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INVESTOR

Economic & Political Roundup

Monthly roundup | Investment companies | July 2021

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

Roundup

The US was the best performing region for the month, with the MSCI USA index up by 5.6%, more than twice the return for Asia and Emerging Markets and well ahead of the UK, which remained flat. Markets are feeling optimistic as vaccination programmes seem to be in full swing, particularly in developed markets, but a dark cloud threatening higher inflation is looming ever closer.

Global

Inflation on its way whether we like it or not?

Alasdair McKinnon, manager of Scottish Investment Trust thinks a significant rise in inflation is on the cards, even though central banks are playing the prospect down.

BMO Global Smaller Companies chair, Anja Balfour, is pleased to see confidence returning to smaller stocks, which have been the best performers in most markets. US small cap equities bounced back quicker than Europe, the UK and Japan thanks to a less stringent approach to lockdowns and the much larger extent of stimulus.

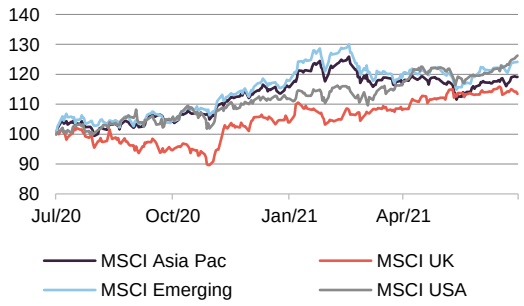
Spencer Adair and Malcolm MacColl, co-managers of Monks think the post-pandemic phase will accelerate trends and areas not yet touched by technology such as healthcare, education, real estate and energy.

Exchange rate	30/06/21	Change on month %
GBP / USD	1.3831	-2.7
USD / EUR	0.8434	3.1
USD / JPY	111.11	1.4
USD / CHF	0.9250	2.9
USD / CNY	6.4571	1.4

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/07/2020 to 30/06/2021



Source: Bloomberg, Marten & Co

Indicator	30/06/21	Change on month %
Oil (Brent)	75.13	8.4
Gold	1770.11	-7.2
US Tsy 10 yr yield	1.468	-7.9
UK Gilt 10 yr yield	0.716	-9.9
Bund 10 yr yield	-0.209	11.2

Source: Bloomberg, Marten & Co

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June's highlights

Global (continued)

Global funds, including Edinburgh Worldwide, are becoming increasingly concerned about rising inflation

Nick Train, manager of Lindsell Train reflects on the strengthening of global equity markets, driven by the bull market in technology and the big post-pandemic recovery in cyclical and economically sensitive industry sectors.

Edinburgh Worldwide chair, Henry Strutt, notes inflationary pressures are already evident in some 'dislocated supply chains' and there are more to come as the world continues to recover from the pandemic.

UK

James Henderson and Laura Foll, co-managers of Henderson Opportunities, also highlight concerns regarding inflation, but also economic contraction and deflation. They say parts of the UK economy will remain subdued, while in other areas there will be strong growth.

Chelverton UK Dividend manager, David Horner, believes optimism is now 'the order of the day' as the vaccine programmes continue. However he notes companies have been very cautious in their return to guidance, largely keeping enough powder dry to weather any re-opening delays.

Despite optimism around the UK's successful vaccination programme, uncertainty remains surrounding the new Covid-19 variants

Chair of BlackRock Income and Growth, Graeme Proudfoot, says there is still uncertainty afoot as several new variants of the COVID-19 virus have been detected in the UK whilst recent months have also witnessed an upturn in inflation as prices of fuel, energy and commodities have all risen. Against this backdrop however, and with a successful vaccination programme he believes the outlook for the UK appears to be bright.

Schroder UK Mid Cap managers, Andrew Bough and Jean Roche, are increasingly optimistic on the outlook for the UK economy and many of the domestically-focused mid cap companies exposed to it.

River and Mercantile's manager, George Ensor, says the steepening of the US yield curve, low short-term rates - which are punishing savers - and accelerating global growth, which has pushed the US ten-year yield higher, has clear consequences for equity investors with shorter-duration assets.

Technology enabled businesses continue to boom

Helen Sinclair, chair of Gresham House Strategic, notes that it is clear that in the future "tech-enabled" businesses whether in consumer, financial services, fulfilment or media will be positioned for success. In the booming markets that these companies are enjoying, she says their share prices have become elevated at the expense of less technologically glamourous firms.

Charles Montanaro, manager of Montanaro UK Smaller, reflects on this time last year, when many thought we would be back in the office by the end of the summer. He says now, with the arrival of the vaccines, a resumption of more "normal life" looks eminently possible - a return to the office and hopefully a summer holiday too.

Baillie Gifford UK Growth's chair, Carolan Dobson, says Brexit appears to have had little discernible economic impact, albeit the matter is clouded by the impact of the

pandemic. However, companies face the ongoing challenge of adapting to what is a very difficult and different trading landscape compared to that faced in early 2020.

Inflation and uncertainty over the long-term outlook for the UK remain a concern

Gary Channon, CIO of Phoenix Asset Management, which manages Aurora, highlights the complexity and unfamiliarity of the past year. There were plenty of cheap looking stocks around in the second quarter of 2020 but it takes a detailed level of knowledge and expertise to be able to model what will happen to a business if the pandemic drags on and vaccines don't work.

Robert Talbut, chair of Shires Income, says that while there may be increasing excitement currently regarding the UK's shorter-term economic prospects, there remains uncertainty regarding the longer-term growth and inflation outlook.

Global emerging markets

Dr Myma Belo-Osagie, chair of Africa Opportunity, says African countries have suffered more compared to other emerging market countries, as a result of the pandemic. The actual number of African victims of COVID-19 will never be known but what is certain is that, unlike other economies, a majority of Sub-Saharan Africa's economies grew anaemically in 2020.

Biden's election is expected to make relationships between the US and other countries more favourable

Jupiter Emerging & Frontier Income chair, John Scott, says the election of President Biden also signals a more nuanced approach to international diplomacy which is likely to simplify life for many countries.

The managers of Aberdeen Emerging Markets say that the defining feature of the past six months was the return differential between Chinese equities and the rest of emerging markets, with the former underperforming the latter.

John Rennocks, chair of Utilico Emerging Markets, says the world is largely over-leveraged and under-employed. Numerous and substantial social issues are still evident, including nationalism, climate change and wealth inequality. However, communities have pulled together, and the human spirit has risen above this upheaval.

Templeton Emerging Markets manager, Chetan Sehgal, says although inflation has picked up from low levels last year amid recovering economic activity, firmer commodity prices and near-term supply chain bottlenecks, he believes that considerable slack remains in many economies, especially on the labour front.

The pandemic recovery across emerging markets will not be uniform

Sam Vecht and Emily Fletcher, managers of BlackRock Frontiers, think emerging markets will overcome COVID-19 in the second half of 2021. However, as new variants sweep through the emerging world at different paces, the recovery will not be uniform and tracking single country progress is paramount.

Renewable energy infrastructure

The investment team at SDCL Energy Efficiency Income say the costs, inefficiencies and risks of energy systems reliant on centralised generation and the grid continue to be exposed, with the 2021 outages in Texas, USA caused by severe winter storms highlighting the need for greater resilience in the energy system.

Kevin Lyon, chair of NextEnergy Solar, says that the near-term power price recovery during the second half of the financial year and beyond has underlined the resilience of the renewable energy sector in the current uncertain environment.

Government plans for a more environmentally friendly and energy efficient economy are welcome

JLEN Environmental Assets chair, Richard Morse, notes that the outlook is favourable for companies involved in environmental infrastructure, as governments look to 'build back better' following pandemic-induced uncertainty.

Jonathan Parr, partner and head of energy at Triple Point Energy Efficiency Infrastructure, says the UK's target of reducing emissions by 78% by 2035 continues to build on the country's commitment to net zero, is ambitious but is necessary and achievable.

Other

We have also included comments on **North America** from BlackRock North American Income and Gabelli Value Plus+; **Japan** from CC Japan Income & Growth, JPMorgan Japan Small Cap Growth & Income and Aberdeen Japan; **Europe** from Montanaro European Smaller Companies, JPMorgan European Discovery and JPMorgan European; **India** from Aberdeen New India and JPMorgan Indian; **Russia** from JPMorgan Russian; **flexible investment** from Seneca Global Income & Growth, Aberdeen Diversified Income and Growth and Personal Assets; **growth capital** from Chrysalis Investments; **private equity** from Standard Life Private Equity; **infrastructure** from GCP Infrastructure; **biotech and healthcare** from Syncona and property from Civitas Social Housing, AEW UK REIT, Custodian RET, Schroder REIT, Urban Logistics REIT, NewRiver REIT and Stenprop.

Global

(compare global funds here)

Alasdair McKinnon, manager of Scottish Investment Trust - 21 June

Since the financial crisis of 2008/9 we have been in a prolonged period of very low interest rates, apparent low inflation and a seeming decline in real living standards for the majority. Meanwhile investment markets have been awash with liquidity provided through quantitative easing (a technical term for printing money) which has not, until very recently, trickled into the 'real' economy.

Covid was a terrible shock to the world but, from an economic point of view, it ushered in a new approach to fiscal and monetary policy. In essence, the concept of a universal basic income has been established and it is now accepted that the State does not have to commit to 'balance the books' on a through-the-cycle basis.

In the developed world, consumers were better protected during the pandemic than in any downturn in living memory. The build-up of household liquidity and the lack of opportunity to spend it means that the release of pent-up demand will be a powerful force. Additionally, the rapid roll-out of Covid vaccines provides investors with a credible roadmap for the normalisation of activity, albeit the last year has shown that even the best laid plans can be derailed.

We expect very loose fiscal and monetary policy combined with a resurgence in demand and constrained supply to lead to rising prices. Central banks are playing down the prospect of inflation as 'transitory'. But, to coin a phrase, 'they would say that, wouldn't they'. Inflation is a tax which will be used to pay for the current stimulatory measures and erode the value of the vast debt piles accumulated before and during the pandemic.

We have arguably shifted to an era of higher 'top line' growth for companies but fuelled, at least in part, by higher prices rather than greater activity. We could be set for the type of inflation not seen since the 1970s and the challenge will be to maintain the purchasing power of any investment.

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Anja Balfour, chair of BMO Global Smaller Companies - 21 June

Over the year, smaller stocks were the best performers in most markets and it is heartening to see that confidence in smaller companies returned so rapidly after such a severe economic shock.

While the pandemic and its economic effects were the prime focus during the year, political developments were important too, most critically in the US. The ending of the Trump presidency was a far from smooth process but the initial stock market response to the Democrats assuming control of both legislative houses was positive on the basis that an already highly stimulatory fiscal approach was likely to be augmented.

US small cap equities delivered excellent returns in the year as the local economy bounced back quicker than Europe, the UK and Japan. A less stringent approach to lockdowns in some parts of the country plus the much larger extent of stimulus in the US were contributing factors towards the speedier rebound, as was an efficient rollout of vaccinations.

As regards the UK, a post Brexit trade deal with the EU was finally concluded last December, leading to a revival of interest in the domestic market and lifting sterling against other currencies. There have been a number of takeover approaches for UK listed companies from overseas in recent months, contributing to a better relative performance from the UK smaller company sector, again also helped by the success of the vaccination programme.

European economic performance was mixed, depending in part on the scale and effectiveness of the local fiscal support. The EU responded to the pandemic by loosening its own fiscal rules and eventually agreement was reached to set up a €750bn European recovery fund. While this was a positive move, the extent and pace of stimulus in Europe so far has been more modest in scale than that of the US or indeed the UK. Despite this, European small cap stocks enjoyed a strong year, with growth stocks doing particularly well.

Asian countries felt varying levels of impact from the pandemic, with North Asia, including China, generally managing to control the level of infection much better than others, such as India or Indonesia. China's economy recovered particularly well, while technology orientated stock markets like Korea and Taiwan also benefited as the pandemic lifted demand for IT equipment. Japanese small caps had a relatively disappointing year in comparison with other markets, though they had performed better in the previous year.

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Spencer Adair and Malcolm MacColl, co-managers of Monks - 18 June

We look forward not backwards, we expect change not stasis. It is understandable that many are alighting on the post-pandemic phase as a turning point for stock markets but we think it more likely that it accelerates the trends…[and] new areas that technology has not yet touched - healthcare, education, real estate and energy.

Whilst these trends may endure for a decade or more, we remain pragmatic and opportunistic on growth companies that might prosper as cycles change. Above all, optimism is built into our DNA and we look forward to seeking the changes that can provide further profitable investments.

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Nick Train, manager of Lindsell Train - 17 June

Since mid-2020 global equity markets have risen strongly, driven by two dominant trends. First, the bull market in Technology has continued, with investors willing to pay ever higher prices and increasingly willing to back new and sometimes untested companies. Second, as the world emerges from the pandemic there has been a big recovery in the cyclical and economically sensitive industry sectors that were so hard hit during the first half of 2020.

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Henry Strutt, chair of Edinburgh Worldwide - 3 June

Pockets of inflationary pressure are already evident in some dislocated supply chains and the significant monetary stimulus that was a necessity during the pandemic raises the prospect of broader inflationary forces being unleashed during a recovery.

Recently, such fears have appeared to spook global markets resulting in a pronounced equity market sell-off alongside a rise in volatility. Our sense is that investors are second guessing how the various Central Banks might be forced to

act through potentially raising interest rates from their exceptionally low levels. This would be of most relevance to companies with interest sensitivity in either their operational or financial characteristics, but it also has a broader impact on discount rates used to value future cashflows generated by businesses. We are not economics forecasters and feel we have little of merit to say on the dynamics that will shape this debate. That said, with US treasury yields at broadly similar levels to where they were prior to the pandemic, we wonder if anything especially fundamental has occurred. Also, were inflation to tick up, we question whether interest rates would be an effective control tool in such an atypical recovery scenario.

Aggressive swings in market sentiment like that which we have seen in recent months are part of the unpredictable fabric of modern equity investing. As long-term investors we are accustomed to navigating them and generally find them to be more of a source of opportunity than angst. Against this backdrop there have been two notable, yet somewhat distracting, themes in equity markets over the past year. First, a very active capital-raising environment typified by highly oversubscribed IPOs and Special Purpose Acquisition Companies (SPACs). Second, some well-documented examples of exaggerated retail investor involvement, most notably in heavily shorted stocks and cryptocurrencies. Hot IPOs and short-term speculative trading had become the core narrative of many and was perhaps indicative of some assets being ill-perceived as a one-way bet. A market shake-out that removes some of this froth and fear-of-missing-out behaviour from its edges is likely a good development, even if it can feel rather abrupt and indiscriminatory as it plays out.

Short term cycles of exaggerated investor behaviour tend to come and go, but company fundamentals prevail over the longer term. The long duration cycles of innovation and technological advancement to which the portfolio is aligned remain very robust and we remain hugely excited about how the portfolio will develop over the coming years and decades.

UK

(compare UK funds **here**)

James Henderson and Laura Foll, co-managers of Henderson Opportunities - 30 June

The concerns about economic contraction and deflation have recently made way for concerns about limited supply and inflation. Both these contrasting views have elements of truth. Parts of the UK economy will remain subdued, while in other areas there will be strong growth. Some industries will continue to face large scale disruption, while in other areas large new companies will emerge. Some of the largest companies that are major constituents of the index today will decline to be replaced by a new generation of companies. The speed of this change is more rapid than in the past. It provides the active manager who is unconstrained with a significant opportunity to substantially add value over an index-orientated approach to portfolio management.

David Horner, manager of Chelverton UK Dividend - 24 June

The announcement of multiple successful vaccine trials in November brought about a substantial swing in sentiment, with optimism now the order of the day. The market

largely shrugged off new waves of the pandemic and additional lockdowns, with the focus now firmly on the post pandemic recovery and the expected wave of consumerism, funded by savings built up during the pandemic. Importantly, companies have been very cautious in their return to guidance, largely keeping enough powder dry to weather any re- opening delays.

During this time the much-anticipated free trade agreement with the EU was also agreed and signed. The impact on our companies was relatively benign given the extensive preparations which had been taken previously for a 'no-deal' scenario, however it removed a significant element of medium-term uncertainty and perceived risk.

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Graeme Proudfoot, chair of BlackRock Income and Growth - 23 June

The several new variants of the COVID-19 virus which have been detected in the UK in recent months have contributed to uncertainty about the pace of reopening of our economy whilst recent months have also witnessed an upturn in inflation as prices of fuel, energy and commodities have all risen. The UK's exit from the EU and the operation of the trade and services agreement now in force have yet to see early teething problems ironed out, and amongst the other effects of the pandemic there are signs that certain supply chains may have been temporarily or even permanently altered with potentially far-reaching consequences. Many companies are responding to this disruption and improving resilience in their supply chains through collaboration and technology.

That said, there are also reasons for optimism as an investor in the UK. As COVID-19 restrictions have eased, we have seen a surge in activity across many sectors and industries. The latest data on economic activity, productivity and employment are promising and consumer confidence is returning, demonstrated by a spike in retail spending which has risen sharply in recent months, providing a much-needed boost to the UK economy. Fiscal and monetary policy remain supportive and the Bank of England has forecast that growth for 2021 will exceed 7%. This would represent the strongest expansion in over 70 years, albeit partly based on lockdown restrictions being lifted and remaining so. As we move into a more stable and benign environment, and in light of what has been a very successful vaccination programme, in the UK at least, the near-term outlook appears to be bright. Against this backdrop your portfolio managers remain optimistic.

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Andrew Brough and Jean Roche, co-managers of Schroder UK Mid Cap - 22 June

We're increasingly optimistic on the outlook for the UK economy and many of the domestically-focused mid cap companies exposed to it. The building congestion on our roads is clear, everyday evidence of an economic recovery. Official statistics are also highly supportive of this view - higher than expected employment, lower than expected unemployment, very strong retail sales data and rising house prices to name a handful. The Bank of England is now forecasting GDP growth of 7.25% for the UK this year (upgraded from 5.0%), a level of growth last seen post-WWII, and helpful in the context of paying down national debt via the tax take.

Just over a year ago, when the implications of the pandemic were becoming clear, we kept faith in our homework. The crisis has meant that companies have had to accelerate fundamental changes to their businesses driven by customers' changing needs. As usual, it has been the companies with genuine competitive advantages

which have been most successful during the period in terms of market positions and balance sheets. As mentioned above, many have stronger balance sheets than they had before the crisis (the majority of the companies listed below, for example), without needing to raise any capital, other than for earnings accretive M&A purposes. This is an exciting position to be in, particularly given the backdrop of the chancellor's super deduction, which could see management teams seeking to increase investment to grow companies. This demonstrates the importance of keeping some investment discipline in what feels like an increasingly short-term world.

With this in mind, as investors, we continue to primarily focus on seeking out the next mid cap disruptor, while looking to avoid the next industry to be disrupted.

George Ensor, manager of River and Mercantile UK Micro Cap - 17 June

I will start by stating the obvious; it has been an exceptional period for equity returns. Global equity indices, as measured by the MSCI ACWI Index, delivered a six month return of 20.2%. UK equities, as measured by the MSCI UK IMI Index, slightly underperformed with a return of 18.2%. UK Smaller Companies, as measured by the Numis Smaller Companies Index, delivered a phenomenal 33.5%, no doubt supported by the success of the UK vaccination programme.

Another notable dynamic has been the steepening of the US yield curve. Short term rates are being held low, punishing savers, whilst accelerating global growth and fiscal spending plans that seek to deliver higher nominal growth as a tool for societal levelling up have pushed the US ten-year yield higher. Having bottomed in August at 0.5%, the US ten-year yield finished the period a touch below 1.75%. This has clear consequences for equity investors with shorter duration assets, typically cyclicals and Value, outperforming long duration Quality and Growth assets.

When valuation dispersions are high, as they were in late September 2020, there is a significant gap between the cheapest and most expensive stocks in each sector. The equivalent data for the 11 March 2021 shows valuation dispersions have narrowed but still remain higher than normal. Essentially, the recent outperformance of short duration cyclicals has offset the outperformance of long duration Growth stocks that we saw through the first half of 2020, with valuation dispersions returning to pre-crisis levels.

Helen Sinclair, chair of Gresham House Strategic - 16 June

The last year has been unprecedented for investment companies. Although the pandemic has lasted much longer than originally anticipated and has had bigger social, financial, and operational effects, stock markets have the ability to "look over the valley". This occurred rapidly after the collapse of prices in Q1 of 2020. The recovery and continued advance of share prices in the second half of 2020 reflected this and as the year went on market confidence returned. As is often the case after a collapse in share prices there were large differences in the rate of recovery of different sectors. Stocks hit directly by Covid-19 in the hospitality, leisure, retail and transport industries remained out of favour, and so too did many smaller-cap companies. Technology stocks buoyed by home working and delivery of goods and content boomed. This provided an excellent basis for your relatively cash-rich fund to capitalise on.

It is clear that in the future "tech-enabled" businesses whether in consumer, financial services, fulfilment or media will be positioned for success. In the booming markets

that these companies are enjoying, their share prices have become elevated at the expense of less technologically glamourous firms. This has perhaps masked the rotation from growth stocks to value stocks, the area of the market we inhabit. It is also worth reminding ourselves that smaller companies have the ability to grow much faster than giants and again we occupy the right sector of the market as well as one that is coming more into favour with investors generally.

Charles Montanaro, manager of Montanaro UK Smaller Companies - 15 June

This is the second review written from home, the last written in the early weeks of the first lockdown when many thought we would be back in the office by the end of the summer. Now, with the arrival of the vaccines, a resumption of more "normal life" looks eminently possible - a return to the office and hopefully a summer holiday too. What an impact the vaccines have had, not just in containing the pandemic, but on the trajectory of equity markets too.

It is strange to think back to the early days of April 2020 with stock markets collapsing and consider that, no sooner had the beginning of the Financial Year started, a new Bull Market was born. This seemed at odds with the day to day reality of the most serious pandemic for at least a century: locked down populations; collapsed economies; and mounting death tolls. Investors have recovered their losses in just over a year - the quickest recovery from a Bear Market ever.

Yet as the world shut up shop and economies crashed, Governments and Central Banks unleashed an unprecedented level of monetary and fiscal stimulus, estimated at some $15 trillion across the G10 countries plus China. Plummeting interest rates pushed investors into riskier assets that offered a return on their investment. *"Don't fight the Fed"*, as the adage goes.

As a second wave of COVID cases grew over the autumn months of 2020, the outlook for consumer businesses that rely on customer footfall - restaurants, hotels, cinemas, theatres - looked particularly bleak. Conversely, the fortunes of Healthcare and Technology companies, many of which continued to operate as normal, looked far better.

Monday, 9 November 2020 changed this market dynamic entirely. This was the day when Pfizer and BioNTech announced the first effective Covid-19 vaccine, a great day for humanity but also for investors in those businesses which had suffered most from the economic consequences of Covid-19. It unleashed the most dramatic rotation in equity markets in living memory. Value and Low Quality bounced back strongly at the expense of Quality and Growth, a dynamic that continued unabated until the end of the Financial Year.

Within UK SmallCap, Growth underperformed Value by 24% between November 2020 and March 2021, which compares to a c.30% underperformance experienced in both 2009 and 2013. So if history is any guide, the current rotation may be almost complete. To add weight to this view, a recent survey published by Bank of America suggested that, by mid-March 2021, most Fund Managers were heavily overweight in Cyclicals and Commodities with the largest underweight in Technology since the start of the Bull Market in 2009. In a recent letter to investors, we urged our clients to remain calm in the face of the market rotation that has occurred. This is a message that we reiterate here.

Carolan Dobson, chair of Baillie Gifford UK Growth - 9 June

Most UK companies appear to have reacted well to the immediate challenges created as a result of Covid-19, the long term ramifications of which are unknown. Brexit too appears to have had little discernible economic impact albeit the matter is clouded by the impact of the pandemic. However, companies face the ongoing challenge of adapting to what is a very difficult and different trading landscape compared to that faced in early 2020.

Despite this, the Board and Managers continue to believe that exceptional UK growth companies are able to exploit their competitive strengths over the long term and take advantage of the opportunities that follow severe economic dislocation.

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Gary Channon, CIO of Phoenix Asset Management - managers of Aurora - 2 June

Warren Buffett says the first rule of investing is: Don't Lose Money. We tackled the COVID-19 challenge in that way whilst retaining our focus on upside value.

Buffett's second rule is: Don't Forget Rule No.1. and so, as we sought out opportunities in 2020, it was with a heavy focus on the downside risk and the probability of our making a mistake in our evaluation. This second factor weighed heavily. There were plenty of cheap looking stocks around in Q2 of 2020 but it takes a detailed level of knowledge and expertise to be able to model what will happen to a business if the pandemic drags on and vaccines don't work. We were able to deploy our excess cash in businesses we already knew well and where we set a minimum upside of 200%. We looked at hundreds of opportunities and capital raises and passed on everything bar one small addition, which moved before we could get a proper holding.

As the world recovers from the pandemic and support programmes end, there is the potential for opportunities in those businesses impaired by what just happened.

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Robert Talbut, chair of Shires Income - 2 June

The current year is likely to be very different to 2020 in economic and financial market terms. The introduction of a number of effective vaccines and some easing of restrictions has seen financial markets respond positively, which is an encouraging sign and a trend we hope will continue throughout 2021. An improvement in the economy, both here and abroad, as we move through the year should translate into better profitability and cash flows for companies across many sectors in the UK market. In turn, we should expect to see dividends recover after a difficult year in 2020. This should increase opportunities for your Investment Manager to find attractive companies that can deliver both growing income and capital appreciation over time.

At the start of 2021, we saw the market rise rapidly based upon growing optimism for economic growth in the year. Investors have recently favoured many of the businesses that were most adversely impacted by the significant economic shock of the pandemic last year. This has seen what are categorised as value and recovery stocks perform far better than growth companies and the 'lockdown' winners of 2020. So, while there may be increasing excitement currently regarding the shorter-term economic prospects, there remains uncertainty regarding the longer-term growth and inflation outlook, and therefore the focus of the Investment

Manager will continue to be on finding those stocks which it thinks can outperform over the longer term irrespective of the economic cycle.

North America

(compare North America funds **here**)

Tony Despirito, David Zhao and Lisa Yang, managers of Blackrock North American Income - 29 June

For the six-month period ended 30 April 2021, U.S. large cap stocks, as represented by the S&P 500 Index, advanced by 20.3% in sterling terms. Cyclical value stocks, those most beaten down in the COVID-19 crisis, assumed market leadership during the period with the Russell 1000 Value Index returning +27.3% and the Russell 1000 Growth Index returning +16.1% (both in sterling terms with dividends reinvested). Positive market returns were persistent as the S&P 500® Index rose in five out of six months, with January 2021 being the lone exception. Performance was especially strong in November 2020, as clarity from the U.S. election results and the realisation of viable COVID-19 vaccines boosted expectations for economic growth.

The U.S. economy was fuelled on multiple fronts, including continued monetary policy support, where investors were encouraged by prospects for the Federal Reserve's liquidity tailwind to remain in place. Investor sentiment was also boosted by the signing into law of the American Rescue Plan, a US$1.9 trillion fiscal stimulus package which included circa US$410 billion in new direct payments to Americans and an allocation of circa US$246 billion to extend existing federal unemployment programmes. Finally, further progress on vaccine supply and distribution was a positive development.

Investment team at Gabelli Value Plus+ - 9 June

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During the reporting period the U.S. economy was fuelled on multiple fronts, including continued monetary policy support, where investors were encouraged by prospects for the Federal Reserve's liquidity tailwind to remain in place. Investor sentiment was also boosted by the signing into law of the American Rescue Plan, a US$1.9 trillion fiscal stimulus package which included circa US$410 billion in new direct payments to Americans and an allocation of circa US$246 billion to extend existing federal unemployment programmes. Finally, further progress on vaccine supply and distribution was a positive development.

Japan

(compare Japan funds **here**)

Harry Wells, chair of CC Japan Income & Growth - 28 June

Although Japan has suffered considerably less from the pandemic compared to many other countries, the slow roll out of vaccinations and a recent resurgence of cases of COVID-19 saw a "state of emergency" reimposed, albeit with light restrictions. As a result, the domestic economy has struggled with hospitality, leisure and travel at a standstill. Tourism was a major driver of domestic demand in the pre COVID-19 world and even if the Olympics go ahead there will be few foreign spectators.

Nevertheless, there are continued reasons for optimism. The bulk of Japanese corporate earnings are derived from overseas and have benefitted from the recovery in world trade, aided and abetted by huge global stimulus. Exports have benefitted from a weaker yen. Japan is a major cyclical beneficiary of global recovery, where foreign institutions are underweight and the vaccine roll out is at last gathering pace. Companies continue to improve rewards to shareholders through the stability of their dividend distribution policies with many increases evident on the back of a recovery in corporate earnings. Despite Japan being relatively unaffected by the pandemic, Prime Minister Suga's popularity has plummeted, but the opposition are in disarray before the impending election and there is little political animus to reverse the steady improvements in Corporate Governance.

The prospects for Japanese investment returns still looks promising.

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Eiji Saito, Naohiro Ozawa and Michiko Sakai, managers of JPMorgan Japan Small Cap Growth & Income - 22 June

The Japanese market spent last summer recovering much of the ground lost in February and March 2020, when the COVID-19 pandemic spread rapidly around the world and sent equity markets into steep decline. This recovery received fresh impetus in November with the arrival of several vaccines, which fuelled hopes of a global economic recovery in 2021. The Japanese market rose sharply over the remainder of 2020 and the first quarter of 2021, reaching a 30-year high by end-March.

However, the positive vaccine news prompted some notable shifts in equity market drivers. High-value technology and other growth and quality stocks led the market during the first six months of the review period, while more economically sensitive businesses that were hardest hit by lockdowns, lagged. Once investors became more confident that these cyclical and value stocks would survive the pandemic, they began to outperform and continued to outpace growth and quality stocks over the remainder of the review period. In addition, the improvement in the economic outlook, combined with further aggressive US fiscal stimulus implemented by the new Biden administration, sparked concerns about inflation and rising interest rates.

COVID-19 and its aftermath have cast a shadow over Japan's economic outlook. Vaccination programmes are gathering momentum in Japan and around the world, and the global economy is beginning to recover from the devastating effects of the pandemic. However, successive waves of the virus and new variants are generating ongoing uncertainties and delaying the resumption of international travel to many

regions. At present, the Japanese government has maintained that the Tokyo Olympics will proceed, but spectators from abroad will not be allowed to minimize the risk of infection. We believe that these decisions should have no impact on our portfolio which focuses on the longer-term growth opportunities. We also believe that the pandemic is likely to leave significant and lasting positive changes in its wake, including industry consolidations, supply chain diversification and productivity gains from flexible working practices and the more intensive use of information technologies.

Looking further ahead, Japan remains set on its long-term goals - to achieve sustainable, broadly-based growth, driven by digitalisation, the government's reforms to corporate governance and by free trade. Japan's efforts to boost trade with its regional neighbours in coming decades were greatly enhanced when it became a signatory to the Regional Comprehensive Economic Partnership (RECP), in November 2020. This is a free trade agreement between 15 Asia-Pacific member states, including China, Korea, Indonesia, Singapore and Australia. Member countries represent 30% of the world's population and 30% of global GDP, making it the world's largest trade bloc. The agreement will reduce trade tariffs by 90% over the next 20 years, lower costs and foster deeper co-operation on all aspects of trade across the region. Moreover, average valuations of Japanese companies remain reasonable, both lower than historical averages and below those of most other major markets. In sharp contrast to other developed economies, Japan's smaller and more entrepreneurial companies are at the forefront of innovation, ideally positioned to prosper over the long term.

Karen Brade, chair of Aberdeen Japan - 8 June

The environment remains uncertain. At the time of writing there are concerns about the new wave of the pandemic in Japan, the low levels of vaccination, and the falling popularity of the Government linked specifically to the Olympics and Paralympics (to which the Government has renewed their commitment). While Japan continues to struggle with deflation, there are also worries about the impact on the global economy if US policy leads to inflationary pressures which affect Japanese importers and investors, at a time when the Bank of Japan appears to be moving away from aggressive monetary stimulus. However, Japan should remain stable politically and economically.

Europe

(compare European funds **here**)

R M Curling, chair of Montanaro European Smaller Companies - 18 June

The last couple of years have shown how hard it is to predict the future. The Montanaro team avoids trying to forecast macroeconomic developments, preferring instead to focus on the fundamentals of your individual investee companies: Do they have structural growth prospects? Are they high quality businesses? Are they run by honest and hardworking management teams? Can they thrive when times are good yet withstand unexpected shocks?

This approach works particularly well when levels of uncertainty are high and, we believe, over time horizons that are long enough to allow the effect of high returns and growth to compound. However, there are times when such a "quality growth"

style falls out of favour. This has historically been the case when there has been a rapid improvement in economic growth prospects or when the consensus perception is that risks are falling, often at the end of a Bear Market. In such periods, "a rising tide lifts all boats" meaning that high quality, structural growth companies can underperform. We have seen this a few times over recent decades and we did so again in the months following the announcements of successful vaccine trial results last year.

Montanaro believes timing such shifts accurately to be almost impossible and thus prefers to stick to high quality, growing companies for the long term.

Francesco Conte and Edward Greaves, co-managers of JPMorgan European Discovery - 16 June

The twelve-month period to March 2021 was dominated by the world's response to the Covid-19 global pandemic. Following the significant market sell off in March 2020, the rapid response by governments and Central Banks worked to mitigate concerns around the magnitude of the impact to the economy. The level of support was unprecedented, with Central Bank support far higher than the total support provided during the Global Financial Crisis. As a result, equity markets rebounded extremely strongly over the twelve months to March 2021 with the Trust's benchmark finishing the period significantly higher than it reached at its peak prior to Covid-19.

Improving global economic data and better than expected company earnings due to tight cost control supported markets over the period. On 9th November, Pfizer and BioNTech announced positive trial data for their Covid-19 vaccine. This was quickly followed by positive trial data from other pharmaceutical companies. These effective vaccines offered a clearer path out of lockdowns. Nevertheless, concerns around rising infection rates, new variants of the virus and delays to vaccination rollouts in a number of European countries resulted in high volatility over the period.

While these concerns remain, markets should continue to be supported by even more fiscal and monetary injections. The US Federal Reserve has relaxed its inflation target from '2 per cent' to 'an average of 2 per cent', meaning that it will not necessarily tighten policy even if it sees inflation in excess of 2 per cent in the future. At the same time, there is still ample room for additional fiscal support from governments as illustrated by the stimulus packages implemented in the European Union and the US.

Josephine Dixon, chair of JPMorgan European - 3 June

The vaccine rollout around the world has fuelled optimism for a strong economic recovery later in the year as national 'lockdowns' abate and some form of economic normality resumes. The very significant stimulus packages introduced by central governments, in addition to record levels of household savings should help to further boost economic recovery.

Conversely, there are fears of the return of inflation, high or excessive debt levels and recurring trade tensions. Furthermore, the scale and longevity of Covid-19 remains unknown, with the impact of new variants and the possibility of further waves an imponderable.

Whilst we are in unchartered waters there remain significant investment opportunities in Europe.

Global emerging markets

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

Dr Myma Belo-Osagie, chair of Africa Opportunity - 25 June

Covid-19 was the overarching theme of 2020. Despite countries like Tanzania which claimed to have vanquished the virus by prayer or Zambia which decided against imposing lockdown restrictions, the overall impact on the typical African household was decidedly negative. The actual number of African victims of covid-19 will never be known. What is certain, though, is that, unlike other economies, a majority of Sub-Saharan Africa's economies grew anaemically in 2020. But, the gross domestic products of its two largest economies-South Africa and Nigeria-shrank, respectively, 7%, the biggest decline in a century, and 3%. Africa's recovery picked up in 2020's second half as prices of major commodities like crude oil, and copper, as well as precious metals like gold and platinum group metals, rose in 2020. Palm oil was up 30%. However, prices of key imports for African consumers such as white maize and yellow maize also rose 33% and 27% respectively. To offset the harsh impact of the pandemic on poor citizens, financial conditions were loosened in heavily indebted countries like South Africa, Ghana, and Kenya even as most African governments also increased dramatically their budget deficits. Zambia defaulted on its Eurobonds in Q4 2020. Hyperinflation in Zimbabwe declined from 460% in 2019 to 340% in 2020.

John Scott, chair of Jupiter Emerging & Frontier Income - 25 June

The election of President Biden not only moves us on from the pugilistic rhetoric of 'America First', it also signals a more nuanced approach to international diplomacy which is likely to simplify life for many of the countries into which we invest. There are, nonetheless, a number of headwinds which we face and for the moment many of them have to do with Covid.

It was already clear by the end of March 2021 that, notwithstanding the astonishing success of various vaccines and the speed of their development and certification, we are unlikely to see a swift end to the pandemic worldwide. The emergence of new variants of Covid has come as a nasty shock to many countries which believed that they had got the virus broadly under control. Balanced against the good news being seen in those countries which have already implemented rapid vaccine deployments is the deeply worrying news from key emerging markets, such as India and Brazil, which continue to experience high levels of Covid infections, often with significantly worse outcomes than were experienced in earlier waves.

Pictures of people gasping for air in the back of taxis while unable to gain access to overflowing hospitals do not provide the reassurances that capital markets might be expecting of a pandemic which is already some 18 months old. It simply tells the world two things: whatever medical miracles may have been achieved so far, there is still much to learn about this illness, which has certainly not lost its ability to surprise. Secondly, that although high vaccination rates are proving effective at containing the pandemic, this success is for now confined to certain affluent parts of the world, there being many regions where vaccinations have hardly begun.

We have also been reminded in recent months of some of the broader risks of investing in emerging markets. Controversial decisions by the Presidents of Brazil and Turkey - just one example for the former being ousting the CEO of Petrobras and replacing him with an army general and, for the latter, the sacking of yet another head of Turkey's central bank - underline the political risk that investors face in emerging markets. In many cases investors are willing to look through the headlines and understand the underlying strength and resilience of a company's performance, but these episodes certainly present the investor with additional information to digest.

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Managers of Aberdeen Emerging Markets - 24 June

The defining feature of the past six months was the return differential between Chinese equities and the rest of emerging markets, with the former underperforming the latter by close to 30%. Given China's dominant weight in emerging market indices (37.5% of the MSCI Emerging Markets Index at the end of the period), this had the effect of distorting the return from the overall asset class and much of the narrative around it. In particular, much was written towards the end of the period on how emerging markets had "rolled over" in the face of US exceptionalism, the suggestion being that with the US growing so rapidly (largely due to its seemingly unlimited scope to stimulate), emerging markets would be crowded out of the global recovery. Sentiment waned accordingly. In reality, the vast majority of emerging countries (including those still facing Covid-19 related challenges) enjoyed consistently stronger currencies and equity markets through the period, with the correction since the February peak being explained almost entirely by weaker Chinese equities, which in turn was led by declines in technology and internet related stocks. These companies endured a perfect storm, with the joint spectres of higher inflation and interest rates internationally undermining their valuations (and those of high growth companies globally), whilst domestically the Chinese authorities stepped in with fines for monopolistic practices and curbs on the creep from consumer services to financial services.

The obvious question today is whether this trend continues or reverses. Many of the strongest performing assets in emerging markets of late have benefitted from strong commodity and energy prices and tentative signs of returning appetite for traditional value sectors such as financials. This is a trend we envisage continuing given still attractive valuations and a sharp recovery in earnings. At the same time, we believe the Chinese equity market remains under-owned internationally, and thus view this setback as a potential buying opportunity. The two are not mutually exclusive, and we reflect this in the Company's portfolio through diversified exposure to value and growth opportunities, large and small capitalisation companies (with a strong bias towards the latter) and many markets besides China.

We believe the current market environment presents an abundance of opportunities for active managers.

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John Rennocks, chair of Utilico Emerging Markets - 18 June

Today the world is largely over leveraged and under employed. The next significant policy steps we expect are under the broad policy banners of "build your way out of the pandemic" and the "green agenda". These will add to demand and we believe will see strong inflationary pressures continue to rise, especially where supply is

disrupted. While the policy initiatives may well reduce unemployment, they will add significantly to the already unpreceded debt levels.

Over the year, the individual markets have seen strong divergences in market indices and currencies as country-by-country responses have varied, and the impact of Covid-19 has differed in its timing and its severity. A common theme within markets has been the acceleration of disruptive or enabling digital businesses, which have thrived with the shift to working from home. We expect this trend to continue and even accelerate further. There are significant technology disruption opportunities from finance to health and from businesses through to government.

Numerous and substantial social issues are still evident, including nationalism, climate change and wealth inequality. However, communities have pulled together, and the human spirit has risen above this upheaval. We hope the global leaders are up to these challenges.

The EM markets have broadly been stronger with the India Nifty 50 up 70.9%, Brazil Bovespa up 59.7%, Shanghai Composite up 25.1%, the Philippine PSEi up 21.1% and Hang Seng up 20.2%. The dampener has been currency headwinds with the Brazilian Real down 17.4% against Sterling, while the Hong Kong Dollar was down 10.4% and the Philippine Peso was down 5.4%. Much of the currency weakness has been accelerated by the impact of Covid-19, and the respective country impacts and responses. Nearly all central banks reduced interest rates in order to soften the economic impact and increase resilience in their individual economies. Brazil reduced the benchmark interest rate (Selic) from 3.75% as at 31 March 2020 to 2.75% as at 31 March 2021, while the Indian interest rate reduced by 2.0% in the year to 31 March 2021. Over the year to 31 March 2021, EM currency weakness reduced UEM's GBP NAV by an estimated 8.3%.

Commodities have moved significantly higher. Oil was caught up in the pandemic demand shock and the power struggle between oil suppliers. Oil famously traded on the Houston Exchange at negative values as oversupply combined with the shortage of storage resulted in surplus oil for immediate delivery. However, oil ended the year to 31 March 2021 up 179.4%. Expectations of a new super cycle in copper, driven by both the green agenda and a construction boom are driving copper prices to new highs. We expect this growth to continue although price volatility may continue.

The emerging risk from cyber attacks on businesses and governments is a deep concern to all. So far we have not seen evidence of it within UEM's investee companies but the apparent escalation is a concern for all.

It is also worth noting that, as economies reopen, demand for goods and services is likely to accelerate above normal trend lines. Coupled with the cost savings implemented by many businesses in the face of huge economic uncertainties from the pandemic fallout, reported margins are actually widening. We expect this to continue for much of this year.

China remains key to the EM, given its size and growth. In the short-term we expect China's GDP to remain well above its recent long-term trend line, but its GDP may fall back sharply later this year as policy responses are curtailed. Brazil is benefiting from strong commodity demand and the ongoing privatisation process should continue to attract capital into the country. India is currently being ravaged by Covid-19. Until the impact is significantly lower, its economy will remain stalled.

Chetan Sehgal, manager of Templeton Emerging Markets - 4 June

Fresh waves of COVID-19 infection have continued to test economies and health care systems globally, just as more countries step up the rollout of vaccines. We think that emerging markets are likely to stay resilient in the face of new challenges. Many emerging markets have remained less indebted than developed economies at the sovereign, corporate and household levels. Emerging market banking systems have largely withstood stress despite loan moratoriums. Technology and consumption have also become new drivers of economic growth for many emerging markets. Overall, we expect a sharp earnings rebound in emerging markets this year from a low base last year.

Chinese internet stocks have struggled recently amid tighter regulatory scrutiny, higher US Treasury yields and block trades linked to a troubled hedge fund. China's increased emphasis on fair competition, consumer protection and data security within the internet industry has been a chief concern. Though regulatory news could drive near-term share-price volatility, we remain largely confident in the longer-term fundamentals of several leading internet companies. These companies have grown rapidly by offering superior user experiences and efficiencies, and we expect these strengths to continue underpinning their structural earnings power. We also think that regulators are keen to ensure the sustainable development of the internet space for all stakeholders, rather than curb its growth. We are mindful of the dispersion in valuations across the internet space, and we seek to invest in quality companies trading below what we consider to be their intrinsic worth.

Reflationary expectations and higher US bond yields have stoked market volatility. Although inflation has picked up from low levels last year amid recovering economic activity, firmer commodity prices and near- term supply chain bottlenecks, we believe that considerable slack remains in many economies, especially on the labour front. Also visible to us are longer-term deflationary trends arising from technology advances and demographic headwinds. Rather than position for specific macroeconomic scenarios, we strive to build well- diversified portfolios that can potentially navigate a range of market environments.

We see compelling opportunities to invest in companies that demonstrate sustainable earnings power, with shares trading at discounts to our assessment of their intrinsic worth. We are confident in a long runway of growth for innovative and technology-driven companies extending their leads in areas such as semiconductors and internet services. We also favour companies that could benefit from longer-term consumption growth in emerging markets, reflected in a rising penetration of goods and services or a "premiumisation" in demand.

A second wave of COVID-19 infections in India led to the implementation of new restrictions including lockdowns (at a regional state level rather than nationwide) to contain the outbreak. While this second wave is expected to impact the country's economic recovery in the short term, we expect the economy to bounce back as the government accelerates its vaccine rollout and lockdowns are lifted. In the interim, however, the situation remains fluid and we continue to monitor the developments. In the longer-term, we expect India's economic recovery to continue as economic activity gradually improves. We see corporate earnings on an uptrend toward earnings normalization, following the pandemic-related downturn. The overarching drivers underpinning the Indian market also include low interest rates, high liquidity and fiscal incentives, all of which currently remain intact. However, we are mindful of the risks, including the ongoing virus pandemic, regional and global geopolitical relations and the path of the recovery and infection rates in other regions globally.

However, we expect COVID-19 to remain prevalent this year. While some countries have made solid progress with inoculation; the production and distribution of vaccines in sufficient scale are challenges of a similar scale to their development. As a result, we expect many countries to continue experiencing sporadic COVID-19 outbreaks, which could add volatility to the underlying trend of economic and market recovery.

Sam Vecht and Emily Fletcher, co-managers of BlackRock Frontiers - 1 June

While during recent years, despite strong growth, frontier markets have been out of favour, we believe that in a post-COVID-19 world awash with record liquidity, investors will remember the considerable attractions of our investment universe.

Strong liquidity, high levels of disposable income and accelerating vaccine deployment continue to provide a foundation for economic normalisation globally. Additionally, robust growth and lower fiscal burden through the crises support the view that emerging markets will come out of COVID-19 stronger than expected, while rising rates should support the rotation from growth to value. While we remain optimistic that large scale stimulus will drive a global activity pick-up, inflationary pressures and the increased likelihood of tighter monetary policy from the US may weigh on emerging and frontier equities in the near term.

Our view that emerging markets will overcome COVID-19 in the second half of 2021 remains unchanged. However, as new variants sweep through the emerging world at different paces, the recovery will not be uniform and tracking single country progress is paramount. We expect volatility to increase over the next few months and believe selectivity will be key in driving returns over this period. Valuations are yet to keep pace with strong earnings, and, combined with low ownership, we think investors should pay attention to the asset class now.

India

(compare India funds **here**)

Hasan Askari, chair of Aberdeen New India - 11 June

India is in the grip of a second wave of Covid-19 which is much more extensive and damaging, both in human and economic terms, than the first wave. Economic performance, which at the beginning of this year was forecast to result in double digit growth in GDP terms, is bound to be adversely affected, although it is too early for revised figures for the current year to be issued either by the government or international institutions. The government has resisted a national lockdown because of its impact on growth and has resorted to localised lockdowns to manage the pandemic. Your Board does not claim to have the wisdom to opine as to which course of action would have been better, but what is clear is that the loss of life is colossal and, in almost everyone's reckoning, understated.

There are two other important issues for shareholders to reflect on. First of all, Mr Modi's administration has enjoyed, with some justification, a reputation for pragmatism and competence. This has taken a knock; will this affect his authority over the country and more pertinently, his future electoral performance? And, if it does, how would the resultant uncertainty affect the markets?

The other point is the apparent official management of the statistics on Covid-19. If this under-estimation is true (and it is widely believed to be so), what does this say for other official statistics that we, as international investors, rely on? We believe it is very much in the interest of the country, now and in the long-term, to ensure the integrity of its statistical output and to maintain its reputation for economic and statistical prudence.

Over the longer term, the Indian market continues to retain its appeal. This stems from India being home to many high quality companies, led by experienced management, that have been tested by crises, both past and present. Consumption is driven by an expanding middle-class. Labour supply is ample given the youthful and educated population. Government reforms to modernise the country, despite political challenges and inefficiencies, will eventually come to pass.

Rajendra Nair and Ayaz Ebrahim, co-managers of JPMorgan Indian - 9 June

The second wave of the pandemic seems to have peaked with a sharp fall in the number of new cases over the past couple of weeks. Nevertheless, economic activity is likely to be severely impacted in the short term due to the lockdowns and restrictions imposed in large parts of the country. Meanwhile, vaccination is progressing at a reasonable pace (2-3m doses per day), with almost 250m doses administered so far, though vaccinating most of the population will take a significant period of time. Fortunately the second wave of the pandemic has not derailed broader optimism on the prospects for normalisation and a sustained recovery in the next few years. This should translate into a strong rebound in earnings growth, which has been weak for the past several years. Furthermore, structural reforms in the manufacturing sector have the potential to boost the sustainable growth rate of the economy in the long term, even if they do not have a material impact in the near term.

Investors should also bear in mind that while the near term outlook is undoubtedly dependent on the trajectory of the pandemic, the investment case for India remains compelling in the long term. From a top down perspective, this remains an early stage growth economy with a long runway of growth for the foreseeable future. This is complemented with an investable universe of companies which is large, diverse and ever growing.

Russia

(compare country specialist: Europe - ex UK funds **here**)

Gill Nott, chair of JPMorgan Russian - 30 June

The familiar themes of oil price levels and political uncertainty again loom large in any outlook prediction, added to which the world faces the challenge of managing the impact of the Covid-19 pandemic. The positive signals are that the on-going bounce in global economic activity will continue into the second half of 2021 and beyond which should support the recovery in the price of oil. However, as in other major economies, the prospect of rising inflation lies ahead and the Russian Central Bank has acted quickly with increases to interest rates and further rises are expected.

Increased political tensions also have the potential to derail the more positive economic outlook. The recent deterioration in US and Russia relations has arisen as the new US President seeks to assert his authority and the Russian government has tested the limits of US commitment to the region. The recent US waiving of sanctions, to assist the completion of the Nord Stream 2 natural gas pipeline from Russia to Germany, and the meeting between Biden and Putin in mid-June 2021 are perhaps positive attempts to de-escalate the current situation.

Flexible investment

(compare flexible investment funds **here**)

Investment team at Momentum Multi-Asset Value - 17 June

Our view of where markets are moving is driven primarily by our valuation analysis rather than trying to predict the future by second guessing how politicians and central bankers will behave. There are strong correlations between the current valuation of markets and returns over the following five years. Our analysis shows that valuations are elevated in many markets. However, we still see potential opportunities in areas such as Japanese Equities, Asia Pacific (Ex Japan) and Emerging Market Equities.

The compelling investment case in the broader UK Equity market that existed last year is gradually closing. Nevertheless, we still see a range of valuations including the more domestic focused, mid cap stocks which we believe still offer significant upside potential compared to the wider market.

We remain somewhat pessimistic on the prospects for Government bonds against a backdrop of increased inflation risk. We have also been trimming our US Equity exposure to take profits following the recent gains as valuations have reached what we believe to be their upper levels. On the macro side, we do not see economies under great strain and with the huge levels of liquidity that have been pumped into markets over the past year there is still room for further growth in the wider equity markets.

Nalaka De Silva and Jennifer Mernagh, co-managers of Aberdeen Diversified Income and Growth - 10 June

While in the past the risk of default within EMD has been higher, the evolution of central banks towards more disciplined monetary policy, the development of the local currency market, which means that countries are in control of their debt servicing, combined with China's economic might, which makes Asian emerging market countries more resilient, means that, while the default risk remains, it is less than it might have been historically. Nevertheless, the remaining credit and currency risk can lead to volatility within markets. Hence we choose to actively manage these exposures.

Sebastian Lyon, manager of Personal Assets - 9 June

Today, fixed income no longer offers its traditional defence. The recent falls in the bond market show that there are fewer places to hide in markets that are flirting with record valuations. Our preference has been to own index-linked bonds, particularly

US Treasury Index Protected Securities ("TIPS"). Should inflation surprise on the upside, these will provide us with some protection. Gold bullion protects us from ongoing debasement of currencies and, despite its volatility, has proven its worth over the long term as a portfolio diversifier. We used weakness in gold and TIPS over the year to add to our existing holdings. We expect *real* interest rates to move more negative in the medium term as the era of financial repression (when interest rates remain below the level of inflation) continues.

Growth capital

(compare growth capital funds **here**)

Investment adviser to Chrysalis Investments - 30 June

Over the first part of the calendar year, concerns about a rise in the yield of the 10 year US Treasury prompted some volatility in the valuations of technology stocks, particularly where valuations are elevated and unsupported by positive cash flows. As the world begins to emerge from the enforced lockdowns of the last fifteen months, it is likely that economic activity will bounce back in the short term, perhaps keeping yields higher for a period of time, which may lead to further uncertainty and volatility in tech valuations.

Our approach to investing is to find companies whose growth rates are so compelling, whose addressable markets are so vast, and whose technological edges are so profound, that we believe they will continue to appreciate in value regardless of higher discount rates. We continue to see a strong pipeline of companies that meet these criteria.

When we launched Chrysalis it was based on a hypothesis of a "blurring of the lines" between private and public investing. The last few years have convinced us this was a correct supposition. Late-stage investing in Europe has grown rapidly since our IPO.

Private equity

(compare private equity funds **here**)

Alan Gauld, manager of Standard Life Private Equity - 29 June

We continue to have high conviction that the private equity model of active ownership thrives on the opportunities that present themselves during periods of market dislocation and economic headwinds. Whilst the global pandemic has not had the significant negative financial impact we initially expected, we continue to hold a degree of caution as we look ahead. Pricing in attractive sub-sectors such as cloud-based software or medical technology is at record highs and there are a number of broad risks looming in the background that have the potential to have a widespread impact on the portfolio, not least the threat of inflation and rising interest rates. As such, we remain committed to deploy capital with discipline in the months and years ahead.

Infrastructure

(compare infrastructure funds **here**)

Ian Reeves, chair of GCP Infrastructure - 10 June

The UK Government has recently announced a commitment to reduce emissions by 78% of 1990 levels by 2035, on a path to achieve a legally binding net zero target by 2050. These are laudable commitments that point to a material transformation across a number of sectors including electricity, transport, heating, industrial emissions and agriculture. Furthermore, it is also likely to require the development of new asset classes in sectors such as hydrogen and carbon capture, transport and storage. To enjoy any realistic prospect of being achieved, these commitments need to be rapidly supported with mechanisms that incentivise the private sector to invest.

In the period, the UK Government published its response to the 'Future support for Low Carbon Heat' consultation, which committed to the introduction of the Green Gas Support Scheme, in replacement of the historic Non-Domestic Renewable Heat Incentive for biomethane production and injection. Associated with this is the commencement of a green gas levy. The Green Gas Support Scheme is likely to promote investment opportunities in sectors which the Company has a track record of investing in. Further detail has also been published on the implementation of the UK Emissions Trading Scheme. A number of consultations are ongoing and further publications and strategy documents are expected in the remainder of 2021, that are anticipated to provide further detail on the design and implementation of support mechanisms across a number of sectors.

The fourth contract-for-difference support auction is scheduled to take place later in 2021 and will be expanded to include a number of additional technologies including onshore wind and solar PV. Offshore wind has been allocated its own budget pot, meaning it will not compete with other less established technologies. More established renewable sectors remain highly competitive.

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Biotech and healthcare

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

Melanie Gee, chair of Syncona - 17 June

The pandemic has brought the life science industry to the forefront of global events and has demonstrated the importance of innovation and collaboration between scientists, industry and governments. All these elements have come together to deliver effective vaccines in previously unthinkable time frames. The widespread rollout of vaccines - on a global basis - is a requirement to beating the pandemic and returning the world to normality.

The impact of the pandemic has also clearly highlighted other areas where accelerated change on a global scale must happen, namely deep social inequalities and the very urgent need to change our actions to restore our planet to health, for future generations.

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Renewable energy infrastructure

(compare renewables funds **here**)

Investment team at SDCL Energy Efficiency Income - 24 June

The sectors in which SEEIT is investing are receiving increasing levels of interest from both policymakers and financial markets. Governments and companies in all of SEEIT's existing and target markets are continually increasing their carbon reduction commitments and therefore the demand for cost-effective and low carbon energy solutions is increasing. Meanwhile, the costs, inefficiencies and risks of energy systems reliant on centralised generation and the grid continue to be exposed, with the 2021 outages in Texas, USA caused by severe winter storms recalling memories of Superstorm Sandy on the US East Coast in 2012 and highlight the need for greater resilience in the energy system.

COVID-19, in parallel to its far-reaching societal consequences, reduced global economic output, energy demand and energy prices. SEEIT's portfolio was relatively defensive, given limited exposure to demand or energy prices and the fact that most of its clients were deemed essential and remained operational during national lockdowns. The pandemic led several governments to turn to energy efficiency as a source of post-COVID recovery, economic productivity and growth, as well as a pathway to substantially lower both costs and greenhouse gas emissions. Energy efficiency project investments performed notably strongly and reliably compared to assets linked to economic growth, energy demand or prices.

The EU taxonomy regulation and SFDR, both introduced during the financial year, represented significant developments in the EU's framework for sustainable energy investment, ESG disclosure and corporate reporting.

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Kevin Lyon, chair of NextEnergy Solar - 17 June

Undoubtedly, the economic shock of Covid-19 has had a profound impact on energy demand and commodity prices. However, the near-term power price recovery during the second half of the financial year and beyond has underlined the resilience of our sector in the current uncertain environment. The price for electricity is driven by several factors that are proving particularly difficult to predict in the current environment but is ultimately dependent on the supply and demand for electricity. A sustained upturn in demand for electricity will be driven by the pace of economic recovery once the effects of the pandemic fully subside.

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Richard Morse, chair of JLEN Environmental Assets - 10 June

As governments look to "build back better" following the significant level of uncertainty introduced by the Covid-19 pandemic, the outlook is favourable for companies involved in environmental infrastructure. Instead of maintaining the status quo, there has been a measurable increase in ambition from countries around the globe to tackle climate change and set out their individual roadmaps to net zero.

This year the UK hosts the 26th UN Climate Change Conference of the Parties (COP26) who has set out four key goals: to limit global warming to 1.5 degrees celcius; enable communities and habitats to adapt to climate change; mobilise climate finance; and to collaborate to deliver action. This is an opportunity for major

nations to debate and agree upon measures that will achieve these goals and, through this, a vision of what level of investment is required, in what sectors and with what technologies will become more tangible.

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Jonathan Parr, partner and head of energy at Triple Point Energy Efficiency Infrastructure - 3 June

Prime Minister Boris Johnson confirmed in April 2021, that based on the Climate Change Committee's recommendations, the target of reducing emissions by 78% by 2035, would be introduced and is planned to be enshrined into law by the end of June 2021. It continues to build on the UK's commitment to net zero, which will see the nation reduce emissions by 68% by 2030, compared to 1990 levels.

While we view these targets as ambitious, we believe they are necessary and achievable, and they present the Company with a great opportunity to assist in filling the delivery gap. Meeting the Budget's requirements will require all new cars, vans and replacement boilers to be zero-carbon in operation by the early 2030s. UK electricity production must then reach Net Zero by 2035, in line with the National Grid ESO's vision, and the majority of existing UK homes will also need to be retrofitted in some way.

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Property

(compare UK property funds **here**)

Paul Bridge, chief executive of Civitas Social Housing - 30 June

As the vaccine roll-out continues and a greater degree of normality returns what is clear is the ongoing need for a significant increase in the supply of all forms of social housing. It is clear that the government recognises the vital role that both the public and private sector can play in meeting the country's housing need and in particular in the provision of housing with care.

The evidence is overwhelming that housing the most vulnerable individuals in our society in proper homes in the community is of paramount importance and not only transforms people's lives but also is more cost-effective for the public purse.

Civitas sees compelling opportunities to invest further in this sector. A substantial pipeline of over £200m has been developed with long standing and trusted counterparties and a good start made on deploying recently acquired debt facility. The pipeline leaves open the prospect of future equity raises subject to market conditions and investors' views.

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Mark Burton, chairman of AEW UK REIT – 24 June

The lockdown period at the start of 2021 has reversed some of the UK's economic recovery seen in the second half of 2020. However, the general economic outlook is brighter for the second half of 2021, following the effective rollout of the vaccination programme and further easing of lockdown restrictions. We expect this to be reflected in the real estate market in terms of improved rent collection levels and the recovery of rental values and property valuations. However, many tenants

will have benefitted from a range of government support schemes over the past year. As these protective measures are removed, we may yet see a significant surge in the number of corporate insolvencies, and so an element of caution should be retained. The pandemic has accelerated certain structural shifts in the real estate market. We expect that this will present new challenges and opportunities in certain sectors.

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Richard Shepherd-Cross, investment manager of Custodian REIT – 16 June

In ordinary times rent collection and asset management are rightly taken for granted by shareholders but the importance of the close relationships between manager and tenant and the manager's ability to influence the outcome of negotiations has come to the fore this year. From the outside, it may appear that property fund managers have spent the year chasing rent collection and worrying about the pandemic. From our perspective we are largely experiencing business as usual, managing landlord/tenant relationships, and engaging in normal levels of activity in terms of new lettings, extending existing leases, acquiring new assets and selling assets that we do not believe will perform over the medium to long-term.

The important consideration for the outlook for commercial property is occupier demand. If commercial property remains in use by occupiers, then it has a bright future. Occupier demand in the industrial and logistics sector is very strong and forecast to remain so, which is supporting rental growth. We are seeing demand from occupiers on retail parks and in prime town centres but on rebased rents. Offices are likely to continue to be an essential feature of most businesses and we are seeing occupiers look beyond the pandemic to secure appropriate space.

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Nick Montgomery, manager of Schroder Real Estate - 2 June

The impact of the pandemic has been polarised across the real estate sectors, with an average capital value decline of -2.5% for the MSCI Benchmark over the year to March 2021 masking a historically high divergence between the three main sectors of offices, industrial and retail. This is illustrated by the best performing subsector, southeast industrial, enjoying a capital value increase of 10.9%, compared with shopping centres as the worst sub-sector which experienced a -9.8% capital value decline. Whilst polarisation in performance is expected to continue, the divergence is likely to narrow, and capital values are starting to recover. By the end of September 2020, overall UK commercial real estate had seen negative capital growth for 23 consecutive months. Since then, the market has seen positive capital growth for seven consecutive months. By the end of April 2021 (the latest available data point) the rolling three-month capital growth of 1.5% was the highest the market had seen since February 2018. All three main sectors of offices, industrial and retail delivered a positive total return during the quarter to March 2021.

Whilst unprecedented government and central bank policy support has kept interest rates low and supported real estate values and asset prices more generally, government intervention has enabled tenants to withhold rental payments and diluted income returns. This has been accompanied by corporate insolvency measures enabling tenants to restructure landlord liabilities. The retail and leisure sectors have been most adversely impacted by the pandemic. It is important that as measures to protect tenants are lifted, any proposals relating to the treatment of historic arrears fairly treats the interests of both landlords and tenants.

Assuming the successful completion of the vaccine rollout programme and a reopening of the economy, UK GDP should return to its pre-virus level in the second half of 2022. The main driver will be consumer spending, with consumers accumulating an extra £150bn in savings during lockdown. In addition, 2021 should see a recovery in business investment and the chancellor has postponed tax rises until 2022. The rebound in energy and food prices means that inflation is likely to accelerate to 2.5% in the next few months, before easing to 1.5% next year. Higher unemployment as the furlough scheme ends should limit inflationary pressures, with base rates remaining at 0.1% until the end of 2022.

The pandemic response will change government policy in a number of areas, notably with greater emphasis on 'levelling up', which came to prominence after the 2019 general election. In its broadest terms, levelling up is a commitment to address regional inequalities with a focus on visible infrastructure projects such as road-building and high-street regeneration. Whilst this will benefit poorer areas of the UK, the £4.8bn fund will also be targeted at higher multiplier industries which is likely to benefit stronger regional cities such as Manchester and Leeds.

Richard Moffitt, chief executive of Urban Logistics REIT - 9 June

The logistics market remains in focus with property investors and logistics operators due to its outperformance and the forecast for the next few years suggests that this positive trend will continue. The UK continues to be one of the fastest-growing adopters of online retail sales and there is a requirement for all tenants to develop their e-fulfilment capability accordingly. As such, key geographic regions across the UK are seeing buoyant leasing activity with a record level of warehouse space under offer at the end of March 2021.

Behavioural changes formed during the pandemic will have a lasting effect. The unstoppable growth of e-commerce concentrated five years of growth into just a few months. Similarly, online penetration for food stores remains above 10% according to ONS, almost doubling the pre-pandemic share and steering investment from all UK supermarkets to improving their online channels.

Allan Lockhart, chief executive of NewRiver REIT – 23 June

The macroeconomic environment is improving; in May the Bank of England upgraded its 2021 growth outlook for the UK economy from 5% to 7.25%, driven by an anticipated sharp rise in consumer spending. Consumer confidence in the UK economy has returned to pre-pandemic levels and we are well placed to benefit from consumers' growing preference for shopping locally and supporting community assets.

In terms of the investment market, liquidity in retail parks improved during the year and investor demand for regeneration projects also increased over the second half of FY21, especially for assets located in areas with attractive underlying residential values. We are starting to see early signs of an uplift in shopping centre liquidity, and we expect the investment market to improve further as we emerge from the COVID-19 crisis.

Paul Arenson, chief executive of Stenprop – 24 June

Notwithstanding COVID-19 and the three UK lockdowns, the structural imbalance in supply and demand for UK multi-let industrial continued to deliver inflation-beating rental growth throughout the year. We hold the view that this imbalance will continue for several years, as it is still not economically feasible to build multi-let industrial units in most locations at current rental levels and yields, and because in and around many conurbations, supply is also being taken out of the market in favour of other uses such as residential. We estimate that replacement build costs are at least £125 per sq ft, which means rents must rise by a further 30-40% in most regions before development of new multi-let industrial units becomes widely viable, assuming suitable development land is available in and around densely populated towns and cities.

On the demand side, we are seeing increasing numbers of new types of businesses, enabled by the internet, needing multi-let industrial space. These are businesses who have not previously occupied multi-let industrial space and are now realising the value of affordable, flexible space close to towns and cities. Whilst COVID-19 has caused immense disruption to the economy, we can see that the response to it by business is paving the way for greater demand for multi-let industrial units. The internet sales and distribution channels for all businesses have taken another big step forward as the population was forced into isolation and had no choice but to embrace new technology, as well as supply and distribution channels. Home working and the explosion of communication technologies have fostered greater ability to work in a decentralised way, further fuelling demand for multi-let industrial space.

Companies have reassessed their globalised 'just-in-time' supply chains. It is becoming apparent to many businesses that it is not viable to rely solely on geographically distant supply chains from single undiversified sources. We sense an increasing desire from companies to have greater control over supplies and easier access, even if it means more cost. Similarly, retailers have expanded into online trading through websites, and many restaurants have opted for dark kitchens to facilitate the rapid increase in demand for delivered meals. There has also been a significant increase in demand from new businesses benefiting from COVID-19 seeking multi-let industrial space, such as those that are part of the PPE supply chain and those operating in entirely new industries like 3D printing. We believe that this type of strategic switching of business models will continue to drive the structural shift in demand for multi-let industrial units.

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