Economic & Political Roundup

Monthly roundup | Investment companies | May 2021

Kindly sponsored by Allianz

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

Exchange rate	30/04/21	Change on month %
GBP / USD	1.3822	+0.3
USD / EUR	0.832	(2.4)
USD / JPY	109.31	(1.3)
USD / CHF	0.9131	(3.2)
USD / CNY	6.4749	(1.2)

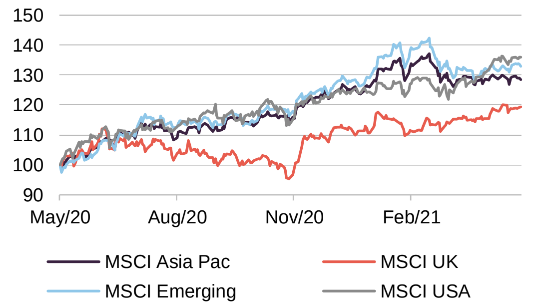
Source: Bloomberg, Marten & Co

Roundup

While the past few months have been decidedly positive, April provided a stark reminder of the uphill battle that remains. India, in particular, is suffering terribly with COVID-19. In developed countries, where most of the vulnerable population has now been inoculated, normalcy appears within touching distance and many commentators are expecting consumer spending to return with a vengeance.

MSCI Indices rebased to 100

Time period 01/05/2020 to 30/04/2021



Source: Bloomberg, Marten & Co

	30/04/21	Change on month %
Oil (Brent)	67.25	+5.8
Gold	1769.13	+3.6
US Tsy 10 yr yield	1.6259	(6.6)
UK Gilt 10 yr yield	0.842	(0.4)
Bund 10 yr yield	(0.203)	(30.7)

Source: Bloomberg, Marten & Co

Global

Uncertainty still prevalent

Henderson International Income's chair, Simon Jeffreys, is still concerned about ongoing uncertainty with regards to the long-term economic out-turn.

Zehrid Osmani, manager of Martin Currie Global Portfolio, expects 2021 to be a year of strong rebound. He also believes it will be a peculiar year where we are faced with sluggish activity early-on before economies start to fully re-open. He thinks earnings will start to normalise in 2022, albeit not immediately back to previous trend levels, for some geographical areas such as Europe, in particular.

Lee Qian and Kate Fox, the managers of Keystone Positive Change, touch on opportunities in the agriculture and fashion industries. On food and agriculture, they believe the global industry is ripe for disruption, from plant-based food to vertical farming.

QuotedData

BY MARTEN & CO

Contents

Analysts

James Carthew
jc@martenandco.com

Matthew Read
mr@martenandco.com

Shonil Chande
sc@martendandco.com

Richard Williams
rw@martendandco.com

April's highlights

UK

The success of the UK's Covid-19 vaccination programme should be positive for equity markets

David Warnock, chair of Troy Income & Growth, highlights a re-pricing of expectations for the trust's holdings. He says many UK cyclical companies have recently moved towards or beyond peak enterprise value. However the shares of many of the sustainable dividend growth stocks favoured by the managers now trade at levels of free cash flow yield which have previously been a precursor to more attractive absolute returns.

Dunedin Income Growth's managers, Ben Ritchie and Georgina Cooper, say the development of vaccines for COVID-19 and large-scale inoculation programmes represent a significant - and more positive - change to the prospects for both economies and equity markets. A UK/EU trade deal and further significant fiscal expansion coming in the United States is also beneficial for UK prospects.

Despite the recovery progress, the government must consider the debt created by the pandemic

Alex Wright, manager of Fidelity Special Values, says UK equities, and in particular value stocks, continue to look very attractively valued in a global context. With regards to the coronavirus, he is encouraged by the pace of the vaccine roll-out, the falling numbers of new cases and hospitalisations, as well as the gradual reopening of the domestic economy.

Merchants' chair, Colin Clark, is more cautious however, stating that even as the recovery progresses, many factors will be in play such as enlarged government debt. He is relieved though to see the end to the uncertainty surrounding post-Brexit trading agreements with the EU, giving markets much needed clarity.

Asia Pacific

Investors did not rotate out of growth stocks and into value names as expected

Nitin Bajaj, manager of Fidelity Asian Values, notes that the belief that investors would rotate out of growth stocks and into value names at the end of 2020 did not play out to the extent he expected.

The managers of Henderson Far East Income, Mike Kerley and Sat Duhra, believe the outlook for dividends in Asia Pacific ex Japan is compelling. The consensus expects 'mid-teens' dividend growth, but they think this figure may be conservative considering earnings growth is forecast to be much higher. They also believe the backdrop for higher dividends is firmly in place with companies generating excess cash, having little or no debt and paying out a lower percentage of net profits as dividends than their developed market peers.

James Will, chairman of Asia Dragon, says though we have come some way since the start of the pandemic, we are by no means near the end of this unprecedented era. Near-term challenges for Asian economies and markets could come with US foreign policy developments under President Biden and the progress of vaccine rollouts across the continent.

Nigel Cayzer, chairman of Aberdeen Standard Asia Focus, believes Asian smaller companies could well outperform after a long period of poor performance relative to their larger counterparts. More broadly, he says Asia remains the powerhouse of global growth and that its potential lies well beyond the next decade.

The economic impact of Covid-19 has been more severe in South and South East Asia than North Asia

The manager of Scottish Oriental Smaller Companies attributes strong performance from South Korea and Taiwan to that of its large technology companies, which have benefitted from increased demand for semiconductor chips over the past year. However, he highlights that the economic impact of Covid-19 has been severe in South and South East Asia due to governments not being able to contain the virus as well as those in North Asia. The latter are also more export focused with exports proving more resilient than domestic consumption.

Renewables

Gresham House Energy Storage's manager reports that 2020 has been an extraordinary year for electricity markets and may represent a turning point in favour of the battery energy storage sector. He says National Grid has recognised the potential in this space and that it could well be a more cost-effective source of flexible generation than any other alternative. The manager is optimistic that the increasing presence of renewable energy generation on the system will lead to significant and more frequent higher intraday power pricing.

2020 has been a difficult year for the European power sector which has hit electricity prices hard

The manager's report for Aquila European Renewables Income also highlights the uniqueness of 2020, and that it was a difficult year for the European power sector, which suffered from a drop in economic output and oil prices. This, in turn, has had a negative impact on electricity prices.

Other

We have also included comments on **North America** from North American Income and JPMorgan American; **Japan** from Schroder Japan Growth and Nippon Active Value; **global emerging markets** from JPMorgan Global Emerging Markets Income; **China** from Baillie Gifford China Growth; **Thailand** from Aberdeen New Thai; **biotech and healthcare** from RTW Venture and International Biotechnology; **debt** from Honeycomb, NB Global Monthly Income GBP, Blackstone Loan Financing, Fair Oaks Income, and Volta Finance; **hedge funds** from Highbridge Tactical Credit; **insurance and reinsurance** from Life Settlement Assets A; **environmental** from Impax Environmental; **commodities and natural resources** from Baker Steel Resources; and **property** from Standard Life Investments Property Income, BMO Real Estate Investments, BMO Commercial Property, Aberdeen Standard European Logistics Income, and UK Commercial Property REIT.

Global

(compare global funds **here**)

Lee Qian and Kate Fox, managers of Keystone Positive Change - 30 April

Technological advancements and increasing awareness of sustainability issues are providing powerful tailwinds for innovative companies that are addressing societal challenges. This creates exciting opportunities for long-term and purpose-driven investors. We are continuing our research on food and agriculture. This is a sector that is ripe for disruption, from plant-based food to vertical farming. We are also researching the fashion industry, which has enormous environmental and social impact. Here, changing attitudes towards second-hand goods and new sustainable materials are presenting interesting investment opportunities. Other areas that we are looking at include digital connectivity in Africa, innovations related to renewable power generation, energy storage and electrification, and healthcare.

. . . .

Simon Jeffreys, chairman of Henderson International Income - 23 April

This time last year the world was at the start of what would turn out to be an unprecedented global crisis. The ongoing global fiscal and monetary intervention and its associated implications continue to create uncertainty with regards to the long-term economic out-turn.

. . . .

Zehrid Osmani, manager of Martin Currie Global Portfolio - 21 April

Given the severe recession that we experienced in 2020, the sizeable fiscal stimuli being pledged to kick-start economies and the more optimistic outlook post the vaccination news, it is highly likely that 2021 will be a year of strong rebound. The magnitude of this rebound is the key question.

2021 is also likely to be a peculiar year where we are faced with sluggish activity early on before economies start to fully re-open as vaccination programmes ramp up. This means that activity may remain muted in the first quarter of the year, followed by a sharp rebound beyond that, depending on the speed of the roll out of vaccinations. In our view, the key questions to focus on are how long will markets rely on the hope of an upcoming recovery if that recovery takes longer to come and what will the reaction be if it is not as strong as expected? Economic leading indicators are, for the time being, moving in the right direction and showing gradual improvements in manufacturing and stabilisation in services, which is encouraging.

Monetary and fiscal policies provide support - inflation is where the risk could lie

Fiscal support pledged throughout the world in 2020 to tackle the recession brought by the pandemic crisis has been sizeable. There will potentially be a further increase in fiscal support in 2021, and notably, in the United States, President Biden signed a huge £1.9 trillion stimulus package into law in March 2021 and has announced a sizeable investment in infrastructure over the next eight years. This support should help the recovery in economic activity in 2021 and beyond.

At the same time, monetary policy support should continue, with key central banks signalling that interest rates will remain on hold at historically low levels for extended periods of time. Central banks are apparently targeting higher levels of inflation, but it may be the case that inflationary pressures, which should temporarily increase this year helped by the low base effect and as a result of potential supply/demand friction as economies reopen fully, might not be sustained beyond this year. This is due to the many underlying deflationary pressures that we foresee, notably from technological advances. Limited wage inflation and the deterioration in labour markets arising from the pandemic crisis might also dampen price rises in some parts of the economy for the time being.

We are also cognisant of the trend for corporates to near-shore or on-shore more of their production and to shorten their supply chains as a result of the realisation that these are vulnerable to disruption. We believe that this might take time to implement and could lead to more investment in robotics and automation, which in itself could help to contain labour costs.

Economic growth in 2021 should result in strong earnings growth as recovery comes through

Given the macroeconomic picture, 2021 will see a strong rebound in corporate earnings. Consensus estimates point to a growth of +25% in year-on-year ('YoY') earnings in 2021 for the MSCI World index, with substantial variation by region.

As for economic forecasts, earnings growth expectations may be inaccurate. We believe that it might well be more useful to look at the two-year growth outlook as a way both to navigate a wide forecast range and to smooth out 2021, which will show explosive growth in large part driven by the effect of such a weak 2020. Our forecasts assume that 2022 will be the year in the course of which earnings will normalise, albeit not immediately back to previous trend levels for some geographical areas such as Europe.

Equity market valuations - less supportive versus history but still supportive versus bond yields

Equity markets have performed strongly since the lows of March 2020. Valuation levels on a stand-alone price to earnings ratio look demanding compared with historic levels but we believe that, given such an unusual period in terms of earnings collapse and rebound in 2020 and 2021 respectively, investors should take account of where we are in the economic cycle. On that basis, European and Global equity valuations remain supportive, while the US equity market is closer to its historic highs.

Equity valuations in general remain attractive in terms of the earnings yields that they offer compared to bond yields. This is likely to remain the main supportive argument for an ongoing high rating of equity markets, given that interest rates are likely to remain low for extended periods of time.

Market focus on sustainability trends will continue to increase and likely accelerate

The nature of the 2020 recession triggered by the pandemic crisis has put more emphasis on sustainability and responsible corporate citizenship with the opportunity to tackle some of the necessary structural reforms as economies are rebuilt. Investors have increased their focus on assessing Environmental, Social and Governance criteria and we expect this to continue to gain momentum in 2021. Regulation is further driving the focus on ESG. Carbon intensity assessments and a drive to decarbonise economies by policy makers is adding to the momentum. President Biden has taken the US back into the Paris Agreement which will be material in aligning all major economies globally towards significantly reducing carbon emissions.

UK

(compare UK funds here)

David Warnock, chairman of Troy Income & Growth - 29 April

Following a period of significant stock market strength, in which returns have been primarily driven by a recovery in a relatively narrow group of pro-cyclical companies, it is reasonable to anticipate a broadening of market returns looking ahead. Over the past six months, mining companies, energy companies and banks have dominated UK large-cap returns, whilst more stable businesses have either struggled to keep pace or have been sold off as a violent repositioning trade reversed some of the trends that occurred in the more risk-averse markets of early 2020. Following a meaningful re-pricing of expectations, it is noted that many cyclical companies have recently moved towards or beyond peak enterprise value, whereas the shares of many of the sustainable dividend growth stocks favoured by the Managers now trade at levels of free cash flow yield which have previously been a precursor to more attractive absolute returns.

Ben Ritchie and Georgina Cooper, managers of Dunedin Income Growth - 27 April

The development of vaccines for COVID-19 with high levels of potential efficacy and the roll out of large scale inoculation programmes represent a significant change to the prospects for both economies and equity markets. They allow investors to look through the current highly negative near term economic impact and instead focus on the middle of 2021, where a significant and sustained rebound in global aggregate demand is now forecast alongside a substantial recovery in corporate earnings. To add to that, we now have a UK/EU trade deal and further significant fiscal expansion coming in the United States.

However, the outlook for markets as we move into 2022 and beyond remains uncertain and we are somewhat cautious on what may lie ahead, especially given the very strong rebound we have seen so far, and how equity markets digest what may be a period of rising bond yields and higher near term inflation.

Alex Wright, manager of Fidelity Special Values - 23 April

UK equities, and in particular value stocks, continue to look very attractively valued in a global context, a hangover of prior Brexit uncertainty and the disproportionate impact of the pandemic on the domestic economy. Whilst the post-Brexit transition will present challenges near term, our conversations with companies suggest that these have been mostly administrative in nature and not insurmountable, particularly given the lead time to prepare, and resources available to most listed companies. Assuming this continues to be the case, we would expect the Brexit overhang to disappear over time, and if the UK economy recovers from the pandemic as expected, it is hard to see how UK stocks can remain this unloved. From a virus perspective, the pace of the vaccine roll-out, the falling numbers of new cases and hospitalisations, as well as the announcement by the Government of plans for a gradual reopening of the domestic economy, are very encouraging and point to a return to some sort of normality.

While we have started to see a rotation into value in late 2020, and more recently as investors contemplate the implications of an economic recovery supported by unprecedented fiscal and monetary stimulus, the dispersion in returns between growth and value stocks since the 2008-2009 global financial crisis remains unprecedented. This leads us to believe that, should investors shift their focus, the degree of outperformance could be very substantial, given how bifurcated the market continues to be.

Consensus is growing that later this year we could witness an uptick in inflation as economies reopen, and we see pent up demand and constrained supply in some areas. Indeed, many companies we talk to are increasingly highlighting these challenges, particularly within supply chains. There is still an enormous amount of US fiscal stimulus ahead of us, which could stoke things further, and create a very different environment to the one we saw after the financial crisis. Near term, the ability for businesses to pass on these cost pressures will be increasingly in focus, and is a key topic of conversation in our company meetings. An environment with higher inflation and rising bond yields has tended to favour value stocks. If discount rates rise, then some of the very highly priced stocks/sectors could de-rate, which we have started to see, whereas value stocks moderate valuations should benefit from a normalisation of economic and market conditions.

Colin Clark, chairman of Merchants - 14 April

Even as the recovery progresses, many factors will be in play - enlarged government debt may require taxes to be raised, economic stimulus will not simply be quickly removed and increasing inflation is also a possibility. The road ahead is unlikely to be smooth.

We have at least seen an end to uncertainty surrounding post-Brexit trading agreements with the EU - some finer points are still manifesting themselves, but the main elements of the relationship are clear in outline and give the markets much needed clarity. Uncertainty can have a much more negative impact on markets than the actual trade arrangements ever would have done regardless of direction once the market can digest. The hope is that in time this will make the UK more investible once again, and therefore drive a re-rating of many undervalued stocks.

North America

(compare North American funds **here**)

James Ferguson, manager of North American Income - 13 April

North American equity indices saw mixed performance in sterling terms during the 12-month period ended 31 January 2021. Large-cap value stocks recorded negative returns, significantly lagging their large-cap growth counterparts, which posted notable gains. In February and March 2020, investors' fears surrounding the impact of the worldwide spread of the COVID-19 pandemic on the global economy sent a shockwave through the US and global financial markets. Following the market sell-off during this period, the US Federal Reserve (Fed) reduced its benchmark interest rate by 1.00 % to a range of 0.0% to 0.25% in March 2020. The central bank also maintained the pace and composition of bond purchases. US stocks rallied sharply over much of the second half of the year reporting period as investors gained more comfort in an improving macroeconomic backdrop. The market shift to "risk-on" mode was also due to the initial rollout of COVID-19 vaccines. Additionally, US corporate earnings continued to show signs of improvement, with results for 2020 coming in much better than expected, leading to rising estimates for 2021.

US GDP grew at an annualised rate of 4.0% in the fourth quarter of 2020, following a rebound of 33.4% in the previous three-month period. The coronavirus was the major influence on US GDP in the first half of 2020, as the economy contracted by margins of 5.0% and 31.4% in the first and second quarters, respectively. US payrolls declined by an aggregate of 9.6m over the 12-month period ended 31 January 2021, and the unemployment rate reached a peak of 14.8% in April 2020, before falling to 6.3% at the end of the period.

Outlook

The Democratic Party now holds the presidency and slim majorities in both the House of Representatives and the Senate. In the short term, we believe that this electoral outcome opens the door to further fiscal policy support and a more coordinated US government approach aimed at combating the COVID-19 crisis. Looking out further, we think that the Democrats now have the ability to pass a broader legislative agenda, with higher spending on a range of entitlements, partly financed by higher personal and corporate taxes as well as infrastructure investments including "green infrastructure. The Chairman of the Fed commented that his top concern - even greater than inflation - is the economy falling short of a full recovery even with increased prospects for fiscal support from the new administration. Given that the Fed is still a long way from meeting its stated employment and inflation objectives, we see his stance as pointing to a continuation of present monetary policy. We expect some reversion to normality in the wake of the pandemic , while fiscal policy should provide a robust consumer backstop as well as supplying generous local aid to states. Inflation remains a risk, but given the slack in the economy, it appears contained at this point.

. . . .

Timothy Parton and Jonathan Simon, managers of JPMorgan American - 1 April

With incredibly resilient performance, the S&P 500 Index ended a tumultuous 2020 up 18% in US dollar terms and over 14% higher in sterling terms.

After a strong end to 2019, solid US economic indicators continued to buoy the S&P 500 at the beginning of the year. However, as the COVID-19 outbreak spread globally, governments responded with economy-wide shutdowns, ultimately leading to a dramatic downturn for markets in the first quarter. Amid the pandemic, GDP contracted world-wide and the US officially entered a recession in March, ending the more than a decade-long expansion. The impact of the virus was also evident in the unemployment data, as the US moved from a 50-year low in the unemployment rate to a level not seen since the Great Depression, and all in the space of a few months.The market seemed to cast aside virus concerns as the US government very quickly provided an unprecedented level of fiscal stimulus. While the extraordinary fiscal and monetary policy responses invigorated the market, it was not all smooth sailing as disappointing economic data along with increased tensions between the US and China generated frequent bouts of market volatility. Corporate earnings also started to recover in the second half of the year, after taking a hit in the first and second quarters. Meanwhile, investor optimism surrounding a potential vaccine continued to lift the markets throughout the summer.

After lacklustre market performance in September and October, the equity markets rallied strongly in November, driven by major developments on the political and pandemic fronts. Joe Biden won the race to be the 46th President of the United States and the Democrats retained control of the House of Representatives. However, the balance of power in the Senate was not finalised until January 2021, when Georgia held run-off elections for both of its seats. Investors largely cheered the election results as they anticipated a return to a more predictable political climate. In addition, investors cheered the Federal Reserve's stance that it would be more accommodative for longer.

While political news was supportive, it was news of a promising vaccine with a much higher-than-expected efficacy rate that really spurred the market higher in November. There was also a sharp market rotation into the value names that had lagged for most of 2020 as investors sought out vaccine beneficiaries. Economic data pointed to a steady recovery and oil prices moved higher, aided by improved sentiment regarding a stronger economy in the months ahead. However, as the year closed out, infection rates continued to rise in the US and the weekly jobless claims data was higher than expected as the labour market took a hit from rising COVID-19 cases.

Although enormous stimulus support and the progress on the vaccine front have lifted consumer and business confidence, news of the emergence of new, potentially more contagious mutations of COVID-19 remains an important development to watch in the near term.

Throughout the year, much has been written about the narrowness of the market as well as concentration risk. At year end, the top five holdings in the S&P 500 represented over 20% of the index and contributed nearly half of its return for the year. We would expect the market to be more broad based as the economy starts to recover and businesses continue to reopen.

Not surprisingly, the technology sector led the S&P 500 higher in 2020 and finished the year with a return that was more than double that of the index. This is the second year that technology has been the best performing sector in the S&P 500 and it's also the second year that energy was the worst performing sector. However, in 2020 the magnitude of the spread between the best and worst performing sectors was over 75 percentage points.

Given the types of businesses that benefited and those that really suffered during the pandemic lockdown, it is no surprise that value lagged growth for the year. However, the dominance of growth was significant, with the Russell 1000 Growth index outperforming the Russell 1000 Value index by over 35 percentage points, far wider than during the 1999 tech boom.

In terms of market capitalisation, large-cap stocks marginally underperformed small caps as the S&P 500 Index returned 18% compared to a return of 20% for the small cap Russell 2000 Index. The small cap index's performance was entirely driven by its growth component.

Outlook

We continue to focus on the economic fundamentals and on company earnings. Starting with profits, our current research suggests that profit growth could be around -16% for 2020; however, this figure has been trending upwards in recent months. Moreover, we do expect to have a strong recovery in 2021, and our current estimates are for earnings growth of +23%. While the economic recovery is underway, the path of the virus and the effectiveness of the new vaccines remains uncertain. Meanwhile, the market has rallied quite strongly in anticipation of progress on the vaccine front, which somewhat tempers our appetite for too much risk in the shorter term.

Japan

(compare Japan funds **here**)

Manager's report for Schroder Japan Growth - 8 April

The Japanese market was strong for most of the period, particularly from November onwards, recording a total return of 22.1%. The yen/sterling exchange rate was volatile in September, but, for the period as a whole, there was a net weakening of the yen, which restricted the total market return in sterling to 17.9%.

Domestically, the early part of the review period was dominated by the change in Japan's prime minister. Shinzo Abe announced his resignation as prime minister of Japan on 28 August, due to the resurgence of a long-standing health problem, just four days after he recorded the longest continuous term of any Japanese prime minister. Although Mr Abe's health had clearly deteriorated, his popularity had also declined recently, primarily due to his handling of Japan's response to the pandemic. Following his resignation, the Liberal Democratic Party opted for the simplest method to elect their next party president. Yoshihide Suga, the Chief Cabinet Secretary, quickly emerged as the frontrunner within a few days of Mr Abe's announcement and he duly won the leadership election on 14 September. His position as the new prime minister was then confirmed in a special Diet session on 16 September.

Domestic factors then took a back seat to global drivers, especially the positive news flow on the results from various vaccine trials. Equity investors responded very positively in November to the idea that tackling the virus could eventually become a logistical exercise, albeit an extremely complex one. The slow-motion results of the US presidential election ultimately reduced one potential source of uncertainty.

All the available data during the period showed that Japan's experience of COVID-19, in terms of incidence and mortality, continued to be markedly different from the US and Europe. As a result, the government was able to continue to encourage private consumption through its "Go To" campaign for domestic travel. In October, this was supplemented by the launch of "Go To Eat" discounts to support local restaurants in each prefecture. Although the absolute levels of virus infection in Japan remained significantly below other developed countries, there was a pick-up towards the end of the year, leading to further public criticism of government policy. During December, these concerns began to impact on the popularity of new Prime Minister Suga and ultimately led to the suspension of the "Go To" campaigns. Early in 2021, a state of emergency was re-imposed for the first time since May, although even this imposed significantly lighter restrictions than those seen in Europe.

In the final weeks of the year, there was an increased focus on the likelihood of further stimulus measures being passed in the US. Japan's cabinet also approved a large additional fiscal package, to be funded by a further supplementary budget.

Nevertheless, survey data released in December, including the Bank of Japan's Tankan and the Economy Watchers' Survey, highlighted the fragility of consumer confidence as a result of rising infections. Japan has also dipped back into deflation, although this is currently due to a series of temporary factors, including lower utility prices and mobile phone charges. Although survey data on economic conditions remained somewhat weak early in 2021, actual GDP data for the fourth quarter of 2020, which was released in mid-February, was stronger than expected.

The corporate results season for the October to December quarter was completed in mid-February. The proportion of results that were ahead of consensus expectations was unusually high for Japan and this has continued to drive a positive revision cycle for corporate profits. These revisions, coupled with strong net buying of Japanese equities from foreign investors, helped push the main Topix Index to an almost 30 year high just after the end of the period.

Outlook

With Japan's state of emergency due to be lifted during March, we see limited additional impact for the equity market given the scale of economic dislocation will be less dramatic than that seen in early 2020. We also expect reduced impact on supply chains across Asia and, ultimately, a clearer route out of restrictions via the vaccine roll-out.

After additional safety tests required under Japanese regulations, the Pfizer vaccine was approved for use from 15 February and 3.7m healthcare professionals are now being prioritised in the initial roll-out. The general population is likely to be offered a vaccine in the April to June quarter. It is still unclear what impact the domestic, and global, vaccination programmes will have on the final decision to be taken on the hosting of the delayed Tokyo Olympics. The current political statements still support a scaled-back version of the games, starting in July as planned, although the general public seems to be increasingly sceptical. Although the government is facing a difficult political choice, we do not see any significant economic impact, whichever way the final decision goes. Most of the impact would be seen in a far lower number of tourist arrivals than originally expected, but this has already been fully discounted by the equity market and we don't see any great scope for surprise.

However, developments around both the Olympics and the vaccine roll-out could also affect the political timetable in Japan. Although the transfer of power from Mr Abe to Mr Suga has not led to any unexpected policy changes, a general election is due by October 2021 at the latest and it is still possible that we could see a snap election called earlier in the year. In any event, we expect the ruling Liberal Democratic Party to retain power, and for Mr Suga to remain as prime minister.

The short-term outlook for the domestic economy in Japan therefore centres on a rebound in activity as the state of emergency is lifted, together with the impact of the vaccine roll-out. Beyond these near-term issues, Japan is well-placed to benefit from a medium-term recovery in both the domestic and global economy.

In the absence of any further dramatic deterioration in economic conditions, we see scope for a significant recovery in corporate earnings in fiscal year 2021. Coupled with the underlying strength of corporate balance sheets, this should also lead to a quick return to pre-COVID levels of shareholder pay outs, including share buybacks.

While overall market valuations look reasonable, we do note that some cyclical stocks may already be discounting much of the initial expectations for earnings recovery. However, beyond these cyclical dynamics, we continue to see positive structural tailwinds supporting the Japanese equity market, including company-specific efforts to improve Return on Equity. Despite the challenging environment, Japanese companies have remained committed to increasing spending on IT and software, in particular, in order to improve future productivity.

Until late 2020, market dynamics favoured a relatively narrow range of stocks, reflecting global macro and political issues. While many global markets then saw some style reversal from November, this effect was very muted in Japan within the review period, and value stocks, those stocks trading at a lower price relative to fundamentals, underperformed the broader market to the end of 2020. Small cap had initially rallied strongly in September 2020 but then underperformed the broader market significantly over the following four months.

In early 2021, Japan finally saw some rebound in value indices, but even this was primarily a rally in lower quality cyclical stocks, those stocks affected by macroeconomic or systematic changes in the economy, with banks also outperforming. However, as we move further into the recovery phase, improving visibility on corporate earnings encourages us to maintain our longer-term views on Japan.

Although we should see a strong overall profit recovery over the next two years, we do not expect any step-change in Japan's long-term trend growth. Instead, we anticipate that Japan's relative undervaluation will be narrowed through better corporate governance, leading to sustainable improvements in return-on-equity.

Manager’s report for Nippon Active Value - 1 April

Despite what has been an extraordinary year by any measure, 2020 has proved to be a remarkable testament to the resilience of financial markets generally. Many stock markets around the world, particularly those in the US and, more narrowly, in the technology sector, have enjoyed genuinely storming start to the year. In Japan, the main Nikkei 225 index was up 16.01% while the MSCI Japanese Smaller Companies index managed 6.84% for the calendar year to 31 December 2020.

Global emerging markets

(compare global emerging markets funds here)

Omar Negyal, Jeffrey Roskell, and Isaac Thong, managers of JPMorgan Global Emerging Markets Income - 6 April

The arrival of several effective vaccines and their relatively quick roll-out around the world has transformed the economic and financial market landscape. Economies should begin to recover, and although the pace of recovery remains uncertain, the long term outlook for sales, profits and cash flow have all improved.

Markets will discount this improvement before we see evidence of a rise in corporate earnings, and the recovery in dividends will, in turn, lag earnings increases, due to reporting timetables. We will therefore remain relatively cautious about dividend announcements across Emerging Markets in the near term. However, looking further ahead, we are confident about the earnings and dividend payment power of our portfolio companies. In our view, Emerging Markets continue to offer the potential for long term growth, and pay-out ratios should generally remain relatively steady, at around 35%.

As a reminder, we receive dividends from portfolio companies in local currencies and pay out dividends in sterling. Currency movements therefore have an impact on revenue receipts year-by-year. (All else being equal, a rising pound puts pressure on revenue receipts from Emerging Markets).

Across Emerging Markets, opportunities to invest in sound companies paying attractive dividends tend to cluster, resulting in portfolio tilts towards certain countries and sectors. This accounts for our significant overweight positions in Taiwan, Russia and Mexico. On a sectoral basis, we find many appealing income opportunities within Financials, Consumer Staples and Technology, so we are materially overweight these three sectors. It is worth noting that the performance of companies within these three key sectors is not uniformly reliant on the post-pandemic recovery, with many expected to benefit from longer-term structural changes.

. . . .

Asia Pacific

(compare Asia Pacific funds **here**)

Nitin Bajaj, manager of Fidelity Asian Values - 27 April

In Asia, there was an expectation that investors would rotate out of growth stocks and into value names in the last quarter of 2020 in the hope that value would benefit from an economic recovery. However, this trend has not played out to the extent we expected.

. . . .

Mike Kerley and Sat Duhra, managers of Henderson Far East Income - 23 April

Asia Pacific has fared better than most with North Asia, in particular, weathering the storm relatively successfully to the extent that Taiwan and China actually managed positive Gross Domestic Product ('GDP') growth in 2020. This was due to early and draconian lockdown measures, which contained the coronavirus, while the recovery in manufacturing, and especially demand for work from home technology, boosted industrial production and insulated these economies from the worst of the pandemic slowdown. The progress of containing the coronavirus has been less successful in southern Asia and India, where lockdown measures imposed by central government tended to be less vehemently followed at the provincial level, delaying the pace of recovery. Tourism dependent economies, such as Thailand, were particularly hard hit with GDP falling 6.1%3 in 2020.

The performance of individual markets broadly reflected the success in dealing with the pandemic. The best performing markets were Korea and Taiwan, which both rose by more than 30%4 in sterling terms over the period, surprisingly followed by India which burst into life following a better than expected budget in early February 2021. The Chinese market lagged its North Asian peers, dragged down by the highly weighted internet sector which faced headwinds as the regulator investigated some of the prominent platforms for monopolistic practices. Malaysia, Indonesia and the

Philippines, although positive, lagged the average return due to lingering coronavirus concerns and a lack of market exposure to cyclically sensitive sectors. At the sector level, technology and materials led the way followed by financials, with banks rallying strongly in the last three months. Defensive sectors continued to underperform led by telecommunications, utilities and health care.

Aside from COVID-19, the most significant news over the period was the US Presidential election where Joe Biden succeeded Donald Trump to become the 46th US president. Although we are still in the early days of the new president's term it is refreshing to have an incumbent who is predictable rather than the 'scatter gun' approach adopted by his predecessor. The method may be different, but the impact on the region, and China in particular, is the same with the US continuing its policy of containment through tariffs and sanctions while taking a more multilateral rather than unilateral approach to negotiation. It is safe to say that the relationship between China and the US will remain fraught for many years to come which will have implications for investment in the region as a whole as countries may be forced to choose sides in the ongoing dispute.

Despite the uncertainty, the support provided by fiscal and monetary policy has provided a positive back-drop for asset prices with many equity markets reaching all-time highs over the period. Excess liquidity and the desire to look through the valley to the recovery beyond has prompted a change in market leadership as cyclically sensitive sectors start to claw back some of the underperformance from structural growth. The last three months in particular have seen financials, materials and industrials start to outperform internet related technology stocks and consumer sectors as investors start to question the valuation of 'darling' stocks when they are only growing marginally faster than the out of favour value sectors which are more operationally leveraged to recovery.

The optimism is supported by the expected strong rebound in corporate earnings. Asia Pacific ex Japan is forecast to have 28%4 earnings growth in 2021, driven by some of the sectors hard hit in 2020, but also by the materials sector which is benefiting from ever increasing commodity prices. These levels of growth make the current price to earnings valuation more palatable despite the fact that these are trading some way above their long-term averages. On a relative basis, the case is more attractive with the valuation of the MSCI Asia Pacific ex Japan Index relative to the MSCI World Index trading below its long-term average.

The outlook for dividends in the region remains compelling. The consensus expects 'mid-teens' dividend growth, but from what we have seen in the results for the first three months of the year, this number may prove to be conservative especially considering that earnings growth is forecast to be much higher. Analysts in the region tend to be slower to raise dividend forecasts than earnings forecasts, but as more companies announce results and surprise with dividends either being reinstated or dividend pay-out ratios increasing, we expect these forecasts to rise. The backdrop for higher dividends is firmly in place with companies generating excess cash, having little or no debt and paying out a lower percentage of their net profits as dividends than their developed market peers.

Outlook

We remain positive on the outlook for Asian equities in the months ahead. Asian economies are recovering from COVID-19 quicker than most other regions with impressive growth forecast for the next couple of years. Although valuations on the face of it look expensive compared to history, these are distorted by bubble like excesses in some structural growth areas while some of the value and yield dominated sectors offer numerous opportunities.

Dividend yield as a style looks very interesting at current levels. Despite incredibly low interest rates, the 20% highest yielding stocks in Asia are trading at a record discount to the market price to earnings multiple. We believe this gap will close and expect interest to return to these areas as the need for income from aging populations in a low interest rate environment is an ongoing theme. While the strong markets have allowed some investors to fulfil their income requirements from capital gains, any volatility in returns will focus minds to the benefits of sustainable income

. . . .

James Will, chairman of Asia Dragon - 21 April

The world has come some way from the early days of the pandemic. However, we are by no means near the end of this unprecedented era, even as massive stimulus and support from governments and central banks globally fuel expectations of a growth recovery and rising consumer prices.

Global developments, meanwhile, bear close watch. Chief among these is US foreign policy under President Biden, especially on China, and the progress of vaccine rollouts across Asia.

All of these imply near-term challenges for economies and markets in Asia. What is more pertinent for us as investors, however, is that over the long term, the region continues to offer immense opportunity.

Asia is the world's growth engine, its global factory and a growing consumer force to be reckoned with. As incomes rise and wealth grows, demand from local consumers for health care, technology and aspirational consumer goods is increasing. Urbanisation and infrastructure needs remain vast.

. . . .

Nigel Cayzer, chairman of Aberdeen Standard Asia Focus - 15 April

Swift responses to curb the spread of the coronavirus have set the stage for a sharp rebound in Asian economic activity, and consequently corporate earnings. In most of North Asia, life has largely returned to a new normal. Moreover, the rest of Asia is supported by resilience in China, given its importance as a key trading partner to many regional markets. There is also optimism around a wider economic recovery, given the vaccine rollouts and the prospect of greater US federal spending, following last year's loose monetary policy worldwide. With these in mind, I believe Asian smaller companies are well-positioned to outperform after a long period of underperformance relative to their larger counterparts.

More broadly, Asia remains the powerhouse of global growth, with huge potential for wealth creation over the coming decades. The portfolio offers exposure to sectors supplying hardware, software and platforms for the latest consumer electronics, artificial intelligence and the Internet of Things. Moreover, it is also positioned in more traditional sectors, addressing the region's increasing urbanisation and infrastructure needs, as well as rising demand for healthcare and more aspirational consumer goods.

. . . .

Manager's report for Scottish Oriental Smaller Companies - 13 April

Asian stock markets were strong over the six months ending 28 February 2021. Investor sentiment was positive for most of the period on expectations of a strong recovery from the impact COVID-19 has had on the global economy. Stock markets further benefitted from significant fiscal support from policymakers.

South Korea and Taiwan were the best performing major markets over the period, driven by strong performance by their large technology companies which have benefited from increased demand for semiconductor chips over the past year. The Indian market also produced strong returns on evidence of an improving economy. Most other markets rose with only Malaysia and Pakistan producing sterling losses.

The impact that COVID-19 has had on Asia's economies, companies and people has been significant. This impact has been less severe in North Asia where governments have performed better at containing the virus than in South and South East Asia. North Asia's economies are also more export focused with exports proving more resilient than domestic consumption. As Asia's economies open up again we expect consumption to return to normal gradually. One of the key drivers of exports has been fiscal and monetary stimulus in the West. This stimulus should not be sustainable but recent activity by policymakers shows an intent to support economic activity and markets in the short term at almost any cost.

Expectations are for strong growth in corporate earnings in 2021. Looking at Scottish Oriental's portfolio, many of its investments are attractively valued, particularly when based upon measures such as market capitalisation per capita. This is most obvious in Indonesia and the Philippines where sentiment is currently poor and smaller companies have lagged over the last few years. As these economies normalise we expect to see the dominant franchises the Company owns benefit from significantly improved levels of profitability which will in turn be reflected in their share prices. The last year has been tough for many of Scottish Oriental's holdings but we have been impressed at the actions taken by their management teams to rein in costs and adapt business models. As a result we have every confidence in their future prospects, particularly as the crisis has not been as kind to weaker competitors.

In the past year there has been much interest by market participants in the technology and healthcare sectors where growth potential is believed to be the highest, and excess liquidity has led to large sums of money bidding up valuations. Many companies in more traditional sectors with proven business models and high returns on capital have been left behind despite having strong competitive positions and there still being much growth to come. Recently we have seen indications of a broadening in the market rebound to include such proven but less fashionable companies.

. . . .

China

(compare China funds **here**)

Roderick Snell and Sophie Earnshaw, managers of Baillie Gifford China Growth - 27 April

Having emerged early from the pandemic and proved able so far to keep further outbreaks under control, China has delivered robust economic and corporate performance to date. However, the long-term growth story for China is only just beginning.

. . . .

Thailand

(compare country specialist funds **here**)

Manager's report for Aberdeen New Thai - 29 April

Thai equities rose in the year ended 28 February 2021 (the "Year"), rebounding from the disruption caused by the state of emergency to contain the COVID-19 pandemic at the beginning of the Company's financial year. The unprecedented fiscal stimulus and monetary easing introduced worldwide, as well as the more recent vaccine rollout, helped share prices in the broader region to recover in the final quarter of the year. However, Thai stocks lagged as travel curbs temporarily crippled its large tourism sector. Separately, severe droughts heightened concerns around the kingdom's crucial agricultural exports. On the political front, pro-democracy protests in Bangkok also muted sentiment, alongside worries of a potential influx of refugees from Myanmar following the military coup.

Unsurprisingly, Thailand's GDP contracted by 6.1% in 2020, largely a result of nationwide curfews in the initial stages of the pandemic. The government's policy response included tax relief, loan repayment moratoriums, soft loans for small and medium-sized enterprises, aid for the tourism-related and medical sectors, as well as cash handouts for individuals.

Energy stocks rallied with the return of crude oil prices to pre-pandemic levels. China's 2060 carbon-neutral goal and the electric vehicle boom further lifted prospects for alternative energy power producers and related industrials.

The financial sector rebounded with the relaxation of lockdown measures in October. Levels of non-performing loans were lower than expected, against substantial loan provisioning made earlier in the Year. Moreover, the Bank of Thailand removed the restrictions that had been imposed on dividend payments by financial institutions, signalling that the risk of high levels of bad debt had abated. This led to hopes that net interest margins would improve, given the lower credit cost to lenders and central banks' shift away from last year's monetary easing.

Thai equities are likely to benefit from the rotation from sectors in North Asian markets with lofty valuations into cyclical stocks in the domestic market. The government has done well in curbing the spread of COVID-19 early in the pandemic, although the risks of new infections remain including a resurgence of cases in April. As the world learns to manage new outbreaks, the rollout of vaccines globally should eventually lead to a revival of the tourist trade, boosting the economy. We believe the portfolio is well-positioned for a domestic recovery and leveraged growth through banks and other financials, and via its balanced exposure to energy and utilities. Moreover, exports are benefiting from higher activity levels among its trading partners, including China, Japan, the US and Vietnam. In the longer term, the country is expected to gain from its membership of the Regional Comprehensive Economic Partnership, the world's largest trading bloc, formed in late 2020. Its membership includes China, several developed economies in the Asia Pacific, as well as certain other countries in Southeast Asia and Indochina.

Thailand is home to many outstanding businesses and is also the gateway to a handful of rapidly-growing frontier markets, including Cambodia, Laos, Myanmar and Vietnam.

Biotech and healthcare

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

Manager's report for RTW Venture - 29 April

Sector review and 2021 outlook

The innovation boom. We are living in an era where innovation is accelerating at breakneck speed with unparalleled opportunities for value creation. Globally, biotech markets are growing rapidly. According to Global Market Insights, the global biotech market is expected to grow with a compound annual growth rate, or CAGR, of 9.9% from 2019 to 2025. We are seeing validated technologies, such as those derived from DNA and RNA science, that can effectively deliver therapeutic solutions across large swaths of diseases, resulting in companies with highly efficient development engines.

Genetic therapies are on the rise. Cheap genetic information has revolutionized the discovery process, which is yielding validated drug targets at an unprecedented rate. According to the National Human Genome Research Institute, the approximate cost to sequence a human genome fell to less than $1,000 in 2020. This reduction in cost has fuelled tremendous productivity. According to data from the United States Patent and Trademark Office, the number of patents has inflected upward since 2010, which is translating into more new drugs in company pipelines. Technological applications are also creating platforms of addressable diseases, increasing bandwidth, and enabling companies to target more diseases with superior scientific accuracy and cleaner safety profiles than in previous generations of drug development.

The FDA reported a surge in investigational new drug (IND) applications for cell and gene therapy products and predicts that it will be approving 10 to 20 cell and gene therapy products per year by 2025. We expect this trend to not only continue, but for genetically targeted therapies to become a substantial proportion of new therapies over the next decade. Further supportive dynamics come from the FDA and peer country regulatory bodies. While the United States leads the way in healthcare innovation, regulatory bodies across Europe, Japan, and recently China are enabling accelerated review programs resulting in faster approvals for therapies for conditions with unmet needs.

Although genetically validated targets can sometimes be addressed by existing traditional approaches, such as small molecules and antibodies, in specific tissues it is hard to beat the speed and ease in which DNA and RNA based medicines can be developed. Gene therapies also carry the potential for a one-time cure and RNA medicines for infrequent injections. The market for gene therapy companies has been growing. According to Capital IQ, at the beginning of 2013, there were five publicly traded gene therapy companies with a total market capitalization of approximately US$1.1bn, while at the end of 2020 there were 37 publicly traded gene therapy companies with a total market capitalization of approximately US$71bn. During the same seven-year period, according to Capital IQ, the number of publicly traded RNA medicine companies grew from eight companies with a total capitalization of approximately US$3.8bn to 26 companies with a total market capitalization of approximately US$141bn.

The COVID-19 vaccine experience exemplifies modern medicine's speed and ability to transform lives. The COVID-19 genetic sequence was published on 10 January 2020 by Chinese scientists and within a week the first mRNA vaccine candidates were created by separate teams in Boston and Germany that entered preclinical testing. Moderna was first into the clinic in March and Pfizer/BioNtech caught up, with both companies starting Phase 2 clinical trials in late April and reporting promising antibody data in May. Phase 3 clinical trials were initiated in late July, and definitive efficacy data were reported in late November, with emergency use authorizations (EUA) granted in December. The vaccine development effort does not only embody the promise of medical innovation, but hopefully also serves as a beacon of hope in these challenging times. We have never been more optimistic for the potential for medicine to help us live longer and healthier lives.

Market dynamics and COVID-19 impact. While strong scientific developments have been accelerating over the last several years and we believe are likely to continue for the next decade or longer, the market has been somewhat slow to recognize and reward these developments. While the rest of the broader equity markets steadily marched upward since the 2008 financial crises, publicly traded healthcare companies often found themselves under pressure due to a negative narrative stemming from the drug pricing debate.

In 2020, the biotech sector outperformed the broader market with the Nasdaq Biotech Index (NBI) finishing up +26.5% versus +16.3% for the S&P 500. We have observed a positive shift in market sentiment, as the record-breaking development and approval of the COVID-19 vaccine and therapies cast a bright light on the sector. Scientific and medical innovation was the only answer to pandemic. Generalist investors seemed to appreciate how quickly new medicines can be discovered and developed by leveraging genetic data and new drug technologies like mRNA and they expressed this new found appreciation through their portfolios. Net inflows into sector turned positive and share prices rose across the board. While we no longer found ourselves in the distressed to significantly below average valuations we have grown accustomed to over the last five years, we were hopeful this could represent a potential first return to normalcy since US drug pricing entered centre stage in 2015. Biden's win in the 2020 U.S. Presidential election did not seem to pose an immediate threat of a dramatic change to the current system of public and private insurance as the COVID-19 pandemic has catalysed a shift in the discourse from drug pricing to public health matters.

However, Q1 2021 has been met with a level of uncertainty in the biotech space that tempered the excitement around the sector from generalist investors. There were a string of disappointing clinical trial results, a handful of FDA rejections, and the FDA Commissioner job remains unfilled. FTC's plan to broaden the definition of anti-trust for pharma deals, rising interest rates, and finally the re-introduction of drug pricing as a potential Infrastructure pay for added top-down uncertainty. Most of the above items, while worth mentioning, don't pose meaningful risks to the prospects for innovation. While it may take several months to resolve the uncertainty around FDA Commissioner job, FTC broadening anti-trust definition and the infrastructure bill reconciliation, the likely outcomes should be relatively benign, and we would just reiterate that innovation continues to accelerate. Valuations remain within historical norms, especially considering the historically low interest rate environment and the bolus of untapped opportunities we see globally. We believe the healthcare sector remains attractively valued, especially given the explosion in scientific innovation.

Looking forward

Primary areas of focus remain in genetic medicines, small molecule, antibody and next generation antibody therapies, rare diseases, targeted oncology, and medical technologies. We are excited by advancements we are witnessing in neurology, ophthalmology, immunology, muscular dystrophies, and cardiovascular and pulmonary diseases.

We have always emphasized the important point that exciting innovation is taking place globally. Building upon our reputation in the U.S., we aim to strengthen our presence with new offices in London and Shanghai to further expand our presence and grow roots in these two strategic geographies. We are as keen on exploring scientific programs coming out of the UK and Europe as we are for those discovered and developed in the US labs. We intend to continue to build inroads and have been actively cultivating deeper relationships in the UK. We also see emerging opportunities in China and anticipate spending more time exploring the region.

Manager's report for International Biotechnology - 26 April

M&A activity continues to be a key driver of performance for the biotechnology sector.

In September 2020, Gilead Sciences had announced that it had entered a deal to acquire Immunomedics, a leader in next-generation antibody-drug conjugate (ADC) technology committed to help transform the lives of people with hard-to-treat cancers, for a cash consideration approximately $21bn, which represented a premium of 108% to the share price.

In October 2020, Bristol Myers Squibb announced its intention to acquire MyoKardia, a clinical-stage biopharmaceutical company pioneering a precision medicine approach to discover, develop and commercialise targeted therapies for the treatment of serious cardiovascular diseases, for a cash consideration of $13.1bn, representing a 61% premium to the share price.

In December 2020, AstraZeneca announced its intention to acquire global biopharmaceutical company Alexion Pharmaceuticals for $39bn, a 45% premium on the share price. Alexion focuses on the treatment of immune-mediated rare diseases caused by uncontrolled activation of the complement system, a critical part of the immune system.

In February 2021, Jazz Pharmaceuticals announced its intention to acquire GW Pharmaceuticals, another holding of the Company, for a cash consideration of $7.2bn. This represented a 50% premium to the acquiree company's share price. GW Pharmaceuticals has established a world leading position in the development of plant-derived cannabinoid therapeutics through its proven drug discovery and development processes, intellectual property portfolio and regulatory and manufacturing expertise.

Our outlook for the biotech sector remains positive. Innovation remains strong, with a record number of drugs in development in 2020 - a trend which is expected to continue throughout 2021. With an aging global population, the fundamentals of supply and demand within the biotechnology sector remain intact.

Debt

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

Manager's report for Honeycomb - 30 April

The pipeline of new potential investments remains strong with non-bank lenders seeing opportunities to grow and take market share from traditional banks. The COVID-19 pandemic has further accelerated this structural change.

. . . .

Rupert Dorey, chairman of NB Global Monthly Income GBP - 20 April

We expect that the combination of strong fiscal and monetary support combined with the high personal saving rates and the unleashing of pent-up demand will continue to deliver improved economic growth in 2021. In this environment, non-investment grade credit is likely to continue to see favourable demand given the search for yield in a very low interest environment. Despite the progress against the virus from vaccinations, short-term volatility could be the result of new COVID-19 variants and delays in vaccine deliveries.

. . . .

Manager's report for Blackstone Loan Financing - 30 April

Bank Loan Market Overview

In 2020, global loan markets experienced the worst bout of volatility and market disruption since the 2008 financial crisis. This disruption was caused by the rapid spread of COVID-19 across the globe in the first quarter and the dramatic slowdown in economic activity resulting from related business shutdowns and travel restrictions. Central banks began to intervene on an unprecedented scale in March to ensure sufficient liquidity and orderly market functioning. At the same time, US and European governments enacted aggressive fiscal stimulus measures to help ease investors' and business owners' fundamental concerns. Both the US and European credit markets rebounded at an impressive rate in the months following March and ended the year with positive returns. US loans and European loans returned 2.78% and 2.38% in 2020, respectively.

Despite economic uncertainty and a pause on new issue loan supply in March 2020, the global credit markets quickly reopened to issuers in need of capital. Many corporations first bolstered their liquidity by drawing down revolving lines of credit and then refinanced existing debt at favourable rates given the downward shift in treasuries and the strong investor demand for corporate credit. Issuance in the US and European loan markets decreased year-over-year; gross US loan issuance totalled $96.6bn, a 20% decrease, while European loan issuance also decreased by 20% in 2020 to €65bn. We expect issuance to increase in both regions in 2021.

Global loan spreads diverged in 2020. The US loan spread narrowed by 1bp to end the year at 358bp (compared to 11bp widening in 2019), while the European loan market spread widened by 14bp in 2020 (compared to 4bp widening in 2019) to end the year at 363bp.

Global loan default rates were manageable throughout 2020. After peaking at 4.5%, the US loan LTM par-weighted default rate ended the year at 4.4%. Defaults in Europe were more muted with the LTM default rate peaking at just 1.3% for

European loans and ending the year at 1.2%. In 2021, default rate forecasts are predicted to decrease by more than half in the US to 2.0% and fall to 1.1% in Europe.

CLO Market Overview

Demand for both US and European CLOs was slower to materialise following the market downturn resulting in higher CLO liability spreads. Global issuance of CLOs fell in 2020 to $118bn (down from the $151bn in 2019). Regionally, US CLOs recorded 2020 gross issuance of $93bn, down 21% on 2019's issuance of $118bn. European CLO issuance fell in tandem with the US, recording gross issuance of €22bn which was a 26% decrease on the €30bn recorded in 2019.(18) When demand resurfaced it was for CLOs with shorter reinvestment and non-call periods. This allowed equity investors the optionality to reset liability spreads in a tighter spread environment if one materialised, and in doing so potentially boosting future CLO equity returns. By year end, US and European CLO liability spreads normalised to pre-COVID-19 levels, as the global loan market recovered and defaults slowed. CLO refinancings and resets were limited primarily to early Q1 and late Q4 when the environment was more favourable. US CLO managers completed $32bn in CLO refinancings and resets in 2020, while European CLO issuers recorded just €1bn of refinancings and resets.

US CLO fundamentals mostly deteriorated in 2020 due to difficulties experienced by the underlying companies. Year on year, minimum OC cushions fell (from 410bp to 277bp), WARF levels deteriorated (from 2862 in 2019 to 3116 in 2020), and exposure to CCC assets rose (from 3.7% in 2019 to 7.7% in 2020). Although a deterioration when compared to 2019 year end, these fundamentals improved significantly from their June 2020 levels. Weighted Average Asset Price (WAP) ended 2020 at 97.3%, broadly in-line with December 2019 levels and Weighted Average Spreads (WAS) increased by 27bp to 377bp.

European CLO fundamentals also deteriorated in 2020. OC cushions decreased from 430bp to 348bp, WARF increased from 2964 to 3261 and CCC buckets increased from 1.9% in 2019 to 6.4%. WAP recovered well to 97.9%, although remained below the 2019 level of 98.8%, while WAS decreased by 2bp to 377bp. Fundamental CLO deterioration in both the US and Europe during 2020 resulted in some CLOs in the market breaching their OC or interest diversion tests and impacting cash flows to investors.

Gross primary CLO issuance forecasts are up in both the US and Europe for 2021 as a result of favourable equity arbitrage, anchored in a tightening of the AAA spread and continued improvement in loan fundamentals. US CLO issuance is forecast to grow by 9-19% to $100-$110bn. In Europe, the 2021 CLO gross issuance is forecast to return to the 2019 levels of between €25-€30bn. Including forecasts for refinancing/reset volumes for 2021, European CLO issuance could reach a new record of between €54-€64bn.

Regulatory Update

In Europe, the European Regulation on sustainability-related disclosures in the financial services sector (SFDR) was published on 27 November 2019. With an effective date of 10 March 2021, SFDR requires certain firms, including private banks, wealth managers and advisers to comply with new rules on disclosure as regards sustainable investments and sustainability risks. Asset managers, including Blackstone Credit (BX Credit) (formerly GSO Capital Partners LP), have been working to implement procedures which will allow us to comply with the SFDR when the regulatory reporting requirements come into effect in January 2022. BX Credit continues to monitor regulatory developments with regards to SFDR, including the publication of additional Regulatory Technical Standards.

In connection with the Securitisation Regulation, widely anticipated secondary legislation setting out the prescribed form of reporting templates was published on 3 September 2020 and use of these reporting templates became mandatory to investors from 23 September 2020. BX Credit was well positioned to transition to the use of these formal reporting templates, and these reporting templates are used in respect of all in-scope CLOs.

Professor Claudio Albanese, chairman of Fair Oaks Income - 26 April

CLOs were not immune to the unprecedented market volatility experienced by all credit assets in March 2020. The economic slowdown caused by the restrictions imposed to mitigate the impact of COVID-19 led to expectations of increased loan defaults and downgrades and these impacted CLO equity and debt valuations. A high level of uncertainty as to the effectiveness of government intervention kept CLO debt and equity valuations under pressure in the period between March and May. The Company benefitted from a quick and effective risk reduction in the Master Fund, which took advantage of the early market dislocation to build a high-quality portfolio of primarily European BB-rated CLOs at attractive prices, offering more resilience and high risk-adjusted returns. Total returns for the year for the JP Morgan US High Yield index, US Leveraged loan index and Post-Crisis CLOIE B index were:

- JP Morgan US High Yield index +5.2%
- JP Morgan US Leveraged Loan index +3.2%
- JP Morgan Post-Crisis CLOIE B index +6.2%

Manager's report for Volta Finance - 8 April

Though the volatility seen over 2020 was high, it has been in some ways a positive experience for structured finance assets, especially for CLOs. Contrary to 12 years ago with the Global Financial Crisis (GFC), structured finance assets behaved "normally". When considering the CLO market, the impact on the primary CLO market was short lived. The US CLO market was closed for just three weeks (six weeks in Europe) at the end of March with trading volumes in the secondary market breaching record highs in 2020.
When considering 2021 our views are the following:

- Spreads for the most senior CLO tranches are almost back to historical lows. This should mean that the vast majority of Volta CLO Equity positions would benefit from the possibility to refinance their leverage (the overall cost of CLO debt tranches) at a lower level, allowing the fund to lock in a better arbitrage for longer
- On the asset side, default rates are already far lower than what has been feared several months ago. We expect some defaults to continue materializing (this year and next year) in relation to the COVID-19 crisis but at a pace that is manageable for CLOs. This situation may prevent loan spreads from tightening too much or too rapidly so that CLO Equity arbitrage may continue to be attractive
- When considering the rest of the portfolio, mainly bank balance sheet transactions, the COVID-19 crisis caused minor losses. We expect this portion of the portfolio to perform almost in line with original assumptions.

Hedge funds

(compare hedge funds **here**)

Manager's report for Highbridge Tactical Credit - 22 April

Generally speaking, we believe that current market conditions are favourable for hedge funds. Trading volumes and volatility remain elevated, providing ample trading opportunities.

Insurance and reinsurance

(compare Insurance and reinsurance funds here)

Manager's report for Life Settlement Assets A - 30 April

The Life Settlement Market

As with every industry, institution, and society in the world, the life risk markets are still trying to assess the impact of the COVID-19 pandemic. 2020 saw a spike in the US national mortality rate. This increase can be attributed to a variety of factors, among them COVID-19 as well as an ageing population. By far, age is the most significant single predictor of mortality for individuals with COVID-19. A study conducted by the CDC COVID-19 Response Team found the mortality risk for patients over 85 was 100 times greater than for patients between 20 and 44. Most of the life settlements population falls within this highest risk cohort (85+), suggesting the settlements population is highly vulnerable to the disease. Clearly, in addition to age, comorbidities also play a role in an individual's mortality risk to COVID-19. The comorbidities in the study included hypertension, diabetes, cardiovascular disease, chronic respiratory disease, and cancer. Of the included comorbidities, cardiovascular disease had the greatest mortality risk. There is also an obvious correlation as comorbidities tend to accumulate as one gets older.

However, the life settlement industry does not appear to have reported large increases in mortality arising from COVID-19, and possibly the opposite. It might appear surprising at first but there are several possible explanations. To start with, although the very real tragedy about lives lost and the wider impact is played out on the nightly news, the data suggests the survival rate for this disease is extremely high. Current statistics indicate survival rates may be substantially greater than 95% in the general population, and greater than 85% in the age cohorts typically involved in the life settlement market. Moreover, the socioeconomic profile of large face amount policyholders is another factor. Looking at the data, deaths from COVID-19 are mainly those nursing home residents, and more specifically people from less advantaged socioeconomic groups. Lastly and probably correlated to the socioeconomics profile, race and ethnicities seem to have been playing a key differentiating factor not so much in the infection rate but in the related outcomes in the US with hospitalisations around three times more likely and death twice as likely.

In fact, it seems possible that, despite COVID-19, mortality rates, at least in the very short term, may have gone down in the US for some segments, and particularly for the wealthiest (and insured) population.

This would be because a more prudent approach to some risks would have been taken. For instance, it is reported that the flu this year is much subdued, no doubt because of all the measures in place to tackle the pandemic. This could have been particularly significant on immunodeficient populations mortality this year. On the other hand, even though we do not yet understand all the long-term effects COVID-19 will have on the lives insureds, it is not unreasonable to assume that this pandemic, even if not reflected in this year's maturities, may have created some long-term increase in mortality risks, be it because of isolation-induced mental health risks, sequels of the infection on surviving patients, or delayed diagnosis due to an overwhelmed health system.

Renewable energy infrastructure

(compare renewables funds **here**)

Manager's report for Gresham House Energy Storage - 28 April

2020 has been an extraordinary period for electricity markets and may, in retrospect represent an inflection point for meaningful changes in favour of the battery energy storage sector. We have included this analysis to provide an overview of the current electricity market as the electricity markets and volatility in pricing is the key driver of the investment value. How this evolves over time will impact this value. During the year, the market was impacted by several key factors detailed below which demonstrate the future revenue opportunity from trading as well as the need for more batteries in the system:

1. Lower electricity demand from the initial lockdown followed by higher peak demand in the winter.

   After a brief uptick in demand at the start of March as cold weather created stronger demand, at the start of lockdown demand collapsed by up to 20% year on year. The fall in demand through to May 2020 represented a multi-decade low in electricity demand.

   Average demand each month has remained lower year on year until January 2021; however, since November 2020 we have seen year over year growth in peak demand, breaking a decade-long downtrend.

2. Increase in extreme pricing (high and low) and growing Balancing Services Use of System (BSUoS) costs.

In terms of high prices, given TRIAD payments are predictably less valuable this winter due to regulatory changes implemented over the last three years, peaking generation has been less likely to run to meet peak demand. Thus, any elevated demand combined with low renewable generation has led to an increase in occurrences of very high power prices, creating much anticipated 'upside' volatility (see chart below - note that prices above £1,000/MWh are truncated while actual prices reached up to £4,000/MWh this winter).

It has been integral to our thesis that as the gas fleet is gradually decommissioned (as it loses market share to renewables), it would not be able to step up to meet demand when renewables can't deliver enough power, resulting in more upside volatility as more expensive flexible generation is despatched to meet demand. This is finally happened in the winter of 2020/21 and is expected to spread to other times of the year in due course.

To put recent events in context, there were very few instances of system prices moving above even £200/MWh in 2018 and 2019.

The increased reliance on renewables is also having a clear impact on intraday low prices, with zero or negative prices becoming very common since late 2019 and particularly during the lockdowns in 2020. The exceptionally low demand levels seen since March resulted in regular negative pricing, also shown in the chart above. This typically happens any time National Grid need to pay to curtail subsidised renewable generation.

During this extraordinary period of low demand, National Grid needed to curtail more renewable generation than ever before as shown in the chart below.

The national bill for balancing the system during the lockdown was c.£2bn for 2020, up 34% on 2019, and shows up in electricity bills. The chart above shows the increasing cost of curtailment for wind but reflects the growing cost for curtailment of renewables more generally. As renewables' share of the generation mix grows, the amount of energy needing to be curtailed is growing, resulting in escalating costs. However, crucially, batteries offer a cost-effective balancing alternative to curtailment, validating the need for significant battery energy storage capacity on the grid.

3. Low gas prices in the summer, Combined Cycle Gas Turbine (CCGT) overcapacity and the impact on spreads.

Gas prices fell sharply in the first half of 2020. Combined with lower demand during the lockdown it resulted in peak daily power prices falling below typical levels. Therefore, despite the lower intraday low power prices the net effect was lower intraday volatility reducing potential trading revenues in the short term.

We have since seen both higher demand and a return of gas prices to levels seen prior to 2020.

Outlook

Reinforcing our positive view on the prospects for the battery energy storage sector is National Grid's clear effort in three areas to greater and/or better use of batteries.

At the core of these efforts is the recognition that batteries emit no CO2 at the point of use while also being a more cost-effective source of flexible generation than any other alternative.

First is National Grid's increasing demand for frequency response. In December 2020, they announced increased procurement of Dynamic Containment from January 2021, growing to up to 1.4GW by May 2021 versus 500MW in December 2020. Further, since 27 January 2021, assets have been permitted to trade in a limited way while delivering a Dynamic Containment service, thus allowing sites to earn additional income.

Second is the use of batteries for 'Reserve' services. There was a four-week trial in September 2020 involving Bloxwich, Red Scar, Roundponds and Thurcroft for varying lengths of time which followed two smaller trials earlier in the year. The trials used batteries for 'Reserve' in the same way that gas turbines are used to balance the market, for which they receive payments. Unlike gas turbines batteries do not need to be exporting power in order to provide flexibility as they can import, which therefore reduces curtailment of renewables. This trial showed batteries to be financially and environmentally attractive to National Grid. If this turns into a permanent service, it is likely to lead to a significant revenue opportunity.

The third initiative is to drive better use of batteries in the Balancing Mechanism. A challenge for National Grid has been too few batteries meaning that, even using all batteries together, it has still required larger alternative sources, resulting in batteries being side-lined. Recognising this issue, National Grid have taken the decision to operate batteries even if they lead to over procurement in the Balancing Mechanism, taking the view that doing this will lead to a lower cost system over time, as batteries are fundamentally more competitive.

We are optimistic that, combined with the above, the increasing presence of renewable energy generation on the system will lead to significant and more frequent higher intraday power pricing.

Manager's report for Aquila European Renewables Income - 20 April

Market Prices

2020 was a difficult year for the European power sector, which suffered from a reduction in economic output and oil prices which had significant implications for electricity prices, including the markets in which our assets are located. As shown in the graph below, average daily power prices reached record lows in Q2 2020. Mild winter and excessive hydrology in the Nordics depressed Nordpool prices further for an extended period throughout the year. As we observed later in 2020, market prices for electricity began to show signs of varying levels of improvement, which we expect to continue as economies begin to re-emerge from the crisis, further supported by positive vaccine developments.

This observation is also reflected in the price forecasts sourced from our independent market analysts.

The recovery in power prices towards the end of the year was influenced by a number of factors, including:

- Persistent cold weather in Europe
- European Commission approval of a new 2030 greenhouse gas reduction target of 55%
- Continued recovery in commodity prices (gas, coal and oil) as a result of higher demand and supply side limitations

2020 Average Daily Power Price - AERIFs Electricity Markets

Whilst crises such as these are rare and unpredictable, the resilient performance of the portfolio during the year demonstrated the efficacy of the Company's investment philosophy, which is focused on diversification by technology and geography, supported by a high degree of contracted revenues.

The crisis caused by the COVID-19 pandemic, especially the resulting restrictions, sets new standards in terms of negative economic ramifications. Nevertheless, it can be observed that the current situation is not only presenting our society with new challenges but is also acting as a catalyst to accelerate already existing trends. Already at the beginning of the crisis, calls under the leadership of the Green Recovery Alliance to focus economic and financial stimulus efforts on the establishment of new green standards became increasingly clear.

EU Stimulus Package

In response to the crisis, the EU put together an economic stimulus package that was historic in its scale, with a financial envelope of over EUR 1.8 trillion. The financial framework envisaged by the EU consists of the long-term budget for the period 2021-2027 (EUR 1,074bn) and the Next Generation EU programme (EUR 750bn). 30% of the financial framework is to be invested exclusively in green projects, while 70% is subject to do-no-harm regulation. In addition, the 2030 emissions targets were raised to a new level. The emission reduction target was increased to 55% and the target for the share of renewable electricity production was raised to 65%.

EU raised 2030 targets for renewable generation48

According to a study by Bloomberg New Energy Finance, the goal of increasing the share of renewable electricity generation to 65% alone requires investments in renewable generation capacities amounting to EUR 350bn per year until 2030. Such an estimate suggests the allocation from the Next Generation EU programme covers one year's worth of investment needs. Success is thus largely dependent on the activation of private capital. While the demand for sustainable alternative investments continues to rise, it is up to governments ensuring stable framework conditions in order to maintain or increase the resilience and attractiveness of investment in the sector.

Renewable energies are the cornerstone of the energy transition. Solar PV and wind power are already the cheapest sources of new energy generation and thus highly competitive. In order to steadily increase private investment in the future, stable and predictable cash flows are critical. However, the fluctuating generation of renewable energies, which is dependent on weather conditions, continues to lead to high volatility in electricity prices, which will tend to increase as the share of renewable production rises. It is therefore advisable, as experience from previous crises shows, to maintain and expand existing and functioning subsidy schemes. The announcement of a 15 GW tender for renewable energies by the EU gives reason to expect stable and reliable framework conditions in this context. Opportunities will arise especially in Southern Europe, which was hit particularly hard by the COVID-19 pandemic. Supported by the planned allocation mechanisms, these countries will benefit above average from the EU budget. Based on the particularly positive effects on the labour markets, the expansion of renewable energies could offer a sustainable way out of the economic crisis.

The still less established renewable markets, such as Poland, the Czech Republic and Romania, among others, all have less than a fifth of total power sector capacity accounted for by renewables. Here, access to capital would significantly improve the conditions and thus accelerate the expansion. Opportunities arise in this area through EU backed co-financing, guarantees, loans from development banks and the issuance of green bonds.

In the long term, however, renewable energies will benefit in particular from investments in other areas of the energy system with the aim of smoothing volatile production profiles. The planned grid expansion will reduce bottlenecks and increase connectivity between countries. This will create opportunities to smooth out seasonal fluctuations. Planned investments in storage capacities, such as the announced European hydrogen strategy and the expansion of electromobility, are the basis for a long-term transformation of our energy system. Digital and smart applications also contribute to making demand more flexible and thus form the cornerstone for the further integration of renewable energies. In addition, the expansion of emissions trading and increasing sector coupling directly increases the demand for renewable energy and opens up further growth potential in the market for private power purchase agreements, which is clearly gaining in importance.

The crisis can thus mark a turning point, in the valley of which a holistic approach and the associated financial framework will create stable and reliable framework conditions for private investors and at the same time reduce the long-term need for subsidies.

Power Purchase Agreements

As shown in the figures below, a sophisticated approach to PPAs enables generators to optimise their risk-return profiles through stable cash flows and access to potential upside:

- The common PPA structures (e.g. tenor, fixed price vs floating price) in each market are largely dependent on liquidity of the forward market and the type of renewable subsidy available

- Fixed price PPAs provide a strong base of stability and are often considered a risk management instrument for all parties involved

- PPAs with stricter delivery obligations tend to be balanced with a more attractive remuneration for the generator
- The appetite for merchant exposure is often the deciding factor when considering an optimal structure for PPAs
- Views on market risk and outlook are therefore the key drivers of the approach adopted to power purchase, given the trade-off between security and a potential upside

PPA Risk Profile

The continuing decline in levelized costs of energy (LCOE) for wind and solar PV energy is increasingly finding its way into the markets. The resulting high competitiveness is reflected in the decreasing need for subsidies in Europe. While subsidies paved the way for renewable energies, auctions are increasingly being recorded that completely dispense state support. In particular, solar PV systems in combination with ideal weather conditions in Southern Europe show LCOEs significantly below the electricity price level.

European average auction price (USD/MWh)

The private markets, on the other hand, are gaining in importance. Private PPAs showed enormous growth in 2020 despite the tense economic situation. Compared to 2019, the contractually fixed capacity between companies and electricity producers increased by more than 170%. The sharp increase in 2020 was significantly influenced by solar PV contracts - which exceeded the capacities of onshore wind plants for the first time - on the Iberian Peninsula.

European PPA capacity (MW; by estimated signing year, broken down by technology)

The adaptation of private markets in this context is not primarily due to a change in environmental awareness, but rather provides obvious proof of the economic advantages of renewable energy. Investors and operators of renewable generation sources benefit from a reduction in regulatory risks and stable cash flows in the long term. In addition, there are positive influences on bankability and thus on the cost of debt capital, which in turn supports the further expansion of renewable energies.

Environmental

(compare environmental **here**)

Manager’s report for Impax Environmental - 7 April

Net-zero policies underpin renewables and energy efficiency

The COVID-19 crisis has acted as a powerful catalyst for global policy on carbon emissions reduction, as governments attempt to address climate change risks which, like COVID-19, could derail global economic growth. The Energy & Climate Intelligence Unit calculates that around two thirds of global GDP (measured in purchasing power parity) is now covered by net-zero commitments. In addition, the International Energy Agency (IEA) forecasts that a trajectory to a 2050 net-zero scenario would imply a 17% fall in primary energy demand between 2019 and 2030 in a global economy that is twice as large, and an increase in the renewables share of global electricity supply from 27% in 2019 to 60% in 2030. The growth implications for companies in the Renewable Energy and Energy Efficiency subsectors are material and have been rapidly priced into market expectations.

Renewable Energy represents a core exposure within the fund. This environmental sector, which comprises a number of sub-sectors, delivered more than 100% performance during the Period for the FTSE ET100. The performance of the sector, we believe, factors in a significant proportion of growth prospects.

We maintain a preference for this theme (energy efficiency), which offers the lowest-cost route to carbon emissions reductions, without subsidies, and at cheaper valuations in aggregate than in renewables. The outlook is positive for Power Network Efficiency holdings, which will play a role in facilitating integration of higher levels of renewables into the energy mix. We also see attractive growth prospects for heat-pumps, given penetration of only 3% in the EU and 1% in the US and with efforts by governments to phase out fossil fuel-based boilers.

Prospects for electric vehicles and the hydrogen economy

The Period has seen strong performance both in well-proven but currently expensive technologies, such as electric vehicles (EVs), and in more speculative areas such as hydrogen.

Demand for EVs is growing strongly among climate-concerned consumers, while regulatory interventions - such as the UK bringing forward the date of its ban on new internal combustion engine cars from 2040 to 2030 - promise to underpin growth: Deloitte forecasts EVs capturing roughly a third of new car sales globally by 2030.

This has driven strong investor demand for exposure to the theme, especially for manufacturers.

Hydrogen, meanwhile, is generating growing excitement about its potential contribution to net-zero targets, especially for parts of the global economy that are hard to de-carbonise, including heating, industrial processes and heavy-duty transport. Germany has a €9bn hydrogen strategy, while France has pledged €7bn in funding. Industrial giants, oil and gas companies and renewable energy pioneers are making increasingly large bets on the emergence of the hydrogen economy.

Our position, however, is that we see a limited transportation market beyond perhaps heavy-duty trucks and certain Asian markets, while the falling cost of renewables and storage likely limits opportunities in power generation. This leaves the de-carbonisation of carbon-intensive industries such as steel and cement as the key opportunity.

Software and digitisation driving resource efficiency

The COVID-19 pandemic and resulting shutdowns have acted as accelerants to the adoption of technology and digital infrastructure, as economic activity has migrated online. Across many areas of the economy, digital technology has moved beyond proof of concept, ensuring that it is firmly established as a cornerstone of a functional modern economy. The transition to a more digital economy has positive sustainability consequences, promising lower transport pollution and greater flexibility around working practices, among other things.

The industrial world has been a key beneficiary of digitisation and the Internet of Things (IoT). The use of cloud-based software has enabled flexibility in product design for engineers working from home whilst, on the factory floor, connected equipment that can be operated and monitored remotely has increased flexibility in manufacturing. In addition, applications such as augmented reality helped enhance the collaboration across an increasingly connected workforce. These trends have created a positive backdrop for companies offering industrial software, which benefit from structural growth drivers and a resilient demand environment. The total addressable market for industrial IoT solutions today is estimated to be close to $3bn and is expected to double over the next three years. Similarly, the market opportunity for computer-aided engineering software is close to $7bn today and could more than triple over the next decade.

Opportunities from protecting biodiversity and promoting societal diversity

COVID-19 and the response to the pandemic have exposed profound vulnerabilities in human society and fragilities in our relationship with nature. Resulting structural changes are likely to lead to long-term effects on business models, elevating both risks and opportunities across varied time horizons.

Two structural changes are worthy of note: an increased focus on protecting biodiversity; and efforts to address persistent inequalities of race, gender and education.

The pandemic has also highlighted the importance of promoting societal diversity. The Manager is increasing engagement with investee companies to encourage them to develop broader talent pools and reduce operational and reputational risk through supply chains.

We believe that the investment hypothesis underlying environmental markets has never been stronger. Despite the profound immediate social and economic disruption caused by COVID-19, the pandemic is likely to prove a longer-term spur to address the range of sustainability challenges that we face. Rather than undermining climate action, it has helped to catalyse a concerted global effort to address climate change and drive towards net-zero economies, which bodes well for long-term growth prospects.

However, we believe global equity markets are materially pricing in successful vaccine rollouts around the world and a rapid economic recovery. This carries downside risk and we could see considerable volatility from any bumps in the road.

The combination of buoyant equity markets and investor enthusiasm for the sustainability theme is increasing valuations within IEM's investable universe.

Commodities & natural resources

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

Manager's report for of Baker Steel Resources - 23 April

During the year, the mining market continued the recovery which commenced in 2019 albeit with much greater volatility as a result of the COVID-19 pandemic, with the EMIX Global Mining Index ending the year up 22.2% in Sterling terms, despite being down at one point by around 30% in March 2020. The gains were initially led by precious metals with gold up 25% and silver up 48% in US Dollars but in the second half were followed iron ore up 74%, copper up 26%, tin up 20% and lead up 3% for the year (all in US dollars). The weakest performing commodity in which the Company is invested was coking coal which was down 31% due to an unofficial embargo on coal imports from Australia by China, although the price has recovered somewhat so far in 2021.

We are cautiously optimistic on the outlook for mining and metals with some commentators suggesting the start of a new "supercycle" for commodities though we expect markets to remain volatile as the world continues to react to the implications of the COVID-19 pandemic.

Property

(compare UK property funds **here**)

Jason Baggaley, manager of Standard Life Investments Property Income

2021 is expected to be a year of two halves. The national lockdown and restrictions on travel along with the impact of the final Brexit deal will have a negative impact on the economy and real estate market in the first half of the year. However, the second half is expected to be significantly different as the economy reopens with strong growth albeit from a low base. The economic shocks from COVID-19, as well as the aftereffects of Brexit are going to create a challenging macroeconomic environment and after the strong bounce back, we are likely to be in a new period of low growth and low interest rates.

The low interest rate environment is likely to support continued demand for real estate as an income producing real asset. The weight of money available to invest in real estate is going to be supportive of values, however we expect a strong differential in performance both across sectors, and within sectors.

The theme of industrial performing well and retail poorly is expected to continue but become more nuanced. Shopping centres and fashion-led retail is likely to continue to see falling capital and rental values, whilst food and budget retail should hold up well. Logistics remains a strong sub-sector with continued demand pushing rents and values up, but we suggest greater caution is required around smaller multi-let units generally rented to poorer covenants more likely to struggle in a weaker economic environment. The office market is in a period of change and is likely to see rental value falls and reduced demand: however, it is a sector that is likely also to see the best properties do better and the weaker ones worse as users and buyers become more selective.

Income will be the main driver of returns over the next few years. Long let secure income is trading at ever lower yields, and those seeking a greater yield are going to have to take an active approach of investing in assets with shorter leases but more sustainable income through diversification and good quality assets that meet occupier needs.

Peter Lowe, manager of BMO Real Estate Investments

The property market was buoyed by encouraging news on the vaccine rollout and a timetable to the reopening of parts of the economy that have remained closed for much of the pandemic. Performance was largely driven by a strong showing from the industrial and distribution sector where occupational fundamentals remain attractive and investment demand has driven sharp yield compression. There was some improved stability in retail markets, particularly retail warehousing, although shopping centres and high street yields continued to soften. Sentiment has improved over the period, however investors outside of the industrial and foodstore markets remain cautious and transaction levels are subdued by historic standards.

Ken McCullagh, chairman of UK Commercial Property REIT

As the vaccine rollout continues, and in the expectation restrictions are gradually eased, then the key question is how fast and to what extent the economy can rebound from the seismic impact of the pandemic which resulted in a 9.9% fall in UK GDP in 2020. Another factor that may impact the strength of the economy is the Brexit trade deal between the UK and Europe and whether this will result in significant disruption between the two trading blocs. Our investment manager is forecasting 6.2% GDP growth in 2021, on the basis there are no further setbacks.

It remains to be seen whether valuations of UK commercial real estate, which were already under pressure pre COVID-19, will recover to the same extent as the wider UK economy with valuation movements and hence total returns likely to be polarised between the sectors and within sectors. COVID-19 accelerated the structural retail trend away from the high street and shopping centres to online retail and while this trend may flatten out, or indeed partially recede, as people are allowed back to the shops, it is unlikely to completely reverse. There is much speculation over the future of the office sector as businesses adjust to hybrid working practices. However, there is no doubt that some offices will act more as collaboration hubs, reducing the requirement for office space, and that there will be an even more distinct polarisation between well located prime modern offices that fulfil the modern occupiers' exacting requirements and older, more secondary stock which will fall out of favour. Leisure should recover to an extent but this will be very much linked to the easing of lockdown and the public being both able and confident enough to visit places like cinemas and restaurants.

Richard Kirby and Matthew Howard, managers of BMO Commercial Property

As the vaccination rollout becomes more widespread and restrictions are finally eased or lifted, we will see greater certainty returning to the market, lifting confidence and valuations alike. Brexit has been somewhat overshadowed by the pandemic but, now triggered, it is causing some disruption which may be more than frictional. As an asset class, real estate will continue to be supported by a low interest rates environment, providing it with a yield advantage over most other domestic and overseas asset classes.

While the adjustment in retail may have further to go, it is important to distinguish between pandemic-related change and permanent structural change. The company’s portfolio of retail assets is of high quality, with significant potential for further development as we re-position them to grocery and convenience led retail propositions. The office sector outlook is heavily dependent on the balance struck between home-working and the need for office-based collaborative working and social interaction. The way offices are used will change to a more agile model and to have more collaborative space. There has been much commentary over future demand for offices, but we are now seeing many companies restating the future need of offices to support the wellbeing of staff. The polarisation seen between prime and secondary office stock is likely to become more pronounced. The need for flexibility either in the lease structure, whether manifested as shorter lease lengths or turnover rents, or indeed as re-purposing, is expected to persist. Most importantly, is to acknowledge the variation in performance at the asset as well as sector level. Stock selection and a forensic attention to detail in asset management will be key to delivering performance.

Tony Roper, chairman of Aberdeen Standard European Logistics Income

The level of activity seen in the logistics market in 2020 provided the latest endorsement of our strategy when launched in 2017. 2020 was a record year of occupier demand; according to Savills, European logistics take-up reached 26 million sqm during 2020, up 12% on the level observed during 2019 and 19% above the five-year average.

Logistics remains one of the most favoured real estate sectors for investors. The logistics industry has been a standout performer benefitting from the unprecedented disruption caused by systemic changes to the way global economies function. Logistics assets have benefited from additional occupier demand arising from necessary supply chain restructuring and the rapid increase in demand for home deliveries.

Clients demand frequency and increasing complexity whilst the nature of e-commerce, where Europe lagged the UK, has required operators to adapt faster to future shifts in consumption, particularly so since the start of the pandemic. E-commerce and the move to online shopping and delivery continues unabated. As Europe's economy starts to open up once again and the mass vaccination programmes allow for a return to some sort of 'normal', I am confident the fundamentals underpinning investment in logistics real estate should continue to drive further rental and capital growth which will translate into attractive returns for shareholders.

QuotedData

BY MARTEN & CO

IMPORTANT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

www.QuotedData.com

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

Edward Marten (em@martenandco.com)

David McFadyen (dm@martenandco.com)

Alistair Harkness (ah@martenandco.com)

Colin Edge (ce@martenandco.com)

INVESTMENT COMPANY RESEARCH:

Matthew Read (mr@martenandco.com)

James Carthew (jc@martenandco.com)

Shonil Chande (sc@martenandco.com)

Richard Williams (rw@martenandco.com)