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INVESTOR

Economic & Political Roundup

Monthly roundup | Investment companies | October 2021

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

Exchange rate	30/09/21	Change on month %
GBP / USD	1.3474	-2.0
USD / EUR	0.8638	2.0
USD / JPY	111.29	1.2
USD / CHF	0.9317	1.8
USD / CNY	6.4448	-0.2

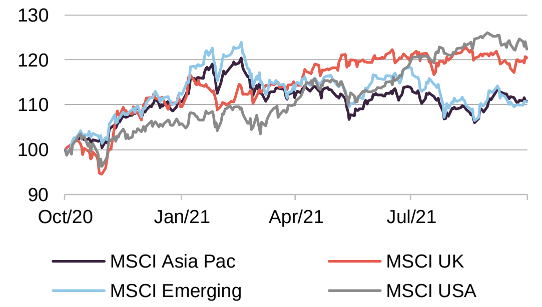
Source: Bloomberg, Marten & Co

Roundup

Views appear divided currently, with those who feel the economic bounceback has more to play on one side, and those who think it has peaked and are now feeling nervous again on the other. The market environment appears slightly contradictory too; numbers are down over September, with the MSCI USA down 2.8% and MSCI UK down 0.3% but M&A activity is soaring and business confidence is almost at pre-pandemic levels. In the UK, rising energy prices and political issues (such as raising national insurance and cutting universal credit) are causing worries for consumers, while many fear going into another lockdown as we approach the colder months and cases seem to be rising again. Investors are equally concerned about what these factors – among others – could mean for the economy.

MSCI Indices rebased to 100

Time period 01/10/2020 to 30/09/2021



Source: Bloomberg, Marten & Co

Indicator	30/09/21	Change on month %
Oil (Brent)	78.52	7.6
Gold	1756.95	-3.1
US Tsy 10 yr yield	1.4873	13.6
UK Gilt 10 yr yield	1.022	43.1
Bund 10 yr yield	-0.2	-48.1

Source: Bloomberg, Marten & Co

Global

Equities good, debt bad

Despite ongoing loose monetary policies, low interest rates and continued significant fiscal support, Zehrid Osmani of Martin Currie Global Portfolio is optimistic on equities. He says they offer an attractive earnings yield compared to bond yields.

Russel Napier, chair of Mid Wynd International, highlights that the total level of debt in the world is higher than the level at the end of WWII. This is triggering extreme reactions from both central banks and governments – which he believes will last for many years.

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Contents

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October's highlights

UK

Gary Channon, manager of Aurora, expects some companies will need more capital as support packages unwind, this may throw up interesting opportunities.

Dunedin Income Growth chair, David Barron, says there has been a shift in the types of companies outperforming, as we have transitioned from relatively buoyant market conditions at the start of the year to seeing economic growth peak around May.

The UK IPO market has been more active in 2021 than it has been for over 20 years

Adam Wotton and Adam Khanbhai, managers of Strategic Equity Capital, highlight that the UK IPO market has been the most active it has been for over two decades. There are also record amounts of 'dry power' in private equity funds which has triggered a 'takeover frenzy'.

City of London's chair, Sir Laurie Magnus, says markets have become used to ultra-low interest rates and large-scale central bank buying of government bonds so any change may lead to turbulence.

The manager of Merchants, Simon Gergel, thinks the UK and world economies should see a continuance of economic recovery, though growth remains vulnerable to restrictions and further waves of infections.

Georgina Brittain and Katen Patel, managers of JPMorgan Mid Cap, believe normality is edging closer and that the UK market has a strong platform for growth thanks to a rise in consumer spending and a better-than-expected economic rebound as well as company results.

The managers of the smaller companies portfolio of Acorn Income say the UK finally faces a brighter future than it has done at any point in the past five years.

Confidence has risen among companies and individuals alike

Jeremy Rigg, chair of Henderson High Income, says confidence has risen among companies and individuals and that there are certainly plenty of reasons to be optimistic.

The managers of Aberdeen Smaller Companies Income say it feels like the recovery rally phase has been sharp but short term, and inflation remains a key issue currently.

The chair of Standard Life UK Smaller Companies is hopeful for improved prospects and greater visibility of outlook for companies and the economy.

Debt

Alex Ohlsson, chair of GCP Asset Backed Income, says uncertainty hovers over companies with public-facing elements, such as co-living and multi-use community facility assets, which were directly impacted by lockdown restrictions, as there is speculation that lockdowns will be reintroduced.

Concerns remain over another potential lockdown

Ian Francis, manager of CQS New City High Yield, expects a larger issuance of debt by corporates, spurred on by their investment bank advisers to lock into the low rates while they last.

The managers of M&G Credit Income feel that there are many risks on the horizon from the spread of a more transmissible strain of COVID-19 to geopolitical risks such as cyber security attacks and continued friction between the UK and EU.

Pedro Gonzales de Cosio, of Biopharma Credit, says an active M&A market has helped to drive opportunities for investors, which he finds encouraging and hopes will build up further.

Non-investment grade credit yields and spreads are making up for the benign default outlook

NB Global Monthly Income chair, Rupert Dorey, says non-investment grade credit yields and spreads are more than compensating investors for the current benign default outlook.

The managers of Blackstone Loan Financing highlight momentum in the CLO (collateralised loan obligation) market which has ramped up over the past 12 months.

Robert J Brown, chair of Marble Point Loan Financing, agrees, and adds that the CLO market also recovered faster than expected from the pandemic. The first half of 2021 was the busiest on record for new CLO issuance.

Renewable Energy Infrastructure

Power prices remain bullish for the next year or two

The managers of Aquila European Renewables Income expect power prices to remain bullish for the next year or so, driven by rising gas prices and positive conditions for EUAs (European Emission Allowances).

Octopus Renewables Infrastructure chair, Philip Austin, says EUAs have reached record levels due to a growing expectation that carbon pricing will be used by governments and the EU as a tool to drive decarbonisation throughout the economy.

The chair of Gresham House Energy Storage says the board is monitoring a number of negative impacts of the ending of lockdowns from rising costs in shipping to supply chain concerns.

The renewables sector in the US has been active throughout the pandemic

Liam Thomas of US Solar feels that the US solar market continues to offer attractive opportunities. Patrick O'D Bourke of Ecofin US Renewables Infrastructure says the renewables sector in the US has continued to be active despite the impact of COVID-19.

The chair of Foresight Solar says clean energy generation is expected to remain a key component of climate change policies of most OECD countries, creating further growth opportunities in the renewable generation sector.

Bernard Bulkin, chair of VH Global Sustainable Energy Opportunities, says there are significant technology and storage capacity gaps in the global energy industry today, that are not and cannot be met with battery storage alone and so additional flexible power generation involving less pollutive natural gas and biogas sources will become indispensable in the next few years.

Tom Williams of Downing Renewables & Infrastructure notes that there continues to be a steady flow of opportunities within the subsidised renewables space.

Rónán Murphy, chair of Greencoat Renewables, says there are increasing opportunities in offshore wind, particularly in the Nordics.

Other

We have also included comments on **North America** from North American Income; **Asia Pacific** from Schroder Asia Total Return – where Robin Parbrook sets out his views on the Chinese market in the wake of greater political interference; **Latin**

America from BlackRock Latin American; **Japan** from Nippon Active Value, Baillie Gifford Shin Nippon and AVI Japan Opportunity; **India** from Ashoka India Equity and India Capital Growth; **country specialist** from Vietnam Enterprise; **flexible investment** from New Star and CIP Merchant Capital; **growth capital** from Schroder UK Public Private and Schiehallion; **commodities & natural resources** from Baker Steel Resources; **private equity** from JPEL Private Equity, Dunedin Enterprise and Oakley Capital; **hedge funds** from Third Point Investors; **insurance & reinsurance strategies** from Life Settlement Assets; **infrastructure** from International Public Partnerships and Digital 9 Infrastructure; **leasing** from Tufton Oceanic Assets; **royalties** from Round Hill Music Royalty and **property** from Supermarket Income REIT, Capital & Regional, Secure Income REIT, Standard Life Investments Property Income, UK Commercial Property, BMO Commercial Property, Aberdeen Standard European Logistics Income and Impact Healthcare REIT.

Global

(compare global funds **here**)

Zehrid Osmani, manager of Martin Currie Global Portfolio - 17 September

Our optimistic outlook for equities remains unchanged despite markets reaching new highs. We continue to see a favourable backdrop for equity markets, due to ongoing loose monetary policies, a low interest rates environment, continued significant and still rising fiscal support and as we continue to see evidence of rapid recovery as economic activity normalises. The significant economic and corporate profits rebound that we predicted for 2021 is well underway. Equity markets continue to offer an attractive earnings yield compared to bond yields. As such, whilst we are aware of the potential bull/bear debate focusing on accelerating inflation, and the risk of rising interest rates that this entails, we believe that we are still facing a supportive backdrop for equity markets globally.

The pace of recovery is proving stronger than we predicted at the end of last year, which is certainly supportive for economies and markets with leading indicators continuing to be positive. Corporate profits growth is coming in stronger than initially predicted, feeding into positive earnings momentum, with earnings growth expectations having moved from +23% YoY at the end of last year, to now c.+43% YoY. We believe that the positive earnings momentum could continue for the time being, albeit at a less sustained pace as the effect of the low base in 2020 moves out of the YoY comparisons. Europe stands out as the region with the most supportive earnings momentum going forward.

The sizeable infrastructure programmes that have been and continue to be announced (such as the sizeable Biden infrastructure program announced earlier this year) have the potential to make this economic recovery a longer lasting one than in previous cycles, given the longer-term duration of infrastructure investment programmes. We therefore believe that the current industrial cycle could be prolonged. It is worth highlighting that beyond this year, as we move into more demanding year on year comparisons post the sharp recovery, earnings growth will become more scarce without the transitory effect of the low base in 2020. This in our view should favour companies that can deliver growth on a consistent and sustained long-term basis.

The value rotation that we have seen in the latter part of last year and into the first part of this year is typical of the first phase of an economic cycle, which is a recovery from a recession, as we mention above. The point to highlight here is that, whilst every economic cycle can be different from the previous ones, the recovery phase of an economic cycle has typically been a short period which has on average lasted for around six months. We believe that we are likely, over the next three to six months, to move into the expansion phase of the economic cycle, where we would expect a broadening of market leadership and more emphasis being brought back towards stock picking. This will require a focus on companies that are able to deliver good earnings growth profiles and steady returns over sustained periods of time, rather than simply based on a sharp rebound from lows such as those seen last year as a result of the pandemic crisis.

The shift in economic cycle from recovery to expansion is typically accompanied by a shift in monetary policy approach towards a less supportive stance, which can typically bring a period of increased market volatility as expectations adjust in terms of central bank intentions.

As predicted, inflation has turned into the most important focal point for the market in 2021 and could be a source of ongoing bull-bear debate related to predictions around monetary policy shifts. For now, it is important to bear in mind that inflation could be coming in stronger due to the low base effect of last year, due to short-term temporary supply-demand frictions as economies reopen, and as temporary bottlenecks remain in place and contributing to the disruption in supply chains that we have seen, notably in sectors such as semiconductors and construction. Logistics disruptions have also added to the bottlenecks, which have also fuelled some temporary inflation.

We note that central banks are forecasting the current spike in inflation to be transient. Further, it is important to assess whether short-term inflationary pressures that we are currently going through will be followed by a sustained pick up in wage inflation, which would be the stronger driver of a sustained long-term inflationary pick up. We also believe that there is still a strong underlying deflationary current coming from ongoing disruption and technological advances such as robotics and automation, that are likely to keep putting downward pressure on wage inflation trends. Therefore it is in our view important not to draw conclusions too rapidly about the long-term inflation outlook. In terms of implications for companies, it remains important to focus on companies with pricing power, as these can manage the inflationary pressures most successfully, even if those pressures are transitory. For companies with less pricing power, we should expect some headwinds on the margin front that could initially be masked by the positive impact of operational leverage coming through from what appears to be a much stronger economic recovery that is globally synchronised.

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Russel Napier, chair of Mid Wynd International - 3 September

The total level of debt in the world, relative to the size of the global economy, has probably now exceeded the level at the end of World War Two. While debt in the government sector is not generally as high as it was in 1945, debts in the household and corporate sectors are many times higher than they were when that war ended. The result is almost certainly that the world is now living with the highest level of debt, relative to Gross Domestic Product (GDP), that it has ever lived with. We do not have very good long-run data for global government, household and corporate debt combined but we do know that from 2001 to 2020 it has risen from 190% of GDP to 290% of GDP and it has almost certainly continued to rise rapidly in 2021. This crippling debt burden is already triggering extreme reactions from both central banks and governments trying to assure the ability of both the public and private sectors to successfully service such excessive debt. Such extreme reactions will likely persist for many years and very likely for more than a decade given how long it will take to reduce debt burdens to less dangerous levels. We should expect the need to reduce this debt burden to be the key underlying trend impacting interest rates, inflation, economic growth, government policy and corporate profits for perhaps a generation - as it was in the period from 1945 to the early 1980s. For the long-term investor there can be some confidence that we know where we are going. It is a very different destination from that which investors set out towards forty years ago. Debt-to-GDP levels had been reduced to very low levels due to high levels of post war inflation which reached punishing levels in the 1970s. We are thus not just living through the usual business cycle but through a major structural change. This structural change brings new challenges to investors.

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UK

(compare UK funds here)

Gary Channon, manager of Aurora - 30 September

Unlocking has been slowed by the latest variants of the virus, but the effectiveness of the vaccines means that this is gratification postponed, not cancelled. Economic activity is surging back to life, and we expect our portfolio of companies to be beneficiaries. We expect a bumper period ahead.

As support packages unwind, we expect there to be some capital needs that may throw up interesting opportunities for us to act. Currently we find the most valuable activity we can do with the portfolio is the most undervalued and underrated of all, which is to do nothing. We would have done a lot better over the past 23 years if we had been better at doing nothing.

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David Barron, chair of Dunedin Income Growth - 30 September

Market conditions have been relatively buoyant since the end of January, continuing the strong returns seen following the approval of effective Covid vaccines in November 2020. For much of the period, market leadership was taken by companies rebounding as sectors hit hard by the pandemic recovered, such as airlines, hotels, banks and oil companies. However, from the end of May, as the rate of economic growth peaked and some concerns over the future velocity of the recovery began to develop, we have seen something of a shift in the types of companies outperforming. Investors have once again focussed on businesses with more visibility over their revenues and greater potential resilience.

From here, the essential question remains whether the economic recovery that is underway can be sustained. While economic data remains relatively strong, there are some signs of slowing momentum amidst the negative impact of virus variants and growing inflationary pressures crimping both consumption and corporate profit margins. We are also seeing a rapidly increasing emphasis being placed on sustainability by all stakeholders, from shareholders to customers to governments.

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Ken Wotton and Adam Khanbhai, managers of Strategic Equity Capital - 30 September

The UK IPO market has been the most active for more than two decades so far during 2021 with analysts at stockbroker Liberum estimating that more than £10bn has been raised during the first 8 months of the year, already more than any year since 2000 with several months of the year remaining. Similarly, record amounts of “dry powder” in private equity funds, combined with still discounted valuations, has triggered a frenzy of takeover activity in the UK equity market ranging from small caps right through to the FTSE100. This represents a double-edged sword for investors who benefit from a short-term share price uplift but then may lose out on the long-term potential of good quality companies that leave the public markets. As an illustration of this point, two holdings, Equiniti and Proactis, were subject to takeover offers from private equity during the period; this is likely to be an ongoing theme.

We continue to expect a strong economic recovery in the UK during the second half of 2021, driven by vaccine penetration, the removal of lock down restrictions, and extensive monetary and fiscal stimulus. At a market level, the discounted valuation applied to the UK and to UK smaller companies in particular remains material. This is still the case despite the exceptionally strong performance since November 2020, and is evidenced by the continuing voracious appetite of foreign suitors, both private equity and strategic, for listed UK assets. We expect this to be an enduring theme which, in conjunction with improving sentiment towards UK markets, will support valuations over the medium term.

Nevertheless, there are a number of potential bumps in the road. The sunny economic outlook is clouded somewhat by heightened inflationary pressures, temporary or otherwise, and contradictory signals from the employment market are compounded by the impending unwind of the government furlough scheme. Further disruption from future Covid variants also remains a possibility that can not be ruled out, whilst the long term effects, particularly secondary and tertiary effects, of the pandemic are yet to be fully understood. As such, the extreme uncertainty that has hung over many sectors and companies will continue to limit short-term visibility. This is likely to drive elevated profit warnings, both positive and negative as the year progresses.

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Sir Laurie Magnus, chair of City Of London - 28 September

The improved profits and dividends reported by companies recently in respect of the first half of 2021 demonstrate the strength of the economic recovery after the sharp fall in 2020. This turnabout has been helped by the unprecedented monetary and fiscal stimulus orchestrated by central banks and governments globally. In the UK, the high household savings ratio accumulated as a result of restrictions on activities, such as overseas holidays, is expected to be released through markedly increased consumer spending.

The recent rise in inflation is being interpreted by many commentators as transitory, with higher commodity prices, especially for oil and gas, being a key driver. The global fiscal and monetary stimulus is expected to be wound down as the recovery becomes more established, subject to the continuing success of vaccines against Covid-19, especially if inflation becomes more persistent. Markets have become used to ultra-low interest rates and large-scale central bank buying of government bonds. A change in policy for these measures will be a test and may result in a degree of turbulence.

The UK equity market offers good relative value as can be seen by the large number of takeover bids in recent months, including the approach for Wm Morrison Supermarkets, where City of London has a shareholding. Dividend declarations by some of our investee companies during the last quarter of the 12 month period and during the first two months of the next financial year have been particularly encouraging.

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Simon Gergel, manager of Merchants - 27 September

The UK and major world economies are expected to continue their recovery. Growth remains vulnerable to restrictions on activity, in response to new variants of the COVID-19 virus and further waves of infection, but a high level of vaccination, especially in the UK, should mitigate this risk. Government and central bank policy remains supportive of the economy, although rising inflationary pressures could lead to higher interest rates down the road.

At the end of July, the UK stock market was almost back at the level it reached before the pandemic. However, the UK remains one of the cheapest major countries, having underperformed most European and US markets significantly since the Brexit referendum in 2016. Furthermore, there remains a high level of dispersion, with many shares trading on very modest valuations. As the pandemic has only had a limited impact on the longer-term prospects for most industries, this set of circumstances has created interesting investment opportunities. The low valuations of many fundamentally sound companies in the UK have not gone unnoticed. There has been a large number of takeover bids in the UK this year, typically from private equity investors or other corporations, and often at substantial premiums to the prevailing share price. If the stock market fails to fairly price companies, we can expect more of these bid approaches.

The high dispersion of UK company valuations has created a good environment for stock picking.

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Georgina Brittain and Katen Patel, managers of JPMorgan Mid Cap - 17 September

At the start of 2021, we laid out in our Interim Report our reasons for being positive on the UK economy, and the more domestically biased FTSE 250 in particular. To date the economic recovery has been even stronger than we expected. Government support towards UK companies over the last eighteen months has been well designed and we believe this has contributed to the pace of recovery. In addition, current unemployment levels are much lower than feared. While the furlough scheme continues to provide support until the end of September, the number of employees benefitting from the scheme has sharply reduced. Other positives include the very strong purchasing managers' data (a good lead indicator which indicates the prevailing direction of economic trends in the manufacturing and service sectors), rock bottom interest rates, and the growing propensity of the stalwart UK consumer to spend again. Recent Barclaycard consumer spending data suggested that non-essential spending in July recorded its highest growth since before the first UK lockdown, up +10.4% versus 2019, with 25% of consumers stating that they have been dipping into their savings to make the most of post-lockdown life. This had been part of our thesis on the roadmap to recovery. UK households significantly increased their savings last year, to the tune of over £150 billion excess savings, and this led us to tilt the portfolio to a significant overweight to the UK domestic economy and the UK consumer in particular. Our largest sector overweight is in General Retail.

There are a number of counters to these positives. First and foremost, in all of our minds, the mutating strains of COVID-19 have seen case numbers rise again in the UK and elsewhere in recent months. However, the link between cases and hospitalisations has decoupled significantly compared to the peak in the UK, due to over 80% of the adult population that have been double-vaccinated. Of additional immediate concern are the current inflationary pressures, in the UK and globally. The Bank of England forecasts inflation to hit 4% by the end of 2021 and then to decline. We will be monitoring this and its impact both on our companies and on interest rates very closely. Further out, there is the magnitude of the UK's debt, and at some point, the inevitable end of Central Banks' asset purchases and the normalisation of interest rates.

Taking these risks into account, we continue to remain very positive on the outlook for our companies and for the FTSE 250 Index. With Brexit completed in December 2020, we finally have an end to five years of uncertainty, and initial indications suggest limited disruption to trading. The index has hit an all time high, and looking out to 2022 is now on a P/E ratio of 15.8x, which is slightly above its long run average. However, earnings are forecast to grow 27% this year and 13% next and we believe our companies will grow faster than this. Whilst we are closely monitoring the impact of global supply chain issues and inflationary pressures, the strength of the economic backdrop is very positive, and the ongoing rush of M&A provides clear evidence of the value seen in the UK stockmarket.

Normality beckons and is coming closer. A stronger economic rebound than expected, a consumer willing to spend, better than expected results from a large number of companies and balance sheets being repaired, all provide a strong platform for growth and we expect this to lead to continued strong performance from our companies.

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Managers of Acorn Income - 17 September

The Smaller Companies Portfolio

Investing in UK smaller companies has required extreme patience and fortitude over the last five years. Since the 2016 Brexit referendum there has been significant uncertainty hanging over the prospects of the country's economic future. In the face of this, asset allocation to the UK fell to exceptionally low levels, the net effect of which was significant outflows from UK assets. Sterling fell to and stayed at historically low levels against other major currencies and smaller, more domestically focussed, companies disproportionately bore the brunt of this headwind. Over this period allocators have preferred relatively expensive growth companies to value/yield stocks and the rest of the world to the UK. Although this environment has been difficult to navigate, it has offered opportunities to populate a portfolio of high quality companies, sitting at attractive valuations, which now face a brighter future than they have at any point in the last five years.

As we commented in our annual review of 2020, the last minute Brexit deal removed the significant risk that has been integral to net fund flows out of the UK and we looked forward with clarity, confidence, and optimism. Combined with recovering Sterling and the successful vaccine role out we still feel a sustained economic and equity recovery is in train. In such circumstances smaller companies tend to capture more of the upside – a trend which has been clearly evident in the first half of the year.

Fraser Mackersie and Simon Moon - Unicorn Asset Management

The Income Portfolio

For much of the first half of the year, the global economic recovery has focussed market attention on inflation. Much of the period has seen inflation data in developed markets such as the US and UK show strong year-on-year gains as demand from the reopening of economies, lingering supply chain bottlenecks and the moves in commodities have exerted strong upward price pressures. This has driven a debate over whether price pressures are transitory or part of a longer term trend. Distortions generated in areas such as the leap in used car sale values have to be taken alongside evidence of the need to raise wages to attract workers back to certain industries. For a more sustained inflationary outlook, we would look for wage rises working their way into the wider economy and for excess savings to find their way back into the real economy however it might be some time until we can identify the true persistence of the trend.

The potential for more sustained inflation saw a material rise in yields over much of the period as investors sought compensation for the risk of having future income eroded, especially as central banks such as the U.S Federal Reserve (the "Fed") appeared to indicate that they were prepared to let the economy run "hot" in order to achieve full employment. However the tone and direction for yields have recently taken a turn as the Fed, pressured by strong data and further fiscal stimulus, surprised markets by turning more hawkish and implying it may raise rates sooner than anticipated. The potential refocus on limiting inflationary pressures was soon joined by rising fears about the strength of the recovery as the COVID-19 delta variant threatens to postpone a full reopening of the global economy, whilst also exacerbating the supply side disruptions already being felt. Again, it appears too early to tell which narrative will turn out to be true and so we remain cautious to potential risks stemming from changes in the growth outlook, the durability of inflation and changes to central bank policies. We are running at a lower duration sensitivity than a bond index whilst also diversifying into alternatives which look to offer better risk-return characteristics. Within the Sterling corporate bond market, we continue to participate in new issues where we see attractive discounts compared with existing bonds for favoured issuers. We are being selective in companies which we either see as being able to continue improving their valuations or have the resilience to withstand any shocks to the market which may arise from a weaker or more prolonged recovery than expected or the tapering of supportive central bank policies.

Easy monetary policy has kept government rates low in a historical context and fiscal policy and the hunt for yield have kept funding costs low for corporates. This means that while fundamentals have been very supportive for credit, valuations feel rich given the uncertainties and we endeavour to avoid complacency.

Chun Lee and Robin Willis - Premier Fund Managers Limited

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Jeremy Rigg, chair of Henderson High Income - 14 September

As we look forward, thanks largely to the tremendous success of the COVID-19 vaccination programme, the outlook and prospects for the UK and global economy have improved significantly. As previously highlighted, policy makers around the world have continued to provide the necessary financial support and liquidity to ensure that economies can function effectively and with the move towards a loosening of restrictions, economic activity has recovered sharply and corporate profitability has bounced back. Confidence amongst both companies and individuals has improved substantially and whilst continuing caution is warranted due to the risk of further COVID-19 variants emerging, there are certainly reasons to be more optimistic looking forward.

The disruption caused to supply chains during the pandemic and the rapid recovery in demand as economies have opened up has caused a short-term increase in inflation. The jury remains out on whether such pricing pressures will be temporary or become more embedded, although in the short-term at least, policy makers appear intent on keeping interest rates low to assist economic recovery.

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Managers of Aberdeen Smaller Companies Income - 14 September

Overall, it feels like the recovery rally phase has been sharp but short term, with earnings season having reversed that focus. Under-performance has taken place into rising markets thus absolute returns were attractive over the period. In a recovery phase, with more of a stock specific focus, we can look forward to sustained strong performance from small and mid-sized companies and more robust relative performance from our process. This is typical of the first half of an economic cycle. While we are positive for the outlook for the holdings in the portfolio, inflation remains the biggest issue. We are seeing supply chain dislocation and a return to labour shortages and wage inflation, not seen for a very long time. We suspect the supply and demand mis-match will be temporary.

Small- and mid-cap companies tend to lead a market recovery, and this gives us a supportive environment over the coming periods. While a value rally may re-emerge, we believe it is over for now. When we look at value shares, many of these businesses fundamentally have uncertain outlooks and challenged balance sheets. We also believe that they are already pricing-in recovery to their earnings, which may not transpire.

The global economy will likely experience a period of growth above trend as it rebounds out of the COVID-19 crisis; however, investor attention will increasingly turn to trying to ascertain a sustainable level of growth over the longer term. We have been pleased with the earnings momentum and good results across the portfolio, with earnings upgrades consistent across the holdings, and we are confident that this will continue through the remainder of this year.

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Liz Airey, chair of Standard Life UK Smaller Companies - 7 September

Over the past 18 months we have been faced with very considerable near-term uncertainties resulting initially from Brexit, then from Covid. We can now hope for a gradual return to something that resembles pre-Covid normality, leading to improved prospects and greater visibility of outlook for investee companies. However, we are now in a period where the uncertainty lies more in the longer-term combined consequences of these events. We must be mindful that they have brought significant - and ongoing - changes in the underlying operating and economic environment for our investee companies which bring both increased opportunity and risk.

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North America

(compare north American funds **here**)

James Ferguson, chair of North American Income - 28 September

The rise in COVID-19 cases and higher transmission risk among those who have been vaccinated has prompted the US Center for Disease Control to reinstate face mask guidelines. With the vaccination rate at around at 59% of the eligible population (those aged 12 or over), infection rates are rising sharply. While we have not seen any lockdown by US states, there is the potential to aggravate global supply-chain disruptions. However, the Manager does not expect these to derail US economic growth. In the short term, labour shortages continue to pose a risk of inflation, which has surged due to disrupted supply chains and reopening pressure. The Fed continues to view these pressures as transitory. The Fed has also suggested that it wants to avoid any sharp changes in policy. Therefore, while the recent data has been more volatile than expected, it is not expected that that the Fed will raise rates until 2022.

Second-quarter earnings have indicated continued momentum as companies have largely delivered strong results and are raising forward guidance. While companies have noted higher input costs (especially in certain commodities), these have broadly been passed on to customers and many companies have an improved outlook for margins because of volume growth. The Manager thinks that this should provide sufficient support for earnings growth in 2021; beyond that, it is expected that the market's focus will shift towards sustainability of growth.

Asia Pacific

(compare Asia Pacific funds **here**)

Sarah Macaulay, chair, Schroder Asia Total Return - 16 September

The Asian region continues to struggle with new variants of COVID-19 causing extended lockdowns in many cities .and countries, exacerbated by low vaccination levels throughout the region. This is an ongoing concern within the region, with significant implications for travel and tourism, for which there is no short-term solution.

However, it is the issue of regulatory policy in China that is currently the central concern for investors as greater state control of key sectors such as internet, technology, education, healthcare and real estate sectors continues to raise important questions about the country's changing regulatory environment.

The landscape in China has undoubtedly changed; however Chinese companies will continue to be an important part of the Company's portfolio. Identifying companies that can navigate and adapt to the Chinese policy environment which is currently being implemented in order to further Chinese governmental priorities, such as digital innovation, green technology and greater social equality, will be key. This changing environment presents risks but also opportunities.

Robin Parbrook, manager of Schroder Asian Total Return - 16 September

The biggest market concern for Asian investors at the time of writing is the fluid and rapidly changing regulatory and policy landscape affecting many sectors in China. This is significant as China is by far and away the biggest stock market in Asia and the sectors affected by the policy moves include the largest ones in China i.e. the internet, technology, financial, healthcare and real estate sectors.

There had been a trickle of concern about the rising risk of Chinese regulation of the internet sector ever since the ANT Group IPO was scuppered at the last minute in November last year. But in July the trickle became a tsunami as the Chinese government clamped down on the education and internet sector in a big way, resulting in a significant market sell off.

With intense regulatory scrutiny and restrictions on overseas listings, do we think it is game over for investing in China tech and the Chinese market in general? Your portfolio managers think not, though as we discuss below we believe the landscape has changed significantly.

But first we need to understand the context of why the state wants to take greater control and oversight of the internet sector in China.

In your portfolio managers' view there are four reasons.

1. National security. This is best highlighted perhaps by the situation at Didi, China's equivalent of Uber. It listed in the US, under the so-called VIE (variable interest entity) structure, which basically creates holding companies that enable Chinese firms to navigate rules forbidding foreign investors from ownership in certain sectors seen as key, such as technology.

During its listing process Didi highlighted how "good" its use of data was, mentioning how it could track where government employees were going. This triggered alarm bells among the Chinese authorities about such data being available in a US-listed company, and they asked Didi to halt the IPO process. Rather foolishly (with hindsight) Didi continued with the process and ended up in something of a quagmire, with its share price falling sharply.

It now appears given the updated SEC rules regarding the audit of US-listed China stocks (and the requirement to provide much more information to the SEC) that most Chinese internet stocks will need to move their primary listings to Hong Kong or delist from the US.

We don't expect this to mean a disorderly unwind of VIE-listed stocks listed in US; however, clearly the direction of travel from both the US authorities and the Chinese ones means it is unlikely stocks with data considered "sensitive" can keep their primary listing in the US.

2. Financial stability. This comes from two angles. Firstly, after the ANT IPO was pulled, the authorities were clearly not comfortable with the way internet/fintech stocks were creating rapidly expanding and possibly excessive consumer debt. As well as creating the risk of bad debts, this was potentially disrupting the state banks, which are one of the key arteries which China uses to direct the economy. Secondly, there are rumours of stress in traditional parts of the economy, particularly the small-medium sized entities (SME), property and retail sectors as disruption from the internet stocks has accelerated. With the risk of bad debts rising, reining in some of the internet stocks' more aggressive activities should lower near-term financial risks.

3. Social stability and mobility. This encompasses a number of areas, but in essence with many middle-class Chinese being squeezed by higher mortgage payments, higher healthcare costs (for both themselves and aging parents) and spiralling private education costs, there appears to now be a decisive shift towards policies that encourage "levelling up".

Clearly, part of the agenda here is to lower the costs and stresses of family life in China and provide a better environment to raise children given China's demographic time bomb. The issues here can perhaps be demonstrated by recent results from LVMH, which had strong results partly on the back of extremely strong sales of luxury handbags to the very rich in China. On the other hand, branded soy sauce producer Haitian Flavouring saw weak results as its middle-class consumers in China traded down due to pressure on their disposable income. Evidently the benefits of growth in China are not being evenly spread. According to the World Inequality Database, the share of the top 10% in national income in China is 42%

(in 2015) which compares with only 28% in 1980 and compares to the US of 45%. Along with rising inequality in China, we have falling social mobility.

Worries over family/urban stress and low birth rates have been discussed for some time in China. The government has clearly decided to act.

It was no surprise that food delivery giant Meituan would be encouraged to provide better health and income to its drivers. And while we expected regulations on educational tutoring to reduce the excessive hours and stress on children, we did not expect the sector to be effectively shut down and turned into a non-profit.

It does indeed appear that the Chinese authorities have decided much of “social” technology is not a positive for society, whether this is for-profit tutoring, gaming, social media sites, community group buy programmes etc.

Instead, as we can see from the latest announcements in China, sport and exercise are now a policy priority. It is very clear what the Chinese government has decided is healthy. Going forward, we would expect more measures to try and achieve the social objectives – these are likely to target areas such as property (reducing prices), insurance (provision of cheaper healthcare policies) and lower healthcare/pharmaceutical charges. This leaves us cautious on all these sectors.

4. Dual circulation. The final reason for the authorities to take more control of the Chinese internet sector may also be to do with China’s “dual circulation” strategy, which was announced in the 14th Five Year Plan in March. This plan has an emphasis on self-reliance in critical areas (batteries, EVs, Internet of Things, AI, biotech etc.) – so has an emphasis on promoting “hard” technology and innovation in key critical areas. “Social” technology (i.e. the internet stocks) no longer appears to be viewed as part of the “high-quality development” targeted in the Five Year Plan and also not aligned with President Xi’s stated agenda to reduce inequality and promote sustainable growth. The government therefore looks to have decided to take more control of what are huge companies and large parts of the economy in order to direct internet companies investment towards those areas considered much more strategic in the dual circulation strategy.

So – what does this mean for investment in Chinese internet stocks? Are VIEs investible? Is it end game for the sector? Are the new bears on the sector right that this is the “new Russia”, so we should sell out?

1. Firstly, on the last point we see little comparison with Russia. This is not crony capitalism or straight misappropriation of assets. We also don’t expect to see a chaotic and disorderly unwind of VIE structures and US listings. China still wants Western capital – opening up of Chinese financial markets is a policy objective (and the one thing we have learned from the last few months is you want to be on the right side of policy in China). We would, however, be worried about owning US-listed Chinese VIE stocks in sensitive sectors that do not have a Hong Kong listing given the regulatory direction from both the SEC in the US and Chinese authorities.

2. However, if we are correct on the comments above, it appears the large internet stocks will have a lower return on invested capital (ROIC) following the regulatory changes. This is likely to be the result of higher salaries for workers (Meituan), lower fintech revenues (Alibaba, Tencent), restrictions on gaming (Tencent, Netease), measures to aid physical retailers (all e-commerce), removal of tax incentives (whole sector) and critically and most importantly directed investment into key sectors that are considered a priority under the “dual circulation” strategy. We consider trend in ROIC as a key factor when analysing a stock – stocks with a ROIC trending downwards typically struggle to perform as the stock market has a

tendency to assume current ROIC trends into perpetuity rather than anticipating a deterioration.

3. The other factor we need to consider when analysing Chinese internet stocks is the Equity Risk Premium (ERP). With the regulatory structure much more uncertain and with the investment direction and priorities changing, and not necessarily to those aligned principally with shareholder interests, we believe we need to apply higher ERPs when calculating our fair values. The other consideration we are working on when calculating fair values is using scenario analysis given the fluid situation. We will admit this is tricky – even our very, very, worst case scenario for education stocks was not gloomy enough.

4. So, given the big falls in Chinese internet stocks do we think lower ROIC and higher ERP are now reflected in prices? Has the stock market adjusted to the new reality? We are not convinced we are fully there.

As of 30 July, for the four largest internet stocks in China (Alibaba, Meituan, JD.COM, Tencent) on Bloomberg there were cumulatively 229 BUYS, 13 HOLDS, NO SELLS. It doesn't feel to us the sell side has adjusted to the new reality. We also worry that we are regularly asked the question "aren't Chinese internet stocks now really cheap vs US peers?". Prima facie this is correct. However, in our mind this is like comparing apples with pears (or China Construction Bank with JP Morgan). Chinese internet stocks, as it stands today, barring a major policy reversal, are operating in a very different regulatory environment to US peers and with very different policy objectives – so they cannot be directly compared.

5. Chinese internet stocks may become more like quasi-state owned enterprises as "common prosperity" and the "greater good" become the priority. This would be similar to how Chinese SOE banks and telecom stocks operate where policy objectives have supressed returns to shareholders but obviously been good for the Chinese consumer and economy.

If the government priority is shifting from fostering the on-line economy to a much greater focus on 'common prosperity' then revenues/margins/ROIC/capex may have to be sacrificed for the 'greater good'. Other large SOE sectors have trodden this path……. from 'growth' to 'value'……

6. So, does this makes Chinese internet stocks uninvestible? No, it doesn't. These are still fantastic companies with amazing platforms, innovative management and in some cases extremely strong cash flow generation. As the dust settles and the panic selling subsides we will start to look at the sector.

Intrinsically, we favour stocks like Tencent and Netease where competition risks are less. Fundamentally we are more cautious on e-commerce due to very intense competition and new formats which even before regulations came to the fore looked likely to drive down margins.

We are now looking to pick up stocks in China but, instead of adding to the Chinese internet stocks, we prefer to look at stocks that have been sold off and are less likely to be directly affected by the new policy direction.

7. Even if we take a worst case for the Chinese internet sector it may not be that bad. Let's assume they become the new Chinese banks (very much a worst-case scenario). Chinese banks have derated significantly over the last 12 years as the market came to realise they weren't going to operate as fully commercial banks but instead as hybrid SOE banks.

For China Construction Bank (one of the better state banks) shows, from 2009 to 2021 the bank has derated from c.3x to 0.5x price to book.

Pretty depressing really; however, if you had bought and held China Construction Bank for the last five years your total return (mostly from dividends) was 34% (6% p.a.). Substantially above the Hang Seng Chinese Enterprise Index which returned 21.7% (4% p.a.). So, while we are not buying internet stocks at the current time, there is a price at which we will want to start building positions.

For the Company, China will remain a key investment area, albeit one where your portfolio managers will tread ever more cautiously. The powerful macro economic case for investing in the country remains intact, but the micro has changed. There remain some fantastic companies in China, and we will be on the lookout for oversold stocks in areas less exposed to regulatory risk.

Looking at other key positions in the Company the biggest individual sector exposure is to technology (in this context we are not referring to internet stocks which we classify as consumer companies). One of our key focus areas is to ensure we are in the "right" areas of technology longer term.

Similarly to the US, the fastest growing technology sector in Asia is likely to be software and services. We have some exposure here, primarily in Indian IT services but ideally would like more. We would expect the Company's weighting in software and services to rise over time as we expand our research coverage.

Currently the Company's main technology exposure is in semiconductors, both fabrication and design, and we remain very comfortable with the long-term outlook for this sector. The Company has limited exposure to the hardware side of technology. We have tended to view hardware in Asia as mostly a lower value-add assembly/manufacturing industry with relatively low growth as has proved to be the case. Good volume growth in technology hardware, whether PCs, smartphones, TVs or tablets tends to be offset by rapid product deflation, and this is what makes it a low margin, lower-growth industry. This is one of our reasons for caution on solar panel manufacturers and most electric vehicle (EV) companies – these are primarily electronic hardware goods that, like smartphones and flat panel televisions, whilst much better products than those they replace are likely to face permanent deflationary pressures. This is likely to mean for many players in the sector it will be a tough industry to make money in. In our opinion current high valuations of solar and EV plays do not reflect the fundamental reality of those industries.

Overall, at the time of writing (early August), we are relatively cautious on prospective Asian stock market returns. Our top-down valuation indicator is flagging caution with valuations not far from the peak levels they were before the Global Financial Crisis, but not yet at the extremes of the TMT (Technology Media Telecoms) bubble in 1999/2000.

Around half the stocks our analysts cover still have upside to their fair value. This perhaps best reflects our views – parts of the market still look reasonably valued and we are comfortable with our positions, however certain sectors like the EV, green energy plays, biotech and the internet stocks discussed earlier look stretched and this leaves us cautious near term on the outlook for Asian stock market returns for the second half of the year.

Latin America

(compare Latin American funds **here**)

Ed Kuczma and Sam Vecht, managers of Blackrock Latin American - 17 September

We expect economic activity to enjoy positive momentum in the region during the second half of 2021 as vaccination rates accelerate and economies reopen amid fiscal and monetary stimuli. Despite the risk posed by new variants of the virus, the appetite for new mobility restrictions seems low. We see upside risks to GDP growth forecasts for most of the region given robust global demand for bulk and soft commodities, for which many Latin countries will benefit from given the abundance of natural resources in Latin America's export mix. Chile, Brazil and Mexico have shown improving economic momentum from vaccine distributions and increased mobility. Argentina and Peru are likely to be the laggards in the region amid high political uncertainty.

In Brazil, the economic recovery resumed after a relatively brief interruption following the Carnival holiday due to the strong pandemic rebound in March and part of April. Industrial production was stable in June after rising in May, yet it ended the second quarter of 2021 down from the first quarter, dragged by the larger drops in March and April. It is possible that the slower pace of recovery in the industrial segment is partially explained by insufficient inventories and other temporary bottlenecks and not simply weak demand, as confidence indicators have been recovering since April/May. Retail sales data continues to recover throughout the second quarter however the shock from late in the first quarter has not been fully assimilated yet. Even though retail sales and services grew in April and May, they are still below February 2021 levels. Still, as authorities continue to reduce movement restrictions in most states amid record vaccination rates, the expectation is that the recovery will gain pace during the second half of the year, particularly in services. As of early August, new daily COVID-19 cases and deaths are at their lowest levels since December and January, respectively, and Delta counts remain relatively low, although there is some concern that the more contagious strain could still create a new wave. Nearly 50% of the population has received at least one dose of the vaccine, while 20% is fully immunized. Despite the expected near term uplift from economic normalisation on the back of increased vaccine distribution in Brazil, the country faces a number of headwinds in 2022 including uncertainty around a polarised Presidential election next year, stubbornly high inflation, lingering pressure from high levels of government indebtedness and questions regarding the government's willingness to maintain credible fiscal policy.

In Mexico, quarterly GDP reports showed sequential expansion and confirmed the significant recovery in the services sector. On the other hand, primary and industrial activities grew strongly supported by low base effects from the pandemic shock a year ago. We think there might be some upside risks in the second half of the year as the economy benefits from close proximity to the United States, supporting Mexico's manufacturing export sector. Although the main risk to our view continues to be the current wave of new COVID-19 cases, we see limited risks from this as the government has ruled out imposing new mobility restrictions while it continues with its vaccination roll-out efforts amid fewer deaths than in previous waves. During July, some high-frequency indicators such as Google's mobility reports and OpenTable reservations continued to improve. Hence, services like sports, entertainment and restaurants, which are still the most affected sectors, might continue to gradually recover. Despite our optimism, we acknowledge risks remain around the deterioration of the COVID-19 backdrop, high inflation and rising rates which could cap the upside.

In Chile, we have seen a consistent trend of upwardly revised growth forecasts and Chile should be one of the first countries in the region to see GDP return to levels above pre-pandemic readings. We expect additional sequential growth in the second half of the year, as economic activities continue to reopen as cases decline and the vaccination programme advances. The government is implementing a cash transfer program starting in June that is worth 1 percentage point of GDP per month until September, implying that the balance of risks to growth forecast remains tilted to the upside benefited by strong levels of consumption. Coming from such high levels, we believe that next year's growth could slow as fiscal stimulus is reduced and the chance for political uncertainty to negatively impact investment increases as the country enters a highly contested presidential election in the fourth quarter of 2021.

In Colombia, we see a mixed balance of risks between the economic reopening and social unrest but generally expect market consensus estimates for growth to keep moving higher. Activity data recently released showed that the protests over tax reform that took place during May had a smaller-than-expected economic impact. Moreover, leading indicators suggest that May’s temporary social disruptions have been overcome through June and July and the recovery process remains on track. The reopening of the economy, fiscal stimulus and a rebound of oil production should help sustain the recovery.

In Argentina, economic activity has been weaker than seen elsewhere because of lockdowns in the first half of the year. However, economic activity is likely to rebound sequentially going forward as restrictions have started to be lifted. In fact, manufacturing and construction have posted sequential monthly expansions recently, which is an encouraging leading indicator. Macroeconomic imbalances continue to pose challenges for a sustained recovery in the country and in this context the country is also facing legislative elections in the fourth quarter that could impact business confidence.

Peru is likely to be the laggard of the region. The recovery already started to lose momentum through the second quarter of the year, with an estimated contraction amid high political uncertainty generated by the new Castillo administration that was inaugurated on 28 July. We expect business confidence to deteriorate and investment and consumption decisions to be put on hold. The first actions taken by the Castillo administration appear to suggest that moderation from radical campaign rhetoric is unlikely for now. Instead, the administration seems headed towards a confrontation with Congress in its push to hold a Constitutional Assembly. We expect capital outflows to persist and weakening fundamentals to lead to rating downgrades. It is noteworthy to mention that a great deal of uncertainty has already been reflected in weak currency and equity prices which could present a long term opportunity for patient investors amid current discounted valuation of asset prices.

Japan

(compare Japan funds **here**)

Rosemary Morgan, chair of Nippon Active Value - 24 September

At the end of the period under review, there were two developments in the regulatory environment. The first was an update to the Corporate Governance Code, which strengthens the requirement for independent directors and encourages greater scrutiny of intra-group transactions to ensure that minority shareholders are not disadvantaged.

At the end of June, the Tokyo Stock Exchange announced more details of the reorganisation of the listing structure, which will replace the Tokyo First Section with the Prime Index in June 2022. Companies seeking inclusion in the Prime Index will have to meet a minimum market capitalisation requirement (though there will be a very generous grace period) as well as meeting higher corporate governance standards, including having a majority of external directors. We believe that these initiatives, as well as the continued support of the Japanese government to improve corporate governance in Japan, provide a supportive background for corporate activism in Japan.

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Managers of Baillie Gifford Shin Nippon - 21 September

In our most recent annual report, we noted the disruptive effects of the pandemic on the global economy. While the situation has moderated since then, thanks chiefly to ongoing vaccination programmes across most countries, a full-blown recovery feels some way off. Most developed economies have made meaningful progress with vaccination, but a number of emerging countries continue to face numerous challenges. Despite a painfully slow vaccine approval process, Japan has quickly caught up with most of its developed market peers in terms of vaccination rates. The high uptake of vaccines and falling hospitalisation rates in developed markets have encouraged governments to lift restrictions, resulting in a gradual return to normality for individuals and businesses. However, given the uneven nature of progress in vaccination across developed and emerging economies, investor sentiment has invariably remained one of caution.

Under these fluid and uncertain circumstances, the Japanese market remained subdued. For the six months to 31 July 2021, the MSCI Japan Small Cap index rose by 1.7%. High growth internet stocks were among the major beneficiaries of the pandemic last year. However, we have seen a reversal in investor sentiment over the past six months. Aggressive profit taking and a preference for cyclical companies has meant that numerous high growth small cap stocks have given up a lot of the share price gains made last year.

Despite the disruption caused by the pandemic, we remain cautiously optimistic about a return to normality. Vaccination efforts across the globe are proceeding at a steady, albeit uneven, pace and in some countries, we are already seeing some normalisation in business conditions. The dislocation caused by the pandemic across global equity markets, Japan included, is giving rise to some exceptional investment opportunities for us. More encouragingly, the pandemic is also forcing through some very positive and much needed changes in business attitudes across Japan. Companies are being forced to adopt modern working practices, including the increased use of IT, and this is creating new growth opportunities for smaller companies in Japan. This combination of an expanding addressable market, a deepening pool of investible companies and attractive valuations gives us much cause for optimism and excitement at the prospect of unearthing and investing in such fast-growing smaller companies in Japan.

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Joe Bauernfreund, manager of AVI Japan Opportunity - 16 September

Japan has been slower than the US, UK and Europe to approve and rollout a vaccine, and this appears to have impacted stock market performance. Whilst the MSCI America, Europe and Asia Pacific ex Japan have returned 13.4%, 10.6%, and 5.3% in the first half of 2021, the MSCI Japan is up only 0.2% (all in GBP).

The good news is that Japan is now rapidly ramping up its vaccine rollout programme. Since early June the number of vaccines being administered daily has jumped to over 1 million. At the current pace, the expectation is that by October Japan will have administered more vaccines per person that the EU and US. At some point therefore, we are confident that the Japanese stock market will play catch up with the rest of the world on the re-opening trade.

Fundamental Operating Environment

The recovery in sales and profits some companies have experienced since the summer of 2020 has been extremely strong. The majority are now back to pre-COVID levels of profits and some have even surpassed them. Whilst companies were quick to downgrade forecasts as the world grappled with the uncertainty of COVID-19, many have been slow to revise them back upwards. Despite companies surpassing those forecasts in recent quarters, share price performance in many cases has been lacklustre. This reflects a lack of investor interest rather than any fundamental concern. As earnings continue to grow, we expect share prices to follow.

Shareholder Activism

Much shareholder engagement was delayed during 2020 because of the pandemic. Many investors took the view that they needed to give companies time to see how the virus played out before making public demands. However, there is evidence that corporate activity levels are increasing. We expect several more similar transactions to occur in the coming years.

Corporate Governance Reform

In addition to pressure from the increasing number of activist investors in Japan, companies are also facing pressure from the regulators to continue to improve corporate governance and to focus to an ever greater extent on shareholder returns. The revision to the Corporate Governance Code requires subsidiary companies to have a greater proportion of independent directors, whilst changes to the stock exchange listing rules will make it more challenging for some companies to retain their listing in their present form.

Over the past weeks the Japanese equity market has increased sharply. Change of political leadership, along with a successful rollout of the vaccine have led to increased optimism about the prospects for the Japanese economy and for the stock market. With valuations remaining on wide discounts to other markets, Japan represents an attractive destination for investors to focus on.

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India

(compare India funds **here**)

Andrew Watkins, chair of Ashoka India Equity - 30 September

The emergence and growth of such technology disruptors could be transformational for India and recognising the businesses to back plays right into the hands of this Company's skilled stock pickers. Occasionally, the opportunity to invest is available whilst these businesses are still privately owned, one that should not be ignored if due diligence is favourable. The maximum exposure to all pre-IPO (Initial Public Offering) investments is 10% of gross assets (at the time of investment) and the Board imposes an additional internal limit related to those investments in subsequent post-IPO lock-in periods to ensure the aggregate exposure does not exceed 15% of gross assets (at the time of investment). This is an area on which the Board keeps a prudent eye to ensure the correct portfolio balance is always maintained whilst also recognising the potential gains of first-mover advantage.

The Modi Government retains a business-friendly approach and, whilst some of the reforms have not met with popular acclaim, the move towards a more open economy must be the right approach if India's intention to compete with China for global trade is to be realised. This intent becomes more realistic by the day as global companies reassess their exposure to China.

As the world emerges from the worst effects of COVID-19, India's economy is well placed to benefit with a young, adaptable workforce and market reforms that should enable it to continue a robust trend of economic growth. As part of a diversified, balanced portfolio, an investment in Indian equities remains as compelling as ever.

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Manager of India Capital Growth - 29 September

Although participating in Indian equities is a true test of nerves, this is a thrilling time for investors to be exposed to the world's largest democracy.

For although India has delivered handsome returns in the past, in relative terms few foreign institutional or retail investors have ever backed this market unreservedly. In fact, the last 16 months has seen almost continual outflows from institutional funds dedicated to Indian equities. Instead, investors choose to "rent" Indian equities rather than have a "buy to hold" strategy hoping to time both the entry and exit points, knowing this is harder than it sounds. As such, without the conviction to ride out the volatility through the cycles, not many will have enjoyed such a healthy CAGR (Compound Annual Growth Rate).

So, what has changed to make us believe that *this time is different*? Why now do we believe that the fasting period is over as India looks set to join the long-term investors' menu of choice? More importantly perhaps, what does this mean for the market, since much of this positive perception shift may already be priced in.

First has been a critical shift in the Government's focus. Since early in Modi's first term, the PM's focus has been to restore macro-economic stability and shift India away from a patronage-based system of doing business to a rules-based system. This has been an arduous process, problematic to implement and highly disruptive to businesses used to "getting things done" through informal channels. Nowadays, "picking up the phone to Delhi" is no longer an option for Corporate India and although this sea change is encouraging for "ease of doing business", it has had a damaging impact on growth and profitability, particularly on the back of haphazard policy implementation. Whilst there is always more reform to accomplish (the recent news that the Government has rescinded the laws around retrospective taxation is an example), the overriding Government agenda has altered now it is believed that the heavy lifting has been achieved. Policies are now about restoring growth through investment, particularly considering recent Covid induced disruption. The Budget in February set this tone, with an increase in infrastructure spending of 35% year on year, the intended privatisation of several public sector entities, an infrastructure monetisation programme, and the creation of a bad bank to ease banks' balance sheet constraints. Covid's second wave undoubtedly delayed these initiatives (a senior Government Minister closely involved died of Covid), but as life returns to normal, the growth agenda is uppermost once more. Production Linked Incentive Schemes (PLISs) have been introduced across several sectors to encourage, or subsidise, the private sector to invest in capacity to manufacture products onshore that have been historically imported from China. Foreign Direct Investment (FDI) is reaching all-time highs, as is the value of exports, buoyed by a global economic recovery, significant improvements in India's competitive positioning vis a vis other emerging economies, and multinational corporations adjusting long term strategic planning on China, if only at the margin.

Second is the fast tracking of digitalisation across all levels of Indian society. We can all identify with this phenomenon, but the timing of this mainstreaming for India was particularly significant, coinciding as it did with the completion of India's technology ecosystem, or "stack". The combination of the completion of the biometric identity scheme enabling direct KYC, the opening of one bank account per household, sufficient fibre optic capacity nationwide, smartphone handsets at $50, the cheapest mobile data globally and the United Payments Interface (in total, the "stack") have blended to enable a rapid shift to digital adoption across multiple industries, sectors and subsectors, fast-tracked as it has been by the pandemic.

India is seven to eight years behind China in terms of internet users, e-commerce, and digital adoption, but expects to catch up at a higher growth rate. There is little representation in the listed equity markets currently. Whilst the US Digital and Tech sector represents circa 30% of S&P500 market capitalisation, in India it is barely 1%. However, this is starting to change. In July, Zomato, India's equivalent of Deliveroo, was the first major tech company to list, with a market value of $14bn, 35x subscribed and a share price rising 50% on day one.

This successful listing is expected to trigger a long pipeline of private equity and venture capital investors looking to raise both primary and secondary capital on India's exchanges through the sale of digital and tech companies, giving listed investors the opportunity to benefit from this tectonic shift in consumer and commercial behaviour.

India has the right demand and supply dynamics to enjoy multi decadal growth in the new economy given the large addressable market, the successful role models that exist within the India diaspora, the entrepreneurial and talent availability on the ground (25% of the world's tech engineers are India based), and now the funding. Since January, the digital start up eco system has raised $27bn confirming an inflection point in the capital raising cycle has been reached. Of the circa 800 Unicorns (private companies with a business valuation of > US1bn) in the World, around 53 are in India with an aggregate business value of ~$190bn. Of these, 26 of them have become Unicorns just in the last 18 months. Furthermore, there are already 25-30 "soon-icorns" (expected to become Unicorns). How these companies are valued and how the portfolio gains exposure to these themes are issues to be wrestled with, but these trends have a positive network effect across the economic spectrum. Equally, it also shifts India's investment narrative away from disappointing growth, disruptive reform and Covid, and towards the opportunities to invest in the new economy in a young and vibrant population. This a major step change to which investors are only just beginning to wake up, as India becomes a realistic alternative to China and a meaningful investment opportunity.

Third is the rapid and ongoing formalisation of India's savings which is providing incremental capital to fund this growth, as well as reducing volatility in the stock market. Equities are benefiting from increasing participation by the mutual fund industry that is contributing over $1bn a month of flows coming from systematic investment plans (SIPs), many emanating from second and third tier towns. The distribution of savings assets in India between physical and financial is approximately 80% to 20%, where in the UK it is the inverse at 20% to 80%. China sits at 56% in physical and the balance in financial, implying that Indian equities can expect to see ongoing inflows for many years before a parity is reached. In addition, we anticipate that India will be included in global bond indices which will create demand for India sovereign paper overseas (currently India has no credit trading offshore) incrementally reducing the crowding out impact of government borrowing. This is a multi year process that will take time to impact, but the direction of travel is clear and irreversible.

The BSE500 market has risen 24.9% in Sterling terms since the beginning of the year (having risen 9.6% in 2020) and valuations are above the long-term average. Hence, India's equity markets do not look cheap relative to either their peer group or indeed their own history. However, debt to equity levels for the top 500 companies are at seven year lows and profitability (aggregate return on equity, ROE) is at its lowest level since 2002. Mid and Small cap companies lagged their Large cap peers from 2017 onwards, but this trend has reversed with the former outperforming by 16% year to date. A shift in the Federal Reserve's commentary about the pace of monetary tightening would be expected to adversely impact Emerging Markets, including India, as would the Reserve Bank of India's expectations around domestic inflation which has been rising. Connected to these risks is ongoing upward pressure in international oil and commodity prices that impact inflation and will be passed through to consumers over time. India's handling of the Covid crisis highlighted the underinvestment in healthcare infrastructure which caused a devastating impact in all parts of the population both rural and urban, rich, and poor. Today, India stresses its preparedness for a third wave but how this would play out and how the market will react is uncertain. These short-term considerations should be put aside as attention would be better focused on the underlying dynamics that are driving the rapid development of India's economy and the consequences that will emerge for patient investors.

Country specialist

(compare country specialist funds **here**)

Stanley Chou, chair of Vietnam Enterprise – 8 September

Vietnam's economy remained resilient in the first half of 2021, posting GDP growth of 5.6%, despite being negatively affected by two new waves of the virus. This demonstrates the underlying strength of the economy, which will provide a platform for the country's growth once the new outbreaks are contained.

The key driver in Vietnam's economic performance for the first six months of the year was manufacturing, which expanded by 8.4% year-on-year. This was reflected in robust trade numbers, in which exports increased by 28.5% to US$158 billion and imports increased by 36.3% to US$159 billion. Increased imports supported production and much of the surge came from inventory restocking. The resulting trade deficit was US$1.5 billion and is widely expected to be reversed in the second half of 2021. Foreign Direct Investment ("FDI") was broadly maintained in the six months with registered FDI slipping 2.6% to US$15.3 billion, due to travel restrictions, while the disbursed FDI rose 6.8% to US$15.3 billion. However, the domestic economy grew at a slower rate and contributed less than other components of GDP as COVID-19 continued to spread and social distancing was instituted. Services, which account for 41% of GDP, increased by 4.0% and agriculture, which accounts for 12% of GDP, increased by 3.8%.

The Vietnamese stock market was among the top performing indices in the world in the first half of 2021 and hit an all-time record high of above 1,400 points in June 2021. The market continued to be buoyant with liquidity surging nearly fourfold to an average daily traded volume of above US$811.5 million in the first six months of 2021 and reaching a record high of nearly US$1.3 billion in early June 2021. The low interest rate environment drew local retail investors into equities and new retail account openings increased more than threefold in the first six months of 2021 compared to the same period of 2020. Foreign investment has reduced in the year to date, but we expect it will rebound post-pandemic with developed markets expected to return to pre-pandemic levels, making frontier and emerging markets more attractive to investors seeking higher potential returns. The recent technical upgrade of the Ho Chi Minh Stock Exchange ("HOSE") trading system is expected to allow the market's liquidity to remain above US$1 billion per day and support the Vietnamese equity market performance.

Vietnam is now dealing with further waves of COVID-19, especially with the Delta variant, like many Southeast Asian neighbours. Vietnam has secured a supply of 120 million vaccine doses. It is anticipated that vaccines will arrive in large volumes during the fourth quarter of 2021 and that by the end of 2021, around 40-50% of the population will have been offered a vaccine, with 70% offered in the first half of 2022. Meanwhile, the current wave could impact business performance in the second half of 2021, with market GDP forecasts revised down from 6.0% previously to 5.0%. The Government still maintains the initial GDP growth target of 6.0-6.5%. For investors, the key focus remains on performance and expected earnings. We remain confident for a strong 2021 performance ahead of market, mainly driven by the big banks, property, and steel players. We expect valuations to remain competitive compared to peers.

The Government is expected to continue providing financial aid and tax relief packages and infrastructure projects are being accelerated. Inflation has remained low at 2.4% in the first half of 2021, while there remains a gap between the maximum public debt cap of 65% and actual debt of 55% at June 2021, which could allow further Government growth initiatives. Vietnamese exports could also increase as demand from Western economies grows following their re-opening. We believe that in the long-term Vietnam still offers one of the strongest structural growth outlooks among developing markets, led by industrialisation and urbanisation.

Flexible Investment

(compare flexible investment funds **here**)

Managers of New Star - 24 September

Global equities gained 39.87% in local currencies over the year to 30th June 2021 but only 25.10% in sterling due to the pound's strength while global bonds returned 2.63% in local currencies but fell 8.20% in sterling. Ultra-loose monetary policies, unprecedented fiscal stimulus programmes and some successful Covid-19 vaccination programmes led to a rebound in the world economy. The strength of sterling, up 15.02%, 11.80% and 5.89% respectively against the yen, dollar and euro, resulted from the European Union-UK trade agreement, which averted a hard Brexit. Gold and gold equities fell 14.07% and 14.01% respectively in sterling as investors favoured risky assets over some safe-havens such as gold.

Leading central banks eased monetary policies to support economic recovery and mitigate the impact of fresh waves of the pandemic. The Federal Reserve bought more than $80 billion of treasury securities and $40 billion of agency mortgage-backed securities per month in pursuit of its dual mandate to deliver maximum employment and price stability. In August 2020, in a significant policy shift, the Federal Reserve moved its inflation target from a fixed 2% to a 2% average. The move implies that inflation may exceed 2% for some time before monetary policy tightens.

In June and December 2020, the European Central Bank (ECB) increased its Pandemic Emergency Purchase Programme bond purchases by €600 billion and €500 billion respectively to increase the programme from €750 billion to €1,850 billion. Market purchases will continue at least until March 2022 and maturing principal payments will be reinvested until the end of 2023. In July 2021, the ECB followed the Fed's lead, shifting from a target to keep inflation "below but close to 2%" to a 2% average. The Bank of England remained dovish, fearing that "premature tightening" might undermine the UK's recovery. In August 2021, the Bank's monetary policy committee voted to maintain the total target stock of bond purchases at £895 billion.

Since the 2008 global financial crisis, central bankers have encouraged governments to support monetary easing with fiscal easing. Covid-19 lockdowns provided the catalyst for major stimulus programmes. By autumn 2021, fiscal measures were winding down in some countries but the new US president, Joe Biden, had introduced measures that emulated Roosevelt's New Deal in the 1930s in their scope. In November's elections, the Democrats gained control, albeit by a narrow margin, of both houses of Congress in addition to the presidency. The $1.9 trillion American Rescue Plan was enacted in March 2021, resulting in cash distributions to households. In August 2021, agreement was reached on the $1 trillion Bipartisan Infrastructure Investment and Jobs Act although its passage was delayed to allow debate over a potential $3.5 trillion of additional measures.

Inflation, particularly in the US and UK, was stronger than anticipated over the year under review despite higher unemployment and lower workforce participation compared to pre-pandemic levels. Pent-up consumer demand, materials shortages and disrupted supply chains contributed to inflation rising above central bank targets. US headline inflation in July rose to 5.4% and the personal consumption expenditures index, the Fed's chosen inflation measure, reached 3.6%. UK headline inflation was 2.1% in July while the initial estimate for eurozone inflation in August was 3%. Jerome Powell, the Fed chairman, became more hawkish, suggesting higher inflation might prove "more persistent" rather than "transitory". Price pressures may ease as supply catches up with demand and reduced lockdown restrictions lead to higher demand for consumer services at the expense of consumer goods. Manufacturers may, however, retreat from globalisation policies and increase their resilience by increasing supplier numbers and holding higher stocks of raw materials and finished goods. Consumers are likely to face higher prices as companies move from "just in time" to higher-cost "just in case" manufacturing. Over the longer term, monetary easing, fiscal easing, demographics, as workforces shrink relative to ageing populations, and decarbonisation goals may all contribute to rising inflation.

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John Falla and Rob King, directors of CIP Merchant Capital - 30 September

Following the outbreak of the COVID-19 pandemic in 2020, the world has gradually adapted to a new paradigm, as is intrinsic of human nature. Many industries have now recovered since the sizeable downturn of March 2020 and kept progressing, despite some volatility. In general terms, the key global equity markets have registered increases of between 10% and 20% over the first six months of 2021.

At a deeper level, there are a variety of dynamics at play, with many technology related companies performing well, other industries such as car dealerships recovering strongly, whilst more challenged sectors such as aerospace are still struggling to recover due to extremely reduced demand.

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Growth Capital

(compare growth capital funds **here**)

Tim Creed and Roger Doig, managers of Schroder UK Public Private - 21 September

Equities rebounded over the first half of 2021 as vaccination programmes were rolled out, social distancing measures relaxed, and economic activity recovered. Many lowly-valued and economically sensitive areas of the market outperformed in anticipation of a very strong global recovery. There was, however, a rotation back towards more defensive areas of the market over Q2 due to a combination of factors, including that expectations growth may have peaked. Central banks remained committed to ultra-loose monetary policy as they judged a pick-up in inflation to be largely transitory in nature.

Five years on from the UK's vote to leave the European Union it appears that investors are endorsing the prospects for UK equities again. The removal of the Brexit overhang, the low interest rate environment, strong economic data and growth forecasts, and a vaccination rollout programme that has been executed without major disruption, have all seemingly combined to fuel more positive investor sentiment around UK equities. Global fund managers are overweight UK equities for the first time since 2014, according to Bank of America Merrill Lynch's June 2021 Global Fund Manager Survey. However, the valuation discount of UK equities to global peers remains extended in a historical context. This opportunity has been underlined by the recent flurry of M&A interest and activity regarding UK companies. In the first six months of 2021, 13 UK-listed companies were subject to buyout bids from private equity - the highest figure since 1999 and compared to just 4 in each of the first halves of 2019 and 2020. It also serves to highlight the opportunity for us as active managers, both in the public and private areas of the UK equity market.

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Peter Singlehurst and Robert Natzler, managers of Schiehallion - 3 September

It remains our thesis that it is possible to gain access to some of the best opportunities in private markets via being a truly long-term and aligned investor. Sadly, many early-stage private investors are constrained to become forced sellers after private companies pass into the listed markets. This necessarily drives an increased investor focus on avoiding short-term tactical missteps that is often frustrating to founders and management teams who remain intent on the seizing the long-term strategic opportunity.

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Commodities & natural resources

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

Howard Myles, chair of Baker Steel Resources - 15 September

In the past 6 months markets have continued to be volatile as investors struggle to balance the deflationary pressure from the Covid-19 pandemic and the inflationary pressure from government stimulus programmes coupled with historically low interest rates. On balance inflation is likely to be the winner of this battle which will be good for precious metals especially if negative real interest rates persist. It is clear that one of the main beneficiaries of these stimulus programmes and the recovery of the global economy will be commodities, particularly those metals required for improving infrastructure, especially related to the energy transition as countries look to "build back better".

While broader stock markets appear to be highly valued based on historical norms, mining share valuations have lagged considerably and look undervalued in absolute and relative terms to the general market. Some commentators are forecasting that the commodity markets are entering a new "supercycle" due to strong supply/demand dynamics.

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Private equity

(compare private equity funds **here**)

Managers of JPEL Private Equity - 30 September

The outbreak of the COVID-19 continues to impact global commercial activity and has contributed to significant volatility in financial markets. However the current environment continues to be favourable for realisations of well performing private equity assets.

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Duncan Budge, chair of Dunedin Enterprise - 16 September

While the disruption created by the pandemic has continued to be a focus for our portfolio companies during the period under review, their generally strong financial position has provided some protection.

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Investment advisor of Oakley Capital - 9 September

It is testament to the resilience of private equity that the industry has rebounded so strongly since the depths of the pandemic. Over the past 18 months, deal-making and fundraising have surged to new records, and private equity firms are now sitting on more than $2.2 trillion of so-called "dry powder"1 ready to pour into new investments. That is pushing up valuations, especially in the "hot" sectors that have performed so well during the pandemic, such as technology and business software. This market exuberance inevitably raises investor concerns about the impact it may have on future returns as more money chases fewer deals.

The growing surplus of capital in the private equity market means there is robust interest in acquiring our businesses when it comes to exit, supporting high valuations. Meanwhile the disruption caused by the COVID-19 pandemic has forced businesses to completely change the way they work, and private equity is no exception, with key activities including deal-making and fundraising impacted.

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Hedge funds

(compare hedge funds **here**)

Board of Third Point Investors - 13 September

As we head into the second half of 2021, the Manager sees the backdrop for risk assets as compelling. Financial conditions remain loose, fund flows are healthy, the savings rate is high and policy is broadly supportive. Although vaccine progress has stalled in certain geographies and concerns are rising over risks of the Delta variant slowing recovery, overall rates of protected populations are creating reopening tailwinds, especially in service-based sectors.

Although we will likely continue to see volatility as the market comes to terms with the push and pull of cashed up consumers and the eventual tapering of monetary and fiscal support, the Manager believes that idiosyncratic elements and a balance of drivers will help it navigate successfully the remainder of the year. There is a mix of secular growth companies like Upstart and SentinelOne tapping into burgeoning markets, steady compounders like Danaher levered to increased healthcare spend, and more value-oriented names with defined catalysts like Prudential and Pacific Gas & Electric. Meanwhile, as supply chains normalize, some beneficiaries of short-term bottlenecks which are currently trading on high multiples and peak earnings should present compelling short opportunities.

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Debt

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

Alex Ohlsson, chair of GCP Asset Backed Income - 28 September

As noted in the 2020 annual report, the Covid-19 pandemic continues to present significant uncertainties and challenges for underlying borrowers and the global economy.

The biggest impact has been felt in the portfolio by assets with public-facing elements (being the co-living and multi-use community facility assets) which have been directly impacted by lockdown regulations restricting hospitality and travel sectors from operating. Certain additional conditions impacting travel remain in place and there continues to be speculation over whether lockdowns will be reintroduced later in the year, giving continued uncertainty to these asset operators.

The manager continues to see opportunities for investment in a variety of sectors which remain underserved by mainstream lenders and has a strong pipeline to deploy funds returned through repayments.

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Ian Francis, manager of CQS New City High Yield - 17 September

The first half of our financial year featured the twin spectacles of Brexit and the US election as well as Western economies lurching between opening (remember "eat out to help out"!) and locking back down again. The only positives appeared to be stock markets looking ahead and the vaccine news announced towards the end of 2020.

As we entered 2021 and we started to see a way out of lockdown the UK economy signalled that it was ready for a post lockdown recovery, with business activity expanding and a rise in new orders being seen. The UK economy this year is all about how much of the mothballed spare capacity and furloughed workforce can come back on stream and how quickly the demand side recovers. The other major difference is that we now risk inflation rapidly increasing due to supply side shortages and commodity price inflation pushing prices higher, rather than the healthier demand led inflation, which signals a strong economy. The services side of the economy is also showing strength, with demands for restaurants, hotels and leisure for staycations in full flow. Forecasters are predicting that this strong growth will persist along with higher inflationary pressure, the latter will be the worrying factor later in the year.

The Eurozone also saw a surge in the demand for goods and services, which was at its steepest for 15 years with the lockdown restrictions being eased to their lowest since October last year. This has had a particularly positive effect on service sector activity and close to record growth in the manufacturing sector, but employers are still having difficulty filling vacancies and experiencing record supply chain delays. The imbalance between supply and demand is pushing inflationary pressures sharply upwards, and how long this lasts is crucial to the long term stability of economies. Much like the UK, Europe is hoping for the supply of raw materials to come back in line with demand in short order.

In the US, the story is very similar to that of the UK and Europe with output expanding rapidly, supply chain disruption leading to soaring costs and backlogs of orders rising at the fastest rate on record. Again, there is mention that companies are unable to hire sufficient staff, this may be because employees are being pickier as to what jobs they want to do, or that they are making the most of federal and local government payments until they run out in July. Hence, the backlog of work as firms fail to meet demand. We wait to see how this pans out when the subsidies cease.

The future as always is difficult to predict. We have inflation rising and spreading from financial assets into the real economy, the prospect of tapering in the United States sooner rather than later, and in Europe the winding down of quantitative easing also looking near the top of the agenda as inflation levels are worrying Germany and France. We would expect to see larger issuance of debt by corporates spurred on by their investment bank advisors to lock into the low rates whilst they last. For the UK economy a lot depends on the hope that inflation is a short-lived entity and the shortage of staff in various industries is fulfilled by the unfortunate employees being made redundant when furlough is ceased, but there is definitely a danger that many will not want to work for the same remuneration they did previously. Finally supply chains need to improve quickly as scarcity of product itself is leading to upward pressure on input and output prices. The next twelve months will hopefully see markets and economies coming more into line with each other, but there is a definite risk that this is not a smooth ride for either.

Managers of M&G Credit Income - 16 September

As inflation continues to ramp up, fundamental credit analysis of issuers and their cash flow profiles will become more important than ever in assessing relative value. In such an environment, our extensive research capabilities of over 100 analysts covering public and private credit means we are well positioned to continue to seek the right investment opportunities for the portfolio.

There remain many risks on the horizon as we enter the second half of the year. Most notable of these is the spread of a more transmissible strain of the COVID-19 virus, the Delta variant, which is already leading to economic growth forecasts being revised. In some countries there remain heightened geopolitical risks, particularly discord between the US and China, recent cyber security attacks and continued friction between the UK and EU following the former's official exit from the European Union.

We view the main threat to market stability as the tapering of economic stimulus by central banks and how it is signalled to investors. Economies have rebounded more swiftly than anticipated and inflation in the UK and US has spiked notably beyond the long term target of 2%, with the latter far more pronounced due to its outsized fiscal stimulus. However, the recovery has been uneven with employment remaining below pre-pandemic levels and a premature pullback of accommodative monetary policy could damage the longer term economic recovery. The issue is complicated in that the risk is double edged, as continuing to provide fiscal stimulus to an already overheating economy could lead to undesirably high inflation for years to come, which may prove difficult to reverse. Therefore, the predominant theme in markets as we enter the second half of the year is the discussion on whether the current levels of inflation are 'transitory' (resulting from pent-up demand caused by social restrictions but expected to reduce over time) or 'persistent' (a structural shift indicating longer term inflationary trends.) The action of central banks in response to the challenge of the evolving inflationary environment looks set to have the biggest bearing on the path of the economic recovery as we continue through 2021 and into 2022.

If current market conditions persist, we will continue to increase the yield of the portfolio by selling public bonds, realising capital gains and reinvesting proceeds into new private investment opportunities. This rotation into higher yielding private assets with stronger structural protections will further improve the credit quality of the portfolio. There is currently a healthy deal pipeline of private opportunities offering yields in line with our long-term target.

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Pedro Gonzalez de Cosio, co-founder and CEO of Pharmakon, managers of Biopharma Credit - 15 September

The life sciences industry is expected to continue to have substantial capital needs during the coming years as the number of products undergoing clinical trials continues to grow. All else being equal, companies seeking to raise capital are generally more receptive to straight debt financing alternatives at times when equity markets are soft, increasing the number and size of fixed-income investment opportunities for the Company, and will be more inclined to issue equity or convertible bonds at times when equity markets are strong. A good indicator of the life sciences equity market is the New York Stock Exchange Biotechnology Index ("BTK Index"). While there was substantial volatility during the period, the BTK index grew 3 per cent. during the period, compared to 13 per cent. during the first six months of 2020. Global equity issuance by life sciences companies during the period was $59 billion, a 6 per cent. decrease from the $63 billion issued during the first six months of 2020. We anticipate a slowdown in equity issuance coupled with greater appetite for fixed income as a source of capital during the remainder of 2021.

Acquisition financing is an important driver of capital needs in the life sciences industry in general and a source of investment opportunities. An active M&A market helps drive opportunities for investors. Global life sciences M&A volume during the period was $111 billion, a 516 per cent. increase from the $18 billion witnessed during the first six months of 2020, driven mainly by an increase in M&A activity globally as a result of COVID-19 pandemic restrictions easing. We are encouraged by the number of M&A opportunities that are starting to build up which should lead to a more active market in the near term.

Despite the challenging environment due to the COVID-19 pandemic, we continue to carefully track and monitor the Company's operations and its service providers, and we have not experienced any technical or operational difficulties during the pandemic. COVID-19 continues to cause major disruptions across the globe however we have confidence in the performance of our loans and there has not been a material impact on the credit quality of the Company's investments. We will continue to monitor the pandemic and will inform investors of any material changes to this assessment.

Global transition away from USD LIBOR has been postponed to July 2023. As of today, major financial institutions continue to use USD LIBOR as a reference for USD loans and other financial instruments and will be permitted to continue to do so until January 2022. The industry received further clarification from the Alternative Reference Rates Committee (ARRC) following the July 2021 meeting. The recommendation for most new instruments that reference USD LIBOR is to transition away from LIBOR to Secured Overnight Financing Rate (SOFR).

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Rupert Dorey, chair of NB Global Monthly Income - 8 September

While yields on bellwether long-dated government bonds-the US 10-Year Treasury, UK 10-Year Gilt and German 10-Year Bund-have declined recently even though inflation and indicators of real economic growth have been robust, it is primarily central bank bond purchases that are keeping rates lower than the economic fundamentals might imply. We would expect the reduction of accommodative policy measures, or "tapering" to put upward pressure on real rates as we move through the remainder of the year. Combined with the potential for higher trend inflation, nominal government bond yields would likely be biased upward along with the potential for steepening yield curves. This would be a favourable environment for much lower duration, higher yielding fixed income sectors such as non-investment grade credit, especially as the majority of issuers continue to report better-than-expected operating results, have been able to refinance at lower yields and have ample liquidity on balance sheets.

Many market participants and central bankers believe that the recent rate of increase in consumer price inflation is transitory or temporary due to base effects working their way out of the numbers, as we emerge from the pandemic. That said, central bankers have moved toward a position of incremental vigilance as a result of some very strong CPI prints recently, such was the case with July's U.S. CPI inflation of +5.4%. In our view, both headline and core inflation should settle into a slightly higher range than pre-pandemic levels but not at such elevated levels as recent reports suggest. Hence, we would expect a continued range-bound environment for central bank policy rates for the remainder of 2021, with an upward bias in 2022/2023 reflecting a durable global economic recovery, albeit with risks stemming from further COVID variants slowing the above-trend robust pace of real GDP growth that is currently forecast. The current economic environment and credit conditions are favourable for non-investment grade fixed income, which offers a low-cost hedge against inflation, attractive relative yields, broad diversification across sectors and themes, and issuers geared to improving economic growth and pricing power. Indeed, most high yield and loan issuers would actually benefit from improved pricing power and rising commodity prices as most have the ability to pass along price increases to buyers, especially given improvements to productivity and innovation brought about by coping with a pandemic. This time versus the "taper tantrum" of 2013 the tapering of quantitative easing measures should involve less of a "tantrum" by market participants as the removal of emergency measures and programmes has been more widely communicated and expected in this cycle. While more taper talk could result in some increased market anxiety, we would view any volatility spurred on by a shift from highly accommodative policy toward more normalized policy as an opportunity to invest in credits at more attractive valuations.

European and U.S. service sectors have been reopening step by step but with caution as the new Delta variant of COVID-19 remains a risk to a more aggressive reopening trajectory. In addition, from July, the Euro Recovery Fund will start to distribute "grants" to individual countries, supporting capital expenditure for the coming quarters. In such a context, the European Central Bank will have the objective of maintaining the decoupling of euro bonds from global bonds. Moreover, it will not let financial conditions tighten prematurely.

The periphery of Europe, which is still fragile, needs European Central Bank ("ECB") support through the Pandemic Emergency Purchase Programme ("PEPP"). Thus, the ECB has introduced new flexibility in its bond-buying program for the third quarter 2021. This should enable a smooth start to PEPP tapering, which could be justified later with the first signs of inflation accelerating in Northern Europe.

Recent ECB forecasts have supported optimism on the economy, increasing projected GDP from 4% to over 4.5% for 2021, which we believe could push the Bund yield close to 0% in the third quarter of 2021, with some volatility in periphery spreads.

In our view, the ECB's September forecasts should show more acceleration, leading the central bank to schedule the end of the PEPP for March 2022. Overall, similar to the Federal Reserve, a policy transition is beginning, but we expect the ECB to actively manage any market impact from the Fed's shift, as conditions in the Eurozone continue to warrant a more aggressive easy policy stance.

Non-investment grade credit yields and spreads are more than compensating investors for the current benign default outlook, will continue to provide durable income, and are especially attractive compared to other fixed income alternatives.

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Managers of Blackstone Loan Financing - 22 September

Bank Loan Market Overview

Leveraged loan markets started 2021 on strong footing as the rally in risk assets continued. Markets were buoyed by the continued global rollout of COVID-19 vaccinations, with an additional tailwind from global monetary and fiscal stimulus implemented in the prior year. Many market indicators pointed to a broad-based recovery which culminated in year to date returns of 2.91% and 3.48% for European and US leverage loans, respectively, notably surpassing the returns achieved throughout all of 2020.

Following the onset of the pandemic, the wave of CCC downgrades and defaults anticipated had been avoided in a meaningful manner. Concurrent with economic activity reverting to a more 'normalised' state, corporate fundamentals displayed a tangible improvement after a strong first quarter results period. Earnings for the second quarter, whilst not yet announced, are expected to show further improvement. Paired with slowing debt growth, we expect that corporate issues should be well equipped to grow into their higher levered capital structures brought forward from 2020.

The US loan last-twelve-month ("LTM") par-weighted default rate ended June 2021 at 1.3%, down from 4.4% at the end of 2020. Defaults for European Loans were lower at 0.5%, compared to 1.2% at the end of 2020. Whilst there has not been a revision for European Loans, J.P. Morgan lowered their US loan default expectations to 0.65% and 1.25% for the end of 2021 and 2022, respectively, just as the ratio of upgrades to downgrades for US loans reached 2:1 at the end of June.

Complementing improving corporate fundamentals was a well-balanced technical backdrop. Contributions from both debt refinancing and increased M&A activity led to an increased pace of European and US loan issuance. Year-to-date gross supply was €82 billion and $417 billion compared to €65 billion and $395 billion for the whole of 2020, respectively. Healthy demand for loans has resulted in the market being well bid despite the increased issuance, resulting in the average price for European and US indices increasing to €99.10 and $97.96 from €98.64 and $95.73 at the end of 2020, respectively. Similarly, European and US loan spreads (represented by 3-year discount margin) tightened by 19 bp and 43 bp over the same period to 403 bp and 443 bp, respectively. Record-setting Collateralised Loan Obligation ("CLO") creation, a search of yield in Europe, and demand for assets with an inflation and interest rate hedge contributed to healthy inflows, allaying concerns of oversupply.

The broader risk-on sentiment continued to drive outperformance of CCC-rated assets and COVID-19 impacted sectors. However, as we approached the end of June, signs of softening were starting to emerge due to a rise in the Delta variant, stoking concerns of another prolonged spike in COVID-19 cases across the globe, with implications for the real economy. Looking forward to the second half of 2021, we will continue to monitor any effects in the markets that we invest and position our portfolio appropriately.

CLO Market Overview

Momentum in the CLO market gathered pace through the year. CLO liability spreads trended towards multi-year tights and increased confidence in both underlying collateral quality and CLO structures themselves led to a sharp increase in CLO activity. Managers aiming to capitalise on the low cost of funding originated new CLOs, but more noticeably, those aiming to reduce the cost of debt or lock in longer reinvestment periods took to the market in earnest. As such, year-to-date total CLO volumes in Europe were €53.5 billion, which exceeded any full year activity ever recorded, and $220 billion in the US, which was nearly double that of 2020. Re-financings and resets dominated this activity, accounting for 72% and 63% of European and US volumes. This optionality is a key benefit for CLO equity investors who as a result would be afforded higher expected future cashflows in aggregate and an immediate increase in equity net asset value as a result.

In the first quarter, demand for CLO debt was broad based across tranches. After the rally in risk assets pushed global credit spreads tighter, CLO debt seemed increasingly attractive on a relative value basis given the low yield environment. However, as the second quarter progressed, US and European CLO liability spreads retreated from their lows under the pressure of heavy supply. We understand investors were full on allocations after investing heavily earlier in the year, ultimately leading to an upwards readjustment in CLO liability spreads as we moved towards June. In Europe, AAA-rated CLO spreads finished at 94 bp at the end of June after hitting lows in the high 70 bp region in March (compared to 105 bp at the end of 2020). Similarly, US CLO AAA-rated spreads were 113 bp as of the end of June after reaching 100 bp in March 2021 (compared to 132 bp at the end of 2020).

In tandem with improving collateral quality and robust loan market performance, CLO fundamentals improved in 2021. In Europe, CCC buckets fell from 6.4% at the end of 2020 to 5.0%, and defaulted assets to 0% from 0.3% over the same period. There was also an improvement in Weighted Average Rating Factor ("WARF") by 281 to 2,890 and an increase in junior overcollateralisation ("OC") cushions by 53 bp to 401 bp during the first half. Weighted Average Asset Price ("WAP") also increased by 1.1 to 99.0 and Weighted Average Spreads ("WAS") decreased by 7bp to 370bp. Notably, CLO equity market value NAVs increased by 12.6 to 63.4.

In the US, CCC buckets improved to 5.9% from 7.7%, defaulted assets fell to 0% from 0.5% and WARF metrics declined by 2014. Likewise, junior OC cushions increased by 107 bp to 384 bp over the same period. WAP also increased by 1.4 to 98.7 and WAS decreased by 6 bp to 371 bp. CLO equity NAV also posted an impressive gain of 17.3 to 61.6.

As we look forward, CLO supply is expected to grow further, albeit at a slightly slower pace experienced year to date. In Europe, total full year CLO supply is forecast to be €75-€90 billion, an increase of 31%-57% from the midyear point. Total US BSL CLO supply is expected to increase by 47-62% to $300-$330 billion over the same period, setting a full year record if achieved. Although liability spreads have recently widened, our belief is that the attractive relative value versus other fixed income asset classes may continue to attract investors and keep a ceiling on any material repricing. With global loan prices having largely returned close to par, focus for equity investors has reverted back to a natural spread arbitrage. As such, we expect supply to continue but again with refinancing and reset activity accounting of the majority.

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Robert J Brown, chair of Marble Point Loan Financing - 13 September

Following a strong finish to 2020, loan and CLO markets continued their momentum into the first half of 2021. Loan and CLO markets have recovered faster than anticipated from the COVID-19 pandemic and have seen very high issuance volume during the first half of the year. The first half of 2021 was the busiest on record for new CLO issuance with US$82.4 billion of new issue volume according to S&P's LCD. Additionally, there was US$66.6 billion of refinancing volume and $70.1 billion of reset volume. Receptive CLO liability markets have laid the foundation for consistent CLO creation and repricing activity. Managers have taken advantage of tightening yields to lower the costs of debt for deals priced at wider spreads during the peak crisis months and in years prior.

Strong demand for loans as a result of the robust CLO new issue market and, to a lesser extent, retail fund inflows, have led to a rise in secondary prices as the average indicative bid price of the CSLLI increased to 97.96% at 30 June 2021 from 95.73% at 31 December 2020.

Periodic rates of return are compounded to 12-month default rate for the Index since May 2019. This is expected to continue through the remainder of the year as average vaccination rates continue to increase allowing governing bodies to loosen restrictions on business activity. However, emerging COVID-19 variants and lower than anticipated vaccination rates in certain populous areas of the United States remain a significant threat that may derail progress in the global recovery.

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Insurance & reinsurance strategies

(compare insurance and reinsurance funds **here**)

Michael Baines, chair **of Life Settlement Assets - 27 September**

The Life Settlement Market has been largely unaffected by the coronavirus pandemic. After some initial increase in mortality, particularly among patients in nursing homes, the insured lives underlying the policies in which the Company has an interest would appear not to have been significantly affected - as these insured lives were generally better protected from the crisis, benefitting at least initially from increased public health measures, less activity due to lockdowns, and restricted or controlled access to nursing homes.

In terms of correlation to broader financial markets, the secondary market did experience some requirement for liquidity and redemptions from open-end funds. In contrast, supply was reduced at the beginning of the pandemic as potential sellers waited to determine the effect of the pandemic on the market. These factors primarily resulted in increased volatility rather than steep losses which is evidenced by both the current steady market activity, and the continued performance of closed-end funds which are not prone to liquidity pressures and forced selling.

Renewable energy infrastructure

(compare renewables funds **here**)

Managers of Aquila European Renewables Income - 29 September

During the first half of 2021, we witnessed a general recovery in power prices across Europe, from very 'depressed' levels. 2020 was a very volatile year with an important downturn in power prices, as lockdown measures extended throughout Europe. In the first half of 2021, however, power markets improved considerably, underpinned by three principal factors:

- The prices of EUAs increased by nearly 60.0% driven mostly by higher demand (i.e. speculative trading/attention of new investors), a lower availability of EUAs on the market, and a generally more pronounced political momentum in favour of decarbonisation across the EU;
- Other commodity markets also experienced a significant rebound (i.e. gas, coal, oil);
- There was a recovery in power demand, driven by stronger economic growth.

In renewables-abundant markets, such as Iberia or the Nordics, the impact of more hydropower and other renewables in the generation mix partially offset a pronounced increase in power prices.

2021 Average Daily Power Price - AERIF's Electricity Markets

Power prices are expected to remain in a bullish trend for these markets over the next year or so, driven by positive conditions for EUAs, as well as rising gas prices driven by a favourable demand-supply balance. For Greece, the picture is similar, and further supported by a significant share of thermal capacity (i.e. lignite and gas) which contributes to generally higher power price levels than in Spain or the Nordics.

EU Green Deal

Back in 2019, European Commission President Ursula von der Leyen announced the ambitious goal of making Europe the world's first climate-neutral continent. While this goal was initially pushed into the background by the pandemic-related crisis, it is currently the focus of international economic stimulus programmes. There is widespread agreement that investments in the energy transition are not only urgently needed to prevent a climate catastrophe but that they will also have extremely positive effects on the real economy. Against this background, an increasingly growing number of countries are following the EU's strategy.

In addition to combating climate change, a "green recovery" will have significantly positive effects on labour markets. Furthermore, there are potential growth impulses from new technologies whose sales markets are growing massively and globally. The combination or complementarity of these events could mark a turning point that significantly accelerates technological development, acceptance and the speed of change.

For a sustainable reconstruction of the economy as well as higher resilience within Europe, the multi-annual EU financial framework has been extended until 2027. Moreover, additional capital will be made available through a "recovery fund". Of the

EUR 1.8 trillion available, 30.0% must be invested in green projects, while investments in climate-damaging projects are excluded for the remaining 70.0%.

EUR 750 billion within the recovery fund provides a strong incentive for countries to make the recovery sustainable. The need for short-term economic stimulus measures is high. However, access to the funds is dependent on national investment plans, which are reviewed by the EU and must include at least 37.0% for climate change mitigation.

The EU's climate policy is at a crossroads. The EU is pursuing a 55.0% reduction in greenhouse gases by 2030 and, in many member states, there is already a clearly increasing momentum behind the expansion of renewable energies. However, especially in the CEE region, dependence on fossil energy sources remains at a very high level. Coal, in particular, is still used intensively. According to a new EU regulation on air pollution, which is to be adopted in national legislation from 2021, an enormous proportion, in many cases even 100.0%, of coal-fired power plants do not meet European standards. This could lead to early decommissioning of hard coal and lignite power plants or there could be retrofit investments, but these are financially risky as the future operating hours of the coal-fired power plants are uncertain.

In order to achieve the reduction targets the EU has set, a decreasing amount of emissions allowances is to be expected. While prices have already developed dynamically since 2018, the linear reduction of emission permits leading towards a 55.0% reduction in emissions by 203040 will strongly influence the running costs of coal-fired power plants in particular, hence, the price of electricity that can be achieved on the market will tend to increase. The producers of renewable energy profit directly from price increases.

Conclusion

The European Union has established very ambitious targets to combat carbon emissions. These have been ratified by European leaders in the signing of the "Green Deal", in which they have committed 30.0% of the EUR 1.8 trillion allocated as an economic stimulus for the block. Renewable energies have been at the forefront of Europe's energy transformation over the past two decades and it's clear they will play a key part in achieving the goal of reducing 55.0% of greenhouse gases by 2030.

During the last six months, electricity prices have experienced a steep recovery, driven by increasing energy commodity prices, a demand recovery and a restoration of the economy in the region after the extensive lockdown measures of 2020.

Philip Austin, chair of Octopus Renewables Infrastructure - 27 September

Decarbonisation and the investment opportunity

As we approach COP 26 in Glasgow this November, societal and political momentum behind decarbonisation remains extremely high. Even the International Energy Agency (IEA), which was created to maintain the security of international oil supplies and has been traditionally seen as a relatively conservative voice on decarbonisation, has called for a complete ban on new fossil fuel development as part of its Net Zero by 2050 Roadmap. In the UK, the government adopted a world-leading carbon budget, requiring a 78% reduction in emissions from 1990 levels by 2030.

However, electricity demand is rising more rapidly than the supply for renewable energy generation, with the IEA reporting that more than half of the increase in global demand is set to be met by fossil fuel generation, particularly coal. This underscores the demand for further investment into renewable generation.

Bloomberg New Energy Finance (BNEF) forecasts that in Europe, approximately 900GW of new renewable capacity is expected to be built by 2040, corresponding to investments of approximately £952 billion (in 2019 real terms). This is equivalent to an expected £45.3 billion (in 2019 real terms) of investment annually until 2040.

Since the period end, further announcements have been made which support the Company's investment strategy.

- In July, the European Commission adopted the 'Fit for 55' package, targeting a 55% reduction in carbon emissions from 1990 levels by 2030. Key measures include a strengthening of the EU Emissions Trading Scheme, and an amendment to the Renewable Energy Directive to increase the mandated contribution of renewables to energy use from 32% to 40%. The increase to 40% corresponds to building 30GW per annum of new wind capacity between now and 2030, compared with current levels of 15GW per annum.
- In August, the UK Government launched its Hydrogen Strategy, targeting 5GW of low carbon hydrogen production by 2030. As well as opportunities for investment into hydrogen production itself, successful delivery of the Hydrogen Strategy will require significant incremental investment into core renewable electricity generation technologies of wind and solar.
- In September the UK Government announced details of the fourth allocation round under the Contracts for Difference scheme, including support for up to 5GW of onshore wind and solar to be delivered between 2023 and 2025, as well as uncapped capacity of offshore wind and a dedicated budget allowance for floating offshore wind.

Investment landscape

New capital has been flowing into the sector from a range of investors, including strategic players such as oil majors seeking to decarbonise their business models, as well as increased allocations to strategies with strong ESG credentials. The Investment Manager has observed a number of transactions with very high valuations, implying strategic buyers ascribing significant value to factors such as unsecured life extensions, repowering or addition of ancillary technologies (e.g., batteries or hydrogen electrolysis) which, given their uncertainty are not currently included in the valuation of the Company's assets.

Power prices

During the period there has been a dramatic increase in near-term power pricing across European markets, continuing the increase seen in the second half of 2020. The key factors behind the increases include:

- Increase in demand as economies recover from COVID-19 related lockdowns
- High gas prices, driven by a combination of low levels of gas in storage, heightened demand due to coal-to-gas switching, limited supply due to pipeline maintenance and competition from Asian demand for LNG deliveries
- Carbon pricing, which has risen to over €60/tonne in the EU ETS and £50/tonne in the new UK scheme

For the next decade or more, gas (and for a shorter time in certain parts of Europe, coal) generation is expected to be the technology which sets the electricity price most of the time. There is growing expectation that carbon pricing will be used by governments and the EU as a tool to drive decarbonisation throughout the economy, and this is reflected in EU emissions allowances having reached record levels of over €56 per tonne in May and remaining over €50 since. New highs of over €60 were reached in late August. Since the UK ETS scheme opened for trading in May, pricing has been consistently in excess of £40 per tonne and has risen above £50 in August. For context, a typical modern gas power plant produces around 0.4 tCO_2e per MWh of electricity generated so a carbon price of £50 per tonne contributes around £20 per MWh to the power price.

Longer term price forecasts have not shown the same increases. Updates released by advisors in April 2021 showed material reductions in forecast capture pricing for solar generators in Great Britain, driven principally by increases to the amount of new generation capacity assumed to be built in the period to 2040, especially offshore wind. This was a continuation of a trend in forecasts observed since the second half of 2019.

With forecast capacity assumptions now closely aligned with ambitious government targets for new renewable generation, forecasters have slowly begun to pay closer attention to factors that could have a dramatic impact on the level of power demand. It is worth noting that the Climate Change Committee, who advise the UK government on decarbonisation and whose carbon budget has been adopted as law, project that to achieve net zero we need power demand to increase to between 600 and 900 TWh per annum, as electric vehicles, electric heating and green hydrogen production increase massively to replace carbon intensive alternatives.

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John Leggate, chair of Gresham House Energy Storage - 20 September

We commented on COVID-19 in the Interim Report and Accounts in 2020. It is pleasing to be able to paint a very different picture 12 months later.

First, demand for power has recovered and may even be showing signs of growth as we migrate to electric vehicles and use more computing power as a nation. This, combined with higher commodity prices (natural gas and carbon in particular) and a rising percentage of renewables, is starting to unlock the much-anticipated positive strategic backdrop for energy storage.

The ending of lockdowns has also meant that site and construction operations are back to normal.

There have been negative impacts, however, that we are monitoring. The most significant are rising costs in areas like shipping, supply chain impacts and insurance. We do not expect these to persist indefinitely however, and there has been no material impact to date.

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Liam Thomas, CEO of New Energy Solar, manager of US Solar - 20 September

The US solar market continues to offer attractive opportunities. President Biden has clearly made the climate change and decarbonisation one of his administration's core priorities, with a series of executive orders, pressure on federal agencies to speed up their clean energy transition, and most recently his bipartisan

Infrastructure Investment and Jobs Act, which allocates over $60 billion to power infrastructure.

The White House has backed this up with plans to further extend and expand of the successful investment and production tax credits. We expect these will benefit the solar rollout, supporting the administration's goal for solar to increase tenfold to 30% of US power production by the end of this decade.

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Alexander Ohlsson, chair of Foresight Solar - 16 September

Climate change initiatives and the UK Government net zero targets are expected to continue to create a positive investment environment for renewable energy generation and energy transition acquisitions in the markets in which the Company operates. The UK will be hosting COP26, the 26th UN Climate Change Conference of the Parties, in November this year, a key milestone in the fight against climate change.

Clean energy generation is expected to remain a key component of climate change policies of most OECD countries, creating further growth opportunities in the renewable generation sector. As sustainability-driven objectives become more prominent within the investment community, the increase in clean energy generation is expected to also be matched by increases in capital allocation. In addition, the power price recovery experienced in 2021 to date is expected to further support the investment in subsidy-free assets. Consequently, battery storage systems, either standalone or co-locating with renewable generation, are also anticipated to become increasingly utilised as further grid stability will be required to respond to the intermittent nature of new renewable energy generation.

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Bernard Bulkin, chair of VH Global Sustainable Energy Opportunities - 13 September

The global opportunity set remains vast. In August 2021, the United Nations Intergovernmental Panel on Climate Change (IPCC) released a detailed report about the current trajectory on climate which provided for grim reading for policymakers. More action is required to avoid the catastrophic scenario of accelerated growth in GHG emissions. Strong policies to support private capital investments in sustainable energy, combined with more government spending in energy systems directly and related infrastructure, is going to be the focus of the attention of the global community. Reversal of policies to deal with climate change will become less and less tolerated. More incentives and a broader shift in the energy mix will be crucial and will create even more investment opportunities.

Our view on the Brazilian energy market and its attraction for investment remains positive, particularly within the distributed energy space. The energy system has been subject to a long and well-supported series of privatisations over the last two decades, and a process of unbundling the previously central functions of generation, transmission and supply has been implemented successfully, with significant private sector participation. The continuing need for energy underpins our view of favourable demand-side dynamics in Brazil. Supply of energy is bifurcated between a regulated market undertaken by regional distribution companies that source generation and provide supply to captive end users, as well as an unregulated, energy-only market, with suppliers and buyers of energy setting price on supply/demand factors. Given the historic need for regional distribution companies in the regulated market to pass on the costs of upgrading power generation, transmission and distribution to consumers, we see a high likelihood that the practice of sponsored remote distributed generation will continue to be promoted in the medium term. We see renewable power generation in particular as being uniquely positioned to provide a lasting solution to mitigating higher energy costs for consumers.

Australia offers the greatest potential to seek revenue optimisation through participation in an energy market that has historically been dominated by coal fired power generation but is now transitioning towards renewable power. The majority of states comprising the National Electricity Market in Australia, operate under an energy-only supply framework, with each type of generation technology, whether coal, wind, solar or gas receiving different weighted average payments for the energy they produce and to a large extent their ability to provide power supply dependably in order to balance the system. Yet renewable power generation has been systematically curtailed by the deep discounts experienced for solar power supply during the day, when irradiation is at its highest, which contrasts materially with prices paid when consumption peaks in early mornings and evenings when irradiation is at its lowest. When coupled with the dependency issues that intermittent power sources typically experience, this puts significant strain on single solar generators that do not benefit from storage capability. Absent the introduction of grid firming facilities such as battery storage facilities built at scale in the Australian market, we believe these inherent supply/demand factors, and the corresponding duck curve in nodal pricing will continue to be prevalent in the medium term.

In Mexico, demand for exporting poor quality fuel oils into the North American market for further refinement remains unabated and will provide a consistent source of capacity revenue potential for our liquid storage terminal investments on the southern border of Texas with Mexico. Under the most recent leadership of President Andres Obrador, increasing legislation and regulations have been introduced to entrench the position of state energy participants, often at the cost of private sector incentivisation. Nevertheless, the underlying fuels value chain in Mexico remains largely unaffected by state investment in the means to produce transition fuels locally. As such, we believe the demand-side dynamic for US border fuels storage capacity remains buoyant in the medium term.

In the United Kingdom, with the advent of government efforts to promote more offshore wind capacity and with the increasing power price volatility associated with adding more intermittent renewable power sources to the grid, balancing solutions are required. In one of the world's most mature and diverse energy markets, firming the grid by providing Flexible Power has never been more important. There are significant technology and storage capacity gaps in the global energy industry today, that are not and cannot be met with battery storage alone. Additional Flexible Power generation involving less pollutive natural gas and biogas sources will become indispensable in the next few years as the country eliminates completely its reliance on coal and other emitting forms of generation. Yet, finding a way to create a net-zero footprint using natural gas power will be the key. Unlike a typical gas peaker, our Flexible Power projects are able to run baseload and at the same time capture ancillary revenues stemming from capacity markets that peakers are able to capture very efficiently. The dispatch profile of these plants is unique, as is the combination of technologies that allow for higher efficiency and, when coupled with carbon capture and re-use, they are also truly efficient in terms of emissions.

Tom Williams, head of energy and infrastructure at Downing, manager of Downing Renewables & Infrastructure - 2 September

The UK market continues to show a high level of deal opportunity within DORE's focus areas.

There continues to be a steady flow of opportunities within the subsidised renewables space. Several portfolios of operational solar assets are expecting to come to market during the second half of 2021 and there is a steady trickle of smaller bolt-on opportunities.

There is an increasing market focus on construction of unsubsidised wind and solar assets, generally supported by power purchase agreements ("PPAs") with corporate entities to increase revenue certainty. Activity is developing in this space, with both utilities and large corporates running tender processes to secure renewable capacity. Their requirement for "additionality" (i.e. PPAs must lead to the build of a new asset) is expected to result in the construction of larger solar and wind projects in the UK. DORE is continuing to develop relationships with key offtakers and developers to support a pipeline of opportunities.

In the Nordic region, markets continue to show a high level of deal activity with opportunities matching the returns and transaction size requirements of DORE. The Nordic wind sector is especially active, where new ready-to-build ("RTB") assets are brought to the market at regular intervals. Developers are traditionally looking for long-term owners prior to construction starting or during construction. In addition to RTB assets, operational wind assets of various sizes regularly come to the market. The Nordic hydro market also continues to see reasonable levels of activity. Opportunities include smaller portfolios of hydropower plants, mainly in Sweden or Norway. These portfolios are frequently divested by private owners or multi-utilities seeking to streamline their holdings.

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Patrick O'D Bourke of Ecofin US Renewables Infrastructure - 8 September

In December 2020, the U.S. Congress passed a broad spending bill which included a two-year extension of the investment tax credit (ITC) for solar power (retaining throughout 2022 the 2020 rate of 26% which had been due to step down to 22% in 2021) and a one year extension of the production tax credit (PTC) for onshore wind power. The Biden Administration has ushered in a new era of enhanced federal government support for renewable energy. Shortly after being sworn into office, President Biden issued a series of executive actions aimed at tackling climate change. These included setting a goal of achieving a carbon pollution-free power sector by 2035 and having the U.S. rejoin the Paris Climate Agreement within 30 days, which was achieved on 19 February 2021. Looking ahead, President Biden's Infrastructure Plan (which requires Congressional approval to be implemented) along with a forthcoming Congressional budget reconciliation bill, is expected to include billions of dollars of incentives for the solar and wind industries including a 10 year extension of the ITC and a national clean energy standard. These moves provide further support for growth of the renewables sector in the U.S., which has continued to be very active notwithstanding the impact of COVID-19.

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Rónán Murphy, chair of Greencoat Renewables - 13 September

We are seeing increased opportunities in offshore wind and in the Nordics, we continue to see significant opportunities in large-scale unsubsidised assets in a well-developed corporate PPA market. In Iberia, we are seeing the emergence of an attractive pipeline, with similar characteristics to the Nordics, given the regions' increasing ability to produce very low-cost renewable energy.

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Infrastructure

(compare infrastructure funds **here**)

Mike Gerrard, chair of International Public Partnerships - 9 September

Dealing with Covid-19 continues to place heavy claims on government resources which are at full stretch and, as such, I believe that private sector investment in infrastructure - across the world - will have an even greater role to play going forward, complementing government initiatives for economic recovery.

As a result of the pandemic, which began in 2020, there is an increased recognition from governments of the pivotal role infrastructure will play in generating economic recovery and ensuring resilience to future threats. Many countries have echoed similar sentiments that infrastructure investment will also be vital in the transition to decarbonising their economies. For example, infrastructure investment is a key focus of the Build Back Better plan in the UK, recognising that high-quality infrastructure is crucial for economic growth, boosting productivity and helping the UK achieve net zero through its Ten Point Plan. We believe governments, globally, will require private capital to help meet these transition targets.

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Thor Johnsen, head of digital infrastructure at Triple Point IM, manager of Digital 9 Infrastructure - 6 September

How we work, shop and socialise is fundamentally changing. As more and more of our lives move online the societal dependency on Digital Infrastructure is continuing to increase, as it has done for decades. Any business that is online, including some of the largest and most successful global companies, requires the internet to function. Any business that requires the internet to function is reliant on the Digital Infrastructure behind it in order to continue operating. In essence, the greater the demand for the internet, the greater the need for the infrastructure to support it.

This demand for Digital Infrastructure is being driven by the following growth pillars which are, themselves, growing exponentially:

- Increasing number of global internet users;
- Increasing data consumption per user;
- Increasing data transfer speeds;
- Increasing number of connected devices; and
- Increasing demand for data storage.

Global internet user growth

The number of global internet users has grown at a compound annual growth rate of 8%1 since 2010 with 60%2 of the world's population currently online, expected to reach 66% by 20233. Over the last five years, on average there have been 27,000 new internet users per hour4. The growth in users has mainly been driven by economic development, with access to the internet seen as key to opening up further economic opportunities with other countries and continuing the economic growth trajectory. Online access in developed countries is typically in excess of 85%5. Without restrictions on the replacement of legacy infrastructure, these countries typically implement the latest technology resulting in greater download speeds, further increasing global bandwidth demand.

Global growth in data consumption

Historically, carrier networks providing public internet services were the primary source of demand growth. More recently content providers, a category that includes providers of internet content (including Google, Facebook and Microsoft), cloud service providers (including Amazon, Microsoft and Google), and network-based content delivery networks (such as Akamai and Limelight) have become the primary sources of demand. Since 2019, content providers have been the dominant users of international bandwidth, accounting for 64%6 of all used global capacity and 90%7 of used capacity on the Trans-Atlantic route. Cloud based computing, the explosion of social media and streaming platforms such as Facebook and Netflix, coupled with online shopping being responsible for an ever-increasing proportion of retail sales, has resulted in people spending more time online and households consuming 38x8 more data than they were a decade ago. Work, social interaction and shopping is moving increasingly online. Global data demand is expected to increase at a CAGR of c.40%9 between 2020 and 2026. International data demand could be further influenced as new technologies such as augmented reality, virtual reality and artificial intelligence ("AI") become more mainstream in the coming years.

Increases in data transfer speed

With greater data demand comes greater demand for data transfer speed. Latency is the term frequently used when discussing data transfer speed and refers to the time it takes for data to travel between locations. Latency can be increased and speeds reduced by a variety of sources including network congestion, over-utilised routers and firewalls. With the outbreak of COVID-19 resulting in a surge in network traffic, operators have taken steps to manage this traffic by reducing the bit rate for streaming video applications in some regions to ease network congestion along with accelerating plans to increase capacity. Financial enterprises, content providers, gaming companies and cloud computing providers all want to lower the latency of data transmission particularly over long-haul routes. In the case of financial enterprises, reducing the delay by as little as a few milliseconds can impact the profitability of trading operations. Online search companies such as Google have observed that increased latency leads to decreased click-throughs and search result views. Amazon has claimed that every 100 milliseconds of latency reduces their sales by 1%. This highlights the critical role that Digital Infrastructure plays in facilitating the operations of these and many other businesses.

Combined with this, how data is consumed has fundamentally changed, with 81%10 of the time spent online now being on mobile devices and 75%11 of global internet users expected to be mobile-only by 2025. Over the last decade the proportion of time spent online on mobile devices has increased by 384%11 whilst the corresponding amount of time spent on desktop devices has decreased by 14%11. As a result, 5G and future generations are expected to be one of the 'game changers' in the world of Digital Infrastructure, offering increased data speeds primarily to mobile devices.

5G is expected to revolutionise the market by exponentially increasing data transfer speeds with up to an 18.5x12 increase in data download speeds compared to 4G, and with the potential to offer faster download speeds than conventional broadband wi-fi. Increased data transfer speeds result in reduced transmission costs - making new data applications possible. 5G has the potential to increase the number of connected devices by 100x13, including driverless cars, smart homes and security. With more devices moving online, the demand for data bandwidth will increase further.

Increase in connected devices

The Internet of Things ("IoT") is the concept of connecting any device to the Internet and/or to other devices. This includes everything from mobile phones to washing machines in addition to components of machines such as the jet engine of an airplane or the drill on an oil rig. If it has an on and off switch, then it is likely that it can be a part of the IoT. The IoT is becoming the main way in which people, processes and things connect to the Internet and to each other. By 2023 there will be almost 30 billion networked devices that are connected in some way to the internet. The number of devices connected to the internet will be more than three times the global population by 2023 (it is expected that there will be 3.6 networked devices per capita up from 2.4 devices per capita in 2018). Nearly half these devices, 14.7 billion will be machine-to-machine ("M2M") connections compared to only 6.1 billion in 2018, an increase of 140% in only five years14. These connections run applications such as telemedicine and healthcare monitoring, smart car navigation systems, smart meters, package tracking, autonomous vehicles and asset maintenance monitoring in addition to many others yet to be conceived. All of these billions of connections require greater bandwidth, lower latency and investment in Digital Infrastructure to run the growing set of applications.

Increase in data storage requirements

As the internet continues to develop with more people online, consuming more data with faster download speeds, the volume of data globally is increasing at an exponential rate. The volume of data globally has increased by 36x15 in a decade and is expected to continue increasing.

Any entity that generates or uses data has a need for data storage facilities on some level - this includes the likes of Facebook, Amazon, Apple, Netflix and Google but also includes financial service providers such as banks and game hosting providers such as Sony. Demand for data centre and network services is expected to continue to grow strongly, driven in particular by rapidly growing demand from streaming videos, gaming and cloud-based working. Data creation is expected to increase at a CAGR of 28% over the next four years with over 1.1 million gigabytes of data being created per second by 202416.

The move to the cloud means that rather than running or storing data on home or work computers, users are accessing data via host servers of cloud providers. Accessing data via the cloud means that the hardware and software are maintained at remote locations and are then accessed via the internet - these remote locations are data centres.

As data becomes more and more important across a range of industries, earlier strategies where firms, such as banks, had their own data centres have been replaced with the acquisition of space in third party data centres. Companies are focussing on their core business activities rather than diverting time and resource into non-core activities such as owning and operating a data centre. This is increasing demand for third party data centre providers that can serve multiple customers.

Leasing

(compare leasing funds **here**)

Robert King, chair of Tufton Oceanic Assets - 8 September

The shipping market had a broad recovery from the impact of Covid-19 from the beginning of the financial year, with rates and asset values in many segments surprising positively towards the end of the year. The Clarksea Index, a broad indicator of weighted average earnings from Clarksons Research across the main commercial vessel types, ended the year at c.US$28,484 per day (+145% from the end of June 2020), with large gains in the containership and bulker segments.

Some notable highlights of the shipping market, based on Clarksons Research, include:

- Global seaborne trade is expected to grow by 4.6% (ton-miles) to a new record high in 2021 after contracting by 1.7% in 2020. Seaborne trade grew by c.3.3% CAGR in the two decades leading up to 2020.
- Fleet growth decelerated to 3.0% in 2020 and is expected to slow further to 2.4% in 2021 and 1.2% in 2022 as the global orderbook is close to its lowest levels in more than three decades, at only c.8.5% of the fleet compared to over 50% in 2008.
- Over the year ending 30 June 2021, compared to the previous 12 months:
  - Average 12-month time charter rates for handysize bulkers rose c.26% YoY.
  - Average 12-month time charter rates for 2500-TEU containerships rose c.50% YoY.
  - Average 12-month time charter rates for handysize product tankers fell c.24% YoY.

Shipping markets benefited from a recovery in global GDP growth. For the full year 2020, the IMF estimated that world GDP contracted by c.3.2% compared to its previous forecast of a 4.9% contraction. World GDP growth recovered from the end of 1H20, supported by unprecedented fiscal and monetary stimulus measures. As of July 2021, the IMF forecasts global real GDP growth of 6% in 2021 and 4.9% in 2022.

Tankers

According to the US EIA, global oil demand fell by c.8.5% in 2020 led by declines in OECD countries. Global oil demand is forecast to recover to pre-pandemic levels only in 2022. TRACS data shows that tanker demand peaked in early May 2020 and declined until end of 2020 and has remained lacklustre until the end of the financial year. OPEC production declined by c.4m barrels per day over the same period, and tanker capacity contracted for floating storage was slowly released back into the market. As of July 2021, the tanker market remains weak. However, our expectation of a tanker market recovery in 2022 is supported by the ongoing improvement in global oil demand growth following the Covid-19 vaccine rollout, as well as the recent decision from OPEC and allies to increase production from August 2021. Supply side dynamics for tankers also look very supportive with the total product tanker orderbook at only c.6% of fleet at the end of the financial year. There has also been a recent increase in tanker recycling globally. In 1H21, 43 product tankers of 1.9m dwt were sold for recycling, equal to the total capacity scrapped in 2019 and 2020 combined. The Investment Manager believes the combination of demand recovery and slowing supply growth bodes well for the tanker market in

2022. All the Company's product tankers are on fixed rate, long term charters with an average duration of c.2.3 years as at the end of the financial year. Therefore, the Company's product tankers have been insulated from the market weakness over the financial year and are well positioned to benefit from a market recovery in 2022.

Bulkers

In contrast to tankers, the market for bulkers was weak in 1H20 but recovered in 2H20 as Covid-19 related restrictions were relaxed and demand for seaborne iron ore imports into China grew with the restart of the steel industry. The bulker market was also supported by strong demand for seaborne grain and, towards the end of the financial year the effect of strong demand was accentuated by ongoing regional port congestion in Asia caused by Covid-19 related restrictions. Towards the end of June 2021, the benchmark Baltic Dry Index (the index of average prices paid for the transport of dry bulk materials across more than 20 routes) rose to its highest levels since 2010.

Containerships

As expected, the containership market remained strong in 1H21. The effect of strong consumer demand and limited fleet growth was accentuated by regional port congestion. The Clarksons Research basket of average containership earnings rose to a record high at the end of June 2021.

The improvement in the shipping market has encouraged new orders from 4Q20. New ship orders over the year ending June 2021 were 58% higher than the previous twelve months. Growth has been driven by orders for large containerships and gas carriers. Despite the increase in new orders, the orderbook at c.8.5% of fleet remains close to 30-year lows. Uncertainty over future environmental regulations continues to play an important role in the limited ordering of newbuild vessels. According to Clarksons Research, an increasing array of technologies are being added to newbuild designs to meet new emissions reduction regulations from the IMO. The combination of rising commodity prices, tightening environmental regulations and lower shipyard capacity results in rising newbuild prices which in turn supports higher prices for second-hand vessels. The Clarksons Newbuilding Price Index rose c.9% over the year ending June 2021.

Asset values and time charter rates have started reflecting thesis of supply-side adjustment to varying degrees across the main segments. The increase in asset values and rates has been the highest in containerships. In a presentation dated 21 July 2021, the British International Freight Association noted that although current high rates may not be sustainable in the long term, "high levels will be maintained until the end of 2021 and possibly until Chinese New Year 2022". The Association supported the growing consensus that the "new normal" rates will be at a higher level than they were before the pandemic. Whilst the increase in bulker asset values and rates, supported by strong demand for commodities, has not been as dramatic as in containerships, the supply side looks supportive for bulkers with orderbook at only c.6% of fleet.

The tanker market remained weak over the year. Time charter rates remained close to multi-year lows as oil demand recovered slowly from the negative impact of Covid-19 and capacity tied up in floating storage from 1H20 re-entered the market. The Investment Manager expects that the tanker market will recover in 2022 as oil demand recovers to pre-pandemic levels. The recent decision from OPEC and allies to increase production from August 2021 will support the tanker market recovery.

The shipping market is in the early stages of a multi-year upcycle because of the relative lack of investment in new capacity (supply) relative to strong demand growth. Investment in new capacity is discouraged by uncertainty over future environmental regulations. In addition, the combination of commodity price inflation and reduced shipyard capacity is increasing newbuild vessel prices and therefore supporting higher prices for second-hand vessels.

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Royalties

(compare royalties funds **here**)

Trevor Bowen, chair of Round Hill Music Royalty - 30 September

Around the world, consumers are not only embracing music as a way of coping with the stress caused by COVID-19, but are also using it as a medium to look forward. Live events are on the horizon, bars and nightclubs are slowly opening, studios are back in production mode and crowds are increasing at sporting events. Music consumption is at an all-time high around the world; Spotify reported that premium subscribers totalled 165 million at the end of H1 2021, a 20% increase on 2020, as well as a 22% increase in advertising-supported users, which now total 365 million. Additionally, in early September 2021, YouTube announced that its platform reached 50 million Music and Premium subscribers, which is a 20 million increase in subscribers since December 2020. As Spotify, YouTube and other streaming offers continue to gain subscribers in the coming years, these new methods of music consumption are expected to be bolstered by increased consumer interest and usage in music-centric apps like TikTok. The music industry continues to be an important part of the world, with more people listening to music than ever before across a variety of mediums.

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Property

(compare UK property funds **here**)

Nick Hewson, chairman of Supermarket Income REIT – 23 September

The financial year has been one of continued disruption caused by the COVID-19 pandemic during which supermarkets have continued to show their agility in responding to the increased level of demand and demonstrating their pivotal role as 'feed the nation' infrastructure. Omnichannel supermarkets have performed particularly strongly. Omnichannel supermarkets now fulfil 80% of all online grocery orders and have clearly emerged as the winning model for last mile grocery fulfilment.

To understand the trend in grocery sector growth it is important to compare 2021 sales to 2019 which was the last full pre-Covid year. In 2020, prolonged lockdowns caused a one-off temporary boost to sales making it a poor comparator for underlying trends. To illustrate this, in the 12-week period up to 12 July 2021, UK grocery sales fell by 5% vs the same period in 2020. However, when compared to the same 12-week period in 2019, 2021 sales were up £3bn or 11% despite the broad re-opening of the economy. We believe that this shows that we are starting to see more persistent changes in consumer habits and the impact they have on the grocery sector.

Online grocery market share has grown to 13% of total UK grocery sales. This is well above 2019 levels and seems to be both resilient and consistent. This demonstrates that the step change in online utilisation has become ingrained in consumer behaviour.

We have seen growing investor interest in the grocery sector with private equity attracted by the strong cash flows and the property backing. 2021 may see over £14bn invested into the sector with Asda and, most likely, Morrisons being taken into private ownership. We have also seen increased investment volumes into UK supermarket property with close to £2bn invested in 2020 and already 2021 looks on track to exceed this.

This sector growth and record investment interest has resulted in supermarket property yields falling, reflecting our long-term investment thesis.

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Lawrence Hutchings, chief executive of Capital & Regional – 9 September

Accepting the further fall in valuations during the period, current market dynamics in the sector as well as the wider economy provide cause for optimism that the investment market may be starting to stabilise. As we emerge from 18 months of unprecedented challenges we are increasingly confident that a shared need from consumers and retailers for well-located, accessible retail and services with affordable occupancy costs, is highly supportive of our community centre strategy and our belief in the 15 minute neighbourhood.

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Martin Moore, chairman of Secure Income REIT – 9 September

Whilst the general economy has rebounded strongly, there are obstacles in the path of a complete recovery. Labour shortages are feeding through into supply chain interruptions, inflation is rising and a fourth wave of infections is widely predicted in the autumn, albeit with a predominantly vaccinated adult population and a government eager to avoid the reimposition of restrictions this should temper those headwinds. These elements may hamper the speed of recovery but we do not foresee that they will ultimately knock it off course.

In our long lease property market the combination of low interest rates and rising inflation creates a very supportive environment. Yields for properties let on long inflation protected leases are typically 7% above the gross redemption yield of long dated index linked gilts, providing an attractive blend of income return and inflation protection that is generating strong bidding for these types of assets in the market. However, whilst we have seen a revival in the trading and share prices of many leisure and hospitality businesses and a recovery in their bond prices, the property investment market in this sector remains subdued. We believe that the low number of transactions is primarily due to buyers seeking to obtain a pandemic discount whilst owners feel little compulsion to sell unless they can receive much closer to pre-pandemic pricing.

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James Clifton-Brown, chairman of Standard Life Investments Property Income – 14 September

After withstanding the unprecedented economic shock created by the COVID-19 pandemic, the economy is now in recovery mode as the vaccination programme has reached critical mass and restrictions are relaxed, although uncertainties remain. From a real estate perspective in the UK, structural trends are set to drive performance over the medium term, leading to polarisation both between, and within, sectors.

Industrials are forecast to remain the best-performing sector over the next three years, underpinned by fundamentals supporting further rental growth and investment demand to push yields lower into the second half of 2021.

By contrast, office fundamentals point to falling rental values and rising income risk. With little adjustment to values thus far, weak returns are expected over the medium term along with a widening gap between offices regarded as best quality space and ageing office space that does not offer attractive working conditions for staff. Such a split is also expected in the retail sector, with retail warehouse values now rising rapidly in modern parks, anchored by strong occupiers in the grocery, discount variety and DIY markets; meanwhile, fashion-led offerings and high-street or shopping-centre locations are expected to see ongoing difficulties.

This trend of bifurcation highlights the need to hold the right assets, not just assets in the right sector.

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Ken McCullagh, chairman of UK Commercial Property REIT – 28 September

While the economy is now in recovery mode as COVID-related restrictions are relaxed, for much of the UK real estate market it is structural trends that are set to drive performance over the medium term. Most notably this will be in the industrials and logistics sector where the fundamentals are supportive of further rental growth. As a consequence, investment demand for industrials is set to push yields lower in the second half of the year, and this sector is forecast to remain the best performer over the next three years.

Meanwhile, office fundamentals point to falling rental values and rising income risk. With little adjustment to values thus far, we are forecasting weak returns for the sector over the course of the next three years. Importantly though, the market is likely to be split, with the best quality space favoured by tenants and investors, and secondary space increasingly distressed.

Divisions are also appearing in the retail sector. For modern retail warehouse parks leased at affordable rents and anchored by grocery, discount retailers and DIY occupiers, values are now rising quite rapidly. Fashion-oriented parks, however, are more vulnerable in-line with the challenges faced by high streets and shopping centres, where we anticipate a further year of negative total returns.

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Paul Marcuse, chairman of BMO Commercial Property – 30 September

The world now is in a fundamentally different place than it was six months ago with large swathes of the population vaccinated and lockdown restrictions generally lifted. We have seen government stimulus for the economy with most support schemes in place until the autumn.

The continued march of e-commerce is likely to continue and the restructuring of supply chains, to allow companies to establish and/or facilitate an omni-channel platform, will determine the survival of some and the demise of others, all the while supporting unrelenting demand for the wider industrial sector. Some haze exists as to exactly what the office sector will look like in the future, but there is more clarity, and a general leaning of companies to adopting a hybrid model with more areas in offices dedicated to creative and social space. But one size does not fit all, and a sensible, tailored approach is needed as each business and its people are different.

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Tony Roper, chairman of Aberdeen Standard European Logistics Income – 30 September

The European logistics market is large and continues to develop rapidly; growing tenant demand is fuelled by the strong growth of e-commerce across Europe and the consequent supply chain reconfiguration as operators embrace this technological advancement. Of additional note is the rapid acceleration of interest and demand amongst logistics occupiers to adhere to higher ESG standards and the Investment Manager both recognises and has embraced this fundamental change in occupational demand for suitable buildings.

As a consequence of strong occupier demand, and constrained supply conditions, tenants have been prepared to secure favoured assets by signing long, index-linked or fixed uplift, lease contracts. Such indexed leases typically offer annual CPI uplifts and can provide for a transparent and predictable inflation-proofed cash flow to the Company.

In an increasingly uncertain world, the incontrovertible shift in the way consumers shop and the infrastructure required to service that demand is a source of greater certainty. The Investment Manager believes that logistics assets are primed for further growth, as well as being relatively defensive against any cyclical downturn in economic activity.

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Andrew Cowley, investment manager of Impact Healthcare REIT – 8 September

On 7 September 2021 the Prime Minister announced major structural reforms of adult social care in England. A 1.25% increase in National Insurance and dividend tax hypothecated to fund health and adult social care is expected to raise £36 billion over the next three years. We will analyse the implications of these reforms with care, but on first reflection expect them to be a step change in repositioning care homes as critical social infrastructure.

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QuotedData
BY MARTEN & CO

IMPORTANT INFORMATION

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