Economic & Political Roundup

Monthly roundup | Investment companies | May 2022

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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	30/04/22	Change on month %
GBP / USD	1.2574	(4.3)
USD / EUR	0.9485	5.0
USD / JPY	129.7	6.6
USD / CHF	0.9718	5.3
USD / CNY	6.6085	4.2

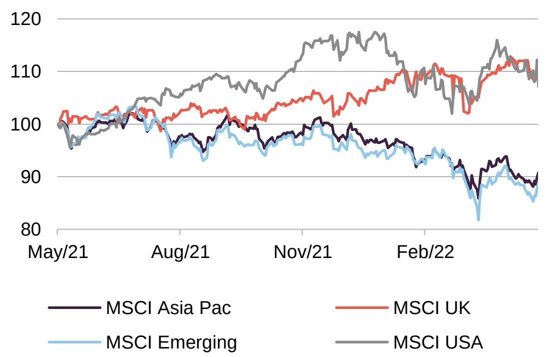
Source: Bloomberg, Marten & Co

Roundup

Overall, managers and chairs reflect on a strong 2021 in their annual reports, a recovery from the volatility and widespread underperformance of 2020. This contrasts with how markets look today. April was a brutal month for stocks and uncertainty remains, stemming from the Russo-Ukrainian conflict and concerns over its long-term impact. Some commentators believe that not even a strong earnings season can restore investors' fortunes. The dollar jumped as expectations rose of faster interest rate hikes. Government bond yields have continued to climb while oil prices are now signalling a more balanced supply and demand outlook.

MSCI Indices rebased to 100

Time period 01/05/2021 to 30/04/2022



Source: Bloomberg, Marten & Co

Increased focus on geopolitics

Global

The manager of Martin Currie Global Portfolio highlights the impact of the ongoing Russo-Ukrainian conflict.

UK

Merchants' chair explains how the once out-of-favour UK has been more resilient than its global peers of late.

Dunedin Income Growth's chair reflects on a year of strong economic growth as economies benefited from the annualisation effect from the previous year.

Mercantile's managers look at the rapid economic recovery that drove all-time highs in financial markets as well as the constraints that accompanied it.

Indicator	30/04/22	Change on month %
Oil (Brent)	109.34	1.3
Gold	1896.93	(2.1)
US Tsy 10 yr yield	2.9336	25.5
UK Gilt 10 yr yield	1.905	18.3
Bund 10 yr yield	0.937	71.9

Source: Bloomberg, Marten & Co

QuotedData
BY MARTEN & CO

Contents

Analysts

Jayna Rana
jr@martendandco.com

James Carthew
jc@martenandco.com

Matthew Read
mr@martenandco.com

Richard Williams
rw@martendandco.com

April's highlights

UK (cont.)

The managers of Invesco Perpetual UK Smaller Companies acknowledge the cost of living crisis, but counter-argue that consumer balance sheets are stronger than ever.

Fidelity Special Values' manager discusses the market volatility and sharp shifts in the UK economy.

Troy Income & Growth's chair explains why heightened uncertainty and volatility seem likely to characterise the months ahead.

The ongoing Russo-Ukrainian conflict has already impacted markets, but more disruption is likely to come

The manager of BlackRock Smaller Companies says that while the Russo-Ukrainian conflict has already had a significant impact on certain areas of the market, it will take time for the wider implications to manifest themselves.

British & American's manager says with the war still in its early stages and already of a size, ferocity and brutality not seen in Europe since WWII, it is impossible to predict how much more damage it will cause in the months to come to global security, society, growth, trade and markets.

Asia Pacific

In China, themes from 2021 are likely to continue such as sluggish income growth

Commenting on China, the managers of Schroder Asia Total Return say there are many headwinds from 2021 that are likely to continue to have a material impact on both the economy and stock market, from zero-COVID policies impacting consumption and production to sluggish income growth.

abrdn Asia Focus' chair assesses three broad themes that have captured investor attention during the period under review.

The chair of Scottish Oriental Smaller Companies notes that recovery is particularly evident in Indonesia and the Philippines, where consumer demand is gradually improving after severe disruption over the last two years.

Asia Dragon's chair explains why the current market environment underlines the importance of maintaining an active approach to investing.

Fidelity Asian Vales' manager discusses how extreme valuations have been caused by a wall of money – created by governments across the globe in response to the pandemic – all chasing the same stocks in the market.

The managers of Henderson Far East Income say they are cautiously optimistic on the outlook for Asia Pacific equities and that the region looks cheap compared to its peers while earnings look to be well underpinned by fundamentals.

Renewable energy infrastructure

Though challenges remain, the team at Ecofin US Renewables Infrastructure is confident that the backdrop remains very supportive for further growth of the renewable sector in the US, which it says continues to be very active.

The renewable energy infrastructure sector remains robust across many regions

Gresham House Energy Storage's manager says opportunities in the UK and Irish markets will remain healthy for many years as the deployment of renewables continues apace and electricity demand starts to rise in the UK.

The managers of Aquila European Renewables Income explain why energy and power markets are likely to receive higher levels of scrutiny and future interventions from now on as a result of the Russian conflict.

Other

We have also included comments on **global emerging markets** from JPMorgan Global Emerging Markets Income; **North America** from North American Income and JPMorgan American; **Japan** from Schroder Japan Growth; **China** from Baillie Gifford China Growth; **Latin America** from BlackRock Latin American; **Vietnam** from Vietnam Enterprise; **infrastructure** from BBGI Global Infrastructure; **commodities & natural resources** from Baker Steel Resources; **growth capital** from Schroder UK Public Private; **environmental** from Impax Environmental; **hedge funds** from Third Point Investors; **debt** from CVC Credit Partners European Opportunities, Fair Oaks Income, RM Infrastructure Income, VPC Specialty Lending and Blackstone Loan Financing; **insurance and reinsurance** from Life Settlement Assets and **property** from BMO Real Estate Investments, UK Commercial Property REIT and Standard Life Investments Property Income.

Global

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

Zehrid Osmani, manager of Martin Currie Global Portfolio - 12 April

The Russian invasion of Ukraine is leading to tragic loss of human life and devastating consequences for many innocent people. We send our moral support to the Ukrainian people and our thoughts are with all the people affected.

The Russian invasion of Ukraine was unexpected by the market and has led to an increased focus on geopolitics. NATO's resolve has been tested but is more unified and stronger than before. Vladimir Putin is unpredictable, leading to the risk of a broader conflict. Expansionist territorial claims by Russia have the potential to increase the market's attention on China and its territorial claims in the South China Sea, a risk that we believe the market has not been addressing properly. At the same time, China might hold the key to a de-escalation of the conflict in Ukraine, through the potential role as a mediator or through diplomatic pressure on Putin.

The situation is highly unpredictable at this stage, and ongoing de-risking action by investors is likely in the near term which is likely to increase the volatility of share prices.

The Ukraine conflict is likely to negatively impact consumer and business confidence in the near term. We believe that this could spill over into weaker economic momentum in Europe, and to a lesser extent globally. We believe that we are more likely to be moving into the Slowdown phase of the economic cycle as a result. Additionally, energy supply disruption could add to near-term downward pressure to economies in Europe, whilst at the same time contributing to yet higher inflationary pressures. Given the relatively low weight of Russia in international trade, we do not believe that this short-term negative impact on confidence will have a lasting impact. This is providing that the conflict does not spread into other territories.

Whilst we continue to see stagflation as a low probability event, we are increasing that probability to 10-15%. This risk is increased from less than 5% which was our view in early December last year. Stagflation risk is clearly higher in Europe than other geographies at this stage.

In our view, armed conflict brings an increased risk of the economic cycle shifting from expansion to slow down. This would typically favour Quality and Growth styles, away from Value, whilst earnings momentum will remain an important contributor to style leadership in this environment.

The Ukraine-Russia armed conflict has the potential to fuel more inflation globally, as a result of the higher oil prices and disruptions to energy supplies, but also in soft commodities given Ukraine's and Russia's sizeable agricultural production. Soft commodities price increases risk leading to pronounced increases in food prices, which have the potential to impact countries where food is a high proportion of consumer baskets, notably in emerging markets. This could lead to increased social tensions.

This increased inflationary pressure will further add to the elevated and longer lasting inflation that we have been going through. With the US dollar seen as a safe haven, relatively weaker currencies could also add to inflationary pressures for the European region.

We expect the US Federal Reserve to keep on its path towards normalisation of monetary policies by increasing interest rates, although the rate of change may be slower. The European Central Bank is also likely to continue to normalise, although it might delay its first interest rate hikes given the proximity of the crisis. We expect rate hikes in the EU to be weighted to the second-half of 2022. Given ongoing elevated inflationary pressures, and the potential for more inflation from spiking energy prices near term, it will be more difficult for central banks to hold back from tightening, despite the growing geopolitical uncertainties.

Unfortunately, it is difficult to foresee a rapid resolution to the Ukraine-Russia conflict, or indeed to the broader tensions between Russia, NATO and the EU. As such, volatility in equity prices and exchange rates are likely to be the conditions that investors will need to accept for the time being.

Before the Ukraine - Russia conflict earnings growth expectations for this year were pedestrian, after a sharp recovery year in 2021. Current geopolitical developments are leading to downside risk in economic momentum, and therefore will put more downside risk to earnings growth expectations. In such an environment of higher inflation, lower economic growth, and lower earnings growth, there will be an even higher emphasis in the market on companies with consistent growth, higher structural growth profiles, and that have pricing power to protect their margins from the higher inflationary pressures. We believe that Quality and Growth companies are likely to come back in focus for investors.

The Ukraine-Russia conflict carries more risk of negative impact on economic momentum in Europe, and is leading to an increased risk premium attached to European equities relative to other regions.

This crisis is likely to further widen the valuation spread between US and EU equities in the near term, whilst there is uncertainty about the potential developments in the conflict. Selective exposure to companies with a lower risk of negative impact on their earnings from the spill overs of the conflict is, in our view, likely to be an important focus for investors.

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UK

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

Colin Clark, chair of Merchants - 7 April

For many years the UK market has been out of favour and traded at a discount to global peers. However, the UK has been more resilient than global peers over recent months - a trend that could well continue. Indeed investor interest - including from overseas - has started to rise and the UK equity market has the potential to see increased demand. With many growth-oriented stocks (e.g. tech stocks in the US) falling out of favour in an environment of rising interest rates, investors are being attracted to companies on lower valuations with visible and secure cashflow that characterise the UK market.

In addition, a key attraction of the UK market remains strong governance standards. Shareholders may be interested to learn that our investment manager (AllianzGI), reported that at an aggregate company level they voted against 4% of resolutions proposed by UK companies last year, compared with between 10-40% of resolutions proposed by companies listed in the rest of the world. Furthermore, Merchants predominantly (although not solely) invests in the shares of some of the larger companies listed on the UK market. These companies' businesses are not solely UK but rather are on the whole multinationals which derive the bulk of their profits from overseas. They are therefore more exposed to the global economy and less so to the domestic UK economy. The opportunity to invest in UK companies with UK governance standards, but international business exposure is attractive for some investors.

As I write this statement the situation in Ukraine continues to develop. We are all aware of the potential consequences for the global economy, and in particular for energy supply and prices.

It seems that for more than a decade the world has been moving from one set of uncertainties to another. Just as the signs of an end to the pandemic had investors grappling with the idea of rising inflation, the spectre of military conflict in Europe has become a focus for markets. Beyond the humanitarian cost, which in itself is still difficult to digest, where this might drive the global economy and markets is open for debate - certainly markets are currently volatile as a result of daily news flow. Against such a backdrop we support our investment manager's philosophy of looking beyond current events as much as possible. The manager is striving to understand as far as possible the impacts of the conflict on individual companies, as this is how the portfolio is constructed: stock-by-stock rather than at a macro level attempting to call the direction of markets or economies. That said, the current situation has the potential to have far-reaching implications that could affect many industries and the manager continues to monitor macro events closely.

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David Barron, chair of Dunedin Income Growth - 7 April

After the remarkable economic, market and social developments in 2020/21, 2021/22 proved to be a somewhat less turbulent year for markets and UK equities delivered a very strong return both in absolute terms and relative to other major markets. After a number of years of poor performance for the UK market, it is pleasing to see such a rebound in sentiment.

2021 saw a general global narrative of economic recovery combined with societies gradually re-opening from the pandemic. While the potential threat of vaccine immunity from the Omicron strain of Covid-19 temporarily roiled markets in November, fortunately its impact has been relatively less significant than some of the earlier waves of the virus and we may be hopeful that the worst of the pandemic is behind us.

Overall, though, it was a year of strong economic growth as economies benefitted from the annualisation effect from the year before, the residual impact of government stimulus and still loose monetary policy conditions.

As we moved through the period, sustained inflationary pressures, most notably in the United States, but developing across much of the global economy, started to shift the tone and actions from central banks. In the UK, in December, the Bank of England became the first G7 central bank to raise interest rates and the last two months of the financial year saw a significant increase in expectations for the level of short term interest rates across major economies. We also saw longer term real bond yields move sharply upwards. The combined effect of this was to trigger the very significant rotation of capital out of more highly valued companies in sectors such as Technology, Healthcare and Consumer Goods into cheaper sectors, particularly those deemed to be gaining additional earnings support from higher inflation and higher interest rates, such as Banks, Energy and Mining, as referred to earlier.

At the year-end, we had not yet seen the Russian invasion of Ukraine, above all a human tragedy, which has had a terrible impact on the people of that country. The impact on global economies and stock markets is likely to be felt for many years to come. In the immediate aftermath, commodity prices have soared and equities have fallen, with investors looking to add both classically defensive assets and also inflation hedges. At this early stage, the implications are unclear, but we can say with some certainty that inflation is now likely to be much higher and more sustained and that economic growth is likely to be more constrained, particularly in Europe, but exactly how substantial the impact on growth will be remains uncertain. How central banks react will also be key as will the actions on fiscal policy from governments. However, a year that many forecasters were expecting to be another one of strong global growth is certainly likely to be a good deal more volatile than had been expected.

While events in Ukraine and the growing energy crisis in Europe are seen by some commentators as a clear signal of the folly of focusing on environmental, social and governance ("ESG") factors, we believe that, in stark contrast, such events will actually intensify investor focus on all elements related to ESG. While many energy-related companies may continue to perform well in the short and perhaps medium term, and governments may face pressure to revisit their policies on addressing the energy transition, we believe that the war in Ukraine has highlighted a growing realisation that accelerating the provision of lower carbon energy sources, energy efficiency and energy security go hand in hand. Likewise, in terms of social elements, the pressure on companies to act in a way deemed socially, morally and politically responsible has been unprecedented. From a governance perspective, the importance of investors aligning with the right governments, regulators and owners again cannot be clearer. A clear appreciation of the risks to companies from poor management of ESG risks and an understanding of the potential opportunities has never been more important.

Guy Anderson and Anthony Lynch, managers of Mercantile - 5 April

The year to 31st January 2022 began with financial markets continuing their recovery and mostly reaching and then surpassing previous all-time highs. The rapid economic recovery that drove this was however curtailed by constraints on the supply-side, which combined with increasing commodity prices, led to a surge in inflation. While the debate initially focused on the duration of this 'inflation squeeze', it has ultimately led central banks to begin the process of monetary tightening faster than many were expecting. Reflecting these and other geopolitical concerns, most markets had a more challenging end to the year, although have remained in positive territory. This included our target market of UK medium and smaller companies (the 'benchmark'), which generated a total return of 13.4%.

The year was characterised by elevated levels of corporate activity in our market. Initial public offerings ('IPOs') have expanded the opportunity set and over the year the Company engaged with over 30 new listings and made investments in nine. In addition, high levels of dry powder at private equity companies and corporates contributed to a significant pick-up in merger & acquisition ('M&A') activity, perhaps also reflective of the perceived attractiveness of valuations in the market.

The first half of the year was in all likelihood the period of most rapid and substantial economic growth that will be experienced in this cycle. This led to a number of challenges on the supply-side as well as the aforementioned surge in inflation. This was initially determined by the world's central bankers to be transitory, but following multiple surprises to the upside the narrative rapidly changed at the end of 2021 and central banks, including the Bank of England, commenced the process of monetary tightening in order to attempt to dampen this phenomenon. Given continued vicious input cost inflation - in particular from commodity materials following Russia's invasion of Ukraine - it seems likely that earlier estimates of when this inflation would dissipate will prove to have been optimistic with central banks behind the curve.

While the Russian invasion of Ukraine is deeply troubling and immensely distressing at a human level, the situation is only just developing and it would be foolhardy to predict how this will play out. It would be reasonable to assume that at a minimum it will drive further inflation and have at the very least a dampening effect on global economic growth.

Jonathan Brown and Robin West, managers of Invesco Perpetual UK Smaller Companies - 21 April

The Covid-19 pandemic was once again the dominant feature. The vaccination effort and optimism that the worst of the crisis was over drove markets higher, led by the stocks that had suffered most over the prior year. A rapid rebound in economic activity, combined with an inventory rebuild and ongoing supply constraints, pushed inflation to multi decade highs. However central banks have been relatively cautious in their response, in part due to a hope that this inflationary period will be transitory, but also due to fears of choking off the nascent economic recovery. Nevertheless, the sharp sell-off in highly valued growth stocks at the end of the period suggests the market is pricing in a significant rate tightening cycle over the coming year.

Russia’s invasion of Ukraine has had a dramatic effect on energy prices, adding to inflationary pressures, and dampening business and consumer confidence. Clearly, the longer the conflict persists the greater the damage will be to the economy. Our portfolio has no material exposure to Russia, however, the sharp rise in energy prices causes a cost headwind for many businesses. Whilst our holdings in the defence and oil and gas sectors could be beneficiaries of the conflict, it is not a positive for markets overall.

Domestically the “cost of living crisis” is dominating the headlines at present, but it is worth remembering that consumer balance sheets are at their strongest for many years, and that wage growth has mostly outpaced inflation over the last few years. Unemployment also remains very low relative to history, and this is an important driver of consumer confidence. Despite the current gloomy tone of commentary around the UK economy, the OECD predicts the UK will be the fastest growing economy in the G7 in 2022.

More broadly, we expect many of the supply bottlenecks that have held back growth over the last year to abate as the Covid crisis eases. This could potentially lead to some moderation in inflation as we move through the later part of the year, although we expect it to remain elevated relative to recent history, particularly if the price of oil remains high.

The recent sell-off is presenting us with some interesting opportunities to buy into good businesses at sensible valuations. So, although the short-term direction of the market is unclear, we are increasingly excited by the opportunities that are emerging.

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Alex Wright, manager of Fidelity Special Values - 28 April

The period was marked by increased market volatility and sharp shifts in sector and style factor preferences, as investors attempted to come to terms with mounting inflationary pressures, anticipated interest rate rises and, more recently, the uncertainty stemming from the build-up to and eventual invasion of Ukraine by Russia in February.

UK equities started the review period on a weak note, declining for the first time in September after seven months of continuous gains, amid signs of a slowdown in the pace of the global economic recovery, as well as concerns over central bank tapering, tax increases and supply chain disruptions. The emergence of the Omicron COVID-19 variant triggered a global sell-off towards the end of November. However, markets recovered quickly as concerns over the impact of the virus gradually receded, and were further supported by robust corporate earnings, alongside general optimism around the recovery continuing in the UK and other major economies. The positive sentiment helped equities to end 2021 on a strong note.

2022 started off with an extreme style rotation out of expensive growth stocks (whose valuations are often based on long duration projections which are particularly sensitive to interest rate rises) in favour of more attractively valued shares (where valuations reflect to a greater extent nearer term potential earnings). While UK equities were not immune to the prevailing volatility seen in other markets, they proved comparatively more resilient. However, the UK economy continued to be hampered by inflationary pressures, with consumer prices rising to their highest level in almost 30 years in December. This prompted the Bank of England to increase interest rates twice during the review period (and again in March). Markets remained under pressure in February owing to the uncertainty stemming from Russia's invasion of Ukraine. Recent market moves in response to the unfolding humanitarian crisis have been sharp and not always particularly discriminate. As major sanctions are imposed on Russia, the possibility of a potential shutdown of energy supplies raised concerns about energy security, leading to a spike not only in oil and gas prices, but also more broadly in commodity prices, given both Russia and Ukraine are key producers of steel, nickel, aluminium, wheat and corn, to name a few.

Outlook

UK equities remain significantly undervalued compared to global markets and reasonably valued in absolute terms. These factors contributed to their resilience in the more volatile market conditions that we have recently experienced, and should continue to prove helpful in the months ahead. As both central banks and investors come to terms with inflationary pressures, and interest rate expectations are adjusted accordingly, this should benefit our portfolio of attractively valued companies with improving fundamentals. In such conditions, market participants typically re-focus on short term earnings and valuations, resulting in a more supportive environment for value strategies. However, the impact of rising prices on individual companies needs to be closely monitored and this is a key focus for us.

From an industry grouping perspective, positioning has become less pronounced compared to the broader market. While we remain overweight GDP sensitive stocks and financials, those exposures have reduced somewhat as a result of profit taking. Meanwhile, we remain underweight resources, primarily miners. Despite the recent spikes in commodity prices, we have not been tempted to add to our exposure in this area, as we believe those pricing levels are unsustainable and are likely to result in demand destruction. The market seems fixated on short term effects, such as higher inflation and commodity prices, rather than medium term implications, notably potential lower commodity demand as a result of lower GDP growth.

After the strong returns of the past decade, investors will need to be more discerning as to where they invest. The next ten years are unlikely to bring the same synchronised increases in asset classes that we have enjoyed for a long time and which were supported by incredibly low interest rates and very supportive stimulus measures. Selectivity is likely to be key to generating good returns. Fortunately, the UK market still offers a lot of attractively valued opportunities, and so has the potential to generate decent returns for investors, although it is going to be more difficult.

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

Background

We have seen material divergence in asset prices and themes leading stock markets over the past six months. News flow in the final quarter of 2021 was dominated by the emergence of the Omicron COVID-19 variant, however, markets proved relatively robust, to the benefit of your Company. The spectre of inflation was already looming in 2021, and, over the past three months, market sentiment has shifted further, driven by the inter-related factors of i) ongoing inflationary pressures as the world reopens at differing speeds, ii) central banks signalling meaningful interest rate rises in the year ahead in an attempt to control inflation and iii) the shocking invasion of Ukraine by Russia in February. In addition to the humanitarian and political crises, the latter has further exacerbated inflationary pressures.

Commodities have been in particular focus given Russia and Ukraine's roles as major producers of several key economic inputs, including oil, gas, and wheat. Global prices have spiked violently, perhaps no better exemplified than by oil, where prices rose to just over $100 (WTI) by the end of March, having spiked as high as $124 - an extraordinary shift from the historically low levels seen in the midst of the pandemic. Central banks have been stirred into decisive action in an attempt to curb these pressures. The UK base rate has risen to 0.75% after three increases in quick succession. Likewise, the upper bound of the US Federal Reserve's target rate has risen to 0.50%, with significant further rises likely this year. Market expectations have moved rapidly in anticipation of this tightening, sending government bond yields upwards to levels not seen since before the COVID-19 pandemic.

The short-term consequence for equity markets has been a marked bifurcation. The share prices of those companies involved in the production of raw materials have benefitted, at the expense of those dependent on them. At the same time, upwards revisions in market-wide discount rates have penalised more highly rated, higher growth stocks. The divergence is illustrated perhaps most starkly by the FTSE All-Share Index, where energy and mining companies have in aggregate risen double-digits in the first calendar quarter of 2022, while Information Technology and many high-quality companies in the Industrials and Consumer sectors have fallen heavily. Given the Index's high weighting to large energy and mining companies, it has achieved a positive return for the calendar year to date, while other equity indices, including the S&P 500 and MSCI World, have fallen.

Outlook

The market reaction since the start of 2022 suggests investors were overly complacent about the risks of inflation and higher rates heading into the year. But it is important to recognise that expectations have adjusted meaningfully over a short period of time. Therefore, while probability is firmly weighted in favour of interest rates rising materially over the course of 2022, share prices have already moved significantly to try and price this in. The divergence of performance by sector and industry has been short and sharp. Commodity producers have been in favour whilst growth stocks have sold off but the Managers see reason for a broader shape to returns from here.

Heightened uncertainty and volatility seem likely to characterise the months ahead. Markets are wrestling with the near-term outlook and conflicting headlines are all around. Cost of living concerns, the inverting yield curve, and increasingly hawkish signalling from central banks are pointed to as precursors of an imminent recession. Meanwhile, others highlight the positive economic data points, such as strong labour markets and healthy household balance sheets, as reasons to be more optimistic. Whatever emerges, the Managers see scope for higher quality stocks to fare better, particularly as inflation shocks inevitably start to pressure economic growth.

Roland Arnold, manager of BlackRock Smaller Companies - 29 April

As with last year, I write this year's report sitting at home. However, this year it's not because of lockdown, but through choice as hybrid working has become more entrenched. I'm at home because I needed to get my family a pre-flight COVID-19 test for entry to the US, a test I conducted on Zoom. The test unfortunately coincided with a Blackrock Smaller Companies Board meeting, but such clashes are no longer an issue, video conferencing allowed me to participate, as it did with others who were at home because they had been in contact with a confirmed COVID-19 case. Two years ago these statements would have sounded unusual, yet now they are an everyday part of our lives, such has been the change since COVID-19 first entered our lives. It is amazing how necessity can accelerate the pace of change, and how quickly we adapt to that horrid phrase, the "new normal". The Company's financial year has generally seen a recovery in markets as COVID-19 risks began to recede. However, whilst we may have hoped this would be a reason for enthusiasm, the ripples of the pandemic continued to be felt through logistics, inflation and labour disruption. Where once we were worried about lockdowns, we moved onto the "pingdemic". The shortage of pasta and toilet rolls became shortages in critical components and semi-conductors. During the height of COVID-19 we worried about the strength of company balance sheets, now pricing power dominates discussions. The debate moved on from who were the "COVID-19 winners" to which companies were most exposed to normalisation as old habits and practices returned. The era of easy money, low rates, and supportive fiscal policy gave way to rising rates and tax rises. All the while transient inflation has become less transitory, leading to a significant shift in expectations for interest rate rises. Finally, the period under review ends with the shocking and dreadful events in Ukraine which led to volatility in global markets.

Outlook

With the shocking events in Ukraine, there is an enormous range of outcomes for the coming year. The immediate impact of the invasion has been seen in markets and commodities, further fuelling the inflation fire. But, like COVID-19 before, it will take time for the wider implications to manifest themselves. COVID-19 has shown us the magnified impact on end markets that small disruptions in supply chains can have, history shows us the profound social consequences of high inflation in food and fuel, and the substantial and unprecedented sanctions that have been announced will amplify these distortions. I often worry that I sound like a broken record when discussing positioning, repeating the same mantra year after year, but in these markets the companies best placed to perform are those with well capitalised balance sheets, market leading positions, pricing power and entrepreneurial management teams able to rapidly adapt their businesses to the shifting market dynamics. This was true in the tech crisis, the global financial crisis, through Brexit and COVID-19.

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Managing director of British & American - 28 April

At the interim stage, this report focussed on the likely after-effects of Covid in terms of financial, fiscal, production and growth prospects in the short to medium term. Swollen government budget deficits and substantially increased debt levels when combined with rapidly increasing inflation and disruption to world trade and supply lines were in the process of creating a very unstable platform for a longer-term rebound in growth and prosperity.

The financial and social costs of combating Covid were always going to have to be reckoned with at some stage but it had been expected, and markets had supported that expectation, that these costs could be handled in a manageable way over an extended period of time. Central banks imagined that the immediate short- term consequences of considerably higher inflation could be handled through a gradual tightening of interest rates from their ultra-low levels and that the measured introduction of tax rises would address fiscal imbalances. While the major and much vaunted plans in the USA and UK for capital expenditure and 'levelling up' might have to wait a little, the judgement was that if well calibrated, these classic interventions would both cool down and rebalance the resurgent demand which was causing inflation, employment shortages, trade dislocations and assets bubbles without resulting in a return to recession.

Up to the end of the year, this approach was generally seen as working, despite inflation threatening to move above the higher levels of 4 to 5 percent which had been expected. Markets continued their steady recovery, as noted above, encouraged by the strong resumption of corporate activity in most sectors and the gradualist application of financial and fiscal measures. The threat of inflation getting out of control and more stringent measures having to be taken was always there in the background but, when set against the historically low short-term and indeed long-term interest rate environment, the availability of cheap money continued to support the markets.

All this changed, however, in the first quarter of 2022 with the wholly unexpected and unjustifiable invasion of Ukraine by Russia on 24th February and the unprecedentedly wide-ranging and united response by Western governments in terms of sanctions and the supply of weaponry and other support to Ukraine. All the best-laid financial and fiscal plans to return to post-Covid normality were immediately overturned as inflation moved even higher, to levels not seen for 40 years in the USA and 30 years in the UK, on the back of rocketing energy, food and fertiliser prices adding to the effects of the already existing supply chain disruptions in products such as semi-conductors, processed metals, rare earth and other natural resources. This has prompted renewed expectations of accelerated and higher interest rate rises and re-introduced significant volatility to financial markets.

Consequently, any prior visibility into the near or medium term future which might have existed at the year-end quickly dissipated. Furthermore, with the war still in its early stages and already of a size, ferocity and brutality not seen in Europe since the Second World War, it is impossible to predict how much more and substantial damage this unnecessary and criminal action by Russia's terrorist regime will cause in the months to come to global security, society, growth, trade and markets, quite apart from the total upheaval which has already occurred in the decades-long international rules-based order. The world's previously progressive path towards globalisation, climate change reduction and nuclear weapons stability has now been put in real jeopardy.

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Global emerging markets

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

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

The Russian invasion of Ukraine is a disturbing and sad human tragedy and our thoughts are with all those who have been affected. Clearly, it is also an adverse development for Emerging Markets, and a worrying time for investors.

Up until the invasion, we were considering various possible ways in which the confrontation might play out. Sadly, what transpired was one of our worst case scenarios, so we have continued to sell since the start of the war, with the aim of eliminating our entire Russia exposure. Our reasoning throughout our sales was consistent. It was not a reflection on the companies themselves, but rather our recognition of the overriding need to limit the portfolio's exposure to myriad risks related to the war and retaliatory foreign sanctions. We had been more concerned about such risks than during previous periods of regional tensions, for two reasons. Firstly, the US government's recent expansion of its sanctions on Chinese military-linked entities suggested to us that it was prepared to take a more active stance against the investments of individuals and companies which it perceives as a threat to US, and global, security. Furthermore, mounting foreign sanctions would cause serious damage to the Russian economy. Russia has been subject to sanctions for some time due to its behaviour in the Crimea and elsewhere, but additional, more severe sanctions will be a much more far-reaching constraint on economic activity.

Unfortunately, near term Emerging Market uncertainty has re-escalated. While Russia is dominating the headlines, there are other persistent concerns relating to Chinese growth and the ongoing risks posed by COVID. Nonetheless, we believe the overall environment is still favourable for our positioning in stable, cash generative, and, of course, dividend paying, companies. And in our view, Emerging Markets continue to offer the potential for long term growth, with payout ratios across the asset class set to remain relatively steady, at around 35%.

Asia Pacific

(compare Asia Pacific funds **here**, **here** and **here**)

Robin Parbrook and Lee King Fuei, managers of Schroder Asian Total Return - 4 April

China

After a very difficult 2021 for Chinese stockmarkets, a year dominated by major regulatory change, debt defaults in a sharply weakening property sector and a tight credit market, do we now see light at the end of the tunnel? Despite the difficult start to the year we believe that 2022 can be a better year for Hong Kong listed Chinese stocks. But unlike the endless bulls on the sell side who are nearly universally pushing a self-interested (given their IPO backlog) maximum bullish call on Chinese equities we do not think a "better" year necessarily means a "good" year.

There are many headwinds from 2021 that are likely to continue to have a material impact on both the economy and stockmarket in China this year - whether that is zero-COVID policies impacting consumption and production, continued slowdown in construction and particularly residential activity, sluggish income growth, a potential slowdown in the export sector as economies elsewhere reopen and service activity picks up (less widgets, more holidays etc), and lastly the impact of the major policy reset under "common prosperity" and "dual circulation".

Retail sales growth in China has been slowing and disposable income growth is now dropping. Anecdotally we hear rumours of large layoffs in the internet, education, and construction sectors - this along with zero-COVID policies is likely to mean weaker consumption numbers. Recent calls with Chinese consumer related business have flagged significant near-term headwinds.

Across the board it looks like fixed asset investment is slowing in, not just in the real estate sector. Exports remain the bright spot with both volumes and prices strong though short-term trends indicate some slowdown in volume, and we anticipate reopening outside of China should lead to a recovery in services and a slowdown in Chinese manufactured goods exports in 2022.

The stockmarket bulls with positive views on Chinese stockmarkets will counter this is all backward looking and stimulus is coming. We do indeed expect some loosening of policy and stimulus measures but expect these to be muted and smaller in scale than we have seen historically. China is currently running a significant fiscal deficit once local government funding vehicles are included, leaving less scope for manoeuvre versus past slowdowns. Also, China after years of extraordinarily high investment rates has a large capital stock and relative to the other countries at a similar stage of development a large debt burden. Reflating the debt and investment bubble would be dangerous and counter to President Xi's very clearly stated policies to reduce financial risks in the economy.

On a more positive note, we do expect policy easing - though we doubt whether nudging 5bp off short-term lending rates as we saw in December has any real impact. Also, on a more positive note we do not believe, as it stands today, the property sector slowdown is likely to have major ramifications for the broader financial sector given the ability of the Government to contain the problems (controlling major banks and state-owned developers has its uses). This should also mean the impact on consumer confidence from the property slowdown remains limited.

The China bulls will counter that loosening credit (as proxied by the Total Social Financing or TSF) will lead to an equity rally. Movements in the TSF have indeed sometimes correlated with the boom and busts of the domestic Chinese stockmarket. We are not really interested in playing short term rallies based on temporary stimulus and would also highlight the last time (in 2014/15) we had a rise in TSF with a weak property market share prices didn't perform.

So, to sum up whilst we see many ongoing headwinds for Chinese stockmarkets we are optimistic returns this year will be better than 2021. However, that does not mean we expect a strong sustainable recovery in Chinese stockmarkets - the economic and earnings outlook is difficult for many sectors, and the risks of a more significant economic slowdown in China look real.

The other headwind for Chinese stockmarkets that we believe is more structural and materially affects our long-term exposure to Chinese equities is the on-going major policy reset. We have written extensively on Chinese policies over the course of 2021 so will not rehash our views here (as they haven't changed) but, in summary, we see four sets of major policies that are impacting our investments in China:

1. "Common Prosperity" - or the aim to make society fairer, more equal and spread the benefits of growth more evenly.

2. "Definancialization" - reduction of financial risks posed by excessive debt fuelled speculation in property and other financial assets.

3. "Regulation of data, both its use and control" - ensuring that personal data is not misused or monopolised and that social media and other internet sites adhere with the long-term goals of a harmonious society etc.

4. "Dual circulation" - investment priorities and capital allocation is aligned with long-term development goals and in particular priority areas: decarbonisation, semiconductors, artificial intelligence, healthcare, biotechnology, electric vehicles.

One could also perhaps describe this reset as curbing the excesses of unfettered capitalism and, unlike many past policy pronouncements in China, we do see these policies as real and part of a conscious effort to remould society. We will not go into a discussion of the merits of the policies - other than to say that some of the policies we do sympathise with - however the issue for the stockmarket is their implementation.

In China the implementation is top down and by instruction rather than by market forces and "nudges". This has come as a shock to many investors. In truth even though your portfolio managers consider themselves pretty open eyed (a.k.a. cynical) in our investing approach we have been surprised by how quickly policy has been implemented. It does appear in many parts of the Chinese economy the state is advancing and the private sector is in retreat (or Adam Smith's invisible hand is being replaced by the Communist Party's rather more visible one) in order to ensure capital is allocated in accordance with long-term policy priorities.

So, in essence, we have a stockmarket in China where an increasingly large part of the constituents are investing aligned with state priorities rather than the maximisation of long-term shareholder returns. This has clearly applied to most state-owned banks, utilities, telecom, energy stocks for some time. But with the new policy push to ensure common prosperity and social harmony we see education, healthcare, insurance, social media companies now likely to put policy priorities first (or as in the case of education stocks be told they are now a non-profit sector). For the large internet stocks the priority now appears to be helping with common prosperity projects and investing in areas outlined under dual circulation rather than building huge monopolistic data platforms or investing in ever cheaper community group buy programmes that put Mum and Pop shops out of business.

For the average person in China this is popular and may well be good news, however clearly for stockmarkets and foreign capitalist hoarders in particular this is not good news. The move to increase state/policy directed investment and control is we believe likely to lower long term investment returns in those companies affected, making their shares less attractive. It also means the Company is likely to have a materially lower weight in Chinese equities.

We have been through this twice before in China. This was when the telecom and bank stocks listed which in their euphoric heydays were around 50% of the MSCI China by market capitalisation. For a while the market thought these stocks would be great proxies for strong GDP growth and thus make exceptional returns. However, state control, as it does in most countries, has led to a different set of priorities and poor return on invested capital (ROIC) and share prices. On a more positive note this does not make China stocks uninvestible (on this subject we believe Mr Soros is wrong) however it does not feel to us that the market has fully digested the long-term implications of the policy changes affecting many sectors of the Chinese stockmarket.

So how are we investing in China? Schroder Asian Total Return has about 15% of its assets in stocks classified as "Chinese" by the MSCI China, this is down substantially from the level twelve months ago but is still the second biggest country exposure in the fund. As indicated above we definitely do not think China is "uninvestible". Instead, the areas we are interested in investing in have shrunk given we don't invest in state owned or heavily state directed businesses for the ROIC reasons outlined above. This means in China we are now unlikely to own education, healthcare, insurance, banks, property, energy, utility, Macau gaming, telecom, mining, chemical and infrastructure companies. Areas where we still have exposure and are interested in investing tend to be consumer names, exporters, industrials, technology and green energy. The big area we have not mentioned is internet names. In general, we remain cautious here. Clearly the large internet groups now need to align their priorities with the new policy objectives. This combined with what remains intense competition in a slowing economy and still high hopes from most sell side analysts leave us cautious. Chinese internet stocks are not uninvestible but given the correction across many sectors of the market we feel there are better investment opportunities elsewhere.

Technology

At December 2021, the fund had 43% of its assets in stocks classified as information technology stocks by MSCI. Just to be clear this is not internet stocks (they are classified under communication services or consumer discretionary) but a mixture of semiconductor, software and hardware stocks.

Relative to the Company's reference index (the MSCI AC Asia Pacific ex Japan index) this would be a c.15-20% overweight position, which along with the underweight in China of c.15-20%, are the two biggest deviations from the benchmark weights. Hopefully we have explained the reasons for the China positioning in the first section, but why are we so overweight technology stocks in the region?

First we would highlight that "technology" can mean rather different things to different people. It is a pretty generic word and of course nearly all companies claim to be "technology champions".

Some parts of "technology" are mature with lower barriers to entry whereas others have strong secular growth trends. It is the latter area where we are focussed i.e. semiconductors, software and services. Within these sectors we are looking for companies creating genuine intellectual property (IP) and Warren Buffet's moats (i.e. barriers to entry).

We want to own shares in companies which are successfully building capabilities and products through their continuous R&D and investment in people and products. Investment in intangible assets is rapidly rising - our key job is to try and work out which companies in Asia are doing this well and which ones poorly. In Asia we believe the best semiconductor companies (both chip fabrication and chip design) and software companies are using their comparative advantages to create strong intellectual property (IP). TSMC for example should never be looked at on a price to book basis. The real value of TSMC is its years and years of accumulated engineering expertise, its relationships with key customers and suppliers, and its network effect of clustering its main operations in Hsinchu in Taiwan. Every foundry competitor we have looked at over the last 25 years has found out it impossible to compete with TSMC in high end semiconductors no matter how much capital they have had.

The best companies in Asia, those with world class technology, strong intellectual property, large scale comparative advantages from scale and proximity of customers, often tend to be in the semiconductor and technology space. The secular growth trends for these companies has we believe also materially improved. This is not just about much discussed working from home trends but the real drivers are cloud migration, electric vehicles, decarbonisation, automation, artificial intelligence, 5G and connectivity. Nearly all the trends we discuss as investors at the moment involve materially greater use of semiconductors and software. Taiwan and Korea are world leaders in semiconductors and India has key comparative advantages (young, well educated, cheaper engineers) in software services. This is why we have c.40% of the fund's assets in technology - these are the Asian stocks that are world leaders in their respective industries.

What about the risks? Are we heading into potential overcapacity in semiconductors and aren't stocks expensive after strong performance in 2020/2021?

We touched on overcapacity in the China section. We do worry about overcapacity in the low end foundry space particularly in China. However US-China trade sanctions, which make high end semiconductor equipment supply difficult, and limited semiconductor engineering expertise globally we believe will make it difficult for China (or anyone else) to catch up at the higher end, more complex part of the foundry industry. For chip designers this space has significant intellectual property and for higher end chips again barriers to entry (you need a good foundry partner for starters). In the memory space the industry has now consolidated down to three main players (Samsung, SK Hynix, Micron) and we believe this should make the industry less cyclical going forward as capital expenditure is more disciplined. So in summary whilst we do worry some parts of technology industry are likely to see overcapacity, for our key exposures in the Company we are confident the long-term secular growth trends outweigh any shorter-term cyclical worries.

And what of valuations - aren't Asian technology stocks expensive? Asian technology stocks have actually derated over the last 12 months - TSMC at time of writing is flat over 12 months and Samsung Electronics is actually down 15% and trading at a large discount to US listed peer Micron. The valuation gap between global and Asian technology stocks is at an all time high. Worries over US-China tensions, internet regulations in China, Taiwan-China worries and the sustainability of working from home demand have we believe combined to give investors an excuse to sell the sector. Given the underlying strengths of the technology businesses we own in Asia and the strong secular growth drivers we view this as our highest conviction long-term position in the Company.

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Nigel Cayzer, chair of abrdn Asia Focus - 14 April

Global markets have become extremely volatile at the time of writing, with Russia's war in Ukraine sending shock waves across the world. Events are still unfolding and remain highly unpredictable. Even before the onset of the conflict, global equities had experienced sharp bouts of volatility in the half year to 31 January 2022. Markets in Asia were not spared either. Smaller companies in the region outpaced their larger counterparts, extending their superior performance since the depths of the Covid-19 pandemic in early 2020. Nonetheless, they ended in negative territory as steep falls at the period-end amid heightened risk aversion erased all their earlier gains.

Three broad themes captured investor attention over the period. The first was the pandemic and its repercussions. The discovery of a fast-spreading Covid strain roiled markets, though fears subsided as the new variant appeared less severe than initially thought. Most Asian governments have since begun charting a careful return to normal life amid widening vaccine coverage. Also keeping investors on edge was China's regulatory upheaval, as well as its property and energy woes. Towards the end of the period, markets saw a big swing from growth-oriented to value stocks as major central banks pivoted to monetary tightening in view of rapidly rising inflation.

Against this backdrop, there was a marked divergence in small-cap performance by country. Markets in South-East Asia, where your Company has a heavy exposure, were broadly resilient as economic prospects brightened and corporate earnings rebounded. India, another large market for the Company, outperformed on optimism about the domestic economy. After the period-end, policymakers in India unveiled a pro-growth budget with an emphasis on capital investment as well as incentives for domestic manufacturing and clean energy. The lack of big populist measures signalled a clear intent to cap social welfare spending and support growth through more sustainable capacity building.

In North Asian markets, Taiwan was helped by the strength of the semiconductor industry. Conversely, the tech-heavy market of South Korea suffered outsized losses amid the sector rotation. Stocks in China and Hong Kong were beset by regulatory noise and concerns about the mainland's economy. The People's Bank of China cut key lending rates to counter slowing economic momentum.

The market tumult may worry investors, but Asia enters the current crisis in a strong position. Although the region will not be immune to the economic fallout from the Russia-Ukraine conflict, most Asian policymakers have monetary and fiscal room for manoeuvre. The Board would also like to reiterate its confidence in the long-term potential for the region and its smaller companies. Asia remains the world's fastest-growing region, underpinned by powerful structural trends such as increasing affluence, rising urbanisation and growing technology adoption. Exciting opportunities continue to abound in its small and mid-cap investment universe, where companies tend to be domestically oriented and low research coverage leaves considerable scope for market mispricing.

As ever, predicting the macroeconomic and geopolitical outlook is tricky. Big market swings in early 2022 have given us a foretaste of things to come as the US raises interest rates to tame inflation. The Russia-Ukraine conflict also creates further headwinds to the global recovery, not to mention the potential for a devastating loss of lives. Your Manager is keeping a watchful eye on developments, particularly on inflation and the impact of monetary policy on borrowing costs, companies and the wider economy. At the same time, the Covid shadow still lingers and further flare-ups cannot be ruled out. That said, Asia's vaccination drive could see a return to some normality, which is positive for consumption, businesses and overall growth.

The other big question in Asia and indeed globally is China, which faces a property-led slowdown. Stringent Covid controls could put further stress on the economy. Beijing has responded to the risks, however, moving toward policy loosening to stabilise growth. Meanwhile, relations with the US remain fraught. Your Manager believes this will continue to drive China's push for self-sufficiency, which in turn offers ample investment opportunities across diverse sectors such as consumption, technology and green energy.

As I mentioned at the outset, the attractions of Asia and its smaller companies are many and obvious. Economic growth should continue to outstrip the US and Europe, while corporate balance sheets remain broadly resilient. Global volatility seems inevitable, however.

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Chair of Scottish Oriental Smaller Companies - 11 April

After a prolonged period of disruption, most Asian economies are finally emerging from the impact of Covid-19, with the notable exception of China which is persevering with its zero-covid policy. The recovery is particularly evident in Indonesia and the Philippines, where consumer demand is gradually improving after a severe disruption over the last two years. Scottish Oriental has a large exposure to these countries, and its holdings here should benefit from a gradual recovery in consumer demand. Businesses across markets are now facing an increasing challenge from rising inflation. Historically, we have observed that such periods lead to industry consolidation among market leaders. Our holdings have witnessed several such periods in the past and have emerged successfully in each instance. We are excited by the prospects of the portfolio, with the expectation of a recovery in earnings, median debt to equity of 0% and attractive valuations. As the excesses observed in financial markets in recent years led by endless liquidity are showing signs of finally abating, we believe that our investment process with a focus on capital preservation will hold the Company in good stead in more challenging market conditions.

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James Will, chair of Asia Dragon - 21 April

Most Asian markets closed lower over the six months as a resurgence of Covid-19 infections, triggered by the outbreak of the Omicron variant, led to the re-imposition of lockdown measures that restricted mobility and weighed on economies across Asia.

There was also mounting concern over rising interest rates as the Fed started to tighten its monetary policy amid signs of rising inflation domestically. Investors worried that this would have implications elsewhere, including in Asia, as rising rates would result in higher borrowing costs for companies and consumers, and in turn dampen corporate investment and consumer spending. However, most Asian policymakers have monetary and fiscal room for manoeuvre to combat any serious growth slowdown as a result of prudent policies.

Meanwhile, tensions escalated on Ukraine's borders, culminating in the Russian invasion. Concerns that the hostilities would disrupt global oil supplies drove the Brent crude oil price above US$100 per barrel for the first time in eight years. Sharp rises in commodity prices, ranging from metals to food, led to commodity-exporting nations, such as Indonesia and Malaysia, broadly outperforming. Conversely, net importers of oil such as India, lagged the benchmark.

China was the worst performing market over the period, as companies faced a raft of challenges, including a broadening regulatory crackdown and disruptions to economic activity due to the zero-Covid policy and emergence of the Omicron variant. In addition, government efforts to curb excessive debt in the real estate sector led to default stress, shelved projects and a major property market slowdown. However, in contrast to the trend that saw major central banks around the world raise interest rates, the People's Bank of China cut several key lending rates to support the economy's return to healthier and more stable growth, the top priority for central government in 2022.

The horrific events unfolding in Ukraine are a stark reminder of the uncertain times in which we live. From an economic perspective, rising inflation and an increasingly hawkish Fed were already of concern before the escalation of Russia-Ukraine hostilities, and a protracted conflict risks intensifying this. Covid-19 also remains a threat and, although Omicron appears to be less virulent than previous variants, further flare-ups of the virus and mutations cannot be ruled out. Nevertheless, the continued increase in vaccinations across Asia is encouraging and positive for consumption, corporates and the wider economy.

China's economy remains under pressure due to tightening regulation, the common-prosperity policy, the zero-Covid strategy and strained relations with the US. However, Beijing is implementing measures to stimulate a recovery and return to a stable growth track. The Investment Manager believes that the geopolitical situation will accelerate China's drive for self-sufficiency, which will provide plenty of investment opportunities across diverse sectors such as consumption, technology and green energy.

The Board and the Investment Manager are acutely aware of the challenges facing investors and will monitor developments closely, particularly the second-order effects on inflation and global growth prospects. Further, the current market environment underlines the importance of maintaining an active approach to investing, with a strong focus on holding high-quality businesses with strong balance sheets that can withstand the effects of inflation through strong pricing power.

In addition, the Board remains positive on the long-term prospects for Asia. It remains the world's fastest-growing region, underpinned by powerful structural trends such as increasing affluence, rising urbanisation and growing technology adoption. This offers a plethora of investment opportunities and valuations in the region look appealing versus global and US equities despite higher growth prospects in Asia.

Nitin Bajaj, manager of Fidelity Asian Values - 20 April

Russia invaded Ukraine on 24 February 2022. The conflict is first and foremost a human tragedy but given its global ramifications, it would be remiss to not reflect briefly on the possible implications for the Company. While the direct impact of the conflict on the Company's holdings is relatively limited, the situation is fluid and changing rapidly, and we are therefore limited in the conclusions that we can currently draw. However, it is apparent that sanctions impacting Russian companies are likely to be in place for some time and further market volatility is to be expected. Supply chain issues and inflationary pressures are also likely to persist and these will almost certainly complicate the already difficult task that central banks were facing in trying to tackle inflation.

The last couple of years in the markets have been unprecedented, as the world moved from the pandemic to a government funded liquidity boom. This led to extreme levels of speculation in what were perceived as growth equities. We have started to see a correction in some of these excesses in the last few months.

Smaller value companies continue to trade at a very wide valuation discount to growth stocks (both large and small companies). As I have said before, the valuation set up is very similar to the tech bubble of 2000, making the opportunity for small-cap value stock picking to be even greater than usual.

The extreme valuations have been caused by a wall of money - created by governments across the globe in response to the pandemic - all chasing the same stocks in the market. With inflation running at 7% in the US, which is the highest level since the 1980s, and interest rates at zero, essentially the governments are telling everyone, including savers, to go out and borrow. And this is what they have been doing. For instance, the ratio of margin debt (the amount that investors can borrow to buy stocks) to GDP is at an all-time high. During the tech bubble, it also peaked at 3%; and at the time of the housing bubble, it spiked to around 3%. It is now at a staggering 4.5%. These levels are not just high in the US - we are seeing this in countries across the globe. I don't want to call this a bubble, but it certainly does feel like one.

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Mike Kerley and Sat Duhra, managers of Henderson Far East Income - 27 April

Despite another extraordinary period, global equity markets, with a few exceptions, have proved to be remarkably resilient. Over the six months to 28 February 2022, the MSCI World index is down almost 2% in sterling terms, the S&P is practically unchanged, while the FTSE 100 is up just over 6%. In contrast, Asia Pacific was less resilient with the FTSE All World Asia Pacific ex Japan Index falling 6.3%.

For most of the last six months equity markets have been struggling with the expectation of rising interest rates, a reversal of central bank asset purchases and inflation which has moved from being transitory to something more long lasting in nature. Although most of the world is now learning to live with Covid-19, the impact on supply chains through worker absence and logistics disruptions has compounded the impact on prices with effects likely to last well into 2022 and possibly beyond. The Russian invasion of Ukraine in February this year has taken these constraints to another level with spikes in prices of oil, gas, industrial metals and agricultural products putting further pressure on the cost of living, especially in Europe, the UK and the US. The resilience of equity markets is most likely a function of excess liquidity and the diminishing attractiveness of bonds and cash in an increasingly negative interest rate environment. It remains to be seen whether this resilience will continue as rates rise and liquidity is withdrawn.

As a net importer of most of these products, Asia is not immune to inflationary pressures from rising energy, metals and food prices but in most cases core inflation remains some way below the levels in developed markets. Although this will most likely rise in the region, real rates will remain close to positive while the constraints in terms of labour, logistics and asset prices are not nearly as acute as elsewhere.

The best performing markets over the period were in South Asia as the gradual easing of Covid-19 restrictions spurred expectations of the long-awaited re-opening. Thailand, the Philippines and Malaysia all posted positive returns while Indonesia rose almost 20% in sterling terms as the rise in demand for fossil fuels boosted coal prices - one of the country's major exports. The performance of North Asia was much weaker as China and Korea fell by 14.6% and 13.8% respectively while Taiwan posted a small gain. At the sector level, only energy, financials and utilities posted positive returns with consumer and health care down over 20%.

The weakness in China continues to dominate the region. From its peak in February 2021 the MSCI China Index has fallen 34% in US dollar terms while the S&P Index by comparison has risen 13%. The combination of regulatory uncertainty, property defaults, Covid-19 disruptions and a slowing economy have combined to undermine investors faith in Chinese equities. While the government has now moved to a stimulatory footing, the zero tolerance to Covid-19 and ongoing lockdowns are stifling recovery. The confirmation of a target GDP growth of 5.5% for 2022 looks increasingly unlikely unless restrictions are eased and stimulus accelerated.

Outlook

We are cautiously optimistic on the outlook for Asia Pacific equities. Following a period of underperformance Asia looks cheap compared to its peers while earnings look to be well underpinned by fundamentals. Dividends remain the 'bright spot' with dividend growth likely to exceed expectations as companies regain some confidence following an uncertain couple of years.

China remains key for the region's success. At some point in 2022, once the Covid-19 outbreak has been contained, the Chinese authorities will embark on a concerted effort to revive the economy. This will be focused on incentivising consumption, promoting innovation alongside the more traditional means of infrastructure spending. Following the period of underperformance, there is a lot of value in the Chinese equity market and once there is greater clarity on policy, especially regarding regulations, property market solvency and living with Covid-19, we will look to add exposure to the only major economy that is likely to be loosening economic conditions in 2022.

We are also positive on the outlook for yield as an investment style. The last few years have been difficult with the focus clearly on thematics and growth at the expense of fundamentals. The spike in inflation and the impending rise in interest rates has prompted a change in perception as expensive growth stocks become more difficult to justify and new areas of investment lose their lustre. We expect dividend yield as a style to perform better as we go through the year as inflation erodes the returns available to savers. The spread of dividend yield over cash and bonds is still wide and attractive for pension funds, insurance companies and individual investors alike. The demand from aging populations should be positive for the share prices of high and sustainable yielding companies which make up a large part of the portfolio.

North America

(compare north American funds **here** and **here**)

Susan Rice, chair of North American Income - 7 April

Russia's invasion of Ukraine has dominated the headlines in recent months and caused widespread concern on personal, economic and environmental levels. The Company has no material exposure to Russia or Ukraine, although the conflict indirectly has the potential to fuel global inflation through commodity-flow disruptions.

Ramifications from the conflict have only exacerbated existing concerns of rising inflation, a key issue for the Board and the Manager. Inflation has been at the heart of many investors' concerns due to its anticipated impact on the US Federal Reserve's (the "Fed") policy and corporate outlooks, which has further increased market angst. At the same time, coming out of the pandemic lockdowns, demand for most goods and services surged thanks to the general reopening of economies globally, supplemented by healthy consumer spending following multiple rounds of stimulus. However, supplies of key raw materials remain limited because of COVID-19-induced supply-chain disruptions and/or capacity retirements implemented during the pandemic. This combination of strong consumer demand, restricted supply, and congested supply chains has pushed inflation to its highest level in over 40 years. As a result, the Fed will have to tighten monetary policy through interest-rate hikes and balance-sheet reduction more quickly than originally expected. Investors historically have experienced anxiety during the early stages of a rate-hike cycle because of the potential for a policy mistake.

The US equity market got off to a rocky start in 2022 as investors became more concerned about inflation, looming interest-rate hikes by the Fed, corporate profitability headwinds, and geopolitical tensions. At the same time, there was a significant rotation out of growth stocks into more value-orientated companies. The investment approach of the Company focuses on delivering an above-average income. It is reassuring to note that the majority of its investee companies continue to announce significant increases in the rates of dividend they will pay as this permits the Board to have a high degree of confidence in its ability to target dividend increases to the Company's shareholders. We have experienced a prolonged period where investors have focused on capital growth and income investing has taken a back seat. Our focus on value-orientated companies that are likely to be better able to cope against such a macro-economic backdrop is coming back into favour and the Board is pleased to note the improvement in relative performance that has developed and expects that market conditions are liable to remain favourable for the Company for the immediate future.

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

2021 was another strong year for US equities, as the S&P 500 Index returned 28.7% (in US dollar terms), its third consecutive calendar year of double-digit gains. The S&P 500 has more than doubled over the last three years, a remarkable and surprising outcome amidst the prolonged interference of the Covid pandemic.

Encouraging economic data and robust corporate earnings results buoyed the stock market throughout the year, with the S&P 500 posting a historic record of 70 new all-time highs. Economic recovery was propelled by extraordinary fiscal and monetary stimulus. US GDP recovered to pre-pandemic levels and unemployment fell from 6.2% in January 2021 to 3.9% by December 2021. Labour market tightness allowed workers to enjoy rising wages, in addition to higher house and other asset prices, and this in turn supported consumer spending.

The equity market rally was not without its challenges, as several volatility shocks tested investors' resilience. Early in the year, an unprecedented retail-driven short squeeze in so-called 'meme stocks' - companies that acquire cult-like followings on social media and online platforms - whipsawed the market. This was followed by threats from new Covid-19 variants, including the highly infectious Omicron strain. Concerns about inflation began to mount, compounded by intense supply chain disruptions. Oil prices also surged. The spot price of Brent crude, a global benchmark, started 2021 at US$50 per barrel and reached a high of US$86 in late October. Oil prices eased in the final weeks of the year, but have since reached fresh highs.

Anxiety about inflation unsettled US bonds during the first quarter, and again in Q4, as inflation readings confirmed investors' fears. In November, the US Consumer Price Index (CPI) jumped to 6.8% year-on-year, its highest reading in 39 years. Persistent inflationary pressures, combined with rapidly tightening labour market conditions, led the Federal Reserve to adopt a more hawkish stance, and the market now expects the Fed to begin the process of shrinking its own inflated balance sheet in Q1 2022, paving the way for a sequence of interest rate hikes this year.

Within the S&P 500, all eleven industrial sectors of the index posted double-digit gains over the past year, led by energy, which rose 55%. Expectations about the near-term outlook for oil prices were low at the start of the year, so this sharp rally in oil prices took the market by surprise. Another top performing sector in the S&P 500 was financials, which returned 35% for the period. The defensive utility and consumer staples sectors delivered more modest growth and lagged the S&P 500. However, they still enjoyed very healthy returns of +18% and +19% respectively.

After lagging small cap stocks for the first six months of the year, large cap stocks, as represented by the S&P 500, rallied strongly during the second half of the year, to end 2021 up 28.7% (in US dollar terms), significantly ahead of the small cap Russell 2000, which returned 14.8%. Growth stocks experienced a similar reversal of fortunes over the year. They lagged value names for several months from late 2020 onwards, following the arrival of vaccines which boosted confidence in the economic recovery. However, the Russell 3000 Growth index rose strongly in the final six months of 2021 after new Covid variants cast a temporary shadow over the economic re-opening. The resurgence of both large cap and growth stocks in the latter half of 2021 actually tell the same story - a marked defensive rotation into the resilient, mega cap technology companies that now comprise a significant portion of the US market. The extent of this rotation is powerfully illustrated by the fact that the valuations of both Apple and Microsoft now each exceed the market value of the entire FTSE 100 index.

Market Outlook

As we entered 2022, US economic activity remained strong, the US consumer in aggregate was in good health, with plenty of spending power, and there seemed to be little evidence to suggest that the economic recovery would be derailed. However, we recognise that we are confronting some challenges. The human toll of any conflict is devastating and events unfolding in Ukraine are deeply upsetting. The Russian invasion of Ukraine resulted in international sanctions on the country and the potential that the markets could face elevated volatility ahead. Oil prices continued to rise due to geopolitical tensions and supply side issues.

In the US the economic cycle is maturing and the Federal Reserve is about to embark on a more restrictive course, which always presents a headwind for the market, especially highly valued growth stocks. Inflation and other uncertainties, such as the tightening liquidity, the variants of Covid-19, and sensitivity to the imposed economic sanctions, is likely to be integral to investor sentiment moving forward.

With the most vigorous part of this recovery now behind us, we are likely to maintain a fairly low risk posture, with a particular focus on valuations. Nonetheless, as always, we will remain on the look-out for attractive investment opportunities that may be created by periods of unusual volatility.

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Japan

(compare Japan funds **here** and **here**)

Managers of Schroder Japan Growth - 28 April

Market background

The Japanese market rose sharply in August 2021, but these gains gradually ebbed away before a sharper decline in January 2022 left the market return at just 0.7%, in local currency, for the period as a whole. There were competing forces on the Japanese yen, which traded in a wide band against sterling before ultimately ending the period weaker. As a result, the total market return in sterling was pushed down to -0.6%.

Equity market sentiment in the early part of this period was dominated by the worldwide increase in Covid infections, particularly driven by new variants. Throughout the pandemic, Japan has consistently seen a lower infection rate than most developed countries but faced a much more serious test during summer 2021 as infections picked up rapidly towards 10,000 per day nationwide. Of course, given the size of the population, this remained well below the levels seen in many developed countries but nevertheless led to growing public anxiety.

While we had been somewhat surprised by the re-imposition of the state of emergency in early July, and the banning of all spectators from most Olympic events, the subsequent decisions to extend restrictions throughout August and September seemed rather more inevitable. This led to near-term recovery expectations being pushed out, but real-time mobility data had already been suggesting diminishing real impacts from each successive state of emergency. Public opposition towards the government's approach ratcheted up again and the approval rate for Prime Minister Suga and his cabinet fell to the lowest levels seen since he took office in September 2020.

On 3 September 2021, the Prime Minister announced his intention to resign without contesting the LDP leadership election scheduled for later that month. This surprise decision inevitably led to some short-term political uncertainty before four candidates subsequently emerged to contest the leadership election, which was held as planned on 29 September. Although Mr Kono carried the popular vote in the first round, the election rules for the second-round voting place more emphasis on the support of party factions, ensuring that Mr Kishida ultimately emerged victorious.

As LDP party leader Mr Kishida became Japan's 100th prime minister and moved quickly to form his new cabinet from 4 October. An establishment politician within the LDP, Mr Kishida is essentially a safe, if unexciting, choice to guide Japan through the next stage of its post-Covid recovery. Mr Kishida also inherited a stronger position in the vaccination programme which sustained strong momentum in the second half of 2021 after the very slow start.

Under Mr Kishida's leadership, the expectations for the LDP's performance in the subsequent general election in October were modest at best, with the party bracing itself to lose up to 40 seats. In the event the LDP lost only 15 seats and retained a solid majority in its own right. Together with seats gained by its partners, the ruling coalition retained majorities on all standing committees and therefore complete legislative control.

With the election out of the way, and the Covid-related state of emergency lifted, the political focus shifted to a substantial fiscal stimulus package, details of which became clearer in November. The government is making a significant effort to reinforce the potential recovery in the domestic economy in 2022 and, within the stimulus package, there is a particular focus on boosting consumption by giving direct cash handouts. Although the timing of the package was not a surprise, the actual content has been influenced somewhat by the change in prime minister and the strength of the LDP's victory in the general election. In this respect, we could also see further measures later in 2022 aimed at reducing income inequality as this is one of Prime Minister Kishida's own policy ambitions. But none of this changes the basic policy outlook for Japan, with very accommodative monetary and fiscal policy continuing for at least the next couple of years.

From late November, renewed short-term uncertainty over the new Covid variant temporarily obscured signs of an increasingly positive outlook for Japan. Most news flow affecting the market concerned global efforts to contain the Omicron variant, together with the comments from the US Federal Reserve (Fed) on policy tapering. Japan inevitably imported its first known case of Omicron in December, followed by a sharp pick-up in infections in January. While we must continue to emphasise that the absolute number of infections in Japan has remained remarkably low throughout the pandemic, the latest variant has again demonstrated a higher level of risk aversion. The government has avoided re-imposing the full state of emergency which persisted for much of 2021, but Japan's borders remained closed to foreigners through the end of the review period. The overall impact of Omicron has been to push out further the expectations for a full recovery of Japan's domestic economy. As a result, consumer confidence surveys and high frequency mobility data suggested a relatively weak start to 2022 but we still regarded this as a temporary hiatus rather than a significant change in trend.

Moving into 2022, the tone for the equity market in January was set by the release of the minutes from the US Federal Reserve meeting, and the associated change in expectations for US interest rates. Although this had a negative impact on sentiment in Japan, especially in the second half of January, such a move is still very unlikely to be followed by the Bank of Japan in the foreseeable future. Meanwhile, Japanese inflation remains very subdued although a temporary increase close to the Bank of Japan's 2% target is possible as one-off factors drop out and the full impact of higher energy prices is felt. The primary factor depressing Japan's inflation is the very low level of wage increases in Japan, without which we are unlikely to see the type of upward spike in inflation that is underway elsewhere. Nevertheless, when looking at investment opportunities we are considering a range of potential scenarios for input prices and future wage inflation, given the difficulty some Japanese companies may have in raising final product prices.

Since the end of the reporting period, the Russian invasion of Ukraine has significantly increased the level of uncertainty for global stock markets, although this may seem trivial compared to the scale of human suffering in Ukraine itself. Despite the geographical proximity, Russia is a relatively small trading partner for Japan, accounting for around 1% of exports and 2% of imports. The balance is skewed by the import of energy from Russia, especially LNG, while exports from Japan are predominantly in auto-related areas. The crisis in Ukraine implies that energy prices will inevitably remain higher for longer than previously anticipated. As a result, we could see the temporary rise in inflation happening slightly earlier than previously expected. This may also provide a boost to long-term inflationary expectations in Japan over coming months, but we still see structural issues in Japan limiting the potential for a more significant upward spike in inflation on a similar scale to that seen elsewhere.

Outlook

Although conflict in Europe may restrict overall equity valuations, we are yet to see any real negative impact on earnings forecasts for the vast majority of the Japanese market. Of course, this could change if costs are pushed up by a prolonged period of higher energy prices.

Looking forward, on an individual stock basis, we are particularly focused on the ability of Japanese companies to re-establish pricing power in order to protect margins after such a long deflationary period. The interplay between higher commodity prices, productivity gains and potential wage increases varies across sectors but, in general, we are comfortable that aggregate corporate profits for the listed sector continue to grow into fiscal 2022. The most recent set of quarterly earnings announcements provided support for this view, with a continuation of the positive skew seen throughout this fiscal year. In the immediate future, however, the heightened uncertainty may mean that relative market valuations remain at a significant discount against this longer-term positive outlook for corporate profits.

There has inevitably been less focus in recent weeks on the pandemic-related news and the forthcoming recovery of the domestic economy. Japan has seen its Omicron wave peak later, and slower, than many other developed markets but an easing of the remaining domestic restrictions remains on the horizon. Overall, however, the high level of risk aversion in Japan will continue to dictate a more cautious approach than seen in Europe and this is likely to be particularly evident in the very gradual approach to the reopening of borders to foreign travellers.

Overall, although Prime Minister Kishida's position remains relatively comfortable, the global and domestic events in February have further narrowed the window of opportunity for him to engineer a full recovery of domestic consumption ahead of the Upper House elections in July.

China

(compare China funds **here**)

Roderick Snell and Sophie Earnshaw, managers of Baillie Gifford China Growth - 6 April

This year we have experienced one of the biggest regulatory resets in China for over a decade. Combined with a sell-off in growth equities towards the latter part of the year, it has been a painful period of performance for growth investors in China. At times like these, we believe it is important to stick unwaveringly to our long-term growth philosophy and process, both of which have served us well in the sixteen years that we have invested directly in China.

At the macro level, we continue to draw on our network of corporate, academic and independent research providers to help us navigate regulatory and policy change. As noted in our Interim Report, we believe there are two main policy drivers that require continued monitoring. The first is common prosperity and the second is anti-monopoly/data regulation.

With regard to common prosperity, we continue to believe that success here should be a significant positive for many of the companies in your portfolio and for China as a whole. So, what is common prosperity and why is it important? There are two facets to the policy: material prosperity and spiritual prosperity. Material prosperity is the most pertinent and can be summarised as 'making the cake larger and cutting the cake better'. China's economic miracle has already pulled c.800m people out of poverty. But it has also created vast inequalities of income, education, healthcare and opportunity, and this inequality is largely felt along rural/urban and provincial lines. As Li Keqiang noted in a recent speech, there are c.600m Chinese people living on less than RMB 1,000 (US$160) per month (or US$5.3 a day), barely enough to rent a room in one of the big cities. Indeed, China has one of the highest Gini-coefficients (which measures income inequality) in the world (at 0.48). As Scott Rozelle notes in Invisible China, educational outcomes are even starker: 75% of urban children go to university versus 15% of rural children, and 2/3 of China's children are rural. With China losing its low skilled manufacturing jobs to Bangladesh and Vietnam, it risks being left with a large underclass of under or unemployed citizens who are unable to contribute meaningfully to consumption led economic growth. Common prosperity is the government's attempts to tackle these issues so it can meet its development goal of attaining developed market status by 2049, the 100th anniversary of the PRC.

But what about 'cutting the cake better'? Does this suggest a return to a markedly less palatable form of communism? We do not think so. Xi's view of wealth distribution is olive shaped (a large middle class and smaller groups of very rich and very poor people). With the wealthiest three provinces in China generating 4x the GDP per capita of its poorest (the ratio in the US is only 2:1), a certain degree of redistribution will be required. However, as Dr Olivia Cheung from SOAS notes, Xi has explicitly ruled out the creation of a welfare state arguing that it 'breeds laziness' and, importantly, still promotes the idea that it is 'glorious' to become rich, as long as the rich give back to society.

So what key milestones will we be monitoring with respect to common prosperity? Zhejiang Province is the pilot province for the policy and a likely early indicator of the direction of travel at a national level. More broadly, an increase in wealth transfers from richer to poorer areas, an improvement in rural land rights, and further relaxation of rural hukou (essentially, residency permits) would be viewed by us as meaningful and positive developments.

With regard to anti-monopoly and data regulation, there are a number of things to note. First, regulating large technology conglomerates and their use of data is a global, not a local, issue. Governments all over the world are struggling to formulate best practice here and China is no different. Second, the issue in China is heightened by the remarkably lax regulatory environment prior to 2021; and by the government's desire to incentivise investment in areas that will be crucial to China's next decade of economic development; it doesn't want all of its best and brightest minds to become game developers and ad optimisation programmers! Third, whilst the broad parameters of anti-monopoly and data security regulations have been set, we are still waiting for detailed guidelines and implementation from a host of newly created and recently empowered regulatory bodies. For example, the State Council recently added 'data' as a 5th factor of production and, in concert with the cyber security regulator, is trying to formulate mechanisms via which certain types of data are safe to trade. SAMR, the body in charge of anti-monopoly regulation, is currently in the process of revamping the Anti-Monopoly Law and in defining new types of anti-competitive behaviour. What this means in practice, is yet to be announced.

All of the above affects two of our largest holdings, Alibaba and Tencent. These are two of the most dynamic companies within China. They have multiple potential growth drivers ahead of them and, as such, sit at the nexus of multiple regulatory jurisdictions. Until we get clearer guidance from regulators on what both companies can and cannot do in the future, we think it is unwise to make very large changes to both stocks' position sizes, particularly after a period of such marked weakness in both companies' share prices. For example, both companies have until now been able to expand horizontally into new growth areas unimpeded. Will this be allowed to continue? One of the attractions of both companies was their vast stores of consumer and financial data. Will they still be able to monetize this given the proposed restrictions to the use of personal data or will both companies be massive beneficiaries of the government's decision to add data as a 5th factor of production? Finally, although both companies remain large absolute holdings, their relative weights are much smaller. This reflects our uncertainty regarding the impact of the new regulatory regime on both companies' future growth prospects.

More positively, outwith the internet space the government continues to show support for sectors which will be key for China's next decade of growth. As the Industry and Information Technology Minister Xiao Yaqing highlighted in a recent essay, China wants to avoid the hollowing out of its manufacturing sector and to increase self-sufficiency in areas outwith the digital economy. These areas include advanced manufacturing, environmental technology and semiconductors. It wants to nurture an array of 'little giants' that have the potential to develop highly advanced expertise in these strategic areas. We believe these 'little giants' reflect very sizeable growth opportunities for long term investors.

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Latin America

(compare Latin America funds **here**)

Sam Vecht and Ed Kuczma, managers of BlackRock Latin American - 1 April

In contrast to a very strong start to 2022, with Brazil one of the top performing markets in the world, 2021 was a challenging year for Latin American markets. The region was down over the year by 8.1% underperforming Emerging Markets which fell by 2.5%1 and Developed Markets which rose by 21.8%1. Throughout the region rising inflation forced central banks to hike interest rates, creating headwinds for local equity markets and a heavy election calendar and polarised presidential elections created additional uncertainties for investors at a time when economies were still recovering from the COVID-19 pandemic.

Against this backdrop, the performance narrative was dominated by two countries: Brazil and Mexico. Brazil, the largest constituent in the Company’s benchmark, detracted the most from performance, falling by 17.4%. The Brazilian market was weighed down by successive COVID-19 waves followed by higher inflation and the need for steep hikes in interest rates. Higher fiscal spending to offset economic disruption from COVID-19 put an additional burden on the already stretched debt dynamics in the country. Mexico in contrast was the standout star performer of the year, with markets rising by 22.5%. Mexico's ability to outshine in 2021 was a function of the reopening of the economy, which continued apace as the pandemic figures (cases and mortality rates) remained under relative control combined with the benefits from a strong US recovery partially helped by the continued trend of near-shoring supply chains.

Following a challenging 2021, Latin American equities have delivered a strong start to 2022, proving to be a bright star in turbulent times for global markets. We are confident that there are an abundance of reasons to be optimistic towards Latin American equities which we believe are underpinned by an attractive combination of higher commodity prices, geopolitical risk diversification, rapidly improving earnings momentum, and favourable valuations. As the world rebuilds after the pandemic, Latin America is a prime beneficiary of recovery in the global economy. Vast stimulus in the US and economic recovery across the world has pushed up demand for commodities at a time when supply shortages are being turbocharged by geopolitical conflict. Latin America is one of the most abundant regions in the world for key inputs such as lithium, iron ore, oil & gas and copper and features some of the longest-life reserves at a low cost in Brazil, Chile and Peru. There is no doubt that Latin America will be depended on heavily to fill a void being left by resource rich countries in conflict. Furthermore, aggressive rate hikes in several Latin American economies have sharply increased the interest rate differential with the US, supporting the case for local currencies to appreciate. In the short-term, the interest rate differential looks set to widen, further underpinning Latin American currencies which are among the best performing early on in 2022. Additionally, with the region's relatively high commodity exposure, Latin American equities have seen a major improvement in earnings momentum, by far the largest gain among Emerging Market regions. As earnings momentum remains positive and accelerating, we view valuations as attractive, with the region trading on 8.6x 12-month forward Price to Earnings ratios, more than a 25% discount to its long-term history.

While we are optimistic about the outlook, we remain cognisant of the risks which could weigh on regional economic growth in the near term. Across Latin America, a growing middle class is seeing domestic consumption pressured from rising inflation and increasing domestic interest rates. Latin American economies were boosted throughout the pandemic, for the most part, by expansionary monetary and fiscal policies. Food and energy absorb a significant amount of disposable income and it is these areas where prices are rising fastest. This has led to a rapid near-term rebound in demand given the reopening of economies at a time where rising energy costs, low inventories and supply chain issues have led to inflation exceeding expectations across the region. Central banks have reacted aggressively by hiking domestic interest rates to tame intensifying inflation pressures. The impact of rising domestic rates will weigh on growth prospects, at the margin, but could be offset by continued loose fiscal policy.

Politics remains an area that presents several opportunities and challenges for Latin American markets. There have been key elections across the region, with some transformational candidates coming into power on the back of aggressive campaign promises. While history in past elections has shown that political fears based on radical reform initiatives tend to be overblown, it nonetheless creates volatility, which can result in attractive valuations for stocks within our opportunity set. We actively seek-out and look to take advantage of these short-term dislocations in valuations relative to underlying bottom-up fundamentals of the companies we invest in given our long-term perspective on markets. Over the course of 2022, we will see presidential elections in Colombia and Brazil and one of the biggest debates is the amount of government spending needed to continue to support development. The outcome of these debates will have profound impact on growth going forward.

In conclusion, rising commodity prices have underpinned a major improvement in earnings momentum for Latin American equities. As the region has experienced disappointing returns in recent years, the asset class enters the year as undervalued, under-owned and under-appreciated. The benefits of higher commodity prices, solid earnings momentum and cheap currencies have the potential to lead to attractive returns for the region going forward.

Outlook

A void in critical materials, both hard and soft commodities, has emerged in the wake of the Russia/Ukraine conflict, turbocharging an already supply-constrained global commodity backdrop. The quest for alternative suppliers and modified value chains has been kicked into high gear. Latin America is well situated to fill this gap given its abundance of natural resources. History has shown that strong raw material prices shine a favourable light on Latin American equity markets considering that in the last three commodity booms (since 1999), Latin American equities rose by an average of +203% (Brazil +287%). Additionally, when looking at 2002 (when China entered the World Trade Organisation) to the global financial crash in 2008, Brazilian stocks returned +672%. Despite the surge in commodity prices since March 2020, Latin American stocks have lagged due to subpar growth, political uncertainty, fiscal challenges and devastating COVID-19 waves. Conversely, the region trades at the widest discounts to historical multiples (Price to Earnings ratios, Price to Book Valuation, Enterprise Value to Sales ratios, EV/EBITDA (Earnings before interest, tax, depreciation and amortisation)) relative to Emerging Market peers (–1.4 standard deviations on average vs –0.1 for Asia-X, –0.6 for CEEMEA (Central and Eastern Europe, Middle East and Africa)). We would argue given current natural resource prices, commodity economies in the region are no longer ‘fragile’ given competitive currency exchange rates, current account surpluses, manageable deficits and large foreign currency reserves. We see scope for a growth and equity performance catch-up, especially if China reflates and/or signals for monetary ease.

Brazil is by far the largest, deepest and most liquid Emerging Market exposed to a new commodity supercycle. We acknowledge risks of soaring inflation in an election year, but we believe these concerns are largely offset by:

1. a major positive shock to terms of trade;
2. Brazil indices are packed with big and liquid commodity stocks (44% of MSCI Brazil);
3. the Brazilian central bank is ahead of the curve in its tightening cycle (liftoff was in March 2021), which saw rates moving from a historical low of 2% to 11.75% as of end of the first quarter of 2022;
4. Brazil has historically rallied during periods of tighter US monetary policy (+57% IBOV average US Dollar returns in the first year of Federal Reserve hikes, dating back to 1998); and
5. the Brazilian Real ended 2021 as undervalued and can boost hard currency-denominated returns (historical appreciation of +18% in first year post the Federal Reserve initial hike). Brazilian stocks are also benefiting

from a surge in commodity prices and Russia's exclusion in benchmark Emerging Market indices, as well as hopes that the winner of October's presidential election will not derail the nation's economic policy.

While there remain a number of economic and political challenges for Latin America in 2022, we believe many of its troubles should be behind it. The interest rate cycle may start to turn as inflationary pressures ease in the back half of 2022 following spikes early this year. The global economic recovery should create continued demand for natural resources, which Latin America has in abundance. Vaccination rates across the region are also high, and companies have grown more adept at dealing with mobility restrictions. We believe all these factors should allow for stronger economic growth in the years ahead. At the same time, we believe valuations are attractive. By global investment standards, Latin America is highly under-owned and rising interest rates have done little to improve its popularity. Higher rates have also taken some domestic equity investors out of the market as yields in fixed income have risen. However, we see the opportunity for this trend starting to reverse in 2022. Entering the year, expectations are low for Latin American equities, but there are many great companies benefiting from rapidly changing factors which can positively impact the region. We believe the future may be more positive than many expect.

Vietnam

(compare country specialist funds **here**)

Stanley Chou, chair of Vietnam Enterprise - 28 April

In 2021, the Vietnamese stock market produced one of the best returns globally with the Vietnam Index (the "VN Index") increasing 39.0%.

The pandemic created a challenging year for many countries, and Vietnam was no exception. Following the lock-down during the third quarter of 2021 in high infection rate provinces, especially Southern Vietnam, the country constantly and proactively promoted the vaccine campaign and switched from a "Zero-COVID" to a "Live-with-COVID" strategy. Vietnam has since achieved one of the highest vaccination rates in the world. As of December 2021, 98.7% of the adult population has been fully vaccinated and the new goal is to have a similar percentage of adults boosted by the second quarter of 2022. Additionally, with domestic pharmaceutical companies now approved to produce Merck's COVID-19 treatments, the impact from the pandemic is expected to continue to diminish.

Although the economy was negatively impacted by COVID-19, GDP recovered in the fourth quarter to end up 2.6% for the entire year. A primary driver was the manufacturing sector, which advanced by 4.1% year-on-year ("yoy"), followed by agriculture at 2.9% yoy, and the services sector at 1.2% yoy. Manufacturing benefited from the effective vaccination strategy that enabled workers to quickly return to factories. The global demand for Vietnamese exports remained solid throughout the year. Total trade for 2021 rose 22.6% to US$668.5 billion. Imports increased 26.6% to US$332.3 billion, heavily pushed by inventory building. Exports grew by 19.1% to US$336.3 billion, which was slower than years past. Exports grew in the second half; what was a cumulative trade deficit of US$1.7 billion in July became a surplus of US$4.0 billion by December. The contribution of FDI was as supportive as ever, at nearly 70% of total trade. This is likely to grow in the coming years as the shift in the global supply-chain continues to favour Vietnam. Lastly, the Regional Comprehensive Economic Partnership ("RCEP") agreement, which became effective from 1 January 2022, will further accelerate the country's growth.

2021 saw the Vietnamese stock market make significant progress in its development, size and depth. There are now 63 companies with market capitalisation in excess of US$1 billion. Daily turnover has reached a new normal of US$1 billion, oftentimes much higher. The low interest rate environment drew domestic retail investors into equities and new retail account openings increased nearly fourfold compared with the prior year. The E-KYC process which started in August 2020 was also an important factor that supported the convenience and the speed of new retail openings. Though foreign investment in Southeast Asia reduced in 2021, we expect it will rebound as travel, logistics and business interaction return back to pre-pandemic levels. The market infrastructure will get another boost with the arrival of a new trading system in the second quarter of 2022, which will bring T+0 settlement, allowing for higher trading turnover. Futures, options, warrants and other derivative products are also expected to evolve in the coming year.

In valuation terms, the earnings growth forecasts for the top 60 companies in Vietnam averaged 22%, and the price/earnings ratio was at approximately 12x. The Vietnamese market is still below its average five-year valuation, despite a 39.0% run-up by the VN Index.

Looking ahead, there are numerous uncertainties in 2022 due to inflation, rising oil prices, Federal Reserve rate hikes, and the Russia-Ukraine crisis. The tension between U.S and China continues to have positive spillover effect on emerging markets such as Vietnam. To fight the pandemic, the Vietnamese Government initiated a US$15 billion stimulus package and most of it will be deployed in 2022. With the country in healthy shape, the economy is well positioned to achieve a GDP target of 6.0-6.5% this coming year.

Growth and liquidity in the Vietnam market remains one of the highest in Southeast Asia. VEIL is confident of its ability to continue to identify the best companies in terms of business growth, profitability, and management.

Renewable energy infrastructure

(compare renewable energy infrastructure funds **here**)

Patrick O'D Bourke of Ecofin US Renewables Infrastructure - 19 April

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 the 2020 rate of 26% which had been due to step down to 22% in 2021) and a one-year extension to the production tax credit ("PTC") for wind power.

Some of the first actions undertaken by the new U.S. administration which took office in early 2021 included President Biden signing an executive order to bring the U.S. back into the Paris Agreement as well as establishing a goal for the U.S. power sector to be carbon-free by 2035. The Infrastructure Investment and Jobs Act, which was heavily supported by President Biden and signed into law in November 2021, includes a substantial programme to update and modernise the electric grid in the U.S. through investments in transmission to accommodate increasing levels of renewable energy, together with investment to build out a national network of electric vehicle (EV) chargers, which will serve to increase demand for electricity. While the Build Back Better Act, which had over $500 billion allocated to climate-related infrastructure, did not obtain sufficient support in the Senate to become law, its climate related provisions are expected to be revisited in 2022.

Another feature of the last year or so has been the substantial increase in natural gas prices in the U.S. as in other industrialised nations. These higher prices tend to lead to higher wholesale electricity prices, especially in those U.S. power pools where natural gas is the marginal fuel. This upward trend in natural gas prices represents a positive factor for RNEW from a vantage point of re-contracting assets within the portfolio over the medium to long term.

While the Russian invasion of Ukraine in early 2022 is deeply concerning on a humanitarian, geopolitical and macro-economic basis, RNEW's investments in U.S. renewable energy assets with long-term revenue contracts are well positioned to provide a resilient source of cash flow during these uncertain times.

Overall, the backdrop remains very supportive for further growth of the renewable sector in the U.S., which continues to be very active.

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Manager of Gresham House Energy Storage - 6 April

The market backdrop for BESS [*battery energy storage system*] projects in the UK and Ireland has improved significantly during 2021 as long-expected high power price volatility has continued, having first emerged in late 2020. This volatility has emerged as renewable penetration has risen to levels at which existing sources of flexibility, and in particular gas-fired generation, have reached their limits in terms of dealing with the rising intermittency of renewables. And indeed, as renewables gain market share, baseload gas is losing share and will probably be gradually decommissioned, reducing a source of flexibility - further reinforcing the need for batteries. Recent sharp price increases in global energy prices have further supported the investment and energy security cases for a global acceleration of renewable energy development, and thus continuing to favour the global rollout of battery storage.

Past CfD auctions offering a guaranteed offtake for offshore wind projects (in 2015: 2.2GW, 2017: 3.3GW and 2019: 5.5GW) and the most recent auction for offshore and onshore wind and solar (expected to catalyse a further 12GW of capacity according to the Department for Business, Energy and Industrial Strategy (BEIS)) provide near term visibility for the energy storage business model. With only 1.4GW of energy storage commissioned in the UK to date, albeit with further significant rollout expected in the next few years, energy storage still lags the pace of renewable project installations, which are running at over 2GW per annum and rising.

There are three key factors we believe will drive the investment portfolio and performance in the BESS market over the short to medium term:

FR [*frequency response*] market

The FR services market currently consists of DC [*dynamic containment*] and FFR [*firm frequency response*]. As of November 2021, saturation of these markets began and with continuing growth of BESS assets in the market, further pressure on pricing is anticipated.

In addition to DC and FFR, Dynamic Modulation (DM) and Dynamic Regulation (DR) are set to launch in 2022, currently expected by the end of the summer. However, we do not expect a long-term increase in the overall volume as National Grid plans to phase out FFR once these two products are launched.

The ability to stack trading revenues on to these services and the reduced 4-hourly contract periods increases our confidence that value will continue to be extracted from FR despite its reduced attractiveness on its own.

Furthermore, while the FR markets are becoming saturated, the volume requirement from National Grid ESO [*electricity system operator*] on a seasonal basis is expected to rise as we head into summer, as additional capacity is required when renewable (solar) generation is higher. This may provide a short-term reprieve to the downward trend in prices but is noteworthy, nonetheless. The higher summer and lower winter requirement for FR services should manifest in the Company's revenue split going forward.

Reserve from Storage

Aside from FR services and increasing volume requirements, National Grid have long promised more demand for storage as a source of reserve capacity. We expect more news on this in 2022 after a lengthy design phase following the successful Reserve from Storage trial in September 2020, which demonstrated the value of BESS assets versus CCGTs [*gas plants*] used in Balancing Mechanism (DM) Reserve.

Electricity prices and Trading

2021 saw further increases in Trading opportunities for the portfolio, with increasing volatility over previous years and more frequent pricing events. Some of this opportunity remained uncaptured by batteries as DC pricing remained significantly above average daily returns from Trading. As prices for FR services have fallen, and electricity price volatility continues to increase, Trading is becoming key to profit maximisation.

Outlook

We remain very confident that opportunities in the UK and Irish markets will remain healthy for many years as the deployment of renewables continues apace and electricity demand starts to rise in the UK, particularly driven by an increase in electric vehicle uptake and the beginning of an electric heat pump rollout (replacing natural gas-fired domestic and commercial boilers).

Aquila Capital, managers of Aquila European Renewables Income

Market Prices

In 2021, movements in the prices of fuels and CO2 were key drivers of a bullish trend in power price levels, including in the European markets in which the assets are located. This upward trend was supported by a general post-pandemic recovery in electricity demand across industry and commercial sectors, but also the market´s response to cold winter spells and summer heatwave peaks - both linked to the 'La Niña' global weather phenomenon.

Gas underwent a strong rally during 2021, driven principally by record-low European gas storage reserves, lower than expected imports, as well as a high level of uncertainty around the commissioning of the gas pipeline Nord Stream 2. In addition, CO2 prices almost tripled, driven mostly by a 'vicious circle' of other commodity price rises, higher demand - due to speculative trading/the attention of new investors - and a generally more pronounced political momentum for decarbonisation. The last few months of 2021 were characterised by a 'perfect storm' of the above factors, leading to extreme power price levels across most European geographies.

The aforementioned factors led to a general bullish trend in power price levels across European geographies - including Spain and Greece - where thermal power units continue to set the price. Thus, power price levels reflected the underlying fuel and EUA costs borne by these units. This impact was much less pronounced in the Nordics, leading to relatively lower prices, given the dominance of hydroelectric power in the generation mix. Nevertheless, there was convergence between Nordic prices and generally more bullish Continental European markets in 2021 due to a shrinking hydrological balance and the impact of the NordLink and North Sea interconnection links with Germany and the UK respectively.

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

EU Green Energy demand

A significant increase in green energy is expected within the EU in the short term, with the focus increasingly shifting to sector coupling. Additionally, private companies are increasingly pursuing their own emissions targets (e.g., RE100), therefore, directly increasing the demand for green energy. Decarbonisation demands more electricity from a number of different sectors, such as transportation, building and industry, and it requires significant additional amounts of energy overall. For example, electrification in Northern Europe is expected to lead to an increase in electricity demand of about 65.0% by 2050. At the heart of this development is the emission-free generation of renewable energy. According to forecasts by Bloomberg, average annual additions of renewable energy sources within the EU need to almost double in the next four years (2021-2024) compared to 2017-2020.

Furthermore, the phasing out of coal-fired power plants is gaining momentum, due to the economic superiority of renewable electricity production. As an example, Spain benefits from a high availability of natural resources (particularly solar PV) which has led to a reduction in costs in recent years. Combined with Spain's rising climate ambitions, the competitiveness of solar PV in the energy system has strengthened considerably over recent years. Thus, we have passed not only turning point one - renewable energies as the cheapest source of new generation capacity - but also of turning point two. The total costs of a solar PV plant are already below the operating costs of existing coal or gas-fired power plants.

In order to fulfil rising electricity demand, as well as the EU's goal of increasing its share of renewable electricity generation to 65.0% by 2030, a significant investment will be required. According to a study by Bloomberg New Energy Finance, the goal of increasing the share of renewable electricity generation to 65.0% alone requires investments in renewable generation capacities amounting to EUR 350.0 billion per year until 2030. Such an estimate suggests funding from the Next Generation EU programme covers only one year's worth of investment needs.

In order to ramp up private investment in the future, stable and predictable cash flow generation is critical. However, the prices of renewable energies are dependent on weather conditions, and this tends to create high volatility. In response to this, the EU has announced a further 15.0 GW tender for renewable energies, which should lead to more stable and reliable conditions in the future.

Additionally, regional integration of the European electricity system mitigates the need for flexibility and is at the centre of the EU's plans. Different weather patterns in Europe lead to geographical balancing effects. Wind and solar outputs are generally much less volatile on an aggregated level and extreme high and low values disappear. Cross-border exchange minimises surplus generation from renewable energy and significantly reduces the risk of curtailments. With market integration, cross-border generation peaks allow for exports to regions where loads are not being met. In contrast, a hypothetical national autarky case has storage or curtailment requirements that are ten times higher.

Power Purchase Agreements

The continuing decline in levelized costs of energy ("LCOE") for wind and solar PV is increasingly being felt in markets. Resulting high competitiveness is reflected in the decreasing need for subsidies in Europe, although these are still relevant to investors. The graph below illustrates this development. While subsidies paved the way for renewable energies, auctions are increasingly being recorded that completely dispense with state support. In particular, solar PV systems in combination with ideal weather conditions in Southern Europe show LCOEs significantly below the prevailing electricity price level.

Private markets, on the other hand, are gaining in importance. PPAs have shown enormous growth across both 2020 and 2021, resulting in over 7.0 GW worth of PPAs per annum. This is nearly triple the 2.5 GW seen in 2019. The volume of PPA deals in 2021 stayed roughly aligned with 2020; however, wind contracts (both onshore and offshore) took the majority share across various geographies, leaving solar PV deals behind.

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

Inflation

Investments in renewable energies represent an effective protection against inflation. In previous periods of high inflation, investments in real assets within the energy sector as well as the commodities sector demonstrated a positive correlation with the inflation rate. Renewable energies benefit from rising electricity prices with no burden on the cost side in relation to the use of resources. The fact that electricity markets are marginal and power producers must send their offers at their recognised marginal cost as well as growth rates of energy inflation exceeding the consumer price index have a significant positive effect on the earnings potential of renewable electricity generation plants.

In the EU over the last 20 years electricity prices have risen significantly more than the CPI with the electricity prices index having increased on average by 3.9% and inflation by 1.9%.

Additionally, PPAs represent a protection against fluctuations in electricity prices for both producers and suppliers. To counterbalance high inflation effects, indexed PPAs would be the best solution. However, in the market the majority of PPAs are not indexed and do not benefit directly from rising inflation in terms of electricity prices: However, merchant revenues are directly enhanced, and as shown in the previous paragraph the electricity prices index have outperformed the CPI in the EU; therefore, an appropriate balance between merchant and hedge prices provides the portfolio with a natural hedge against inflation, while maintaining a stable payment profile.

Conclusion

Russia's invasion of Ukraine brings uncertainty to the commodities market and how price levels of modules and other hardware will be impacted directly or indirectly. The Company does not have any direct exposure to Ukraine or Russia, there are also no direct business relations with counterparties from these countries.

This invasion has led to higher volatility in electricity prices, driven by the increased energy and non-energy commodity related costs, inflation is expected to continue to rise. In this regard, energy and power markets will receive higher levels of scrutiny and future interventions in markets. Energy independence will become an important driver and local support for renewables and non-fossil fuel energy sources will most likely increase.

Infrastructure

(compare infrastructure funds **here** and **here**)

Sarah Whitney, chair of BBGI Global Infrastructure - 13 April

The future for global infrastructure investment remains strong. Megatrends such as urbanisation, flexible working models and the need to reduce emissions will all contribute to continued demand for infrastructure investment. COVID-19 response stimulus plans in many countries are putting pressure on governments to step up the pace of infrastructure development.

Post year end, at the time of writing, we are watching the horrific events unfolding in the Ukraine. Our thoughts are with the people of the Ukraine, and all of the people who are affected by this war.

Commodities & natural resources

(compare commodities & natural resources funds **here**)

Manager of Baker Steel Resources - 14 April

During the year, the performance of mining markets was variable dependent on commodity, but overall performance was flat with EMIX Global Mining Index ending the year up 5% in Sterling terms. Following the strong gains in 2020 precious metals fell back with gold down 4% and silver down 12% in US Dollars. Iron ore likewise fell 24% during 2021 after rising 74% in 2020. Metals required for the electrification of the world's infrastructure continued to be strong with copper rising a further 26% during the year having risen 26% in 2020 and, tin more than doubling (all in US dollars). Coking coal more than reversed its 31% fall in 2020, rising 252% during 2021 and potash was similarly strong - more than doubling during the year.

The invasion of Ukraine by Russia is expected to have a profound effect on the mining industry during 2022 and possibly beyond. Although commodity prices are expected to be strong due to supply disruptions there will also be inflationary pressures on capital and operating costs and this may in turn reduce investors' appetite for risk in financing new projects through IPO's or otherwise. Increased safe haven demand, and inflation concerns, have sent the gold price to a 17-month high, while the imposition of sanctions will likely exacerbate existing supply issues, particularly for those commodities where a significant portion of production is from Russia or Belarus, and where markets are very tight already.

Growth capital

(compare growth capital funds **here**)

Management team at Schroder UK Public Private - 20 April

UK equities overall performed well in 2021 as vaccination programmes were rolled out, social distancing measures were broadly relaxed and economic activity recovered. Many lowly valued and economically sensitive areas of the market outperformed in the first half of the year in anticipation of a strong global recovery. Later in the year there was rotation back towards more defensive areas of the market due to a combination of factors. These factors included expectations that central banks would look to tighten monetary policy in response to rising inflation, ongoing supply chain issues, and fears around COVID-19 variants leading to further waves of the pandemic and lockdowns. Equities were particularly volatile towards the period end amid increasingly hawkish commentary from the major central banks.

We are of course shocked and saddened by events in Ukraine, and acknowledge that this is a human crisis with awful consequences for millions of people.

That said, there are also significant market consequences and considerable uncertainty remains about the future path of events. However, it is already clear that there will be material secondary consequences from the rise in energy prices, and from the inflationary impacts due to rising agricultural commodity prices and supply chain interruptions.

We expect that public markets may be more volatile than normal in the near term as markets adjust to changed conditions, and this may also have an impact on the pace of activity in private markets.

Environmental

(compare environmental funds **here**)

Jon Forster, Bruce Jenkyn-Jones and Fotis Chatzimichalakis, managers of Impax Environmental - 5 April

COP26 continues momentum for climate action, but more effort will be needed.

The UN climate talks in Glasgow were promoted by the host UK government as the last chance to "keep 1.5°C alive", referring to the more ambitious global warming goal agreed in Paris in 2015. Ahead of COP26, countries were due to have updated the emissions pledges they made in 2015 - their 'Nationally Determined Contributions', in the UN jargon - to reflect advances in climate science and recognising the growing urgency of the threat posed by climate change. While many of them did so, key countries, including China, Russia and Australia, failed to increase the ambition of their targets.

In addition, an attempt to commit signatories to "phasing-out" unabated coal-fired power generation failed, with the Glasgow Climate Pact instead referring to "phasing-down" coal. Similarly, language around fossil fuel subsidies was watered down. Rich countries failed to meet their promise to channel US$100bn per year in climate finance to developing countries. Overall, governments' 2030 targets are currently inadequate, and they have been asked to revisit and strengthen their goals by the end of 2022.

More positively, rules on carbon markets were agreed, climate finance targets have been raised, and a number of 'coalitions of the willing' emerged to address key drivers of climate change. More than 50 countries joined the 'Coal to Clean' alliance, pledging to phase out coal-fired power. More than 100 countries agreed to cut emissions of methane, a potent greenhouse gas, by 30% by 2030. More than 30 countries and car makers pledged to stop selling internal combustion engines by 2040. And more than 130 governments committed to stopping deforestation by 2030. These alliances will be supported by cross-cutting initiatives focused on finance and innovation. These include the Glasgow Financial Alliance for Net Zero (GFANZ), with commitments from 450 firms representing US$130 trillion in assets, and various Glasgow Breakthrough groups, with governments working with industry on power, road transport, steel, hydrogen and agriculture.

On balance, and despite some disappointments, COP26 provided renewed confidence in how to get national economies on the track to net zero. The various coalitions will enable progress to be made in key areas of the real economy, and in tackling some of the most important drivers of climate change. They will create numerous opportunities for IEM, in clean power generation, energy efficiency and food and agriculture. Inevitably, the growing impacts of climate change will require investment in adaptation, which will benefit a number of IEM portfolio companies.

The decarbonisation of heating

One of the larger barriers to a net-zero global economy is the use of fossil fuels in heating; in Europe, for example, buildings account for 40% of final energy consumption and 36% of greenhouse gas emissions, with heating accounting for 70% of the building stock's energy needs. Tightening energy efficiency standards for buildings have driven growth in insulation, LED lighting, and more efficient HVAC (heating, ventilation and air conditioning) systems, but some 85% of heating and cooling is still reliant on fossil fuels.

This is set to change. In its EU Energy System Integration Strategy, the European Commission said it expects 40% of residential heating to be electrified by 2030. EU governments are putting in place timelines to phase out fossil fuel boilers and policy support for alternative technologies such as heat pumps. Current penetration rates of around 5% are expected to reach 20% by 2030, driving annual growth rates of 15-20%. NIBE (Buildings Energy Efficiency, Sweden), held by IEM for 15 years, is a leader in heat pump markets and is well positioned to capitalise on this growth.

Simultaneously, rising temperatures globally will drive a growing need for cooling. High efficiency HVAC systems, such as those supplied by Lennox (Buildings Energy Efficiency, US) will continue to see above-market growth, driven by regulation and pure economics. Increased use of software and technology is creating "smart buildings" with active shading, motion-activated heating and cooling, etc. Finally, an increased focus on wellbeing and awareness of the benefits of fresh air are expected to drive increased uptake in heat recovery ventilation systems. We continue to look for incremental exposure to these growth opportunities.

Supply chains and inflation

Last year was characterised by extreme disruption to global supply chains and related inflationary pressure, and we expect this disruption to persist in 2022, with mostly negative impacts on portfolio company performance. These disruptions and inflation were caused by a combination of the unexpectedly rapid economic recovery from the

COVID-19 pandemic and periodic lockdowns, particularly in Asia, exacerbated by a pandemic-related shift in demand from services to physical goods.

The resulting increase in costs of raw materials, shipping and labour posed significant challenges for smaller industrial companies. They tend to have lower purchasing power than their larger competitors, and those with in-house manufacturing tended to suffer more than those which outsourced manufacturing to bigger suppliers.

As an example, Vestas (Wind Power Generation Equipment, Denmark) issued two profit warnings in 2021, blaming, among other things, increased commodity and freight prices, and congestion outside harbours. Clean energy companies such as Vestas often face deadlines by which projects must be under construction or operational, meaning they have little option but to absorb higher costs.

Similarly, Itron (Power Network Efficiency, United States) reported that its results were negatively impacted by component constraints, which affected its ability to meet customer demand and its cost structure, according to its CEO. He forecast that component supply would likely remain problematic into 2022.

We share that assessment. We favour companies with defensible market positions and, overall, we are pleased with most portfolio companies' ability to pass increases in input prices on to their customers. However, while we expect supply chain issues and inflation to abate in 2022, they will exert a drag on company performance.

Healthcare's nascent sustainability transition

There is increasing consensus among scientists that climate change is already impacting human health negatively (respiratory and cardiovascular diseases have been linked to worsening air quality) and altering the geographical prevalence of certain infectious diseases. While healthcare companies offer products and services that help address these challenges, they are also part of the problem. The healthcare sector has the largest carbon footprint of any service sector and is responsible for 4-5% of global emissions, more than aviation and shipping combined. Interestingly, awareness of this issue has been low within the clinical community and it was not until the adoption of the Paris Agreement in 2015 that healthcare companies have started to tighten processes to assess and manage their carbon emissions.

Beyond carbon emissions, the environmental footprint of healthcare extends to water use, and ground and water pollution. According to the World Health Organization, the most widely used raw material in pharmaceutical manufacturing is water, highlighting the importance of appropriate water management measures aimed both at minimising water consumption and managing wastewater. The occurrence of pharmaceuticals in the environment is of growing concern worldwide, as they have been detected in water and soil systems posing risks to humans and wildlife that range from the spreading of antimicrobial resistance, to interference with reproduction and increased cancer incidence in humans.

Outlook

2022 has started on a challenging note, with the US Federal Reserve's pivot towards a rapid end to quantitative easing and the prospect of multiple interest rate rises to address inflation prompting an aggressive market rotation out of "quality" and "growth" names, which are a core part of IEM's holdings, and into "value" sectors such as energy and financials, which do not generally meet the objectives of the Company.

More recently, Russia's invasion of Ukraine has sent shockwaves around the globe, leading to further market volatility and economic uncertainty, in addition to the loss of life and suffering of the Ukrainian people on the ground. The Manager echoes the Chairman's hope for a speedy and humane resolution to this conflict.

In terms of implications for the Company, the situation on the ground remains fluid and highly unpredictable, with potentially dramatic implications for markets. Notwithstanding this, the Manager provides the following update: firstly the Company does not own any Russian, Belarusian or Ukrainian listed or domiciled holdings; secondly, the Company's holdings have circa 1% direct revenue exposure to these countries; thirdly, the rapid escalation of natural gas and power prices have a mixed but in aggregate neutral impact on earnings, with energy intensive industries such as packaging and natural ingredients facing increased costs, but renewable IPPs with power price exposure seeing tailwinds; fourthly, the long term impact is likely favourable for growth prospects for the Company as the EU, for example, focusses on security of energy supply and seeks to reduce its reliance on Russian oil and gas by accelerating deployment of renewable energy and stepping up initiatives to increase energy efficiency across industries.

Acknowledging the challenging backdrop noted above, we maintain our focus on investing in the highest "quality" businesses across Environmental Markets, as we believe these specialist companies will see enduring and growing demand and will be best positioned to navigate an environment of slowing global growth, inflationary and supply chain challenges, and COVID-19 related risks. We remain convinced of the long-term growth prospects for Environmental Markets.

Hedge funds

(compare hedge funds **here**)

Rupert Dorey of Third Point Investors - 22 April

Economic and political shudders at the end of 2021 transitioned into convulsions in early 2022, as markets came to terms with more persistent inflation, an accelerated pace of monetary tightening and the contraction of fiscal stimulus, as well as heightened geopolitical tensions, most particularly with the Russian invasion of Ukraine. While the path forward is uncertain, it seems clear that we are in the midst of a rising rate environment in both real and nominal terms – an unfamiliar landscape for many investors – and can expect greater disparities in asset classes, factors, and individual securities.

Third Point LLC (the “Investment Manager”) has trimmed its public equity net exposure over the course of Q4 2021 and into Q1 2022 from a high of almost 80% to below 50% at the time of writing – mostly through sales of secular growth equity positions whose multiples are more at risk as rates march higher. Having enjoyed success in 2021 through the strong performance of growth-oriented names, the portfolio today is significantly more balanced.

Elsewhere, the pace of technological innovation has only continued to accelerate, and the Investment Manager is still finding companies early in their trajectory that have the potential to mature into the next generation of disruptors. Notably, Third Point's venture team focuses its efforts on expansion stage opportunities, where the risks skew more to scaling rather than valuation. In both corporate credit and structured credit, the Investment Manager believes rate fears will create some interesting opportunities and stands ready to deploy capital should equity volatility transition to credit volatility in a more meaningful way.

Debt

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

Pieter Staelens, manager of CVC Credit Partners European Opportunities - 6 April

Had this statement been written a month previously, I suspect it may have held a materially different emphasis. The shocking invasion of Ukraine by Russia, and the daily images of death and destruction, have horrified us all. The necessary imposition of financial sanctions on Russia and many of its leaders and banks, alongside the direct impacts of the conflict, have generated unavoidable turmoil in commodity markets and have the potential to see Russia itself and Russian corporate debt issuers default on their international obligations. Many commercial sectors have also been materially affected, such as oil and gas, food manufacturers, aircraft leasing and commercial shipping. It is too early to tell how these impacts will affect global markets in the medium term, let alone the impact on securities markets, and much will depend on whether there is a swift cessation to hostilities. To date, leveraged loan markets have been particularly resilient to drawdown, in contrast to equity markets which have experienced volatility. One market feature that does seem clear already, however, is that there will be a negative impact on global growth expectations, which has the potential to feed through to a gentler approach to interest rate rises. We, and the Investment Vehicle Manager, will continue to update our views to investors as conditions dictate.

2021 was a strong year for sub investment grade credit after a volatile 2020. In the early stages of 2022, the outlook for growth looked strong and inflation remained high. The high levels of inflation are anticipated to put pressure on central banks to hike interest rates, which should benefit floating rate credit as an asset class. The Investment Vehicle Manager believes that it is well positioned with 78.1% of the portfolio invested in floating rate assets at the start of 2022. However, at the time of writing, global growth is being revised downwards as a result of the Russian invasion of Ukraine, and commodity prices are experiencing wild price swings. It is too early to ascertain the exact impact on default rates in the European sub investment grade market, resulting in a volatile price environment. This allows the Investment Vehicle Manager to actively identify opportunistic investments that can create both income and capital upside. At the same time, pricing on new issues will have to reflect the additional uncertainty and will lead to higher new issue spreads, which will benefit the performing credit portfolio.

Advisory team at Fair Oaks Income - 14 April

In addition to the humanitarian and geopolitical consequences, the invasion of Ukraine by Russia in February 2022 has caused increased volatility in global financial markets and increased expectations of supply chain disruption and cost inflation for oil, gas, metals, grains, vegetable oils and other raw materials. The CLOs in which the Master Funds invest do not hold any loans of Russian, Ukrainian or Belarusian borrowers. The borrowers to which the CLOs are exposed have low direct exposure to Russia, Ukraine and Belarus but the profitability of some of them may be impacted by increased input cost inflation. Manufacturers have already been experiencing high input cost inflation during 2021 and have been largely successful in passing cost increases through to their customers but this may become more difficult in an environment of extreme cost inflation and weaker consumer confidence.

While loan and CLO valuations may be impacted by increased risk premiums across financial markets, we do not currently expect the CLOs in which the Master Funds invest to experience a significant increase in credit losses as a result of the invasion and its effect on the global economy. There is also a potential benefit to the Master Funds' CLO equity investments as CLOs reinvest prepayments in loans at lower prices or higher margins during periods of market volatility.

Manager of RM Infrastructure Income - 21 April

Market environment

Generic credit spreads were stable with the benchmark Markit ITraxx Crossover index opening and closing the year at around 240bps with relatively modest volatility seen in the credit index during the year. The year was dominated by the race between the COVID-19 variants and the vaccines, with the markets overall believing that the COVID-19 pandemic was moving into an endemic phase allowing markets to advance with most stock exchanges ending up 10% or more.

Energy costs and supply chain issues leading to very elevated inflation readings became the focus for the market. Overall, it was a weak period for fixed income with the 10-year UK government bond price falling c.10% as yields rose from the historically tight levels of 0.25% to the still historically tight level of 1% by year end. As we look into 2022 it is likely that there will be further upwards pressure on government bond yields as inflationary pressures remain and central banks move into a tightening phase. This gives an overall negative outlook for general fixed income markets as the direction of global government bond yields appears to be higher.

Credit spreads will likely move wider over the coming year largely as the Bank of England has signalled that its £20 billion of holdings in corporate bonds will be sold during 2022 and 2023. It is likely that credit spread widening will be exacerbated as these sales will be into a market that is likely itself reducing in size as investors are themselves reducing fixed income holdings. Liquid corporate bond funds are therefore likely to underperform due to a combination of credit spread widening combined with an increase in government bond yields.

Outlook for 2022

The proportion of the book with floating rate coupons linked to the underlying interest rate will be increased over 2022 thus allowing the portfolio maturity to increase without increasing its duration. Furthermore, this will provide additional income if interest rates move materially higher, which is now our base case scenario.

Overall conditions are very positive for the strategy and the portfolio, with a more supportive overall operating environment as COVID-19 restrictions are relaxed. Quantitative Tapering ("QT") will support higher margins for lending as net capital is coming out of the credit and fixed income markets as described above which signifies higher lending rates due to more competition for capital. Additionally, the short duration book will allow capital to be invested without significant risk from interest rate rises.

Finally, the Investment Manager is keen to see issuance from the portfolio of sustainability linked loans where the coupons have meaningful margin ratchets if certain pre-agreed conditions are met that contribute to improved borrower ESG and sustainability outcomes.

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Managers of VPC Specialty Lending - 29 April

At the time of writing, the global economic outlook remains uncertain. The COVID-19 pandemic continues to present significant risks, and as government support and monetary stimulus begins to taper off, a period of extended volatility seems likely. High inflation and persistent supply shortages are also having a negative impact. In addition, the invasion of Ukraine by Russia has led to increased market volatility and widespread sanctions on Russian assets and individuals, contributing to a spiking oil price and concern over long-term energy valuations. In its role as Investment Manager, VPC continues to monitor all risks very closely, to ensure the portfolio can perform regardless of the economic environment, by offering capital protection and income generation throughout various market cycles.

As these uncertainties are navigated, the Investment Manager will continue to exercise caution. It structures and underwrites investments with a focus on downside protection, in addition to stress-testing collateral across various scenarios. For example, while the Company's investment portfolio primarily consists of floating-rate credit facilities with interest rate floors, a rising interest rate environment has the potential to affect the investments, the profitability of the Portfolio Companies (and that of underlying borrowers), potentially leading to lower returns or changes in repayments or default rates of the underlying borrowers.

From a purely macroeconomic standpoint, the Investment Manager believes the main advantages of the current portfolio includes the floating rate, shorter duration and fully amortised underlying collateral. Specifically, the weighted average duration of the Company's underlying collateral as at 31 December 2021 was less than one year. VPC believes duration is a misunderstood risk that could present significant challenges during a rising interest rate environment, particularly for those investors currently locked into long-duration fixed-rate credit.

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Charlotte Valeur, chair of Blackstone Loan Financing - 27 April

Financial markets generally performed strongly during 2021, continuing the tone set from the end of 2020. Equity markets reached record levels and credit spreads continued to grind tighter in tandem with the general recovery from the COVID-19 pandemic, which affected many of our borrowers. Ongoing monetary and fiscal support, accommodative capital markets, the rollout of mass vaccination programmes, and the reopening of major economies all supported a move towards healthy economic activity throughout the bulk of the year.

While the demand side of the economy has been remarkably stable, supply side disruptions have been partially responsible for some of the macroeconomic cross currents experienced later in 2021. Global supply chain constraints and other pandemic-related dislocations, such as soaring energy prices, have caused a spike in inflation and moderating GDP growth expectations. This is clearly a balancing act for central banks; however, the uncertainty over the velocity and quantum of monetary tightening led to fixed rate assets such as investment grade and high yield bonds, to underperform. Leveraged loans outpaced this performance due to their floating rate nature and therefore natural interest rate and inflation hedge. Going forward, we expect floating rate credit to outperform and see an attractive environment for investors within leveraged loans and CLOs.

Insurance and reinsurance

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

Michael Baines, chair of Life Settlement Assets - 26 April

The life settlement market

The outlook for the life settlement industry continues to remain positive with an increasing global interest in the sector. Two factors appeared to be having an increasing influence on the overall market for life settlements in 2021, which are discussed further in the Investment Manager's Report. There was increasing demand from Indian and southeast Asian investors, who are new to the life settlement market, seeking access to a non-correlated portfolio diversifier. Meanwhile, the generation coming into retirement are seeking new ways to increase retirement income or pay for long term care. These trends are expected to stimulate activity in the life settlement market from investors and secondary market participants alike, although in the longer-term margins obtainable for new investments may be affected by a decrease in the average face value of policies. Equally, given ongoing volatility in current world markets demand from investors to have exposure to risk which is not correlated to equity returns may well increase.

Outlook

The overall performance of the Company in 2021 was encouraging, with satisfactory cash resources at the year end. The Company continues to balance carefully the wish to make distributions to Shareholders while retaining sufficient cash resources to take advantage of opportunities to consolidate our portfolios of fractional policies at appropriate valuations.

At a time of great uncertainty around the world, the Board is reinforced in its belief that the Company's position as an alternative component in investment strategy, being uncorrelated to equity and bond markets, offers value to investors.

Property

(compare UK property funds **here**, **here**, **here**, and **here**)

Peter Lowe, manager of BMO Real Estatement Investments - 19 April

The UK real estate market got off to a positive start in 2022, with investment volumes significantly ahead of long-term averages and the weight of capital driving prime yields back to pre-pandemic levels. This encouraging backdrop faces headwinds in the form of an increasingly uncertain economic context characterised by geopolitical instability, inflationary pressures, supply chain disruption and falling consumer confidence. However, the UK property market should continue to offer a relative safe-haven as prime yields remain attractive from a global perspective and some of the inflation-hedging characteristics of the asset class continue to support the sector's yield advantage.

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Ken McCullagh, chair of UK Commercial Property REIT - 14 April

As we head into the year with a feeling of cautious optimism, we remain alert to the challenges that remain. The spectre of COVID-19 still looms large, despite the continued easing of many restrictions, and the effects of the pandemic – not just economic, but personal, social and political – will be with us for years to come. That said, the position in which we find ourselves is significantly improved from that of a year ago, and that gives cause for confidence as we move forward. We are also witnessing the harrowing scenes from the war in the Ukraine. Apart from the human tragedy and upheaval which is unfolding, the effect on energy costs and higher commodity prices will increase inflationary pressure for some time to come.

It is expected that the divergence in UK commercial property performance will be prevalent both across and within the property sectors. The extremely strong capital growth achieved by industrials is unlikely to continue at the same level, but total returns are expected to remain robust for the year ahead. The bifurcation within the office market is expected to deepen over the course of 2022 with a clear distinction between the best, with strong ESG credentials, and the rest. Retail performance is showing signs of improvement, but this will be driven by retail warehouse assets, particularly discount-led schemes.

Jason Baggaley, manager of Standard Life Investments Property Income - 28 April

Whilst the conflict in Ukraine has not materially altered our outlook for UK real estate in 2022, new considerations have emerged as a result. The initial impacts of the Russian invasion of Ukraine, and the subsequent sanctions placed on the Russian economy, are expected to be negligible, primarily as a result of Russian capital having little exposure to UK commercial real estate. This should mean there is a limited impact on market liquidity and a low risk of depressed asset values as a result. In fact, due to increased volatility in other financial markets, UK real estate may benefit due to being viewed as a 'safe haven' investment destination.

However, the Ukraine conflict is likely to have wider consequences and the position of UK real estate must be set in the context of the macroeconomic environment. Prior to the outbreak of conflict, there were already significant concerns over rising inflation and tightening of monetary policy, and the conflict has skewed risks even further to the upside.

We now expect inflation to peak around 8% in April, before declining through the second half of this year, largely as a result of mechanical base effects. We forecast that the UK CPI rate for 2022 will be significantly over 6%, illustrating that inflationary pressures are likely to moderate in the latter half of the year, but remain significantly above the Bank of England's target rate. There are also significant risks that inflation could remain higher for a more prolonged period of time, particularly as the war in Ukraine, and sanction measures on the Russian economy, impact on pricing in the energy sector and on key raw materials.

The high inflation environment is likely to have an effect on households across the UK and we expect consumer sentiment and real wage growth to suffer as a result; however, a build-up in household savings over the course of the previous two years will help to cushion this impact. That said, the distribution of these savings tends to be very heavily skewed towards high income households, with increased pressure on low-income households possibly translating to weakening overall consumer consumption.

In response to these inflationary factors, the Bank of England is expected to continue tightening monetary policy over the course of the year, with the base rate expected to reach 1.25% by the end of 2022. The base rate is then expected to peak at 1.75% in 2023, but there is an elevated risk that this could surprise to the upside and peak above 2%. Although low in a historical context, base rates and the feed through to the bond market has the potential to act as a natural cap on any further yield compression, particularly for the lower yielding areas of the real estate market. Despite this, a healthy margin between bonds and real estate will be maintained, and investors should continue to view UK real estate as an attractive investment destination, becoming more selective when approaching investment decisions at both the sector and asset level.

Prior to the Russian invasion of Ukraine, GDP growth was forecast to be closer to 4.4% in 2022 but we now expect economic growth to be relatively subdued. This leads to the possibility that we face an environment of weakening economic growth at a time when inflation is running considerably above target. This is likely to impact more heavily on the UK real estate sector as a result of depressed job growth and falling disposable incomes, weighing on the office and retail sectors in particular.

As such, the bifurcation of the office sector is likely to become more pronounced. Demand for prime assets should remain robust but weaker for secondary accommodation. Those office assets not deemed to be "future fit" are likely to see limited occupational and investor demand as ESG considerations become more prominent in investor decision making. The industrial and logistics market is anticipated to remain robust in 2022 but unlikely to match the extremely strong performance achieved over the course of 2021. The prospect of further yield compression, particularly on prime assets, is limited and rental growth is expected to be the main driver of performance in this sector. Demand continues to outstrip supply and although there has been a pick-up in supply in the sector, increasing land values, a shortage of suitable development sites, and increasing build costs mean there are no signs of a correction in the short term.

We still expect the recovery in the retail sector to continue, primarily driven by market factors rather than sector specific confidence. Investor demand will remain focused on discount and food led retail warehouse schemes whilst the occupational market will continue to be heavily impacted by the pandemic induced change in consumer habits and the continued growth of e-commerce. As discussed above, the impact of inflation on household disposable incomes is also likely to weigh heavily on the retail sector, and particularly on discretionary based retailers, throughout the course of 2022 and the prospect of rental value growth remains remote. The alternatives sector will build on strong transactional volumes achieved in 2021 and will grow more prominent in investor focus. We expect the hotel sectors to recover over the course of 2022 as travel and other restrictions ease. The Purpose Built Student Accommodation (PBSA) and build-to-rent (BtR) residential sectors will continue their positive momentum.

Overall, we expect a positive year for UK real estate but the spread in performance seen in 2021 is unlikely to be repeated and sector performance will begin to converge in 2022, predominantly as a result of where we are in the UK real estate cycle. Geopolitical events, inflationary and base rate pressures are likely to weigh and, as a result, more care will be required when assessing any investment decisions in the year ahead.

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

www.QuotedData.com

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

Edward Marten (em@martenandco.com)

David McFadyen (dm@martenandco.com)

Nick Potts (np@martenandco.com)

Colin Edge (ce@martenandco.com)

INVESTMENT COMPANY RESEARCH:

Jayna Rana (jr@martenandco.com)

Matthew Read (mr@martenandco.com)

James Carthew (jc@martenandco.com)

Richard Williams (rw@martenandco.com)