks set to recover from the pandemic and looks forward to the economic boost from HS2, Coventry City of Culture 2021 and the Commonwealth Games 2022.

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Paul Williams, chief executive of Derwent London:

As restrictions ease, economic activity should start to improve. In the short term, it is the pace of economic recovery that will be the most important determinant of the London office market's performance. New office supply is anticipated to remain constrained. Larger businesses are likely to focus on good quality space and, as there is less availability for these properties, we expect rents here to hold up. Older and smaller units, where there is greater availability, may prove more vulnerable. As such, we expect overall vacancy levels will continue to rise but will remain lower in the West End than the City.

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Stephen Inglis, manager of Regional REIT:

Although the COVID-19 pandemic has forced the adoption of alternative ways of working, it can be argued that the pandemic merely accelerated changes that were already occurring in terms of both digital transformation and flexible working. However, in accelerating the working from home trend, the pandemic also highlighted its limitations in terms of collaborative working, training and productivity, to name a few. To date, there has been considerable speculation regarding the future of the office. The office has long provided a place for concentrated work and increasingly a place for collaboration, connection, innovation and social interaction, and the desire for these characteristics has not diminished. Research by JLL found that 70% of employees believe the office environment is more conducive to team building and creative collaboration, with 74% of respondents indicating that they were looking forward to the opportunity to return to the office.

The asset manager believes that the office will continue to play a vital role in working life, and that going forward, many occupiers will require more space per employee as greater importance is placed on health and wellbeing. The average office space per employee has reduced drastically since the 1990s, with typical densities of just c.85 sq. ft. per employee. Therefore, de-densification of floorplates will likely take place as offices are transformed to encourage teamworking, innovation and education. Additionally, preferences for increased distance between workstations, more private offices, more defined private space, and a reduction in hot desking, may result in increased demand for space.

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Fredrik Widlund, chief executive of CLS Holdings:

We believe that the debate has moved on such that the need for offices, balanced against working from home, is now accepted. Evidence from economies around the world which have opened up again has highlighted the return to more normal patterns of office use. Whilst there will continue to be much speculation until more normality returns and the debate between de-densification and the settled pattern of work from home can be resolved, it is only by returning to the office that some of the forgotten benefits can be demonstrated. The office market is not going to go the way of retail property, as whilst shopping can be delivered to houses (and returned),

there is no substitute for the office-generated atmosphere for collaboration, innovation, mentoring and socialising to name but a few.

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Mark Pain, chairman of Empiric Student Property:

Despite being considered an alternative real estate investment, purpose built student accommodation (PBSA) is cementing itself as a mature real estate asset class, with the potential to generate significant income and be resilient even in periods of economic downturn. As reported by CBRE's 2020 Student Accommodation Index, PBSA was the best performing real estate asset class in the year to September 2020. Looking forward, Savills's five-year forecast released in January 2021 had PBSA as the third best performing sector.

These strong returns are also associated with lower volatility, meaning the sector has produced risk-adjusted returns roughly three times as high as the mainstream market. Like all sectors, PBSA has been affected by the COVID-19 pandemic with capital values falling 0.4% in the year to September 2020, its only fall in the past decade. However, PBSA saw one of the smallest declines in capital values when compared with other sectors and still saw rental growth of 1.6% in the year to September 2020, the fifth consecutive year of outperformance against the mainstream real estate market. Only industrial saw higher rental growth in 2020 (at 2.0%) while both office and retail saw rental values fall (2.2% and 8.1% respectively).

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David Hunter, chairman of GCP Student Living:

There is clear evidence of strong application trends for UK universities both from domestic and international students alike, although restrictions have temporarily reduced the benefits for owners of student accommodation. Whilst vaccination programmes in the UK and abroad will improve the prospects of a complete reopening of UK universities for in-person teaching and improve national and global student mobility, with national or localised lockdowns remaining likely over the short term, a return to full attendance at universities and full occupation of student accommodation facilities will take time.

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Atrato Capital, investment adviser for Supermarket Income REIT:

The continued COVID-19 pandemic has illustrated that supermarket stores in strategic locations, are pivotal to the critical supply of food across the UK. Supermarkets are a regular part of the lives of the UK population and a core part of the UK's food infrastructure. UK Supermarkets stayed open throughout the periods of lockdown and, at the height of the crisis, employed an additional 45,000 workers to maintain the supply chain and implement social distancing measures. The continued impact of the pandemic has driven record grocery sales volumes with an unprecedented annual growth rate of 11% for the year to December 2020.

The pandemic has also accelerated the move to online grocery shopping propelling the online channel to 13% of the market up from 8% a year earlier and represents 16%-18% of Tesco and Sainsbury's total sales. Much of this demand is here to stay as online becomes an integrated part of customers grocery shopping habits. A survey from Waitrose indicated that around 75% of the UK population was now doing part of its food shopping online with half of those surveyed believing their shopping habits have been changed permanently.

The substantial capacity growth by the big four to meet demand, adding over 1.9 million slots from 1.8 million per week to 3.7 million per week, has re-emphasised the vital role of omnichannel stores operating as last mile logistics nodes in the food supply network. Omnichannel supermarkets represent the mission critical infrastructure that is integrating online and traditional in-store sales,

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Jonathan Laredo, chief executive of Yew Grove REIT:

The Irish economy, driven by the resilient foreign direct investment (FDI) sectors such as life sciences and technology, has been one of the best performing globally even as the domestic economy suffered a worse slow down than most in Europe. As the country emerges from lockdown it is likely that the recovery will be sharp and the continued performance of the key FDI sectors should produce yet another strong year despite the headwinds that will be generated by Brexit.

Even with the complications caused by travel bans and market shutdowns the IDA Ireland still managed to generate almost as many foreign direct investments in 2020 as in 2019 and with the easing of lockdowns, which will begin between spring and late summer 2021, we should expect an acceleration of demand.

I expect the industrial sector to have another excellent year with the principal issue being the availability of quality stock and an increase in build and design across the country. In offices, the market will be slow until a clear and timetabled route out of lockdowns can be mapped. However, that is just a question of time. In my view, there is no doubt that the office has a future, but as employers and employees include the flexibility to work both in an office and from home, it will be different from its past. In our markets I expect a greater stratification of offices into those seen as attractive and deserving of a premium and those which are acceptable but will trade back from the very best. Because the estimated rental values (ERVs) on our offices still sit well below the levels which would trigger new development (and even further below the levels required for premium builds) and because appropriate space is still in short supply, I expect our office rents to keep rising.

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